

# THE EMERGING WORLD ORDER AND EUROPEAN CHANGE: THE POLITICAL ECONOMY OF EUROPEAN UNION

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## I. The Global Political Economy and the Emerging World Order

### *The dialectic of integration-disintegration and world order*

Transformations in the global political economy of the 1970s and the 1980s, including the momentous events in Eastern Europe and the former Soviet Union, have created a set of conditions now linked to a renewed impetus towards the economic and political unification of the EEC. Beyond this immediate horizon, discussions are under way concerning the prospects of a future enlargement and deepening of the EEC's geographical, social, economic and political potential.

This might, in the long-term, lead to the possibility of Europe, understood as a collection of states, coordinated through the institutions and processes of the EEC, becoming a more coherent politico-economic entity and actor in the emerging world order, with sufficient capability and resources to offset American and Japanese power in the global political economy, a proposition that I would wish to challenge here. However, looking at the question of Europe in this way abstracts from many of the key social forces which are simultaneously integrating and disintegrating sets of socio-economic structures and institutions, not just in Europe, but world wide. Thus what seems to be emerging is a recomposition of dominant socio-economic forces and associated political forms within the global political economy, and a corresponding fragmentation and division of many other social forces, reflecting an intensification of global inequality, and a restructuring of global power relations.

As we approach the twenty-first century what we may be witnessing, therefore, is a kind of 'patterned disorder': movement towards the attempt to consolidate a new form of hegemony within the core of the system, although one which has a quite different social basis to the one which preceded it, that is from 1945 to around 1970. In this light, the discussions at the July 1991 Group of Seven (G7) summit are of considerable interest,

not only because of the scope and nature of the agenda (which included the restructuring of the USSR, the reconstituting of the United Nations, an abortive attempt at a major ecological initiative, involving a massive **debt-for-nature** swap to save the Brazilian rainforests, and the usual questions relating to trade protectionism and macroeconomic relations between the G7 and the rest of the world). It is important because it helps to highlight the vanguard forces within the emerging world order, and how they serve to configure what might be called 'the pyramids of privilege' in the world order structures that the G7 seeks to bestride. The G7 has now supplanted the former US-USSR summits as the major focus of world attention and highlights the conditions for entry into the 'core' institutions in the global power structure.

G7 attempts to mobilize a new consensus around President Bush's concept of a 'new world order' reflects the complex interplay between ideas, institutions, and material capacities (production and military power), and the way, under certain conditions, these might be synergized into a coherent concept of action. However, the divisions within the ranks of the G7 on a number of questions (**e.g.** on how to respond to first Gorbachev's then Yeltsin's pleas for assistance, with France, Germany and Italy, plus the EEC ranged against Canada, Japan, the USA and the UK on the nature and scope of assistance; the USA and the EEC disagreements on GATT negotiations) show that struggles continue even within the ranks of the privileged. Whilst, therefore, there appears to be a movement towards the reconsolidation of the core of the system, we simultaneously see the break up of previous forms of state, economic and political crisis, war, famine and ecological disaster.

This dialectic of integration-disintegration is associated with what I call a triple crisis of world order, operating at the economic, political and more broadly socio-cultural 'levels', in the 'First', 'Second' and 'Third Worlds'. The purpose of this paper is to probe the nature of this world order, in so far as it can be understood by focusing on the abstract entity which we call 'Europe'. Thus with regard to questions of the unification of (western) Europe, I attempt to situate selectively, from a political economy perspective, some of these social forces and processes of change. I will endeavour to place these within a discussion of the deeper dialectics and dynamics of global change, especially in the period since 1971. Moreover, since order is a political concept, we need to ask 'order for whom, and for what purposes?'

In this light, the **G7/EC** debates concerning the changing policies of the World Bank and the IMF with regard to the control of arms proliferation reflect a reconsideration of the question of how the 'North' is to incorporate the 'South' in a reconstituted hegemony, that is how to spread hegemony beyond the 'core'. Here it is worth noting that Gramsci's concept of hegemony involved both coercive and consensual aspects of

power: that is to say power relations which were perceived as legitimate or acceptable were necessarily underpinned by material power and a coercive apparatus. Thus the initiatives concerning the Third World discussed here should also be related to the development of new concepts of military mobilization and intervention on the part of the USA and its NATO allies: the US Rapid Deployment Force, a centrepiece of US mobilization for the 1991 Gulf War (the RDF was created after the Iranian Revolution) is now to have a European counterpart.

That the post-war schemes for incorporating Third World countries have been flawed is now more recognized, as, perhaps, are the limits and contradictions involved in supporting (cynically) any right-wing dictatorship for Cold War reasons, or else for reasons of access to strategic resources. In this light, the strengthening of state structures in the South (and not simply the privatization of state structures and the pressure to liberalize markets) will be crucial, for example, in providing more effective environmental management and better control over weapons proliferation: issues which directly or indirectly affect G7 interests. Less weapons in the Third World would, moreover, add to the effectiveness of Rapid Deployment Forces. These developments, in so far as they reflect any coherent response on the part of international organization, can be related to the wider aspects of the 'new constitutionalism' which I discuss with reference to Europe in the second half of this essay, that is the political project of attempting to make liberal democratic capitalism the sole model for future development, with the military forces of the major, 'core' countries reconfigured in ways which, in conjunction with the deepening and spread of commoditization and market forces, add a further disciplinary aspect to the emerging order.'

### *Global restructuring and transnational capital*

Here I focus on selected aspects of the global restructuring of socio-economic and political relations. An assessment of the recomposition of social structures and political arrangements during the 1960s, 1970s and 1980s is crucial to understanding the complexities of the 'new' Europe and for the redevelopment of a social ontology of the world order. In particular, I highlight the importance of the growing (structural) power of internationally-mobile capital. This is a development with enormous implications, not only for the European Community (and more specifically the operation of the EMS and its possible development into fully-fledged monetary union), but for the world order *in toto*.

The recessionary conditions of the 1970s and 1980s gave rise to greater demands for social protection and mercantilism, as uncompetitive 'smoke-stack' industries were either eliminated or placed under considerable competitive pressure, often from more efficient foreign firms. The advanced countries moved towards more information-based, **high-**

technology, 'post-Fordist', and more 'flexible' forms of production. Traditional forms of organized labour were placed largely on the defensive. Sensing they were gaining the upper hand, right-wing forces pressed for policies which would begin to reverse the tendencies towards the growth in the size and resources of the state, partly to eliminate the tendency towards fiscal crisis. Their arguments were strengthened by many of those on the left, which criticized the corporatism and **Keynesianism** of the **welfare-nationalist** capitalist states, showing how its development was contradictory, and beset by tendencies towards not only fiscal (and economic), but also, in **Habermasian** terms, rationality and legitimation crises.

In this vein, the utility of the welfare state was increasingly questioned as stagflation and recession, with growing unemployment, began to place financial constraints on state budgets, as well as growing strains on the post-war political consensus built around, in Charles Maier's phrase, the 'politics of productivity', that is a series of corporatist bargains between labour and capital.<sup>3</sup> These bargains took different forms in the metropolitan capitalist countries but involved similar industrial structures and forms of conflict resolution. Moreover, each set of arrangements presupposed consistent economic growth and an international division of **labour** organized primarily between countries, understood as 'national economies', or national producers, interacting and competing internationally, with the US pump-priming the system's liquidity through the international use of the dollar.

By the 1970s the era of cheap energy seemed to be over, the rise of transnational companies and the rise of the newly-industrializing countries heralded the onset of dramatic changes in the international division of labour as well as the collapse (or erosion) of corporatist bargains, and the possibility of Keynesian policies on a national level **was** increasingly undermined by these changes and the growing scale, power and mobility of financial capital, in particular, the movement of speculative capital as a force to destabilize domestic economic activity and to exacerbate balance of payments and exchange crises. This was the fundamental lesson learned by the British Labour government in 1976 when it had to go to the IMF for a loan to meet its financing needs. In accepting IMF conditions, the Labour party was split and **Denis Healey** became Britain's first monetarist chancellor, a step which split the Labour party and heralded the era of Thatcherism and the end of corporatism in **Britain**.<sup>3</sup>

This political change in 1970s Britain proved to be significant for the **conjunctural** restructuring of Europe in the 1980s. **Whereas** corporatism varied throughout Europe – with West German corporatism less statist than that in France, in many major west European countries, banks and financial capital were highly integrated with industrial capital, and financial services and banking were closely regulated (as was the case in the USA following the Glass-Steagall provisions). When the Conservative

government under Thatcher came to power in 1979 with its neo-liberal mandate, it moved quickly to eliminate exchange controls and towards financial deregulation in response to US deregulatory initiatives in the mid-1970s. Moreover, the role of London as a cosmopolitan world-city, the axis of the *pax britannica* is important here, and needs to be understood in Braudellian terms: London markets and their financial centrality were central to the spread and extension of world capitalism, at least since the late eighteenth century. Given the current place of the City as the centre for the Euromarkets, and the key financial centre in Europe more generally, in the 1980s, at least in the European context, Britain's deregulatory moves can be seen as akin to a 'Trojan horse' for transnational capital to penetrate the national corporatist structures of continental Europe. This argument is consistent with the policies of the Thatcher government relative to the EEC, for example, with regard to the Social Charter, which is discussed in part two of this essay.

How do we understand the nature of some of the forces of **integration**/disintegration noted above, and their effects in terms of transformations occurring in the post-war world order? My starting point is to examine the new dynamics of the capitalist global economy. Here the forces of **transnationalization** and globalization (for example, transnational companies favouring and embodying international production and exchange and capital mobility) have steadily expanded, and have been engaged increasingly in a struggle *vis a vis* more nationalist and protectionist blocs of forces, that is those seeking to assert or maintain some form of social control over key aspects of economic and political life at the national level. The latter are associated with what might be called national capitalism, that is systems premised on the protection (or promotion) of domestic social interests from (or relative to) international competitors, both through the development of systems of military and social security, and through control over production and finance through state capitalism and nationalized banks. These forces serve to restrict capital mobility, and tend to focus international economic activity on export-led growth.

The struggle between internationally-mobile and more nationalist (or parochial) political, economic and social forces intensified on a world-wide basis following the global recession of 1979–82, the most severe since the 1930s: a specific conjuncture which served to crystallize and intensify trends set in motion during the 1950s and 1960s. The recession catalyzed widespread restructuring of capital (massive bankruptcies and mergers) and a decline in the power of organized labour in the metropolitan states, particularly that associated with declining sectors of production. Partly because of Reaganomics and the unleashing of a process of supply-side, competitive deregulation, the 1980s saw the beginnings of a period of **tax-cutting**, very high real rates of interest and a scarcity of **internationally-available** capital (mainly because the vast majority of this was sucked into

the US). The sum of these very complex changes was a period in which the profile of the major capitalist states began to shift politically away from the politico-economic consensus between labour and capital, and away from the former balance between the domestic and international economy. The regime of high rates of interest, allied to inflation (which was lower after the purgative effects of the 1979–82 recession) and the intensification of competition was linked to a growth of indebtedness of various kinds (personal, corporate, sovereign). The growth of indebtedness reflected, in part, a loss of control by the authorities over credit creation, partly because of the existence of Euromarkets and financial innovation. Loss of control over credit expansion implies that the control of inflation is more **difficult**.<sup>4</sup>

Apart from the rise and fall of the 'Second' Cold War, and war in the Middle East, the decade was characterized by international financial fragility, an international monetary system in crisis, and more generally, macroeconomic instability and economic crisis in most parts of the world. Some commentators, such as Susan Strange, in her book *Casino Capitalism*, suggested that finance and money were becoming decoupled from the system of production and trade, causing major contradictions for economic development. According to Strange, the world economy was being destabilized in part because of short-term time horizons and speculative flows of capital in a financial system which increasingly resembled a game of (Russian) roulette. State action, led by the USA, was needed to redress this central problem in global **macroeconomics**.<sup>5</sup>

In this context, then, the deregulatory and macroeconomic policies of the US were generally identified as bearing heavy responsibility for global instability, along with the gyrations and generally economically perverse behaviour of the international financial markets (which the US government had refused to regulate). However, it was also market forces which had driven the dollar through the roof in the first half of the **1980s**, raising the political costs of 'malign neglect' of the dollar in US domestic politics, by stoking the fires of protectionism. The rest of the world seemed powerless to influence substantially the policies of the US administration until 1985, when for example, the US responded with the so-called Baker initiatives at the Plaza meeting, attempting to co-ordinate policies with its Group of Seven allies on exchange rates and Third World debts. Even here, there was evidence that the dollar had already begun to fall in February (the Plaza meeting was in September **1985**), and the Baker moves were probably primarily motivated by domestic politics, and by strategic considerations, since many of the key debtor states were in the Americas. In sum, for the US case, market pressures seem to have forced the Administration into increased political management of the exchange rate: the US case shows how increased capital mobility can sometimes lead to a 'disciplining' of state policy via an overvaluation of the exchange rate. This G7 macroeconomic coordination process has continued, but with

very mixed results so far. For example it is not clear whether under G7 pressure, Japan expanded its money supply and lowered interest rates after the crash, resulting in the asset inflation in the stock and property markets thereafter.<sup>9</sup>

At the heart of this issue, however, is a substantial growth in the structural power of internationally mobile capital (partly reflected in its relative scarcity: this was by contrast with the 1970s, when, because of petro-dollar recycling and low real rates of interest, there was a glut of such capital). Competition to attract such capital, by both governments and producers intensified, in the form of attempting to provide a regulatory and general politico-economic environment which would be attractive to international investors and internationally-mobile capital. This development occurred at the moment when there was an apparent decline in the ability of most governments in the system to control economic activity within their own borders. Although this is an over-simplification, it seems largely the case that the traditional mercantilist and statist forms of capitalist development (associated with the Bretton Woods order, which placed some restrictions, for example, on the mobility of financial capital) were placed on the defensive by the growth in the power of the most mobile, knowledge-intensive and competitive firms. The result has been a new, more outward-looking form of mercantilism, with states competing to provide macro- and micro-economic, regulatory and broader political frameworks to induce long-term direct investments, as well as short-term portfolio capital (with some long-term portfolio capital, such as 20-year bonds) to finance government operations.

Taken together, these developments are symptomatic of a deep structural crisis or transformation in the emerging global political economy. This is linked, directly or indirectly, to domestic socio-political crises in all categories of state within the system: the Third World, the (former) Communist States and, in a somewhat different way, the heartland of metropolitan capitalism.

## II. European Economic and Political Union: Limits and Possibilities

The transformations occurring in Western Europe can be understood in terms of the imperatives of a more globalized, competitive, dynamic and mobile capitalist system, as well as the relatively poor performance of west European economies (including West Germany) in 1979–85. Some commentators wondered if western Europe was too social democratic and welfarist, when compared to the US, especially in the context of the US economy's ability to create new jobs. Given the trends of the 1970s, this prompted a concerted political response to re-establish the competitive position and coherence of European social and economic forces in a period of global restructuring. The slogan for this programme is, of course, '1992'.

Indeed, this has become more than a slogan, since it has taken on the form of a social myth suggesting a more dynamic, forward-looking **pan-European** political and economic identity in the next millennium, implying that the twenty-first century will be the European century, rather than the 'Pacific century'.

To grasp the total nature of the monumental transformations occurring in the European political, strategic, economic and social landscape, we need to think dialectically. Crucial to the explanation of the changes in Europe during the 1980s and 1990s is an examination of the forces operating both globally and within and across the two systems and logics of socio-economic development of East and West (although perforce my discussion focuses on the EC and Germany). Similarly fundamental is the change in the strategic relations between the Soviet bloc and NATO, a change which is also bound up with the inception of economic entropy and a corresponding socio-political *impasse* in the successors to the USSR. By reviewing these changes we can evaluate the likely potential for an integrated Europe to emerge as a global superpower in the twenty-first century.

***Western Europe: political union and the 'new constitutionalism'***

Although uneven in its impact and trajectory across Western Europe, the unfolding economic crisis of the 1970s and 1980s largely explains the 1992 programme. West European growth rates in the 1970s and early 1980s were much lower than the world average, and the EEC as a whole seemed to be faced with a future of continuing relative decline. Thus the 1992 initiative needs to be understood as a concerted response to the **neo-Spenglerian** 'Europessimism' of the 1970s and early 1980s. It can be understood as an attempt to revitalize Jean Monnet's goal of a United States of Europe, at least for its most enthusiastic proponents, although in a quite different form, and under new conditions in the global political economy.

The key to this aim was the creation of an integrated economic space with its own central banking institutions and to move politically towards increased economic convergence and co-ordination among the 12 member states. This space would be premised on two things: first a regional set of political institutions which could consolidate and protect this region *vis à vis* European and East Asian challenges. Second, the increased salience of market forces and the spread of micro-economic rationality: in this sense '1992' equals 'marketization'. This implied, then, a further move away from the era of Keynesianism and the social contract which, together with the Cold War structures, had constituted the basis for the post-war political order in Western Europe, in order to create the pre-conditions for renewed European competitiveness.

Although it took the form of a transnational political initiative, a key catalyst for the 1992 initiative was the formation of the European Roundtable, a coalition of big European transnational companies (TNCs) led by Phillips. Along with the European Commission, the Roundtable promoted the Single European Act (the main legal statute mandating the 1992 programme), as well as, in concert with private and central bankers, the Delors Plan for Economic and Monetary Union (EMU). Wayne Sandholz and John Zysman show how the 1992 process has been shaped and promoted by a transnational alliance or historic bloc involving the European Commission, pan-European TNCs and neo-liberal governments within the 12. This process contrasts with the earlier phases of EC integration, which were shaped in the era of 'national champions', state capitalism, national corporatism, and social and economic protection, coordinated through the processes of **intergovernmentalism**.<sup>7</sup>

So far, considerable progress has been achieved at both the level of the single market (with the deregulation of financial services probably the most significant element in the context of this discussion) and the development of the economic-institutional superstructures which will supervise and regulate the new enlarged **economic** space. German unification appears to have generally accelerated this process. Common to these EEC initiatives, then, was economic necessity, or the growing perception and reality of international economic challenges. Thus a massive effort was made to synergize European forces to meet the competitive challenge from high-technology US and Japanese firms, and to unify public economic institutions so as to countervail better the effects of US and Japanese power and policies, as well as incipient challenges from their firms and those from the newly-industrializing countries (**NICs**). A situation of divide and rule was of benefit, not only to the US and Japan, but also to internationally-mobile capital, relative to the less competitive European companies and their governments.

Reflecting a kind of synthesis (or series of bargains and trade-offs) between, on the one hand, German social market ideas and French statism and institutionalism, and on the other, Anglo-Saxon free market ideologies, the debates over the monetary and macro-economic and other aspects of the EC has been premised, in so far as they have a single focus, on what can be called the discourse of the 'new constitutionalism'. By this I mean the move towards construction of legal or constitutional devices to remove or insulate substantially the new economic institutions from popular scrutiny or democratic accountability. Tendencies towards the wider adoption of this position can be seen in the debates, for example, not only over Economic and Monetary Union of the EC (with most of the critical comment in this regard aimed at the European Commission, rather than the principles associated with EMU), but also the roles of central banks in East and Central Europe, the monetary constitution of a future

Canada, as well as in more general arguments made by bankers, economists and some politicians in favour of the need to constrain state autonomy over fiscal policy, etc. This discourse can also be seen as serving to constitute the debate over the role of international organizations, such as GATT and the **IMF/World Bank**, and the new European Bank for Reconstruction and Development (EBRD).

Nonetheless, a key problem for the future of West European integration (apart from the German Question to which we return below) is the general lack of political legitimacy and democratic accountability across the whole panoply of European institutions (with the possible exception of the European Court): what is generally termed the 'democratic deficit'. This is mainly because each member state (especially Britain) is reluctant to cede more control to the supra-national institutions of the European Community, and there has been little support until recently to increase the weight and representativeness of the European Parliament. Not surprisingly, given its increased population since unification (as well as a concern for issues of legitimacy and the support for deeper political unification of Europe), the German government has begun to press for greater political weight to be assigned to the European Parliament. However, the problem of popular legitimacy is still a long way from being solved, especially in Britain, where suspicion and parody of all things European, and of Brussels in particular, runs high despite the fact that a wider range of economic and political interests have come to the conclusion, to use Mrs Thatcher's favourite phrase, 'there is no alternative' to closer union with Europe. The British government dislikes the word 'federalism' which, it argues implies dirigisme, by French *énarques* and polytechniciens led by the likes of Jacques Delors, and centralization of powers in the Brussels bureaucracy and unwelcome judicial review by the European Court.

Part of the reason for this is the way in which the institutional development of the EEC proceeds through the incrementalism of the Intergovernmental Conferences, with political union the key agenda item at Maastricht 9–10 December 1991. In this sense, when I speak of the 'new constitutionalism' I do not mean the construction of a Federal Constitution for the EEC from something akin to first principles, like the Founding Fathers of the American Constitution, although there has been much pressure for this type of approach in the press, such as the *Economist* and the *Financial Times*, newspapers which reflect the vantage point of liberal, transnational capital. Their position may find a wider resonance, since few citizens in Europe are able to distinguish clearly between the European Council (summit meetings of Heads of State), the Council of Ministers, the European Union (nine of the 12 coordinating military policies) and the European Parliament. Thus there is popular confusion over the division of powers and responsibilities in the EEC, their possible reordering between

institutions and across different levels of government: European, 'national' or local.

Nevertheless, the debates over political union have sharpened the questions concerning the future of the EEC, and the outcome of the negotiations will determine the outcome of EMU, since Chancellor Kohl has made it clear that he has made political union the price for surrendering the autonomy of the Bundesbank. The questions raised by EMU are difficult ones, and any timetable for EMU (now targeted for completion by 1999) must clarify the degree of economic convergence needed prior to monetary union, and the degree of economic discipline it can impose on the 12, especially with regard to fiscal deficits, as well as institutional questions. The Maastricht summit appears then to have agreed to increase moderately the importance of the Parliament (giving it co-decision powers with the Council of Ministers on limited questions and the right to approve the Commission President and the rest of the EEC executive every four years, but little say on EMU and foreign policy); to extend the principle of majority voting to cover the environment and other issues (with social policy a key exception), and it encourages, though does not mandate, common foreign and defence policies. This reflects the fact that it is very difficult to bridge the divisions over many of the key issues, for example over foreign and defence policy cooperation and the relationship to NATO and the US.

I will now discuss the two key 'economic elements' in European union, and then address the issues related to the development of a common foreign and defence policy.

### *Economic and monetary union: discipline and policy convergence*

It is perhaps no accident that many transnational companies are at the vanguard for EMU, as it will reduce or even abolish certain exchange risks (and will generate some gains in lower transactions costs). These risks are associated, on the one hand, with the uncertainty involved in floating exchange rate systems in the context of very high levels of international capital mobility, and the way in which speculative movements of capital tend to exaggerate exchange rate movements. On the other hand, since the deregulation of financial markets has radiated from US initiatives, and because of the links between US and European rates of interest and exchange rates, the second aspect of uncertainty concerns the consistency of US macroeconomic policies, and the propensity of the USA (e.g. in the early 1980s) to engage in unilateral, as opposed to coordinated international economic policy. The USA has had frequent recourse to the dollar weapon (its own currency is the **key currency** for international transactions, giving the US the ability to impose seigniorage gains and an inflation tax on the rest of the world, that is to transfer real resources into the USA),

both to improve the competitiveness of the US economy and to force the burden of adjustment ~~onto~~ other countries.

Thus the international rationale for EMU, as was the case at the outset of the European Monetary System (EMS), is partly defensive (the offsetting of risk) and partly to synergize European political potential to offset (and thus to discipline) US unilateralism in matters of money and finance. It is significant, therefore, that many European bankers are less wedded to the pure market philosophy associated with many of their fraternity in the USA, and have been concerned at the impact of US policies for much of the period since the late 1960s. Seen in a slightly different way, then, as early as 1979, at the instigation of first Roy Jenkins, the President of the EEC, and, more importantly Chancellor Schmidt of West Germany and President Giscard of France, the inauguration of EMS was meant to reduce the vulnerability of European economies to the whims of short-term mobile capital. Underlying the EMU idea is the notion **that** increased capital mobility implies larger optimum currency areas. In effect the US policies of benign or 'malign' neglect of the exchange rate question during periods of the 1970s and 1980s reflects the relative size and self-sufficiency of the US economy when compared with even the largest EEC countries, or the EEC as a whole. An EMU can also be seen as a political insurance policy relative to the rise of Japanese financial and money power, as the yen becomes increasingly used as a reserve currency and as Tokyo financial markets become deeper, more flexible and more international.'

At the heart of these developments is, as I have called it, the 'new constitutionalist' discourse. More specifically, it is crucial to see how many of the debates have been framed around the growing hegemony of a reformulation of concepts of sovereignty and discipline, in matters of political economy. **The** discourse concerns institutional arrangements designed to insulate key economic agencies, especially central banks, from the interference of elected politicians, who, it is argued, have a tendency in liberal democracies to inflate the economy for electoral purposes or to use the 'inflation tax' to indirectly improve the government's financial position. For example, the former UK Chancellor of the Exchequer, Nigel **Lawson**, who engineered an inflationary boom to win the 1987 General Election for the Conservatives in Britain, is now in favour of independent banks and a strengthening of the GATT and IMF surveillance.

Key elements in the new hegemonic discourse concerning desirable macroeconomic policies are the concepts of market efficiency, discipline and confidence, and policy credibility and consistency, viewed from the standpoint of both the ideology of sound money as well as new theories in neo-classical economics, such as rational expectations **theory**.<sup>9</sup> At the heart of the debates over EMS and EMU is a concern at the **implications** of the massive growth of capital mobility (**e.g.** the offshore markets), and the implications of destabilizing speculative movements of capital for balance

of payments discipline in individual European countries. In the 1970s these effects were somewhat contradictory from the viewpoint of financial discipline, since borrowing on the Euromarkets was an option that many governments could turn to for financing deficits, and thus avoid painful adjustments to 'shocks' such as the rises in oil prices. This was possible because of a glut of internationally-available capital caused by the rise in oil prices and the need to recycle petrodollars, in large part through the Euromarkets. The latter grew massively in size during the next two decades.<sup>11</sup>

By the 1980s, however, with higher real rates of interest and a tightening of credit conditions for most countries (the USA being a notable, albeit partial exception), nearly all deficit governments came under increased pressure to adopt anti-inflationary, tight money policies, in order to avoid sustained outflows of capital and a substantial loss of foreign exchange reserves. This has also put pressure on the taxation regimes in different countries, especially with regard to (not increasing) withholding taxes and more generally those affecting the rate of return on capital: this partly explains EEC initiatives to harmonize value-added taxes. In the European context, the configuration of the EMS around the deutschmark (the anchor currency) and the hard money anti-inflation stance of the Bundesbank served to reinforce this discipline, with the result that it is generally accepted that the EMS has had a deflationary bias. However, German positions appear to be unchallengeable, although the idea of a more fully-fledged monetary union is seen by other member governments (notably the French), as a means of offsetting this economic power in political institutions.

Thus the Delors Report of 1989 stressed the need to adopt '*binding procedures*' to constrain national authorities, and the need to reinforce commitments to price stability, and advocated the setting up of a European Reserve Fund with its key objective 'to be the **symbol of the** political will of the European countries and thus reinforce the *credibility* of the process towards economic and monetary union'; with a system of European Central Banks, '*committed to the objective of price stability*', and '*independent of instructions* from national governments and Community authorities'; in macroeconomic policy it meant that countries would have to submit to imposed policy *constraints*.<sup>12</sup> This is understood to mean the commitment of monetary (and fiscal) policy to a particular substantive direction, irrespective of the desires of elected policy makers to inflate the economy for electoral reasons or else to impose seigniorage gains and/or an inflation tax as a means to ease public financing problems and/or devalue existing government debt. A binding exchange-rate constraint, would, of course, also simultaneously eliminate the option of devaluation of the currency for reasons of international competitiveness. In practice this is likely to mean Bundesbank standards, always assuming that political

support for these arrangements is sustained in EC member countries (a severe exchange crisis for a member country might swiftly lead to a reimposition of exchange and credit controls and an abandonment of EMS membership). So far EMS rules have been non-binding, although in practice, member countries have behaved as **if they** were, with the changes in French policy between 1981–3 as dramatic evidence of French commitment to both the EMS and its foreign policy goal of greater European integration.

A good example of the impact of such constraints is Sweden, which has shifted away from the famous 'Swedish model' towards neo-liberalism. Thus, in anticipation of EC entry in the **mid-1990s**, Sweden pegged the krona to the deutschmark, and thus subordinated its monetary policy to that of the Bundesbank. There was a sudden flight of capital out of the krona in early 1992. This followed the failed coup and final demise of the USSR, which had provoked a massive Finnish devaluation (given the dependence of the Finnish economy on trade with the USSR) amid fears of a collapse in the Nordic banking systems. Sweden was then forced to increase its nominal rate of interest by six per cent and impose a draconian financial squeeze to defend the parity of the krona and stem the capital outflow.

The real challenge to EMS cohesion is likely to emerge in the aftermath of 1992, that is after complete financial liberalization in the EEC, given that both France and **Italy** – two of the countries with traditionally weak currencies in the EMS – have abolished capital and exchange controls, and in many countries there are still substantial fiscal problems (and it is worth emphasizing, the EMU process mandates tight constraints on budget deficits), with high levels of government indebtedness. Moreover, full EMU would mean that some countries would have to forego substantial seigniorage gains: the main cases here are Greece, **Italy, Portugal** and Spain, where it accounted for 6–12 per cent of government revenues in the late **1980s**.<sup>12</sup> The other main challenge will come from the behaviour – or misbehaviour – of the dollar relative to the deutschmark, which (apart from sterling, which is declining in international importance) is the only world-class currency in the EMS. In the case of Italy, a lot will depend on the government's ability to reduce government budget deficits.

In this light it is significant that Italy has dismantled the system of wage indexation, *scala mobile*, has 'divorced' the Treasury and the Central Bank (relieving the latter from the obligation to buy unsold T-bills, although not of its obligation to finance up to 14% of public expenditure through an overdraft facility). In 1987 the Italian government served notice that it intended to make liberalization of capital flows irreversible so as to tie the hands of any future parliaments." In effect, the liberalization of capital markets means that it becomes impossible to impose different regulations on financial intermediaries, lowering regulations to their lowest common

denominator, leading to a decline in reserve holdings and a fall in seigniorage. Only through capital controls can a single country sustain its use of the inflation tax and maintain higher reserve requirements for banks. There is some debate as to the results of these policies. Some argue that the long term gains to tax revenue for the state will be higher in a liberal regime, because they will tend to maximize **government** revenue in the long run, in so far as they are associated with higher rates of capital accumulation and economic growth, and thus a widening tax base.

Stage One of EMU has begun, and it has been agreed that Stage Two will begin by 1994, partly because the Germans wish to sustain the deutschmark as the anchor for monetary stability and discipline in Europe. The IGC on political union is paralleled by a Monetary IGC, which also met in Maastricht. The monetary questions cannot, of course, be separated from the fiscal questions, and much discussion has taken place during 1991 concerning the limits on budget deficits and the structure of taxation, issues of profound importance to the management of the macro- and micro-economic policy alternatives open to future governments. German unification has given a breathing space to other EEC countries on this question, given the high budget deficits associated with the costs of transition. The conditions surrounding phasing in of Stage Two of EMU will in practice probably include the following: fiscal sanctions by the Commission could be applied to member states, but in all likelihood this would require unanimity in the Council of Ministers; the accountability of the European Central Bank (Eurofed) would involve obligations to consult the Ecofin (Council of Finance Ministers), rather than subordination to Ecofin guidelines; the governments (notably Germany) will determine exchange rate guidelines, in conjunction with a central advisory role of the Eurofed; the ecu would be hardened in line with the appreciation of the strongest EMS currency, but will not operate as a parallel, 13th currency as proposed by Britain; the final phase of EMU will be entered by mutual agreement, not in accordance with predetermined criteria; entry would depend on 'convergence' of inflation rates. Thus the stage is set for a **two-tier** EMU, with an inner group of low-inflation countries, with exchange rates relative to each other that are virtually fixed (France, Germany, Belgium, Luxembourg, the Netherlands and possibly Denmark) pressing ahead, with the door left open for others (**e.g.** Britain). Other countries, such as Sweden, will manage their exchange rates as if they are in the inner core of EMU.

The two-tier or multi-tier solution is a compromise which reflects the hierarchy of discipline which an EMU would impose: the high-inflation and poorer countries will have to adjust much more than their wealthier, low inflation counterparts. This is why the Spanish government threatened to refuse to sign the EMU Treaty at Maastricht without some guaranteed transfers from rich to poor areas. The Spanish position also reflects the

problems for political union, and for the design of EEC institutions, which stem from the disparities in economic conditions across Europe, disparities which are intensified by higher capital mobility.

***Single market restructuring: labour, capital and the 'new protectionism'***

The move towards capital liberalization in Europe necessarily implies a shift in the structure of taxation, towards a larger revenue burden falling on indirect, regressive forms of taxation, such as VAT, although full convergence of VAT rates will not be in place until at least 1996. This is because direct taxes on incomes (personal and corporate, on wages and interest) will necessarily tend to fall to a lowest common denominator in a situation of mobility of capital and labour. In practice, labour is relatively immobile, although skilled labour is generally more mobile than unskilled labour. This means that it will tend to the upper level of income taxes which fall by the largest proportion, since less skilled workers tend to earn less and are less able to move around between different countries than higher income, highly educated, skilled and linguistically proficient workers.

The European situation seems likely to gravitate towards that in the USA, where post-tax income differentials for workers have been widening since the late 1960s, and where income inequality has intensified since the deregulatory push of the Reagan administration in the early 1980s. It is in this light that we might also note that in most of the EC states laws governing the level of minimum wages have been amended downwards, and wage indexation regulations are being undermined, in line with the Italian *scala mobile* discussed above. Differences in the structure of collective bargaining, levels of unionization and the segmentation of labour market regulation along national lines have served to divide labour and thus contribute politically to an (uneven) weakening of regulations concerning working conditions and relative income share of labour.

Attempts at reform of labour conditions by the European Commission in 1981 and 1982 were blocked by a number of member states in the Council of Ministers, with Britain at the vanguard of opposition. The macroeconomic debates and developments discussed above were thus paralleled by attempts to water down the counterpart to the 1992 single market programme, the Social Charter, to provide minimum guarantees concerning social welfare provision and health care, and to protect workers from the worst abuses of market and employer power. The neo-liberal thrust of the 1992 programme, in practice, is thus to avoid any propensity to intervene substantially in the free working of labour markets. This is because the changes are premised on the need to extend market discipline at both the micro- and macro-economic levels, and a strong Social Charter would mean less 'flexibility' in labour markets.

As has been noted, crucial to all this has been the role of the British government under Mrs Thatcher, which consistently made alliances with

business and the peripheral nations of the EC to oppose the **transnationalization** of welfare and employment rights according to a new European standard. What is already an unbalanced relationship between (transnational) capital and certain forms of labour is thus likely to be exacerbated by not only the transition to EMU, but also by the push of capital for more flexible and deregulated labour markets, in some cases supported by national governments, again, partly for reasons of political ideology, but more importantly, for reasons of international competitiveness.

Thus these developments need to be placed in the context of the restructuring of global production and the re-organization of production relations along post-Fordist lines. They also need to be understood in the context of the debates concerning social policy harmonization or coordination. As Elizabeth Meehan has indicated, the former implies uniformity of provision, whereas the latter allows for national variations, and thus corresponds to the **transnational/national** dialectic with regard to production structures and macro-economic coordination both within and outside the EEC.<sup>14</sup> Thus while the EEC 1992 programme appears to be designed to promote the transnationalization of European production, social and labour market policy appear to be national in nature, allowing for labour movements to be fragmented rather than integrated on a pan-European basis.

Another way to look at some of these issues is to deconstruct the concept of 'protection'. Most of the language of G7, IMF and EEC communiqués is built, axiomatically, on neo-liberal discourse concerning the desirability of free movement of factors of production and efficiency of markets. Protection is thus seen as politically undesirable and economically inefficient intervention in the economy. Thus we need to ask, 'protection for whom and for what purposes?'

The type of 'protectionism' which really seems to characterize 1992 and other recent initiatives in the world economy (such as the North American Free Trade Area negotiations) is that accorded to the interests of transnational capital from domestic interference. For example, the liberalization of services in the GATT (which can be highly intrusive, since they often involve movement of people to supply such services) and new GATT regulations to liberalize public procurement are meant not only to guarantee access to **TNCs** and financial firms, but also further to erode the conditions of existence of the welfare-nationalist state (*viz* welfarism and national allocation of government contracts to preferred local firms, or national champions).

In this context, a consistent policy of the European Commission since the 1970s has been to shift the terms of debate, and the focus of action, away from the promotion and protection of national champions, towards the promotion of European transnationals. Thus the ESPRIT (informatics research and collaboration among 12 European **TNCs**) and EUREKA

programmes, along with the ERASMUS programme in higher education, are part of a general initiative to make European high-technology, knowledge-intensive transnationals more competitive vis a vis their overseas rivals. Thus internal market liberalization and policy co-ordination is a form of macro-regionalism in a more competitive **and knowledge-intensive** global political economy, and is offset by the need of European firms to gain access to markets and knowledge world-wide. For similar reasons, the 1992 initiatives have been accompanied by large numbers of mergers and link-ups between European and US firms, as well as those from other countries.

As has been noted, the Single Market Act was enthusiastically supported by many major European **TNCs** (such as Phillips, Fiat) and the 1988 Ceccini Report promised substantial gains for business in terms of one-off savings and new business opportunities. Faced with the realities of rationalization in an era of harsher competitive pressures, it now appears that there is a counter-tendency among some members of the European business fraternity (especially in France and Italy), to sustain subsidies at either the national and European level. A report by David **Ernst** of **McKinsey** and Co, suggests that many European sectors face a similar future to that experienced by the US airline industry following deregulation in the 1970s. There the number of companies initially expanded, with over 200 new carriers entering the industry. By the late 1980s, half of them were bankrupt or taken over by the bigger carriers, with profits down substantially across the industry.

Thus a period of intense competition, mergers, and a recomposition of capital seems to be ahead in Europe, with European companies dividing on the question of market liberalization, with the European Commission pushing hard for the elimination of subsidies, state preferential treatment and reduction of the public sector:

. . . the Commission does have powerful allies. European businessmen who are fed up with competing against – or having to operate alongside – a bloated public sector wish it well. Carlo de Benedetti, an Italian industrialist, complains that Italy 'is in the second tier of Europe' thanks to its heavy handed state. . . International pressures will also force the EC government to be more stingy with aid. . . The anti-state brigade will also be helped by economics. Heavy social security payments and the cost of the Gulf War have made it hard for governments to balance their budgets. . . Some countries are already selling a raft of state businesses.<sup>15</sup>

On the other hand, little progress has been made on the harmonization of standards, VAT levels, and the opening of public procurement, which is worth perhaps 15 per cent of European combined GDP. Only about 2 per cent of public sector contracts flow across EEC frontiers. In addition, the electronics industry in Europe, and its interface with the European **high-technology** programmes noted above suggests that, in consumer electronics at least, the EEC seems to be attempting to promote European champions; this is also the case in semiconductors. There are also **substan-**

tial frictions with Japan, over the propensity to subsidize the European car manufacturers, where European firms lag far behind the Japanese in terms of productivity.

Thus the clash between national (or European) and transnational capital looks set to intensify in coming years.<sup>16</sup> Uncompetitive firms will be forced out of business, and some management consultants predict a rapid rise in unemployment when 1992 really takes hold. Nevertheless, as the fears of many European businesses suggest, the general trend is for greater market liberalization, along both internal and external dimensions.

### *Immigration and 'widening' the EEC: economic, political and security aspects*

Perhaps the key political issue in the EEC today concerns immigration. By early 1992 it appeared possible to discern some of the broader terms of the political debate over this volatile question. These seem to involve the reconstruction of a discourse of 'Europeanness' rooted in the mythical origins of Europe (i.e. in **Græco-Roman** and Judao-Christian myth) and related to the historical idea of 'Christendom'. This concept implicitly constructs the political and social boundaries for the expanding EC, and provides a criterion of **inclusion/exclusion** which can be used to keep out 'unwelcome' immigrants (e.g. from the Mahgreb, the Levant, and the Orthodox and Islamic regions of the former USSR). In the rest of this section, I examine the immigration issue from a narrower political economy perspective.

Internal market liberalization may not go with the free movement of people, which are treated in neo-classical economics as a factor of production. As has been noted, whilst, for example, the EEC Single Market initiative, or '1992' involves the freer movement of capital, goods, services and labour (labour mobility is very low within the EEC when contrasted with the USA), a key political issue for the 1990s will be immigration policy. This is a politically explosive issue already in a number of countries, especially in Italy, France (where the Prime Minister, Edith **Cresson**, suggested in June 1991 that she was prepared to fly illegal immigrants back to their place of origin) and to a lesser extent Germany and Britain, and needs to be considered in the light of current negotiations to 'widen' the EEC to incorporate Scandinavian countries, and other EFTA countries such as Austria and Switzerland, to say nothing of the three 'vanguard states' of central Europe: Czechoslovakia, Hungary and Poland, and of course Turkey with its NATO pedigree.

(Illegal) immigration is already a key issue in the EEC, the USA and increasingly in Canada. What is driving the latest phase of migration is the disparities in economic conditions across countries and the restructuring of production more generally. The problem of labour migration within Europe is linked to the decline of older, Fordist-style heavy industries such

as coal, steel, shipbuilding, textiles and relatively economically-backward regions dependent on agriculture (e.g. in the Mediterranean countries, Ireland). Declining heavy industries are found mainly in Northern Europe, in regions of high unemployment. The wider context is the restructuring of global production, widening disparities in economic conditions, including environmental decay (e.g. the 'lost decade' of the 1980s for most of Africa and Latin America), and the political chaos and collapse in many parts of the world, with the attendant threats of political violence and persecution.

In this context, the erosion of some types of 'protectionism' rather than others has both a political and a security dimension. This is first because of the ways in which influxes of immigrants may cause political problems and divisions in the labour force within a particular state (the more established workers may see guest-workers and other migrants as a threat to their jobs and living standards, or contributing to the growth of the black economy and thus the erosion of the state's tax base. or at worst as welfare scroungers: the rise of neofascist parties in France and Benelux are symptoms of this). Second, the internal **policing** of populations is an aspect of national security, and intrusive forms of policing may be legitimated on grounds of the suspect allegiance of newcomers to a given country. Applications for membership of the EC from central European countries, as well as more specifically from Turkey (and possibly Morocco) will be affected by these issues. Thus the European Commission's attempts to create a consensus on the need for a transnational social policy are blocked not only by neo-liberal parties and governments and **TNCs**, but also by coalitions including the security apparatus, some elements in organized labour, and occasionally right-wing parties.

From a more traditional political economy perspective it is worth remembering that many protected national capitalist firms are in the military-industrial sectors, and to a large extent, US military producers have cost advantages over their foreign counterparts (as is also the case for US media and mass communications, and also to a lesser extent informatics firms) and with the Cold War in eclipse, they can be expected to push for further liberalization of overseas markets. This issue can also be related to the traditional concern of governments to secure and to sustain a set of 'strategic industries' within the territories, for purposes of economic and national security. Traditionally this has involved control over communications grids, newspapers, television and other elements of the information society. All of these elements of protection are under attack in the 1992 programme, and so far a considerable degree of progress has been made on many of these questions, both in the EEC under the rubric of 'national procurement', and in the **GATT negotiations**. In the case of the EEC, agriculture has always been accorded a special 'strategic status', in the sense that it provided a means to stabilize the rural populations and to

provide a redistributive social policy (although now its major beneficiaries are large-scale agribusiness and the mafia, and of course, the relatively economically-backward regions of the EC dependent on agricultural production).

Disciplinary neo-liberalism: efficiency, rationality and the 'new constitutionalism'

In other words, the new 'protectionism', albeit in sometimes contradictory ways, is designed to sustain economic openness and the forces of international economic competition, a competition in which the largest and fittest are likely to survive, and this applies as much to the position of states as it does to firms. Thus the arguments about the further institutionalization of GATT rules, and the widening of its ambit to cover services, including financial services, can be seen, -to a significant extent in terms congruent with neo-liberalism, and in some important respects, attempts to reconstitute US national power. A key rationale for strengthening GATT in the ways proposed is so that mobile (productive) capital will be able to plan for long-term investment with more of a sense of security concerning the future, and underpinning the 'exit' option for mobile capital more generally (freedom of movement implies exit as well as entry).

All this is designed to create a macro- and micro-economic environment which is geared to the maximization of market or X-efficiency, with competition the key driving force in generating dynamism. This competition is seen as occurring between states (i.e. a new, outward-looking mercantilism, involving, amongst other things, a competition to provide an attractive investment climate for capital) as well as other economic agents.

There is, of course, contestation over the concepts espoused in the disciplinary neo-liberal discourse (which is not by any means homogenous). For example, some freedoms are prioritized at the expense of others (the freedom of capital in transparent markets seen as maximizing individual choice). Some concepts of efficiency (i.e. X-efficiency and micro-efficiency) and discipline are prioritized relative to others (e.g. macro-efficiency, and social efficiency). Thus in a book on EMS only one of the contributors (out of about 40 economists) pointed out the deflationary bias and welfare losses associated with the operation of the EMS, thus implying that the EMS and EMU could be viewed as flawed from the viewpoint of macro- and social-efficiency. The same economist noted that there had been no net job creation in Europe to speak of during the 1980s.<sup>17</sup> Nevertheless, the thrust of the Ceccini Report, as well as some independent analyses made by the Centre for Economic Policy Research in London, argue that 1992 and EMU will serve to generate considerable gains in dynamic efficiency (permanently adding as much as 0.25 to 1 percent to annual European GDP), albeit through a Schumpeterian

process of 'creative destruction'." The latter epithet certainly seems to apply to the process unleashed in east Germany after unification, and Poland since the application of IMF-style shock therapy since late 1989.

More generally, these issues relate to different concepts of rationality in the social sciences, such as those discussed in Jon Elster's *Ulysses and the Sirens*.<sup>19</sup> Neo-liberals are pressing for a set of binding constraints on state power and democracy, either indirectly through market forces as in pure liberalism (e.g. Hayek and the Austrian school, who call for the full privatization of monetary creation and regulation through market forces), or through some constitutionalist device which is more typical of the liberals of the Freiberg school (which characterizes Bundesbank thinking, and more generally, the conceptualization of the social market economy), arguing for autonomous central banks, or some combination of the two. For the new constitutionalists, market rationality is seen as preferable to the vagaries of political discretion **and/or** the collective will of the **polis**.

A key problem for constitutionalist arrangements in so far as they might be applied globally is the United States, since it is simultaneously the most economically central as well as the most inward-looking of all the major capitalist countries, reflecting a contradiction between 'subjective' and 'objective' aspects of the US political economy. The USA, especially given the record of its unilateralism over the last 20 years, needs, according to this discourse, to be like Ulysses eschewing the temptations of the sirens, 'bound to the mast', like other nations.

However, the domestic constitution of the USA itself would be vitiated by any subordination of the Congress in key areas of economic policy, reflecting that what is at stake is a question of sovereignty in two senses: the sovereignty of a nation in the conduct of its policy relative to other nations; and the sovereignty of the people expressed either directly or indirectly through voting into power elected representatives who are expected to fight for the interests of their constituents.

However, the problem goes much deeper, since the very structure of the US political economy, and the attitudes of the mass of **the politically** active population mean that the US popular consciousness is ethnocentric and inward-looking, and the economy partly reflects this in the way that a country of about 252 million people devours about 60% of the world's annual consumable resources. In this sense, a key problem for neo-liberal constitutionalist strategy (as well as for a solution to global environmental and ecological **problems**) is the lack of internationalization of the USA in a broad sense: the issue is not just the need for the USA to forego its unilateralism.

As David Law has pointed out, the relative decline of the US economy will probably have to go further before the USA is forced to accept the constraints on policy autonomy that other countries have to cope **with**.<sup>20</sup> This lies at the heart of the limits of the G7 as an institutionalized

directorates for the world economy, and also sets limits to the transformation of its role in a more politically focused set of collective strategies *vis à vis* Soviet reconstruction, Third World issues and environmental questions.

Thus, even within the context of the terms of the debate as defined by Eurocrats and the forces of the right (who have made most of the running in the debates), there are substantial disagreements about the pace and phasing of, for example, the implementation of the Delors proposals and the internal and external impact of EMU and greater European integration. In consequence, although German unification appears to have injected political momentum in the process of West European unification, the problem of the legitimacy and in some sense the logic of the process is still not being addressed fundamentally. Political overload (*i.e.* a vast and complicated agenda for political leaders) merely compounds this problem. Thus it is a savage irony that whilst democratic institutions are being painfully (re-)constructed in the east, partly inspired by Western traditions of liberal democracy, attempts to establish more democratic foundations for supra-national West European institutions are notable by their absence.

### *Germany and the new Europe*

Notwithstanding the new importance of the socio-economic laboratory experiment in Poland, and the political skirmishes over the Oder-Niese line and the border with Poland, the most important changes in Europe outside of the former Soviet Union concern Germany. The collapse of the German Democratic Republic occurred when East German people simply voted with their feet and then at the ballot box to terminate the old communist order and to accept the economic and political *de facto* annexation of their nation by West Germany.

Now there is a new social and political landscape in Europe. The long-term consequence of unification is likely to be a more economically central and more powerful Germany. As a footnote to this probability, when compared with Poland, unification is a case of the extreme application of (IMF style) conditionality: the Economic, Social and Monetary Union of the two Germanies was premised on the acceptance by East Germany of not only the currency, but the entire gamut of socio-economic principles and institutions of the West, and, of course, the social market economy of the Federal Republic.

So far the costs of this process have been massive and have continued to rise, such that they are creating great fiscal strains with little evidence of positive results in terms of new investment and economic growth in the east of the new Germany. Indeed, OECD economists have observed privately that the macro-economic stance of the united Germanies during **1989-91** was very 'un-German'. The macroeconomic **profile** of the new Germany

resembled that of Reaganomics in the first half of the 1980s: high budget deficits and a regime of tight monetary policy, thus confounding the claims of the Bundesbank President Karl-Otto Poehl made in early 1989 that monetary unification was a 'fantastical and phantasmagorical idea' that he would never see in his own lifetime, and when he saw it, he called it a 'disaster'. This reflects the subjugation of the supposedly independent German central bank to the dictates of the political masters in Bonn. What we can expect in economic terms from all this, in the short- and medium-term is that the union will act as a drag on the very impressive economic performance of the German economy which characterized the 1985-90 period. German economic planners will have to work very hard to ensure that eastern Germany does not become another Mezzogiorno.

Recent evidence suggests that this will be very difficult indeed.<sup>21</sup> There was a 43 per cent fall in east German industrial production between July 1990 and February 1991 (west German output rose by 8 per cent between July 1990 and April 1991); a rise in east German unemployment (up from 2.8 to 8.6 per cent between late 1989 and May 1991) and short-time (up from 6.7 to 20.1 per cent in the same period) work in east Germany has risen very rapidly; the east German GNP fell by 15 per cent between 1989 and 1990, and OECD economists predict a similar decline between 1990 and 1991. The Truhandanstalt (the German privatization agency) has only privatized 12 per cent of the most viable combine; there is confusion over property rights and a backlog of claims. East Germany is now dependent on fiscal transfers for half of its total income. Only in the level of wages have the two Germanies come together: the ratio of wages per employee in east to west rose from 32 per cent in the second half of 1989, to 73 per cent at the end of 1990. The results of unification thus far indicate the size of the problem involved in transforming a communist planned economy into a capitalist and competitive one. If the process fails in Germany, where, one might ask, can it succeed?

In line with the development of the US external balance under Reagan, the fiscal costs of the unification/reconstruction process means that the vast balance of payments surpluses of the former Federal Republic have now disappeared and Germany has moved into deficit and will probably become a substantial net borrower on international capital markets for some time. One consequence will be to divert scarce supplies of capital (in 1991 there was a substantial global shortage of capital, partly because of the re-orientation of Japanese economic expansion in the direction of domestic growth). This will hit hardest the poorer countries, and in Europe these are on the European periphery, particularly those countries bordering the Mediterranean, such as Greece, Portugal and especially Spain, which was the beneficiary of substantial investments of German capital during the 1980s.

Thus whilst unification might give a long-term boost to the (west) German, and perhaps European economy, its effects, like **Reaganomics**,

will be globally contradictory. For example, Spain may have to raise its interest rates (or cut costs, including labour costs) to sustain capital inflows. Similar effects are likely to be felt in other members of the EC, and financial conditions may tighten in Europe (As well as world-wide, notwithstanding monetary easing in the US since 1991, following the end of the Gulf War, for counter-cyclical reasons, and because of the liquidity problems in the US financial system). In Britain this has made it more difficult (especially since EMS entry) to cut substantially interest rates during the recession which started in early 1990, worsening its general effects (unemployment has risen rapidly). This threatens the **post-Thatcher** Conservative Party with defeat in the forthcoming UK General Election.

Again, the conditions which explain these effects relate in part to the mobility of capital in the integrated financial markets, many of which are now offshore markets outside of formal governmental control. The second and more specific condition is of course the economic centrality of Germany in Europe. Here then, global as well as regional and German conditions interact to create the macroeconomic environment for German unification, and its wider economic effects. Long-term interest rates rose by 2 per cent following unification, so that real rates of interest in Germany in mid 1991 were at about 5-6 per cent, with short-term interest rates high. The German current account surplus which peaked at 5 per cent of GNP in 1989, became a deficit of 1.5 per cent of GNP in mid-1991. Martin Wolf summarizes the changes well:

**A year after [unification] a new Germany is coming into view: a fiscally expansionary Germany, a Germany whose monetary policy is under pressure and a Germany with a current account deficit. But most importantly, it is a Germany with a deep and perhaps enduring division [with the prospect of] an embittered eastern population.<sup>22</sup>**

At a deeper level, German development is crucial for the future of Europe, not least because of the **power** of the German economy, the centrality of the deutschmark in the EMS, and the likely centrality of German models of macro- and micro-economic management in the new political and economic configurations of post-1992 Europe. Here the dimensions of past, present and future, integration and disintegration are particularly apposite as ways to examine the dialectics of the 'Europeanization of Germany' and the 'Germanization of Europe'. The latter refers to the way that both the German model, as an idea and a social practice, and the actual effects of Bundesbank monetary discipline have configured the socio-economic conditions in neighbouring countries. This includes not just those in the deutschmark-zone (which includes Austria), but also France since 1983, which has been 'more German than the Bundesbank' in pursuing monetary and fiscal discipline and a hard-franc policy. As the above discussion indicates, the macroeconomic aspects of this are in danger of being undermined because of the costs of German unification.

This was further underlined in early 1992 when German interest rates rose to their highest post-war levels as the Bundesbank attempted to control domestic inflation and to face off union demands for substantial pay increases. This meant, of course, further deflationary pressure on high unemployment countries in the EEC, such as France and Britain.

At the level of ideology, enthusiasts for *modell* Deutschland have characterized West Germany as a dynamic society which combines Japanese growth dynamics, North American-style innovation and ingenuity, Swiss currency stability, Scandinavian living standards and social welfare provision, as well as time-honoured German efficiency. They also claim a new quality, at least as far as German modern history is concerned: political stability, a value which its politicians hold obsessively, and which is underpinned by, and embedded in, the 'social-market' economy.

The historical evaluation of the (west) German model has involved a shift of its political centre of gravity from social-liberal to **conservative-liberal** since the early 1980s. This has gone with a crisis in the old-style Fordist strategies of accumulation, a diminution of the level and extensiveness of social welfare provision (at least until unification meant substantial transfers to the new east German lander). In Ralf Dahrendorf's phrase, this may herald the 'end of the Social-Democratic Century' in German political life, and with it, perhaps, the end of the social democratic Keynesian state, a process which may be slowed by the short-term costs of **unification**.<sup>23</sup> Thus in the German case, the crisis of post-war hegemony has not gone as far as in Britain, Holland, France and Belgium, but has, nonetheless, still occurred.

However, the ideology and practice of *modell* Deutschland, stands in substantial contrast to **the** neo-liberal model of Thatcherism, although there are points of agreement concerning the importance of financial discipline, market transparency and liberalization, and the emphasis on global competitiveness. The advocates of this new vision for Germany, which span the conventional political spectrum, see Germany as the politico-economic gyroscope for future socio-economic development in a unified Europe. Germany would form not only the crossroads between East and West (its traditional economic role) but also, and more fundamentally, the political and economic, and perhaps the ideological centre, from the Atlantic to the Urals.

The possibility that this dream might become a reality (or a nightmare) provoked considerable, if sometimes politically stifled reaction in other major European countries, as when Mrs Thatcher's longstanding confidant in the cabinet and ardent Thatcherite, Nicolas Ridley, was forced to resign in July 1990 after stating that the Germans were trying to 'take over' Europe. Widespread distrust of German intentions is still a feature of the European landscape, on both sides of what was the Iron Curtain.

Nevertheless, and partly in response to this, the indications are that the mainstream political forces, and perhaps more fundamentally, key **ele-**

ments in German industry and banking, see benefits in the Europeanization and globalization of the German economic position, the latter reflected, for example in the trilateral link-up between Deutsche Bank, Daimler-Benz, Mitsubishi and United Technologies. Similar types of strategy practised by other German companies suggest that, in a similar way to other giant transnationals headquartered in the US and Japan, only a global strategy and stance is feasible for long-term growth and survival, and the power of these interests will prevent any substantially **inward-looking mercantilism**, or economic nationalism, on the part of the new German state.

German leaders have seemed much less concerned with direct political hegemony or indeed, international political visibility, particularly in the wake of gaining acceptance from the allies for unification (the German government has generally allowed the French to make the running on economic and political union in the EC—in the form of Jacques Delors—and its reaction was muted to the Gulf War and to the putting down of rebellions in the Baltic Republics by Gorbachev). Germany extended huge credits to the USSR, despite the fact that the Soviet Government had not ratified the 4 + 2 agreement and as of April 1991 still had over 300,000 troops in east Germany (many of whom wish to stay there because they could not hope to have a comparable standard of living when they returned home).

At the pan-European level, major German electronics firms such as Siemens have led the way in helping to forge pan-European strategies of restructuring and co-operation in research and development (as with the EC's EUREKA programme). Germany is of course the key player in the negotiations over economic and political union and is making most of the running in sketching the details for the proposed European System of Central Banks.

Both of these types of evidence suggest a Europeanization of Germany, as well as the spread of German methods and policies throughout Europe. Germany's state-supported key economic power bloc (based in machine production, electro- and production technology and other basic industries, along with its large banks) is pursuing international strategies which are geared towards improving the competitive position of German producers in high-technology strategic industries, in the context of a macro-economic regime of monetary discipline and fiscal expansion; and a micro-economic policy which fuses supply-side policies with corporatism at the firm, industry and national levels. In this context, the Kohl leadership has sustained many elements of continuity in the German political economy, and has harnessed them to the widely-based support for qualitative modernization and organizational innovation. This has occurred in the context of an economy which is host to a small number of large, efficient, profitable and innovative transnational corporations, and a galaxy of

smaller satellite producers. This generates an impressive level of productive power: it is something that the so-called 'vanguard' states of central Europe, to say nothing of some of the members of the EC, can only dream about.

Post-Fordist modernization and the social market economy are being increasingly characterized by both the centralization and the **transnationalization** of German capital. This is, of course, also true of French, Italian and British capital, the latter of which has a long history of this type of strategy. German strategy is being extended into eastern Germany, and some of the former regime's *kombinate* are being absorbed into the process, albeit with limited success so far. In business terminology this is a synthesis between economic synergy and political strategy: transnational alliances are designed to help guarantee access to economic opportunities overseas, particularly North American and East Asian markets (and capital), and the global posture means that Germany cannot be constrained within the confines of the EC nor shackled too directly in a Franco-German *entente*. German strategy is, in other words, a new path towards advancing German corporate, and national interests, in a global context. If it chooses to forge an alliance with the globalist perspective of the interests of the City of London and the largest UK transnationals, and indeed the UK government, Germany can obviate any Euro-mercantilist tendencies (coming from within the European Commission bureaucrats and possibly the French government), and prevent the emergence of a fortress Europe. This idea perhaps lies partly behind the emerging *rap-prochement* between Germany and the UK in the EEC, with several key members of Prime Minister Major's cabinet singing the praises of aspects of the German model (this move also has the virtue of outflanking the Labour Party before the 1992 General Election: Labour has moved in the direction of praising the social market economy and the virtues of monetary discipline and central bank independence).

*The EEC, the West and the Eastern Question: economic strategy and foreign policy*

Whatever the pace of the attempted reforms in eastern and Central Europe, and now in Russia and the Commonwealth of Independent States, under a programme of what can only be called 'disciplinary **neo-liberalism**' (i.e. a modified version of the medicine applied during the 1980s in some Latin American countries under IMF conditionality), the social transformations involved are such that, following Braudel, we should expect their efforts to be contradictory, and to transform only slowly the embedded social structures to create the conditions for a truly market capitalist society. German unification and the costs of the Gulf War, plus changes in the rules governing the allocation of international finance under the auspices of the Bank for International Settlements (in

effect downgrading the credit ratings of developing and east European countries) all suggest that the process will be slow and tortuous, if indeed it succeeds at all.<sup>28</sup> The Russian reform programme was beginning to meet fierce internal resistance by February 1992, and the hungry are increasingly in a state of bewildered revolt at the massive price increases and elimination of subsidies which had once provided some degree of economic security.

Moreover, whereas Poland's Solidarity government appeared at one point to have had the degree of legitimacy to provide the political pre-conditions to absorb the necessary social dislocations and restructuring involved in preparing the economy for its subjugation to the power of capital, this has always appeared much less the case for both the increasingly authoritarian leadership of the USSR, and the Russian government under Boris Yeltsin. Moreover, both the Soviet and now Russian governments have been internally divided on the direction of change and its purpose.

In January of 1991, Gorbachev was suspected by many in the West of being on the verge of mental breakdown, and himself proposed the suspension of glasnost and press censorship was renewed. However, the Union was racked by centrifugal tendencies which the iron fist cannot contain. In this sense, from a longer-term world order viewpoint, the collapse of the USSR poses substantial problems, given the fact that the Republics seem determined to go their own way politically (e.g. the struggle between Ukraine and Russia over the control of the Black Sea fleet). Only under stable political conditions will the former USSR (or indeed any of its Republics) attract the levels of investment and technology they need from the rest of the world, or repay its debts to the rest of the world: these are large, especially to Germany. The Soviet leadership were, until their removal, attempting to cope with three major problems, on a scale probably never faced by any previous empire in history: substantially transforming and reconstructing the economy, re-ordering the political and constitutional structure, and retreating from dominance and control over a vast territory.

As I argued in an **earlier** version of this essay, a controlled break up of the USSR into its constituent republics and territories (either through formal sovereignty or else through substantial decentralization of power in a loose confederation) would open it up to the deeper penetration of the power of capital, since it would create new boundaries and thus territories and populations competing to attract supplies of international capital. That is, of course, always assuming that this occurred under stable political conditions. By mid-1991 there were already many indications that this was already happening, that is well in advance of the failed coup. For example, the Ukraine government was actively discussing the introduction of a separate Ukrainian currency, and discussions were taking place concerning the division of powers between the centre and the republics concerning

powers of taxation and other economic questions. The speed of these discussions accelerated in the first half of 1991, partly because of the collapse in Soviet economic activity (with massive food shortages, plunging oil production and vanishing foreign exchange reserves) and partly because of the need to appear to have solved the internal political and constitutional questions of the USSR before Gorbachev's attendance at the G7 summit in London in July 15–17, 1991."

However, capitalists are unlikely to plan long-term investments in any substantial measure whilst there are continued fears of civil war throughout the CIS, and if the climate for investment is too politically or economically uncertain. One might tentatively conclude, therefore, that at best the post-Soviet future looks bleak, with substantial adjustment falling on the weakest members of society if the **IMF/World Bank/Yavlitsky** formulae are implemented in one form or another, with no guarantee of success. At worst, the post-Soviet political future seems to be one of growing contradictions and deepening crisis, especially since the West, particularly the USA, seems reluctant to provide the quantity and quality of assistance required to manage the transition to capitalism in an effective way, 'from Ottoman-style superpower to functioning market economy'. The USA, for example, was consistent in its opposition to a swift entry of the USSR into the IMF and World Bank, whereas the EEC was in favour of this. Now that the USSR has collapsed, the USA has agreed to process Russia's application quickly in 1992. Both the US and EEC are aware, however, that it will be very difficult to eradicate 70 years of Soviet Communism without substantial internal political struggle: a continuation of the present *impasse* is thus far from being an unlikely possibility.

The consensus view which crystallized in the West in 1990–91 concerning Soviet economic and political reform was that the best help that could be offered was in the form of expertise and knowledge. In the words of David Mulford the US Under-Secretary of Treasury for International Monetary Affairs, the USSR would have access to 'thousands of man-hours' of western, especially US expertise. These experts, we can be sure, will seek to develop institutions and initiatives which will involve the application and extension of what I have earlier termed 'disciplinary neoliberalism', along the lines involved in the social restructuring of Poland. This is strategy at its highest level, in ways which are reminiscent of the post-war reconstruction of Western Europe and Japan in the Marshall Plan days. What we have at work here is the coming together of a range of institutions and what Gramsci calls 'organic intellectuals' concerned not just with minor economic reforms or adjustments, but with the political management of a socio-economic transformation, not just of a minor central European country, but with a major country, a post-war superpower. As the situation in the CIS has become increasingly tense in the winter of 1991–92, there has been much more effort at compensatory and

humanitarian supplies of capital and goods, especially food, although on overall terms the combined initiatives seem to fall very short of anything which could be compared to the Marshall Plan, and appear to have been coordinated badly. Indeed, despite the fact that Yeltsin's Russian government has been over-supplied with economic gurus from not only Bonn and London, but also Harvard and Santiago, the execution of the first stage in Russia's efforts to create a functioning market capitalism has been politically and economically inept (the IMF now has an office in Moscow).

Again the blueprints for both Poland and the Soviet Union have elements of the 'new constitutionalism' stamped upon them, with some compensatory liberal elements in the form of transitional financing to help ensure the political survival of the Russian state, which is of course necessary for the strategy to have any change of working, since the costs of adjustment will continue to be tremendous and will generate further political unrest.

Assuming that the post-Soviet CIS is able to sustain itself politically in this transition we can expect to see, perhaps in 20 years the emergence of a more confederal political structure, and the rise in inter-republic competition to attract overseas supplies of capital. Thus the changes in the former Soviet Union will further extend and deepen the power of capital on a world scale, in so far as one aspect of this power involves the division of the globe into rival political sovereignties, and another is the spread of market relations and the monetization and commodification of everyday life. Finally, what the plans for the Soviet Union appear to illustrate is that the USA is crucial to any major international initiative, especially since both the IMF and EEC were charged with developing plans after the 1990 Houston Summit, and Germany had by far the biggest stake in political and economic stability in the USSR: the Soviets were massively in debt to the Germans. The US plans, developed with the agreement of Gorbachev, were designed initially to preempt the IMF and EEC initiatives.

This argument is reinforced by other developments relating to strategic realignments and military planning in the wake of the Gulf War. At a moment of deep internal crisis for the Soviet Union, we saw the use of US and allied military power in Third World contexts and the development of new concepts to reconstruct and to redevelop NATO. A key recent example is the creation of a smaller, harder and more mobile European flank of NATO and a Euro-counterpart to the US Rapid Deployment capacity seen at work in the 1991 Gulf War (which might be used not just in Yugoslavia, but perhaps in North and West Africa and the Middle East: it is no surprise that the UK, given its experience in the war against Iraq and earlier in the **Falklands/Malvinas** War, was put in charge of the **EDRF**).<sup>8</sup> In addition, the Gulf War retarded the momentum towards a more unified foreign and security policy for the EEC, and with it slowed down the impetus towards Economic and Political Union. The USA and the UK are

closely aligned on the necessity of making security policy in a transatlantic frame of reference. The Gulf War once again dramatized the political and military limits to Japanese leadership in global politics. All this meant that Germany and Japan appeared to have little choice (along with the Saudis and the Kuwaitis) but to finance the US (and coalition) war effort.

Since the primary public rationale for US globalism since 1945, *i.e.* the containment of and struggle against (Soviet) communism is now being eroded, then we must conclude that the other key (and historically more frequent deployed) purpose of US military power, policing the Third World, is now more important than ever before. This aspect of US globalism is crucial to reviewing the implications of recent developments: a renewed capacity for intervention seems to be central to containing the 'adverse' political repercussions of the deepening of marketization and monetization and associated trends of capitalism (as well as problems attendant on the transition towards capitalism in former-communist states). More specifically, it is an added means to negotiate the contradictions in Third World countries' development which the debt decade has brought into profile during the 1980s and early 1990s (and is supplemented by plans advocating the prohibition of certain arms exports to Third World countries). In the Third World this seems to offer a parallel mechanism to the efforts of the **IMF/World Bank** to encourage state-building and marketization. In eastern and central Europe it can be seen as reinforcing demands that the political transitions involve political pluralism along liberal-democratic lines, as well as marketization *à la Polanyi's* arguments on the creation of a market society in nineteenth century Britain (where of course, the democratic element was notable by its absence, and political revolution had not **occurred**).<sup>27</sup>

Thus the new politico-military configurations and initiatives might be seen as central to the reproduction of a (disciplinary) neo-liberal order. The neo-liberal state is concerned to police not only markets but also populations more generally. Here it is worth noting the tremendous rally which took place in the global stock markets when it became clear that the USA was prevailing in the Gulf War: a US victory was widely interpreted as boosting confidence since it was performing its role as a global enforcer and guarantor of private property rights, as well as stabilizing the oil markets through the use of the Strategic Petroleum Reserve.

Seen from a more national viewpoint, the US government is keen to sustain its primacy *vis à vis* its allies. The military advantages it has partly enable the US government to offset US relative economic decline and sustain US political primacy. G7 proposals to strengthen the military capacities of the United Nations, the introduction of economic issues into the remit of the UN Security Council and military-security issues into both the G7 Heads and G7 Deputies (central bankers and Ministers of Finance) forums might be a means for the USA both to internationalize and

institutionalize the 'tributary' arrangements of payments from other countries which paid for US expenditure in the Gulf War (the latter organized by G7 deputies). This could involve a more permanent system of global tax collection to pay for the 'international public good' of collective security. Much more thinking on this and related security questions needs to be done by International Relations scholars, and in this light the financial and broader macroeconomic constraints surrounding the financing of US military expenditures and expansion are crucial.

To conclude, European debates on future security arrangements and a possible shared foreign policy are likely to be sharpened then, because as yet there is very little to suggest that the US leadership is fully conscious of the need to reconstruct a more co-operative, consensual and co-ordinated form of international leadership, at least with its key allies in Western Europe and Japan. The US seems determined to use its vast military power to sustain its global primacy, and shows a willingness to attempt to extract resources in the form of tribute from its allies and clients to pay for it. Given the domestic inhibitions in Japan, limiting the scope and extension of the Self Defence Forces, Japan is perhaps the most vulnerable target for this type of 'tributary' strategy.

### III. Conclusion: Limits To, and Prospects For, European Hegemony

All these considerations suggest that the possibilities of European hegemony, as something which could supplant US dominance in the global political economy, are limited. This would perhaps even be more the case if the European Community were enlarged in the next century (with the addition of Austria, Sweden, Switzerland, and possibly Hungary and Czechoslovakia). Part of the reason for this is the narrow, economic vision on which the initiatives are generally based, the lack of congruence between political and economic aspects of the integration process, and the distinct lack of any clearly mobilized popular support for anything approximating this type of vision on the part of European peoples. In this sense, the EC initiatives are being forged against the grain of history, if we take this to involve democratization and the control of market forces by the state and society in post-war western Europe.

At the regional level, what this will mean for the contours of the emerging Europe is, of course, far from certain, although we are currently witnessing substantial momentum in the process of European unification. Nevertheless, integration, even in its current form, has a long way to go in a number of areas, particularly in the formation of a common defence identity and policy, and more generally a common foreign policy (the Gulf War has revealed substantial divisions here, for example between German reluctance, British pro-Americanism and traditional French independence).

Progress in economic and monetary union is continuing, and is proceeding more rapidly than most commentators could have imagined even two years ago, initially accelerated by German unification (and perhaps now being slowed as the costs of unification come into focus), developments in eastern and central Europe, by growing American protectionism, and the acute sensitivity to the Japanese challenge. However, because of the forces of transnationalization and globalization, and because of the heavy dependence of nearly all the European economies on international trade and increasingly, international production, it seems unlikely that we will see fortress Europe in the future, although the **EC's** growing economic integration will allow it to develop more countervailing bargaining power relative to the US and Japan (e.g. the recent deadlock in GATT negotiations between the EC and the US, which in part reflected the budgetary and social impasse in the EC caused by the Common Agricultural Policy, as well as competitive differences over services, intellectual property and government procurement regulations)."

More fundamentally, and this perhaps is the crux of the problem in terms of further integration in the EC, we are much further away from the development of both a common European identity and a set of political institutions which can gain democratic legitimacy and the capacity to mobilize substantially the European peoples. This constraint operates more powerfully than the pull of the German model, the push of French political initiatives, or the shall-we, shall-we-not hesitations and misgivings of the British (reflected, for example in the lament of the Prince of Wales that the coming of the Channel Tunnel would hasten the destruction of the 'island identity' and cultural separateness of Britain). In other words, the level of pan-European political development, along with an integrated and independent military-strategic apparatus is still far from complete. Indeed, it might be said that Europe is still, to use the title of the anthology edited by the Swiss philosopher **Denis** de Rougemont, in many respects simply the 'idea of Europe.'" It is still far from being a completed economic and political reality.

What **Hegel** once called the 'ruined fortress' and the 'dialectical crossroads of mankind', modern Europe as an integrated entity is perhaps still more an entity of the mind, of the ideal realm: a set of ideas, proposals and arguments perhaps rooted in Judeo-Christian and **Græco** Roman myth, at least when compared with its major economic and perhaps political rivals, the US (200 years of political development) and Japan (at least 1200 years). In this sense, Europe, in the form of the EC, has the potential to become a rival to the US, if it could be understood as something more coherent and integral. Inverting **Hegel**, and applying **Marx**, we might suggest that material pressures, and especially competitive struggles involving transnational capital, and those embodied in the European security problematic, are likely to be the motor forces which will

create the conditions for the dream one day to become a reality. In this sense, perhaps the next catalyst for a deepening of this process of integration will be the political dynamics and conflicts caused by the disintegration of the USSR.

This does not mean, then, that the twenty-first century will be the 'European century'. There are simply no clear rivals to supplant US primacy, which involves integral capabilities in the economic, military, political, and in some senses cultural fields. Yet this is to think of global hegemony in terms of the primacy of one state, or collection of federated states, relative to others. What is a more fundamental issue is whether the global order has a hegemonic quality, in the sense used by Gramsci. This means that we need to think through the implications of a system which is gravitating towards something akin to one in which the pure logic of capital, operating on an increasingly global basis, is atomizing pre-existing social and political arrangements, and commoditizing and reifying ever wider spheres of social life, from health care to public service broadcasting to amateur sports.

One implication is to make the 'game' of socio-economic life, to use Susan Strange's metaphors, resemble either snakes and ladders or roulette, where effort bears little relationship to reward, and where the time horizons of the system become shorter and shorter. At the heart of the problem is the way in which the social basis of political participation in the emerging world order system appears to be narrowing, largely because of the tendency for the pure logic of capitalist market relations to intensify social inequality and to empower the strong at the expense of the weak, vulnerable or disorganized. This problem takes on added importance because of the pace of organizational and technological change driven by the intensification of competitive pressures. Such pressures force companies and governments to cut costs (including the costs to business stemming from health and safety, environmental and other forms of regulation and taxation). Governments, firms and workers now increasingly compete to attract scarce supplies of capital from their rivals in other localities, regions, and countries. A harsher, perhaps less democratic and legitimate order seems to be emerging, with a reconcentration of power in favour of large-scale capital.

At the popular level, failing substantial counter-hegemonic mobilization involving local, national and transnational efforts, we can expect an acceleration towards the re-institution of the self-regulating market, and the further restriction of the historical tendency towards greater democratization. If the 1992 programme is an indicator, any European super-state which might emerge, will probably in practice be more like a larger version of the nineteenth-century liberal states, with their limited franchise and dominance by the aristocracy and the bourgeoisie. This is to say that the form of state, and its relationship to civil society, according to the **Euro-**

integrationist path, will be less based upon a politics of inclusion, welfare and corporatism, and increasingly on the logic of the self-regulating market. Instead of socialism, the workers of the future Europe are to be persuaded to aspire to the German social market model, as their **Panglossian** best of all possible in the best of all possible worlds. This, as noted, goes against the grain of history, and stands in contradiction to the re-birth of democracy in eastern and central Europe. In this sense the new 'Europe 1992' will probably be less 'hegemonic' than the more politically divided Europe of the 1950s and 1960s. The embedded liberalism and social hegemony of the transatlantic economic system which flourished after 1945 has, it would seem, begun to disappear, to be replaced by a form of disciplinary neo-liberalism, particularly dramatic in its effects in the poorer countries of the world.

The economic logic of neo-liberalism can be queried even in its own terms. Indeed, it is economically contradictory. This is especially so given the deflationary thrust of neo-liberalism now being applied in the context of the deepest global recession since the 1930s. Many commentators have noted that several parts of the world are enduring economic depression, e.g. Latin America (for about the last 10 years), most of Africa (for perhaps 15 years) and eastern and central Europe and the CIS (since about 1987). This points to what Keynesians call a massive drop in aggregate global demand, and what Marxists call a realization problem for the further accumulation of capital. Moreover, the international financial system, both as cause and effect of globalization, is fragile and is only as strong as its weakest link, as the recent panic over the collapse of **Drexell Burnham Lambert** revealed. Of course, there is greater internationalization of policy and corresponding support networks between central banks than was the case at the time of the Wall Street Crash of 1929 which precipitated the Great Depression of the 1930s.

Nevertheless, a global financial collapse in the 1990s is by no means an impossibility, and one would need to be a *Candide* to be optimistic about the global economic outlook for the next few years. Following Polanyi's analysis of the **1930s**, global liberalization and **recession/depression** were the immediate conjecture for the remobilization of state and society against the logic of the self-regulating market. The repercussions in this period, it will be remembered, involved not only attempts to deal with the crisis through Keynesian policies (as in the New Deal), but also the imposition of neo-orthodoxies of sound money as well as Fascism and Nazism (phenomena which are beginning to resurface in a substantial manner in Germany and France). This problem would seem to be especially acute in east and central Europe and in parts of the CIS. Polanyi's 'double movement' may well recur in the very different conditions of the **1990s**, that is when there is a partial, though undeveloped internationalization of authority, and a set of globalizing and homogenizing economic

forces, which are much more deep seated and integral to contemporary capitalism than was the case in the previous era of widespread internationalization of capital in the late nineteenth and early twentieth century. The qualitative transformation this has brought will also mean changes in the terrain of political struggle to contain the worst excesses of these forces, and to democratize their power.

Reflecting outmoded concepts concerning the nature of the contemporary world order, it further seems that the leaders of United States have decided that the form of hegemony preferred is less Gramscian (i.e. consensual, legitimate) and more narrowly Realist (i.e. based upon dominance and supremacy, and US power relative to that of other states and socio-economic systems, e.g. Japan, Iraq, the challenge of Islam). Whether this can be the foundation for a stable, let alone more legitimate and authoritative world order is, in my view, rather doubtful. Given the collapse of the USSR, the EC may have no alternative but to develop its own military capabilities, independent foreign policy and economic defences to offset the dominance of the US in the security and economic structures by accelerating its unity, *faute de mieux*. Japan, in the absence of creative imagination on the part of its political leaders and the lack of substantial democratization, may be destined to remain very much a second-level political power, despite its formidable economic prowess, a prowess increasingly based upon working its population into the ground, as the working week gets longer, and the level of knowledge and labour intensification in the vanguard production facilities continues to rise. The failure to think globally on the part of the Japanese ruling classes means that the schizophrenia of Japan's relationship with the USA seems set to continue for the foreseeable future. Japan may, in due course, given some of the domestic changes just mentioned, try to offset the lop-sided dependence on the US through strategies of economic and political diversification.

The EC will also seek to undertake similar strategies of diversification, to hedge against the political risks of too great a dependence on the vagaries of Washington policy, especially given the hostility towards Japan and the growing tendency to scapegoat foreigners for the economic ills of the US. These possibilities, however, do not suggest a renewal of inter-bloc or inter-imperial rivalries, since neither the EC nor Japan would seek to provoke the US. Rather, they open up new potential for counter-hegemonic and progressive forces to begin to make transnational links, and thereby to insert themselves in a more differentiated, multi-lateral world order. This would be a way to advance the process of the democratization of an emerging global civil society and system of international political authority, currently monopolized by the forces of transnational capital, the governments of the major states, and supervised by the Bretton Woods institutions and the military alliances of the West.

## NOTES

1. I am grateful to David Law for making these and other points. I also thank Robert Cox, Craig Murphy and R.B.J. (Rob) Walker. Some of the following argument was published in *Alternatives*, 1991, Vol. 16 (3) pp. 275–314, 'Reflections on Global Order and Socio-historical Time'.
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10. For details see Susan Strange, *Casino Capitalism*, (Oxford, Blackwell, 1986); Jeffrey Frieden, *Banking on the World* (New York, Harper and Row, 1987).

11. My italics. Cited in Woolley, quotations from the Delors Report, **paragraphs 4, 53, 32, 30.**
12. See F. Giavazzi, S. Micossi, and M. Miller (eds.) *The European Monetary System* (Cambridge, Cambridge University Press, 1988); M. de Cecco and A. Giovanni (eds) *A European Central Bank?* (Cambridge, Cambridge University Press, 1989); especially **Allan Drazen**, 'Monetary policy, capital controls and seigniorage in an open economy', pp. 13–52; and Vittorio **Grilli**, 'Seigniorage in Europe', pp. 53–94, both in de Cecco and Giovanni eds.
13. See F. Giavazzi and L. Spaventa (eds) *High Public Debt: the Italian Experience* (Cambridge, Cambridge University Press, 1989). Significant here is that the case of Italy shows many of the problems involved with a swift liberalization of capital controls. The Italian government failed to pre-empt massive speculation against the lira after May 1987 and had to temporarily suspend liberalization and to introduce administrative credit controls. See Giavazzi et al (eds), *The European Monetary System*, p. 409.
14. Elizabeth Meehan, 'Sex Equality Policies in the European Community', *Journal of European Integration*, (1990), Vol. 13., p. 187. See also Martin Rhodes, 'The Social Dimension of the Single European Market: National vs. Transnational Regulation', *European Journal of Political Research* (March, 1991); Paul Teague, *The European Community: the Social Dimension and Labour Market Policy for 1992*, (London, Kogan Page, 1989); John Grahl and Paul Teague, 'The Cost of Neo-Liberal Europe', *New Left Review*, (1989), No. 174.
15. The *Economist* adds: 'Project 1992 will make this [i.e. the US airlines] shakeout look like a pyjama party. After decades of cossetting, many European companies have grown fat and lazy. That will make them vulnerable to new firms whose costs and prices are a fraction of their own. Moreover, whereas American deregulation was largely a domestic affair, the European version promises to be an international free-for-all. Powerful American and Japanese firms like Philip Morris, IBM, Fujitsu and NEC are already limbering up to do battle'. ('Survey: Business in Europe', *Economist*, 8 June 1991.)
16. 'Survey: Business in Europe', *Economist*, 8 June, 1991.
17. Giavazzi et al, *The European Monetary System*, op cit.
18. Richard **Baldwin**, 'The Growth Effects of 1992', *CEPR*, November, 1989.
19. Cambridge, Cambridge University Press, 1979.
20. David Law, 'Transatlantic Economic Co-operation', in Stephen Gill, ed., *Atlantic Relations: beyond the Reagan Era* (Hemel Hempstead, Harvester-Wheatsheaf, 1989), pp. 136–155.
21. The following are taken from Martin Wolf, 'A nation unified, and yet apart', *Financial Times*, 1 July 1991. Wolf's data are drawn from the OECD, and Kiel Institute and Brookings Institution Working Papers.
22. Martin Wolf, 'A nation unified, and yet apart'.
23. See also **Ralf Dahrendorf**, *Reflections on the Revolution in Europe* (Toronto, Random House, 1990).
24. Louis W. Pauly, 'Institutionizing a Stalemate: National Financial Policies and the International Debt Crisis', *Journal of Public Policy*, 1990, vol. 10, no. 1, pp. 23–43.
25. As I noted in July 1991, the much feted (Professor Grigory) Yavlinsky Plan for integrating the USSR into the world economy, jointly developed by Professor Graham Allison and Jeffrey Sachs of Harvard University, seemed unlikely to be fully implemented, mainly due to opposition to its scope from within the US Administration.
26. See David White, 'Smaller, faster, cheaper', *Financial Times*, 1/2 June, 1991. In the context of overall cuts in by the mid-1990s, mixed-nationality formations (with attendant problems of language, different codes of discipline, methods etc.) will, at some future point, form the nucleus of NATO defences, with an elite 'rapid-reaction corps under UK command, but still involving some US forces'. This had been discussed over the past 12 months in both NATO and the West European Union (WEU).
27. Karl Polanyi, *The Great Transformation: the political and economic origins of our times*, (Boston, Beacon Press, 1964, orig. 1944).
28. This is similar to the argument concerning the external impact and importance of EMU made by the EC and is the EC's international political rationale for the monetary integration of Europe. See Commission of the European Communities, **Directorate-**

General for Economic and Financial Affairs, 'External Dimensions', *European Economy*, No. 44 (October, 1990), pp. 178-200.

29. Denis de Rougemont, editor, *The Idea of Europe* (New York, Galaxy Books, 1966).