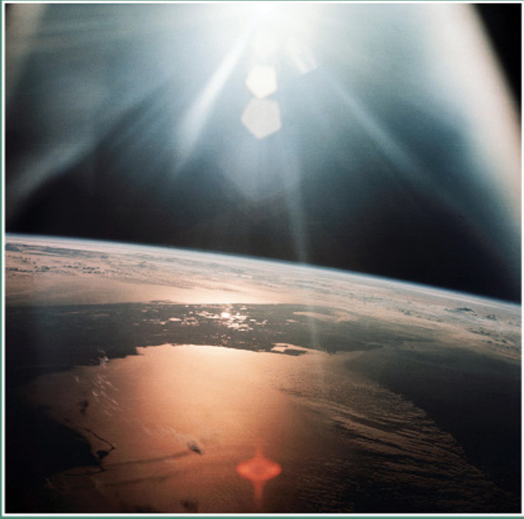

# Globalization, Wealth, and Power in the Twenty-first Century

William R. Nester

# Globalization, Wealth, and Power in the Twenty-First Century

## Also by William Nester

*Globalization: A Short History of the Modern World* (Palgrave Macmillan, 2010)

*Globalization, War, and Peace in the Twenty-First Century* (Palgrave Macmillan, 2010)

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# Introduction

*Study hard! Billions of Chinese and Indians are hungry for your jobs.*

*Thomas Friedman*

Politics happens when the interests of individuals and/or groups conflict, and each asserts power to defend or enhance its interests. Wealth and power are not synonymous but are usually inseparable. Wealth is often a source of power to get what one wants, which is often more wealth.

While struggles over wealth and power are as old as humanity, recently their scale, complexity, and settings have been changing rapidly. A striking characteristic of today's world is the vast and growing disparity between those countries, regions, businesses, and individuals with ample wealth and power, and those without. The planet is split between the rich and the poor, with roughly 20 percent of the people enjoying 80 percent of the wealth and the other 80 percent of humanity struggling over 20 percent of the wealth. Though the wealth and power of some nations have developed drastically, other states have stagnated, and some, known as "failed states," have outright imploded.

The decisions of governments, corporations, and countless other powerful groups can affect the creation, destruction, and distribution of wealth and power in often dramatic ways. Consider some recent crises that harmed countless people around the globe. Why did real estate and stock markets melt down first in the United States and around the world, wiping out trillions of dollars of wealth? Why did the price of gasoline surge nearly to $150 a barrel in the summer of 2008, and then plummet to less than $50 half a year later? How does flooding in the American Midwest and subsidies for cotton farmers or biofuels like ethanol worsen poverty and malnutrition in central Africa? How does America's war in Iraq affect its war in Afghanistan? How will America's skyrocketing national debt affect the availability and types of jobs in the years and decades ahead? One concept may be the key to answering these and an endless spectrum of related questions.

We live in a world characterized by globalization or the ever more complex economic, technological, ethical, communication, transportation, psychological, cultural, legal, environmental, and, thus, political interdependence embracing, in varying degrees and ways, everyone everywhere.[1] Although these ever denser ties benefit many people, they increase the potential for conflict among and within nation-states. Yet, while the array of disputes over wealth and power is rising, the use of violence to settle them is just as steadily decreasing.

Global politics span "geopolitical" and "geoeconomic" (or "international political economic," as it is sometimes known) conflicts. Violence divides them. The threat or use of violent force by opponents to assert their respective interests is central to geopolitics and absent in geoeconomics. Naturally the life and death stakes of geopolitics make the headlines. During the first decade of the twenty-first century, the international and/or civil wars in Iraq, Afghanistan, Congo, Sudan, and Israel; the nuclear programs of North Korea and Iran; and the global war against Al Qaeda, to name some of the more prominent, were all distinctly geopolitical conflicts. Although geoeconomic issues are more often relegated to a newspaper's back pages if reported at all, they are far more common. Every day the world's nearly 200 nation-states conduct thousands of negotiations over thousands of issues in either bilateral or multilateral forums. Nonetheless, some geoeconomic conflicts like how states tackle global financial meltdowns and global warming are so vital that they do become lead stories in the news media.

As interdependence thickens, global politics are ever more shaped by geoeconomic rather than geopolitical struggles. International relations is no longer a Hobbesian "war of all against all" in which sovereign states are either preparing for or engaging in war. In reality, nearly all states are at peace all of the time, and the rest nearly always so. Yet, until recently, most of those who asserted or conceptualized the art of power and wealth thought of them largely in geopolitical rather than geoeconomic terms. But globalization's ever more relentless pace and dominance has forced practitioners and scholars alike to redefine the fundamental nature of international relations.

Geoeconomic conflict is incessant. Although the global economy is supposedly rooted in principles of free trade (liberalism), governments and corporations constantly collude to shift the tides of wealth and power in their respective favors through "unfair" trade, investment, technology, financial, and industrial policies (mercantilism). The most developed countries joust with each other, and singly or jointly against less developed countries, while multinational corporations (MNCs) battle with swarms of antiglobalization nongovernmental organizations (NGOs).

Geopolitical conflicts almost invariably have a geoeconomic basis. The trade wars of the early 1930s, for example, plunged the world into a severe depression, which fueled the rise of fascism and imperialism in Japan, Germany, and Italy, and provoked what became a world war in which perhaps as many as 70 million people died. Likewise, the failure of many Muslim countries to escape a vicious cycle of mass poverty, corruption, and authoritarianism has been a major reason for the rise of Islamic fundamentalism and terrorist groups like Al Qaeda. When those embroiled in a geoeconomic conflict consider using violence, it stops being geoeconomic and becomes geopolitical.

In many geopolitical and geoeconomic conflicts there are distinct aggressors and defenders. Military assaults by one state on another are easily chronicled. The attackers and defenders in geoeconomic struggles are often not so clear-cut. Countries that believe that they are the victims of international economic aggression can take their case before a panel of the World Trade Organization (WTO) that decides its merits. Japanese corporations, for instance, are especially notorious for "dumping" or selling at a loss their goods in other countries to capture market share from their foreign rivals. International law prohibits dumping and allows governments to retaliate against the aggressive firms. With WTO approval, the United States, the European Union, and other countries have imposed penalties against Japanese and other foreign firms found guilty of dumping. Yet a government's attempts to defend its industries against foreign aggression are not limitless. For instance, in 2003, the WTO declared illegal America's tariffs against steel imports and ordered Washington to remove them; the White House eventually did so when faced with retaliation by the European Union, Japan, and other steel producing countries, which had filed a case against the United States with the WTO. Although that geoeconomic conflict appears to have had little impact beyond steel makers and buyers, it actually involved vital questions over the global distribution of wealth, power, jobs, technology, and national security that affects tens of millions of people directly and hundreds of millions indirectly.

Globalization carries with it a new concept of national security. As globalization's pace quickens and density thickens, international and national interests and thus security increasingly overlap. The old adage that there is strength in numbers is ever more apt. While global conflicts proliferate with interdependence, the debate in each government is increasingly over not how to punish but how far to cooperate with each other. Regardless of the issue, cooperation usually comes only after hard bargaining and the wielding of power by participants. Economic alliances can shape international relations as profoundly as do military alliances like the North Atlantic Treaty Organization (NATO) and "Coalitions of the Willing."

While nation-states remain the primary actors in geoeconomics as in geopolitics, their power in ever more issues is increasingly constrained or enhanced by such global economic forces as the ever denser array of international laws; international governmental organizations (IGOs) such as the United Nations (UN), World Bank, and International Monetary Fund (IMF); MNCs; economic alliances such as the European Union (EU), North American Free Trade Association (NAFTA), and Organization of Petroleum Exporting Countries (OPEC); NGOs such as Greenpeace, Amnesty International, or the Red Cross; global news networks such as CNN or Al Jazeera; multinational criminal organizations smuggling illegal commodities such as heroin and sex slaves; transnational Islamist movements such as Al Qaeda and Hezbollah; and public opinion nearly everywhere.

Among the more powerful forces fueling globalization is, somewhat paradoxically, regionalism. While nationalism is tearing some states apart, internationalism is uniting others. In just six decades, the European Union has evolved into a unified economic and political system engulfing half a billion people in twenty-seven countries. Since 1993, the United States, Mexico, and Canada have united their 400 million people in a common market known as NAFTA. Recently, the twenty-one heads of state of the Asia Pacific Economic Cooperation (APEC) have begun meeting annually to work toward turning their organization into a free trade zone, covering 2 billion people across the Pacific basin. And then there is the Group of 20, which includes the world's most advanced and advancing economies like the United States, Japan, China, and India, along with the European Union, and is dedicated to managing global geoeconomic crises.

Regardless of who holds it, wealth and power can be as slippery as quicksilver. For instance, OPEC, whose members own two-thirds of the world's oil reserves, amassed enormous amounts of wealth and power when oil prices quadruped in 1973 and further doubled in 1979, then lost as prices plummeted in the mid-1980s, but then soared again in wealth and power as prices rose from $10 a barrel in 1998 to nearly $150 a barrel in 2007. During those same decades America's wealth and power declined relative to the rise of Japan, the European Union, and China into global superpowers; trade, investment, and technology conflicts among all four have been incessant. The notion of "too big to fail" motivated the United States and other economically powerful countries and organizations to bail out bankrupt countries in 1997 and 1998, and bankrupt corporations in 2008 and 2009.

No issues demand greater cooperation than the world's worsening environmental catastrophes. The "greenhouse effect" in which pollution traps heat in the atmosphere and may cause global temperatures to rise as much as nine degrees Fahrenheit over the next century, combined with the population explosion, will exacerbate food shortages, desertification, deforestation, the extinction of ever more species, and the flooding of sea-level land. The result could be starvation, malnutrition, and misery for ever more people on the planet. The global community is trying to forge a consensus over how to slow and ideally reverse those cataclysmic effects on the availability and distribution of wealth and power. Whether those efforts will be too little too late remains to be seen.

*Globalization, Wealth, and Power in the Twenty-First Century* offers an in-depth exploration of all key dimensions of the subject.

CHAPTER 1

# Theories and Realities of Global Wealth and Power

*Globalization . . . enables us to reach into the world as never before and it enables the world to each into each of us as never before.*

*Thomas Friedman*

## Theories of Global Politics, Wealth, and Power

The governments of nation-states, like nearly all people strive to increase their power and wealth in the global system. Are the efforts of each to do so unique or are there any patterns or common behaviors among them?

Theories might explain global politics, and the distribution and assertion of wealth and power.[1] How? Theories can help us understand any subject in a more analytical, deep, and meaningful way. Any "theory" includes a set of assumptions about the world and a method for systematically sorting information by discarding most and highlighting the essential facts. A good theory is clear, concise, consistent, unbiased, and at once deep and broad in its application, and should explain not only the past but also predict the future. At the very least, a theory should explain the why of something.

Yet any theory at best only simplifies reality. No theory can ever capture the complexities, paradoxes, and contradictions of interactions among people. Many theories are so abstract or simplistic that they distort rather than enhance our understanding of the subject.

Despite those inadequacies, theories can still be useful. Even the worst theories can provoke us into thinking of more sophisticated ways of making sense of the world. Social scientists are always debating the relative worth of theories and in time develop better ones as the flaws in older ones are exposed. That process is known as a "dialectic," and has been explored most famously by the philosophers George Hegel, Karl Marx, Karl Popper, and Thomas Kuhn.

A group of related theories can be called a "paradigm" or "an entire constellation of beliefs, values, techniques . . . shared by members of a given community," which can "be employed as models . . . for the solution of the remaining puzzles of normal science."[2] In other words, a paradigm is a set of related ways of understanding and exploring the world that prevails among a group of thinkers at a particular time. When the inadequacies of one paradigm are exposed, a new paradigm sooner or later takes its place. For instance, not so long ago most people believed that the earth was flat; it might be difficult to find a scientist who seriously believes that today!

Theories about international relations (IR) and its most important subfield—international political economy (IPE)—fall into two major categories, realism and liberalism, and one minor broad category, Marxism. Within each broad theory are numerous versions. Theorists struggle with the so-called level of analysis paradox or just where the study of international relations should begin and where it should lead. Kenneth Waltz, for instance, identified three interrelated levels of international relations—humans, states, and systems—of which he believed the last is the most important.[3] Those who begin their studies with the international system take an "outside-in" approach as opposed to the "inside-out" approach of those who emphasize on individuals, groups, or states.

Scholars not only differ over which theory best explains international relations but also which "methodology" best advances the theory. There are two basic paradigms or approaches, "behavioralism/positivism" and "humanism/traditionalism." Each claims to practice "empiricism" or the study of the real world. Virtually all behavioralists and most humanists would insist that their search for truth is guided by objective or unbiased motivations rather than subjective or "normative" values.

Behavioralists believe that humans can and should be studied just as scientifically as the nonhuman natural world. As James Rosenau put it, "the same methods that unraveled the mysteries of atomic structure can reveal the dynamics of societal behavior."[4] To that end, they try to apply science to studies of humanity by treating people and their political conflicts as so many laboratory rats in different mazes. A behavioralist asserts a hypothesis and then compiles statistics that support it. If something cannot be measured, it cannot be studied and is assumed to be unimportant. The ultimate goal is to discover the laws that behavioralists believe structure global politics.[5]

Humanists object that the real human world is too complex to be distilled into abstract two-dimensional graphs and equations. As such the behavioralists practice not social science but pseudoscience or protoscience, and thus are actually being subjective and unempirical. History, which is the systematic analysis of everything humans do, including global politics, is ever varied, changing, ambiguous, paradoxical, and at times outright contradictory. The study and practice of politics is as much an art as a science and can be accurately analyzed only by an interdisciplinary or humanities approach that explores all its many dimensions, some of which can be measured and most of which can be only interpreted by other appropriate means. Depending on just what is being explored, a proper study might include not just varying contributions from all the overlapping social sciences—political science, economics, psychology, sociology, and history, but also from such natural sciences as geography, geology, and climatology. Humanism thus represents the true empirical and objective paradigm or approach for the study of politics.

Until the twentieth century most of those who wrote about international relations reflected a perspective known as "realist theory."[6] In Western civilization, realism emerged at least as far back as Thucydides' study of the Peloponnesian War (431–404 BC). Realists share basic assumptions about the behavior of humans and states, and thus the characteristics of the interstate system in which they are embedded. The only essential force in international relations is the unequal distribution of power among states, and the constant conflict as each state strives to increase its power at the expense of others. In an anarchical world, every state is governed by the same interest—survival—that depends on amassing as much power as possible to defend oneself or, ideally, conquer others. States are trapped in a "security dilemma" as the efforts each makes to strengthen itself at once threaten others. Tensions rise and frequently end in war.

Why are international relations like that? According to "classic" realists like Thucydides, Nicolo Machiavelli, Thomas Hobbes, and Hans Morgenthau, the nature of sovereign states reflects the humans who compose them. If human nature is naturally greedy, fearful, and aggressive, can states and thus relations among them be any different? "Neorealists" or "structural realists" are in some ways diametrically opposed to classic realists. Neorealists believe that international relations are shared by the international system's structure that channels the behavior of states into predictable patterns. Thus, according to Kenneth Waltz, history, culture, geography, technology, economics, ideology, morality, law, and the psychology of leaders are insignificant and merely absorbed in the "black box" of a government that is motivated solely by power. Thomas Schelling went even further; his "game theory," which highlights notions of "rational choice" and "prisoner's dilemma," reduces international relations to abstract cartoons of human and state behavior.[7]

Critics pounce on so-called realism, arguing that the theory's worst flaw is that it is unrealistic. Realist theory is ahistorical, deterministic, abstract, and completely one-sided in its image of human nature, states, and international relations. In reality, human and state behavior is shaped by the unique history, culture, and geography of each. Humans and states not only compete, but also cooperate with each other. Also, realism's central concern, war, is increasingly rare. Most states are at peace most of the time; geoeconomics rather than geopolitics shapes most international relations. International anarchy, paradoxically, is actually quite orderly. Nearly all states obey international rules and laws all or most of the time. Thus, when measured against the complex interrelated realities of history and psychology, realism falls short.

Realism's flaws spawned alternative theories about international relations. Although "liberalism" had such early prominent thinkers as Hugo Grotius, John Locke, William Penn, Immanuel Kant, Jeremy Bentham, and Adam Smith, to name a few, it did not begin to rival realism until the twentieth century. Appalled by the carnage of World War I, advocates of liberalism like President Woodrow Wilson rejected the realist assumption that nation-states and war had to be the most important forces shaping international relations. They urged a new approach to global politics that emphasized the cooperation of states within the League of Nations, an international organization dedicated to the peaceful resolution of conflicts. With that Wilson hoped to convert the "jungle" of global anarchy into the "zoo" of global cooperation. But that strong normative or ethical stance and the League of Nations' failure to prevent World War II discredited what became known as "utopian liberalism."

Like neorealism, "neoliberalism" emerged as a response to critics. By using history rather than abstract stereotypes as its guide, neoliberalism offers a much more sophisticated view of human nature and global politics than realism. Neoliberals understand that human nature is complex and ambiguous, that individuals can be at once competitive and cooperative, emotional and rational, materialistic and humanistic, and good and evil, whose character varies from one political situation and culture to another. History reveals that as humans become more interdependent, self-interest demands that they become more cooperative and less violent. With globalization, nation-states are still central to international relations, but diminishing in ever more areas as geoeconomic issues proliferate, and international organizations and law, multinational corporations, transnational groups, and sometimes ambitious individuals take precedence. Transnational relations can be as vital to global politics as international relations. Anarchy may be the absence of government, but it is not the absence of order.

If neorealists have a "billiard ball model" of global politics in which states are like balls that strike and propel others in predictably violent ways, neoliberals have a "cobweb model" in which states are like spiders spinning ever more elaborate webs of relations with each other, mostly to their mutual advantage and only occasionally to devour one another. In an ever more interdependent world in which issues proliferate, conflict will actually increase as war diminishes. But states will create ever more international laws, organizations, and regimes to manage those conflicts. Neoliberals point to the European Union of twenty-seven states as both a result and model of interdependence; those states are so economically and politically meshed that war among them is unthinkable.

While neoliberalism has insightful ways to understand geopolitics, it emphasizes geoeconomics. Robert Keohane and Joseph Nye were among the first to argue that ever more "complex interdependence," or the rise of multinational corporations, global finance, computers, satellite technology, the travel industry, migration, and the Internet were tying the world together in ever more dense webs of relations and thus were fundamentally changing the nature of global politics. Richard Rosecrance argued that "trading states" like Japan and Germany had superior means of amassing power and wealth than "warring states" like the United States and Soviet Union. Ernst Haas showed how the cooperation of states in one issue would spill over into progress in others, a process he called "functionalism." Hedley Bull distinguishes a "system of states" from a "society of states." The former exists whenever two or more states have close enough relations to affect each other's behavior in competitive and at times violent ways. The latter exists when two or more states choose to set up institutions and laws to manage common problems; while states retain their sovereignty, their behavior is constrained and channeled by the social order. The result is the paradoxical "anarchical society."[8]

Four theories attempt to explain geoeconomics or IPE. Here realism offers a realistic account while it is liberalism that is idealistic. Marxism presents an interesting but narrow critique and explanation of the global system. Hegemonic Stability Theory attempts to combine the best elements and discard the worst of the other three theories.

"Mercantilism" is realism applied to international economic relations. It asserts that states and markets shape one another. Traditional mercantilism was a strategy whereby states amassed wealth and power by maximizing exports, minimizing imports, and investing the trade surplus in industries and arms with which to capture foreign markets and resources, and further aggrandize state power and wealth. "Neomercantilism" rejects imperialism and concentrates on a national partnership between the public and private sectors to develop an ever more sophisticated range of industries and technologies with which to acquire more wealth and power in the global political economy. Alexander Hamilton and Friedrich List were leading proponents of mercantilism of the late eighteenth and mid-nineteenth centuries, respectively, while more recently Chalmers Johnson, Laura Tyson, William Nester, and Clyde Prestowitz have explored neomercantilist strategies in depth with an emphasis on Japan and, lately, China.[9]

Liberalism, in contrast, claims that states and markets should be separate realms. It assumes that individuals are perfectly rational and enjoy perfect knowledge, while markets are shaped only by the laws of "comparative advantage" and "supply and demand." To paraphrase Thomas Jefferson, the economy that the government governs least prospers best. Liberal or "modernization theory" asserts that countries that open their markets will develop through various stages while those that do not will not. Thomas Jefferson and Adam Smith in the late eighteenth century, John Stuart Mill and David Ricardo in the early nineteenth century, and more recently Milton Friedman, Walt Rostow, and Alan Greenspan have been leading liberals. Liberalism is the theoretical foundation for the World Trade Organization (WTO) with its 135 member states. The trouble is that there is often an unbridgeable gap between liberal theory and the realities of the world.[10]

"Dependency theory" and "world systems" theory are Marxism's contributions to the contemporary debate over the nature of the global system. Western imperialism created the global system, which continues to be dominated by "neocolonialism" even after the formal empires broke up. Multinational corporations corrupt Third World governments into letting them exploit that country's cheap labor and resources, and then run off with the profits. Thus do the "core" or advanced industrial countries exploit the "semiperiphery" or partially industrialized countries and "periphery" or poorest countries, perpetuating the "development of underdevelopment." If sovereignty is independent power then multinational corporations are more sovereign than the states in poor dependent countries. Vladimir Lenin fathered those theories, which have been elaborated most prominently by Immanuel Wallerstein, Fernando Cardoso, and Andre Gunter Frank.[11]

"Hegemonic stability theory" mostly combines the mercantilist and dependence focus on states and multinational corporations competing for global markets. The theory's innovation is the concept of a "hegemon" or dominant state creating and managing the global political economy to advance its own power and wealth. Britain was the hegemon during the late nineteenth century through 1914, and the United States has been the hegemon since the Bretton Woods Conference of 1944. Hegemons justify their policies by citing liberal theory. Hegemons decline when they contribute too much wealth and power to and extract too little wealth and power from the global system. But after a hegemon declines, states still share an interest in maintaining the global system and they do so through various international organizations, regimes, laws, and other arrangements. While hegemonic stability theorists note the global system's hierarchy, they argue that sensible policies can elevate just as irrational policies can erode a state's relative power and wealth. Charles Kindleberger, Robert

Gilpin, Susan Strange, Robert Keohane, and Stephen Krasner are among the leading advocates of hegemonic stability theory.[12]

Then there are "postpositivist" theories that blast all other theories. Robert Cox and Andrew Linklater are leading proponents of the "critical theory" that asserts that objective reality does not exist and that all claims about the world, no matter how analytical, merely reflect the observer's biases and drive for power. A related theory is "postmodernism" or "deconstructivism," best articulated by Jean-Francoise Lyotard and John Vasquez, which tries to unravel the "metanarratives" or stories that scholars weave about their subjects; "facts" are mere myths employed to assert one's interests. While their ideas are intriguing, both critical theory and postmodernist theory founder on the shoals of "nihilism" or the belief that there is no truth, just competing beliefs. Paradoxically, if those theories are correct then they are just as wrong as the ones they reject.[13]

In all, critical theory and postmodernist theory might not provide many practical insights into global politics, but they do raise essential questions about how much we can ever really understand the world and ourselves. The trouble is that they never prove their central and contradictory contention that we can never know anything because there is no one truth and, even if there were, we are incapable of understanding it.

Actually the key problem for skilled analysts is not a lack of objectivity but a lack of accurate information and/or a surfeit of conflicting information. With enough information, a scholar can provide a more or less accurate analysis of a subject. That would include analyzing how others analyze the same subject, explaining the strengths and weaknesses of each competing interpretation, and then proving why his or hers is better. That is how scholarship advances.

Three other postpositivist theories offer much more constructive critiques. Although "constructivists" like John Ruggie and Alexander Wendt do believe in an objective reality, they point out a catch. Any attempt to analyze reality is impeded by one crucial law—change is constant. So at best we can get blurry snapshots of a world in eternal motion. Yet we can bring more focus to our subject by using all of the social sciences as well as appropriate natural sciences in our analysis. The constructivists blast the behavioralists for their "scientific" microstudies larded with statistics and theory bereft of context and broader meaning. They call on scholars to break free from that suffocating behavioralist strait-jacket and instead systematically and comprehensively explore all of a subject's dimensions. Only then is a more or less accurate analysis possible. "Feminist theory" agrees and is especially critical of behavioralists for neglecting the role of gender, psychology, and sociology in shaping politics. To all that, "green theory" would add ecology and environmentalism to the study of global politics. These three theories call on scholars to bring less abstraction and more genuine history to their work.[14]

So which theory best explains international relations? The realists clearly won the rhetorical war. They call themselves "realists" who explore the drama of "high politics" or geopolitics while disparaging "liberals" mired in "low politics" or geoeconomics. But when it comes to substance, realism offers the better explanation of international relations for the pre-modern era and perhaps specific wars since then, while liberalism is the superior theory for helping us understand the modern and especially post-modern eras. As the global system developed over the past 500 years, liberalism has provided an ever more sophisticated understanding of global politics, not just its geoeconomics but also the geopolitics that erupt from it. Realists are incapable of explaining the stunning changes in international and transnational relations wrought by globalization; indeed, contrary to all empirical evidence, they deny that any fundamental changes have occurred. Yet realist theory does have some value for helping understand the real world. When it comes to how states compete in the global economy, the realist offshoot mercantilism provides insights that are just as valid as those of dependency or liberalism.

Perhaps the worst aspect of both realism and liberalism are their names. Neither classical realism nor neorealism is realistic. So we must distinguish between theoretical and pragmatic versions of realism. Pragmatic realists analyze the real world's complexities in order to devise better policies for alleviating problems and issues. Likewise, liberal theory is different from the political meaning of liberal used in the United States. Ideally, to avoid confusion we would switch both terms to something more appropriate. Unfortunately, given their universal usage, we are struck with both.

And what of the differences between the humanist and behavioral approaches to international politics? As most humanists would admit and most behavioralists would deny, the two approaches clearly need each other. Humanists eagerly embrace appropriate "scientific" studies, even the most abstract, which can supply crucial footnotes, paragraphs, or sections in an humanist's comprehensive analysis of a subject. By explaining the real world's complexities, humanists can help restrain behavioralists from asserting theoretical claims that are too grandiose, pretentious, and deluded. Thus humanism and behavioralism complement each other like yin and yang.

## The Rise and Fall of the Great Powers

So how do states pursue wealth and power in today's world? The central reality is that most states are at peace most of the time. The possibility of war lurks in only a handful of the over 20,000 possible bilateral relations among the world's over 190 nation-states. Virtually all bilateral relations are friendly and a military clash unthinkable.

But a war-free relationship is not necessarily conflict-free. States bicker ceaselessly over a wide range of economic and other issues. And, as in geopolitical conflicts, that side prevails which can best mobilize and assert all available power resources. In an interdependent world, nations still struggle to defend and expand national security and prosperity. Power flows not out of gun barrels, but from bank vaults, laboratories, boardrooms, factory floors, classrooms, and the Internet. Nations tip the balance of power in their favor, not with vast military forces, but with vast trade surpluses. Armies are equipped with business suits, laptops, and flowcharts rather than uniforms, rifles, and tanks. Superpower rests on corporate rather than nuclear power.

Power and wealth are virtually inseparable. Wealth is power's bottom line. The great powers have always been the great economic powers, although the distribution and sources of their wealth have varied greatly. The richer a state, the more easily it can achieve its geopolitical and geoeconomic interests. Modern history records a parade of great military powers whose reach was, for a while, global: Portugal, Spain, Holland, France, and Britain. What caused the rise, dominance, and fall of those great powers?

Paul Kennedy argued that national power is rooted ultimately in economic, technological, and organizational prowess:

> there exists a dynamic for change, driven chiefly by economic and technological developments, which then impact upon social structures, political systems, military power, and the position of individual states and empires. The speed of this global economic change has not been a uniform one, simply because the pace of technological innovation and economic growth is itself irregular . . . different regions and societies across the globe have experienced a faster or slower rate of growth, depending not only upon the shifting patterns of technology, production, and trade, but also upon their receptivity to the new modes of increasing output and wealth . . . military power rests upon adequate supplies of wealth, which in turn derive from a flourishing productive base, from healthy finances, and from superior technology . . . major shifts in the world's military-power balances have followed alterations in the productive balances.[15]

Although all nations ultimately benefit from technological advances, most benefits accrue to the state that best capitalizes on those advances. Generally that state is the one that invented and commercially applied the new technology. There are, of course, exceptions. Japan's rise into an economic superpower was based partly on its ability to commercialize the research efforts of others. And then there are states that invent but fail fully to utilize their technology and thus decline relative to more dynamic states. Ming China had the technology to become a global power—sophisticated, mass produced products, gunpowder, and ocean-going ships—but failed to exploit it. Among other things, the United States has failed to adequately mobilize its vast resources of minds, money, and laboratories into enough cutting-edge products and productivity, and thus has fallen behind in many industries (like automobiles, steel, consumer electronics, stem cell research, and alternative energy) that it might otherwise have dominated.

States that face geopolitical challenges must walk a tightrope between spending too much or too little on defense. Diverting too much wealth into military power will ultimately sap a nation's economic power; diverting too little wealth into military power in a world filled with militarily powerful and aggressive states can leave that nation vulnerable. As Kennedy warns, "A large military establishment may, like a great monument, look imposing to the impressionable observer; but if it is not resting upon a firm foundation (in this case a productive economy), it runs the risk of future collapse."[16]

Great powers decline when their reach exceeds their grasp, a phenomenon Kennedy calls "imperial overstretch." In other words, they lack the economic power to fulfill their military ambitions. Not enough human and material resources are reinvested in the creation of wealth; the state's economy eventually breaks down under the defense burden; and its economic position in the world is overtaken by others.

Since World War II, the United States had been the world's economic and military hegemon. Is America different from previous hegemons? Will America break that historic pattern of inevitable decline and remain the world's predominant power forever? Certainly there are no lack of contenders for that title, with China, Japan, India, the European Union vying to surpass all the others in wealth and power.

## The Creation and Measurement of Geoeconomic Power

How is geoeconomic power created? Although each state follows its own policies for maximizing its geoeconomic power, there has been a convergence in understanding over how best to go about pursuing that quest. Throughout the modern era, the democratic industrial states have increasingly assumed a greater responsibility for regulating their economies to create and distribute wealth. In so doing, they have marched steadily away from the free market ideals that Adam Smith and David Ricardo formulated in the late eighteenth and early nineteenth centuries, and from the state capitalist ideals of Karl Marx, Vladimir Lenin, Joseph Stalin of the nineteenth and twentieth centuries.

History has repeatedly revealed the inevitable disasters that occur when either the state economically does nothing or everything. Free markets sooner or later self-destruct through speculative frenzies that lead to financial collapse and industries dominated by monopolies. The result is an economy trapped in a vicious cycle of worsening joblessness, incomes, consumption, production, revenues, homelessness, and crime. But communism has proven even more bankrupt as an ideology. The record of every communist system has been one of repression, exploitation, poverty, and, at times, outright genocide.

Governments are trying to find a sensible middle way between the extreme, unachievable, and flawed "liberal" (free market) and "Marxist Leninist" (state ownership) models. But, ultimately, there is no one formula for success. Geoeconomic power is achieved by adapting creatively and decisively to circumstances.

How does a state become the world's leading and most dynamic geoeconomic superpower? Policies are clearly decisive in determining a national economy's fate. America's economic supremacy throughout most of the twentieth century resulted from its ability to master two dynamic forces: mass production and multinational corporations. America led the world in manufacturing high quality, inexpensive products and selling them around the world; other industrial nations scrambled to catch up.

The Japanese found a magic formula for doing so, at least for a while. From the 1950s through the 1980s, no country was more successful in creating, distributing, and securing wealth than Japan. By carefully nurturing strategic industries into global champions by cartels, technology infusions, various subsidies, import barriers, and export offensives, Tokyo achieved growth rates as much as four times higher and an income distribution more equitable than that of the United States. Though the collapse of Japan's stock and real estate markets in the early 1990s took some luster from its accomplishments, many other countries, most successfully China, are emulating Japan's success by adopting its strategies.

Potential economic power, like military power, can be measured, although those statistics are even more unreliable in predicting the outcome of a power struggle. Comparing, say, the relative differences among countries in how many goods and services are produced, exported, and imported; the average income and distribution of income; the largest or most profitable banks and other corporations; the amount of research and development, and the number of patents approved; the national debt; the foreign ownership of the economy and national debt; and the trade and accounts deficit or surplus, to name a few, results in rankings similar to aspects of military power, and can be just as misleading. The potential power of a state, whether it is economic and/or military, reveals nothing about how skilled a government is in realizing that potential by asserting its interests in specific conflicts. Here we distinguish "hard" and "soft" power, or the quantitative and qualitative measures of a country's power. The ability of a government to muster appropriate amounts of both to defend or enhance national interests in a conflict is known as "smart power."

One fundamental problem in comparing the relative economic power of countries is that different methods of measurement obviously produce different results. Gross Domestic Product (GDP) is much easier to compute than Gross National Product (GNP) because it measures how many goods and services are actually produced in a country rather than who owns what production in what countries. Per capita income (GDP divided by population) is not an accurate guide to living standards because it does not account for differences in living costs among countries. Purchasing power parity (PPP) better measures relative living standards because it compares the costs of the same "basket" of such goods as food, housing, transportation, and clothing in different countries, and thus the relative purchasing power of the average consumer in each country. The different results of the two methods are striking. In 2007, for instance, China's per capita income was $2,459 while its purchasing power parity was $7,800! America's per capita income and purchasing power parity were the same at $45,800, since dollars are used as the common currency for both measures.

There are two great patterns of relationships in the global economy. Interdependent relations are between countries of roughly equal development levels and/or economic size. Dependent relations are between countries of roughly unequal development levels and/or economic size. The difference between an interdependent and dependent relationship is one of power. In interdependent relationships there is generally a power balance; in dependent relationships a power imbalance.

In dependent relationships, the poorer or economically smaller nation is more vulnerable to an economic slowdown or erection of trade barriers in the richer or larger nation. Both Canada and Mexico are trade dependent on the United States, importing and exporting a far greater percentage of their GDP with the United States than vice versa. Although the living standards of Canadians and Americans are similar, Canada's economy is only one-tenth the size of the United States, and thus would suffer far more if trade relations ended. Mexico's per capita income is about one-sixth that of the United States (table 1.1).

Another measure of national power is the percentage of exports and imports to GDP. For the economic great powers, the smaller the percentage of trade to GDP, the less vulnerable that country is to cutoffs and the more potential power it has to trade access to its own markets for foreign concessions from more vulnerable countries. There is a clear relationship

**Table 1.1** Key Measures of Global Power

| Headquarters of the World's 500 Largest Corporations | |
|---|---|
| 1. European Union | 163 |
| 2. United States | 162 |
| 3. Japan | 67 |
| 4. France | 38 |
| 5. Germany | 37 |
| 6. Britain | 34 |
| 7. China | 24 |
| 8. Canada | 16 |
| 9. Netherlands | 16 |
| 10. South Korea | 11 |

| Banking Power World's 25 Largest Banks 2006 | |
|---|---|
| Britain | 4 |
| France | 4 |
| Netherlands | 4 |
| Germany | 2 |
| Japan | 2 |
| United States | 2 |
| Italy | 2 |
| Spain | 1 |
| Belgium | 1 |
| China | 1 |

*Source*: Forbes

| Patent Rights Granted by the United States, 2007 | |
|---|---|
| 1. United States | 79,527 |
| 2. Foreign | 77,756 |
| 3. Japan | 33,354 |
| 4. Germany | 9,051 |
| 5. South Korea | 6,295 |
| 6. Taiwan | 6,128 |
| 7. Britain | 3,292 |
| 8. France | 3,130 |
| 9. Canada | 3,318 |
| 10. Netherlands | 1,250 |
| Total | 157,283 |

*Source*: U.S. Patent Office

| Foreign Reserves 2008 | Billions of Dollars |
|---|---|
| World | 7,601,536 |
| 1. China | 1,796,960 |
| 2. Japan | 996,975 |
| 3. Russia | 558,700 |
| 4. India | 310,687 |
| 5. Taiwan | 290,070 |
| 6. South Korea | 258,200 |
| 7. Brazil | 200,231 |
| 8. Singapore | 175,800 |
| 9. Hong Kong | 159,000 |
| 10. Germany | 143,942 |
| 23. United States | 75,850 |

*Source*: IMF

between the population size of an industrial country and its trade dependence. The larger the population, the lower its dependence on trade as a percentage of GDP while the smaller the population the greater the trade dependence.

A bilateral trade account reveals much about the relative strength of the two partners. The United States suffers huge annual deficits with most countries, most painfully with Japan, China, the European Union, and Organization of Petroleum Exporting Countries (OPEC). Yet America's trade deficits with Japan and the European Union destroyed more jobs and bankrupted more companies than its deficits with China and OPEC. Why? Until recently China exported mostly low value toys and textiles while OPEC exported mostly oil in return for American manufactured goods. It is quite possible that the United States actually gained jobs and wealth despite its trade deficits with China and OPEC. In contrast, Japan and the European Union sell high value manufactured goods like automobiles, consumer electronics, steel, and other products that provide high salaries to workers and high profits to companies. So America's trade deficits with those rivals clearly cost the United States jobs and wealth. As China's manufactured exports become more sophisticated, American industries and thus the nation will suffer ever more. Another interesting phenomena revealed by the trade statistics is that America's trade with Asia is far greater than its trade with Europe. That shift from Europe to Asia occurred in the early 1980s and has been widening ever since.

The relative strength or weakness of a nation's currency can also affect that nation's geoeconomic power, although in contradictory ways. For instance, when the dollar is relatively strong, Americans consumers (households and businesses) can buy more foreign goods and services than

**Table 1.2** Foreign Ownership of American National Debt, 2007 (in billions of dollars)

| | |
|---|---|
| 1. Japan | 592 |
| 2. China | 502 |
| 3. Britain | 251 |
| 4. Oil Exporters | 153 |
| 5. Brazil | 149 |
| 6. Caribbean Banking States | 115 |
| 7. Luxembourg | 84 |
| 8. Hong Kong | 63 |
| 9. Russia | 60 |
| 10. Norway | 45 |
| Total | 2,601 |

*Source*: Treasury Department.

when it is relatively weak. The downside is that Americans and foreigners will tend to buy fewer American goods and services, thus weakening American producers.

That in turn affects a nation's net international investment position (NIIP), which is the value of all direct and portfolio (stock) investments held by foreigners in a country compared to all foreign investments held by the people of that country. From 1914 to 1985, America's NIIP was positive, but since then has become ever more negatives.

Foreigners lend the U.S. government and businesses ever more money to pay for its ever worsening national debt and international payments deficits. In just eight years, from 2001 to 2009, the foreign ownership of American debt soared from one-third to more than half. That harms American power in several ways. Every year hundreds of billions of dollars that could have been spent or reinvested in the United States is instead sent as interest rates to foreigners. Japan and China own about half of the debt in foreign hands. By threatening to stop buying or to sell off what they have, Tokyo and Beijing can force the White House to bow to their interests in international disputes. Should Japan, China, and other foreign lenders actually dump their bonds, America's economy would crash into a depression as when the Federal Reserve sharply raised interest rates to attract other lenders (table 1.2).

Perhaps the most vital source of economic power is the ability to master new technologies and adopt them to new products. That can be done in three ways—a country's government and/or firms can either invent, buy, and/or steal them. Japan's transformation into an economic superpower depended on getting and adapting cutting-edge technologies, mostly through licensing, as well as invention and copying. Between 1950 and

1980, Japanese firms signed about 30,000 licensing agreements for foreign technology worth about $10 billion, which originally cost between $500 billion and $1 trillion to develop.[17] The Japanese continue to vacuum the world's laboratories for all potentially profitable technologies as American rivals caught up in the 1990s after their nadir in the 1980s. And here again, China has wielded that same strategy to transform itself from an economic pigmy into an economic superpower.

If a fundamental measure of inventiveness is the number of patents a nation produced, how is scientific research power measured? One method is to count up the number of Nobel Prizes awarded and articles published by academics in universities. According to one compilation, American universities numbered 17 of the world's top 20 for scientific research and 177 of the world's top 500.[18]

Yet countries without the world's leading university science faculties can make up for the deficit. The easiest way is to help finance the education of their brightest students in the best foreign institutions while developing meaningful and lucrative careers so that they will return home. In 2007, India and China respectively had 76,500 and 62,600 students studying in the United States. Over the long-term, countries must invest in their own university systems to bring them up to the world's highest standards.[19]

The corollary, of course, is that countries with excellent universities, research institutions, and corporations, but a deficit of scientists and engineers can fill that gap with gifted foreigners. That has traditionally been American policy. However, after the September 11, 2001, terrorist attacks, the number of foreign students in the United States have dropped as tougher visa requirements have pressured ever more students or professionals to go elsewhere. In the academic year 2003–2004, the number of foreign students applying to American universities fell 28 percent and those who actually enrolled fell by 6 percent, the first decrease since 1971. Other countries like China, Britain, and Germany, are rolling out the welcome mat for those bright foreign students.[20]

How does all this translate into power? Robert Gilpin explains the requirements for great power status and national security in an interdependent world:

> Today Great Power status accrues only to those nations which are leaders in all phases of basic-research and which possess the financial and managerial means to convert new knowledge into advanced technologies…Eminence in science and technology go hand-in-hand, and it appears unlikely that any nation or group of nations can ever again aspire to a dominant role in international politics without possessing a strong, indigenous scientific and technological capability. International politics has passed from the era of traditional industrial nation states to one dominated by the scientific nation state.[21]

## The Assertion of Geoeconomic Power

Assertions of power, or the ability to get others to do things they would rather not do, are always unequal and changing among those in a conflict. So how is geoeconomic power wielded? Klaus Knorr reminds us "just as army divisions per se are not military power, so GNP or national wealth per se is not economic power."[22] Geoeconomic power is the ability of a state to enrich itself while harming others. National economic power is actualized when wealth and economic policy are used deliberately to modify the behavior or capabilities of other states. The ability to shut off valuable markets, to preempt sources of supply, to stop investments, or reduce economic aid would constitute elements of national economic strength comparable to military strength. Knorr points out that geoeconomic power can be actualized in three ways: (1) A applies economic power directly; (2) A threatens B with economic attack; (3) B anticipates the threat and adjusts according to A's wishes.[23]

In an interdependent world, states often use "co-optive" rather than "coercive" power to achieve their foreign policy goals. According to Joseph Nye, co-optive power "is the ability of a nation to structure a situation so that other nations develop preferences or define their interests in ways consistent with one's own nation…The international institutions that the United States helped to establish have not merely affected the way in which other states pursue their interests but also how they understand their own behavior and define their national interests."[24] For example, by opening American markets to foreign competition, extending economic aid, persistently touting the theoretical virtues of free trade, and creating and leading international organizations dedicated to free trade like the International Monetary Fund (IMF) and World Trade Organization (WTO), Washington has succeeded in persuading many other countries to lower their trade and investment barriers.

The coercive use of geoeconomic power is more common than its co-optive use. The power to give is also the power to deny. Economic sanctions are the most obvious way in which states employ geoeconomic power. Sanctions were rare in international relations before the mid-twentieth century. Napoleon tried to force Britain to accept his European conquests by organizing an international trade boycott against Britain known as the "Continental System." The sanctions failed because many European states and merchants cheated while Britain itself diversified its trade from Europe to markets elsewhere around the world. And like many economic sanctions, the Continental System hurt its perpetrators as bad and perhaps worse than its target.

Between 1914 and 1990, there were 142 international economic sanctions, of which 129 occurred after 1940.[25] By far the most common situation was for developed states to impose sanctions on developing states, which accounted for sixty-six cases since 1940. During the same period, while democratic industrial states imposed sanctions on communist states eighteen times, the reverse occurred only five times.

The trouble with economic sanctions is that they rarely work. A state can buy all it needs through third parties, albeit at higher prices. Though prices may rise and shortages occur, few countries suffer grievously from economic sanctions. Perhaps no country faced more systematic international sanctions than Iraq after the United Nations imposed them in 1990 for its invasion of Kuwait, and yet that country continued to defy the United Nations up through the American invasion in 2003. The value of economic sanctions lies chiefly in that they offer states a face-saving alternative to war. States can act tough and pretend to punish others without resorting to mass destruction.

Often the economic sanctions hurt the country that imposes them worse than the target. The Kennedy administration imposed an embargo on Cuba after it embraced communism and the Soviet Union; the Carter administration a grain embargo on the Soviet Union after it invaded Moscow; the Reagan administration an embargo on machine tools and earthmoving equipment on West Europe and the Soviet Union when the Europeans and Soviets agreed to build a gas pipeline across the continent; the Bush administration an embargo on trade with Panama to force out dictator Manuel Noriega. In all of these examples, the United States suffered more because American business lost out to their foreign rivals as the targeted country simply switched suppliers and markets.

The longest-lasting economic sanctions were imposed by the Coordinating Committee on Export Controls (COCOM), which was founded in 1948, included nearly all the democratic industrial countries, and was organized to impede the export of high technology to communist countries. COCOM's efforts were only a limited success. Moscow and the other communist states were usually able to find a Western firm willing to cheat on the restrictions, and redoubled their own research and development efforts to catch up to the West.

Sanctions aside, states can assert geoeconomic power in a variety of ways. Neomercantilism is the strategy whereby a state targets its most important industries with subsidies, import protection, and export incentives in order to capture wealth that otherwise would have flowed to more efficient overseas producers. A particularly effective neomercantilist strategy is for an industry to dump or sell below price its products in foreign markets in order to drive competitors out of business. After taking over the market, the industry will then raise prices to recoup earlier loses. But sometimes a government will attempt to protect its industry against a foreign dumping attack. For example, in 1986, the United States and

Japan signed an agreement in which Tokyo pledged to stop the dumping by Japanese semiconductor firms in the United States and elsewhere and guarantee American producers a 20 percent market share in Japan.

Another neomercantilist strategy is to refuse to sell or license technology to other countries. In *The Japan that Can Say No*, one of Japan's most prominent politicians, Shintaro Ishihara, bluntly advocated using America's growing high technology dependence on Japan to extract political concessions: if Japan sold "microprocessor chips to the Soviet Union and stopped selling them to the United States, this would upset the entire military balance . . . The more technology advances the more the U.S. and Soviet Union will become dependent upon the initiative of the Japanese people."[26] Charles Ferguson concisely captures the dangers inherent in America's loss of technological leadership to Japan:

> technological revolutions often contribute to shifts in wealth and geopolitical influence by changing the sources of industrial and military success . . . As this transformation progresses, the United States is being gradually but pervasively eclipsed by Japan . . . [a development which could lead to American] decline and dependence on Japan . . . [and] major economic and geopolitical consequences . . . (W)hile Japan is a military ally . . . American policy must recognize that Japan is also a closed, highly controlled, and systematically predatory actor in the international economy . . . [and] a statist, strategically cohesive free rider in the world technological system . . . The simultaneous need to preserve the military-diplomatic alliance while responding to Japan's technoeconomic Prussianism will therefore prove a critical challenge for U.S. policy . . . the United States must learn that the . . . issue of high technology and Japanese industrial policy, not just Soviet warheads, will determine the future national security of the United States.[27]

Any nation that dominates the technology food chain's base—the components and manufacturing equipment industry—has the power to dominate all the other links up the chain. With Japan's takeover of these segments, American industries are increasingly dependent on Japanese corporations for their components. Japan's most blatant use of its technology power has been to withhold or delay selling key equipments to American manufacturers. For example, America's remaining supercomputer producer, Cray, was dependent on Japanese suppliers for most of its key components, and the Japanese have not hesitated to exploit this dependency: in 1986, Hitachi delayed shipping a key component that Cray had actually designed, giving its own computer group a one-year lead time designing it into its own supercomputers.[28] American firms had been complaining about the practice for years, but quietly for fear that the Japanese firms would withhold even more equipments. On May 6, 1991, Sematech, an American consortium of fourteen chip and computer makers publicly denounced Japan's hoarding of essential equipment for as long as six–eighteen months and then selling it at prices 20–30 percent higher than Japanese firms pay in an attempt to damage the American firms as much as possible.

There is a reciprocal relationship between economic power—the ability to capture markets, play off raw material, capital, and component suppliers against each other to extract the lowest possible price, and technologically leapfrog, financially outspend, undersell, and eventually bankrupt rivals—and political power. Money buys access to political power that can then be used to promote policies favoring the buyer, which, in turn, allows even greater resources with which to buy more political power. That is especially true in America's open political system in which interests groups—foreign and domestic—bid for political influence.[29]

## Oil, Wealth, and Power

"Petro-states" are a special category of national and international geoeconomic power. The global economy runs on oil. Oil-rich countries clearly enjoy vast potential power in their ability to sell or deny that product to global markets or specific markets. Five countries in the Persian Gulf region—Saudi Arabia, Iraq, Iran, Kuwait, and the United Arab Emirates—possess 60 percent of the world's proven oil reserves. Oil power is not just about its uneven distribution around the world. Even more important is who owns the infrastructure that exploits oil including the wells, pipelines, supertankers, refineries, gas stations, and power plants.

The most disruptive use of oil power in global politics has been by the Organization of Petroleum Exporting Countries (OPEC), founded in 1960 by Iraq, Iran, Saudi Arabia, Kuwait, and Venezuela. By the early 1970s, seven other oil-rich countries joined OPEC including Qatar, Indonesia, Libya, the United Arab Emirates, Algeria, Nigeria, Ecuador, and Gabon. OPEC accounted for nearly two-thirds of world oil exports and sat atop nearly 75 percent of global oil reserves in 1973. That gave OPEC enormous potential power. OPEC wielded its power on the Arab states' side during the Yom Kippur War against Israel in October 1973. By cutting their own production, cutting off oil shipments to countries like the United State and others who supported Israel, and nationalizing the foreign-owned oil industries in their land, OPEC engineered a quadrupling of oil prices by 1974 and further doubled them between 1979 and 1980. In all, the price of a barrel of oil rose from $2.75 in 1973 to $35 by 1981!

What impact did that have on the OPEC members and the rest of the world? OPEC's policies powerfully shifted the global geoeconomic distribution of power. Hundreds of billions of dollars in wealth poured from those who needed the oil to those who had it. The industrial world suffered a decade of low economic growth, and high inflation and unemployment known as "stagflation." The Third World's debt soared as they had to borrow ever more money to pay for ever more expensive oil vital for fueling their own industrialization ambitions.

But OPEC's geoeconomic power was fleeting. The higher prices pressured the rest of the world to enact strict conservation measures, develop alternative energy sources, and exploit remote oil fields like the North Sea and Alaska's north slope that previously were too expensive to reach. OPEC's share of global oil exports dropped to one-third of the total. By the mid-1980s the price of a oil barrel had plunged to $12.

Oil prices remained relatively low and stable until the first decade of the twenty-first century, when they began to soar once again. In 2008, a barrel of oil soared nearly to $150! What caused that price rise? Increased demand, especially by China, reduced production in Iraq after the American invasion, violence in Nigeria's oil fields, the threat of an Israeli attack on Iran's nuclear programs, and speculation explain that price spike. But then a half year later they plunged to $40 a barrel as consumers reacted through energy conservation and diversification.

While prices may occasionally drop for a while, overall they will rise steadily in the future as demand increases while world oil reserve dwindle and are harder and thus more expensive to pump out. And OPEC's power will ride those prices.

## Consequences

Throughout history, people have grappled with the concept of power and wealth. About the only thing that most agree on is that power is the ability to get others to do things they otherwise would not do, and wealth is usually a component of power. Power permeates all human relations and, as Hans Morgenthau pointed out, can be asserted by any means "from physical violence to the most subtle of psychological ties by which one mind controls another."[30]

Stalin once allegedly said of Yugoslavia's independent communist president, "I shall shake my little finger and there will be no more Tito." Achieving one's desires with a mere gesture is ultimate power, but one that does not exist in global politics or even within the most totalitarian of countries. There are always some constraints on power whether the wielder is an individual, group, country, alliance, corporation, or international organization.

International relations have not fundamentally changed throughout history—states still do what they can to assert their interests against other states, and amass of what it takes to do so. However, the means by which states assert power and interests has changed dramatically in just the past half century. A state was once deemed strong or weak by the size and prowess of its military relative to those of other states. That's not the case any longer. States increasingly defend and enhance their interests through geoeconomic rather than geopolitical means.

Globalization provides unprecedented opportunities for governments, businesses, and individuals to make or lose enormous amounts of wealth, and the power that accompanies it. Indeed, at least one force remains constant amidst the ever more rapid blur change—power. What is changing is how power is distributed and asserted to what political ends.

CHAPTER 2

# Who Are You?: Identity and Globalization

*We know who we are only when we know who we are not and often only when we know whom we are against.*

*Samuel Huntington*

*We have made Italy. Now we must make Italians!*

*Giuseppe Garibaldi*

Who are you? That might not be an easy question to answer. Think of all the ways you can define yourself. Interests, beliefs, values, ambitions, race, religion, family, age, class, neighborhood, gender, sexuality, job, politics, ethnicity, nationality, or planet are just the more prominent categories. Modernity allows each of us to express and develop our unique set of talents, drives, and desires. Yet how much do we define ourselves by contrasting ourselves with what is different? Like a kaleidoscope, a shift in our surroundings spotlights some facets of our character and obscures others. How different are you when you are with your family, friends, or lover, or when you are with people of a different race, religion, ethnicity, or nationality? Why are you like that?

Your freedom to be yourself is recent. In premodern societies where nearly everyone was an illiterate peasant trailing a plow or a herd, your identity was imposed by your clan or village rather than developed from within. Yet, however unique you are, you share certain attributes with countless others.

How people understand themselves as members of a group (culture) and assert their interests (politics) are inseparable. Samuel Huntington explains that the identity of individuals and groups is rooted in "ancestry, religion, language, history, values, customs, and institutions. They identify with cultural groups: tribes, ethnic groups, religious communities, nations, and, at the broadest level, civilizations. People use politics not just to advance their interests but also to define their identity. We know who we are only when we know who we are not and often only when we know whom we are against."[1]

Among the more important modern sources of individual identity is the nation-state, along with nations and nationalism, that are largely modern concepts that have evolved in importance over the past several hundred years. Despite growing interdependence and the proliferation and power of international organizations, regimes, law, morality, opinion, and multinational corporations, the "nation-state" remains central to international relations. In 1945, there were 51 nation-states. In the year 2010 there were 192, along with 61 related and disputed territories! In the decades ahead how many of those 61 other territories will achieve independence?

Violence and outright civil war can erupt when a government refuses to accept a minority's demands and brutally attempts to suppress them. In Yugoslavia, Northern Ireland, Nigeria, Sri Lanka, Chad, Iraq, Afghanistan, Lebanon, or Angola, to name a few, the nation-state dissolved into civil war as long suppressed and exploited minority cultures sought greater autonomy or outright independence. One study identified over 260 ethnic groups that could qualify for sovereignty, of which more than 50 had separatist movements and 20 were fighting for independence.[2]

To understand the forces of nationalism and multinationalism, we must understand the vessels that give them meaning—"culture," "political culture," "ideology," "nation," "state," and "nation-state." Although we tend to use these words interchangeably, they differ conceptually. A state is any political entity that controls a territory and population. A nation-state is a political entity with sovereignty. A nation is primarily a population with a common culture, language, institutions, and history. Political culture includes those aspects of culture that affect political behavior. Ideologies are systems of beliefs, behavior, and institutions that can be championed by a national government or political movement.

## Culture

The word culture conjures up a host of images. The popular stereotype is one of symphony orchestras and art museums attended by a rich, sophisticated elite. Actually we are all constantly immersed in culture whether we are aware of it or not. Everyone is part of at least one culture and is often partly influenced by many others. Culture shapes everything we see, do, think, feel, and even dream. Theodore Von Laue asserts that "culture, like the individual mind, is a complex universe of which the major part is hidden in the vast recesses of the subconscious."[3]

Culture is any group's distinct means by which its members individually and collectively interpret and interact with one another and the world beyond. More specifically, culture is a group's integrated, distinct system of values, ethics, behavior patterns, history, arts, and language, which, in turn, are reflected and shaped by that group's social, economic, and political institutions. Cultures are not isolated. Every culture borrows from and lends to others; generally the more dynamic and successful a culture, the more it exchanges with other cultures. Yet, despite this exchange, a culture's essential values must remain largely unchanged in order for it to survive.

People are born into a culture and thereafter are constantly socialized into that culture's values, ethics, behavior, and so on. The family provides the individual's most important "socialization" experience. Babies join families with a certain socioeconomic level, composition (single-, two-, or multiparent, number of siblings, extended or nuclear), ethnicity, religion, and set of values. Other forces are important in deepening the individual's socialization, including school, peers, neighborhood, workplace, mass media, and government. Political culture involves those aspects of culture that shape how that group's members assert their interests in conflicts.

Ideally all of these forces work together to socialize the individual with the same or similar cultural values. At times, however, these socializing forces represent different cultures. Then the individual may be torn between conflicting values and expectations. People born into an immigrant family might receive both the culture of their parents' ancestry and that of the new country. Sometimes there is a discrepancy between a society's ideals and the behavior of its institutions and individuals. A culture's socializing forces can be offset by an individual's exposure to violence, injustice, corruption, socioeconomic exploitation, and unfulfilled expectations, or defeat in war, which discredits the institutions and values of the dominant culture.

There are no truly monocultural nations. Even nation-states popularly believed to be monocultures like Iceland, Portugal, Bangladesh, Korea, and Japan have some subcultures. For example, although Japan is considered a "homogenous" culture, there are ethnic subcultures such as the Okinawans, Koreans, Chinese, and Ainu that speak Japanese yet whose ancestry is rooted in a different national culture, and social subcultures such as the untouchable class (burakumin), atomic bomb victims (hibakusha), and mixed race people (konketsujin), which the dominant culture has set aside and often discriminates against.

Culture is most commonly used to distinguish nations but has other applications in other ways. There are not only countless national subcultures but ever more "transnational cultures" that embrace peoples across two or more nations. Examples of transnational cultures are "Western culture" or "Far Eastern culture" in which different nationalities share some basic values, ethics, institutions, and history, if not language. Likewise, a nation can have many "subcultures," which may be variations of the national culture or significantly different.

## Ideology

Human behavior is shaped by ideals. We believe or do not believe certain things and then act accordingly. We are all, to varying degrees, prisoners of the belief systems that permeate, inspire, and constrain our societies. As we have seen, beliefs are also essential to cultures. How then do cultures and ideologies differ?

Culture and history are inseparable with each reflecting and shaping the other. Ideologies are consciously developed to transcend and transform culture and history. The beliefs that animate a culture can often be implicit, vague, and even contradictory. Ideologies, in contrast, are explicit systems of beliefs that can rise above a given culture. Ideologies include political philosophies such as liberalism, conservatism, feminism, environmentalism, anarchism, Confucianism, communism, or fascism, to name a few; theologies such as Christianity, Buddhism, Judaism, Hinduism, and Islam; and even nations with very clear world views such as "Americanism." The core of every ideology is a value system that determines that society's prevailing patterns of behavior, organization, goals, and policies.

A comprehensive ideology asks and then answers a set of important, interrelated questions:

1. *Human Nature*: What is the nature of being human? Basically good, bad, or mixed? Are we shaped mostly by nature or nurture? How does human nature affect politics?
2. *Roles*: What are the respective roles and duties of government, society, and the individual? Which needs should take precedence—society's or the individual's?
3. *Law*: What is the nature and role of law in society? Are there some laws, such as the constitution, fixed or is everything open to question and change?
4. *Human Rights*: What rights do individuals enjoy? How much liberty? How much equality? What duties? What limits if any should be placed on human rights?
5. *Power*: How is power organized? How is the power distribution justified? How powerful are the power-holders? How are leaders selected? What restrains their power? How do those holding power make decisions?
6. *Justice*: What is it? How does the system guarantee it?
7. *Goals*: What is the purpose of society? Of government? What are the society's ideals? How are those ideals best achieved?

8. *Institutions*: What are the best political, economic, and social institutions for fulfilling society's ideals?[4]

How do individuals acquire an ideology? They can be born into and thus socialized by an ideology just as with a culture. Or later in life they can freely choose to adopt an ideology as their guide for belief and behavior. How strong a grip does an ideology have on a follower? It depends on the ideology and the individual. Some ideologies proscribe relatively strict sets of ideals and behavior such as communism, fascism, and Islamism, while others like liberalism are more permissive. Religions also vary to the degrees they restrict human behavior. As for individuals, each is a unique mix of natural intelligence, aptitude, interests, humor, character, personality, ambitions, and experiences, all of which shape that individual's own version of his ideology. Some people rigidly adhere to their worldview and reject any information that runs counter to their beliefs, a condition known as "cognitive dissonance." Others are relatively open-minded, can "empathize" with the situations and perspectives of others, and might even adopt a completely different worldview that more closely accords with their own changing perspectives. Regardless, to varying degrees ideologies shape the lives of nearly everyone.

Why do ideologies have such a strong grip on us? Our minds are not open enough to see the world, let alone understand it, as it really is. Instead, our minds are selective, they grab bits of reality and give us the illusion that we are seeing the complex whole rather than selected fragments. Ideologies help our minds make those selections. As a system of related values, attitudes, beliefs, and behavior, ideologies give the individual a systematic way to make sense of the world and find a place in it. Ideologies bring order to the chaos in which we are bombarded with thousands of bits of often conflicting information every conscious and subconscious second.

**To Be Free, Partly Freed, or Not Free: Countries of the World**

Liberal democracy is spreading to ever more countries. That is great news for freedom-loving people everywhere. "Free" countries are those whose people enjoy the full spectrum of human and civil rights within political systems with elected legislatures, independent courts, and two or more competitive political parties. A country is "not free" if it has none of those characteristics and "partly free" if it has some (table 2.1).

Liberal democracies tend to thrive in middle-class societies where at least three of four people share the same nation. Nonetheless, democracy has flourished in multinational countries like Belgium, Canada, and Switzerland. Partly and not free countries usually share mass poverty and multinational tensions. Religion is also important. Christian states are five and a half times

**Table 2.1** To Be Free, Partly Free, or Not Free: Countries of the World—Comparison by State and Percentage of States

| | *Free Countries (Percentage)* | *Partly Free Countries (Percentage)* | *Not Free Countries (Percentage)* |
|---|---|---|---|
| 2007 | 90 (47) | 60 (31) | 43 (25) |
| 1973 | 43 (29) | 38 (25) | 69 (46) |

*Source*: Freedom House.

**Table 2.2** Freedom, Oppression, and Religion

| | *Free Countries (Percentage)* | *Partly Free Countries (Percentage)* | *Not Free Countries (Percentage)* |
|---|---|---|---|
| Muslim | | | |
| 2003 | 2 (4) | 18 (38) | 27 (58) |
| 1973 | 2 (6) | 11 (31) | 23 (63) |
| Non-Muslim | | | |
| 2003 | 87 (60) | 37 (26) | 21 (14) |
| 1973 | 41 (36) | 27 (24) | 46 (40) |

*Source*: Freedom House.

more likely to be free as repressive while no Arab states and only two non-Arab Muslim states are free. The record for other religions is mixed (table 2.2).

Religion and freedom are clearly linked. According to Freedom House, of the eighty-nine free countries, seventy-nine are Christian, two have large Christian minorities, four are mostly Buddhist, one is Jewish, one Hindu, and only two are largely Muslim. Only eleven of the sixty-seven countries with the worst civil and human rights records are mostly Christian. In all, Christian countries are five and a half times more likely to be free than repressive. Catholic and Protestant versions of Christianity have traditionally varied in their relative compatibility with democracy. Until the late 1970s, dictatorships ruled most Catholic countries. Democracy and Islam are clearly incompatible. Why would Christian, especially protestant, countries be compatible with democracy? Why would Islam and democracy be so incompatible? Culture offers important insights. Culture and politics are inseparable.

Yet ideologies have their drawbacks. While they provide us with a belief system, they can also limit our ability to see the world in different ways or understand it as it really is. Individuals raised in a liberal society, for example, have trouble understanding the world through a communist's eyes, and vice versa. Agreements between those with different ideologies would usually be more difficult to forge than between those sharing the same ideology. Ideologies like communism and fascism whose values demand the subjugation of the individual to the state are especially susceptible to the abuse of power and sometimes even genocide by their adherents.

## Nation

What is a nation? A nation is a people with a common culture, language, traditions, and history, or, as John Stoessinger put it, "a people's sense of collective destiny through a common past and the vision of a common future."[5] Thus all nations are by definition cultures, but few cultures are nations. The most important distinction between a nation and a culture is that a nation must be believed to be realized. One can be part of a culture and not be aware of it. To be part of a nation, the individual must recognize that relationship. That problem was succinctly expressed by Giuseppe Garibaldi who after leading Italy's unification in the nineteenth century famously quipped: "We have made Italy. Now we must make Italians!"

Self-identity depends upon context. We define ourselves by what we are not and identify with those who share similar characteristics. In traditional societies one's primary loyalty was to the village. In the modern world, advanced communications and transportation allow individuals to identify with those sharing a similar culture over ever larger areas.

Thus nationalism—the political assertion of one's national identity, independence, and interests—is a modern phenomenon, a result of a people with a common culture, language, tradition, and history becoming aware of that reality and acting on that awareness. National identity can occur only after a people has achieved certain levels of socioeconomic, technological, and political development. Nations do not necessarily have to be included within the same territory or legally defined—in fact most are not. Where was the nation of Israel before the sovereign state was created in 1948? Where does the Palestinian nation exist today? The answer is in the minds of those two peoples.

The first nation-states that achieved mass national identities were England, the Netherlands, the United States, and France. During the 1820s, nationalism swept away Spanish and later Portuguese rule from most of Latin America. During the mid-nineteenth century, political unification for Germany and Italy, and revolution in Japan, succeeded in creating modern mass national states, while nationalism fermented in dozens of other nation-states in Europe and elsewhere. The 1919 Versailles Peace Conference and President Wilson's call for "national self-determination" stimulated nationalism among colonial peoples. The imperial powers were able to suppress those independence movements until after World War II, when one by one new countries emerged from the ruins of former empires.

Nationalism can be either a powerfully constructive or destructive force in global politics. Nationalism by definition refers to a unified, mobilized, loyal population that governments can deploy for development or aggression. Nationalism can be expressed either through liberalism in which the state's purpose is to guarantee individual rights and democratic processes, or statism in which the state personifies the nation's glories and all citizens are mobilized by the state for the state. The latter form of nationalists are committed toward putting national interests ahead of all others—individual, group, or international. In identifying so powerfully with one's own national interests, individuals can be indifferent to the needs of other peoples. Nationalism often promotes feelings of superiority over or fear of others, which can damage international relations. At worst, nationalism can lead to a frenzied expansionism, most horrifically that of fascist Japan, Germany, and Italy, which resulted in the deaths of over 70 million people between 1931 and 1945.

## States, Nation-States, and Sovereignty

The first informal states emerged thousands of years ago from the attempts of small groups of people to divide political duties, establish formal rules, and designate leaders among themselves. Since then, as cultures became more complex and often encompassed other cultures, states have come in all shapes and sizes, from the city-states of the ancient Greeks and Renaissance Italy, to the huge empires of Rome, China, and Persia, to the council of elder arrangements of many African and American Indian tribes, to the despotism of Tsarist Russia or Tokugawa Japan, to the religious and political duties shared by the Roman Catholic Church and the Holy Roman Empire, to the emerging multinational superstate, the European Union.[6]

Nation-states are products of the modern world; while any political entity with control over a territory and population theoretically can be called a state, nation-states must by definition be sovereign. The first nation-states emerged with the Peace of Westphalia of 1648, which ended the Thirty Years War between Protestant and Catholic princes and kings. That war was the culmination of 130 years of religious warfare sparked by Martin Luther's rebellion against the papacy in 1517. Henceforth, according to the Westphalia Treaty, each prince had the sovereign right to decide his state's religious preferences, a principle that had first been articulated with the Peace of Augsburg in 1555, but was now made irrevocable. Through imperialism, diplomacy, and decolonization, Europe's nation-state system eventually spread around the world.

"Sovereignty" thus depends on a government having the highest authority within a clearly defined territory encompassing a population, and that authority is recognized as legitimate by both its inhabitants and other sovereign governments. Sovereign states are considered equal in status according to international law, and have basic rights and duties. One basic right according to international law is that every nation-state should be free to run its internal affairs as its government sees fit. Regardless of whether a nation-state's inhabitants are citizens or residents, they must all follow that government's laws. As Hedley Bull put it, sovereignty includes both "internal sovereignty, which means supremacy over all other authorities within that territory and population . . . and external sovereignty, by which is meant not supremacy but independence of outside authorities."[7]

Throughout the modern era, political philosophers have agreed that sovereignty is the right to assert supreme authority over a realm. Where that sovereignty lies, however, has been hotly disputed. A succession of political philosophers—Jean Bodin (1530–1596), Hugo Grotius (1583–1645), Thomas Hobbes (1588–1679), among others—explored the concept of sovereignty and argued that sovereignty, or the highest authority, should reside in a monarch with absolute power. Jean Bodin's *Six Books on the State*, published in 1576, defined sovereignty as "the absolute and perpetual power of the state, that is, the greatest power to command." Later political philosophers—John Locke (1632–1704), Jean Jacques Rousseau (1712–1778), Thomas Paine (1737–1809), and Thomas Jefferson (1743–1826), among others—rejected the concept of a monarchy with absolute sovereign powers and instead argued that sovereignty should be rooted in the people.

Despite their differences, starting with Hobbes' Leviathan (1651), all these political philosophers shared the idea that the state resulted from a "social contract" between ruler and ruled in which the latter granted authority to the former in return for security and justice. Thus the state is not just a concrete reality, but also a legal abstraction like a corporation in which its citizens or subjects are shareholders. The concept of popular sovereignty has become universal. Today, in virtually every country, sovereignty theoretically lies with the people who are "citizens" rather than "subjects." Nearly every nation-state has a constitution that articulates the political system's sovereign purpose, values, and organization. However, whether those who rule practice that principle is another matter. Most dictators cynically claim to rule on behalf of the "people" according to a "democratic" constitution.[8]

Once recognized, however, sovereignty is not absolute. Traditionally, a state was considered sovereign only if it could defend itself. Thus imperialism—the conquest of one state by another—was considered just. With that logic, for instance, Russia, Prussia, and Austria devoured Poland among themselves in three large gulps in 1772, 1792, and 1795. The

European powers, later joined by the United States and Japan, used this principle to justify conquering hundreds of nations around the world over the past 500 years.

States could gain as well as lose their sovereignty through armed struggle. The first modern example was the Dutch revolt against Spanish rule in 1580. Then there was a hiatus until America's war of independence against Britain in 1776, followed during the 1810s by the revolt of Latin American people against Spain. After 1945, although some colonies fought for their freedom, most won it when the imperial power voluntarily granted it in the face of mass political movements within the colony, international pressure, and the growing costs of running an empire. Between 1989 and 1991, the sovereign states of Yugoslavia and the Soviet Union disintegrated into many.

Just because a state is recognized as sovereign by some, it does not mean that it is recognized by all. For instance, a state's membership in the United Nations depends on the Security Council and a majority in the General Assembly recognizing that state's sovereignty.

Revolutionary change in which a government is overthrown and a new regime installed sometimes poses problems of international recognition. Some countries may favor waiting for the dust to settle before they diplomatically recognize the new regime. For instance, after the 1949 communist revolution in China, the United States continued to recognize the defeated former government in exile on Taiwan rather than the communist government that ruled the mainland. In 1971, the United States established informal relations (de facto) with China, followed in 1979 with full legal recognition (de jure). In contrast to the United States, Britain follows a policy of recognizing whatever regime is in power, regardless of whether or not it is politically or morally compatible. Thus London officially recognized the Communist Party as China's legitimate government in January 1950.

In a world of sovereign states, international relations are by definition anarchical. If not a constant "war of all against all," international relations are certainly shaped by constant conflict as each state pursues its own interests, often to the detriment of other nation-states. Each nation-state is solely responsible for its own protection, often leading to a "security dilemma" in which the steps taken to ensure the security of one nation-state may lead to the insecurity of others. When a nation-state builds up its military to protect itself from potential aggressors in turn, it also potentially threatens the security of those other states, thus leading them to take similar measures. That is the psychological root of an arms race that can end in war.

Theoretically all nation-states enjoy independence and equality. In reality, no nation-states are equal in status, power, or, arguably, even rights.

Each country differs profoundly in power and its territorial, population, economic, technological, financial, cultural, and military components. The more powerful a country and the more skillfully a government wields power, the more easily it can safeguard and expand its national interests. Likewise, although the international norm of sovereignty theoretically empowers states with independence, in an anarchical world states must ultimately defend themselves. Without a world policeman, the stronger nation-states can often get away with bullying and exploiting the weaker nation-states.

Nation-states vary in population size from such behemoths as China and India with 1.3 billion and 1.2 billion people, respectively, to such microstates as Nauru with 7,000. They vary in territory from continental sized powers like Russia, the United States, and Canada to tiny states like Monaco, Vanuatu, or the Cook Islands. Thirty-eight nation-states, or one-fifth of the world's total, have a combined population of only about 12 million people. Many of these "microstates" have given up some of their sovereignty in return for economic and political security. For example, the Republic of the Marshall Islands and the Federated States of Micronesia have signed a Compact of Association with the United States empowering Washington with their defense and foreign affairs. Monaco, Liechtenstein, and San Marino have granted similar rights to France, Switzerland, and Italy, respectively.

Yet the sovereignty of even the most powerful country is limited. Despite the conceptual persistence of sovereignty and the lack of a world government, there are numerous and expanding webs of constraints on a state's foreign and domestic policies, even for the most seemingly powerful countries. The growing body of international law imposes clear restraints on a government's action not only toward other nation-states but even within its own borders. International law condemns both a government's aggression against other nation-states and its own people. In 1991, the UN Security Council condemned Iraqi President Saddam Hussein not just for ordering his armies to invade neighboring Kuwait, but for his brutal repression of Kurdish and Shiite separatists within Iraq itself, and sanctioned international forces led by the United States to expel Iraq from Kuwait, and later to extend security and humanitarian aid to the Kurds and Shiites. That mission is not an exception. The United Nations now has peacekeeping troops in over a score of countries to deter the organized violence of some people toward others.

## Multinationalism

Although the United States is often seen as a vast mosaic of diverse ethnic, racial, and cultural groups, it is actually one of the world's most unified nations. More than 90 percent of those living in the United States identify themselves primarily as Americans rather than their distant ancestry. Like the United States, all of the five largest Western European countries—France, Britain, Germany, Italy, and Spain—have distinct racial, linguistic, ethnic, and religious minorities. London, Berlin, and Paris are each nearly as much a mosaic of different subcultures as New York. As in the United States, about 10 percent of the population of Germany, France, and Britain are foreign born. The American South, Southwest, California, and New England have distinct regional identities, although none today is separatist and all mesh within a common American culture. Contrast America's relative regional unity with the immense regional, linguistic, and cultural differences between north and south Italy and Germany, or between Catalonia and the rest of Spain. Yet, despite their diversity, countries like Britain, the United States, Spain, Germany, or France are considered multiethnic rather than multinational. These nations have a range of distinct subcultures, some of which originated in another nation but have largely assimilated or blended into the values, language, behavior, and so on of the dominant culture.

However, about 90 percent of the world's nation-states actually are multinational, including such advanced industrial states as Canada, Belgium, and Switzerland and less developed states as Nigeria, India, Mexico, and Fiji, to name a few. Many believe that ideally every nation should have its own sovereign state. The United Nation enshrines the ideal of "self-determination for all peoples" whether its members choose to recognize a particular people or not. In 1992, the UN General Assembly passed a "Declaration of Rights of Indigenous Peoples" to help protect the estimated 300 million descendants of the original inhabitants in more than 70 countries that were invaded and conquered by others. Self-determination does not necessarily mean separation, but the right of those peoples to pursue their traditional way of life without interference from the dominant culture.

Some multinational nation-states have stayed together while others have been torn apart by civil war. Switzerland, Belgium, and Canada are examples of multinational nation-states that have, to date, remained intact despite resentments and conflicts among those nations. The glue that holds diverse peoples together contains many ingredients. Those forces that form a cohesive nation can shape a cohesive multination—a shared history, culture, economy, language, ideals, government, laws, and goals.

Governments attempt to "nation-build" or create a common identity out of many different nations. In multinational nation-states loyalties can divide between a people's national identity and the supranational identity promoted by the nation-state. For example, with what culture does a French-Canadian identify more—Quebecois, Canadian, or even French? The answer would vary considerably from one French-Canadian to the next. Over the decades, polls reveal that from 35 to 50 percent of Quebecois favor autonomy or outright independence.

How do you create a new identity without destroying old ones? One way is to stress a common purpose and values. There is a close relationship between stability and prosperity—the more politically stable a country, the more prosperous, and vice versa. Countries cannot enjoy political and economic development without constructive, far-sighted government policies designed to create and distribute wealth and power as equitably as possible both among and within the nations it rules.

The nation-building problems for newly independent countries are often much more severe than those of Europe. European identity is shaped by widespread literacy, high living standards, extensive trade and travel, and mass media, which help different nationalities empathize with each other and search for a common identity. Newly independent underdeveloped countries lack those forces that are essential to forging a new identity.

**Civilizations and Their Discontents: The Huntington Thesis**

There is a human tendency to see the world in terms of opposites—North versus South, Rich versus Poor, Occident versus Orient, Good versus Evil. Many Westerners see the relationship between themselves and others as "the West and the rest." Muslims split the world between the "House of Islam" (*Dar al-Islam*) and the "House of War" (*Dar al-Harb*).

Samuel Huntington dismisses not just those simplistic categories, but argues that civilizations rather than nation-states are the most powerful force shaping global politics today. He defines civilizations as mosaics of related cultures with similar values, beliefs, technologies, institutions, traditions, and aspirations; they endure and evolve over centuries and, for some, even millennia. Ancient civilizations tended to be empires whose peoples distinguished themselves from their "barbarian" neighbors who might be nomadic tribal societies or even other civilizations. Modern civilizations usually have more diplomatic ways of expressing their sense of superiority over others.[9]

Where to draw the line in anything can be controversial. Huntington's designation of major contemporary civilizations has certainly sparked debate not only among scholars but even within himself. He divides humanity among the Sinic (Chinese), Japanese, Hindu, Islamic, Orthodox, Western, Latin American, and possibly African civilizations. He lumps the United States with Europe although he acknowledges that traditionally "Americans defined their society in opposition to Europe" and insists on using the term "Western" rather than Euro-American. He admits that "Latin America could be considered a subcivilization within Western civilization or a separate civilization closely affiliated with the West." He questions whether the predominately tribal societies of sub-Saharan Africa can be labeled a civilization. Neither Judaism and Israel nor Hinayana Buddhism and Thailand make the list because he considers them "minor civilizations."

Huntington then argues that "for the first time in history, global politics is both multipolar and multicivilizational; modernization is distinct from Westernization and is producing neither an universal civilization in any meaningful sense nor the Westernization of non-Western societies…A civilization based world order is emerging; societies sharing cultural affinities cooperate with each other; efforts to shift societies from one civilization to another are unsuccessful; countries group themselves around the lead or core states of their civilization."[10]

For Huntington that is a perilous development: "The power among civilizations is shifting: the West is declining in relative influence; Asian civilizations are expanding their economic, military, and political strength; Islam is exploding demographically with destabilizing consequences for Muslim countries and their neighbors; and non-Western civilizations generally are reaffirming the values of their own cultures."[11]

Huntington sees Western civilization imperiled by the rise of other civilizations and maintains that its survival depends upon "Americans reaffirming their Western identity and Westerners accepting their civilization as unique not universal and uniting to renew and preserve it against the challenges from non-Western societies. Avoidance of a global war of civilizations depends on world leaders accepting and cooperating to maintain the multicivilizational character of global politics."[12]

He concludes with a warning to American policymakers: "Multiculturalism at home threatens the United States and the West; universalism abroad threatens the West and the world. Both deny the uniqueness of Western culture. The global monoculturalists want to make the world like America. The domestic multiculturalists want to make America like the world. A multicultural America is impossible because a non-Western America is not American. A multicultural world is unavoidable because global empire is impossible. The preservation of the United States and the West requires the renewal of Western identity. The security of the world requires acceptance of global multiculturality."[13]

Do you agree?

Language is one of the most important sources of common identity and purpose, and is a divisive force in multinational countries. English or French remains the official language for several score countries around the world long after they achieved independence. Why don't those countries adopt one of their native languages as their official language rather than retain the colonial master's tongue? The reason is the political and cultural neutrality of English or French.

Nigeria and India have both chosen to retain English as their official language. With 150 million people, Nigeria is Africa's most populous country.

Although there are over 260 dialects spoken, Nigeria's different cultures can be grouped into Yoruba, Hausa, and Ibo. Seven years after Nigeria achieved independence in 1960, the Ibo nation tried to gain independence and form the Republic of Biafra. Over the next three years of civil war, 1.5 million people died from fighting and starvation. The Biafran independence movement was finally crushed in 1970.

India's 1.2 billion people have 14 major language groups and 1,600 dialects! Although 85 percent of the population is Hindu, there are large, concentrated Muslim (12 percent) and Sikh (1 percent) populations, which have demanded either separation as in Muslim Kashmir and Assam, or increased autonomy as in Sikh Punjab. If India adopted one of the fourteen languages spoken in the country to be official, it would offend the hundreds of millions of speakers of the other thirteen languages, which would become unofficial. Those who spoke the one official language would have a political, economic, and social edge over those who do not. Large parts of India are already torn by religious and ethnic strife. To make one native language official could well tear India apart.

Independence movements gain adherents when minority national groups feel discriminated against or exploited by the majority. Like communism's collapse, the Soviet Union's breakup in December 1991 was inevitable—the only question was when. The Soviet Union was simply another name for the Russian empire; the fourteen non-Russian Soviet "republics" were in effect Moscow's colonies. Russians were exactly half the Soviet population, with another 20 percent Slavic Ukrainians and Byelorussians, 20 percent Muslim Kazakhs, Azerbaijanis, Kirghiz, Turkmen, Uzbeks, Tajiks, and others, about 3 percent Christian minorities like the Baltic Estonians, Latvians, and Lithuanians, and Caucasus Georgians and Armenians, and 1 percent Romanian Moldavians. In addition, there were hundreds of much smaller cultures.

A vast totalitarian state apparatus and communist ideology let the Russian Empire (as the Union of Soviet Socialist Republics [USSR]) to remain intact generations after other great empires—the Austro-Hungarian, Ottoman, British, French, and others—had crumbled. Moscow's totalitarian political, economic, and social controls had steadily loosened and its communist ideology had become increasingly discredited over the forty years following Stalin's death in 1953. It took President Mikhail Gorbachev's policies of openness (Glasnost), restructuring (Perestroika), and democracy to finally topple the tottering empire. But unlike the breakup of other empires, Moscow's received its death blow when Russian President Boris Yeltsin declared his republic's independence from the Soviet empire in 1991, and the other republics followed suit.

Nationalism has replaced communism as the raison d'être of those new nation-states. Yet independence has not solved a range of political, economic, ethnic, and environmental problems. Like other fallen empires, the broken pieces of the Soviet Union remain economically interdependent, the products of seven decades of centralized economic planning. Twelve of the former fifteen republic remain loosely tied through the Commonwealth of Independent States (CIS). Another problem is the Russian diaspora. Over 60 million Russians are scattered across the other former Republics, and the newly independent states are debating how to fit the Russians into their political, economic, and social life. Estonia arrived at a harsh solution. With nearly half of its population Russian, Estonia's government has ruled that only Estonians or those of other cultures who settled in the country before 1940 are allowed to be citizens. The law disenfranchises most of Estonia's Russian population. Russia and Ukraine are squabbling over who owns the Crimean peninsula. Stalin handed over the Crimea from Russia to Ukraine in 1946, and now the Russians want it back from independent Ukraine.

"Irredentism" occurs when people with a common nationality scattered among two or more nation-states try to unite. There are three types of irredentism. One pattern is when the government of one united nation claims that its compatriots in another state should be joined to it. For example, during the 1930s, Hitler followed an irredentist policy of uniting Germans living in surrounding countries like Austria, Czechoslovakia, and Poland into Germany. The result of Hitler's ambitions, of course, was World War II.

More commonly, a nation divided among several nation-states desires its own sovereign state. The Palestinians are divided across Israel, Lebanon, Syria, Jordan, and Egypt, and there are exiles in many other countries. The Palestinian Liberation Organization (PLO) was founded in 1964 and dedicated to Palestinian independence. Originally the PLO favored the destruction of Israel and creation of a Palestinian state on its ruins. More recently, it has settled for a Palestine encompassing the West Bank of the Jordan river and Gaza Strip of lands occupied by Israel since the 1967 War. Israel's Likud Party that ruled from 1975 to 1991 was adamantly opposed to any Palestinian autonomy let alone independence. When the Labor Party was elected in June 1991, it favored some Palestinian autonomy as part of its "land for peace" policy. Under treaties at Oslo in 1993 and Wye in 1998, Israel granted increased autonomy to the PLO to rule the West Bank and Gaza Strip under a state known as the Palestinian Authority. Now autonomous under Israeli sovereignty, the Palestinian Authority is struggling to complete its long struggle for independence.

Finally, there was the Cold War problem where a previously united nation was split between communist and noncommunist halves, and the halves wanted to become whole again, as in East and West Germany, East and West Austria, North and South Korea, and North and South Vietnam. The allies agreed temporarily to divide Germany, Austria, and Korea into occupation zones after the defeat of Germany and Japan. These divisions solidified with the Cold War and the fears of Moscow and Washington that reunification could lead to a government that joined the other side. Vietnam was divided at the 17th parallel between a communist North and noncommunist South at the Geneva Convention of 1954 when France granted the country independence.

After tough negotiations between the occupying powers, East and West Austria were rejoined in 1955 with the stipulation that the nation-state be neutral. Following Washington's advice, which feared a communist takeover, South Vietnam's government rejected holding elections prior to reunification as stipulated by the Geneva convention. For two decades, South Vietnam battled a growing communist insurgency backed by North Vietnam. The country was reunified in 1975 after the Saigon regime was conquered by North Vietnam. In 1986, Gorbachev renounced the Brezhnev Doctrine, which justified Soviet military intervention in communist countries experiencing a democratic revolution. In 1989, he allowed the Berlin Wall to be demolished, and in 1990 nodded as East Germany was reunited with West Germany. Starting in the late 1980s, the South and North Korean governments began discussing their nation's reunification but to date have made no progress. Reunification is unlikely unless one of the two Koreas experiences a revolution that brings to power a government similar to that in the other half. Most analysts say a revolution in either Seoul or Pyongyang is unlikely.

In no region are irredentist claims more possible than in Africa, in which only one of the sixty-four countries, Somalia, is not multinational. Tanzania President Julius Nyerere recognized this problem when he said that "African boundaries are so absurd that they need to be recognized as sacrosanct." He meant that Western imperialism had so arbitrarily and thoroughly divided African nations that any attempt to reorganize the continent along the "one-state, one-nation" principle would only result in chaos and war. The African Union (formerly the Organization of African States) has attempted to defuse any potential irredentist claims by declaring that Africa's present boundaries are inviolable. Somalia's claim to being one nation is no guarantee of order. Since 1992, the country has been torn apart by civil war and famine as rival groups fought for spoils and supremacy.

The fate of Somalia is not unique among states. The list of so called failed states is growing—Iraq, Haiti, Liberia, Sierra Leone, Rwanda, Somalia, Afghanistan, Yugoslavia, and the Soviet Union. The results are often tragic—uncontrollable mass violence, robbery, rape, destruction, refugees, and sometimes outright genocide that engulfs part or all of the territory.

Why do states fail? Each failed state has its own unique set of reasons. Yet nearly all were cobbled together by outsiders rather than developed by insiders. Indeed the concept of a state is alien to cultures in which different races, ethnic groups, tribes, and/or clans are the most important source of identity and authority.

While some states are falling apart, others are combining into a superstate known as the European Union (EU). Since the early 1950s, ever more Europeans have joined an ever more integrated economic and political union with its capital at Brussels. To do so, each member has surrendered or shared ever more of its sovereignty to their superstate. The EU now boasts twenty-seven nation-states and half a billion people.

As if economic and political unity were not challenging enough, Brussels is attempting to build a European "nation." That effort has been less successful. Although surveys indicated that over the past forty years ever more Europeans have identified with the concept of being European, few seem willing to abandon their national identity. Most Europeans favor ever greater economic and even political unity; few are willing to exchange their primary loyalty to the nation in which they were born for the more abstract identity of Europe. At best, Europeans will increasingly accept a European identity as secondary to their real nation.

The EU's national, cultural, and linguistic mosaic will most likely become even more complex in the decades ahead. Both the existing EU nations and the common identity of being European may be challenged by ever more immigration. Europeans are aging rapidly while the birthrate is plummeting to the point where the native populations are actually diminishing. By the year 2025, the EU will need 135 million workers to replace and support those who have retired. Those workers will mostly come from Africa, the Middle East, Asia, and Latin America.

Thus will Europe's population become ever more diverse; political conflicts may accompany that diversity. Unlike the United States, Europe does not have a tradition of welcoming immigrants. Will those immigrants be assimilated through socialization, marriage, and socioeconomic mobility, or will they mostly cling to their own communities or become ghettoized by discrimination? How will the immigrants change the culture of each EU country and Europe as a whole? These questions will become increasingly central to European politics and its foreign relations.

## Consequences

Since the 1648 Peace of Westphalia, nation-states have been the central players in global politics. In a world knit by thousands of international organizations and multinational corporations, is the nation-state becoming obsolete? Will nation-states become just one player among many on the global stage?

As we saw with Europeans, just because peoples are becoming more interdependent, it does not mean they are becoming more international. People tend to identify primarily with their respective nations rather than with humanity, and governments continue to put their perceived national interests before international interests, even though as the world becomes ever more interdependent it is ever more difficult to distinguish between the two.

In the contemporary world, nationalism and internationalism both powerfully affect the world system. Some regions like Europe, North America, and Southeast Asia are attempting to forge closer international ties. People of different nationalities are ever more intertwined through trade, travel, communications, the Internet, and the ever worsening global environmental crises, which adversely affect all. Elsewhere, nationalism is growing. Though there are many nations in the world, few are synonymous with the nation-states in which they reside. Most of the world's nation-states are multinational and many of those nations want a nation-state of their own. Interdependence will only thicken with time. Yet it is clear that nationalism will add more independent nation-states to the global system. The nation-state will remain the world system's most important unit. World government is unlikely for the foreseeable future.

CHAPTER 3

# National Interests, Foreign Policy, and Global Politics

*The essence of ultimate decision remains impenetrable to the observer—often indeed to the decider himself... There will always be the dark and tangled stretches in the decision-making process—mysterious even to those who may be most intimately involved.*

*John Kennedy*

Foreign policy making is as old as the first states and the conflicts among them. In the premodern era, the range of "foreign policy" decisions that governments made were mostly confined to war and trade. But as modernity knit an ever denser web of relations among states, the issues, means, and ends of foreign policy making have proliferated and changed profoundly.

Nonetheless, the popular image of foreign policy making persists of a council of experts carefully and rationally choosing among alternatives until they find the one best able to serve national interests. In reality, policymaking is a messy, imprecise process that varies considerably from one issue, time, and political system to the next. Although democracies obviously allow a wider array of participants than dictatorships, in nearly any system foreign policy making is a multistranded tug of war among different and often diametrically opposed experts, institutions, interest groups, and public opinions and emotions. There are as many policymakers as there are individuals and groups interested in a particular issue and empowered to participate, either directly or indirectly. Power among participants is inevitably imbalanced, with some individuals and groups more influential than others.

It is perhaps more accurate to speak of a nation's foreign "policies" than "policy," and most nations do have a broad set of national goals and strategies that guide the formulation of specific policies affecting specific issues. For instance, America's foreign policies from 1947 through 1991 generally operated under the rubric of "containment." The foreign policy ends of many Third World states are development and nonalignment, although the means to attain those ends vary considerably.

A nation's foreign policy includes the specific goals that leaders pursue in the global system, the values that shape those goals, and the means by which those goals are achieved. In this chapter we explore the concept of national interests upon which governments base their policies, some flawed foreign policy models, the application of three of those models to the Cuban Missile crisis, and, finally, the "level of analysis matrix that provides an understanding of how any foreign policy of any time, place, and issue can be made.[1]

## National Interests: Ends, Means, and Theories

Why do governments do the things they do? Why do they often not do other things they seemingly could do? The answer is usually "national interests." Governments follow policies that they believe protect or enhance their nation's interests. When Winston Churchill was asked for an explanation of Soviet behavior, he replied: "I cannot forecast to you the action of Russia. It is a riddle wrapped in a mystery inside an enigma; but perhaps there is a key. That key is Russian national interests."

National interests are quoted to justify virtually every act of state, from generosity to genocide. And, of course, some states follow policies that, we realize in retrospect, undermined rather than enhanced national interests. The imperialism of Germany, Japan, and Italy during the 1930s and 1940s, Iraq's invasion of Kuwait in August 1990, and America's wars in Vietnam during the 1960s and Iraq from 2003 were justified by the leaders of those countries as being in the nation's interests. But those wars ultimately damaged rather than enhanced those interests. In evaluating a nation's policies, the first rule is that they should be doable. Paul Kennedy's *Rise and Fall of the Great Powers* shows how great powers eventually declined because their ambitions—their declared national interests—exceeded their abilities.[2]

All states share some common interests—political independence, economic development, cultural preservation, environmental protection, and peace. The most obvious national interest is self-preservation, and the greatest threat to that fundamental interest is an enemy invasion. Globalization, however, is rendering that threat nonexistent for ever more countries and remote for the rest.

Other national interests are less concrete. Governments often pursue policies that enhance national prestige or the envious recognition by other states of one's economic, social, political, technological, military, and/or cultural achievements. That "interest" is particularly difficult to measure, and its achievement may well conflict with other more concrete national interests. For example, in the interests of national prestige, many developing and smaller nations have their own national airlines even though most lose money. The U.S. space station and shuttle program will cost taxpayers about $200 billion over their lifetime, a sum that will never pay off economically. Unmanned space probes would discover far more about the heavens at a fraction of the cost. Yet the program's advocates claim that the prestige is priceless.

Who defines the nation's interests? The answer varies from one country and time to the next. A nation's interests are rarely clearly defined and are often hotly debated. National interests may be articulated by a dictator, a council of experts, or by the struggle among politicians, bureaucracies, interest groups, and public opinion.

In democratic countries, one political party's definition of national interests may differ markedly from its rivals, and thus foreign policy may shift with each change in leadership. In Israel, the conservative Likud Party initially opposed and the liberal Labor Party supported trading land for peace with the Palestinians. Both parties claim that their policies best safeguarded Israel's interests. Various circumstances may allow a political party in power either to fulfill or turn its back on its principles. The Labor Party signed the 1993 Oslo Accord with the Palestinians, which granted the latter increased autonomy in the West Bank and Gaza Strip. When the Likud Party returned to power it was legally bound to fulfill what it had fiercely denounced. Though it threatened to tear up the Oslo accord, the pressure of Israeli public opinion and the White House eventually forced the Israeli government to sign the 1998 Wye Accord, which granted even more autonomy to the Palestinians.

National interests are often defined by "interest groups," and the policies followed to achieve those special interests often largely benefit those groups. In the United States it was once said that "as GM goes so goes the nation," meaning that as long as GM prospered, the country would too. Washington twice bailed out the automobile industry from imminent collapse. In 1982, the Reagan administration cut a deal with Tokyo that put a quota on the number of automobiles that it could sell in the United States. In 2009, the Obama administration gave GM and Chrysler tens of billions of dollars to prevent them from declaring bankruptcy.

How important is ideology in shaping a nation's foreign policy? Ideology often takes a backseat to other national concerns. During the Cold War the United States and Soviet Union frequently proclaimed that their policies were based on their nations' ideals—liberal democracy and communism, respectively. However, neither country allowed its principles to interfere when other more concrete national interests appeared to be threatened. The United States turned its back on its own democratic ideals by supporting dozens of brutal anticommunist dictators around the world, and some administrations even suppressed dissenting political groups and information in the United States. Despite its ideal of communist party solidarity and self-proclaimed leadership of the global communist movement, the Soviet Union maintained close relations with governments like Iran, Egypt, and Iraq, which purged their local communist parties.

Nonetheless, ideology is often used to justify a particular policy. The first Bush administration argued that its wars against Panama's President Manuel Noriega and Iraq's President Saddam Hussein were democratic crusades against vicious dictators. Opponents countered that much less idealistic interests were at stake—Bush's virility in the Panama War and oil in the Persian Gulf War. In fact, the United States went to war in both countries for far more complex reasons than either its advocates or opponents argued.

Often what is important is not whether ideology guides policy in an objective sense. Instead, the belief that one's actions are based on the highest principles can be an enormous source of power. Idealism can allow a leader and his followers to cast aside the moral ambiguities and compromises that accompany most political decisions. Decisive action is more likely when a leader believes that he is acting on principle, and more importantly, is able to convince the political establishment and public that together they are embarked on a crusade to protect or expand their national ideals. Of course, ideological fervor can be a double-edged sword; it can lead to defeat and sometimes outright ruin as the Germans and Japanese, for example, discovered in 1945.

The debate over national interests is unresolved. Some argue that national interests are ultimately subjective, defined by the interests, prejudices, and perceptions of each individual or group with a stake in the issue, and that policy results from the struggle among these different parochial interests. Others believe that while perceptions of national interests may vary among interest groups, there is both an objective set of general national interests that all countries share such as political economic development and security from invasion, along with a set of specific interests for each country. If every nation has a set of interests, then there should be a clear set of policies that best protects those interests. The first view insists that politics shapes policy, and thus national interests are whatever the power balance or imbalance of parochial interests say they are; the second view acknowledges the truth of that while arguing there are objective ways to define and promote a nation's interests, and accordingly evaluate the relative success or failure of a nation's policies. Which view makes the most sense to you?

A perennial question is how and why governments pursue certain policies and reject or do not even consider others. Analysts are deeply divided over this basic question, and have presented different models or theories to explain foreign policy behavior. Though each model is provocative, they all fall short of providing an adequate understanding of the diversity and complexity of foreign policy making.

The "power balance" or "neorealist" explanation sees foreign policy as essentially shaped by one's relative power within the international system.[3] States are monolithic actors that simply react to shifts in the regional or global power balance. Domestic politics plays no significant role in shaping foreign policy. Democratic or authoritarian, communist or capitalist, the state's internal organization, ideology, and leaders are irrelevant in explaining why states do the things they do. The only important factor is the constantly shifting imbalance of power. States constantly try to increase their own power and offset the rising power of others in the international system. The behavior or policies of states thus change with shifts in the international power balance. The human beings who make foreign policy decisions are assumed to be "rational," have access to enough information to make rational decisions, and then choose the option that best advances their nation's interests within the prevailing power balance. The neorealist perspective is both an explanation and strategy for state behavior.

Hans Morgenthau offered three criteria to guide rational policymaking. First, policymakers should determine just what kind of issue is at stake—whether it involved the nation's physical safety, material well-being, political independence, and/or national cohesion. Second, they should distinguish between that issue's relative importance over the short- and long-term, in which the latter should take precedence. Finally, they should figure out whether the issue is of primary or secondary importance to the country over both the short- and long-term in relation to all other current issues. Few, if any, governments appear to follow those guidelines.

The reason is that the "realist" view of global politics is unrealistic. Although policymakers do consciously attempt to rationally make decisions, they can rarely do so. Real policymaking is not a rational process nor are states unitary actors. They are composed of very flawed people and institutions that are incapable of gathering and processing the information vital for every decision, and then rationally making and implementing the best decision for a given situation. Policymakers and institutions are forced daily to make dozens of important and routine decisions, and rarely have the time, information, or ability to rationally evaluate the options. And even when policymakers make a rational decision, they often lack the power to implement that policy as they wish. As Henry Kissinger put it, policymakers "are locked in an endless battle in which the urgent constantly gains on the important. The public life of every political figure is a continual struggle to rescue an element of choice from the pressure of circumstances."[4] Ted Sorensen, one of President Kennedy's key advisors, explained that "Each step cannot be taken in order. The facts may be in doubt or dispute. Several policies, all good, may conflict. Stated goals may be imprecise. There may be many interpretations of what is right, what is possible, and what is in the national interest."[5]

Yet another weakness of neorealism is how it conceives the balance of power and how that affects decision making. Stephen Walt explains that leaders respond not to an imbalance of power but to an imbalance of threats. In other words, just because there is a power imbalance between two states, it does not mean the stronger will automatically try to conquer the weaker. Most states are content with the status quo or the international system as it is no matter how power is distributed. Aggressive states are relatively rare and are explained mostly by the unique characteristics of the individuals, ideologies, and interest groups within that state, the very forces that so-called neorealist theorists refuse to acknowledge.[6]

While neorealist theory offers a strategy for governments, it cannot explain why states do not always or even usually follow the dictates of power politics. For instance, according to realist theory, Britain and France should have intervened against Hitler in 1936 when German troops marched into the demilitarized Rhineland rather than wait until Poland was attacked in 1939. Realist theory can only point out that Britain and France should have intervened, it cannot explain why they did not.

Another explanation of foreign policy is that states hold either a "status quo" or "revisionist" orientation toward the world, and act accordingly. While all states strive to protect their national interests, most are content with the international status quo and their place in it. War is caused by a few trouble-makers who try to revise the power balance in their favor. During the 1930s, ambitious, authoritarian governments in Japan, Germany, and Italy sought to expand their power and carve out huge empires in Europe, the Middle East, and Asia. At first, hobbled by an isolationist public, the status quo powers watched helplessly as Japanese, Italian, and German armies conquered one state after another. Eventually, however, the status quo states went to war—France and Britain after Germany attacked Poland, and the Soviet Union and the United States after they were directly attacked by Germany and Japan, respectively.

What causes a nation to be revisionist or status quo? Some argue that a nation's ideology is the most important factor, that democratic states are naturally peace-loving while authoritarian or revolutionary states are inherently aggressive. According to George Kennan, a "democracy is peace-loving. It does not like to go to war. It is slow to rise to provocation. When it has once been provoked to the point where it must grasp the sword, it does not easily forgive its adversary for having produced this situation. The fact of the provocation then becomes itself the issue. Democracy fights in anger—it fights for the very reason that it was forced to go to war. It fights to punish the power that was rash enough and hostile enough to provoke it—to teach that power a lesson it will not forget, to prevent the thing from happening again. Such a war must be carried to the bitter end."[7] All that may be true in many cases, but being democratic did not prevent Britain and the United States from pursuing their own imperialist policies.

Revolutionary states are naturally aggressive—they seek a "revolution without borders" in which their ideology is imposed everywhere. Revolutionary France, the Soviet Union, and Iran all dispatched their agents to foment turmoil elsewhere. Eventually, though, the fires of revolutionary passion burn out and the revisionist state becomes a status quo state. Vladimir Lenin, for instance, insisted for the revolution to succeed in Russia, it had to succeed everywhere. To that end he created in 1918 the Communist International (Comintern) as a secret organization dedicated to provoking revolutions abroad. By the late 1920s, however, the failure of communist revolutions elsewhere and growing problems at home caused Joseph Stalin to shift to a "socialism in one state" policy. In 1956, Moscow adopted a policy of "peaceful coexistence" in which war between communist and capitalist countries was not inevitable, and in fact both systems could exist peacefully alongside each other as the capitalist countries slowly crumbled and were transformed into communism. That, however, did not stop Moscow from trying to initiate revolutions throughout the Third World. Other revolutions have experienced similar transformations. The French were exhausted by a decade of revolution and eagerly accepted Napoleon's dictatorship in 1799, although that did not inhibit the emperor from attempting to conquer Europe. Some revolutionary movements take longer to subside than others. Iran's leaders remain fiercely committed to their dream of inspiring similar Islamist revolutions elsewhere even though three decades have passed since they took power and are facing ever more opposition at home.

Like the neorealist model, the "revisionist/status quo" foreign policy model is limited. Few states in history have been so revisionist that they sought to overthrow and transform the international system. Yet virtually all states are revisionist in the sense that they want things from each other that over time will change the international status quo. At times, governments believe that their interests in a conflict are worth going to war to protect or enhance. Some wars lead to sweeping changes in the distribution of wealth and power among states.

Do leaders make history or does history make leaders? Is history simply the sum of countless decisions made by unique, ambitious, powerful individuals, or do leaders, even the seemingly mightiest, operate under enormous political constraints? Some argue that the character of those in power is decisive in shaping a nation's foreign policy. Leaders constantly face choices. Their decisions reflect a complex mix of their personality, intelligence, knowledge, worldview, fears, ambitions, opportunities, and constraints. Because each person is unique, different individuals will make different decisions in similar circumstances. Contrast the conflicting positions of British Prime Minister Neville Chamberlain and Winston Churchill to Adolf Hitler's rise.

During the Czechoslovakian crisis of 1938, while Churchill advocated a strong British response, Chamberlain remarked: "How horrible, fantastic, incredible it is that we should be digging trenches and trying on gas-masks here because of a quarrel in a faraway country between people of which we know nothing!"[8] And what would have been the fate of Germany and the world had Hitler been killed rather than spared during World War I?

Although appealing, what is often called the "great man explanation" is flawed. Clearly great leaders do at times matter. Try to imagine the twentieth century without the birth of Lenin, Mao, or Hitler. Of all the countless decisions made by a succession of national leaders, few dramatically change that nation's direction. We will, of course, never know how different leaders would have responded to the same situation. But every leader, even those with the most sweeping dictatorial powers, faces both domestic and international constraints. A leader is only as powerful in international relations as his nation.

The "neoliberal" or "interdependence explanation" combines elements of international and national perspectives, and maintains that growing ties between states and democracy within states will bind them to the point where power politics becomes nearly impossible. Global politics will increasingly be shaped by shared interests and negotiation rather than force. Cordell Hull succinctly captured this internationalist perspective, although ironically he wrote it during the Cold War's early years: "there will no longer be need for spheres of influence, for alliances, balance of power, or any other of the special arrangements through which, in the unhappy past, the nations strove to safeguard their security or promote their interests."[9]

Clearly the world is becoming more economically interdependent and ever more states within the global system are becoming democratic. Yet these trends do not erase the reality that every state has different interests and potential power to defend or enhance those interests. Conflicts between states may well increase with interdependence, even if they are settled with diplomacy rather than force. The neoliberal explanation cannot explain why states follow such different policies.

## Policy Making, Crisis Management, and the Cuban Missile Crisis

"Crisis management" is a special type of policymaking. An international crisis is any unanticipated situation in which vital national interests are threatened, with little time to decide what to do. The time constraints and high stakes limit those involved in decision making to a small group of advisors around the leader. Usually neither side wants to go to war but they are willing to go to war's brink in order to win their particular interest, which might be just not looking weak. States in a crisis play a game of "chicken" or "brinksmanship" in which they escalate the conflict and the chance of violence until the other side gives way and yields concessions.

No book better explores crisis management than *Essence of Decision* by Graham Allison and Philip Zelikow. The book's title was inspired by this quote by John Kennedy: "The Essence of ultimate decision remains impenetrable to the observer—often indeed to the decider himself...There will always be the dark and tangled stretches in the decision-making process—mysterious even to those who may be most intimately involved."[10]

Although knowing everything about how leaders make a decision may be impossible, Allison and Zelikow show that we can understand a decision's essence with enough information and the proper methods of analysis. The authors study a foreign policy in which Kennedy himself was the central actor—the Cuban missile crisis of October 1962. There is no lack of information on that crisis—after the Cold War ended, the Americans and Soviets released most of their documents on the crisis while many of the participants remained not alive but explained their perspectives and behavior through conferences and books. To make sense of all that information, Allison and Zelikow apply not one but three methodologies—the Rational Choice, Organizational Behavior, and Government Politics Models.

The "Rational Choice Model" shares the same assumptions about human nature, states, and international politics as Neorealist Theory. People are naturally greedy and aggressive. Politics results from the conflict among individuals and groups as they struggle to take or defend wealth and power. People are not only rational in pursuing their goals, but also have enough information and time to make a purely rational choice. Thus anyone with the same information in the same situation will make the same decisions. Any differences in the personalities, worldviews, and roles of the decision makers or the composition and ideology of the states do not matter. As Kenneth Waltz put it, states are "unitary actors" or "black boxes" that "at a minimum, seek their own preservation, and, at a maximum, drive for universal domination."[11] The only important force in politics is the unequal distribution of power that determines in a conflict not only who will be the aggressor or defender but also their respective strategies. "Game theory" adherents claim to prove all that through their laboratory experiments with people.[12]

The "Organizational Behavior Model" assumes that every government is composed of an array of specialized organizations, each with its own duties, budget, and personnel to deal with specific problems. Officially every bureaucracy collects and analyzes information, manages problems, and implements decisions handed down from those above. To deal with different types of problems, organizations arm themselves with appropriate "standard operating procedures" (SOP) or preexisting plans. Trouble can arise if the SOP does not really fit the problem or a leader asks an organization to do something for which it lacks a SOP or skills. The result may be that the mission is done wrong or not at all. Unofficially each organization acts like an interest group that competes to get more money, people, duties, and prestige. To that end, organizations are inclined to provide information to leaders and implement decisions in a way that benefits themselves. So organizations like governments behave rationally. The trouble comes when organizations behave rationally in ways that conflict with each other and thwart what the government's leader intended.[13]

According to the "Government Politics Model," policies are the result of multistranded tugs of war among the key individuals and institutions with overlapping duties for an issue. Each policy has its distinct constellation of players. Deciding what to do in a crisis is usually limited to the country's leader and his or her key advisors. The stands of key advisors depend on where each sits (position) in the system modified by his or her unique values and experiences (outlook). The more controversial and pressing an issue, the more likely it will be handled by higher ranking officials who are more sensitive to the decision's political implications. One insurmountable obstacle to getting things done is that overworked core policymakers can deal with only a few issues at any one time. Most problems are managed by the appropriate bureaucracies. The more technical an issue, the more likely lower ranking specialists will tackle it. Sometimes a charismatic individual skilled at bureaucratic politics can play the system to take a neglected issue or option higher up the policy agenda and at times even center stage. Those "policy entrepreneurs" can emerge either from within the formal government or from elsewhere in the broader political system such as an interest group, political party, or very rich and determined person. They succeed by spotlighting the issue's urgency and mobilizing other key players behind its resolution.

Thus the Government Politics Model partly embraces the Organizational Behavior Model's insight that each institution has its own duties, many of which overlap with those of others, while each is driven to compete with all others for more money, missions, personnel, and prestige. Yet the

Government Politics Model modifies that with the reality that individuals are no mere puppets of their institutions. An official's stand on an issue can just as much reflect his or her unique set of ambitions, values, and/or ethics, with the leeway to do so rising with his or her rank and political skills. A political appointee will have far more freedom of action than a career bureaucrat. Yet appointees come and go with the fate of ruling parties, while career bureaucrats endure. So the appointees may have more initial power to push a position while the careerists enjoy more power later in the game when they are charged with implementing the decision.[14]

So how did Allison and Zelikow apply those models to the Cuban missile crisis? What happened is clear enough. Fidel Castro led a revolution that took over Cuba on January 1, 1959. Within a year he declared himself a communist, nationalized American investments in Cuba, and allied with the Soviet Union. Washington responded with an economic embargo and not so secret an attempt to sabotage the regime and assassinate Castro. That policy climaxed with an invasion by American trained Cuban exiles at the Bay of Pigs in April 1961. Although the communists destroyed the invaders, the fear lingered of another invasion, perhaps by the American military itself. The following year, Soviet premier Nikita Khrushchev and Castro decided to secretly install nuclear missiles in Cuba. The Kennedy administration did not find out about that scheme until October 14, 1962, when the missile sites were nearing completion. Over the next two weeks, the American president, Soviet premier, and their respective advisors engaged in a crisis diplomacy of threats and offers that brought both nations and much of humanity to the brink of a nuclear holocaust.

Although that much is undisputed, analysts and participants still debate some key questions: Why did Khrushchev decide to put missiles in Cuba and why did he eventually decide to take them out? Why did Kennedy and his advisors, a group known as the Executive Committee or Ex-Com, decide to do what they did to pressure Khrushchev to withdraw the missiles? What lessons, if any, does the study of the Cuban missile crisis teach us about decision making, especially during a crisis? The application of each model to the crisis gives us a different perspective on those questions.

The Rational Choice Model concludes that everything either side did was perfectly predictable. The Kremlin put missiles in Cuba to deter and if necessary defeat a possible American invasion, help redress the imbalance of nuclear power that then favored the United States, and use those missiles and Soviet troops as a bargaining chip to trade for the North Atlantic Treaty Organization's (NATO) withdrawal from West Berlin. Likewise, Kennedy's Executive Committee reacted to the discovery in the most rational way by imposing a naval blockade backed by the threat of invasion while negotiating a deal in which the Soviets would withdraw the missiles in return for a public pledge by the White House that it would not invade Cuba and a secret promise to withdraw missiles from Turkey. That avoided war and allowed each side to claim victory. In doing so, Kennedy and his advisors considered and rejected strategies that would have harmed American interests—either doing nothing or launching air strikes followed by an invasion. Critics and proponents of other models point out that, contrary to their claims, Rational Choice adherents fail to explain those key questions because they have either distorted or avoided critical information that contradicts the model's assumptions.

The Organizational Behavior Model succeeds where Rational fails in explaining some key decisions that contradict assumptions of perfect rationality. Why, for instances, did the United States maintain obsolete Jupiter missiles in Turkey despite Kennedy's orders to remove them even before the crisis erupted? Why did the Soviets not get around to camouflaging their missile sites until after the Americans discovered them? Why did the Kremlin fail to inform the White House that it had tactical nuclear weapons capable of destroying an invasion force even though that arsenal's purpose was to deter just such an attack? Why did the Soviets shoot down an American U-2 spy plane or the American navy use depth charges to force Soviet submarines to the surface despite the frantic efforts of both Kennedy and Khrushchev to avoid any provocations that could escalate the crisis? All those and other anomalies from rational choice assumptions are explained by autonomous organizations acting as they always do and often defiant of orders from above. The decision to use a blockade rather than air strike had much to do with the navy's promise to accomplish that mission and the air force's warning that bombing could at best destroy 90 percent of the missiles.

The Government Politics Model offers the most comprehensive understanding of the Cuban missile crisis by detailing the duties, powers, psychologies, and often shifting positions of each key player in the White House and Kremlin. It also provides the broader political context with which the policymakers were embedded. The political pressures and freedom of action were far greater for Kennedy's Executive Committee than Khrushchev's presidium. Not surprisingly, those differences are explained by the diametrically opposed political systems that the president and premier headed, a liberal democracy versus a communist dictatorship. The actions of a few men within Ex Com were decisive in shaping when and how the crisis was resolved.

John Kennedy himself may have inadvertently encouraged the crisis. Khrushchev saw the president as a weak leader for the Bay of Pigs disaster in April 1961 and wobbly performance during their summit at Vienna in June 1961. He dared to put missiles in Cuba because he believed he could get away with it. Kennedy knew how Khrushchev viewed him and was determined to prove he could be tough and decisive. And indeed he displayed outstanding leadership throughout the Cuban missile crisis as he remained rational, intelligent, calm, and creative despite the enormous pressures. Clearly his essential goal was to avert a nuclear holocaust. But he feared that mishandling the crisis would cost the Democrats their control of Congress in the upcoming elections while he would lose the presidency through impeachment.

John McCone, the Central Intelligence Agency (CIA) chief, was also a key player. What would have happened had he not persisted in acting on a purely gut feeling that the Soviets were trying to sneak missiles into Cuba? As early as August 28, he got the president and other advisors to discuss various options for how to respond to Moscow if his instincts were proved to be correct. Yet bureaucratic politics resisted his efforts to authorize U-2 flights over Cuba until October 9. Five days later aerial photographs were developed, which revealed the missile sites. Allison and Zelikow point out that the "discovery of the missiles two weeks earlier or two weeks later could have made a significant difference in the outcome of the crisis."[15]

The perceived immorality of launching a "sneak attack" on the missile sites caused George Ball, Robert Kennedy, and Dean Rusk to talk the rest of the Executive Committee out of their early enthusiastic embrace of that policy. Had the Americans struck first, the Soviets would most likely have retaliated against Berlin, and then the crisis would have escalated out of control into a nuclear war with 100 million dead on either side. It was Robert Kennedy who eventually forged a consensus for the blockade and cut the final deal with Russian ambassador Anatoly Dobrynin whereby the Kremlin withdrew missiles from Cuba in return for the White House's public promise not to invade Cuba and private promise to withdraw missiles from Turkey. Yet, in the end, Khrushchev backed off not because of the blockade but because he feared an imminent strike against the missile sites.

Those are just a few of the insights offered by the Government Politics Model that go far beyond the scope of the two other models. Allison and Zelikow conclude that the Rational Choice and Organizational Behavior Models are inadequate for accurately analyzing a policy. Indeed the authors dismiss the Rational attempts "to explain state behavior by system-level or external factors alone."[16] Only the Government Politics Model approaches the sophistication essential for making sense of the complexities of policymaking. Yet, ultimately, no one model is enough. Analysts must use as appropriate the best elements of all possible models and then fill in the inevitable gaps with their own reasoning.

## The Level of Analysis Matrix

The level of analysis matrix incorporates the best aspects of the various models into one analytical framework. The matrix acknowledges that while the real world is too complex to be reduced to a few simple axioms or patterns, countries share some elements of foreign policymaking. In every sovereign state, there is a head of government who is responsible for making decisions. Yet the popular belief that a leader makes decisions after carefully and rationally weighing the alternatives is inaccurate. A leader's decision depends on and is shaped by five complex interrelated systems:

1. Leader's Psychological System—personality, character, intelligence, knowledge, experiences, aptitudes, interests, ethics, and worldview;
2. Decision-Making System—the leader's core group of advisors, and their respective psychological systems;
3. Political System—impact of relevant ministries, political parties, interest groups, mass media, and public opinion;
4. National System—the nation's history, traditions, ideology, and culture related to the immediate issue and similar issues, and the potential hard and soft power that can be mobilized in conflicts;
5. International System—the effects of the first four systems in all states involved in that issue and the subsequent power distribution.

These different levels interact with one another as parts of the country's policymaking system, although their relative importance differs from one policy to the next and often from one time to the next on the same issue. To examine the same decision from each different perspective would result in five different answers to the basic question of why the government acted as it did.

### *Leader's Psychological System*

Why do smart people often make stupid choices? Two major schools of psychology explore how a leader's personality, character, and worldview affect his policies.[17] The "psychoanalytic school" assumes that childhood development is the most important force shaping how people later perceive and act. The "cognitive school" emphasizes the difficulties people have in gathering and analyzing information, and then applying what they believe they know to decisions, especially in stressful circumstances.

Both schools share the view that each of us perceives reality differently and none of us as it really is. The reason is simple—our emotions, values, and aspirations invariably overpower and distort whatever strengths of reasoning, intelligence, and information each of us brings to a situation. Thus, rather than objectively understand the world as it is, we subjectively misperceive it in often very unique ways.

Why is that? Every second we are bombarded with thousands of bits of sensual and cognitive information of which we must somehow make sense. It is impossible to understand this shifting world directly in its infinite complexity and ambiguity. Instead, we use mental maps or belief systems to screen out most of this flood of incoming information while clinging to key elements. What actually happens is often not as important as what we believe has, is, and will happen. Kenneth Boulding wrote that we do not "respond to the 'objective' facts of the situation ... but to [our] image of the situation. It is what we think the world is like, not what it is really like, that determines our behavior ... we act according to the way the world appears to us, not necessarily according to the way it 'is.'"[18] In other words, "facts" do not exist until we create them.

If all that is true, then how rational are our choices? Most people would reply that while psychology might affect the choices of others, their own choices are nearly always rational. Who does not usually weigh the costs and benefits of various options before making a decision? Yet our minds are more complex and paradoxical than they seem. What appears to be a rational choice might reflect perceptions and emotions that are anything but rational. Rationalizing a decision may be quite distinct from making a rational decision. Often we first choose and rationalize that choice later. Or we make a decision from within a very narrow world of information, a process known as "bounded rationality."[19] One psychologist summed up the problem: "People are crippled rationalists wanting to make rational decisions but constrained by their own psychology; by their emotions and cognitive processes."[20] Thus, if you want to understand why someone did something, you must first analyze that person's psychology before analyzing his rationale for doing so.

Each person makes different decisions differently, using, say, "grooved" or stereotyped thinking in one instance, "uncommitted" or open-minded thinking in the next, and "theoretical" or abstract thinking" in the third.[21] The relative freedom of action varies with one's rank within an institution. Decisions are invariably also shaped by biases, wishful thinking, fatigue, ignorance, stress, pressure from others, fear, pride, hope, overconfidence, and/or underconfidence.

Policymakers are no less prisoners of their respective mental maps of reality than anyone else. Every leader has an "operational code" or system of "general beliefs about fundamental issues of history and central questions of politics."[22] A leader's operational code gives him a means of evaluating information and problems, and making choices about them.

Some people are open to new ways of understanding the world. All too many others reject information that conflicts with their belief system, a process known as "cognitive dissonance." A classic decision-making study owed that Secretary of State John Foster Dulles interpreted and acted on all Soviet actions through his passionate belief that communism was a ruthless, godless system single-mindedly dedicated to world conquest and thus communists could never be trusted and no deals could be negotiated with them.[23] American presidents tend to fall into two broad approaches to policy. Theodore Roosevelt, Franklin Roosevelt, Harry Truman, Richard Nixon, and Bill Clinton were "pragmatists" and problem solvers who tried to understand the complexities of the issues and then pursed the policy that best promoted concrete American interests. Woodrow Wilson, Jimmy Carter, Ronald Reagan, and George W. Bush were "crusaders" who grounded their policies upon their respective ideologies regardless of whether those ideals had any relationship to the real world.

Mental maps are formed by many forces, a process known as "socialization." From birth, an individual's worldview is shaped by a succession of interrelated environments, of which the family is the first and most important. Key events in a person's life also shape his or her outlook. Generals and politicians alike often prepare psychologically and militarily for the last war, rather than carefully analyze and prepare for current and future challenges.

Throughout the Cold War, American presidents continually compared the Soviet threat with previous German and Japanese expansion. They were particularly sensitive to being accused of "appeasing" the Soviets like Chamberlain had appeased Hitler during their meeting at Munich in 1938 by granting him the Sudetenland region of Czechoslovakia. For instance, President Johnson justified his escalation of America's involvement in Vietnam by arguing: "Everything I knew about history told me that if I got out of Vietnam . . . then I'd be doing exactly what Chamberlain did in World War II. I'd be giving a big fat reward to aggression . . . And so would begin World War III."[23]

Those in a conflict are often trapped in a vicious cycle of misperceptions and corresponding actions. While both sides may have originally intended to remain defensive, they interpret the other side's action as belligerent and thus respond similarly. "Mirror image" occurs when opponents view the other's actions as malevolent and aggressive and their own actions as benevolent and defensive. A related concept is "projection" or the tendency of people in a conflict to project their own worst faults onto others rather than understand and try to eliminate them from themselves, although at times one's best attributes can be projected as well. Mirror image and projection characterized the Cold War psychology between the United States and Soviet Union, in which each described the other in similar terms and in doing so inadvertently revealed much about its own failings. Those mind-sets made agreements difficult and reconciliation virtually impossible. President Jimmy Carter once said: "The hardest thing for Americans to understand is that they are not better than other people."[24] He might have added that it was equally difficult for Americans during the Cold War to perceive the Soviet Union as anything other than an evil empire bent on world conquest.

There is a tendency to believe that one's rival is united behind a master plan in which the immediate issue is just the latest step in a carefully choreographed progression toward ultimate victory, while seeing one's own country as largely divided, weak, and defensive. As Kissinger put it, "The superpowers often behave like two heavily armed blind men feeling their way around a room, each believing himself in mortal peril from the other whom he assumes to have perfect vision... Each tends to ascribe to the other a consistency, foresight, and coherence that its own experience belies."[25]

A leader's physical and mental health combines with his ego and ambition to shape the ways in which he evaluates and decides policies. President Woodrow Wilson suffered a stroke during the Versailles Peace Conference and another when he tried to get the Senate to ratify the subsequent treaty, which may have strongly affected his negotiating abilities with the foreign and Senate leaders. President Franklin Roosevelt was only two months away from his death when he attended the Yalta Conference with Stalin and Churchill in February 1945; many argue that with his weakness he made unnecessary concessions to the Soviet Union in East Europe. A superinflated ego and ambition may be as self-defeating as a weak body and mind. Megalomaniacs like Adolf Hitler and Saddam Hussein are inclined to embark their countries on aggressive wars against their neighbors, even when a rational analysis might show a significant chance of ultimate failure.

The trouble with the psychological approach is not its assumptions but the accessibility of its subjects. A psychoanalyst can spend years with a patient and yet still not fully understand him. Imagine how much more difficult it is to make sense of someone when essential information is missing or conflicting. Yet there is no alternative. The CIA and other intelligence agencies devote enormous efforts to providing psychological profiles of foreign leaders so that their own leaders can make rational (bounded) decisions.

### *Decision-Making System*

The leader's psychology alone does not explain foreign policy. How we perceive and behave depends greatly upon who we are along with who we are with and what group or organization we might represent. The mix of a leader's immediate advisors and ministry heads have a profound impact on policy. Leaders vary considerably in the advisors they choose. Some leaders like Barack Obama choose advisors who are foreign policy experts who challenge their own views and provide alternatives. Many leaders like George W. Bush spurn experts for those who share their ideology, and thus mirror rather than challenge their assumptions and perspectives.

Groups can become just as mired in a narrow view of reality as can individuals, a phenomenon known as "group think."[26] A lack of time, information, and imagination combined with one or more domineering players can result in a swift consensus over the problem's nature and subsequent "solution." Those with alternative views are intimidated from expressing them with such clichés as "be a team player," "don't rock the boat," or "you've got to go along to get along." Those who do dissent are often left out of the "policy loop" by the other policymakers, as Defense Secretary Robert McNamara was during the Vietnam War when he began to express doubts over the Johnson administration's policies or as Secretary of State Cyrus Vance was during the Iranian hostage crisis when he objected to the Carter plans for a rescue attempt. More recently, President Bush and his fellow neoconservatives shunned Secretary of State Colin Powell and CIA head George Tenet when they questioned the claims that Iraq held weapons of mass destruction—which posed an imminent threat to the United States—or close ties with Al Qaeda, or was behind September 11; eventually Powell and Tenet gave in and were reaccepted into the Bush team's inner policy circle. Environmental Protection Agency (EPA) head Christine Whitman had the same experience of excommunication followed by conversion and reacceptance over Bush's rejection of the Global Warming Treaty.

Conformity is particularly common in a crisis, which combines limited information and time with crucial stakes. Leaders and advisors tend to embrace stereotypes to "understand" the situation and politically or ideologically "correct" measures to deal with it. For example, the Carter administration decided to attempt the rescue of American hostages held by Iran despite the mission commander's belief that the chance of success was virtually nil, and the CIA's assessment that at least 60 percent of the hostages would be killed.

Group think does not affect most policies. Whether the advisor was chosen to be a "yes man" or "devil's advocate," his positions often reflect the ministry or agency he represents, thus following the maxim that "where you stand depends on where you sit." Nonetheless, there are always exceptions to this "bureaucratic politics" rule. Advisors quickly learn how to best pitch an idea to their leader. Some leaders are known for following the advice of the last person they talked to, so advisors scramble to be last in line. With his limited attention span, knowledge, and intellect, President Ronald Reagan was particularly susceptible to colorful one-page synopses or even short films on complex issues, so his advisors tried to make their presentations as Hollywoodish as possible. Likewise, George W. Bush rejected in-depth analyses by the CIA and State Department of the complexities, ambiguities, paradoxes, and often contradictions of global issues for simplistic black and white, good guy versus bad guy neoconservative caricatures of a problem and what should be done to "solve" it.

### *Political System*

To truly understand a government's decisions, the analyst must explore the endless maze of a state's political system. Each state has its own distinct system. Generally speaking, democracies and dictatorships have significantly different policymaking processes. But policymaking clearly differs among democratic countries, and among authoritarian countries. The number of groups that affect policy are obviously far more numerous in a liberal democracy than in a communist dictatorship. Yet even in totalitarian systems like the Soviet Union under Stalin, there were distinct interest groups involving heavy industry, light industry, agriculture, technology and science, and the military that battled each other, albeit subtlety, for a greater share of the budget and other resources. Each issue in each system elicits a different constellation of bureaucracies, interest groups, public opinion, and, in democratic countries, political parties, and mass media.

While the leader handpicks his decision makers, he inherits an army of career bureaucrats whose primary loyalty is to themselves and then their organization. Although each bureaucracy has its own mission, they share the imperative of expanding their respective power, duties, personnel, and prestige, ideally at the expense of their rivals. Each organization in the bureaucracy is a distinct interest group with its own values and priorities. Like any other interest group, it tends to confuse its interests with national interests, and presents its narrow view to the leadership. The result in every political system is a constant, behind-the-scenes struggle among different bureaucracies over their different interests on different issues. When a bureaucracy presents options, it may package one reasonable one—the one it wants chosen—along with several unreasonable ones, while leaving out other viable alternatives.

A vital role of bureaucrats is to collect information with which to evaluate old policies and propose new ones. As information is collected and passed up through the system, some is highlighted and much discarded. Information is often provided by those below according to what they believe their superiors want to hear. The result of this filtering process for decision makers is often a narrow set of options and distorted view of the issue. That distortion becomes more pronounced when an administration sends down word that it wants only an ideologically or politically correct version that justifies a particular policy.

During the Vietnam War era, the CIA and Defense Intelligence Agency (DIA) presented the White House with very different analyses. From the conflict's earliest days the CIA warned that the war was all but unwinnable. The DIA, in contrast, issued rosy reports on Vietnam that victory was just around the corner and that with more troops, firepower, and bombing the communists would be defeated.

How could intelligence agencies draw such starkly different conclusions? Bureaucratic politics largely explains it. That war gave each branch of the military a chance for more money and missions and thus "glory" and promotions. The Navy and Air Force in particular deliberately exaggerated the effectiveness of their respective bombing campaigns, with each hoping the president would favor one branch of the military over the other. But Lyndon Johnson exacerbated that distortion when he embraced the DIA reports and shelved those from the CIA that challenged his prejudices. That encouraged key officials at different levels at the DIA to filter out any information that ran counter to what the president wanted to hear.

A similar corruption of intelligence occurred during the Reagan years when CIA analysts complained that their director William Casey "does not ask us for a review of an issue or a situation. He wants material he can use to persuade his colleagues, justify controversial policy, or expand the agency's involvement in covert action." Former CIA chief Robert Gates admitted that "during the 1980s our projections of Soviet strategic forces were clearly too high" along with assessments of Soviet economic power and how destructive high military spending was on the economy. When analysts reported that Soviet military spending was actually flat in the early 1980s, the Reagan White House furiously ordered the assessment rewritten to justify its own military buildup. The result was that the United States nearly doubled its defense spending with no discernable effect on the Soviet Union which did not try to raise its own military budget. When the Reagan administration distorted intelligence analysis with ideological fantasies, its policies damaged the United States rather than the Soviet Union. More recently CIA analysts griped that George W. Bush and his inner circle pressured them to warp their analyses to conform to the neoconservative party line on war with Iraq even though no credible information existed that Saddam was building weapons of mass destruction or conspiring with Al Qaeda. Likewise, the Bush White House censored government science reports that revealed the disastrous effects of global warming for American national interests and proposed wide-ranging policies to combat it.[27]

Yet another way bureaucracies shape decisions is when they implement them. Ronald Reagan once lamented that "one of the hardest things [about being president] is to know that down there is a permanent structure that's resisting everything you're doing." Or, as Harry Truman put it just before he handed the White House over to Dwight Eisenhower, "Poor Ike, he's used to having orders carried out and he'll sit in the Oval Office and no one will do what he wants."

While bureaucracies play an important role in policymaking everywhere, the role of political parties varies greatly from one political system to the next depending on the relative importance of a state's legislature in the system. Obviously, parties play no role in those countries in which they are outlawed, and their importance varies from one one-party state to the next. In communist countries the party and government are synonymous, although the party congress like the parliament mostly rubber stamps decisions made at the highest levels. Nonetheless, political struggles occur within the party in a tug of war among a range of ideological and personal factions. The communist parties of China and North Korea along with the former Soviet Union are known for their divisions between ideological hardliners who want to maintain the confrontation with the West and pragmatists who seek detente and economic development. In noncommunist one-party states, the party's role may be purely symbolic. The legislature's purpose is simply to ratify the executive's decisions without dissent while elsewhere the party is used to mobilize the population behind government decisions.

The role of political parties in foreign policy is often constrained even in liberal democracies. In parliamentary systems, the prime minister is chosen by the majority party or coalition of parties in the legislature. While the majority party may be divided on issues and harshly debates them, once a decision is reached the party generally votes as a bloc.

In contrast, there is little party discipline in the U.S. Congress where each representative and senator votes his or her own interests regardless of the position the party leaders try desperately to encourage. Groups of like-minded legislators representing powerful interests can have an enormous impact on policy. Because of its constitutional powers involving trade and the declaration of war, Congress tries to lead as well as follow in foreign policy. Frequently one party controls the White House and the other Congress, which can result either in consensus or deadlock depending on the issue and the president's political skills.

Interest groups actively lobby government for decisions favoring themselves. Although bureaucracies and political parties can both be considered interest groups in the broad sense of the term, lobbyists are generally thought to be composed of private citizens rather than public officials. Interest groups for business, labor, or the environment tend to be more broad based with opinions on a range of issues, while ethnic groups like Jewish-Americans or Cuban-Americans tend to focus on relations with their ancestral country.

Perhaps no country has more formal interest groups than the United States—in 2009, there were over 60,000 lobbyists registered in Washington. In America's open political system, foreign interest groups often play an important role in policy. Pat Choate's book *Agents of Influence* revealed that Japan's government and business spend over $400 million annually in the United States trying to influence laws and policies in Japan's interests.[28] In the 1970s, the "Koreagate scandal" revealed huge bribes paid by South Korean agents to politicians to swing their votes on issues affecting South Korea. In the late 1990s, Chinese agents supplied ample cash to both the Republican and Democratic parties. Many American bureaucrats resign their positions and go to work for foreign interest groups, using their understanding of and access to America's political system to great advantage for their foreign employers. Those interest groups are in an endless tug of war over American foreign policy.

To greatly varying extents, public opinion plays a role in every state's foreign policy making process. Clearly, the more democratic the country, the more leaders make decisions with one eye glued to public opinion polls. Public opinion's influence on policy, in turn, varies among democratic countries.

A study of four liberal democracies found that public opinion had the greatest impact on foreign policy in the United States followed by Germany, Japan, and France. Public opinion is not a monolithic bloc, but reflects all the divisions of that nation's political spectrum. One study identified four major public opinion groups in the United States and Western Europe, with the relative strength of each bloc varying considerably among Europeans and Americans.[29]

American public opinion is usually important only on emotional foreign policy issues of American involvement in wars, famine relief, or trade disputes that result in lost American jobs. Although, like peoples elsewhere, Americans tend to rally around the flag in crises. Yet public opinion can be contradictory and fickle. Initial overwhelming support for a war can disappear if the war appears unwinnable and the cost in treasury and blood keep rising, as President Johnson discovered in Vietnam and President Bush in Iraq. Regardless, there is a dynamic relationship between governments and public opinion, in which each shapes the other's view.

Public opinion cannot be understood without understanding the mass media's role in shaping it. That role, however, depends on whether the state, ideological groups, or journalistic standards govern the print and electronic news media. In totalitarian states, the news media simply serve as a bullhorn for the government to indoctrinate the people unquestionably to believe and support its policies. In authoritarian regimes, the government's power over the mass media is usually more subtle. Newspaper publishers or television owners are allowed a certain leeway to report the news as long as they do not reveal anything that embarrasses the government; that policy is known as "self-censorship."

In a liberal democracy, the mass media ideally are the nation's "watchdog," which expose and analyze problems in and beyond government. Journalistic standards of balanced and accurate reporting prevail. Alas, that does not always occur. In countries whose constitutions guarantee "freedom of the press," the problem is not censorship by the state but by powerful political groups whose interests or ideologies bias reporting.

In every liberal democracy, one can distinguish between the "mainstream media" that is driven by conflicting interests of professionalism and profit, and the "partisan media" that is driven by ideology. The mainstream media almost always adhere to journalistic standards of fairness and thoroughness, if only to reach the largest audience and thus make the most money, although at times stories can be distorted or outright spiked if they threaten profits. The partisan media, in contrast, are trying to sell a point of view and will deliberately slant their reporting to that end. One way the partisan media does so is by trying to intimidate or outright takeover the mainstream media, and thus convert it from society's "watchdog" into the "lapdog" of its own prejudices. Another way is to continually accuse the mainstream media of bias in hopes of enticing its rivals' viewers or readers to its version of "the truth." In a liberal democracy, public opinion is the rope in an incessant tug of war among the mainstream media, the partisan media, and those in power.

The mainstream media's ability to reach the public is difficult at any time, but becomes nearly impossible when those in power and the partisan media are allies. For instance, one-quarter of Americans persist in believing that Iraq was behind the September 11 terrorist attacks even though the mainstream media repeatedly reported that was not true. So why do so many Americans cling to that mistaken belief? The administration of George W. Bush and the partisan media, which in the United States are dominated by conservatives, were able to drown out and often shout down the mainstream media's professional reporting. But that would not have worked had not so many Americans wanted to believe those myths.

Often coalitions of bureaucrats, representatives, and interest groups form to promote their collective interests on specific issues. An example of such an "iron triangle" is the "military industrial complex" composed of the Defense Department, representatives from districts and senators from states with military bases or factories, and military contractors who together wring more money, programs, and power from the political system, regardless of whether those bases or weapons can be justified strategically. President Eisenhower coined the term "military industrial complex" in his farewell speech in 1960, and warned Americans that its continued growth imperiled democracy itself.

Iron triangles with opposing interests often check one another's power. Perhaps a more accurate way to understand policymaking is to think of "policy clusters," which, along with either iron or loose triangles, include prominent journalists and academics, segments of public opinion and mass media, policy "think tanks," and foreign interest groups affected by the issue.

### *National System*

A nation's heritage can profoundly affect its foreign policy. Culture and ideology provide a value system for evaluating present conflicts, dilemmas, and choices. History offers "lessons" from its past situations to apply to similar contemporary ones. A nation's place on the globe, development level, and natural and human resources all affect national interests and policies.

For example, many scholars have argued that Soviet foreign policy simply continued traditional Russian foreign policy which sought to expand national territory to defensible natural borders, dominate either directly or indirectly Eastern Europe, and achieve great power status and equality with the West. That policy of territorial, military, and political expansion, in turn, was shaped by the vulnerability of the Russian people on the vast steppes to foreign invasion. During Russia's 1,000-year history, it suffered over 250 invasions of various magnitudes. Different leaders have advocated different strategies for achieving those goals. Slavophiles from Ivan the Terrible to Joseph Stalin have insisted that Russia carve out a vast empire and act as the political and cultural leader of the Slavic peoples while shunning the West, . Westerners from Peter the Great to Vladimir Putin have argued that Russia can best achieve its security through adopting advanced Western technology and organization and forging good relations with the West.

History, however, is often an unreliable guide to present circumstances. The "lesson" American leaders learned from the 1930s policy toward the fascist power was that appeasement only whets the appetite of dictators for more conquests. Hence after 1945, vowing "no more Munichs," Washington refused to compromise on virtually every conflict with the Soviet Union and assumed that every Moscow move was part of some grand design to conquer the world. It can be argued that this uncompromising stance may have wrecked any chance of reconciliation and deepened Cold War animosities. In 1949, the communists overthrew the American-backed Chiang Kai-shek regime. The accusation "Who lost China?" soon reverberated through America's political system, a cry that may have influenced Presidents Kennedy and Johnson to do anything not to lose Vietnam.

People often judge others by their past rather than present behavior. For example, in the sixty years since World War II ended, Japan has developed into not only a dynamic economic superpower but also into a highly democratic nation with an excellent human rights record and mass antiwar sentiment. For East and Southeast Asians, however, memories of Japan's brutal aggression and occupation of their nations remain vivid and shape their perceptions of Japan's policies toward them and the world. That fear of Japanese domination and exploitation is an important reason why a formal East and Southeast Asian Community, patterned after the European Union or North America Free Trade Association, is unlikely to emerge soon if at all.

Ideology is important in helping define the ends and means of a nation's interests. A liberal democratic state would emphasize the importance of preserving civil rights and the democratic political process. Marxist-Leninist states would strive to achieve a centrally planned economy that would promote relative income equality and universal health, education, and retirement benefits. Countries with a revolutionary ideology like communism or Islamism often try to promote revolution elsewhere.

### *International System*

Ideally, foreign policy is a grand plan to effectively overcome foreign challenges and create or take advantage of opportunities to advance national interests. But even in the most powerful states, policymakers spend more time and energy reacting to rather than shaping international issues. Ultimately, a government's decisions on an international issue depend on the decisions of other states involved directly and indirectly on that issue. Policy is obviously shaped by a nation's power relative to that of other states involved in that international conflict. Depending on the issue, the distribution of global and regional geopolitical, and geoeconomic power profoundly effects the options a government can pursue to serve its national interests.

Kenneth Waltz pointed out that the "international structure emerges from the interactions of states and then constrains them from taking certain actions while propelling them toward others."[30] There is thus a dynamic relationship between the actions of states and the system of which they are a part. The system's parameters are determined by the distribution of power and the interests and values of the most powerful states. The system's parameters change through the countless actions of states, and the more powerful the state, the more it shapes the system. Yet the system itself constrains the range of a state's policy options, and the less powerful the state the more the system constrains it. As John Ruggie argued, the international system "becomes a force that the units may not be able to control; it constrains their behavior and interposes itself between their intentions and the outcomes of their actions."[31]

Geography can also impose both policy opportunities and constraints. The most important issues for most countries are with those across the border. Dealing with adjacent enemies becomes the central focus of a state's foreign policy. For example, Israel's foreign policy is largely shaped by the question of what to do about being a small country surrounded by hostile neighbors. Different Israeli governments have dealt with that reality by pursuing dramatically different policies of either confrontation, negotiation, or some combination of the two. To explain these differences, we must analyze the other levels of analysis.

Economic interdependence or outright dependence also constrains a nation's foreign policy. For example, because America's economy is so economically intertwined with that of Japan and China, Washington would probably never seriously retaliate against their neomercantilist policies for fear that all three countries would be plunged into a deep depression. Developing countries that depend on world currency markets or the International Monetary Fund (IMF) for finance must often promise to cut back spending, devalue their currency, and free markets in return for loans.

Perfect freedom is impossible for states in an international system just as it is for individuals within a state. Those very constraints motivate many states to try to maximize their independence within an existing state system and shift the system's rules in their favor. According to Waltz, "states seek to control what they depend on or to lessen the extent of their dependency. This . . . explains quite a bit of the behavior of states: their imperial thrusts to widen the scope of their control and their autarchic strivings toward greater self-sufficiency."[32]

## Consequences

President Kennedy once said: "Domestic policy can only defeat us, foreign policy can kill us."[33] Certainly, the foreign policy stakes for a superpower in the nuclear age are high. Yet, despite the preponderant weight of the great powers in international relations, each country's foreign policy is vital to protecting and enhancing its own respective national interests. Virtually all countries share the goals of military security, economic development, political independence, and cultural preservation. Each state varies considerably, however, in how they define these broad interests, and the means they use to achieve them.

To try to understand foreign policy is to try to understand history. Why did things happen as they did? What alternatives existed and why were they not followed? Every decision by every government is shaped by an often vastly different constellation of internal and external forces. The process by which national interests are defined is also largely the process by which they are promoted. As Waltz put it, the policies of countries "fluctuate with the changing currents of domestics, are prey to the vagaries of a shifting cast of political leaders, and are influenced by the outcome of bureaucratic struggles."[34] Invariably, we come back to the level of analysis matrix to make sense of it all.

CHAPTER 4

# Wealth, Power, and the Global Community

*International law is that which the wicked do not obey and the righteous do not enforce.*

*Abba Eban*

Globalization is fueled by not just the ever more frenzied movement of goods, services, money, information, ideas, and people. Laws, principles, and ethics may be largely invisible but they are among globalization's ever more powerful forces. And then there are the international organizations dedicated to upholding those values.

Today's world is partly knit together with tens of thousands of international laws, some 245 international governmental organizations (IGOs), and 40,000 nongovernmental international organizations (NGOs).[1] Those global forces are perhaps best expressed by the United Nations (UN) Charter that insists that human rights and peace should govern relations within and among all states. Although states vary widely over how well or poorly they live up to those principles, global politics is increasingly bound by the formal channels of international organizations, regimes, and law, which at once shape and are shaped by an array of informal economic, social, political, cultural, moral, psychological, military, and environmental ties.

## International Law

Order, not anarchy, rules the world, and international law is a vital component of that order.[2] International law has evolved with the global system and is inseparable from it. Indeed, the first international laws are nearly as old as international relations themselves. Treaties are a key source of international law, and were first negotiated and signed by ancient Egyptians, Assyrians, and Hindus, among others, several thousand years ago. In time, international law evolved beyond the legal duties of treaty signers into the ancient Roman concept of *corpus jus gentium*, or "body of international law among nations." International law today is rooted in two different legal traditions, the Roman notion of sovereign equality before a universal law and the Germanic notion of customary law.

Modern international law evolved with the modern state system. The 1648 Peace of Westphalia, which ended the Thirty Years War, began the modern era of sovereign nation-states whose relations were increasingly governed by a steadily expanding body of international customs, treaties, and principles, known then as the "law of nations." That has expanded rapidly over the centuries in response to the challenges globalization posed to international relations. There is a dynamic relationship between politics and law, in which laws emerge from attempts to resolve political conflicts and in turn shape the context in which politics take place. Although international law primarily governs relations among states (public international law), it has expanded to include international organizations, multinational corporations, and individuals (private international law).

Although few dispute international law's reality, there have been fierce debates over its inherent nature and applicability. The first legal scholars argued that international law was rooted in natural law. Although three Spanish legal scholars—Francisco de Victoria (1486–1546), Alberico Gentili (1552–1608), and Francisco Suarez (1548–1617)—laid the groundwork, the Dutchman Hugo Grotius (1583–1645) is regarded as the "father" of international law and the "naturalist school." Although Grotius agreed with the Spaniards that international law had a divine origin, in his *On the Law of War and Peace* (1625), he argued that it would exist even without God. There are some laws natural to all human beings despite the various cultures to which they belong. Human reason could break free of any cultural values and customs to discover the underlying natural laws. Samuel Pufendorf went beyond Grotius to argue that the only true laws were from nature; he denied the validity of any laws originating from treaties or custom that were not philosophically rooted in natural law.

A reaction to this view emerged during the eighteenth century when ever more theorists argued that law's origins are human rather than divine or natural, and involve consent and self-interest. The most prominent of this "positivist school" was the Dutchman, Cornelis van Bynkershoek (1673–1743). The "eclectic school" attempted to bridge the gap between naturalists and positivists. The Swiss theorist, Emmerich von Vattel (1714–1767) maintained that while states did indeed have natural rights and duties, they were obliged to fulfill them only if those laws were codified. According to Vattel, "the Law of Nations is the science of the rights which exist between Nations or States, and the obligations corresponding to those rights."[3]

Adherents of the "neorealist school" argue that power ultimately shapes the rules or laws of the international system. International law changes and develops with shifts in the power distribution and the proliferation of issues in an increasingly interdependent world. Just as the most powerful states make the system's laws to protect and promote their own rather than international interests, they use the same criteria when choosing to obey or disregard those very laws. In the late twentieth century, the neorealist school was reinforced by the statements of many Third World leaders who argued that international law is rooted in Western civilization's values, and thus discriminates against non-Western peoples.

Although scholars and statesmen may bicker over the nature of international law, there is a near universal consensus on its sources. Article 38 of the Statute of the International Court of Justice (IJC) identifies three primary sources of international law—treaties, customs, and general principles; and two secondary sources—judicial opinions and legal theorists.

Sometimes the sources of international conflict. Treaties, generally, override custom and form the basis for new customs. The more signatories to a treaty, the more easily it can sweep away existing customs. Yet if countries follow old practices rather than the laws of new treaties, then customs clearly are more important. Legal principles are considered more important than treaties. According to the 1969 Vienna Convention of Treaties, "a treaty is void if…it conflicts with a peremptory norm [principle] of general international law (ius cogens)." Judicial decisions and scholarship are generally subordinate to treaties, customs, and principles because judges and scholars use those sources as the basis for their own legal interpretations.

There are tens of thousands of international laws on the books with new ones added nearly daily, yet does that constitute an international legal system? Some argue that despite the plethora of legally binding treaties, customs, and principles, international law is more an abstract moral expression than a concrete legal system for international behavior. Without a global legislature that creates laws; an international police force that can bring violators to trial; a comprehensive global court system that tries the accused; and a means of enforcing legal decisions, international law is meaningless. Instead the world is governed by frontier and often vigilante justice or a Darwinian survival of the fittest imperative in which the strong battle the strong and exploit the weak. Adherence to international law is purely voluntary, not coerced. Although states may comply with most international laws most of the time, they do so because compliance serves national interests rather international concepts of right and wrong. Whenever national interest and international law conflict, most states will serve the former. Israeli diplomat Abba Eban summed up this perspective by arguing that "international law is that which the wicked do not obey and the righteous do not enforce."

Although all of this may be true, it does not necessarily mean that an international system is nonexistent. Every national legal system has those who follow and those who break the law. As for criminals, some are caught and punished while others escape. In any legal system, most individuals and groups choose to obey the law because it is in their interest to do so, which may include the fear of the consequences of not doing so. National legal systems have often proved no more effective in preventing or persecuting crimes than international law. After all, civil wars are more common than international wars.

In reality, states are just as law-binding in the global system as individuals and groups are in most national legal systems. While law-breakers make the news, most states follow international law. As in national legal systems, international law may be vague or nonexistent in some disputes while right and wrong may be blurred or ambiguous. Yet an international system, however decentralized and largely self-enforcing, does indeed exist.

## International Organizations

Globalization is no panacea for humanity. Ever denser interdependence may better conditions for many people while worsening the existence of countless others. There is no doubt today that globalization has exacerbated such problems as the proliferation of weapons of mass destruction, terrorism, poverty, overpopulation, refugees, smuggling, environmental catastrophes, disease, and financial instability, to name the more prominent. Because those problems all transcend international frontiers, states are increasingly incapable of handling them on their own.

What then can be done? To many people the solution is obvious. In an ever more interdependent world, national and international interests and security are increasingly indistinguishable. Virtually all states share a need for peaceful, prosperous relations with one other. Thus it is in humanity's common interests to work together to overcome common problems. That is best done by creating international organizations with the expertise, money, and time to manage specific sets of related problems. When those international organizations prove to be successful, states will be encouraged to establish others to deal with other challenges. Over time those organizations will merge to form more effective comprehensive ones. But international integration does not end there. Organizations initially binding nations economically or socially will eventually bind them politically as people increasingly transfer their loyalties from the nation-state to the international state.

All that was both the hope and promise of "functionalist theory." Its founder, David Mitrany, wrote that "functionalism" proposed "not to squelch but to utilize national selfishness; it asks governments not to give up sovereignty which belongs to their peoples but to acquire benefits for their peoples which were hitherto unavailable, not to reduce their power to defend their citizens but to expand their competence to serve them."[4]

The spirit of functionalism flourished from the late 1940s through the 1960s when the UN and the European Economic Community (EEC), the precursor of today's European Union (EU), were cited as models of the phenomena. But it soon became evident that those international organizations were not living up to their ideals. The United Nations deadlocked on many vital issues during the Cold War. The EEC suffered bouts of periodic stagnation, especially during the "euroscerlosis" of the 1960s and 1970s. Elsewhere around the world in parts of Africa, Latin America, and Asia, international organizations with ambitions for regional economic integration died stillborn. Those failures belied the functionalist contention that international organizations would evolve steadily in purpose and power. "Neofunctionalism" emerged as a new theory to explain that conflicts between a nation's sovereign instincts and international needs could limit or derail the development of international organizations.

The EU best illustrates neofunctionalism. It took six slow and uncertain decades for the EU to develop from a coal and steel community through a common market, customs union, common currency and central bank, representative government, and expansion from six to twenty-seven members. Periods of EU expansion and optimism were followed by retrenchment and pessimism. Neofunctionalists argue that the EU's unsteady but persistent progress toward economic and eventually political union is inevitable—the question is when and how. But just unification succeeded in Europe does not mean it can succeed elsewhere. Every region is unique and thus has its own natural limits or potential for integration.

Inspired by the EU's success, countries in several regions have tried to reduce economic barriers among themselves, including most notably the North American Free Trade Association (NAFTA) of the United States, Canada, and Mexico, the Andean Group of Venezuela, Columbia, Ecuador, Peru, and Bolivia, the Southern Common Market, better known as "Mercosur," of Brazil, Argentina, Uruguay, and Paraguay, the Central American Common Market (CACM) of Guatemala, Honduras, El Salvador, Costa Rica, and Nicaragua, the Economic Community of

West Africa (ECOWAS), the Southern African Development Community (SADC), the Association of Southeast Asian Nations (ASEAN), the South Pacific Forum, and the Asia Pacific Economic Cooperation (APEC). All of those regional economic organizations except NAFTA have fallen short of creating true common markets.

Why have so few international economic organizations done well? It is not surprising that the two that have scored the greatest achievements—the EU and, to a far lesser extent, NAFTA—are largely composed of the richest states. With more diversified economies those members could afford to take a chance on economic union. With their less diversified and poorer economies, the members of other regional organization have much more to lose from freer trade since they compete more than complement each other.

Only one other international economic organization has chalked up some notable successes—the Organization for Petroleum Exporting Countries (OPEC). With its eleven members—Saudi Arabia, Iran, Iraq, the United Arab Emirates, Libya, Qatar, Algeria, Venezuela, Nigeria, and Indonesia—from around the world united by the export of one product—oil—OPEC is an anomaly among the international economic organizations. OPEC's ability to realize its goals has risen and fallen sharply over time. During the 1970s, OPEC succeeded in nationalizing oil production and increasing prices and after two decades of relatively low prices during the 1980s and 1990s was able to bring prices to nearly $150 a barrel by 2008. Yet ultimately OPEC's success rests on how far its members use their oil wealth to diversify their economies and develop a mass middle class. So far none has achieved that.

While the EU, UN, and OPEC are perhaps the best known international organizations, there are thousands of others. They differ greatly, however, according to their respective purposes, powers, and memberships. One distinction is between the 245 IGOs like the UN or EU, and 29,807 NGOs like Greenpeace, the Red Cross, or Amnesty International that existed in 2008. There is a vast budget and personnel range among international organizations. While the United Nations has a $5 billion annual budget and 50,000 personnel, the average IGO has a $10 million budget and 200 personnel. In contrast, the average NGO has a budget of $1 million and ten staff.[5]

There are four types of IGOs. General-membership and general-purpose organizations, such as the League of Nations and United Nations, have global duties and many functions, including collective security, economic development, and human rights. General-membership and limited-purpose organizations, such the World Health Organization (WHO) and World Trade Organization (WTO), focus on fulfilling one function such as health or trade. Limited-membership and general-purpose organizations, such as the EU or Arab League, are usually confined to states that share similar values and culture in the same region, yet address a range of issues. Finally, limited-membership and limited-purpose organizations, like the North Atlantic Treaty Organization (NATO) or NAFTA, are regional organizations dedicated to one specific function like defense or trade.

These difference aside, nearly all international organizations share some characteristics. Most have a "secretariat" or full-time administration in a permanent headquarters to implement decisions, regular meetings for representatives of members, a process to make binding decisions, and an executive council. Although membership in all international organizations is voluntary, members are legally bound to that IGO's rules.

IGOs are created by treaty, which means they are derived from and thus can be a source for international law. The ICJ ruled that international organizations have international legal standing, which "is not the same thing as saying that it is a State, which it certainly is not, or that its legal personality and rights and duties are the same as those of a State . . . What it does mean is that it is a subject of international law and capable of possessing international rights and duties, and that it has capacity to maintain its rights by bringing international claims."[6] The extent of an IGO's legal standing, however, depends on the treaty creating it. Members usually delegate some of their sovereign rights to the organization, and so any organization is only as strong as the powers granted to it.

The ranks of IGOs expanded steadily during the twentieth century, from about 50 in 1914, 90 in 1935, and 245 with more than 100,000 employees today. Interdependence is the most important reason. New issues demand new international organizations to manage them. The failure of the nation-state system to keep the peace and the devastation of the two world wars stimulated the rapid expansion of international organizations to help resolve conflicts. After World War II, the emergence of low-cost jet travel and instantaneous communications further developed the global political economy and theorganizations that manage it.

Of all types of international organizations, the most ambitious are those dedicated to "collective security." Like the Three Musketeers, states united in collective security promise "all for one and one for all!" The idea is at once simple and profound. War is the worst of all the chronic problems that have plagued humanity from the beginning of time. Though each war has its own unique set of causes, all share a fundamental condition. In a world of anarchy, each state must rely on its own wits to survive the aggression of others. The result is a "security dilemma" whereby the measures a state takes to enhance its own defense at once may appear to threaten the safety of others, so they in turn build up their militaries. The result is spiraling tensions and armaments that may well end in war.

That dilemma can be resolved if all states join an organization dedicated to peacefully resolving geopolitical conflicts that might otherwise lead to war. An aggressor government will be deterred from attacking others if it is certain that victim will be backed by the rest of the world. Thus does security become "collective" or grounded on the idea that "the basic requirement for peace is that states have the wit to cooperate in pursuit of national interests that coincide with those of other states rather than the will to compromise national interests that conflict with those of others."[7] In other words, states work with rather than against each other to advance common interests and quell common threats.

Collective security is the United Nation's central mission. While issues of war and peace are mostly the duty of the Security Council, other UN organizations and their affiliates indirectly contribute to collective security by assisting global economic development and integration. Three surpass all others in importance: the International Monetary Fund (IMF); International Bank for Reconstruction and Development, better known as the World Bank; and the WTO. The IMF and World Bank are headquartered side by side in Washington, D.C., and each now has the same 185 members; the WTO is headquartered in Geneva and has 153 members. For various reasons, all three organizations have been as much lamented as lauded, especially the IMF.

Poor countries have a love/hate relationship with the IMF, which will lend them money when no one else will, but for a price. The interest rates on the loans themselves are actually much cheaper than market rates. It is the political price that recipients must pay, which can be excruciatingly painful. To reform their economies, governments must cut their bloated budgets, staff, subsidies, and welfare, which raises unemployment; devalue their currencies, which raises prices; and open their markets further to international trade, which allows multinational corporations to bankrupt less efficient local businesses. While these reforms might strengthen that economy over the long run, they often immediately provoke "IMF riots" as people lose their jobs and inflation eats away incomes. Ideally, the recipient wisely invests the IMF loan in infrastructure and industries that expand the economy. Perhaps more often than not, they don't.

How does the IMF decide the recipient, amount, and condition of its loans? When each member joined, it had to make a payment known as a quota related to the relative size and strength of its economy. Then when a country's economy falters, it can borrow up to 100 percent of its quota annually up to three years. Starting in the 1970s, the IMF waived its limits on how much a state could borrow.

The Board of Governors, composed of one from each member, meets annually to set the IMF's broad policies. Unlike the United Nations, each country has a vote proportionate to its quota. The United States, for instance, has a quota and vote of 17.1 percent of the total. The twenty-four–member International Monetary and Finance Committee, which includes those countries with the largest quotas, meets twice a year and deals with specific problems. Decisions then are implemented by the twenty-four–member Executive Board that heads the secretariat or bureaucracy of 2,680 people from 141 countries. A typical year was 2003. Of the IMF's $299 billion in total quotas, it had lent $107 billion or more than a third to fifty-six countries. It invested the rest in government bonds.

If the IMF deals with short-term economic emergencies, the World Bank tries to nurture long-term economic development. Needy countries apply to the World Bank for either a loan or grant to fund a specific project. The World Bank's 10,000 employees from 109 countries evaluate that project and if they approve it, provide technical assistance along with either a low-interest loan or outright grants, depending on the recipient's needs. In 2003, for instance, the World Bank dispensed $18.5 billion, of which $7.0 billion was in grants to 133 projects in 62 countries and $11.5 billion was in low-interest loans to 96 projects in 40 countries. The World Bank receives some money every four years from 40 wealthy countries in the International Development Agency (IDA) but borrows most of its money from global financial markets.

The third global economic IGO is the WTO, which has 153 member countries representing 93 percent of international trade, plus 30 observers, many of which have applied for membership. The WTO came into being on January 1, 1995, when it replaced the General Agreement on Trade and Tariffs (GATT) founded in 1947. The WTO like the GATT is devoted to promoting ever greater international trade by reducing trade barriers through negotiations and enforcing those agreements. Underlying all agreements is the principle of most favored nation (MFN), whereby any trade deal that one member grants to another must be extended to all. For better or worse, that principle like the myriad of agreements negotiated over the past six decades is open to numerous loopholes. Nonetheless, the GATT and WTO have succeeded in dramatically reducing tariff barriers to trade, and have made steady progress in reducing nontariff barriers like quotas, regulations, and so on.

Enforcement is the biggest difference between the GATT and the WTO. When a trade conflict erupts between members, they can agree to resolve before a panel, which reviews the case and issues an opinion as to who is at fault. A panel's decision was advisory under the GATT but legally binding under the WTO. That gives victims the power to retaliate legally against trade aggressors.

Overshadowed by the big three international economic organizations is the ICJ, which is empowered to take on any international law case. The antecedents for such an institution extend more than two centuries ago to the Jay Treaty of 1794 between the United States and Britain, which set up the machinery to settle cases involving national boundaries, seizures of ships at sea, and other expropriations of property. The Jay Treaty became the model for dozens of other bilateral and multilateral treaties on the subject. Between 1795 and 1914, over 200 arbitration panels were instituted among states. The 1874 Alabama case was an important step in international arbitration. The case concerned whether Britain had violated international law of neutrality during America's Civil War by allowing the Confederacy to build warships in Britain with which to attack Union shipping. A panel of five judges from the United States, Britain, Italy, Switzerland, and Brazil ruled that Britain had violated neutrality laws and was ordered to pay the United States $15,500,000 in damages. President Grant was so pleased by the decision and Britain's compliance that he predicted "an epoch when a court recognized by all nations will settle international differences instead of keeping large standing armies."[8] That epoch has not yet arrived.

Diplomats at the 1899 conference at The Hague signed the Convention for the Pacific Settlement of International Disputes in which they promised to submit conflicts to arbitration panels. The Permanent Court of Arbitration (PCA) was set up to hear and decide on grievances. Between then and 1914, the PCA settled over 120 conflicts. The court, however, had no powers either to require disputants to appear or comply with its decisions. It has been rarely used since 1914, deciding only ten cases through today.

Though the PCA has dwindled, other more specialized international arbitration courts are becoming increasingly important forums in which to resolve conflicts. In 1922, the International Chamber of Commerce established a Court of Arbitration in Paris, which since then has heard over 5,000 cases, recently more than 250 a year. Parties in a dispute can elect to take their case to the Court of Arbitration. The cases are decided according to international law. The American Arbitration Association is second only to that court in the number of international conflicts it has settled. The World Bank has its International Center for Settlement of Investment disputes. The WTO convenes legally bidding panels to resolve trade disputes.

During the 1919 Versailles Peace Conference ending World War I, President Woodrow Wilson got the other delegates to agree to create a world court for the League of Nations. On February 15, 1922, the League of Nations established the Permanent Court of International Justice (PCIJ). Between 1921 and 1945, the court issued thirty-one judgments, twenty-five substantive orders, and twenty-seven advisory opinions, or about three or four annual decisions.

Like President Wilson, President Franklin Roosevelt was determined to create a global assembly and court that would help preserve peace. Throughout World War II, Roosevelt pressured its allies to create a new set of institutions that would hopefully succeed where the League and PCIJ had failed. In August and September 1944, the United States, Britain, and Soviet Union agreed at Dumbarton Oaks to establish the ICJ. In March 1945, a Committee of Jurists made up of representatives from forty-four countries met to draft the agreement for a new court, and submitted its proposal before the San Francisco Conference, which created the United Nations. The new court was formally established on April 18, 1946.

In form, function, and location, the ICJ is largely the continuation of the PCIJ.[12] Located at The Hague, the ICJ hears and rules on cases. The court has five judges, five of whom are elected every three years to hold office for nine years. The Security Council and General Assembly vote on the judges. International organizations, including the UN Security Council, General Assembly, and any other institution, can ask the court for advisory opinions. Every signatory to the UN Charter agrees to comply with ICJ decisions. The ICJ or a party to a dispute can call on the UN Security Council to act against recalcitrant states. The Security Council can vote on the measures necessary to implement a court decision. To date, the ICJ has heard less than a hundred cases and thus plays a minor role in international law.

Although the ICJ's decisions are binding, its jurisdiction is not. While 162 of the UN members have agreed to accept the court's jurisdiction, 155 reserve the right to determine which cases they would allow before the ICJ. For instance, in 1984, the Reagan administration rejected the ICJ's jurisdiction in a suit filed by Nicaragua that alleged the United States had mined its harbors, supplied rebels, and tried to overthrow the government.

While IGOs like the IMF, World Bank, WTO, and ICJ are ever more powerful forces in global politics, NGOs dwarf them in sheer numbers. There were an estimated 30,000 NGOs in 2009, with more being created daily, and they represent a vast range of political, economic, social, health, business, humanitarian, environmental, religious, and other concerns. The membership of many NGOs has expanded just as quickly. The Sierra Club's membership, for example, soared from 181,000 in 1980 to 570,000 today; the Worldwide Fund for Nature expanded even faster from 575,000 in 1985 to 5 million. NGOs operate in the global political system just like interest groups do in a national political system, lobbying the powerful to advance their interests, rallying supporters and appealing to others via mass communications and the news media, and gathering and releasing information that promotes their cause.

Why have NGOs proliferated so quickly and become so powerful in influencing international relations? Globalization both shapes and is shaped by NGOs. The Internet revolution allows like-minded individuals and groups to communicate instantly with one another. Countless people join or form groups daily and promote their interests with Web pages and e-mail. What can happen in controversies is a "NGO swarm." Like a disturbed hive of angry bees, NGOs can swarm around the governments, corporations, or IGOs involved in a controversy, stinging their opponents with protests and adverse information while rallying the mass media to expose the situation to the general public. These swarms have no central leadership but can be initiated with a few decisive taps of the keyboard by a concerned individual or group with inflammatory information and ideas.

The WTO's November 1999 Seattle meeting was disrupted by just such a NGO swarm. For months before the meeting, concerned labor, environmental, human rights, and other groups had exchanged information and plotted strategy. When the meeting started, representatives of those groups were in Seattle lobbying and protesting those delegates, and appealing to the world via CNN and other twenty-four–hour a day global news organizations. That swarm exacerbated existing sharp differences among countries within the WTO. The result was the deadlock and breakup of that WTO meeting. In the year 2000, another NGO swarm mobilized unsuccessfully to resist China's proposed membership in the WTO.

The daily activities of most NGOs are less dramatics. As within countries, international economic interest groups have the greatest intrinsic power among NGOs to assert themselves. The International Chamber of Commerce lobbies governments to ensure them profitable business environments. The International Federation of Airline Pilots (IFAP) boycotts flights to those countries that harbor skyjackers. In 1968, for example, an IFAP boycott pressured Algeria to quickly end the detention of an El Al plane that had been skyjacked. The International Council of Scientific Unions (ICSU) is the world's foremost group lobbying for greater scientific cooperation and openness.

International groups focusing on nuclear proliferation issues have been vocal in lobbying for their goals. The Committee for Nuclear Disarmament (CND) and Greenpeace played a significant role in mobilizing antinuclear support throughout the 1980s. In 1985, French government agents exploded a bomb on Greenpeace's ship, the Rainbow Warrior, which was about to monitor French nuclear testing in the Pacific. The Rainbow Warrior sank and a Greenpeace volunteer was killed. When the agents were caught and their plot revealed, French atmospheric nuclear testing policies became thoroughly discredited and Paris eventually agreed to hold them underground.

Human rights, humanitarian, and environmental organizations have become increasingly potent in pressing their interests. By lobbying and disseminating information, Amnesty International, Freedom House, America Watch, Asia Watch, and other international organizations have been effective in alleviating human rights abuses in many countries. The International Red Cross, Oxfam, CARE, Doctors without Borders, the Ford Foundation, and the Rockefeller Foundation are some leading humanitarian groups committed to helping the victims of wars, natural disasters, plagues, and famines. International environmental organizations like Greenpeace, Friends of the Earth, the Sierra Club, the World Wildlife Fund, and others have become increasingly powerful in their ability to pressure countries to address worsening national and global environmental crises.

International conflict is inescapable, even for groups that are not ostensibly political. An organization like the International Olympic Committee, for instance, is heavily involved in politics if only because the members have so frequently disrupted the Olympics for political purposes. In 1980, the United States and many other states boycotted the Moscow Olympics because of the Soviet invasion of Afghanistan. In 1984, the Soviet bloc retaliated by boycotting the Los Angeles Olympics. So far the Olympics have escaped such political grandstanding in the post–Cold War world.

Some NGOs have been quite successful. Jodi Williams founded and led the Campaign to Ban Land Mines, which eventually persuaded 122 governments to sign a treaty doing just that; Williams and her NGO jointly won the Nobel Peace Prize for their efforts. The Friends of the Earth spearheaded the campaign to convene a global environmental conference at Rio de Janeiro in 1992 and has been a persistent voice in the global environmental community at subsequent international conferences. The humanitarian organization Oxfam International annually channels more than $10 million to the world's poor and works closely with UN agencies to alleviate poverty. The Italian organization Comunita di Sant'Egidio helped broker peace between the government and rebels in Mozambique. The Ford Foundation underwrote peace between the government and rebels in El Salvador in 1991.

Religious groups can play an important role in certain international issues. The Catholic Church is perhaps the world's largest NGO. Although Vatican City is only about a hundred acres large, the Pope commands the loyalty of one out of six humans and an international organization with branches in most countries. The Catholic Church has not hesitated to get involved in a nation's politics on issues it deems important. For example, the Church was instrumental in helping forge the popular revolution that toppled Poland's communist regime.

Such dazzling NGO successes were once the exception. With globalization, NGOs grow ever more numerous and powerful in shaping international relations. Though NGOs differ markedly in their aims and orientation, nearly all seek change, and nearly all change for the better.

## Consequences

International law is clearly riddled with seeming paradoxes, limits, and contradictions. Power, not law, rules international relations. States are equal legally, but are unequal in power and wealth. Even if it does not make right, might seems to determine when international law is used or neglected in regulating international behavior. Outside of the EU, compliance with international law is voluntary. States choose whether or not to go before and heed the ICJ and other arbitration courts, and law violators are the least likely to assent to legal rulings against them.

Yet power is always limited. Global politics are shaped by order, not anarchy, and international law is a major source of that order. True, states obey or break the law when they perceive it is in their interest to do so, and, given the ambiguity of international law, can use it to justify virtually any action. Yet is this so different from how people act in any society? People violate the law in every legal system. Nearly all states obey international law all the time and the rest nearly all the time.

International governmental organizations (IGOs) are perhaps the most visible manifestation of interdependence and international law. They serve many functions, the most important of which may well be to provide a forum in which states can debate and act on issues. Even when they cannot forge consensus, an IGO can provide states a face-saving means to blow off steam rather than use more violent means of asserting their interests. Generally speaking, the more narrow and noncontroversial an international organization's focus—mail, shipping, railroads, telecommunications, and so on—the more successful its performance. But one general-membership and general-purpose IGO, the EU, has surpassed all others in achieving its goals of economic and political integration. Nongovernmental organizations (NGOs), meanwhile, proliferate in numbers, membership, and power to promote their interests in an ever more globalized world.

What does the future hold for international organizations and their role in shaping global politics? Many believe that ever greater interdependence, the erosion of sovereignty, and the proliferation of IGOs and NGOs may one day lead to some type of world government in which nation-states abandon their sovereignty to a supreme authority. The amount of power a world government might hold could vary from a relatively weak decentralized confederal system to a more centralized federal to a highly centralized unitary system. If a world government ever does emerge, global politics will have been fundamentally changed. But given the tenacity of state sovereignty and popular nationalism, that day is not yet foreseeable. Nonetheless, international organizations and the international laws they uphold will continue to try to mitigate globalization's worst characteristics.

CHAPTER 5

# Strategies for Success in the Global Economy

*A billion dollars worth of microchips or potato chips! What's the difference?*

*Michael Boskin, former economic advisor to Ronald Reagan*

In the global system, states pursue different strategies to fulfill their different respective perceived interests. One's values greatly shape one's interests.[1] The "free world" is based on liberal political and economic values. Ideally, a liberal democratic country has a written constitution according to which all are subject to the law; sovereignty rests in the people; all people enjoy the full spectrum of human and civil rights; and a political system is created in which the people's needs and desires are served by representatives and/or referendums. As Abraham Lincoln succinctly put it, democracy is of, by, and for "the people." Economic freedom involves the ideals of free markets, private property, and minimal government interference.

There is inevitably a wide gap between liberal political and economic ideals and reality, and great variations in the institutions and practices of countries espousing those ideals. Although the ranks of democratic industrial countries are expanding, only about 15 percent of the world's nation-states have achieved liberal democratic cultures and institutions along with advanced economies, the thirty members of the Organization for Economic Cooperation and Development (OECD) or so-called rich country's club. There are many different political systems among the democratic industrial countries, from the relatively decentralized federal systems of Switzerland, the United States, Canada, and Germany to the relatively more centralized parliamentary systems of Britain, Japan, South Korea, and Italy.

While ever more states have realized political liberalism, a truly "free market" economy may be neither obtainable or even desirable in the real world. Most democratic industrial countries claim to have liberal economies, yet all including the United States have rejected pure "market Darwinism," or the complete absence of regulation or welfare, as disastrous for both economic development and political liberty. Governments vary enormously in how they manage the so-called free market. Indeed free markets do not and never could exist on a national level in the real world. All governments intervene in the economy—they differ only in their respective ways, degrees, and justifications for doing so. But the bottom-line is that they do so because of "market failures" that leave most people and the world in which they live worse rather than better off.

Among the free market economies there are three distinct approaches. No country has a freer economic system than the United States with its "regulatory" approach. Government regulations ensure minimal health, safety, and environmental standards, and try to prevent any one corporation ("monopoly") or a few corporations ("oligopoly") from capturing markets and imposing shoddy, high priced goods on consumers. Corporations that squeeze Congress and the president for subsidies or protection do so from their political clout rather than from some objective government plan to develop the economy. Regulatory governments generally put economic "freedom" first, even if it means continual trade and payments deficits, relatively low economic growth, and vast gaps between rich and poor, all of which characterize the United States.

Then there are states like Japan and France that have both liberal political systems and heavily state-guided market systems. These states follow a "neomercantilist" strategy in which the nation's economic security is equated with a relatively high growth rate and equitable income distribution, continual trade and payments surpluses, and diversified sources of foreign raw materials, energy, and markets. To these ends, the government targets "strategic" industries and technologies for development with export incentives, subsidies, "cartels," protection from competitive imports, and so on.

Finally, there are the "social market" economies, exemplified by the Scandinavian countries, whose policies emphasize the equitable distribution of existing wealth rather than the creation of new wealth. Government spending as a percentage of the economy is relatively high, the state provides citizens with "cradle to grave benefits," the most important industries are often publicly owned, and markets are heavily regulated.

What must be understood is that no country falls completely into any one category. Aspects of all three orientations characterize every democratic industrial country. The United States, for example, though predominately liberal also has large sectors of its economy shaped by neomercantilist and social market policies. France's neomercantilist and social market policies are almost twins, while the state is gradually liberalizing some industries.

The degree, types, and purpose of government management of the economy vary over time. Since its independence, America's government has slowly expanded its duties for regulating the economy, along with social and neomercantilist market policies, almost always in response to popular pressure to address often long-standing and worsening economic problems caused by market excesses and failures. A state's economic orientation reflects and shapes the culture in which it is embedded. Although cultures can change, they usually do so only at a glacial pace. Liberalism is as deeply rooted in American culture as neomercantilism is in Japan and France, and social welfare is in the Scandinavian countries.

Although every country has a specific economic orientation and policies, in this chapter, we concentrate on exploring those of the advanced democratic industrial countries. We first examine the different political economic ideologies that can guide the governments of liberal democratic states, discussing their strengths and weaknesses. We then explore the range of possible macroeconomic, industrial, and trade policies that states can follow.

## Political Economic Ideologies

Ideology and policy are often closely related. Ideologies are systematic, comprehensive worldviews that provide governments and peoples with the values, institutions, goals, and justifications for acting in the world. Sometimes states pursue policies that seemingly violate their values. Other times there is a close accord between ideals and action. Politics explain why countries vary in their ability or willingness to live up to their values and ideals.

### *Liberal Market Ideology*

Notions of economic and political freedom developed together. In 1776, the same year the United States declared its liberty from Britain, Adam Smith's classic study of free trade, *The Wealth of Nations*, was published on the other side of the Atlantic. Smith argued that everyone benefits from free trade because competition forces everyone to specialize in producing what they produce best and then trading that good for anything else they desire. The forces of "supply and demand" are the "invisible hand" that provides all the needs and desires of consumers and society as a whole, an ideal much later called the "magic of the marketplace."[2]

Markets should be free not just within but between states. Every nation, like every individual, has certain natural productive strengths and weaknesses known as "comparative advantage." Smith argued that "what is prudence in the conduct of every private family can scarcely be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of our own industry."[3] David Ricardo elaborated the concept of comparative advantage in his 1817 book, *On Political Economy.* A more recent economist, Paul Samuelson, argues that "free trade promotes a mutually profitable division of labor, greatly enhances the potential real national product of all nations, and makes possible higher standards of living all over the globe."[4]

Like political liberals, economic liberals maintain that the less government the better. Government, according to Adam Smith, should have "only three duties . . . first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member, or the duty of establishing an exact administration of justice; and thirdly, the duty of erecting and maintaining certain public works and certain public institutions, which can never be for the interest of any individual, or small number of individuals."[5]

Liberal economic theory has been severely criticized.[6] The central critique is that free trade is based on ideal assumptions that do not exist in the real world. Market Darwinism or a survival of the fittest economic world such as that which existed in late nineteenth-century America or Britain lead not to the utopia promised by the theorists but to an all too real world of the rich elite getting richer by exploiting the ever worse off and poverty-stricken masses, abysmal working conditions, price-gouging cartels, sickening and sometimes murderous air and water pollution, and the bulldozing of a nation's cultural, historical, and natural heritage. In other words, market anarchy leads not to economic bliss but to economic tyranny. Sooner or later free markets self-destruct into monopolies and oligopolies, deep and prolonged depressions from unfettered financial speculation, and/or crippling amounts of corporate welfare. Governments then must step in and liberate the country from those market failures. The more democratic the government the greater the public's pressure on it to suppress the economic war of all against all. But states differ in how they manage their economies. Robert Kuttner points out that liberal economic theory "to most of the world . . . seems utopian and the practice hypocritical. America seems to practice a chaotic ad hoc mercantilism—weapons procurement, farm price supports, textile quotas, and various 'voluntary' restraints extracted from trading partners—while it stridently preaches free trade."[7] In reality, by necessity every government must manage its economy to reduce the chance of those cataclysmic market failures.

Free trade may help a leading industrial country but can hurt the growth of a laggard trying to catch up. After studying Britain's economy, the nineteenth-century German political economist Friedrich List advised Germany against free trade, arguing that

> free competition between two nations which are highly civilized can only be mutually beneficial in case both of them are in a nearly equal position of industrial development, and that any nation which owing to misfortunes is behind others in industry, commerce, navigation . . . must first of all strengthen her own individual powers, in order to fit herself to enter into free competition with more advanced nations.[8]

John Spanier expands the argument:

> the free market may well be a superior mechanism for allocating goods when those competing and exchanging goods are of approximately equal power. When one nation is clearly more advanced economically however, free trade benefits it more because it is able to penetrate the markets of weaker countries. The laws of the free market are not neutral. Power is the `invisible hand' determining the distribution of wealth. Among nations that are equal in economic power, economic relations may well breed interdependence, as in the EEC and relations between them and the United States. But between the economically strong and the economically weak, the inevitable result is the dependence of the latter.[9]

As Bruce Scott and George Lodge point out, it

> is not surprising that the leading advocates of free trade have been those who were strong at the time, first the United Kingdom, then the United States . . . Free trade, like free competition, has political as well as economic content: taken literally it is a system that enhances the power of the powerful and makes it all the more difficult for the poor to catch up.[10]

Liberals claim that economics and politics can and should be separated. But that is an impossible task because economics and politics are inseparable. All economic conflicts are political, and all political conflicts have some economic dimension. The difficult question is determining how they influence each other. Where struggles over wealth end and struggles over power begin is a chicken and egg problem.

According to liberalism all industries are of equal value—a billion dollars worth of potato chips is just as important as a billion dollars worth of computer chips, as Michael Boskin, the former chair of the Council of Economic Advisors in the Reagan administration, once infamously declared. Critics argue that equating potato and computer chips is ludicrous. The potato chip industry's technological, job, and wealth ripple or "multiplier effects" on the economy are as limited as the computer industry's multiplier effects are enormous and growing.

Liberal economists assume that the less government interference in the economy, the more and faster the development. Is this true? History reveals that freer markets are not necessarily the better means of creating and distributing wealth or allocating resources. Perhaps no other country in the world has a more deeply entrenched free market mentality and economy as the United States. Yet America's growth, productivity rate, and middle class as a percentage of the total population have often been lower than other democratic industrial states whose governments are more active in directing the economy. Many fear that America's free trade policies are allowing the economy to "hollow out" as foreign competition undercuts American businesses while American multinational corporations "outsource" their operations overseas to enjoy access to markets, resources, and cheaper labor. The United States has suffered chronic and worsening trade deficits since 1971.

In many ways America's liberal economic ideals are ever more disadvantageous in an ever more neomercantilist world. David Blake and Robert Walters point out that "liberal economists who dominate American economic scholarship are ill-equipped to evaluate systematically the political forces shaping, and political implications of, their prescriptions for 'rational' economic policies in an era of highly politicized global economic relations."[11]

That is the key difference between "economists" and "political economists." Economists are theorists; they start out with abstract theories within which they try and fail to squeeze in the real world. Political economists are empiricists; they analyze the vastly complex, ever changing world and then, if possible, note general patterns and concepts that help us better understand it.

### *Neomercantilist Market Ideology*

As an ideology, "mercantilism" is much older than liberalism.[12] States have always intervened in the economy whether to generate tax receipts, promote certain classes or industries, or realize God's will. During the early modern era, states targeted important or "strategic industries" for development with subsidies, import barriers, and export incentives in order to develop the economy and protect the state. Economic and military security were closely linked. Many of those strategic industries produced military weapons and equipment. Much of the revenue gathered by the state was used to build up the nation's military forces and either defend or expand the realm against other states.

Mercantilism, according to Jacob Viner, makes four key assumptions:

> (1) wealth is an absolutely essential means to power, whether for security or for aggression; (2) power is essential or valuable as a means to the acquisition

> or retention of wealth; (3) wealth and power are each proper ultimate ends of national policy; and (4) there is a long-run harmony between these ends, although in particular circumstances it may be necessary for a time to make economic sacrifices in the interest of military security and therefore also of long-run prosperity.[13]

Neomercantilism is the contemporary version of mercantilism; it is a developmental and national security strategy for states in an interdependent world. Rather than overspend scarce resources on the military sector, neomercantilist states concentrate on creating cutting-edge technologies and industries that most efficiently create wealth, expand the middle class, and generate state revenues that are reinvested in those strategic sectors.

In many ways, neomercantilism is a reaction against liberal idealism. Liberal economists construct an ideal world and then attempt to shape the real world accordingly. In contrast, neomercantilists attempt to understand the way global economy really works and then manipulate it in a way that advances their nation's concrete interests. While liberalism's goal is free markets, neomercantilism's is the creation, distribution, and securing of wealth. Thus neomercantilists first determine which industries and technologies can create the most wealth and then map a strategy to develop them. Also, neomercantilists see international trade as largely a "zero-sum" war in which one side's gain is another's loss, as opposed to liberals who believe it is "positive sum" or good for everyone.

Who is right? Free markets exist only in theory, not in the real world. All markets are distorted and often outright managed by domestic and foreign government policies. The benefits of international trade are not evenly distributed among participants. There will be net winners and losers in any transaction, both over the short and long term. The interesting question is who gets what and why?

Neomercantilists recognize that reality and use any means possible to tip the playing field in favor of their own nation's industries and companies. They encourage their domestic firms to overproduce a product and then "dump" or sell those goods at a loss in foreign markets to bankrupt their foreign rivals.

A nation that trades freely when its rivals pursue neomercantilism is committing slow economic suicide. The reason is simple. Over the short term domestic consumers are happy because of the flood of cheap imports. The trouble is that all those cheap imports undersell and eventually bankrupt domestic producers. Thus over the long term, consumers and the entire nation lose as wealth flows out of the country to foreign producers. The nation is locked into a vicious economic cycle. Tax receipts fall as jobs and businesses disappear overseas. As the national debt rises, the government has to raise interest rates to attract lenders. Higher interest rates, however, further choke off growth, jobs, and tax receipts. Foreigners, meanwhile, buy ever more of that national debt and with it the power to pressure the government into further acts of economic disarmament. Inflation worsens as foreigners, after having driven the domestic firms out of business through dumping, raise prices to recoup their earlier losses. Does any of this sound familiar? The United States is locked into that vicious economic cycle.

Neomercantilists are just as leery of the free flow of investments as they are of products. They scoff at the liberal assumption that the freer the flow of money, the greater the benefits for everyone, asserted by President Reagan in 1983 with near religious certainty: "We believe that there are only winners, no losers, and all participants gain from it."[14] For neomercantilists whether the inward or outward flow of money helps or hurts the economy depends on the unique characteristics of each investment. Some should be encouraged and others managed or outright blocked to ensure that the benefits exceed the costs.

When foreigners invest in the economy, the country may enjoy a net gain if they buy and reinvigorate money-losing firms or real estate such as country clubs and skyscrapers. The foreign investor often must pour money, managerial expertise, and technology into the asset before it can turn a profit. That can boost economic development. After being bought out, the original owners will invest their money elsewhere, ideally in more productive domestic industries. But a country may well suffer a net long-term loss if foreign firms buy money-making high technology firms, banks, factories, laboratories, mines, or farms that generate most of a country's wealth and thus power. Foreign investments that create a new office, factory, store, or restaurant, known as a "green-field site," can also be either a net gain or loss for the recipient country. The bottom-line is whether either a buyout or green-field site investment brings more money, technology, skills, and dynamism into a country than it takes out over the short and long term. The reverse of all this is true for domestic investors who send their money overseas. They strengthen the nation when they buy up dynamic foreign companies and cutting-edge technologies; they weaken the nation when they shut down factories at home and relocate them abroad.

National security and economic vitality are inseparable. Imagine how much American power would be damaged if foreigners took over Intel, General Electric, and Microsoft. Imagine how much American power would be enhanced if Americans took over Sony, Toyota, and Mitsubishi.

Global trade and investment battles are becoming fiercer as ever more governments understand how serious the stakes are and intervene to tip the geoeconomic power balance in their favor. Historically neomercantilist countries tend to grow faster, export more, and import less than liberal countries. The larger and more advanced the neomercantilist country's economy, the greater the adverse effects on development elsewhere. Governments that systematically do not try to assist the creation and distribution of wealth through rational macroeconomic, industrial, and trade policies according to a long-term plan increasingly find their nation's economy shaped and distorted by those foreign governments that do.

The economic devastation that a neomercantilist country can inflict on a liberal country is clear. But can neomercantilism hurt those countries that practice it? Too much government protection of the economy can be as self-destructive as too little. Ideally the state manages an economy to maximize the benefits of cooperation and competition. If neomercantilist policies are mismanaged they can backfire and encourage "crony capitalism" whereby there is so much cooperation among corporations and industries that they lose their competitive edge. The East Asian economies, especially Japan, personify crony capitalism. Although those economies continue to enjoy vast trade surpluses with the relatively liberal American market, elsewhere their products slam into each other's protectionist walls. Thus during the late 1990s and into the twenty-first century, the East Asian economies suffered from excess production and low profits, growth, and innovations. That is not neomercantilism's only possible downside. If all countries practiced neomercantilism, trade would collapse to minimal levels and most people would be worse off as happened during the trade wars of the 1930s.

### *Social Market Ideology*

Liberalism and neomercantilism emphasize the creation of wealth. Social democracy is concerned with fairly distributing to the needy the wealth that is created.[15] Markets are distrusted as arenas in which the rich and powerful exploit the poor and weak. The freer the markets, the greater the gap between rich and poor. A powerful state must be constructed to prevent the capture and exploitation of the latter by the former.

The modern welfare state began in Germany in the late nineteenth century when Chancellor Otto von Bismarck established government programs to care for the jobless, ignorant, sick, homeless, and elderly. Practical rather than altruistic reasons motivated him—he feared that a socialist revolution would engulf Germany if nothing was done to prevent the rich from getting richer and fewer while the poor got poorer and more numerous. For the same reason, other industrial states slowly began developing their own welfare systems. It was the Great Depression of the 1930s that convinced the United States and a few other laggards of the national interest in providing a social safety net to prevent mass poverty and thus mass unrest.

Those very realistic political as well as economic reasons for helping the needy are clear:

> Modern governments have become increasingly sensitive to demands for a wide variety of welfare services and have taken on the responsibility for mass social and economic welfare. The improvement through state intervention of the material...well being of its citizens has become one of the central functions of state activity. The satisfaction of rising claims by citizens has become a major source of the state's legitimization and of a government's continuance in office.[16]

Social democracy has been criticized on several grounds. By focusing on dividing rather than expanding the economic pie, living standards can stagnate over the long run. By heavily regulating and taxing markets, social democrats reduce incentives for entrepreneurs to create new wealth. Yet there are benefits too—greater leisure time, health insurance, and social security.

Sweden is the ultimate social market state, with cradle to grave health, education, and welfare benefits for all citizens.[17] These benefits have been expensive and the price may have become exorbitant. Between 1970 and 1990, Sweden's welfare programs grew from 44 percent to 70 percent of Gross National Product (GNP). In 1990, Swedish taxes as a percentage of GNP were 56.9 percent compared to America's 29.9 percent. Sweden's economy slowed while unemployment and crime rose.

Ever more Swedes recognized that for a government to try to do everything was just as self-destructive as for a government to do nothing. In 1991, a coalition of moderate-conservative parties took power after a half century of nearly uninterrupted social democratic rule. The reformers tried to pare back Sweden's welfare state. Payments to workers injured on the job were reduced. The age to receive partial pensions was raised from sixty to sixty-two, and full pensions from sixty-five to sixty-six. Compensation for women who chose to stay home with their children was reduced from 90 percent to 80 percent of their regular pay. The Swedish krona was devalued to boost exports. The government employed private companies to perform some tasks traditionally done by the state. In 1992, the government cut $9 billion from the budget. Perhaps most importantly, regulations that inhibited the creation and expansion of business were cut.

Those reforms worked. Between 1993 and 2007, Sweden's economy expanded faster than America's, its jobless rate fell from 8.1 percent to 6.1 percent, its purchasing power parity rose to $36,500, its richest 10 percent of the population took a moderate 22.2 percent of the nation's wealth, its inflation was a moderate 1.7 percent, and it had effectively eliminated poverty.

Increasing numbers of countries will emulate Sweden's welfare state cutbacks into the twenty-first century. In every democratic industrial country the ratio between workers and retirees is shifting steadily to the latter. Simply put, people are living longer and having far fewer children than before. In Germany, for example, the percentage of those who are sixty years or older is expected to swell to 36 perception of the total population by the year 2035! Retirees, by definition, no longer produce but simply consume. Most welfare for retirees was enacted when life expectancies were far lower and thus were designed to provide the elderly some comfort in their last few years. But today the average life in democratic industrial nations is approaching eighty years; some predict that the medical revolution will soon push the average life span to hundred years! The demands of ever more retired elderly may overwhelm pension and health care systems.

What can prevent that? Taxes can be increased and/or benefits cut. The trouble is that any reforms to defuse that demographic time-bomb will ignite fierce opposition. The old will resent enjoying fewer benefits than previous generations while the young will gripe at higher taxes, until, of course, they retire. Another option is to welcome immigrants to fill jobs. Yet here again there is a potential downside. If those immigrants are not assimilated into the national culture, resentments may arise between them and the natives. Yet another possibility is to privatize social security, allowing workers to invest the savings they hand over to the state, which usually puts it in low yield but secure government bonds. Of course, not all private investments make a profit; many lose money; and some are completely lost. What should the state do if a worker loses his life savings in the stock market casino? And what about the people already drawing pensions? In the "pay as you go" system, workers pay the pensions of current retirees and will in turn be paid for after they retire by a new generation of workers. As with all socioeconomic problems, there are no easy solutions.

### *Political Economic Policies*

Governments everywhere intervene actively in the economy to make up for myriad market flaws and outright failures, although they do so to greatly varying degrees and ways. Economic policy can be divided into three broad areas—"macroeconomic," "industrial," and "trade"—each of which is thoroughly integrated with the others. Macroeconomic policies are those government actions or inactions directed at affecting the entire economy. In contrast, industrial policies target specific industries, regions, technologies, or firms. Trade policies, as the name implies, are chiefly concerned with the country's trade balance and composition of exports and imports.

### *Macroeconomic Policies*

Governments can shape the national economy through several means: (1) "fiscal policy" that mostly involves government budgets; (2) "monetary policy" that mostly involves the money supply and interest rates; (3) "tax policy"; and (4) "currency policy." Each of these policies is designed either to stimulate a depressed or deflate an inflationary economy, a practice known as "fine tuning" a business cycle. Ideally, all four macroeconomic policies are used so that they complement the government's goals. In practice, this coordination is extremely tough to achieve; a government may follow a stimulatory fiscal policy and deflationary monetary policy, and so on.

Fiscal policy or government budget policy usually has the biggest wallop of the four over the short term. In every country, the government is the largest single buyer of goods and services. When governments increase spending they stimulate the economy and when they cut back spending they slow it. Fiscal policy is also an important source of industrial policies because the budget allocates or denies money to specific industries, regions, technologies, and at times even specific corporations. It was the British economist John Maynard Keynes who popularized fiscal policy, also known as "Keynesian" economics.

Monetary policy primarily involves manipulating the money supply and interest rates. A country's central bank can cut interest rates when economic growth is deemed too low or raise interest rates when inflation is deemed too high. The Federal Reserve System, America's central bank, consists of a chair and the presidents of the twelve regional federal reserve banks. Their policymaking forum, known as the Open Market Committee, meets whenever necessary, but usually each month or so. The committee has four major instruments to shape the economy. The discount rate is the interest charged to private banks that borrow from the federal reserve. The federal funds rate is what banks charge each other for overnight loans. The Reserve Requirement is the proportion of the total amount of a bank's assets that it must actually keep in the vault. Finally, there is the interest rate given by the government to those institutions or individuals who buy treasury bonds that help finance the national debt.

So ideally how do those strategies work? If the Federal Reserve, or Fed as it is known, lowers both interest rates and reserve requirements, banks will lend more at lower rates to businesses and households. Lower bond rates encourage investors to sell their bonds and invest in stocks or elsewhere in the economy. The infusion of cash into the system stimulates the economy. When an economy becomes overheated or inflationary, central banks may raise interest rates for bank borrowing and bond purchases along with reserve requirements.

Raising or lowering taxes is yet another way to affect the economy. Cutting taxes puts more money in the pockets of businesses and households. If the extra money is used to buy something, it creates a demand and thus supply. If it is saved, it makes more money available to businesses or households to borrow and spend. As a result, the economy is stimulated. Raising taxes has the opposite effect. Like fiscal policy, tax policy can be an important industrial policy tool as well since most countries' tax codes favor some industries, classes, firms, or individuals more than others. Social democratic countries have relatively progressive tax codes in which taxes are eliminated for the poor, moderate for the middle-class, and heavy for the rich. The greater income among the poor and middle class leads to greater spending and thus greater growth, a policy known as "demand side" or "trickle-up" economics. Conservatives in the United States and elsewhere favor a regressive system of lowering taxes for the rich by cutting their income and/or capital gains taxes in hope that the rich will invest some of that extra wealth in businesses, which create more money and jobs, a policy known as "trickle down" or "supply side economics."

Which tax strategy is the most effective? History reveals that at best in countries with entrepreneurial cultures like the United States, "trickle down" policies simply make the rich richer while having little effect on economic growth. It fails completely in countries lacking an entrepreneurial tradition.

Trickle down can be outright disastrous. During the 1980s, the Reagan White House sharply cut taxes, most of which went to the rich. The growth rate was not only actually lower during that decade than at any time since the 1930s, but "Reaganomics" as it was known tripled the national debt from $970 billion to $2.9 trillion in just eight years! How did that happen? Reagan promised that the tax cuts would pay for themselves with higher revenues from the economic growth and that the budget deficit would disappear within four years. But the opposite happened. Reagan never cut spending or submitted a balanced budget to Congress, and he signed nearly every spending bill passed by Congress. Though Reagan promised to make government smaller, spending actually increased, largely because of a near doubling of the Pentagon's budget and increased corporate and agribusiness welfares. President George W. Bush followed similar policies and the result was a doubling of the national debt from 2001 to 2009.

Do budget deficits and national debt matter? During the Reagan and Bush years, those presidents and their supporters dismissed the importance of the soaring budget deficits and national debt caused by their policies.

In reality, ever rising government debt worsens a vicious economic cycle. To finance the ever rising mountain of debt, the government must borrow ever more money to pay its bills. To do so the government competes with the private sector for scarce funds. That in turn raises interest rates, which slows economic growth, which, in turn, cuts incomes for most people and throws many out of jobs. The fewer people with jobs and the more people with less income means less demand for goods and services. That further slows the economy, causing unemployment to rise and revenues for government to fall. Fewer taxes going to government means bigger deficits and national debt that can be serviced only with more borrowing. And so . . . you get the picture.

In contrast, "trickle up" not only enriches the poor and middle class but also stimulates the economy and thus raises growth, incomes, and equity, while lowering unemployment. When the poor receive tax cuts, they usually spend the extra money immediately, which serves their needs as well as expands the economy.

All governments recognize the importance of currency rates in macroeconomic policy. Liberal economists believe that a nation's currency reflects national strength, or as one of Ronald Reagan's treasury secretaries, Don Regan, put it: "A strong dollar means a strong America." Thus liberal and social democratic governments prefer an overvalued currency that gives consumers more buying power and higher living standards, at least in the short run. Neomercantilists take the opposite view, that an undervalued currency can be an important source of national wealth and power as it encourages exports and discourages imports.

How does a currency's value affect consumer prices and national wealth? Let's say you are shopping for a family car and you find a Ford and Volkswagen equally appealing. And let's say the Ford costs $10,000 in the United States and the Volkswagen 10,000 euros in Germany. If one dollar equals one euro and the transportation and insurance costs of importing the Volkswagen are not included in the final price, then it would cost $10,000 when it is sold in the United States. You might well buy either car since their quality and cost is the same. The same would be true for a German consumer since the Ford would cost 10,000 euros.

But what if one dollar equals two euros? Then the American consumer has twice as much buying power for German goods, and the German consumer half as much buying power for American goods. You would definitely buy the Volkswagen because it could be priced $5,000 in the United States. Your German counterpart would also buy the Volkswagen because the Ford's price could double to 20,000 euros. You and other American consumers would gain a tremendous savings in the short term while Ford, other American industries, and the entire economy suffer a loss to their German counterparts. Over the long term, the American consumers' initial savings may well disappear as economic growth slows, jobs are lost or paid less, lower government revenues may be made up in higher taxes and interest rates, and so on—unless, of course, you happen to be employed by or own a company that imports German products. The German consumer neither gains nor loses directly, but because Germany's economy will grow faster he will enjoy more wealth over the long term.

What determines the value of a nation's currency? Many forces do but the most important is the relative demand and supply of that currency. Governments can manipulate a currency supply in various ways. Japan provides a good case study of how governments undervalue their currencies. After currencies began to float in 1973, the Bank of Japan bought dollars on international currency markets, which increased the dollar's demand and thus its value. Meanwhile, Tokyo limited the amount of Japanese trade that was denominated in yen, thus restricting the appeal of and demand for yen by international currency traders. Tokyo also encouraged Japanese firms to invest overseas while restricting foreign investments in Japan. Japanese firms invariably convert their yen into dollars when investing overseas, thus further boosting international demand for dollars. Since foreign investments in Japan are limited, demand for yen is weak and thus undervalued. While Tokyo pursues policies that undervalue the yen, for decades Washington followed policies that overvalue the dollar. High interest rates and open financial markets attract foreign investors to the United States, which means more demand and thus a higher value for the dollar. But that changed during the first decade of the twenty-first century as international investors increasingly lost confidence in America's economy as the national debt soared, so they increasingly invested in euros and other currencies. The result has been a weak dollar.

Direct government intervention in international currency markets is increasingly ineffective since the amount of private trading outnumbers international trading by a factor of over fifty to one. By 2010, more than $2 trillion daily crossed (mostly electronically rather than physically) international borders, an amount that surpassed the value of America's $14 trillion economy in just a week!

Nonetheless, governments can affect the psychology of markets and thus the relative value of currencies. In September 1985, the "Plaza Accord" among the United States, Japan, Germany, France, and Britain (Group of Five) attempted to devalue the dollar by intervening in international currency markets. The amount they traded was actually quite small, but the fact that they were working together to sell dollars and buy other currencies created a "bandwagon effect." Other governments and private traders dumped dollars before the price dropped, thus weakening demand for dollars and accelerating its fall. Within two years, the dollar dropped in value from 265 yen to 125 yen.

Manipulating the market value of a currency can work only in a floating system where currency values are shaped by supply and demand. In a fixed or pegged currency system a currency's value is determined by government fiat. But countries with fixed rates usually have black markets where that currency is unofficially traded. Why do black markets flourish in fixed systems? Because the fixed price usually does not reflect the economy's actual value. If the currency appears to be undervalued, traders will pay more for so-called hard currencies like the dollar or euro.

### *Industrial Policies*

Alexander Hamilton, America's first treasury secretary, recognized long ago that "not only the wealth but the independence and security of a country appear to be materially connected to the prosperity of manufactures."[18] He advocated government policies to nurture American industries, including tax cuts, infrastructure development, subsidies, and import protection. Hamilton was clearly a man ahead of his time, especially in the United States whose Congress rejected that strategy. Today Hamilton's policies would be described as neomercantilist policies designed to boost the economy's "strategic" or vital manufacturing, technological, and financial sectors.

Every government either directly or indirectly picks economic winners and losers, a process known as "industrial policy." That involves any policies "that will improve growth, productivity, and competitiveness," including "increasing the economy's supply potential (that is, increasing resources, and labor supply and capital stock), developing technology, fostering industrial development, and improving mobility and structural adaptation" or "a complex set of trade, financial, and fiscal policies, conducted within a political environment, with outcomes at variance from market solutions."[19] In some countries like France or Japan, the government devises five-year plans to develop strategic industries and technologies. In other countries like the United States, industrial winners and losers are determined by the relative political power balance they enjoy in Washington rather than their intrinsic value to the economy.

Like any policy, industrial policies can succeed, fail, or have mixed results. A systematic comparison of the five largest economies revealed that only Japan's industrial policies mostly succeeded. Between 1967 and 1981, Japan gained market share in thirteen of twenty industries targeted for development, remained the same in three, and lost out in four. The four losers were all chemical industries that did fine until their "created" comparative advantage was undercut by the quadrupling of oil prices in 1973. In comparison, the four other key industrial countries—the United States, France, Germany, and Britain—stagnated or lost ground.[20]

### *Trade Policies*

There will always be a global trade equilibrium or a balance between the value of all exports and all imports. The trade surpluses of some countries must be offset by the trade deficits of all the other countries. A nation's international "trade account" includes the export and import of all material products. An international "payments account" includes the export and import of the value of manufactured goods, services (banking, insurance, shipping), direct foreign investments, portfolio investments (stocks, bonds, etc.), tourism, and government expenditures (foreign aid, military bases, embassies, etc.).

As we have seen, neomercantilists would argue that a state must maximize exports and minimize imports to boost national wealth and power, while liberal economists are either indifferent or would argue that a trade deficit is a sign of strength. Despite these philosophical differences, all governments manipulate trade—neomercantilist states with an overall strategic plan, liberal states largely through a political process.

Governments can use a variety of policies to affect the national trade and payments balances. "Tariffs" and "quotas" are the most obvious trade barriers. Tariffs are a tax on imports that raise the prices for foreign goods and thus weaken the demand for them. Quotas allow only a certain amount of a product into the country. Tariffs are a more effective means of promoting national wealth than quotas since they simultaneously boost government and domestic industry revenues and deplete foreign industry profits. Quotas, on the other hand, do not provide any government revenues and tend to encourage both foreign and domestic firms to raise prices at the expense of consumers.

Tariffs and quotas have diminished steadily as members of the General Agreement on Trade and Tariff (GATT) cut tariffs from the first negotiation round in the late 1940s to the eighth round in the 1990s. But as tariff and quota trade barriers declined, "nontariff barriers" have taken their place. Voluntary Export Restraints (VERs) or Orderly Marketing Agreements (OMAs) are unofficial quotas that are often negotiated by governments when one country's exports capture enormous market share in another country. About 10 percent of all global trade is currently subject to VERs and OMAs. These measures grew rapidly during the 1980s as Japan's trade and payments surpluses soared and those of the United States and European Union plunged; of the roughly 100 VERs or OMAs existing in the mid-1980s, Washington accounted for about half and Brussels for about one-third.[21] The poorer and weaker the country, the more easily an industrial country can force it to accept a VER. About 40 percent of all Third World exports to advanced industrial countries are restrained by nontariff barriers.[22] The Multifiber

Agreement involving forty countries and strict quotas on textile trade is the world's largest VER. One of the agreements that emerged from GATT's Uruguay Round was to phase out the Multifiber Agreement by the year 2002.

Red tape can also be an effective nontariff barrier. For example, in October 1982, Paris countered a Japanese videocassette recorder (VCR) dumping assault by decreeing that henceforth all imports of that product had to pass through Poitiers, a small inland city in western France, which symbolically was the site where Arab invaders were defeated in 732. The tiny customs office there simply lacked the resources to clear the hundreds of thousands of VCRs piling up. Japan's exporters filed a complaint with the European Community Executive Committee that later ruled that France had violated Brussels' free trade rules. The European Community, however, later negotiated a VER with Japan while Japanese corporations, which had set up shop, in Europe agreed to buy more local components. As a result of these initiatives, Europe's VCR industry was saved from sure extinction and wealth was circulated within the Community that would otherwise have flowed to Japan.

There are significant pros and cons to a neomercantilist trade policy. Economists estimate that 20,000 more people are unemployed for every $1 billion of a nation's trade deficit. In 2007, the United States suffered a trade deficit of $816.0 billion, which meant that 16.3 million more people were jobless and economic growth much lower than would have been the case with a trade equilibrium. Paul Krugman has calculated the costs of a trade war between the United States, European Community, and Japan in which 100 percent tariff barriers are raised and import levels plunge to half. Although liberals would predict a calamity, the actual result would only be an average 2.5 percent decrease in income for these countries, a rate equal to a 1 percent increase in the unemployment rate. The reason for this mild result would be that imports would eventually be replaced with domestically produced alternatives, which would contribute to that country's economic growth.[23] Yet protectionism can be expensive; by one estimate American trade barriers "were costing American consumers $80 billion a year—equal to more than $1,200 per family."[24]

The net effects of protection can either enhance or impede that nation's development. It all depends on whether or not government policies use that protection to promote strategic industries, technologies, and exports. If they do, as in Japan and Newly Industrializing Countries (NICs) like South Korea, Taiwan, and China, the economy strengthens. If they do not, as in most countries, the economy stagnates as consumers suffer from higher prices and scarce resources are diverted to inefficient, declining economic sectors.

## Consequences

It is said that "except for the distinction between despotic and libertarian governments, the greatest difference between one government and another is the extent to which markets replace governments and governments replace markets."[25] Every economy thus is mixed; governments and markets interact in both the most state-controlled and laissez-faire of systems, albeit in vastly different ways and degrees. If capital is the material, financial, and human means of production, then every system is capitalist.

Most states recognize economic development as not merely a national interest but vital to national security. Traditionally, this meant that a government tried to maximize its economic self-sufficiency and promote agriculture, mining, manufacturing, and other industries. In those days a trade surplus and the accumulation of gold were the primary measure of a nation's economic security. Today the creation, distribution, and securing of national wealth in the interdependent world economy is more complex, and states differ greatly in the means by which they try to accomplish that.

All of the theories and policies we have examined involve a debate over the state's proper role in a nation's development. Of all these perspectives, "liberal" and "social" market orientations provide the most extreme positions. Classic liberals maintain that "government is not the solution, it is the problem." Thus the state's role should be the minimal measures necessary to help markets be as free as possible. Social market adherents scoff at such notions as the "magic of the marketplace" and "the less government the better." More, not less, government is needed to overcome entrenched poverty, inequality, and a host of other socioeconomic ills. In a truly just democratic system, the state should provide citizens with cradle to the grave protection.

Neomercantilists reject both the liberal and social market visions as unrealistic. To say that the state should do everything or nothing, they argue, is absurd. Instead, the state's role should be to maximize the creation and distribution of wealth, by whatever means possible. The ways a state aids development will inevitably vary greatly from one country to the next, given their vastly different needs, resources, cultures, political systems, and aspirations. The means may also vary just as greatly within a country as it develops and its needs, resources, and aspirations change.

America's laissez-faire traditions are the exception in a world in which states have traditionally guided economics, often with a heavy hand. Both neomercantilist and welfare state adherents would argue that "classical laissez-faire liberalism may be a wasteful, experimental approach to economic problem-solving in a technocratic global economy with resource scarcity and payoffs for tightly structured teamwork."[26]

Why do states have the economic orientations that they do? Among the industrial countries, there is a clear distinction in the state's role between "early" and "late" industrializers. Britain and the United States industrialized early, and the state played a secondary role in each country's development. One reason was that in those days industrial competition between and within countries was limited and thus there was less political pressure by industrialists on the state for protection and guidance. A liberal political and commercial culture in both countries was perhaps equally important. For countries that industrialized relatively late like Japan and Germany, the state took a much more active role in guiding development through protectionism and investing in strategic industries. The strong statist tradition of Japan and Germany was also an important reason. More recently, the NICs of East Asia—South Korea, Taiwan, Singapore, Thailand, Malaysia, and China—have all pursued variations of Japan's development strategy.

Which strategy is the best means for maximizing economic development and national security? Historically each strategy has chalked up its share of successes and shortcomings. And it must be remembered that every country's policies are shaped by a mix of all three strategies, with usually one dominant.

CHAPTER 6

# Global Battles among the Economic Superpowers

*If we could get a freer flow of trade...so that one country would not be deadly jealous of another and the living standards of all countries might rise...we might have a reasonable chance of a lasting peace.*

*Cordell Hull*

*Free competition between two nations which are highly civilized can only be mutually beneficial in case both of them are in a nearly equal position of industrial development, and that any nation which owing to misfortunes is behind others in industry, commerce, navigation...must first of all strengthen her own individual powers, in order to fit herself to enter into free competition with more advanced nations.*

*Friedrich List*

## The Global System and Hegemony

With modernization all the world's countries and individuals, to varying degrees, are drawn ever more closely into an ever more complex dynamic economic, political, technological, ethical, communications, transportation, psychological, and cultural web popularly known as "globalization" or "interdependence."[1] That phenomena is perhaps most evident in trade. An American middle-class home may include a German car whose engine was assembled in Mexico, a Japanese stereo system whose components were made in Malaysia, clothing from China, Italian shoes, a shingle roof made from Canadian timber, and so on. How many foreign goods can you find in your home?

Globalization can have its drawbacks. The greater the interdependence, the greater the vulnerability of nations and individuals to events taking place around the world. For the United States, a recession in the European Union or a stock market crash in the Far East can mean less demand for

American goods, and thus the economy will slow, many people will lose their jobs, less wealth will be created and distributed, and the nation's power will diminish. Likewise, foreign competition can bankrupt domestic firms, throw people out of work, and thus degrade national wealth and power. So, not surprisingly, interdependence and conflict among nations rise in lock-step, as each government charges that its native firms and economy are damaged by the state and corporate practices of other nations.

Yet even as globalization increases international conflict, it softens it. The greater the interdependence between two countries and the more symmetrical their development levels, economic sizes, and types of trade, investment, financial, cultural, and travel ties, the less likely that any nation would consider severing its foreign economic relations, let alone go to war, over a clash of interests. They simply need each other too much.

The wealthier a country, the greater its interdependence with all others. Only 15 percent of the world's population lives in rich countries yet they produce 85 percent of the world's wealth and 65 percent of its trade. About 75 percent of the advanced countries' trade and investments are with each other. Within rich countries, wealth is relatively equitably distributed, with at least two of three people belong to the middle class.

"Hegemonic stability theory" explores global economic relations with an emphasis on the advanced industrial countries.[2] Adherents argue that the global economy needs a leader or "hegemon" that can manage and supply the system with capital, markets, technology, and military security. Britain performed this hegemonic role for much of the nineteenth century and the United States for much of the twentieth century and into the twenty-first century.

A hegemon is not just the world's most powerful state; it is a state dedicated to creating and nurturing a global free trade system. It does so first by opening its own markets to foreign goods and services, and sending finance and investments overseas, then by enticing others to do the same. Hegemons can also bolster the global economy by setting up international organizations or regimes.[3] Washington, for instance, led the creation of three regimes that formed the superstructure of the global economy—the International Monetary Fund (IMF), World Bank, and General Agreement on Trade and Tariffs (GATT) or World Trade Organization (WTO) since 1995. Without hegemonic leadership, protectionist forces can stunt and distort global trade, investments, and growth, leaving nearly everyone worse off. Hegemonic Stability Theory is grounded in history—the inability of Britain and unwillingness of the United States to lead the global economy during the 1920s led to depression and economic nationalism in the 1930s.

The same forces by which a nation becomes the global economy's hegemon inevitably undermine that power. Britain in the early twentieth century and the United States in the late twentieth and early twenty-first centuries exhausted themselves from the economic and military costs of leading the system, and thus declined in relative power as other states surged in manufacturing, technological, and financial dynamism. Both Britain and the United States had trouble getting their allies to "burden share." A major reason for a hegemon's decline is the "free rider" problem whereby countries enjoy the benefits of the open global system while protecting their own markets and giving little aid to the poor or defense against aggressors to protect the system. The United States free rode on Britain's hegemony just as Japan and, more recently, China have free ridden on American hegemony.

In this chapter we analyze the geoeconomic conflict and cooperation among the advanced industrial nations in an ever more interdependent world, and their attempts to resolve globalization's conundrums. It will first compare the political economic orientations and strategies of the four economic superpowers, the United States, Japan, the European Union, and China. It then analyzes some of the major disputes among the giants.

## The Economic Superpowers

As the world's largest national economy, the United States remains the global economy's leader even though it suffers from worsening trade and payments deficits.[4] Of America's 700 billion trade deficit in 2007, $256 billion was with China, $107 billion with the European Union, and $82 billion with Japan. In contrast, China, Japan, and the European Union annually run immense trade and payments surpluses, and compete fiercely with the United States in most industries and technologies. The European Union's economic bulk is the largest, but its members bicker over unification and lack economic dynamism and innovation compared with the United States, Japan, and China.

### *The United States*

The powers and policies of America's government have changed over time to adapt to new political, economic, and social challenges.[5] The United States began in 1775 as a weak confederation of thirteen sovereign states that were barely able to win an independence struggle let alone overcome worsening socioeconomic problems. A political consensus arose to create a more powerful state. In 1787, the United States adopted its current constitution that created a federal system whose power and duties have

**Table 6.1** The Economic and Trade Superpowers, 2007

| | *GDP (trillions of dollars)* | *Population (millions of dollars)* | *PPP* |
|---|---|---|---|
| World | 66.6 | 6.677 | 1,000 |
| European Union | 14.3 | 494 | 32,300 |
| United States | 13.8 | 303 | 45,800 |
| China | 6.9 | 1.300 | 33,600 |
| Japan | 4.2 | 127 | 5,200 |
| *Merchandise Trade* | | | |
| | *Exports* | *Imports* | *Balance* |
| *United States (dollars)* | | | |
| European Union | 247.2 | 354.4 | –4256.2 |
| Japan | 62.7 | 145.4 | –82.7 |
| China | 65.2 | 321.4 | –256.2 |
| Total | 1.645.7 | 2.345.9 | –700.2 |
| *European Union (euros)* | | | |
| Total | 1.166.1 | 1.350.5 | –184.4 |
| United States | 269.5 | 178.3 | 91.2 |
| Japan | 43.7 | 77.8 | –34.1 |
| China | 71.6 | 230.8 | –148.2 |
| *Japan* | | | |
| United States | $145.4 | $62.7 | $82.7 |
| *European Union* | e77.8 | e43.7 | e34.1 |
| China | $147.8 | $127.0 | $20.0 |
| Total | $712.7 | $621.0 | $91.6 |

*Sources*: WTO, EU, CIA World Fact Book.

*Note*: In billion of either dollars or euros.

expanded steadily to deal with new problems and public demands. For instance, in 1913, the constitution was amended to establish an income tax to raise desperately needed revenues and the Federal Reserve System to regulate the money supply. Today the national government consumes nearly a quarter of Gross National Product (GNP) and regulates directly or indirectly virtually all economic sectors.

Among the most vital changes has been the distribution of power and duties between the president and congress. The constitution grants Congress the power to regulate the economy and trade while the president simply enforces those laws and regulations. That division of labor was largely uncontroversial for most of the nation's history.

The turning point from the president's largely passive to an active role as economic manager-in-chief occurred in the early 1930s. America's stock market crash and subsequent great depression discredited the dogma of classic liberal economists that government should let markets regulate themselves. Unbridled speculation had created then popped a huge stock bubble. The resulting depression was deepened by President Herbert Hoover's hands off response. While the economy was sinking further into depression, Hoover actually called for federal spending cuts to balance the budget. He also signed into law the 1930 Smoot-Hawley Act that raised tariff barriers 40 percent amidst the Great Depression. Adherents justified the bill by claiming it would protect workers from being displaced by trade. But in reality protectionism worsened the depression and joblessness as foreign countries cut off their markets to American firms.[6]

Upon becoming president in 1933, Franklin Roosevelt amassed ever more powers and duties for managing the economy. In his first 100 days in office, he pushed fourteen bills through Congress which, by a variety of means, stimulated the economy with greater government spending and programs. That was the first time that Washington had ever tried systematically to smooth out business boom and bust cycles. During World War II, the government shifted its policy from stimulating specific economic sectors to direct management of virtually the entire economy.

Yet another decisive shift in federal powers and duties initiated by Roosevelt was the consensus on the importance of international trade for American prosperity. Under the 1934 Reciprocal Trade Act, Congress ceded some of its trade management power to the president by authorizing him to negotiate trade treaties and submit them to both houses that could then vote for or against without any amendments. Congress has periodically renewed the president's "fast track" or, as it is called today, "trade enhancement authority." Another huge boost in the executive branch's power to manage trade came with the 1988 Omnibus Trade Act that allowed the president to retaliate against foreign dumping and other unfair practices that can harm America's economy.

Every president from Roosevelt to Obama has committed the United States to the rhetoric if not the reality of free trade. In practice Washington at times intervenes as deeply in its economy as any neo-mercantilist country. The difference is that Washington picks industrial winners and losers largely through a political process in which the most established industries pour money into the reelection funds of enough politicians until they are rewarded with a range of government subsidies, protection, and other advantages. The power of the agribusiness and textile lobbies, for instance, have enabled them to receive vast government largess and import protection far beyond their relative importance to the economy. Other industries like semiconductors, computers, software, and aerospace, and microelectronics industries, to name a few, were favored by being part of the military industrial complex.

Many critics denounce that piecemeal, political approach as harmful to America in an increasingly competitive, interdependent global economy. While Washington heaps vast amounts of welfare upon already well-established industries like agribusiness, many other economic sectors vital to American wealth and power often go begging. The president and congress often do not try to protect a vital industry or technology like microelectronics or automobiles until after foreigners have battered it with an array of neomercantilist tactics and then bought out the stocks and patents of the bankrupted companies. Analysts Martin and Susan Tolchin write that "none of America's major trading partners subscribe to the U.S. vision of free trade. None regard technology with the cavalier notion that ownership doesn't matter—unless they are the owners. Instead each nurtures technologies it deems vital to its economic competitiveness in the 21st century."[7]

America's relative economic power has shifted sharply over the decades. America's share of the global economy shrank from 50 percent in 1945 to its nadir of 21 percent in 1989 before expanding to 25 percent in 2001, and then falling back to 22 percent by 2009. Although many forces shaped those changes, Washington's policies have been central.

### *Japan*

No government has more systematically nurtured strategic industries, corporations, and technologies into global giants than that of Japan.[8] Tokyo's neomercantilist strategy was so successful in developing Japan's economy that it surpassed the United States by most measurements during the 1980s. Japan's economy annually grew an average 10 percent, four times America's 2.5 percent rate, from 1950 to 1973, and an average 4.5 percent, or more than twice America's rate from 1974 through 1989. Then, from 1989 through 2009, Japan's economy expanded only 1.3 percent a year, as that nation failed to revive from a collapse of its financial and real estate markets. During that same time America's economy grew twice as fast as Japan's. Overall, Japan's economy grew from 3 percent of global GNP in 1950 to peak at 18 percent in 1989, and then recede to 15 percent in 2009.

Yet there is more to economic power than sheer size. In 1985, Japan became and remained the world's greatest net creditor country until it fell into second place behind China in 2006. Meanwhile, the United States plummeted into the world's worst and ever worsening debtor. While America has suffered trade deficits since 1971, Japan has enjoyed trade surpluses since 1965. In 2007, Japan boasted a $91 billion surplus while the United States racked up a horrendous $700 billion deficit! Of their exports, 96 percent of Japan's and only 65 percent of America's were manufactured goods.

Japan has achieved this remarkable development by following rational policies designed to create, distribute, and secure wealth. The Ministry of Finance (MOF) and Ministry of International Trade and Industry (MITI) led the devising of five-year plans that developed most of the strategic industries and technologies. Other ministries such as Construction, Transportation, Posts and Telecommunications, Education, Justice, and so on have their own industries that they carefully nurture. Each industry, in turn, is organized into an industrial association and cooperates in both writing and implementing government policies through cartels, the diffusion of technology, import barriers, and export promotion.

Obtaining foreign technology has been a vital component of Japan's rise into an economic superpower. The 1949 Foreign Exchange Control Law and 1950 Foreign Investment Law gave Tokyo enormous powers to restrict foreign trade and investments. Unable to export to or invest in Japan because of government restrictions, foreign firms often simply licensed their advanced technology to their nascent Japanese rivals as the only way to make money there. Between 1950 and 1980, the Japanese spent about $10 billion buying or licensing over 30,000 foreign technologies that the foreign companies had spent anywhere from $500 billion to $1 trillion to research and develop![9] Japanese firms used that technology to modernize their factories and mass-produce inexpensive products, which they then sold and often dumped at below production costs around the world in order to capture large-market share and drive their rivals out of business.

As important as rational industrial, technology, and trade policies to Japan's success were macroeconomic policies that maintained a high savings/investment ratio and an undervalued yen. Although the household savings rate has fallen from about 35 percent to 3 percent of income from 1950 to 2009, the current rate is much higher than America's negative 2.5 percent. Tokyo traditionally encouraged high savings by limiting such government benefits as welfare, education, and social security, and keeping consumer prices high and credit limited. Consumers thus had to save a huge proportion of their income not only to educate their children and survive after retirement but also, without access to credit, to pay for an automobile or home. Tokyo further limited the investment opportunities for savers by providing mostly bank or post office savings accounts, which paid very low interest rates. Tokyo then channeled those vast savings—the Postal Savings Bank assets alone in 2007 were $2.9 trillion or 40 percent of all of Japan's banking assets and four times larger than the world's largest commercial bank—into cheap loans for strategic industries, which in turn invested the money into the most advanced production techniques and technologies.

Also vital to Japan's development was an undervalued yen. Originally set at 360 yen to a dollar in 1949, the yen became increasingly undervalued as Japan's economy expanded over the next twenty-two years. The yen remained weak after Nixon forced the yen's revaluation to 308 to a dollar in December 1971, and even after the yen like other currencies began to float in 1973 Tokyo has used a variety of means to keep it weak. The Bank of Japan continuously intervenes in global currency markets to buy dollars and sell yen. The Finance Ministry restricted foreign investments in Japan while allowing ever more Japanese overseas investments, and similarly restricted the use of yen in trade, all in an attempt to limit demand for yen that otherwise would raise its value.

The dynamic core of Japan's economy are its six major industrial groups (keiretsu) whose combined economic activity accounts for 25 percent of GNP. Each keiretsu has a range of interrelated manufacturing firms in steel, petrochemicals, microelectronics, automobiles, mining and metal forging, shipbuilding, aerospace, and so on. These firms are largely financed by the keiretsu bank, trading firm, and insurance company. Each corporation within the keiretsu either wholly or partially owns scores of smaller subcontracting and distribution firms. About 70 percent of each keiretsu's stock is directly owned by other keiretsu members or affiliates, and even by other keiretsu. There are scores of smaller keiretsu. Washington and Brussels have complained for decades that the keiretsu discriminate against foreign firms and violate antitrust laws. But Tokyo refuses to break up such vital sources of Japan's power.

Japan's institutions and policies were not created and implemented in a void. They would have never succeeded if the United States had not imposed revolutionary political and economic changes during its occupation of Japan from 1945 to 1952. First, the United States pumped in $2.2 billion of humanitarian and development aid, and then contributed tens of billions of dollars more through the procurement policies of its military forces based in Japan and the region. The United States scrapped Japan's totalitarian political system and replaced it with a democratic constitution that guarantees the full spectrum of human rights. The Americans also pushed through land, labor, and industrial reforms, which co-opted the major proposals of the socialist and communist parties, thus allowing the conservatives to establish political power they have held nearly continuously since 1945. In addition, the Occupation authorities forced Tokyo to adhere to strict macroeconomic policies and set the yen at a rate whereby all of Japan's major industries could export successfully. The Americans created MITI and helped launch the industrial and technology policies that fueled Japan's economic development. While America's defense burden averaged 6–7 percent of GNP, the United States allowed the Japanese to keep their defense spending at around 1 percent of GNP, which meant that the Japanese had 5 percentage points of GNP more to invest in far more productive consumer industries. The United States overcame the resistance of the Europeans to integrating Japan into the regional and global systems. Finally, the United States continues to keep its own markets largely wide open to Japanese goods while tolerating firmly closed Japanese trade and investment markets.

As Japan caught up to the United States and Europe in the 1980s, Tokyo embarked on a "leap-frog" or "technology-substitution" strategy whereby it tried to jump far ahead of its competitors industrially and technologically. That strategy was successful. A 1992 Commerce Department report revealed that Japan was ahead in ten of twelve technologies considered essential for an advanced economy in the twenty-first century, and neck-and-neck with the United States in the other two technologies.[10]

Japan's industrial policies became less important as its economy grew more complex and powerful. While MITI and other ministries continue to target industries and technologies for development, their ability to force recalcitrant firms to cooperate with their rivals has dwindled as corporate financial power has grown. Tokyo has dismantled most of the more blatant trade and investment barriers, and its tariff rates are now lower than those of either the United States or European Union.

So why does Japan continue to export so much and import so little? A mix of Japanese dumping, trade barriers, and a chronically undervalued yen explain that reality. Walls of subtle but potent trade barriers limit the volume and raise the costs for imports, thus gutting their competitive advantage. With windfall profits at home, Japan's corporate giants can afford to dump their products at a loss in foreign markets and drive their rivals into bankruptcy. Having conquered the market, the Japanese firms then raise prices to recoup earlier losses. An undervalued yen makes Japanese exports cheaper and foreign imports more expensive. That is the essence of Japanese neomercantilism.

That is bad news for all countries that bear the brunt of Japanese neomercantilism. If the economists are correct and a country loses 20,000 jobs for every billion dollars of its trade deficit, the United States suffered 1,640,000 fewer jobs from its $82 billion trade deficit with Japan in 2007. That is an economic blow to America. But the trade deficits of poorer countries with Japan are economic disasters. Their industries are locked into vicious cycles of ever less investment, production, sales, and profit until they either go bankrupt or are bought out by their Japanese or other foreign rivals. Aggression is not just a geopolitical phenomenon.

Successful development depends on integrating traditional and modern values and institutions. Although Japan's contemporary political and economic system is superficially modern, it is built upon traditional values and institutions. The Japanese have achieved a societal-wide consensus over where and how they want their country to develop. No country has surpassed Japan in creating, distributing, and securing the sources of wealth.

### *The European Union*

The greater the economic, social, cultural, and environmental interdependence among states, the more unthinkable it becomes that they would use violence to assert their interests against each other. Federalism is a theory that recognizes those benefits of integration, and advocates uniting peoples, policies, and markets through a web of economic and political institutions.

**Table 6.2** European Union Economic Power and Membership, 2007

| | *Population (millions)* | *PPP (dollars)* | *HDI Rank* | | *Economic Freedom* | |
|---|---|---|---|---|---|---|
| | | | *EU* | *World* | *EU* | *World* |
| European Union | 494.8 | 32,300 | | | | |
| Austria | 8.3 | 38,400 | 8 | 15 | 13 | 30 |
| Belgium | 10.5 | 35,300 | 10 | 17 | 8 | 20 |
| Bulgaria | 7.7 | 11,300 | 26 | 53 | 22 | 59 |
| Cyprus | 0.8 | 46,900 | 16 | 28 | 9 | 22 |
| Czech Republic | 10.3 | 24,200 | 18 | 32 | 16 | 37 |
| Denmark | 5.4 | 37,400 | 7 | 14 | 3 | 11 |
| Estonia | 1.4 | 21,100 | 24 | 44 | 4 | 12 |
| Finland | 5.3 | 35,300 | 4 | 11 | 7 | 16 |
| France | 64.1 | 33,200 | 5 | 10 | 20 | 48 |
| Germany | 82.3 | 32,300 | 13 | 22 | 10 | 33 |
| Greece | 11.1 | 29,200 | 14 | 24 | 26 | 80 |
| Hungary | 10.1 | 19,000 | 20 | 36 | 18 | 43 |
| Ireland | 4.2 | 43,100 | 1 | 5 | 1 | 2 |
| Italy | 58.8 | 30,400 | 12 | 20 | 23 | 64 |
| Latvia | 3.4 | 17,400 | 25 | 45 | 17 | 38 |
| Lithuania | 3.4 | 17,700 | 23 | 43 | 10 | 26 |
| Luxembourg | 0.5 | 80,500 | 11 | 18 | 6 | 15 |
| Malta | 0.4 | 53,400 | 19 | 43 | 19 | 47 |
| Netherlands | 16.4 | 38,500 | 3 | 9 | 5 | 13 |
| Poland | 38.1 | 16,300 | 21 | 37 | 27 | 83 |
| Portugal | 10.6 | 21,700 | 17 | 29 | 21 | 53 |
| Romania | 21.6 | 11,400 | 27 | 60 | 24 | 68 |
| Slovakia | 5.4 | 20,300 | 22 | 42 | 15 | 25 |
| Slovenia | 2.0 | 27,200 | 15 | 27 | 25 | 75 |
| Sweden | 9.1 | 35,100 | 2 | 6 | 12 | 27 |
| United Kingdom | 60.7 | 35,100 | 9 | 16 | 2 | 10 |

*Source*: CIA World Fact Book.

The European Union (EU) provides the most successful example of international integration.[11] Federalists had advocated European unity throughout the early to mid-twentieth century, arguing that Europe's perennial problem of war could only be solved by dissolving the endlessly squabbling sovereign nations into one grand European state. That drive for European unity became increasingly powerful after World War II as Europeans feared the ultimate revival of German economic and military power. Rather than isolate Germany, the federalists proposed integrating Germany within Europe's larger economy. With the Cold War, Washington joined the integrationists, seeing an economically united Europe as the best bulwark against possible Soviet expansion.

There was perhaps no more fervent federalist than former French foreign minister Jean Monnet, who argued: "There will be no peace in Europe if countries build up their strength on the basis of national sovereignty . . . The countries of Europe are too limited to assure their people the prosperity that modern times afford . . . Larger markets are needed. Prosperity and social development are inconceivable unless the countries of Europe unite into a federation or a European entity which in turn creates a common economic union."

Europe's integration has evolved through a series of stages. While Monet advocated political and then economic union, the opposite has occurred. In May 1950, France and West Germany announced that they were uniting their coal and steel industries in order to create economies of scale and alleviate tension between them. The following year in April 1951, six states—France, Italy, West Germany, the Netherlands, Belgium, and Luxembourg—signed the Paris Treaty that created the European Coal and Steel Community (ECSC). In 1957, those states signed the Rome Treaty, which created the European Economic Community (EEC) whose members pledged to gradually reduce their trade barriers toward each other and create common external tariff and nontariff barriers. They also signed a treaty in which they agreed to standardize and work jointly to develop their nuclear energy industry, an organization known as Euroatom. In 1967, the EEC and Euroatom were merged into the European Community (EC). The EC's membership expanded along with its economic integration: Britain, Ireland, and Denmark in 1973, Greece in 1981, Spain and Portugal in 1986, Austria, Sweden, and Finland in 1994. In 1986, the twelve signed the Single European Act whereby they pledged to remove all remaining trade barriers by December 31, 1992, and rename their association the European Union (EU). The largest expansion of members occurred in 2004 when Poland, the Czech Republic, Hungary, Slovenia, Estonia, Lithuania, Latvia, Malta, Cyprus, and Slovakia joined the EU, bringing the membership to 25 countries. The latest members are Bulgaria and Romania that joined in 2007, bringing the current total to twenty-seven countries and half a billion people.

Creating a customs union was only the first step to economic union. The EU could never truly unify without a central bank and currency. The first vital step toward that goal occurred in December 1978 when the members created the European Monetary System (EMS) in which the currencies would be tied to each other with 2.5 percent fluctuation margins, the system would float against other currencies, and the system would be anchored by the creation of European Currency Units (ECU), the European equivalent of IMF SDRs. The German central bank and the deutsche mark played a role for the European Community similar to what the United States Federal Reserve and dollar do for the global economy.

The second stage toward financial union was taken with the December 1991 Maastricht Treaty, by which the members promised to merge their national banks and currencies into one European central bank and currency by 1997 at the earliest and 1999 at the latest. Europeans were evenly divided over whether or not they supported this measure. Throughout the summer and fall of 1992, one by one, each member voted on the Maastricht treaty, either through parliament or referendum. In June, Denmark voted down the treaty in a referendum with 51 percent against. In France's September referendum, ratification passed with only 51 percent of the vote. Although eleven of the twelve EC members eventually voted for the treaty, the ratification had to be unanimous in order for the treaty to take effect. Throughout 1993, the members renegotiated the treaty to make it universally acceptable. By autumn 1993, all the members had ratified the treaty allowing financial union by 1999. In order to join the monetary union, members agreed to adhere to strict fiscal and monetary discipline—budget deficits are not allowed to exceed 3 percent of GNP or inflation more than 1.5 percent above the average of the three lowest members' inflation rates. On January 1, 1999, eleven of the fifteen EU members joined their currencies and central banks; the other four have promised to join sometime during the first decade of the twenty-first century. Then on January 1, 2001, the eleven members withdrew their respective currencies and replaced them with the "euro." Since its creation the euro has become the most common currency after the dollar, and by 2009 was 30 percent stronger than the dollar; fifteen of the twenty-seven EU members have adopted the euro.

Until a constitution was implemented in December 2009, the EU was governed by a "Commission"—which is located in Brussels—whose members are appointed by the member states. The Commission receives broad directives from the "Council" of government and ministry leaders that meet throughout the year to address vital issues. Unlike the Commission, the European Parliament is popularly elected. Located in Strasbourg, the powers of its 785 members are advisory rather than legislative. The European Court of Justice (ECJ) serves as the Union's supreme court and is located in Luxembourg. The EU's bureaucracy has grown steadily with its expanded duties, from 1,000 in 1960 to 25,000 today. The EU pays for its operation by receiving 1 percent of each member's value added tax (VAT) or sales tax.

European Union policies largely reflect those of its member states. None of the European states have ever entirely abandoned the mercantilist outlook and policies of the early modern era. Far more than Americans, Europeans intervene in their respective economies to systematically nurture strategic industries. The EU members are also, to varying degrees, welfare states that heavily subsidize their citizens' health, education, income, and employment.

Yet, unlike Japan, Brussels has no overall five-year development plans that target virtually every economic sector for government protection and nurturing. European industrial policy is actually a collection of policies for specific industries and technologies. In the EU's 2007 budget of 120.7 billion euros, the Common Agricultural Policy (CAP) got 45 percent, regional development 30 percent, foreign policy 8 percent, research and development 5 percent, and most of the rest helped fund an array of social, environment, and international programs. Contrary to the popular image, the EU actually has one of the world's most cost-efficient governments; administrative costs account for a very modest 6 percent of the budget.

Brussels helps develop an array of industries and technologies that can boost the competitiveness of European businesses against their American, Japanese, and other foreign rivals. From the 1980s, the EU has implemented such high technology policies as the European Strategic Program for Research and Development (ESPRIT) and Research and Development in Advanced Communications Technology (RACE). Brussels has also helped raise $180 billion for the development of a high speed train network known by its French initials, TGV. The EU's most successful industrial policy has been its development of Airbus that in the late 1990s surpassed Boeing in aircraft sales. The EU is also committed to alleviating with regulations the safety, pollution, labor, and other problems that industrialization spawns. As the continent's environmental problems worsen, the Union has issued strict standards on water and air pollution, energy use, and waste disposal.

There is no question that the EU's array of policies have been successful. Between 1960 and 2008, trade among the members rose from 35 percent to 65 percent of their total trade, while the EU's percentage of world trade rose from 25 percent to 40 percent. Europeans are far more wealthy and economically dynamic than if their respective countries had not integrated. Yet despite these achievements, there is a great debate among those who want to broaden the Union by adding more members, those who want to deepen it by working toward a genuine federalism, and those nationalists who want to opt out altogether.

European leaders are rethinking the concept of "subsidiarity" that appeared in the Maastricht Treaty. The concept is Europe's equivalent of American federalism; any powers not constitutionally given to the national government revert to state and local government. But about half of the European public and many of its leaders oppose the federal United States of Europe that subsidiarity implies. The close votes over ratification of the Maastricht Treaty and more recent constitution reveal that there is great fear among many that they are giving away their national sovereignty and identity for rule by "Eurocrats" and perhaps domination by a unified Germany.

That reluctance explains why it took four years, from 2005 to 2009, and several rejections and revisions of a constitution before it was finally ratified by the members. The latest version of the constitution of the European Union was the Treaty of Lisbon, signed in December 2007, and entered into force on December 1, 2009. The new constitution creates a president who is elected by the European Council of heads of government and serves for two and a half years. The European Council and Council of Ministers now use a qualified majority rather than unanimity to reach decisions. Parliament has expanded powers to make laws. High Representatives for Foreign Affairs and Security Policy try to present a united European voice in world affairs. While the European Union remains split by deep political, economic, and cultural divisions, it is becoming an ever more powerful player in global politics.

### *China*

And then there is the world's newest economic superpower.[12] In 2009, China's economy surpassed Japan's to become the world's second largest national economy after the United States. The Chinese have achieved that largely by emulating Japan's neomercantilist strategy.

That path to economic superpower was hardly easy. Policies shape a nation's fate. Sensible policies can nurture prosperity just as senseless policies can impose misery on a country. China provides an excellent example of both. In the three decades following the 1949 Communist conquest of China, radicals and pragmatists battled for control. More often than not the radicals won and the resulting policies were disastrous, miring the country in poverty and at times provoking famines that killed tens of millions of people.

**Table 6.3** The Economic Imbalance of Power between the United States and China, 2007

| | *United States* | *China* |
|---|---|---|
| GDP | \$13.8 trillion | \$6.9 trillion |
| PPP | \$45,800 | \$5,300 |
| Economic Growth 1980–2007 | 2–3% | 8–9% |
| Current Account | –\$12,987,100,000 | \$363,000,000,000 |
| Current Account Rank | 164 | 1 |
| Foreign Reserves | \$75,850,000 | \$7,601,536,000 |
| Foreign Reserves Rank | 23 | 1 |
| Global Competiveness Rank | 1 | 34 |
| HDI Score | 0.951 | 0.777 |
| HDI Rank | 12 | 81 |
| Globalization Score | 80.83 | 65.26 |
| Globalization Rank | 19 | 37 |
| Least Corruption Rank | 20 | 72 |

*Sources*: CIA World Factbook, WTO, and World Bank.

The turning point occurred in 1979 when Deng Xiaoping's pragmatist faction decisively defeated the radicals and took power. Deng embarked on policies of reducing central planning, privatizing the economy, and encouraging free markets, entrepreneurship, exports, foreign investment, and a get rich mentality. The results have been astonishingly successful. China's economy has annually grown 8–9 percent ever since. If the current growth rates hold, China's economy will be \$16 trillion and its people will enjoy a \$10,000 per capita income by 2025, an extraordinary achievement. Much of that growth is fueled by soaring trade surpluses. By December 2009, China had nearly \$2.3 trillion in foreign currency reserves, the world's largest.

China was accepted into the WTO on December 11, 2001. In return, Beijing promised to adapt its legal and financial systems to international standards of openness and fairness, and offer uniform standards to all investors, Chinese and foreign. With its inexpensive, skilled labor, China has become the world's largest recipient of foreign investments.

As China becomes ever more economically powerful, it is increasingly being criticized for the same neomercantilist practices and results that made Japan so notorious. Despite Beijing's promises to conform to international standards, many foreign corporations still complain of formidable levels of corruption, nontransparency, favoritism, and red tape when they try to do business in China. For years, Washington has pressured Beijing to resolve issues over China's worsening trade surplus with the United States; the pirating of American products, the disrespect for foreign copyrights and trademarks; the undervalued Chinese currency, the yuan; and ever more shoddy, toxic products that imperil the health and safety of consumers.

China is an anomaly among the four economic superpowers. While the United States, Japan, and European Union are liberal democracies, China has a communist government and an ever more privatized economy. While Soviet communism crumbled, China's "communist" rulers remained in power by following the opposite policies—they at once made sweeping economic reforms and maintained tight political controls.

Beijing is using its economic superpower to increase its political influence. It is elbowing Japan aside as the dominant economic and political power in East and Southeast Asia, whose governments and peoples mostly enjoy the benefits they can reap by playing the two giants off against one another. China is a permanent member of the UN Security Council and thus is involved in all of the world's most vital issues. The Chinese are rapidly modernizing their military forces, although spending only a fraction of that of the United States. Its geopolitical concerns are mostly internal, with the priorities of somehow wooing back the breakaway island province of Taiwan and ensuring that the non-Chinese provinces of Tibet and Xinjiang remain firmly under Beijing's control.

China's transformation into an economic superpower is not just creating ever more wealth, but ever more problems as well. Hundreds of millions of Chinese remain mired in poverty, and perhaps a hundred million are homeless and wander the land in search of food, shelter, and work. Thickening pollution chokes Chinese cities and poisons soils, waters, and forests. Livestock are devouring, trampling, and eroding once vast grasslands. Severe deforestation, desertification, water shortages, droughts, and sandstorms engulf ever more regions. Once rich soils are washed or blown away or poisoned by chemical pollution or salination. China's worsening environmental problems are not confined within its frontiers. In 2008, China surpassed the United States as the worst emitter of global warming gases.

The worst immediate economic crisis that China faces is the worsening energy bottleneck. China's demands for energy is soaring with its growth rate and supply is not keeping up with demand. During the 1990s, China was transformed from a net-exporter to net-importer of energy. The burning of coal fuels three-quarters of China's energy needs. To fill China's growing energy demands, Beijing has pursued a policy of cutting deals with oil producers around the world. China's voracious thirst for oil is a major reason why global oil prices have soared in recent years.

Also, there are the related political problems. Ironically, China's rulers may be undermining their own legitimacy and power through their successful economic policies. In 1989, hundreds of students and other sympathizers occupied Tiananmen Square in Beijing and called for democracy.

The government responded by massacring the protesters. China's democracy movement collapsed. That only briefly stifled demands for reform. Each year, ever more protests erupt across China. In 2004 alone, 3.7 million people participated in 74,000 public protests.

**The Chinese Threat?: China versus America**

Does China pose a present or future threat to the United States?[13]

As for geopolitics, America's conventional and nuclear forces dwarf those of China. In 2008, Washington's $711.0 billion defense budget was nearly seven times larger than Beijing's $121.90 billion. The United States had 1.3 million active and 1.2 million reserve troops capable of fighting and winning wars virtually anywhere around the world. China had 2.4 million active and 600,000 reserve troops with little or no capacity to win wars against its powerful neighbors like Russia, Vietnam, India, South Korea, or Taiwan. America's 200 warships and 9,030 warplanes were far superior not just in numbers but more importantly in deadliness to China's 125 warships and 3,632 warplanes. As for nuclear power, China has 20 single warhead DF-31 ICBMs capable of hitting America's west coast, while the United States has 2,325 warheads atop 550 ICBMs, 3,616 warheads atop 432 SLBMs, and 1,578 bombs and missiles aboard 92 bombers, all of which are capable of reaching Chinese targets.

Most analysts agree that China lacks both the capacity and will to militarily attack the United States. The only threat Beijing poses is to its breakaway island province of Taiwan; the Chinese have repeatedly warned that they will attack Taiwan if its government in Taipei, the capital, formally declared independence. But even then China does not now have the conventional power for a successful invasion. Assuming that it could achieve that in the future, the costs of doing so soar and any benefits plummet as China's geoeconomic integration with the global economy steadily deepens. China's economic partners would sever or restrict economic ties, plunging China into depression and chaos. That alone should deter a Chinese attack on Taiwan. Thus do geoeconomic interests swallow geopolitical ambitions.

Yet the future is never certain. Although China does not threaten the United States, alienating China could create an animosity that otherwise would not exist. Like so many other people around the world, the Chinese are as attracted by American culture as they are repulsed by many American policies. In China as elsewhere, while there is a reservoir of good feelings toward the United States, it is not bottomless. The accidental bombing of China's embassy in Belgrade in May 1999 provoked pent-up Chinese rage; Chinese officials orchestrated a mob to pelt the American embassy with rocks that smashed windows and terrified personnel. Then came Washington's attempts at derailing Beijing's ambitions to host the Olympics, and the drawn-out negotiations over China's membership in the WTO. Those animosities climaxed with the spy plane crisis of April 2001, which

Secretary of State Colin Powell managed in a way that allowed both sides to declare victory and then back off.

To come to a much more realistic question, does China pose a geoeconomic threat to the United States? A comparison of some leading measures of economic power reveal an imbalance between the two. America's economy is number one in competitiveness and more than twice the size of China's, while the average American enjoys eight times more income than the average Chinese. The United States is also much more developed and globalized, and less corrupt than China. China's economy, however, has grown three times faster than that of the United States over the past three decades, and is number one in its current account and foreign reserves.

China's trade surplus with the United States continues to skyrocket, hitting $256.2 billion in 2007. For now that surplus is not as serious as it seems. Most Chinese goods complement rather than compete with those of the United States. Many of the factories selling to the United States are actually owed by American corporations. China's huge surplus makes it vulnerable to a cutoff by Washington in a crisis, which in turn would collapse China's economy. Thus China's prosperity and the continued legitimacy and power of its ruling Communist Party depend on the United States. The wealthier the Chinese people become, the greater the Communist Party's legitimacy and more likely that its rule will remain largely unchallenged. The Communists do not want to jeopardize their rule by risking an economic let alone a military war with the United States.

China's ties with the United States are more than economic. Nearly a million Chinese have immigrated to the United States over the past twenty-five years. Over 50,000 Chinese students are currently studying in America, while over 500,000 have done so since 1979. Among those are the children of China's elite, including the previous president, vice president, and prime minister. President Jiang Zemin's son got a PhD in electrical engineering from Drexel University and currently is a business executive who makes frequent trips to the United States. The daughter of vice president Li Peng studied at MIT and now works for a company with strong business ties to the United States. Prime Minister Zhu Rongji's son studied and worked for ten years in the United States and is now a senior executive in a joint venture between the two countries. If you were a Chinese leader and had children with similar ties to America, how would it affect your perceptions of and policies toward the United States?

Yet Beijing holds a potential economic trump card in any conflict with Washington—the Chinese have got Americans by the bonds. President George W. Bush's spend and borrow policies resulted in America's national debt soaring from $5.6 trillion when he took office to $11.5 trillion by January 2009. Washington has to cover that swelling mountain of debt by selling treasury bonds that are essentially "I owe yous" with interest. By April 2008, foreign creditors held $2.6 trillion or half of that debt, of which China owned $502 billion or the second largest share after Japan's $592 billion.

A foreign government's power to shape Washington's policies rises with the proportion of America's national debt that it owns. In an economic showdown with Washington, Beijing could stop buying new treasury bonds and dump those that it holds. That would force Washington to sharply raise interest rates to attract other lenders, at the severe cost of an recession. Yet Beijing would be unlikely to assert that economic "nuclear" option since it would incur huge penalties for prematurely cashing its bonds while America's subsequent recession would mean less demand for Chinese products.

For now China's geoeconomic threat to the United States is muted. But what about a generation or so in the future? China is emulating Japan's neomercantilist policies of targeting industries for development, dumping exports, and restricting imports. That neomercantilist strategy allowed many Japanese industries and technologies to catch up to and sometimes surpass their American rivals. Will it do the same for China? Or will the United States maintain its lead? Will the geoeconomic partners of today become future rivals?

China's prosperity deepens with its interdependence with the global political economy. Any military aggression would provoke international sanctions that would cripple China's economy and discredit communist rule. Thus, as with all other countries, as China's geoeconomic interests expand, they steadily push aside and eventually displace any potential imperialist ambitions. The pragmatists running China understand that. China already plays a largely constructive role in international relations, and most likely its national interests will dictate that it become even more responsible in the decades ahead. Time will tell.

Four major events occurred in 2008 that revealed all the paradoxes of China's astonishing rise into an economic superpower. The only one that Chinese took pride in was their hosting of the Olympics. A terrible earthquake struck the region of Sichuan, killing over 100,000 people and leaving a million homeless; shoddy construction of buildings, especially schools, contributed to the horrendous death toll. Violent protests broke out in the province of Tibet by natives against long-standing Beijing policies of trying to eliminate their culture and assimilate them into Chinese culture. Finally, that year China earned the notorious distinction of surpassing the United States as the world's worst emitter of greenhouse gases.

In the decades ahead, as China's middle class further expands in numbers and wealth, people will increasingly demand more political freedoms as they did in neighboring South Korea and Taiwan. The Chinese Communist Party will most likely continue to rule the country as long as national prosperity does not falter. But in transforming China from communism to capitalism, the ruling party's name will be ever more ironic.

And even if those political reforms do not occur, all signs indicate that China's economic power will continue to swell. If their current growth rates hold steady, China's economy will surpass that of the United States in size within the next decade.

## Conflicts of Interdependence

### *GATT and WTO*

The international organization dedicated to expanding and regulating international trade was known as GATT from 1947 until 1995, when it was renamed WTO. GATT largely accomplished its mission. During its four decades, GATT's members engaged in eight extensive negotiation rounds that succeeded in gradually reducing tariffs for all of its members, especially the industrialized countries. The Tokyo (1973–1979) and Uruguay (1986–1992) rounds achieved significant results in addressing nontariff barriers, intellectual property protection, and trade in services and agriculture. GATT's membership expanded from 23 to 135. Members agreed, among other things, to fulfill the "most favored nation" principle that any concession granted to any other member must be granted to all members.

The WTO, today 153-countries strong, carries on GATT's work. Like the GATT, the WTO faces sharp challenges to fulfilling its mission. Although the WTO's powers to pressure members into fulfilling their pledges are greater than GATT's, they remain inadequate. As with the GATT, members can bring disputes before WTO panels, which can issue judgments. GATT panel decisions were merely advisory; WTO's are legally binding. Compliance, however, is still voluntary since the WTO lacks enforcement powers. The WTO has yet to close many legal GATT loopholes that allow various forms of trade discrimination. Members can still create regional free trade associations, discriminate in favor of less developed countries, and temporarily impose higher trade barriers to offset persistent trade deficits. Like the GATT, the WTO also fails to address the more insidious and effective nontariff trade barriers such as government red tape, business cartels, import licensing, export subsidies, and undervalued currencies that some countries, most notoriously Japan and China, use to throttle the penetration of competitive imports.

States and corporations use a range of strategies to fight trade wars. The most devastating weapon is "dumping," whereby corporations sell their goods at a loss in a foreign market to drive rivals into bankruptcy and then recover earlier losses by raising prices and enjoying windfall profits. The WTO allows states to defend themselves against dumping if it can be proved that the sales are at a loss and have damaged the domestic industry. The victim can then retaliate by imposing tariffs (duties) on the predator country's imports to compensate for the wealth lost from the dumping attack. The more open and larger a nation's markets, the more vulnerable it is to a dumping offensive. As the two largest and most open economies, the United States and European Union continually struggle to fend off destructive dumping attacks.

But those successes followed only after years of industrial losses from foreign dumping. Often the duty is imposed too late after the domestic industry has been weakened or destroyed. In the 1970s, America lost its television industry because it failed to respond to a decade of sustained Japanese dumping. Still a successful case against one dumper can deter other rivals from attacking.

WTO panels can take years to decide a case. To prevent being wiped out, a victim may try to cut a deal with the aggressor, which are variously known as voluntary restraint agreements (VRAs), voluntary export restraints (VERs), or Orderly Marketing Agreements (OMAs). The trouble is that these arrangements tend to reward rather than punish the predatory firms and their country with set market shares.

So far the WTO's attempts to further reduce trade barriers have failed. Protesters disrupted the 1999 Seattle Conference. The delegates themselves deadlocked at the 2003 Cancun Conference over issues like agricultural subsidies, intellectual protection, and dumping. That deadlock continues to persist.

Will future WTO conferences be as contentious and unproductive as those at Seattle and Cancun? Most likely so. Those workers, firms, and industries that cannot keep up in the globalization race demand protection from their governments. Most governments are doing what they can to protect their economies from being trampled beneath globalization's ever swifter and more powerful pace. States are finding more sophisticated means not just to protect their home markets and promote domestic industries, but to capture foreign markets. All these practices violate WTO principles. The number of WTO panels cannot keep up with the violations that provoke them.

### *Multinational Corporations*

What do today's financial and manufacturing corporate giants linked with instantaneous communications dominating the global economy have in common with an age in which business leaders wore powdered wigs, scratched out instructions with quill pens, and depended on the fastest hoofs or winds to carry their messages to distant underlings? Not much you might say. But appearances may be deceiving.

Multinational corporations (MNCs), which conduct business in two or more countries, are globalization's cutting edge. They have been around a long time. During the late Middle Ages, family firms like the Fuggers based in Augsburg, Germany, and the Medici in Florence, Italy, conducted trade, extended credit, and nurtured industries across Europe. Most of the ships that sailed to the earth's far ends during the early modern era were privately owned by corporations that received a charter from the crown to explore, conquer, and govern distant realms. The British East India Company and the Hudson Bay Company in particular enjoyed monopoly rule over vast territories. From the eighteenth through the twentieth century, scores of other MNCs emerged to conduct business and investments around the world.

Today's world is girded together by tens of thousands of MNCs whose ranks swell daily. That proliferation of MNCs at once shaped and was shaped by the telecommunications, microelectronics, and transportation revolutions in which huge ships filled with containers packed with goods can cross the largest oceans in days, jets can crisscross the globe in hours, and with a few taps on a keyboard billion dollar financial deals can be consummated in a split second.

MNCs control every imaginable type of business—extraction (mining, logging, oil-production), agriculture, manufacturing of both finished and semifinished goods, finance (banking, investing), and services (insurance, tourism, wholesale and retail sales, advertising, management, transportation, public utilities). The larger MNCs are involved in all those businesses. An MNC's control over its foreign subsidiary ranges from whole to partial ownership. Many MNCs will form joint business ventures with other MNCs or local entrepreneurs to spread the investment risks. Others prefer to maintain a wholly owned subsidiary because they have total control over its operations. When an MNC buys up an existing factory, office, or business or builds a new one, it makes a "direct investment" in that country. When an MNC buys stocks, bonds, or other financial assets, it makes a "portfolio investment."

Although increasing numbers of MNCs come from newly industrializing countries, the United States, European Union, and Japan account for about 80 percent of all MNCs; 75 percent of the foreign investments of those MNCs was among themselves. Those three powers have very mixed feelings about foreign MNCs investing in their economies or their own MNCs investing abroad.

Periodically, the host countries for those foreign investments have expressed concern over the impact on their economic and political vitality. In the 1960s, many Europeans feared that a mounting tidal wave of American investments threatened to overwhelm European firms and lead to the continent's economic colonization.[14] During the 1980s, the overpriced dollar and higher trade barriers attracted a huge wave of foreign investment into the United States, prompting some Americans to fear that their sovereignty faced extinction. Martin and Susan Tolchins' book *Buying into America* and Pat Choate's *Agents of Influence* made powerful cases that this foreign investment was hindering rather than helping America's economic development. The Tolchins revealed how foreign corporations succeeded in lobbying California and other states to repeal their unitary taxes that taxed both foreign and domestic firms on their global rather than local sales to limit their ability to engage in transfer pricing. Choate pointed out that Japan's government and businesses annually spent at least $400 million at the federal, state, and local level to influence policy in their favor, an amount greater than the total spent by America's leading business federations.[15]

While the business and political practices of some foreign corporations that invested in the United States were criticized, American MNCs were blasted for exporting or outsourcing jobs, wealth, and tax revenues by investing overseas. Once the United States largely exported products; each year American MNCs build ever more things overseas and export them back to the United States. Economists dismiss these criticisms as groundless, arguing that free trade and foreign investments are always good, and if other countries do not reciprocate America's relative openness they are only hurting themselves. Political economists dismiss that economic dogmatism and instead try to determine the relative merits of American investments abroad on a case-by-case basis.

The EU has dealt with the problem of transfer pricing and worsened trade and payments problems by setting "domestic content" laws for some products. For example, an automobile built in Europe must contain at least 45 percent parts made within the Union to be considered European. In 1988, Brussels allowed France to block the importation of 300,000 Japanese television sets that were assembled in Europe but failed to meet domestic content standards.

Washington has restricted foreign investments much less than Brussels. Citing "free trade," the Reagan and Bush administrations blocked congressional efforts to push through domestic content laws similar to those of Brussels. However, the United States does have considerable power to limit the activities of foreign firms in the United States. The 1976 International Investment and Trade in Services Act and 1977 International Emergency Economic Powers Act let the president block or force the divestiture of any foreign acquisition of an American firm that is considered vital for America's national security. Presidents have rarely used these laws. Fearing that disclosure would inhibit foreign investment in the United States, the Reagan administration blocked the Bryant amendment to the 1988 Omnibus Trade Bill that would have required foreign firms to disclose the details of their operations. Critics blasted Reagan's policies as unilateral economic disarmament.

There is conflicting evidence over the positive and negative effects of foreign investments. MNCs clearly affect the trade balance. For example, the automobile VER that Washington negotiated with Tokyo in 1981 was partially an attempt to encourage Japan's manufacturers to invest directly in the United States in the hope that it would help reduce Japan's growing trade surplus. Japan's automakers did open factories in the United States during the 1980s, but those investments actually worsened the trade deficit since most of the components were shipped from Japan.

Most studies indicate that American foreign investments actually help America's trade and payments accounts.[16] Were it not for American MNCs and their foreign subsidiaries, America's trade deficit would be much worse. American corporations selling to their foreign subsidiaries account for about 35 percent of all American exports. It is argued that the exports from the United States would have often been lost whether the American MNC invested abroad or not as other foreign firms simply filled the gap. If American MNCs invest abroad, they continue to hold on to those markets. MNCs tend to buy goods and services from their subsidiaries rather than from local businesses. In all MNCs investing abroad can boost their home country's payment and trade accounts, and stimulate greater research and development.

There are winners and losers in any economic transactions, but overall foreign investments between advanced industrial countries are probably a net gain for all. Yet, while the fears of foreign investments may be exaggerated, there may be good reasons for states to regulate the type, amount, and practices of some foreign investments. Those foreign investments that do not compete directly with domestic industries or buy up real estate usually have a net positive effect on that country. But when foreigners buy out a nation's cutting-edge corporations, industries, and technologies, that nation is usually worse off.

### *Trade Blocs*

The global economy is increasingly defined by three trade blocs comprising the European Union (EU), North American Free Trade Association (NAFTA), and the East and Southeast Asian countries known as the Asian Pacific region. Together those blocs account for nearly half the world's population and 90 percent of its wealth.

A trade bloc's strength can be measured in several ways. One is its degree of intraregional trade as a percentage of total trade. In 2007, by that measurement, the EU was the most cohesive of the blocs with two-thirds of its trade intraregional, NAFTA was next with about half, and the Asian Pacific with about one third.

**Boon or Bane?: NAFTA**

The United States has attempted to boost its economic growth and bargaining power with other countries by forging a free trade association with its neighbors. In 1988, the United States and Canada signed a free trade agreement whereby they would eliminate tariffs and nontariff barriers toward most of each other's exports. In 1991, the United States, Mexico, and Canada began negotiations to create a NAFTA. A treaty was signed in May 1992, but most in Congress vowed to vote against it for fear that the United States would lose jobs to Mexico. During the 1992 campaign, candidate Bill Clinton supported Bush's treaty in principle but vowed to overcome its defects by negotiating labor and environmental side-agreements. In his first year as president, Clinton negotiated his promised agreements with Mexico and, after a major push during the autumn to rally congressional support, succeeded in gaining NAFTA's ratification by November 20, 1993.

NAFTA proponents promised that lower trade and investment barriers would enrich all three countries. Opponents predicted a disaster. Who was right? That is not an easy question to answer. It is difficult if not impossible to separate the socioeconomic effects of NAFTA from other global economic forces upon the three countries. A country's relative gains or losses from membership in a free trade zone are partly related to its relative dependence on trade with the others. The United States is far less dependent on Mexico and Canada than those countries are on the United States. About three-quarters of Canada's trade and half of Mexico's is with the United States while only about one-third of America's trade is with its partners.

Initially all three countries experienced more job losses than gains as the lower trade barriers resulted in floods of imports that damaged certain industries. Mexico, for instance, suffered worsening unemployment in agriculture because its small scale, low technology peasants could not compete with the flood of cheap food produced by American agribusiness corporations. Over the long term, however, NAFTA may have helped each country experience slight net increases in productivity. As for jobs, only Canada has enjoyed net increases in employment while the United States and Mexico have suffered net job losses. Income inequality has soared in all three countries.

Whatever its merits as an economic alliance, the United States has lost jobs to Mexico and Canada since 1993. The primary reason, however, is not the reduction of trade barriers among those countries. America's market was largely open to imports from both countries before 1993. Mexico and Canada were forced to lower their much higher barriers to roughly equal those of the United States. The most important reasons for the shift in trade flows and jobs were the halving of the Mexican peso's value and lesser devaluation of the Canadian dollar since 1993, combined with the direct investment of American corporations in both countries to take advantage of cheaper labor and, in Mexico, weak environmental laws. Those corporations then sell part of their production back to the United States. Most of the American jobs lost to foreign investments by American firms would have disappeared anyway as globalization forces all businesses to search the world for the cheapest and most skilled labor. NAFTA advocates argue that it was better for those firms to invest in America's neighbors than elsewhere in the world.

Those American corporations that set up shop in Mexico mostly do so to take advantage of wages that are one-seventh those in the United States. Only 1 percent of production costs are related to environmental regulations; therefore, few firms would relocate to Mexico only because of its lax environmental protection. Jobs lost in the United States to Mexico would have disappeared even without NAFTA since American corporations would have had to respond to the ever fiercer foreign competition by either investing overseas in cheap labor countries or declaring bankruptcy.

NAFTA may well have hurt Mexico more than it helped. Real wages and jobs have declined sharply since Mexico joined NAFTA. The most important reasons for those losses, however, may not be directly related. During the peso crisis of 1994 and 1995, the currency's value and thus its buying power was halved. With globalization, foreign investors can shift jobs to countries with skilled lower wage labor. The employment in the "maquiladoras" or duty-free manufacturing zones in northern Mexico is one-third today than it was in the early 1990s as investors set up shop in Asia, especially in China.

Conditions most likely will worsen for Mexico and thus the United States and Canada. For decades Mexico's population has grown faster than its jobs, making ever more people poorer. That poverty may well soar in the coming decades. Three of ten Mexicans are below fifteen years old. That huge demographic bulge is demanding jobs that do not exist; therefore, millions of Mexicans immigrate to the United States and Canada where they can find work. This influx of immigrants floods low-skilled job markets and thus lowers wages in those countries while exacerbating problems such as more crowded schools, welfare payments, and crime .

If NAFTA's costs have been and remain evident, one can only speculate whether the United States, Mexico, and Canada have been better or worse if NAFTA had never existed.

Another measure of a trade bloc's power is whether it exports more than it imports from the others. By that standard the Asian Pacific is by far the strongest while NAFTA is the weakest. Yet another way of determining a bloc's strength is to measure its relative trade dependence in relation to the others. NAFTA is by far the most important because the other two blocs depend on America's huge affluent market as a magnet for imports. That gives NAFTA the potential to use the threat of closed

**Table 6.4** The NAFTA Community: Socioeconomic Comparisons, 2007

| | |
|---|---|
| Total Population | 445,335,091 |
| Total GDP | $15.857 trillion |
| PPP Average | $35,491 |

| | *United States* | *Canada* | *Mexico* |
|---|---|---|---|
| Population | 304,516,000 | 33,309,000 | 106,682,000 |
| People below 15 Years | 20.1% | 16.3% | 29.6% |
| GDP (trillions) | $13.849 | $1.266 | $1.346 |
| PPP | $45,800 | $38,400 | $12,800 |
| HDI Rank | 12 | 4 | 52 |
| Corruption Rank | 20 | 9 | 72 |
| Poverty Rate | 12% | 10.8% | 25% |

*Sources*: World Health Report 2000, World Development Bank Indicators, CIA World Fact Book, Nationmaster.com.

**Table 6.5** American Trade with Mexico and Canada (in billions of dollars)

| | *Mexico* | | | *Canada* | | |
|---|---|---|---|---|---|---|
| | *Exports* | *Imports* | *Balance* | *Exports* | *Imports* | *Balance* |
| 2007 | 136.092 | 210,714 | –74,621 | 248,888 | 317,056 | –68,168 |
| 2002 | 94.470 | 134.616 | –37,145 | 160,922 | 209,087 | –48,165 |
| 2000 | 111,349 | 135,926 | –24,577 | 178,940 | 230,838 | –51,897 |
| 1995 | 46,292 | 62,100 | –15,808 | 127,226 | 144,369 | –17,143 |
| 1990 | 28,279 | 30,156 | –1,877 | 83,673 | 91,380 | –7.706 |
| 1985 | 13,634 | 19,131 | –5,497 | 47,251 | 69,006 | –21,755 |

*Source*: U.S. Census Bureau.

markets counter European or Asian dumping and protectionism. The Asian Pacific bloc is especially vulnerable. Although most of that bloc's countries run trade deficits with Japan, they enjoy trade surpluses with the United States. By going to the brink of trade war, NAFTA could force the Asian Pacific countries to dismantle its mercantilism. NAFTA has yet to muster that enormous potential power in its perennial trade conflicts across the Pacific.

An all-out trade war among the blocs is unthinkable since the result would be "mutually assured economic destruction." Autarky or the severing of one's economic relations with other countries is nearly impossible in an ever more interdependent world. For instance, although two-thirds of the EU's foreign trade is among its members, that does not mean that Europe's continued prosperity is any less dependent on the global system.

**Table 6.6** The East Asian Bloc, 2007

| | *Population (millions)* | *GDP (billions of dollars)* | *PPP (dollars)* | *HDI* | *Corruption* |
|---|---|---|---|---|---|
| Japan | 127.6 | 4,289.8 | 33,600 | 8 | 17 |
| China | 1,333.2 | 6,991.0 | 5,300 | 81 | 72 |
| South Korea | 49.2 | 1,200.8 | 29,800 | 26 | 43 |
| Taiwan | 23.1 | 695.3 | 26,700 | 24 | 34 |
| Philippines | 92.6 | 299.6 | 3,400 | 90 | 131 |
| Malaysia | 25.2 | 357.4 | 13,300 | 63 | 43 |
| Thailand | 65.4 | 519.4 | 7,900 | 78 | 84 |
| Singapore | 4.6 | 228.1 | 49,700 | 25 | 4 |
| Indonesia | 237.0 | 837.8 | 3,700 | 108 | 143 |
| Vietnam | 86,1 | 221.4 | 2,600 | 30 | n.a. |
| Brunei | 0.3 | 19.6 | 51,000 | 105 | 123 |
| Total | 2,044.3 | 15,659.9 | | | |

*Source*: Nationmaster.com
*Note*: n.a.—not available.

The same can be said of America's fifty states; more than 80 percent of all trade occurs within the United States and less than 20 percent with foreign countries. Yet America's foreign trade generates an increasingly vital slice of the economy, up from about 10 percent in 1960.

While trade squabbles present, there will be no return to the "beggar-thy-neighbor" currency devaluations and high trade barriers of the 1930s. Foreign trade and investments will continue to expand. Geoeconomic relations, however, will be increasingly managed between countries and blocs to prevent anyone from garnering too many benefits by following predatory industrial, technology, investment, and trade policies. As it does for individual countries, that greater geoeconomic management will mean more rather than less global trade and prosperity. As globalization deepens and thickens, the pressures on governments will build to become more neomercantilist while at the same time such policies will become ever less effective.

### *Managing and Mismanaging the Global Economy*

If trade blocs tend to sow conflict among the geoeconomic superpowers, one vital issue brings them together. They have a common interest in working in harness to keep the global economy steadily expanding. As the global economy's hegemon, the United States has led those efforts even though its hegemony is steadily diminishing as the economies of the European Union, Japan, and China grow relatively more powerful.

When those efforts fail and the global economy falls into a recession, the economic superpowers have to redouble their efforts to reinflate it.

Since 1945, the global economy has faced three deep recessions. The Organization for Petroleum Exporting Countries (OPEC) caused the first two when it sharply quadrupled oil prices in 1973 and 1974 and further doubled them in 1979 and 1989. The United States caused the third and worst recession of all in 2008 and 2009.

How and why did the United States do that? It may have been unintended but it certainly was predictable and could have been prevented had Washington followed different policies after 2000. America's economy is usually the global economy's "engine of growth"—when Washington stimulates growth within the United States those same policies provide or demand goods and services with the rest of the world, and that in turn creates and distributes wealth around the world.

Indeed that is what happened from 1993 to 2000. President Clinton's policies of cutting back government spending, making government more efficient, cutting taxes for the poor, raising taxes for the rich, negotiating over 200 trade deals that further opened foreign markets, and giving American firms incentives to invest in cutting-edge technologies and other productive investments stimulated an American economic renaissance. America's economy never grew more efficiently. In 1996, the federal government began running budget surpluses and the incomes of most Americans (adjusted for inflation) began to rise for the first time since 1973. Economists predicted that the United States would eliminate its entire national debt within a decade if those policies were continued. That did not happen.

Instead, President George W. Bush did the opposite by giving massive tax cuts to the rich, vastly increasing government spending, and gutting laws, regulations, and other policies that curbed the market's worst excesses. The result was ever more reckless speculation by huge financial firms with subprime loans, derivatives, and other devices. That swelled debt bubbles in the real estate and stock markets that eventually burst. One financial giant after another teetered on the brink of bankruptcy. If one of those "too big to fail" giants collapsed, it would drag down all the others along with the rest of the global economy. The result would be a global depression as bad as that of the 1930s.

The Bush administration responded by giving nearly $800 billion dollars to the financial giants and encouraging the European Union, Japan, and China to do the same to their own tottering financial corporations. After President Barack Obama entered the White House, he expanded the bailouts to include the automobile industry and got Congress to pass a $878 billion stimulus program that rebuilt economic infrastructure like roads, bridges, and railroads, and encouraged businesses to invest in energy efficient equipment. The European Union, Japan, China, and other countries launched their own stimulus plans. Those efforts slowed and eventually stopped the global economy's freefall. By fall 2009, the global economy was slowly expanding again.

The lessons for managing the global economy were clear. Clintonomics provided a model for how to promote sustainable economic growth that at once created and widely distributed wealth; Bushonomics, in contrast, was a model of how to simulate speculative bubbles that eventually pop and leave nearly everyone worse off, especially the middle class and poor. Those were very expensive lessons. Trillions of dollars of wealth and tens of millions of jobs were destroyed around the world before the efforts of the economic superpowers began to revive the global economy.

## Consequences

Since 1945, the global economy has been enormously resilient, continuing to expand despite the occasional oil price hikes, recessions, trade battles, and stock market and financial crashes. Global GNP has expanded over twenty-five times and trade over thirty times in volume since 1950, and continues to increase at average annual rates of 5 and 7 percent, respectively. In 2008, over $7 trillion in goods and services were traded internationally, around 20 percent of total global GNP. The four great geoeconomic powers—the European Union, United States, Japan, and China—account for over 80 percent of world GNP and 75 percent of its trade.

The benefits of world economic growth and trade, however, have not been evenly distributed among the participants. Some countries have grown faster than others and thus there have been huge shifts in the geoeconomic power imbalance. Although overall globalization undoubtedly boosts prosperity, there are clearly winners and losers. Jobs, wealth, revenues, firms, and entire industries can be lost as well as gained from the global flow of trade, investments, and finance. Economists estimate that a nation loses 20,000 jobs for every billion dollars it suffers in trade deficit. So America's trade deficit of nearly $700 billion in 2007 meant that over 14 million more Americans were jobless than would have been the case if there were a trade balance. The $82 billion deficit America suffered with Japan translated into 1.6 million net lost American jobs. Some have argued that the United States is "deindustrializing" or being "hollowed out" by the effects of American multinationals "outsourcing" jobs abroad and foreign multinational corporations and governments engaging in unfair trade and investment practices against the United States.

In recent decades, the United States has declined relative to the rise of Japan, the European Union, and China. Between 1888 and 1971, the United States continuously enjoyed trade surpluses, which showed that America's industrial base was dynamic, diversified, and globally competitive. Since 1971, the United States has continually run trade deficits. The European Union's growth rate is comparable to that of the United States. But with 494 million compared to 303 million in the United States, the European Union's GNP is larger while its PPP is lower. Until its stock and real estate market bubble burst in 1990, Japan's economy grew twice as fast as America's and its GNP was poised to surpass that of the United States within a dozen years. Japan's growth lagged behind America's during the 1990s but caught again since 2000. China's economy has grown 7–8 percent from 1979 through today.

The United States and European Union continue to suffer vast trade deficits with Japan and China, and have become increasingly protectionist, restricting about 45 percent and 60 percent of manufactured imports, respectively. Meanwhile, Japan and China, largely because of foreign pressure, has become less restrictive. During the 1980s, the Reagan and Bush administrations tried to convince the other three economic superpowers "to be more like us," all the while imposing greater import restrictions. The Clinton White House was more protectionist in rhetoric as well as policy. "Fair" rather than "free" trade has been the battle cry from the 1990s into the twenty-first century. Trade battles among the three blocs—the European Union, NAFTA, and the Asian Pacific will become more frequent and bitter.

Despite these challenges and America's relative decline, the United States will continue to be the dynamic center of world trade and two vast regional systems spanning the northern Pacific and Atlantic basins. The reason is simple. There is no reasonable alternative.

CHAPTER 7

# The Global Development of Underdevelopment

*Unrest within a country is preferable to the calm of despotism.*

*Montesquieu*

*Democracy is flourishing; liberty is not.*

*Fareed Zakaria*

*The existing principles and patterns of world trade still favor mainly the advanced parts of the world.*

*Group of Seventy-Seven*

Modernization's core concept is "development," which is essentially how well a society adapts to the challenges of a rapidly changing world while fulfilling its goals and ideals.[1] A country develops economically when its wealth expands in a way that brings a higher living standard and quality of life to ever more people. It develops politically when its government adapts its institutions and policies to meet society's growing needs and desires.

Politics and economics are inseparable, hence the term political economy. Likewise, there is a long-term dynamic relationship between economic and political development. Political philosophers since Aristotle have observed that democratic political systems are rooted in middle-class societies. Today, although there are exceptions like Singapore and the Gulf states, almost all of the world's wealthiest states are liberal democracies. In contrast, aside from a few states like India or Costa Rica, authoritarian governments rule most poor countries.

That raises a classic chicken and egg question: are most countries poor because they are authoritarian or are they authoritarian because they are poor? A related question is the mix of internal and international forces that determine a country's relative degree and types of wealth and power.

Clearly there is a dynamic relationship between national development and global politics. A nation's development is shaped by the policies its government pursues in an increasingly interdependent world. Those policies and that development in turn can be helped or hurt by global forces. But internal forces like cultural values, traditions, and institutions, and available human and natural resources are just as crucial to understanding how far a country develops.

## What Is the Third World?

There are many names for the world's poorer countries: "the Third World," "the South" (since most of them are in the Southern Hemisphere), "the less developed countries" (LDCs), and "developing countries." These groups of countries are contrasted with "the First World," "the North," "the more developed countries," "the developed countries," and "the industrialized countries." The term "Second World" was used to designate industrialized socialist countries. With the collapse of communism in Eastern Europe and the Soviet Union, "Second World" has fallen into disuse.

None of these categories captures the economic diversity among nearly 200 countries. The terms "developed" and "developing" are inadequate. If development is synonymous with progress then most rich and many poor countries are "developing" as measured by achieving higher living standards and quality of life. If measurable progress is truly unending then we cannot say any country is ever truly "developed." The labels North and South work no better since there are many poor countries in the Northern Hemisphere and some rich countries in the Southern Hemisphere. Although the terms "more" and "less" developed countries capture the relative differences in development, they lack precision in explaining exactly when a country is one or the other.

For convenience's sake, if nothing else, most people use the term Third World to designate the world's 160 or so relatively poorer countries and First World for the world's 30 relatively richer countries, which are members of the Organization for Economic Cooperation and Development (OECD). The term Third World (or *Tiers Monde*) was coined by French intellectuals in the 1950s as a means of distinguishing between the First World or American bloc and the Second World or Soviet bloc. The term "Third World" has been heavily criticized ever since, partly because it might denote "third rate" in cultural or ethnic as well as economic terms. Much worse is that the term groups too many very different countries together. Although Third World countries are said to share the common features of poverty and victimization by Western imperialism, these two characteristics are hardly universal

**Table 7.1** The Global Distribution of People and Income, 2007

| | *Population* | *GNI (dollars)* | *PPP (dollars)* |
|---|---|---|---|
| World | 6,612,040 | 52,621,403 | 9,816 |
| High Income (OECD) | 1,056,422 | 39,682,141 | 36,050 |
| Middle Income | 3,259,969 | 12,234,709 | 5,920 |
| Upper | 822,877 | 5,749,622 | 11,827 |
| Lower | 3,437,092 | 6,485,025 | 4,512 |
| Low Income | 1.205,737 | 748,811 | 1,441 |
| East Asia/Pacific | 1,914,107 | 4,173,534 | 4,925 |
| East Europe/Central Asia | 445,135 | 2,693,716 | 11,049 |
| Latin America/Caribbean | 562,775 | 3,117,969 | 9,226 |
| Middle East/North Africa | 313,433 | 875,613 | 7,091 |
| South Asia | 1,520,422 | 1,338,552 | 2,536 |
| Sub-Saharan Africa | 799,834 | 761,639 | 1,839 |

*Sources*: World Development Indicators database, 2008.

*Notes*: GNI Gross National Income is now used instead of Gross National Product (GNP), although they mean the same.
PPP—Purchasing Parity Power is the average income adjusted for the cost of living.

to those so designated. Not every poor country was a former colony. Iran, Turkey, Thailand, Ethiopia, Saudi Arabia, Liberia, Yemen, and China were never directly colonized, and most of Latin America gained its independence from Spain in the 1820s. Also, the degree of poverty varies so greatly from one country to the next that the category appears meaningless. For example, the development gap between Third World countries like, say, Bangladesh and Malaysia may be as wide as that between Malaysia and the United States (table 7.1).

Yet another criticism is that the term implies a shared political as well as economic orientation. Nothing could be further from the truth. Those countries grouped in the Third World include flourishing liberal democracies and brutal dictatorships; free market, mixed market and centrally planned economies; and pro-Western, non-aligned, and anti-Western governments. The Third World includes countries like China and India, both armed with nuclear weapons and huge armies, and with 1.3 billion and 1.2 billion people, respectively, and microstates like Nauru with 9,000 and Vanuatu with 23,000 people. Shiva Naipaul, the noted Trinidad novelist, rightly complained that the "Third World is a form of bloodless universality that robs individuals and societies of their particularity. To blandly subsume, say, Ethiopia, India, and Brazil under the banner of Third Worldhood is as absurd and as denigrating the old assertion that all Chinese look alike."[2]

Some argue that the term can have more meaning if we limit the category of Third World countries to those that have achieved relatively high degrees of economic, social, and infrastructure development, and have the potential to develop into First World states.[3] Countries like Argentina, Chile, China, South Africa, Costa Rica, Saudi Arabia, and Brazil would be among those designated as Third World countries. The "Fourth World" would include such countries as Botswana, Senegal, and Indonesia that remain poor, but because of their human and/or natural resources and development policies have the potential to develop further. The "Fifth World" would refer to those countries that are abysmally poor and most likely will remain so—Niger, Chad, and Bangladesh, to name a few. Finally, the "Sixth World" would refer to failing states whose conditions are worsening like Zimbabwe, or outright failed states that have imploded politically and economically like Somalia. This distinction among Third, Fourth, Fifth, Sixth worlds is certainly an analytical improvement.

The World Bank designation of 185 countries is the most precise. It divides states into four broad classes: The sixty-five high income countries have per capita incomes over $11,456; the forty-one upper middle income from $3,706 to $11,455; the fifty-four lower middle income from $936 to $3,705; and the forty-nine lower income below $935.

Wherever such lines are drawn, one thing is clear—four of five people on earth are poor; one of five in the world exists in poverty so crushing they are chronically malnourished and often diseased. And that raises some crucial questions.

## Why Are the Poor Poor?

About 20 percent of the world's people control 85 percent of its wealth, while the remaining 15 percent of wealth is spread among 80 percent of its population, best known as the Third World. Although most of the world's poor have enough food, clothing, and shelter to survive, starvation from disease, crop failures, or war annually kill tens of millions of people.

Why are the poor poor? Can every country in the world successfully develop? If so why have some poor countries managed to alleviate their plight, others have stalled, and still others have actually gotten worse? What can or should be done about the world's poor? Are economic winners and losers inevitable? Is the success of some actually built upon the exploitation, dependence, and continued poverty of others? Is the failure to develop largely a result of internal or international forces? Will these issues become more or less prominent in the twenty-first century? Two rival theories—dependency and modernization—offer conflicting answers to those questions.

Advocates of "dependency theory" and its cousin "world systems theory" take the Marxist notion of class struggle and apply it to international relations and economic development.[4] They split the world among the "core" advanced industrial countries, the "periphery" countries whose little income comes from sales of one or more natural resources like crops or minerals, and the "semiperiphery" that have some industry. In that international division of labor, the core countries exploit and suppress the periphery and semiperiphery countries.

How do the rich get away with that? Nearly all Third World countries are former colonies, that have not achieved genuine independence but merely a more subtle but no less effective form of exploitation called "neocolonialism." The plantations, mines, and factories first created by the imperial powers often remain in foreign hands and, regardless, remain economic enclaves or islands within the former colony. Little, if any, wealth from this production trickles down to the native population. Those countries that use much of their arable land to plant one or a few cash crops for export often end up importing most of their food. The poor countries are dependent on the industrial countries' markets, finance, technology, managerial expertise, and weapons. The core countries use that "dependence" to lock them into economic and political servitude. Multinational corporations (MNCs) corrupt the local elite by sharing profits with business leaders as investors and slipping bribes to public officials. The local elite then betray their own people by selling out their country and adopting the values and lifestyles of the Westerners. They send their money and children to safe havens abroad rather than employ them at home. The result is the "development of underdevelopment" in which the MNCs serve the same function in administering these countries as the old colonial governments did. Dependence and World Systems theories share those assertions, with the former emphasizing the internal and the latter the international dimensions of that relationship.

Advocates of "modernization theory" or classic liberalism argue that reality is far more complex than dependency theory allows.[5] They point to vast differences among countries within the so-called Third World and further argue that despite that diversity, most of the Third World is developing and the First World is becoming as dependent upon its markets, products, and resources as vice versa. Historically, countries are always rising or falling in relative wealth and power. A country's success or failure to develop depends primarily on its government's decisions. If a government pursues policies that strengthen political institutions, attract investments, and promote trade, the country will develop. If a government mismanages the economy, it has only itself to blame. While it is true that multinational corporations are powerful, even the poorest of Third World countries can harness them by playing them off against each other to get the best investment and trade deals from all. The less and more developed countries can use each other to mutual advantage. Despite these growing ties and contrary to the claims of dependency theories, the advanced industrial countries do not gain most or even much of their wealth from the Third World. About 80 percent of the trade and 75 percent of the investments of First World countries are with each other. Clearly, the advanced industrial states rely mostly on relations with each other for the bulk of their prosperity.

Who is right? As always, conflicting evidence can be marshaled to support both dependence and modernization theory. Overall, however, there is no doubt that the First World generates most of its wealth within itself rather than from the Third World, and in relative terms the Third World's importance to First World development is diminishing. Still, both the First and Third Worlds need each other, although the Third World depends on the First World much more than vice versa. The global economy can provide every country goods, services, technology, finance, managerial expertise, and ideas, which it otherwise would not have. Those Third World countries that have grown the fastest have been the most heavily involved in world trade. Yet the rules and power distribution within the global economy may well mean a very uneven playing field between First and Third World countries. And the profits of that Third World growth may mostly go to the native and international elite with little if any trickling down to those who most need it. Ultimately, the degree to which international and internal forces explains a country's development varies from one time and country to the next.

## Political Development

Newspaper headlines daily blare news of coups, mass poverty, violence, disease, or famine in far away countries. Less often, one can read stories of some nations that have experienced economic growth, rising health standards, or fair democratic elections. Whatever does happen is invariably related to how well or poorly that country's political system works.[6]

Leadership is crucial in determining a country's fate. Progressive leadership mobilizes a country's human and material resources to better the lives of ever more people. Alas, not all leaders are progressive. Max Weber identified three types of leaders—traditional, rational, and charismatic.[7] While the image of a tribal chief or imperial monarch may personify the notion of a traditional leader, anyone who tries to keep things as they are and resists change fits that type. In contrast, rational leaders are almost invariably part of modern systems of government organized with clear divisions of labor dedicated to managing specific problems and run by professionals chosen for their skills. Charismatic leaders are those whose mingled powers of personality, eloquence, and ideas can excite masses of people into enthusiastic followers.

Like all types, Weber's are not easy to apply to specific individuals let alone countries. In the modern world, many leaders may display characteristics of two or even all three types. And national leaders both shape and are shaped by the political systems they lead. Every Third World country can be located in transition somewhere between traditional and rational types of government. Those often cataclysmic changes occur regardless of whether a majority of the elite and masses actually want them. Globalization's ever quickening pace forces every country to try to keep up. The trouble is that many stumble and fall further behind.

During such periods of chaos and trauma, charismatic leaders often emerge to try to bridge that yawning gap between tradition and modernity. They mobilize the masses with their dynamism and vision for their nation's future. Often vague about the specific policies he will follow once in office, the charismatic leader captures people's hearts rather than minds. For the adoring people, he personifies their dreams for themselves and their group, whether it be a clan, tribe, class, race, religion, and/or nation. The leader serves as a role model and source of pride and national unity for most people. That in turn gives his regime stability while he attempts to fulfill his promises.

What explains the enormous psychological grip charismatic leaders have on the populations they rule? Intimidation is often as important as inspiration in keeping that leader in power. Lurking behind the stirring words and images are often brute force and even terror. Yet while control over the army, police, mass media, bureaucracy, and other institutions is undoubtedly crucial, even more important is the deep psychological need of most people to believe in a messiah who will make everything right. Charismatic leaders fulfill that need. Take, for example, Cuban dictator Fidel Castro who for five decades epitomized the charismatic leader. When Castro took power in 1959, Cuba had the highest living standards in Latin America; today it is among the very poorest. Yet he survived in power when almost any other leader with such disastrous policies would have been overthrown long ago. His magnetic charisma backed by brutal oppression explains his ability to survive. He had the power to electrify nearly all Cubans, including some of his critics, when they listen enthralled to his speeches. By continuing to mobilize the Cuban people against a mostly imaginary American threat, Castro distracted them from protesting communism's dismal failures.

Charismatic leaders often devise their own ideologies—Maoism, Nasserism, Castroism, Nkrumahism, Sukarnoism—to justify their acts and ambitions.[8] Many of those ideologies share the same themes. They identify a past golden age that was destroyed by Western imperialism. The leader promises to revive the nation's mythic glories by forging a modern, just society built upon workers and peasants. Although the population must be mobilized to devote itself to building a future ideal society, liberal democracy is deemed unsuitable for the nation's needs. Instead, the charismatic leader imposes a "social" or "guided" democracy in which he claims to listen carefully to the masses and fulfill their wishes. Likewise, the economy would be guided rather than being free. Although the country has cast off colonialism's shackles, the leader and people must remain vigilant against foreign powers. Western imperialism remains a threat that must be constantly thwarted.

Though they provide their countries a source of unity and pride, charismatic leaders are a potential danger. They are particularly notorious for generating a "revolution of rising expectations" that soon becomes a "revolution of rising frustrations" when they fail to fulfill their promises. The charismatic leader does not just beguile the masses. Cheered by adoring crowds and surrounded by sycophants, the dictator's egomania and megalomania bloats to grotesque dimensions. He squanders ever more scarce human, natural, and material resources on wasteful monuments glorifying himself rather than investing those resources in development.

Like the Wizard of Oz, circumstances may reveal the charismatic leader to be the very antithesis of his public image. Many a national "hero" is actually petty, shallow, vacillating, hypocritical, corrupt, cowardly, and cruel. When a population is loyal to an "ideal" person rather than to a constitution and its institutions, the regime can crumble swiftly after a leader is discredited. Chaos and violence often follow. Charismatic leaders are often loath to designate successors and bitter power struggle often erupt when he is driven into exile or the grave.

One by one the world's charismatic dictators are being replaced by a new generation of "rational" leaders better known as "technocrats." They are usually trained at Western universities and are dedicated to developing modern political institutions and economic sectors. Unfortunately, their efforts are usually stymied by the chaotic, corrupt, and poverty-stricken national legacy of their charismatic predecessors, and many of them succumb to the temptations of looting rather than nurturing their countries.

Any type of leader must operate within some type of political system that can impose order and implement policies. Stability is crucial for policies to take effect. As Samuel Huntington put it, "The primary problem is not liberty but the creation of a legitimate public order. Men may, of course, have order without liberty, but they cannot have liberty without order. Authority has to exist before it can be limited, and it is authority that is in scarce supply in those modernizing countries where government is at the mercy of alienated intellectuals, rambunctious colonels, and rioting students."[9] The more efficient and comprehensive the institutions, the more easily a government can rule and develop a country.

But institutions and order are not enough. Governments must be able to devise and implement policies that develop the economy and improve most people's lives. Until recently, communist countries experienced stability largely because of the communist party's ability to create a national organization that controlled every neighborhood, village, and workplace. But communism never succeeded in significantly raising people's living standard or quality of life. Although most observers were surprised by the democratic revolutions from 1989 through 1991 that swept away one communist dictatorship after another, the collapse of the communist bloc was inevitable (though Soviet Premier Gorbachev's revolutionary policies hastened its demise) given its developmental failures.

The most important political institutions for any country are the bureaucracy, security forces, political parties, interest groups, and news media. The bureaucracy gathers information and revenues, and plans and implements policies. Security forces like the police, intelligence agencies, and military try to suppress internal and international threats. Political parties link the government with the people; they act to mobilize the population and determine the people's needs and complaints. Interest groups lobby the political parties, bureaucrats, and politicians for privileges or redress of grievances. Finally, the news media is the nation's watchdog, investigating and exposing problems both within and beyond government. Political instability often results if one or more of those institutions are corrupt, inept, and/or disloyal. Often there is a glaring gap between the ideal and actual roles of those five crucial institutions in Third World countries.

Ideally, a bureaucracy is an apolitical set of institutions whose role is to gather information, present policy options to the leadership, and then implement the subsequent choices. The bureaucracy is divided into ministries or departments, each with specific duties—welfare, education, defense, industrial development, and so on. Bureaucrats or officials are highly educated and trained experts who conscientiously fulfill their respective ministry's responsibilities. They have been selected and are promoted on the basis of their skills.

Unfortunately, few national bureaucracies match this ideal. Third World bureaucracies tend to be huge drains on scarce financial, human, and material resources, and thus impede rather than promote development. In many countries, particularly less developed ones, the bureaucracy is simply a jobs program for those loyal to the government. Officials lack training, education, and commitment to their ministry's mission, and are often corrupt, inept, and wasteful. That was characteristic of bureaucracies in all the democratic industrial countries, including the United States, before a political backlash led to reforms that transformed them into the professional organizations they are today.

Reforms do not occur in isolation. Bureaucratic reform is an essential part of broader political development, which is interdependent with economic development.

Security forces are often the most developed institutions in Third World countries. The military, police, and intelligence agencies are organized in pyramids of power with clear lines of authority and obedience. Members are indoctrinated in the principle that they are professionals whose loyalty is to the country rather than to any one class, race, ethnic group, clan, and/or religion within it. Often, the military officers are trained overseas in the United States and elsewhere, while foreign experts help modernize the security forces.

Yet severe problems can lurk beneath the surface of even the most superficially modern of security forces. They can be bitterly split among factions eager for power, wealth, and vengeance. The loyalty of prominent members can be bought by foreign agents or domestic opponents. The result can be violence, corruption, and inefficiency, and, thus worsening political instability and economic problems.

Ideally, political parties mobilize segments of the population, provide a power base for elected officials, gather information on popular views and frustrations, socialize the population into certain attitudes and opinions, define issues, and criticize opposing parties. There is a wide spectrum of political parties and systems across the world's countries. Some parties have an extremely narrow scope and attempt to represent only a particular religion, ethnic group, or class. In contrast, "catch-all parties," as the name implies, strives to include as much of the population as possible under their banner. Many less developed countries are essentially "one-party" states that may tolerate opposition parties but dominate most reins of political, economic, and social power. Mexico's Party of the Institutionalized Revolution (PRI) ruled from 1929 until genuine multiparty elections were held in 2000. India's Congress Party ruled for decades until the 1990s when voters replaced it with a coalition of other parties. In addition to Mexico and India, genuine "multiparty" or "two-party" systems in which parties change power have succeeded most prominently in most Latin American countries and are emerging sporadically elsewhere.

Among the dangers lurking in any political system is that political parties will lose touch with their primary purpose—serving as a conduit of needs, ideas, support, and accountability between the government and the people. Since they already dominate the system and are not beholden to the public through competitive elections, political parties in one-party systems are especially apt to neglect their duty to address society's ills. Yet there is no guarantee that a multiparty system will better confront a country's problems than a one-party system. Many political parties in both multiparty and one-party systems are simply personal political machines created by politicians to win elections and maintain power.

Every social grouping be it religious, ethnic, regional, tribal, professional, gender, sexual, generational, racial, urban, or rural has distinct interests or needs that ideally government can better serve. Sometimes these interests form organizations and systematically lobby the government for help. There are six primary types of interest groups: (1) Business groups, which pressure government for more subsidies and protection from competition, fewer or no taxes, and often fewer or no safety, pollution, or wage standards; (2) Industrial Worker or Farm Labor groups, which support higher wages, health, safety, and job security standards for employees; (3) Consumer groups, which seek lower prices, and safer and better quality products; (4) Environmental groups, which advocate restricting business's destruction of the natural and human environment through their pollution, logging, mining, and construction; (5) Humanitarian and human rights groups, which advocate programs that help those who cannot help themselves and legal equality for all; and (6) Religious groups, which advocate policies based on the values of their sacred texts.

A key measure of a country's political development is the range and power of its interest groups. Governments ideally find a balance between giving too much or too little to the often contradictory, incessant, and excessive demands of interest groups. That happens best when there is a power balance among a profusion of contending interest groups. Few, if any, political systems achieve this ideal. Of the six types of interest groups, business interests tend to be the most powerful in most nonsocialist, secular countries; they gain the upper hand by their greater financial and organizational resources and thus overwhelm the often vocal but poorly financed and organized demands of labor, consumer, environmental, humanitarian, and religious interests. Next to that religious interests are often the most powerful, especially in the Muslim world where mosque and state are theologically considered inseparable.

Finally, the news media ideally are a vehicle for exposing problems and encouraging solutions. That so-called fourth branch of government is certainly vital to any liberal democracy. The trouble is that totalitarian states outright control the new media while authoritarian states try to manipulate the news media to hide rather than reveal problems and who or what is responsible for them. That can help keep those in power over the short term. But if the lies and cover-ups are too glaring it can undermine their power over the long term by provoking ever more mass cynicism and contempt rather than loyalty.

## Mobilization, Legitimacy, Corruption, and Inefficiency

"Mobilization" and "legitimacy" are two crucial ingredients for political development. Mobilizing the people's energies and loyalties is essential for political stability and economic development. The population must be convinced not only to support but also to make sacrifices for government policies and national identity. Under the right circumstances, the state can mobilize virtually anyone by appealing to their passions and/or reason, and does so through the mass media, political parties, and local patron-client systems.

Although mass rallies and constant "socialization" through the mass media are important, a government's success in mobilizing its population ultimately depends on its ability to tap into local "patron-client" relations. Patrons are usually local strongmen with wealth and political power who dispense favors— jobs, loans, housing, spouses, advice, information, help in starting or protecting a business, getting admitted to a college, and so on—to those in the community in return for their political loyalty and a portion of their income. Local patrons in turn become the clients for national leaders and parties in which each does favors for the other. Patron-client ties tend to diminish as a country modernizes and its citizens find alternate ways to advance their interests.

People are loyal to those individuals, institutions, and governments that they believe are legally, morally, and culturally legitimate. Politicians or at times entire political systems lose their legitimacy and loyalty if they are corrupt, inept, brutal, and/or grossly violate cultural norms. The ease with which the legitimacy of those in power are challenged, however, varies with a society's modernization level.

Traditional peoples generally do not question the actions or inactions of those who control them; they do not expect much so they do not demand much. Although modern individuals believe they can make a difference and thus question the policies and behavior of those in power, by definition a modern society provides most of its members with enough benefits and opportunities so that there is no need to challenge the culture's basic values and institutions. Modern individuals are loyal by choice, and they choose to remain loyal because most of their material and psychological needs are met. Traditional individuals are loyal because they cannot imagine being anything else. The most intense questioning of a political system's legitimacy comes from people within countries that are in a transitional stage between tradition and modernity. In transitional societies, political system are often unable to satisfy most people's needs, expectations, and demands.

Governments, corporations, bureaucracies, universities, and other institutions often hide behind elaborate curtains and manipulate "sound and light" shows designed to instill awe and devotion in their subjects. Presidents, claiming to personify the nation, are housed in massive buildings, presented with trumpets and motorcades, and surrounded by the symbols of office.

In any political system, a government's greatest power is the power to persuade. The more democratic the country, the more a government must try to convince a population to follow its policies. The more authoritarian a government, the greater the tendency to coerce a population into compliance with its policies. Coercive power, however, often proves ultimately to be self-defeating. Mass alienation deepens even if most people sullenly perform their duties. There are always at least a handful of radicals agitating for the government's overthrow. Too much economic deprivation or political brutality can swell the antigovernment forces' support and lead to civil war.

"Corruption" is the illegal use of public resources for private gain. Every society has a different threshold for how much corruption it will tolerate. If officials exceed that threshold there may be a backlash and they may end up in jail or against a wall. A society's corruption threshold varies over time and is related to the evolution from an agrarian into an advanced industrial nation. The more wealth a society produces and the fewer restrictions on amassing wealth, the greater the opportunities and temptations for corruption. Poor agrarian societies obviously present fewer chances for corruption than rapidly growing industrial societies. Corruption and the toleration threshold increase with industrialization as enormous amounts of wealth are created. Some governments are outright "kleptocracies," which seem to do little more than transfer enormous amounts of national wealth into private estates, businesses, or bank accounts. "Papa Doc" and "Baby Doc" Duvalier of Haiti, Ferdinand Marcos of the Philippines, three generations of Somozas of Nicaragua, and Seko Mobutu of Zaire were among the most notorious pillagers of their countries' public and private wealth. More recently, the regimes that the Bush administration tried to build in Afghanistan and Iraq have been infamous for corruption, ineptness, and brutality. The more corrupt a country, the more scarce resources are diverted from potential investments in health, education, infrastructure, and industry that could develop the country to luxury lifestyles for the already rich and infamous.

"Structural corruption" characterizes many countries in which everyone from the president to the lowest official demands a "gift" in return for favors. In many countries, there is no concept of civil service in which officials are devoted solely to national goals. Instead, one's primary loyalty is to one's kinship group. Those who attain powerful political or economic positions are expected to aid others from their clan. That problem is especially severe in multinational states with little or no national consciousness.

Rather than being civil servants, all too many bureaucrats abuse their power for private rather than public gain. Although they usually have job security, salaries are low. Officials supplement their meager paychecks by demanding "tips" from the public just to perform simple functions. The size of the "bite" (*mordida* in Spanish speaking countries) depends on the official's rank and the supplicant's needs. A multinational corporation requesting, for example, a building permit might have to hand over thousands of dollars to top officials.

Culture often reinforces official corruption. In many cultures, an office job is considered to have high status while a business, construction, or factory job has lower status. Thus the most talented and best educated individuals may strive for a bureaucratic career that may offer little pay but high prestige. Without clear duties or accountability, absenteeism is rife.

Another problem is the refusal of many officials to take responsibility for a problem. Bureaucrats avoid any innovation or experimentation and simply follow "standard operating procedures" even if they do not work at all. Fearing that they will be scapegoated if anything goes wrong, many officials simply direct supplicants elsewhere. The result is that those seeking help wander through a seemingly endless maze of officials with none willing to address their particular problem.

In such a work environment, even the most idealistic of individuals who really wants to fulfill his official duties may soon settle down into bureaucratic routine. What else can one do when everyone else has their hands in the till and enriches themselves and their families while spurning their professional responsibilities?

Corruption may not be all bad. Bribery or the "user pays system" does generally accomplish specific tasks while the bureaucracy provides some welfare to the extended families of the officials. There is no doubt, however, that overall corruption is an enormous drag on a country's political and economic development.

## Political Instability and Violence

A political system is stable when the population views its basic institutions and processes as legitimate, decision makers have enough authority to make and implement policies, and the transfer of power from one leader to the next is smooth and widely accepted. That is the ideal form of stability. Most citizens in liberal democracies accept the system as legitimate because their lives are secure and comfortable and the government seems largely responsive to the demands made upon it.

Then there is the stability found in countries with mass poverty and authoritarian regimes. The masses of poor do not challenge those in power usually because they are ignorant of alternatives, are fatalistic about improving their lot, are so consumed with day-to-day survival that they lack the energy and time for anything else, or are terrified of those with power over their fates.

Traditional societies in transition toward modernity are the most politically, economically, and socially perilous. Development has failed when a violent coup topples the government or armed bands take to the hills and streets. Why do states dissolve into civil war?

Violence usually occurs amidst a sharp and widening socioeconomic chasm between rich and poor, cities and countryside, ethnic groups, religions, and/or regions. Economic problems are often exacerbated by a rapidly increasing population. If the population grows faster than the economy, then most people are becoming poorer. Nearly all the new wealth flows into the bank accounts of those who are already rich.

Often a lack of political and socioeconomic mobility frustrates the rise of those who aspire for more. Economic development often breeds new socioeconomic classes. With industrialization, for example, comes a class of factory workers who may make unfulfilled political demands. The creation of new wealth, if it remains concentrated in the hands of a few, can disrupt a society.

Ethnicity and religion rather than class conflict appear to be the primary cause for most civil wars. Yet beneath both ethnic and religious violence, economic inequities and a sense of "relative deprivation" are invariably present. In each of these countries one ethnic or religious group is better off than the others, a condition that in some cases has lasted for centuries.

Regimes mired in tradition fail to keep up with the modernity that is sweeping the country. By resisting change rather than attempting to channel it into constructive directions, most traditional governments are eventually swept away by modern forces beyond their understanding let alone control. New sources of wealth and classes emerge to surpass and challenge the traditional rulers. The regime may respond with a crackdown, which may succeed in quelling dissenters in the short run but further undermines the government's legitimacy over the long run.

Likewise, sometimes a government's policies and attitudes are too modern for a still mostly traditional population. For example, Shah Reza Pahlavi's *White Revolution* attempted to transform Iran from a traditional into a modern economy and society. The Shah invested in symbols of modernity—dams, steel mills, petrochemical plants—while neglecting such things as education, health, and small businesses. As a result, his efforts benefited few Iranians and alienated ever more. Rapid economic growth was inflationary, which made the poor poorer and increasingly disgruntled as they compared themselves to conspicuous consumption of the rich and small middle class. Islamic fundamentalists tapped that rage and led a revolution in 1979 that swept the Shah from power.

Prolonged political instability often leads to a military "coup d'état" by which soldiers illegally take power. The successful coup is well planned, includes elite or strategically placed units, targets the leading government leaders and mass media outlets, is executed quickly and decisively, and can justify its takeover. Usually a coup involves only a small segment of the military. Most commanders and their troops stay in their barracks until they see which way the coup is going. Fighting rarely lasts long. Escalation into civil war is uncommon. Most people's lives are unaffected. Anywhere from one-third to one-half of all coups are crushed by troops loyal to the existing government. Some governments have attempted to guard against coups by creating a paramilitary force or national guard to offset the regular military. Coups breed coups. Once a country has an established tradition of military intervention, it is hard to shake it.

**When and Why Coups Occur**

There are at least eleven conditions that make coups likely:

1. The government's prestige sharply declines.
2. There are deep schisms among political leaders.
3. There is little chance of foreign intervention to help the government.
4. There have recently been coups in neighboring countries.
5. The nation is split by deep and growing social, economic, ethnic, religious, and/or political antagonisms.
6. There is a growing economic crisis and worsening gap between the rich and the masses of poor.
7. Government and bureaucratic corruption and inefficiency are entrenched and growing.
8. There is a rigid class structure in which military service is the only means of social mobility.
9. The military increasingly believes it is the only institution with the power, legitimacy, and ideas to reform the country.
10. Foreign business interests, diplomats, and/or military advisors encourage a coup.
11. The military has recently been defeated in war and blames the civilian government for the defeat.[10]

In many countries the military is the most modern institution and the only one capable of pushing through commands. Most militaries in less developed countries are primarily used to repress internal foes rather than repel foreign foes. Thus the military may already intervene in politics at the government's behest. Most military forces believe they personify the nation and contrast their national role with the corruption or ineptness of politicians.

The socioeconomic composition of the officer class is an important factor in coups. In many militaries there is a class division between the high-ranking officers, which come from the traditional elite and the lower- and middle-ranking officers who have risen from more humble backgrounds. The lower-ranking officers are often appalled by the corruption they see in the military as well as politics, and are frustrated by the discrimination and lack of advancement opportunities.

An officer's military education and experience also help determine whether or not he will join a coup. Officers who were trained in the United States may be more inclined to support pro-American rulers and oppose anti-American rulers. In contrast, some officers may have participated in an independence struggle during which they became fiercely anti-Western.

Does military rule help or harm a country? As always it depends. The military is often development oriented and thus inclined to favor policies that expand the economy. With its command system it not only makes decisions relatively easily but can back up its decisions with force. Military can have a certain amount of legitimacy since the officers appear to represent the entire nation compared to the politicians who tend to front special interests. Yet overall, the development record of military regimes may be no better than the civilian regimes they replaced. Most military officers have no conception of how a modern economy works. With their hands in the treasury, many succumb to the same temptations as their civilian predecessors.

A political "revolution" is a systematic and rapid transformation in the way people think, organize, and act. Political revolutions are as rare as military coups are relatively common. Revolutionary conditions may exist for decades or even centuries before a revolutionary movement emerges. When revolutions do occur we must ask why, given the history of repression, exploitation, brutality, and corruption that preceded it, it did not occur earlier. Several vital conditions precede every revolution.[11]

Mass poverty itself is not enough. The most impoverished nations are often the least revolutionary. When most people are illiterate, teeter at starvation's brink, and spend virtually all their waking hours scrounging for food, fuel, or shelter, they do not have the time or energy to question let alone challenge the prevailing order.

Revolutionary conditions flourish when modernization's fruits dangle just beyond reach and are grabbed only by the privileged few. There must be a vast, obvious, growing, and unjust gap between a small minority of political, social, and economic "haves" and the masses of "have nots." That tends to happen not in traditional societies but in rapidly modernizing societies where ever more people are promised a better life but are unable to have it. Conditions for most must worsen—poverty, homelessness, crime, and despair soar; money, jobs, and hope dwindle; shantytowns ring wealthy neighborhoods. Thus does a "revolution of rising expectations" become a "revolution of rising frustrations."

But even that is not enough. Revolutions cannot happen unless society's traditional values, institutions, behaviors, expectations, and leaders lose their legitimacy. The movement from countryside to city, from field to factory or schoolroom, from candle to electricity can as severely disturb as enhance an individual's life. Rapid modernization can completely disorient people, destroying old communities and beliefs while failing to provide new ones. Modernization swamps a traditional society. Leaders and institutions are increasingly unable to fulfill their duties, deadlock, and eventually collapse. Inefficiency and corruption are often closely tied. Officials abuse their positions for private gain rather than public service, and that corruption pervades the entire system. As a result ever more people are enraged and demand ever greater changes, which the government is ever more unwilling and unable to make.

Revolutions are usually preceded by a crisis that thoroughly discredits the existing system. Defeat in war, natural disasters like earthquakes or typhoons, invasion, the massacre of opponents, economic crises like a depression, withdrawal of foreign aid, or a foreign embargo can all spark a mass insurrection that joins hands with existing guerrilla movements. For example, the 1917 Russian Revolution would not have occurred without Russia's military defeat by the Japanese and the massacre of hundreds of protesters before the Czar's Winter Palace in 1905, and the deaths of millions and severe deprivation for virtually all in World War I.

No revolution can occur without leaders, an ideology for change, and an organization. Increasing numbers of prominent intellectuals must not only criticize the old order but also advocate a new order. New myths must replace old myths. The masses can be won over with simple slogans, but the revolutionary leaders themselves must have an ideology for understanding the world, exposing the defects of the old order, and proposing revolutionary changes that will initiate a new ideal order. Revolutions are ultimately organized and won or lost by small, cohesive, highly motivated conspiratorial elites who can mobilize masses of loyal followers willing to risk their lives for ideals, epitomized by Vladimir Lenin's "dictatorship of the proletariat."

Although one class or group may lead a revolution, to succeed it must rally most classes and groups to protest, petition, march, and, at some point, fight. Society is polarized with no compromise possible between the extremes. The political, social, economic, and religious elite becomes demoralized, splintered, and indecisive. Ever more of the old elite defect to the radical elite. The military and police both increase their repression and are incapable of containing the protests. First a trickle and then a stream of officers, soldiers, and police either sympathize with or openly join the radical cause. When the old order fails to accommodate the needs and demands of the new, its legitimacy becomes thoroughly destroyed. Yet, even then, not everyone joins the revolutionary movement. Most people usually avoid taking sides and just try to stay out of the line of fire. Peasants are particularly traditional, apathetic, and unwilling to challenge the status quo.

While revolutionary movements involve a broad coalition of groups, they are usually centered around one particular class, region, or group, or start in rural or urban areas. Marxist-Leninists based their entire philosophy and struggle on factory, mine, and other blue collar workers known as the proletariat. Mao Zedong, in contrast, realized that the proletariat was only a tiny percentage of China's vast population. Instead, Mao based his revolution on the peasants who comprised 85 percent of the population. Sometimes the most disaffected members of a society are its middle class. The American Revolution was largely a middle-class revolution.

Revolutions are often sparked as much against foreign influences as domestic power holders. The Cuban, Vietnamese, and Chinese revolutionaries, for example, tapped deeply into the mass resentment against the respective American, French, and Japanese interference in their countries' internal affairs. Many revolutions are meshed with independence struggles. The United States simultaneously achieved independence from Britain and a liberal democratic revolution; Ho Chi Min independence from France and a communist revolution; and from 1989 to 1991, Eastern European revolutionaries overthrew both communist and Russian rule.

Revolutions, in turn, often have profound international consequences. The American and French revolutions inspired others. The Latin American struggles for independence and revolution in the 1820s were inspired by America's similar struggles fifty years earlier. The French revolutionary ideals of liberty, equality, fraternity, and nationalism spread with Napoleon's troops across Europe. Those ideals provoked revolutions in Europe throughout the early and mid-nineteenth century. The impact of revolution is even more powerful today in an age of instant mass global communications. People can turn on their radio or television and learn of foreign revolutionary conditions, ideals, and strategies.

A revolution's success or failure often depends on the reaction of other countries. Could America's revolution have succeeded without massive French aid? During the Cold War, the United States, Soviet Union, and sometimes China backed different revolutionary or counterrevolutionary groups with arms, money, propaganda, advisors, and even troops. Revolutions are sometimes imposed by foreign forces. After 1945, the Soviet Red Army toppled the existing governments of Eastern Europe and replaced them with communist dictatorships. Revolutions are also at times squashed by foreign forces. The Soviet Union destroyed democratic revolutionary movements in Hungary in 1956, Czechoslovakia in 1968, and Poland in 1981. The United States successfully helped quell communist revolutionary movements in Guatemala, El Salvador, Nicaragua, and the Philippines but failed to do so in Cuba, Vietnam, Cambodia, and Laos. In 1990, a majority of Nicaraguans voted for the liberal democrat Violetta Chamorro rather than the Marxist-Leninist Sandinista Party. Would the Sandinistas have retained power without a decade of America's covert attempts to undermine their rule?

## Economic Development

There is a chicken and egg relationship between political and economic development, with each leading to the other. Usually, however, economic development precedes political development. As the world becomes ever more interdependent perhaps no national interest is more vital than successful economic development.[12] Just what is economic development? It is much more than a growing economy and some people making more money.

A country develops economically when the middle class expands in numbers and wealth; the poor shrink in numbers and severity; the range of industries expands in number, diversity, technological sophistication, global competitiveness, and foreign market shares; careers are open to all talents; ever more entrepreneurs and inventors realize their dreams; the communications and transportation network embraces ever more people ever more efficiently and links them with the rest of the world; the exchange of information surpasses the exchange of things in importance; the population's health, education, longevity, and leisure time improves; the amount of parks, universities, and museums swell; literature, music, and the other arts flourish; air, water, and streets get cleaner; crime, homelessness, and despair dwindle; people value their quality of life more than their standard of living; an ever stronger economy is better able to resist recession, inflation, and joblessness; and a virtuous cycle of development is mastered by which the economy can generate ever more money from its own people and the rest of the world. All of these are types of wealth and power.

A few governments or people do not share that dream of development. Yet can all nations develop? By comparing over time the per capita income (national income divided by population) and the human development index (HDI), which combines life expectancy at birth (longevity), adult literacy rate (knowledge), it is clear that there is a vast and widening gap between the world's richest and poorest countries. And the world's less developed regions vary starkly in whether they are getting richer or poorer. The Third World is increasingly split among those countries that are developing and those that are stagnating or outright imploding. Development has soared in East and Southeast Asia, fluctuated in Latin America, stalled in the Arab states and South Asia, and plummeted in sub-Saharan Africa.

The global political economy offers many opportunities and pitfalls for governments determined to develop their countries. Clearly no country is an island in the modern world. All are linked in an increasingly dense web of economic, social, cultural, political, technological, and ethical ties, known as globalization, which varies considerably from one country to the next. Though every one of the more than 190 countries has its own mix of economic strengths and weaknesses rooted in culture and history, many of the so-called Third World countries share similar obstacles to and opportunities for development. Successful development ultimately rests on a government's ability to mobilize and fulfill the country's potential. To do so in an interdependent world, states must integrate foreign capital, technology, markets, and managerial skills with their country's nascent enterprises, infrastructure, and human and natural resources.

## The Colonial Legacy

Imperialism, or the conquest and exploitation of one people by another, is as old as humankind. Modern "Western imperialism" emerged from Renaissance Europe as one state after another sought colonies elsewhere around the world. Over five centuries, the European states, joined by the United States and Japan in the late nineteenth century, colonized virtually every region on earth.

It is not easy to weigh Western imperialism's relative benefits and costs. Each imperial power wielded its own administrative philosophy and style, which varied from one colony to the next. Some colonies were ruled for several centuries, others for several decades. Some were extensively developed, others largely left as they were found.

Western imperialism did grant some long-term benefits. There is a tendency for many inhabitants of countries, which experienced Western imperialism, to lament a lost precolonial "golden age." That golden age almost never existed. In many lands, Western rule toppled more oppressive regimes, imposed order on regions of incessant warfare, and abolished such local customs as human sacrifice and mutilation. For example, the Chinese Imperial Customs Service generated far more revenue for China under the efficient British than the previous corrupt Chinese bureaucracy. Notions of human rights, sexual equality, political representation, and constraints on government were profound if originally unintended gifts to all non-Western cultures. People today live far longer, healthier, and wealthier lives than they did when the first Western gunboats or troops appeared on their respective frontiers.

Many argue, however, that the costs have far outweighed the benefits. In many places, Western imperialism's short-term impact on traditional cultures was devastating. There were an estimated 25 million people in Mexico and Central America when the conquistador Hernando Cortez arrived in 1521. Within fifty years, European diseases, for which the natives had no immunity, had reduced the population to 2 million! Everywhere colonialism destroyed not just native political elites but traditional culture. Western imperialism simultaneously discredited and transformed native cultures so that every culture around the world to varying extent is now a hybrid of indigenous and Western values. Especially in Latin America the cross was more important than the sword in forcing these changes. Western missionaries pressured the natives to reject their old gods and embrace Christianity. This conversion was frequently incomplete. Today many people find themselves neither fully of the old or new faith, but somewhere in between.

The colonialists created a small well-educated, Westernized elite whom they used to help administer and exploit the territory. Ironically it was that elite who usually led the independence movement and ruled the newly independent country. Paradoxically, the same outlook that helped free their country often impedes their ability to rule. The elite often remains more culturally Western than native, and thus has trouble relating to the population's attitudes and problems. Their ranks and minds often remain as closed to the population as those of the Western imperialists they overthrew.

Both the elite and masses of people from less developed countries often have an inferiority complex toward the more developed Western countries. Defeat, subjugation, and the imposition of second-class status by a foreign power combined with the country's failure to develop following independence has forced people to feel somehow beneath as well as behind the West. People with inferiority complexes often try to compensate by being overly assertive or critical of those to whom they feel inferior or toward their own society. Theodore Von Laue describes among non-Western peoples a perennial "search of roots, and certitude; inwardly split, part backward, part Western, camouflaging their imitation of the West by gestures of rejection; forever aspiring to build lofty halfway houses that bridged the disparate cultural universes, often in all embracing designs, never admitting the fissures and cracks in their lives and opinions; and always covering up their unease with a compensating presumption of moral superiority based on the recognition that the promptings of heart and soul are superior to the dictates of reason."[13]

Many Third World leaders are aware of this identity crisis and its potential negative impact on development. Mahatma Gandhi was among the first to recognize and try to overcome an increasingly entrenched Westernization within traditional culture, arguing that "if India copies England, it is my firm conviction that she will be ruined."[14] Gandhi tried to base the independence struggle on key traditional Indian concepts.

Most of the 192 nation-states existing today are the artificial creations of imperialism, and most of them are multinational. For instance, when the Western powers carved up Africa, they arbitrarily drew lines across the map and divvied up the continent among themselves without regard to the mosaic of existing peoples. In doing so they often grouped traditional enemies within the same frontiers and splintered common peoples among two or more states. Thus every country in Africa today is multinational except Somalia, and in most of them the different peoples coexist uneasily and in many their antagonisms have deteriorated into violence and civil war. By necessity the colonial language remains the lingua franca in nearly all those countries. It was deemed better to use a foreign language than allow one of the native languages to become dominant. Nonetheless, often only a small fraction of the population speaks the foreign language thus isolating the government all the more from its people.

Virtually, every seemingly positive contribution of imperialism has its negative side. Although the colonists improved living conditions by introducing higher standards of health care, hygiene, nutrition, and education, they set off a population explosion as the death rate fell dramatically below high birth rates. Thus in many countries the population exceeds the territory's ecological carrying capacity, setting off rapid environmental degradation, crop and livestock loss, mass malnutrition, and at times outright starvation. Many survivors flee to the cities where they overwhelm existing jobs, housing, water, sewage, electricity, schools, and police. The result is vast and growing poverty-stricken shanty towns.

Imperialism completely disrupted the native economy. Traditionally, most villages were self-sufficient. Land was often held communally and the people usually grew enough to survive, although droughts, monsoons, and other natural disasters at times led to famine. There was little trading among villages. The imperial power brutally introduced the notions of private property by confiscating communal village crop-land and converting it into huge plantations owned by the conquerors' families or corporations. Many plantations transformed land that had grown food for the local people into the mass production of products like cotton, sisal, coconut oil, coffee, tea, hemp, tobacco, pepper, sugar, jute, and other largely nonfood crops for export.

While the cities, plantations, and mines were linked to the global economy with modern transportation and communication, most peasants remained isolated and backward. Often the agrarian sector was too inefficient to produce enough food for the cities and plantations, so the colony ended up importing food. For most countries little has changed since independence, at least for the better. Most continue to rely on one or two cash crops or minerals whose prices often fluctuate wildly in international markets.

In most colonies, little if anything was done to prepare the country for independence. When the colonizers left, they often took with them most of the skills, capital, and equipment necessary to run the modern sectors. Most Third World bureaucracies were inherited from colonialism. Colonial bureaucracies had two main tasks—to extract wealth from the territory while controlling the population. Few imperial powers allowed natives to climb high in the civil service. At independence, the bureaucracy—particularly the higher echelons—was gutted by the withdrawal of the foreign specialists.

What then was Western imperialism's impact on Third World development? After reminding us that the concept of development itself is Western, Von Laue maintains that the blame for development failures must be shared by all:

> Westerners must accept the blame for the hardships and tragedies in the developing countries. The anti-imperialist radicals are right. Before the Western impact, traditional societies existed in reasonable harmony within the intellectual, spiritual, and material resources at their command, in precarious balance with their environment. It was the Western impact which forced them, against their will, into a complex world beyond their comprehension and resources, destroying in the bargain the former bonds of community. The anti-imperialists in turn should recognize the inevitability of inter-cultural contact in a shrinking world; let them also appreciate the goodwill and opportunities that came with the West. In any case, there is no chance of returning to the pre-colonial era, nor comfort in the nostalgic yearning, sometimes heard, for the good old days of colonialism. Both sides have no choice but to look forward.[15]

## Postindependence Stagnation

Most Third World countries, whether they achieved their independence during the 1820s like most Latin American countries or since 1945 like most African and Asian countries, have had limited success or outright failed to develop economically. These countries share many characteristics. The most glaring is that most people are not only poor, but also live a hand-to-mouth existence in which they are malnourished, illiterate, jobless, and wracked by health problems. About one of three people on the planet exists on less than one dollar a day and two of three on less than two dollars a day.

What explains that pervasive and worsening poverty? Most Third World countries are locked into a vicious political and economic cycle that prevents them from developing—political instability and violence disrupts business and impedes economic development, which, in turn, spawns more political instability and violence. Although most of those countries are experiencing some economic growth, their populations are growing at an even faster rate. Thus overall most people are becoming poorer. Many are tenant peasants who must hand over what few crops they raise to rich landlords. Others live in overcrowded disease- and rat-infested shantytowns lacking sewage, running water, electricity, and jobs. Some of those people are so desperate and enraged at their fate that they commit crimes or join guerrilla movements against the government. That in turn further damages the economy.

Economic growth is stimulated by the rich and middle classes, not the poor.[16] While the poor number anywhere from 50 to 90 percent of the people, the middle class may be only from 15 to 40 percent and the rich less than 5 percent. The more poverty stricken a country, the slimmer the chance it can break free of those shackles. Because most people are poor, their ability to buy things is extremely limited. Thus a Third World economy has a very small market confined to the middle and upper class. Market size is important because the more a business sells, the more profit it makes, which it can, in turn, reinvest to increase productivity and thus its competitive power.

What wealth a Third World economy generates often comes from the sale of one or two agricultural or mineral products like cotton, rice, iron-ore, or bauxite. The companies that own these plantations or mines are often foreign, and thus profits flow overseas rather than stay in that country. Price levels for these products are often erratic. Gluts in international markets cause prices and profits to tumble for that Third World producer. For instance, the American-owned United Fruit Company once owned most of the banana production in Guatemala, Costa Rica, El Salvador, and Honduras, giving it enormous political as well as economic power in those countries. In 1954, President Arbenz of Guatemala attempted to nationalize United Fruit's unused land holdings. United Fruit complained to Washington. The Eisenhower administrative used the Central Intelligence Agency (CIA) to sponsor a coup that overthrew Arbenz and installed a new government that continued to allow United Fruit a free hand in Guatemala.

Being rich in oil can be more of a curse than a blessing. Few petrostates have reinvested their earnings to diversify their economies. Some like Nigeria, Indonesia, and Mexico have huge populations to support. The only resource-rich countries that have achieved any significant development are those with large oil reserves and small populations like Kuwait, the United Arab Emirates, and Saudi Arabia. The governments of these countries have distributed enough of the oil revenues to satisfy most people's basic needs and forestall any pressures for political change, be it into a liberal democracy, Marxist, or radical Islamic state.

There is a popular image that Third World countries are rich in natural resources. In fact, almost all Third World countries must import most of their vital staples such as energy and food. When *Organization of the Petroleum Exporting Countries* (OPEC) quadrupled its oil prices in 1973, further doubled them in 1979, and then soared to nearly $150 a barrel in 2008, the poorest countries were worst hit. Without oil their economies would collapse completely so they had to use what little money they had to pay the higher prices. Eventually, most Third World countries went deep into debt to international bankers to cover their oil bills. Less money than ever went into development projects, and those countries became poorer. Yet even resource-rich countries will suffer the same fate if they fail to use profits to diversify their economy. Eventually the oil wells or mines will run out, thus eliminating the major source of wealth.

Domestic businesses trying to compete with multinational corporations are like unarmed Davids fighting Goliaths—they have little chance of success. Entrepreneurs often lack technology, equipment, managerial skills, and access to foreign markets, which are vital to creating a prosperous business. They often must license or buy these things from multinational corporations, sometimes the very ones they are competing against. Gaining access to foreign technology, equipment, managerial skills, and markets costs money. Without access to large domestic or foreign markets, businesses cannot expand and are often squeezed out by supercompetitive multinational corporations that sell or invest in their country.

Money is in short supply in Third World countries. One result of chronic political instability and economic stagnation is that the rich tend to send their money overseas to safe havens with tax shelters, stable treasury bonds, and rising stock prices rather than invest it at home. States thus must borrow heavily from foreign sources to fulfill their development and other goals. Had capital been invested at home rather than spirited abroad, much less foreign capital would have had to be borrowed.

Governments are not alone in having to look abroad for money. Since domestic banks lack financial clout and investment skills, entrepreneurs often cannot find enough capital at home to finance their businesses. In order to start a business they must either borrow from an international bank or form a joint venture with a multinational corporation. Either way they end up sending much of their earnings overseas to pay interest on their debt or share profits from their joint venture.

Perhaps the most crippling problem that many less developed countries face is a lack of private entrepreneurial skills. Many Third World governments try to make up for the lack of private business drive by building huge heavy industries from the ground up. The trouble with this strategy is that the state—its political leadership and bureaucracy—lacks the skills vital to create and manage a modern economy and industry. More often than not the newly independent government uses the industrial bureaucracy as a "spoils system" to reward their political followers rather than filling those positions with lower-ranking officials who had at least some inkling of the ministry's duties.

Businesses that produce and sell goods and services are the muscles of an economy. To work that muscle must be attached to an economic skeleton or "infrastructure" of systems that provide things like sewage, water, electricity, mass transportation, highways, ports, railroads, telephones, Internet, mail, hospitals, and sanitation. That infrastructure is often severely deficient in Third World countries. Telephones do not work; mail is not delivered; roads are narrow, unpaved, and potholed; electricity is erratic; garbage piles up in the streets; food rots for lack of storage or refrigeration; trains do not run on time; people die from lack of medicine, and so on.

Equally important to development are skilled, literate workers and technicians who build, repair, and invent things. Many people lack even the most basic reading, writing, and math skills. Those few who finish high school or college may not have received the technical training vital to keep a modern economy running let alone develop it. The lack of health care or family planning education ensures that most people will remain assailed by preventable diseases while the population continues to soar, all the while exacerbating all other development problems.

**Culture, Knowledge, and Development: The Von Laue Thesis and the Arab Experience**

Does a nation's relative success or failure in development boil down to culture? Theodore Von Laue argues that Third World countries cannot master Western industries and technology until they internalize Western values:

> cultures evolved in different natural settings are essentially incompatible with each other, like languages. External manifestations like weapons, machines, written constitutions, or political values can be transferred, but not the aptitudes and social habits responsible for their successful operation. Unless these already exist in some form in the receiving country—as in Japan—their acculturation cannot be forced by the will of a leader or a decision of government. The transfer of cultural achievement demands no less than a permanent revolution of reculturation, the recreation of the original setting in a new and uncongenial environment, a feat never yet accomplished.[17]

What is the relative importance of culture among all those forces determining development? A group of Arab analysts working for the United Nations tried to answer that question by analyzing the development the twenty-two states and 285 million people in the Arab world. Their extensive 2002 report reveals some provocative comparisons.[18] The contrast between the Arab and developed countries are startling:

1. Newspapers: There were 53 for every thousand people in the Arab world compared to 285 in the developed world.
2. Computers: There were 18 for every thousand people in the Arab world compared a global average of 78. Only 1.6 percent of computers in the Arab world are plugged into the Internet compared to 79 percent in America.
3. Books: In 1996, the number of new books published was 1,945 or 0.8 percent of the world's production even though Arabs are 5 percent of the world's population. Turkey alone published more books than the Arab states even though its population is one-fourth the size.
4. Religious Books: More than 17 percent of Arab books published were religious compared to 5 percent for world production.
5. Translated Books: The number of books translated into Arabic each year was only one per million people compared to 519 in Hungary and 920 in Spain.
6. Research and Development: The number of scientists and engineers in Arab countries is 371 per million people compared to a global average of 979.
7. Brain Drain: About 25 percent of all Arab university graduates immigrate to non-Arab countries each year, while 15,000 doctors immigrated between 1998 and 2000 alone.
8. Economic Size: The Arab world's economy of $604 billion in 2000 was slightly ahead of Spain's $559 billion economy, whose population is only 15 percent as large.
9. Patents: From 1980 to 2000, the Arabs registered a mere 370 patents in the United States compared to South Korea's 16,328 and Israel's 7,652.
10. Economic Growth: From 1970 to 2001, the per capita income of Arab states as a percentage of the OECD states actually decreased from 9 percent to 7 percent while the East Asia states increased from 18 percent to 52 percent.
11. Population Growth: The Arab world's population is expected to soar from 280 million in 2000 to as many as 460 million by 2020. Already scarce jobs, health care, and schools will fall ever further behind while poverty, disease, malnutrition, and despair worsen.

The conclusions the authors draw are even more provocative. Why have Arab states lagged so far behind much of the rest of the world in living standards and quality of life? The authors argue that an authoritarian, anti-intellectual culture is the chief culprit. As in any culture, the prevailing values of Arab culture are imposed in childhood. Parents raise their children with a mix of authoritarianism and overprotection that "fosters passive attitudes and hesitate decision-making skills . . . [which] affects how the child thinks by suppressing questioning, exploration, and initiative." Those children grow into adults in societies that lack the access to information and ideas that could stimulate thought and creativity. Universities, libraries, newspapers, bookstores, books, journals, and private television and radio stations are all in short supply and strictly censored.

With varying degrees of repression, authoritarian governments rule all twenty-two Arab countries.

The Cold War impeded development as American and Soviet backed coups, guerrilla movements, and vast military aid exacerbated political instability and economic stagnation. Latin American intellectuals argue that the Cold War distorted the choices available to Third World nations, especially for followers of Marxist-Leninism. The crumbling of communism through Eastern Europe and the Soviet Union discredited that ideology, which had been popular among many Latin American intellectuals and governments throughout the postwar era. Mexican poet Octavio Paz asserts that "it is as though the Cold War had been a mask that blinded us to the reality of the world," an argument picked up by another Mexican writer, Carlos Fuentes, who admitted that the "fact that we can see the problems in their proper perspective rather than through a mask of anticommunism or pro-communism is the beginning of the resolution of those problems on their real terms."[19] Sergio Bitar, a former minister in President Allende's socialist government of Chile, admits that communism's fall "has forced us to look much more at concrete proposals rather than theoretical ideas, to understand that we need to be more competitive and productive, and to put democracy at the center of all progressive thinking."[20]

The Cold War's end was no panacea for resolving Latin America's problems. After the El Salvadoran government settled with the communist rebels and the communist Sandinistas were swept from power in Nicaragua, the White House no longer felt the need to pour as much aid into the continent; American aid to Latin America dropped 75 percent from 1990 to 2005, and only increased sharply for Columbia whose government is fighting the FARC, a Marxist-Leninist revolutionary movement that is largely financed by making and selling cocaine in the global marketplace.

Cuba's communist dictatorship aside, every Latin American government espouses liberal democracy, how many practice what they preach? Many of those democracies remain fragile with shallow cultural and institutional roots. The military still sits impatiently in the wings of many

Latin America countries, ready to take over if the civilian politicians blunder. In Venezuela, President Hugo Chavez is steadily transforming the country from a democracy into a popular dictatorship. Nonetheless, Latin America has made significant strides in economic and political development in the decades since the Cold War.

African development was also distorted by the Cold War as the United States, Soviet Union, and lesser powers extended tens of billions of dollars in economic and military aid to various governments and movements. African dictators became adept at playing off the foreigners against each other to obtain greater aid. The superpowers, in turn, converted civil wars in Angola, Ethiopia, and Somalia into Cold War battlegrounds. Today socialism and statism are becoming as discredited in Africa as they are elsewhere. As in other Third World countries, foreign aid has dropped considerably with the Cold War's end.

Time is yet another development obstacle. Third World states that gained independence after 1945 are trying to do in a few generations what America, Britain, and France achieved over several hundred years. Unfortunately, few politicians have the patience or vision to invest in long-range development projects. Political leaders worried about the next election or coup, are often tempted to promote policies—tax cuts for the rich and corporations; unimpeded consumer imports; high defense spending; and/or subsidized food, fuel, or housing for the poor that pay off key interest groups over the short term but might actually impede long-term national development. Governments without a far-sighted development strategy often find themselves merely reacting hastily to one worsening economic crisis after another until they are swept away by ballots or bullets.

## Industrialization in the Third World

A handful of countries have launched ambitious industrialization programs. The results have been mixed. The policy whereby a government tries to create industries from scratch is known as "import substitution" because ideally they substitute domestic production for imports. The trouble is that most of those programs are very expensive and rarely succeed. Lacking its own revenues, governments have to borrow the money from global bankers. As a result, countries like Brazil, Mexico, Argentina, South Korea, Venezuela, and Chile that followed import substitution became some of the world's worst debtors.

Rather than become engines of growth for the economy, most if not all of those state-created industries act like black holes, sucking in huge amounts of financial, natural, and human resources and contributing little if anything to development. Many state-owned industries sell their products for less than the sum of their raw materials, let alone labor costs. Bela Balassa, a classical economist, argues that "the export performances of a number of developing countries were adversely affected by their own policies: the bias against exports in countries pursuing import substitution policies led to a loss in their world shares in primary exports and forestalled the emergence of manufactured exports."[21]

Nonetheless, import substitution largely succeeded in industrializing some countries. Brazil, Mexico, and India, for example, targeted and developed such strategic industries as automobiles, steel, and petrochemicals. They did so, however, by heavily borrowing the essential ingredients of finance, technology, managerial skills, and so on from overseas banks and corporations. Why would a foreign automobile maker want to sell manufacturing techniques rather than vehicles to Mexico, Brazil, or India? Those countries erected trade barriers that prevented foreigners from selling directly in those markets so the foreigners set up shop behind those walls. Laws that limited how much money could be taken out of the country forced the foreigners and natives alike to reinvest at home. Inefficiencies, however, can proliferate behind trade and investment barriers. Those manufacturers enjoyed exclusive access to those large domestic markets of India, Brazil, and Mexico. The downside was that the lack of competition kept the price of their products high and quality low. Thus few of those industries are competitive in global markets. Most of those profits that did not go to foreign corporations or financial institutions mostly made the rich in those countries much richer. Very little wealth or jobs trickled down to the populace.

The relative success of India, Brazil, and Mexico are exceptions for those countries that pursued import substitution policies. Most developed no viable industries. Some countries like Nigeria or Indonesia tried to build huge steel or petrochemical plants but the production is often more expensive than similar American, Japanese, or German products. The result of import substitution policies, more often than not, was worsening debt, chaos, waste, inefficiency, disillusionment, political instability, and foregone opportunities.

Aware of those pitfalls, few countries use import substitution today as a development strategy. Instead ever more countries have launched "privatization" programs whereby they sell off public companies to private investors. Mexico, for example, sold off 875 of 1,155 existing government-owned corporations that attracted more than $10 billion back to the country that had previously been expatriated.[22]

In stark contrast to the mixed or dismal development records of most countries are the dazzling successes of the newly industrializing countries (NICs) like South Korea, Taiwan, and China, to name the most prominent. Those countries transformed themselves from mass poverty and economic stagnation into ever more dynamic industrial and trade powers, and for South Korea and Taiwan, middle-class societies and democratic political systems.

How did they do it? They did so by emulating Japan's neomercantilist model whereby the government and business became partners in nurturing a virtuous economic cycle of diversifying the economy, massing capital, maximizing exports, minimizing imports, and mastering technologies. The key was moving beyond import substitution to export substitution and eventually technology substitution. Wealth was created and distributed largely by targeting for development a set of "strategic industries"—those that create the most wealth, best jobs, most advanced technology, and a range of related industries.

Not all industries were developed at once. The government first targeted such essential labor-intensive industries as textiles and consumer electronics. After acquiring expertise, technology, markets, and capital from these industries, the government would then gradually add other, more sophisticated capital- and technology-intensive industries to the economy like steel, automobiles, ships, semiconductors, computers, and so on. These strategic industries and the entire economy are nurtured through two distinct stages. During the first stage—import substitution—the government faced the problem of establishing the targeted industries, while in the second stage—export substitution—it nurtured those newly created industries into global champions. The final stage is "technology substitution" whereby entrepreneurs, engineers, scientists, and inventors create their own cutting-edge technologies and adapt them to industries.

**Exceptions or Models?: The South Korean and Taiwan Success Stories**

Modernization theorists uphold South Korea and Taiwan as development models. Dependency theorists discount the development of those countries by claiming that they were geopolitically and geoeconomically vital to Washington's containment of communism, and thus were allowed to develop as noncommunist models. To that end, Washington pumped up both countries with billions in aid, forced them to implement land, labor, and other reforms, and allowed them access to American markets.

Dependency theorists neglect to point out that Washington also targeted dozens of other countries as vital to its containment strategies—Vietnam, Pakistan, Egypt, Panama, the Philippines, and so on—poured tens of billions of dollars into those countries, and allowed their products preferential access to America's markets. Yet those countries failed to develop successfully like Taiwan and South Korea. It was up to the governments of those countries to create and implement successful developmental policies. Both Taiwan and South Korea made the most of American aid and open markets. They modeled their industrialization strategy on that of Japan, and targeted a series of industries for export-led development.

Clearly, the development successes of Taiwan and South Korea give ample weight to those who argue that development ultimately depends on a government's policies that make the best of internal human and natural resources in a global economy. It is unlikely, however, that many countries can successfully industrialize by rigidly following the strategies of South Korea and Taiwan. Those countries were aided by a range of other development factors that most countries do not enjoy. South Korea and Taiwan began their export substitution phases in the early 1960s, a decade before global trade and development was damaged by OPEC's quadrupling of oil prices. World trade has slowed, the advanced industrial nations are becoming more protectionist, competition is ever fiercer, and product cycles are ever more frenzied.

And then there is the question of culture. Taiwan and South Korea along with Japan and China are called "Confucian capitalist" countries in which the values of conformity, materialism, entrepreneurship, literacy, discipline, and meticulousness are celebrated.

Since other countries had already developed the targeted industries, the first stage is obviously the toughest. The government had to attract foreign technology, equipment, and capital while preventing foreign control. To that end the state used a combination of high trade barriers to force consumers to buy domestic products—an overvalued currency to lower the price for buying essential foreign technology, machinery, and equipment; and low investment barriers to encourage foreign corporations to establish factories in the country.

The export substitution phase began after the new industries became established and saturated domestic markets. The goal now was to create even greater economies of scale by selling in global markets. To do so, the currency was devalued so that the country's products have a comparative price advantage over those from other countries. Some trade barriers were slightly reduced to force domestic industries to become more productive in order to compete. By following this two-stage strategy, the government nurtured a range of strategic industries into global champions.

Successful industrialization depended on acquiring and adapting advanced technology. Although many countries have tried licensing foreign technology, only a few have succeeded in building that technology into viable products. A country must already have advanced laboratories and a well-educated corps of technicians in order for a technology-buying strategy to succeed. The nation must also be able to gradually wean itself from dependence on foreign technology by creating its own. Many cultures lack a tradition of research, experimentation, and innovation necessary to develop simpler technology into more advanced technology. South Korea, Taiwan, and China all excel at mastering and applying knowledge and technologies essential for economic development.

The results of that three-stage development program involving import, export, and technology substitution have been astonishing. South Korea and Taiwan have already been transformed from mass poverty to mass prosperity, and China is well on its way to doing so.

## Consequences

Third World representatives tend to blame their developmental problems on the rich industrialized nations. Reality is much more complicated. Even a Marxist once admitted that "the misery of being exploited by capitalists is nothing compared to the misery of not being exploited at all."[23] The only thing worse for a Third World nation's development than being dependent is not being dependent at all. Those countries that tried self-reliance policies, such as China (until 1979), Burma, North Korea, Cuba, and Albania (until 1991), actually became poorer.

In contrast, those countries that have grown the fastest and often the most equitably have been the most involved in international trade. No country can industrialize and modernize on its own. Successful industrialization depends not just on factories and heavy machinery, but involves the development of a complex national transportation, communications, financial, technological, market, educational, and entrepreneurial infrastructure.

Governments make choices. There is clearly a virtuous development cycle. Sensible policies bring economic development that builds that government's political legitimacy, which in turn helps create a stable environment in which more economic development can occur. Sensible policies are determined by the constraints and opportunities offered by national history, culture, natural and human resource endowments, and socioeconomic conditions.

Although each country has its own distinct development, they can be grouped into one of five patterns: (1) states that achieved both rapid economic growth and a more equitable income distribution like South Korea and Taiwan; (2) states that achieved economic growth but retained an inequitable income distribution like Mexico, China, India, and Brazil; (3) states that achieved a more equitable income distribution but got poorer like North Korea and Cuba; (4) states that have had little growth or income distribution like Bolivia or Peru; and (5) states whose growth and income distribution have worsened such as much of sub-Saharan Africa.[24]

Whatever development path a government chooses, it is often extremely difficult to measure just what positive or negative changes have occurred. Of course, one can look at economic growth rates, purchasing power parity, income distribution, literacy, infant mortality, and so on. These statistics must be weighed against the government's stated goals and ideals. We can then compare the performance with that of countries with similar socioeconomic, geographic, natural and human resource, historic, and cultural conditions—Peru and Ecuador or Kenya and Tanzania, for example. Then we can compare a nation's current economic performances with those of the past.

The trouble with this approach is that statistics can be very misleading. Even the most advanced countries with small armies of statisticians evaluating a range of socioeconomic conditions can give only hazy snapshots of complex ever changing economic realities. The more inept and corrupt a country's bureaucracy, the more questionable the numbers it submits to the World Bank or other international development agencies. Officials often "cook the books" to give as favorable a view of the country as possible. Another problem is that much of the poor population follows barter system rather than using money for trading, while, to avoid paying taxes, many businesses rarely report all of their income. As a result, many people may be better off than official statistics indicate.

Per capita income, the income divided equally among the population, is a less accurate measure than the actual buying power of that income. The HDI, which combines life expectancy, the adult literacy rate, and the PPP, is a superior measure. By this measure some seemingly very poor people have a relatively high quality of life.

The socioeconomic gap among people within a single Third World country is often as great as between that country and the world's wealthiest countries. Virtually all Third World countries have two societies, one relatively small but modern, urban, industrial, and literate, and the other trapping most of the population in tradition, poverty, subsistence farming, and illiteracy. When a country's population grows faster than its wealth, it becomes poorer overall. Trickle down economic theory appears to work no better in poor countries than in rich countries.

Only one thing is certain—political and economic development, or the lack, are inseparable.

CHAPTER 8

# Rich versus Poor in the Global Economy

*We have been . . . the peoples for whom decisions were made by others, . . . the peoples who lived in poverty and humiliation.*

*Sukarno*

*If a free society cannot help the many who are poor, it cannot save the few who are rich.*

*John F. Kennedy*

## The Great Divide

One of the modern world's paradoxes is that it displays so many unprecedented ways for individuals to enrich their lives emotionally, materially, intellectually, politically, and aesthetically, yet all that hovers like a mirage beyond the grasp of most of humanity. In the global economy, there is a rich class of about 15 percent of the total number of countries, a middle class of about 35 percent of all countries, and a low-income class that includes more than half of all countries. A recent World Bank report vividly revealed a Third World mired in poverty: "Of the 4.4 billion people in developing countries, nearly three-fifths lack basic sanitation; a third have no access to clean water; a quarter lack adequate housing; and a fifth have no access to modern health services. About 20 percent of children do not complete five years of school, and a similar percentage does not receive enough calories and protein from their diet."[1]

Most of the world's poor countries are becoming relatively poorer as the vast income gap widens between them and the wealthiest countries. Though overall the Third World is growing economically, two realities dampen that achievement. First, that growth is maldistributed within the Third World—most countries and people benefit little if at all while a

**Table 8.1** The Global Distribution of Wealth, 2007 (in percentage)

| | *Richest 20 %* | *Middle 60 %* | *Poorest 20 %* |
|---|---|---|---|
| Share of World GNP | 86 | 13 | 1 |
| Share of Exports | 82 | 17 | 1 |
| Shares of Direct Foreign Investment | 68 | 31 | 1 |
| | *Population* | *GDP* | *PPP* |
| North America | 5.1 | 23.8 | 27.1 |
| Europe | 8.5 | 22.8 | 26.4 |
| Latin America | 8.5 | 8.4 | 6.5 |
| Africa | 10.6 | 0.5 | 1.5 |
| Middle East | 9.8 | 5.6 | 5.0 |
| Asia | 52.1 | 31.0 | 29.4 |
| Other | 3.4 | 5.4 | 3.7 |

*Sources*: UN Human Development and Un-Wilder Wealth Reports.

few garner most of the profits. Second, the Third World's population is increasing even faster than the economy, which means that poverty is growing rather than diminishing for most people.

The First and Third Worlds depend greatly on each other, although in vastly different degrees, ways, and impacts. The earth's rich and poor countries are divided by more than wealth. While relations among advanced industrial states are characterized as "interdependent" in which there is a relative power balance, there is a power imbalance between rich and poor countries in which the latter are "dependent" on the former (table 8.1).

How do we explain the vast gulf between the world's relatively few rich and many poor? There are no easy answers. Most Third World countries are trapped in a vicious cycle of political and economic underdevelopment while a handful of others have broken free of that trap and are rapidly developing. Why have a few succeeded and most others failed? Why cannot all poor countries be equally successful? And what role does the global economy and relations between the rich and poor countries play in development or underdevelopment? Do advanced industrial countries help or hinder Third World development? What duties, if any, do wealthy countries have toward the world's poor?

## The Great Debate

There are bitter divisions over these questions of dependence and development, and whether internal or international factors are more important.[2] "Modernization" theorists argue that a country's relative success or failure is mostly explained by internal factors like government policies; the political economic system; national culture; and national human, natural, and technological resources. The leaders of the advanced industrial countries and organizations like the International Monetary Fund (IMF) assert that the poor have mostly only themselves to blame. Follow our successful policies and you too will succeed, they proclaim.

"Dependence" theorists and many representatives of the world's poorer countries point the finger of blame toward rich and powerful foreigners. They argue that global forces like imperialism, foreign aid, multinational corporations, and international markets make the difference. The industrial countries have used their political, economic, and military power to create a global economy in which they exploit the natural resources and cheap labor of the poor countries, and have an interest in keeping the poor poor.

Who is right? Here those views will square off over issues of the global trade system, OPEC, foreign aid, the debt crisis, multinational corporations, and globalization.

## The Global Trade System: Free versus Fair Trade

Can free trade be unfair? What is fair trade? Why do so many of the world's poorer countries complain that the rich countries stack the global trade deck against them? Is that charge of unfairness fair? Regardless, how have Third World countries tried to rectify this perceived injustice?

Although a global trade system first emerged over 500 years ago, the great economic powers did not attempt to regulate it until the 1940s. The catalyst was a world depression that led to a world war. The brutal deaths of 70 million people, mass destruction, and impoverishment of hundreds of millions of survivors convinced nearly all of the world's most powerful leaders, and most importantly those in the United States, that they had to create international organizations dedicated to promoting global economic prosperity. In 1944, they established the IMF and International Bank for Reconstruction and Development (IBRD) or World Bank to supply inexpensive loans for the needy, and in 1947 the General Agreement on Trade and Tariffs (GATT), which in 1995 was transformed into the World Trade Organization (WTO), to encourage all countries to open their markets as widely as possible to each other.

The global trade system was guided by several crucial ideas. The most important is that greed is good. Everyone should be free to consume and produce what they want; if there is a demand for something, it will be supplied by entrepreneurs at a reasonable price as they compete with one another to sell that good and reap the profit. According to the notion of comparative advantage, each country, like each individual, has intrinsic economic strengths and weakness; no one is good at producing everything and any attempt to do so would be wasteful; instead each should produce only what it produces well and trade those products for all others that it wants but cannot produce or can only produce at high costs. The fastest and most efficient way to promote free trade is the most favored nation (MFN) practice whereby a favorable trade deal that one country gives to another country is automatically given to all countries. The GATT and WTO were created to negotiate the reduction of trade barriers and resolve trade disputes among the members, and upholds MFN as its key principle.

From the beginning, the system's poorer members argued that those principles harmed rather than helped them. The reason is simple. If Third World countries remove their trade barriers, their few industries will be bankrupted by the much cheaper and better made products of the advanced industrial countries. The result would be economic stagnation and the "development of underdevelopment" rather than development as poor countries are forced to continue to rely on exporting commodities in which they have a natural comparative price advantage. Thus the less developed countries have requested "infant industry protection," the elimination of trade barriers within the industrial countries, and stable prices for Third World commodity exports.

Many of these demands were actually incorporated in the Havana Charter, which would have created the International Trade Organization (ITO) in 1947. That was the major reason why American industries lobbied against it and the Truman administration decided against submitting it to the Senate for ratification. As a result, GATT became the world's trade organization even though it was intended as an interim measure that would eventually yield to the ITO. GATT was much more strictly based on liberal economic ideals than the ITO, and less developed countries have lobbied ever since its inception for relief from many of its tenets.

Another problem with GATT was that most negotiations involved eliminating barriers to manufactured goods rather than commodities. Thus many Third World countries still find that their commodity exports are locked out of First World markets. The reason is that many industrial countries are also major commodity producers. The United States, Canada, Australia, and New Zealand produce grains, livestock, and minerals. Because of their higher labor costs, these goods are often more highly priced than those from the less developed countries. Thus these industrial countries have erected high trade barriers to protect their own less competitive commodity producers.

A continuing Third World complaint is that the commodity goods they export are losing their value relative to the consumer goods, equipment, and other finished goods that they import. Several reasons explain that decline. Some prices have dropped because industrial countries have found artificial substitutes that they manufacture themselves like saccharine and aspartame for sugar or nylon for cotton or wool in textiles.

However, most industrial country tariffs on commodity imports are lower than those on finished goods, a phenomenon known as "cascading tariffs." These higher tariffs are often accompanied by other trade barriers including strict labeling, health, and inspection standards. The result is to restrict Third World exports to commodities rather than allow them to expand into semifinished or manufactured goods.

Despite that array of disadvantages, some Third World countries are diversifying their economies from crops and minerals to manufacturing. First World countries are aiding that transformation by relocating ever more of their factories there to take advantage of cheap labor and lax or nonexistent health, safety, and environmental laws, while their own economies are increasingly based on high technology and service industries. The benefits of that shift of manufacturing to a few Third World countries like China, India, and Mexico vary greatly, but most profits flow back to the multinational corporations while little trickles down to the workers.

Meanwhile, trade unions in the industrial countries have kept up wages and benefits for workers in factories that remain there; trade unions either do not exist in the Third World or are weak. Because wages are an important part of a good's final price, the prices of goods from industrial countries are more apt to rise than those of poorer developed countries. Productivity gains in the First World bring down prices, which are often offset by labor demands for higher wages and benefits that raise costs; thus the good's price remains relatively stable. Increased productivity in the Third World mostly without labor unions may simply mean cheaper prices.

Regardless of what they produce, Third World countries complain that when the industrial countries catch an economic cold (recession), the poor countries get pneumonia (depression). There is a direct relationship between the growth rates of industrial countries and that of developing countries. When an economy contracts, households and businesses buy less from the poorer countries. Compounding that is the tendency for the United States, Europe, and other industrialized countries to raise trade barriers during recessions while Japan's trade barriers always shut out most competitive imports.

The Third World's economic fate is especially tied to the United States, which usually absorbs about 70 percent of Third World exports, and almost 90 percent of Latin America's. In order to protect American jobs, Washington has often temporarily limited Third World products. When that happens, the exports of Third World countries suffer greatly. Inevitably, almost everyone is hurt by protectionism. Recession in the Third World means less demand for American and other First World products. With 40 percent of American exports going to the developing world, the United States loses potential foreign customers and thus economic growth at home.

Perhaps the worst U.S. effect on Third World countries is America's own foreign debt, which is now greater than that of the entire Third World. There is only a finite amount of global finance—as the United States borrows more, less is available for the Third World. Commercial bankers prefer to lend to the still credit-worthy United States than a poor country whose existing debt is huge and has often been rescheduled. America's voracious demand for international finance raises world interest rates, which means yet more Third World income is transferred to global bankers while global growth slows.

Modernization theorists dispute the assertions of dependency theorists that "free" trade harms rather than helps the world's poorer countries. Competition brings down prices and forces domestic producers to improve their productivity and quality by emulating the technological, managerial, service, financial, and accounting strategies of foreign rivals. Meanwhile, those who cannot compete start new businesses. Thus does competition allocate resources more efficiently. Though short-term disruptions like higher unemployment may occur, everyone benefits in the long term as cheaper, better quality, and more diverse and abundant goods are available, and unemployment drops and incomes rise. That is how trade liberation can promote economic development and convert poverty to wealth. Dependency adherents, of course, dispute each of these points and instead insist that the opposite is true.

## Globalization, Nonalignment, and the New International Economic Order

As if trade disputes between the First and Third Worlds were not complex and divisive enough, they soon became entangled in the Cold War. As early as the mid-1950s, representatives of Third World states met to discuss their common problems and to present a united front to the democratic industrial and communist blocs alike. The first summit of the "nonaligned movement" was held in Belgrade in 1954, and was followed up by the larger Bandung Conference of April 1955 in which representatives of twenty countries swore to remain independent and forge a political economic alternative to the Cold War rivalry. Indonesian President Sukarno captured the conference's mood when he said: "We have been the un-regarded, the peoples for whom decisions were made by others whose interests were paramount, the people who lived in poverty and humiliation. Then our nations demanded, nay fought for independence, and achieved independence, and with that independence came responsibility."[3]

Third World nonalignment and solidarity has been more rhetorical than real. Few states actually watched the Cold War from the sidelines. The United States and Soviet Union had client states throughout the less developed world. Conflicts between Third World states sometimes broke down into war. India and Pakistan fought three border wars, and others broke out between China and India, China and Vietnam, and Iraq and Iran, to name the bloodiest. Most wars, however, were civil rather than international as suppressed and brutalized peoples fought for independence from the dominant ethnic group. Many governments in the Third World displayed a double standard in denouncing "imperial exploitation" while often much more brutally exploiting their people whom they were supposed to represent. Tanzanian President Nyerere, for one, bravely decried "this tendency in Africa that it does not matter if an African kills other Africans . . . Being black is now becoming a certificate to kill fellow Africans."[4]

The nonaligned movement was reinforced by the emergence of regional organizations like the Arab League (1948); Organization of Petroleum Exporting Countries (OPEC, 1960), Organization of African Unity (1963, OAU, renamed the African Union [AU] in 2002); the United Nations "Group of Seventy-Seven" (1964), and the Association of Southeast Asian Nations (1967, ASEAN), which formed to promote shared political and economic goals.

Of these organizations the Group of 77, which now has 132 members, has been the most assertive. At its founding, it issued the "Joint Declaration of the Developing Countries" that argued: "The existing principles and pattern of world trade still mainly favor the advanced parts of the world. Instead of helping the developing countries to promote the development and diversification of their economies, the present tendencies in world trade frustrate their efforts to attain more rapid growth. These trends must be reversed."[5] They called for an international conference to address these trade and investment concerns.

With a majority in the General Assembly, the Group of 77 was able to establish the UN Commission on Trade and Development (UNCTAD) and named Raul Prebisch, the father of dependence theory, as its first secretary general. Prebisch tried to make UNCTAD an alternative to GATT, the IMF, and World Bank.[6] These efforts eventually succeeded in several ways. UNCTAD pressured GATT to address many Third World issues. In 1965, GATT issued a Part IV to its charter, which called for the elimination of trade barriers to products from less developed countries, permitted commodity price agreements, and let Third World countries opt out of the reciprocity principle. There was, however, a catch—adherence by GATT members was purely voluntary. At first there were few takers.

Then in 1968, after several years of negotiations, most of the advanced industrial countries agreed in principle to a General System of Preferences

(GSP), in which they would reduce their trade barriers to Third World products. But it was not until 1971 that GATT approved the GSP by waiving its "most favored nation" reciprocity principle. The GSP did not formally emerge until 1975 when 19 advanced industrial countries agreed to unilaterally eliminate tariffs for a decade on a range of manufactured and semifinished goods for 140 poor countries. The agreement has been periodically renegotiated and renewed ever since.

Although the GSP has helped promote some Third World exports, its value has been more symbolic than economic. The advanced industrial countries found ways around these concessions. Generally, they only remove barriers to Third World products that do not compete with their own. For example, the United States excludes textiles, shoes, import-sensitive steel, import-sensitive electronics, and import-sensitive glass from the GSP and refuses to extend it to any OPEC country or any product that captured more than a 50 percent share of America's market.

The Group of Seventy-Seven movement reached its peak of activism in 1974, when it got a majority in the UN General Assembly to vote for a New International Economic Order (NIEO) that would run on different principles than the Liberal International Economic Order (LIEO) developed by the United States. That same year, the General Assembly also approved a Group of Seventy-Seven resolution for a Charter of Economic Rights and Duties of States that included

1. The sovereignty for all states, which means the right for any state to use its wealth and resources as it wants.
2. The right to nationalize all foreign property in return for appropriate compensation.
3. The right of states to create commodity cartels and the duty of other states to adhere to those prices and other arrangements.
4. The creation of buffer stocks to prevent fluctuations in commodity prices.
5. Multilateral long-term contracts for commodity prices that guarantee prices.
6. Massive debt write-offs.
7. The elimination of trade barriers in industrial countries to Third World exports.
8. The liberalization and extension of GSP privileges to semifinished and finished goods.
9. The increase in the Third World share of global industrial production to 25 percent by the year 2000.
10. An increase in foreign aid from donors at least equal to 0.70 percent of their Gross National Product (GNP).

11. Increased technology transfers and the setup of research and development institutes within the Third World.
12. The stabilization of exchange rates, movement away from the dollar as the international currency, and increased use of Special Drawing Rights (SDRs) issued by the IMF.
13. The regulation of multinational corporation investments and profits.

UNCTAD was influential in the GATT Tokyo Round of negotiations from 1973 through 1979. The GATT approved the various agreements that UNCTAD has negotiated with the industrial countries. However, GATT also passed a "graduation" clause by which countries that achieved a certain level of development would no longer be eligible for preferential treatment.

Starting with GATT's Uruguay Round (1986–1993) and continuing through a series of WTO rounds through today, the less developed countries have been put on the defensive by industrial country demands that they grant intellectual property protection and reduce their trade barriers. The First World countries are especially adamant that inventors have rights to withhold or license their technology as they see fit. If intellectual property is not protected and compensated, there will be no incentive for inventors to create new technologies. Computer software, for example, is easily copied, thus costing the creators lost royalties and giving them little incentive to create new software. Those from the Third World insist that technology should be used by all without restriction or compensation, otherwise intellectual property protection simply perpetuates the supremacy of the advanced industrial countries and the subjection of the poor. But those from the First World condemn that practice as piracy and set up the World Intellectual Property Organization (WIPO) to fight that. Piracy of intellectual property and other products and brands persists despite the efforts of the WIPO and individual countries and corporations.

Although UNCTAD's membership has swelled steadily, its power has just as steadily declined. Third World solidarity was always more of a slogan than a reality, but never more so than today. The reason is simple. The Third World does not truly exist. The range of development levels within UNCTAD has expanded enormously. As countries develop, their interests change. And when some Third World countries do attempt to work together on an issue, the industrialized countries will invariably play them off against each other through offers of aid, investments, lower trade barriers, and so on. Stockpiling, conservation, alternative products, and multiple suppliers doom any attempt by countries to stabilize commodity prices. Finally, the collapse of communism has removed both a state-development model and source of support for UNCTAD's more radical members. Faced with these realities, UNCTAD has quietly set aside its NIEO goals and focused on working with the WTO on specific issues.

## The Organization of Petroleum Exporting Countries (OPEC)

Oil has fueled the global economy for a century and will continue to do so for decades to come. Until the early 1970s, no economic sector seemed a more blatant example of Third World dependence than oil.[7]

Seven oil corporations known as the "Seven Sisters" (the American firms Exxon, Chevron, Gulf, Mobil, and Texaco, British Petroleum, and Dutch Royal Shell) controlled virtually all the world's noncommunist oil wells, transportation, refineries, and markets. They had operated as a global cartel since the 1920s when they first began to split markets, fix prices, drive independents out of business, and impose lucrative extraction deals on governments. Their wealth grew even greater as oil replaced coal as the most important energy resource. In 1952, the Seven Sisters produced 90 percent of the oil outside North America and the communist countries, a percentage that dropped to 75 percent by 1968.

The first challenge to the Seven Sisters occurred in 1953 when the Iranian government tried to nationalize the holdings of British Petroleum's subsidiary, Anglo-Iranian Oil, which monopolized Iran's oil industry. Britain responded with an economic embargo and threats to invade Iran unless compensation was made. Behind the scenes Washington and London sponsored a coup that overthrew Iran's government, made the hitherto figurehead Shah or king, Reza Pahlavi, dictator, and he, in turn, privatized the oil industry, letting American firms invest alongside British firms.

During the mid-1950s several Persian Gulf governments succeeded in negotiating a fifty-fifty split on extraction profits, resulting in a significant increase in revenues. For example, Saudi Arabia's profits rose from $0.17 to $0.80 a barrel between 1956 and 1957 when a barrel of oil cost about $1.80. But ever more oil rich but revenue poor countries recognized that there was strength in numbers.

A turning points came in 1960, when diplomats of Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela, the world's five leading oil producers other than the United States and Soviet Union, met at Baghdad to discuss ways of acting jointly to offset recent price decreases pushed through by the Seven Sisters. Although they failed to arrest the price drop, they did form the Organization for Petroleum Exporting Countries (OPEC). Over the next decade OPEC's ranks swelled with new members: Qatar in 1961, Indonesia and Libya in 1962, the United Arab Emirates in 1967, Algeria in 1969, Nigeria, Gabon, and Ecuador in 1971. Despite these developments, the Seven Sisters continued to dominate the global oil market from wellhead to gas station.

Although OPEC remained quiescent during the 1960s, the vulnerability of the industrial world to a potential oil cutoff grew steadily. By 1973, OPEC's thirteen members accounted for 65 percent of global oil exports, and the Middle Eastern and North African members, which called themselves the Organization of Arab Petroleum Exporting Countries (OAPEC) represented about 75 percent of that. OAPEC accounted for 75 percent of Japan's total oil imports, 60 percent of Western Europe's, and 15 percent of America's.

OPEC's 1970s activism was inspired by Colonel Muammar al-Qaddafi, who took over Libya in a 1969 coup. In 1970, Qaddafi threatened to nationalize foreign oil holdings if they did not grant Libya higher taxes and boost prices. The oil firms reluctantly agreed. In December 1970, OPEC also demanded tax and price increases. In February 1971, faced with this collective demand, the oil firms signed a five-year oil price and tax increase agreement with OPEC in which oil would rise from \$1.80 to \$2.29 a barrel. OPEC demanded that agreement's renegotiation after the dollar's devaluation in December 1971 cut their revenues. The price was subsequently raised to \$2.48 a barrel. In December 1972, OPEC called for their ownership of the oil companies to start at 25 percent and eventually rise to 51 percent by 1982. The oil firms had no choice but to comply. The OPEC members had no sooner begun to enjoy the new revenues when, in spring 1973, the dollar began to float and steadily lost its value. That hurt the oil industry since oil prices were denominated in dollars; hence OPEC called for price hikes once again.

Then, on October 6, two days before these negotiations were to commence, Egypt and Syria attacked Israel in what became known as the Yom Kippur War. Although initially caught by surprise, Israel counterattacked and, with massive American military and intelligence aid, managed to defeat Egypt and Syria. OAPEC tried to offset that military defeat with an economic victory; it boosted oil prices to \$5.12 a barrel on October 16 and to \$11.65 on December 23, effectively quadrupling oil prices within a month. OAPEC also imposed a temporary boycott on oil sales to the United States, the Netherlands, and Portugal for helping Israel during the war.

The United States responded to this crisis by organizing the International Energy Agency (IEA) whose members would stockpile at least a ninety-day supply of oil, share supplies, conserve energy, develop alternative fuels, and act together diplomatically. Those policies, however sensible, would take years to implement. Meanwhile, OPEC's oil price hikes succeeded for three central reasons. First, there simply was no energy alternative to oil. Second, the Europeans and Japanese were dependent on OPEC for most of their oil needs. Third, the oil sources were dispersed so widely and could be so easily sabotaged that it would have been impossible for the United States and its allies to take them over.

OPEC kept up prices by assigning production quotas for its members. With the world's largest proven oil reserves, Saudi Arabia served as OPEC's "price leader." Saudi Arabia increased production when oil supplies were tight and cut back when supplies were abundant. OPEC was divided by countries like Indonesia, Iran, Iraq, Venezuela, and Nigeria, which had large populations and ambitious development strategies, and thus wanted ever higher oil prices, and moderates like Saudi Arabia, Kuwait, and the United Arab Emirates with relatively smaller population and less ambitious development strategies, and thus were content with existing increases.

Between 1974 and January 1979, prices rose to $14.34 a barrel, then more than doubled in 1980 to $33 a barrel. Several reasons explain that second dramatic oil increase. Throughout 1978 into early 1979, Iran was torn apart by a revolution in which the pro–Western Shah was deposed and the fundamentalist Ayatollah Khomeini was brought to power in February 1979. Iranian oil shipments had been cut during the last months of 1978, exacerbating existing global supply shortages. In December 1978, OPEC agreed to a 10 percent price hike, followed by another in July 1979. In December 1979, the Soviet Union invaded Afghanistan, prompting fears among some that this was the first step in the Soviet conquest of the Persian Gulf. In September 1980, Iraq launched a war against Iran, which limited oil shipments from both countries as each side bombed the other's oil facilities. Throughout these two years, oil prices on the "spot market" or the free market beyond OPEC's control rose higher and faster than the OPEC prices. By December 1980, OPEC's official price reached $33 a barrel while spot market prices topped $41 a barrel.

The result of the oil price hikes between 1973 and 1980 was a startling shift in global geoeconomic power. OPEC countries received huge financial windfalls—from $15 billion in revenues in 1972, OPEC earned an additional $70 billion in 1974, an average annual $200 billion from 1975 to 1979, and, after further doubling its prices received $300 billion in 1980! Meanwhile, American oil imports soared from $4.8 billion to $80 billion during the same period, and other industrial nations posted similar increases in their oil bills. The result was a decade of "stagflation"—high unemployment, interest rates, and inflation, and low economic growth. Although the less developed nations initially cheered OPEC's actions, the poorer countries were the worst hit by the grossly inflated prices.

What did OPEC do with all of this money? Most of the oil-rich countries could not absorb that flood of cash into their own economies and ended up saving it in Western banks, which in turn lent much of it to the poorer countries to help them pay for oil and other vital imports. The Third World's debts mounted rapidly. With their economies stalled, they had trouble paying off the interest let alone the principle. There was a very real danger that if the major Third World debtors like Mexico or Brazil defaulted on their loans, they would bankrupt the world's major banks, which in turn would cause the entire global economy to collapse.

OPEC's success inspired developing countries to attempt to force concessions from the industrial democratic countries in other areas. The Group of 77 unsuccessfully pushed its NIEO agenda during 1974 and 1975. Also during this time, many feared that other commodity producers would follow in OPEC's footsteps by creating cartels and raising prices. These fears were unfounded. Although several commodity producers did try to form cartels, none became another OPEC. Stockpiles, diverse and abundant sources, and alternatives undermined efforts to create bauxite, copper, phosphate, banana, cocoa, tea, and natural rubber cartels.

OPEC's overwhelming triumph in raising oil prices during the 1970s turned to failure during the mid-1980s when international oil prices dropped to half their highest level. Prices collapsed for several reasons. As prices rose throughout the 1970s, non-OPEC members like Britain, Norway, Mexico, Malaysia, and China began exploiting sources and discovering new ones that would have otherwise been too expensive. Between 1973 and 1983, OPEC's share of the global oil market dropped from two-thirds to one-third! Hard pressed for more revenues, OPEC members themselves cheated and produced more oil than allowed by their quotas and flooded the spot market with it. Meanwhile, almost all countries, but particularly the oil-guzzling industrial countries, embarked on conservation and diversification policies to make their energy use more efficient. They also created huge oil reserves that could supply their respective needs from 90 to 120 days.

The combination of increased supply and decreased demand led to a global oil glut and subsequent oil price drop in 1986 from $30 to $15 a barrel. The glut continued despite a brief spike in price during the Persian Gulf War (1990–1991), which temporarily eliminated Kuwaiti and Iraqi oil production from global markets. By November 1992, OPEC's daily production was the highest since 1980, which helped push oil prices below $20 again. By early 1999, the price for a barrel of oil fluctuated around $15, which was actually cheaper in constant dollars (adjusted for inflation) than before 1973. Later that year OPEC succeeded in cutting back production so that prices doubled by early 2000 to $28 a barrel. Since then, OPEC quotas, rising demand, the war in Iraq, disruptions in Nigeria, tensions with Iran, and speculations have sent oil prices soaring to nearly $150 a barrel in 2008. Then, a half year later, oil prices plunged to $40 a barrel as people around the world sharply cut back their oil consumption and shortages gave way to gluts.

There are currently twelve OPEC members—Angola, Algeria, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela—Gabon left OPEC in 1995 and Indonesia in 2008. These countries vary considerably in wealth, population, and territory, from states like Kuwait and the United Arab Emirates with small populations and lands and large per capita incomes, to countries like Nigeria and Iran with huge territories and populations but mass poverty.

Although OPEC currently accounts for about half of global oil exports, 65 percent of the world's proven oil reserves are within the Persian Gulf countries alone. Oil production has already peaked for fifty countries with America's production in steady decline since 1970. In 2010, the world daily consumed about 85 million barrels of oil. If demand continues to soar while the world hits "peak oil production" followed by a sharp decline, OPEC's power, and especially that of its Persian Gulf members, will rise as oil reserves elsewhere dwindle and the global economy remains addicted to oil.

Oil can be a double-edged economic sword for "petrostates." It can bring great wealth to the

elite when prices soar and economic and social problems to everyone else when prices drop. Most oil-rich countries have failed to use their petrodollars to diversify their economies so that their wealth comes from ever more sources and enriches ever more people. As a result, they remain prisoners of mostly unpredictable and volatile market forces. Sooner or later either a country's extractable oil will run out or the global economy will wean itself of oil by adapting renewable, nonpolluting sources of energy. And then the wealth and power of those petrostates will wither and die.

## The Global Debt Crisis

Periodically during the 1980s and 1990s, the inability of Third World countries to service their rapidly worsening debt threatened the global economy with financial meltdowns. The fear was that the default of the world's largest debtors would bankrupt overextended international banks, which in turn would drag down the global economy into a deep and intractable depression.

It is said that if you owe someone a thousand dollars, you are in debt to him, but if you owe him a million dollars he is in debt to you. That notion mirrors the Third World debt problem. When a huge debtor like Mexico or Brazil threatens to default, global bankers have no choice but to respond. The most common means of managing a crisis is to reschedule the repayment of that country's debt, which usually involves reducing the country's interest rates while extending its payments out over more years. Sometimes bankers or other investors will actually buy back part of the debt at a reduced rate. And finally, the banks have simply written off large chunks of debt for those countries that have threatened to default. Throughout each debt crisis, global bankers have been like fire-fighters, rushing from one country to the next rescheduling one debt payment after another.

The debt crisis was caused by several interrelated problems, of which the most important was OPEC's quadrupling of oil prices in 1973 and further doubling in 1979. By the early 1980s, a barrel of oil sold for $35, more than a dozen times its price a decade earlier. The result was a huge shift in wealth from poor countries to OPEC. Most of the OPEC states lacked a banking system sophisticated enough to manage this ocean of money or domestic development projects vast enough in which to invest it. Instead, they deposited much of the money in Western banks. But even the sophisticated international banks had trouble finding credit-worthy borrowers in a stagnant global economy and became increasingly desperate for borrowers who would pay an interest rate higher than what the banks were giving to their oil-rich depositors.

Eventually many of these "petrodollars" were recycled to the Third World. Although OPEC had wielded its "oil weapon" to hurt the industrial democracies and extract vengeance for decades of exploitation by the huge oil corporations, it was the poor, struggling Third World that suffered the most. Money earned by Third World countries from exports was used to pay for oil imports rather than reinvested in domestic industries and infrastructure. As investments fell, economic growth and exports declined too. When export earnings fell short of skyrocketing oil bills, the impoverished countries borrowed ever more from international bankers to bridge that widening gap. To worsen matters, global interest rates rose to 21 percent in the early 1980s, reflecting the greater demand for funds and the need to keep ahead of the hyperinflation set off by soaring oil prices. Poor countries sank ever deeper in the quicksand of debt with no way out. Economic development, which seemed promising for many Third World countries during the 1960s and early 1970s, stalled and often reversed. As the Third World fell deeper into debt and recession, the hard-pressed private bankers cut back their new loans to those countries, thus exacerbating the problem. The Third World's total debt rose from about $100 billion in 1973 to $830 billion in 1982 and $1.3 trillion in 1988.

Third World leaders bear a considerable share of blame for the debt crisis. Much of the borrowed money was squandered. Billions of dollars ended up in secret bank accounts in Switzerland, Panama, and other financial havens or was poured into grandiose projects that glorified the ruler or country. Relatively little was invested in production or infrastructure, which would stimulate rather than impede national development. There were some exceptions. Modeling its development on that of Japan, South Korea, for example, invested most of its loans in strategic industries like steel, automobiles, shipbuilding, consumer electronics, and semiconductors with great success.

Third World debt had been soaring for almost a decade when a crisis erupted in 1982. In July, the Mexican government announced that it would suspend its interest payments to foreign lenders. Mexico's foreign debt in 1982 was $85 billion, one-tenth of the total Third World debt of

$830 billion. The fear was that if Mexico were allowed to default, other huge debtors would follow. At that time Mexico was one of five countries along with Brazil, Argentina, Venezuela, and Chile—which owed $260 billion mostly to commercial banks. The result would be a financial domino effect, which would eventually destroy the global economy.

To manage that crisis, the United States organized a "lender's cartel" with the other Group of Seven largest economies, the key commercial banks, and the IMF and World Bank. Within two days of Mexico's announcement, Washington directly lent its southern neighbor $2 billion in credits to service its immediate payments, and pressured a group of banks to reschedule payments that saved Mexico an additional $1 billion. Then the IMF and Mexico began to negotiate a more comprehensive settlement. In November 1982, in return for $3.84 billion in IMF loans and $5 billion in commercial loans, Mexico agreed to an intensive austerity program in which it devalued its currency, reduced government spending, and cut back its subsidy programs. For the first time, the IMF made its loan conditional on the recipient negotiating a large commercial loan. Thereafter variations of that bailout formula have been used by the lenders to resolve debt crises.

That formula, however, tends to address the symptoms rather than causes of the debt crisis. Many Third World countries remained trapped in a vicious economic cycle as they sent more money abroad in interest payments than they received in loans, aid, or export earnings. The more money governments diverted for payouts, the less money they had to invest in export industries that could earn the country money. Unable to keep up with their interest payments, governments borrowed yet more money and sank further in debt and poverty. Economic stagnation often led to political instability—food riots, coups, communist insurgencies—which further gutted the economy. Those with money often sent it to safe overseas havens rather than investing it in the local economy. Third World capital flight often far exceeds its loans and other sources of income.

The debt crisis that exploded in 1997 had fundamentally different causes than earlier ones. This time the crisis was in a region lauded as a paragon of Third World Development—East and Southeast Asia. That crisis's roots extended to an economic superpower, Japan, whose financial and real estate markets had collapsed in 1989 as a result of rampant speculation encouraged by inept government policies. The financial collapse dragged Japan's economy down to a low sputtering annual growth rate of around 1 percent. Japanese protectionism, always daunting, was strengthened by the government and corporate leaders, while ever more excess production was dumped overseas at a loss to bankrupt foreign rivals. Thus did Tokyo's policies crimp East and Southeast Asian economic expansion.

The crisis, however, did not emerge until the summer of 1997 when financial, real estate, and stock markets melted down first in Thailand, then Indonesia, South Korea, Malaysia, Singapore, and the Philippines for the same reasons that Japan's had collapsed a decade earlier. Japan's "crony capitalism," the dark and not necessarily inevitable side of neomercantilism, was emulated by the region's other government and business elites. As in Japan, cartels, protectionism, subsidies, and dumping of exports boosted economic growth to high levels at the expense of the Americans, Europeans, and others whose economies adhered closer to free market principles. But ever more of the huge profits skimmed from the global economy were badly invested in speculative rather than productive ventures. Attracted by the high growth rates, foreign investors poured hundreds of billions of dollars into the region without carefully scrutinizing whether those ventures were viable or not. By the summer of 1997, the same herd psychology among investors that had earlier rushed into the region caught whiff of the underlying dangers. The result was a stampede of hundreds of billions of dollars out of the region. The subsequent economic meltdown among the East and Southeast Asian countries threatened a domino effect among other vulnerable countries and regions until the entire global political economy collapsed.

Washington once again worked with the IMF, World Bank, and leading private bankers to bail out the region. Unfortunately, the IMF formula that worked so well in alleviating the debt crisis of the 1980s exacerbated that of the 1990s. During the 1980s, the problem was reckless government spending. The IMF solution was a tight fiscal conservatism that cut back that spending while interest rates and taxes were raised. That austerity program eventually revived those economies.

But the 1990s crisis was fundamentally different. Private rather than public investors were to blame for their manic speculation and squandering of investments. The sensible solution would have been for the White House, IMF, and private bankers to offer low interest loans in return for which those countries would open their economies to foreign trade and investment. But any hint of such a policy provoked howls of protests from the region that they would lose their economic sovereignty as foreign investors bought out those countries' bankrupted firms. The IMF formula of giving low interest loans in exchange for government austerity worsened the depression. The private sector was already deflated. Governments should have spent more rather than less to stimulate the economies. By cutting back their budgets, the governments took ever more money and jobs from the economy.

The crisis spread. In early 1998, Russia actually suspended payments, while Brazil and other Latin America countries threatened to do so. The IMF, White House, and private bankers scraped up enough money to prevent those economies from total collapse. Those crises were eventually overcome.

Those efforts staved off the threat of a global financial collapse. Meanwhile, led by America's robust economy of the Clinton years, the global economy continued to expand and slowly reenergize those depressed regional economies. By early 1999, the East and Southeast Asian and Latin American economies had started to grow again. Japanese neomercantilism, however, remained to be a deadweight on the global economy as its corporations persisted in dumping their exports and blocking competitive imports.

No financial crisis erupted in the global economy for another decade. Then, in 2008, it was America that nearly provoked a global financial meltdown. The reasons were seven years of a range of White House policies that caused ever worsening national and consumer debt, a weaker dollar, and bubble stock and real estate markets, which, along with skyrocketing oil prices, caused growth to slow and prices to soar not just in the United States, but around the globe. As usual, it was world's poorer countries that suffered the worst. That crisis was eventually overcome with massive bailouts of the financial industry, although not with the regulations and cutbacks forced on Third World countries during previous crises.

## Foreign Aid

Foreign aid remains an important if diminishing source of international finance and expertise for many Third World countries. From 1990 to 2010, foreign aid fell from almost one-third to about one-fifth of Third World's sources of international finance as both direct and portfolio investments soared. Foreign aid is from both bilateral (country to country) and multilateral (international organization to country) sources. There are several types of aid. "Humanitarian aid" is generally for crises like famines and natural disasters, and includes supplies of food, medicine, and clothing. "Development aid" is generally targeted on specific projects, be it to dig a village well or build a huge dam. Although military aid is not considered "official development assistance" (ODA), advocates argue that boosting a nation's military can contribute to both political stability and economic development; opponents argue that the opposite effect is much more common.

Since 1945, the United States has been the world's largest aid donor; from 1945 to 2009, Washington dispensed more than $400 billion. In the late 1990s, Japan briefly surpassed the United States to become the world's largest donor. The United States regained that title in 2000 and has held it ever since. But a better indicator of a country's generosity is the amount it gives as a percentage of its economy. Here Denmark, Norway, Sweden, the Netherlands, and Luxembourg are by far the world's most charitable, while the United States and Japan fall to the last and second to last positions among the rich countries.

America's aid program started out vast and generous. For a decade after 1945, Washington's aid policy concentrated on reconstruction of the

**Table 8.2** Key Measures of Foreign Aid

*The World's Most Generous Aid Donors in Volume*

| *Countries* | *Total in Billions of Dollars, 2007* | *Percentage of GNI* | |
|---|---|---|---|
| | | *1990* | *2007* |
| United States | $21,753 | 0.21% | 0.16% |
| Germany | $12,267 | 0.42% | 0.37% |
| France | $9,940 | 0.60% | 0.39% |
| Britain | $9,921 | 0.27% | 0.36% |
| Japan | $7,691 | 0.31% | 0.17% |
| *The World's Most Generous Aid Donors as a Percentage of GNI* | | | |
| Norway | $3,727 | 1.17% | 0.95% |
| Sweden | $4,334 | 0.91% | 0.93% |
| Luxembourg | $365 | 0.21% | 0.90% |
| Netherlands | $6,215 | 0.92% | 0.81% |
| Denmark | $2,563 | 0.94% | 0.81% |

*Donors Ranked by Amount Per Person, 2007*

| *Country* | *Rank* | *Per Person* |
|---|---|---|
| Luxembourg | 1 | $356.69 |
| Norway | 2 | $309.38 |
| Denmark | 3 | $303.60 |
| Netherlands | 4 | $217.83 |
| Sweden | 5 | $191.51 |
| France | 7 | $105.41 |
| Britain | 8 | $75.28 |
| Japan | 12 | $71.67 |
| Germany | 13 | $67.27 |
| United States | 20 | $24.59 |

*Source*: OECD Development Assistance Committee (DAC) Report 2003, 2008.

*Note*: The total aid is in billions of dollars.

industrial countries rather than on development of the world's poor countries. The United States gave $17 billion to 16 European countries and $2.2 billion to Japan between 1945 and 1952. But from the mid-1950s, for several reasons, the Third World became the recipient of massive aid. One reason was that the reconstruction of Europe and Japan was complete. Those countries had been restored to rapid economic growth and relative prosperity, and were now able to begin their own foreign aid programs. During the 1950s and into the 1960s, ever more colonies achieved independence and were in desperate need of economic assistance. Finally, in 1956, Soviet Premier Nikita Khrushchev announced that his country would compete with the Western powers for the loyalty of developing countries, with aid an especially important enticement.

To counter Soviet advances and deal with the development problems of a rapidly enlarging Third World, the United States and its allies sharply boosted their foreign aid programs. For two decades after the mid-1950s, global foreign aid increased steadily. After OPEC's quadrupling of oil prices in 1973, many of the wealthier Arab states also began their own aid programs, although those were mostly targeted on poorer Arab or Muslim states.

Washington clearly linked American economic and political security with that of the less developed countries, and its aid program was seen as a vital means of achieving that security. A Senate committee accurately summarized the ends and means of the U.S. foreign aid program:

> A comprehensive and sustained program of American economic assistance aimed at helping the free underdeveloped countries to create the conditions for self-sustaining growth [which] can, in the short run, materially reduce the danger of conflict triggered by minor powers, and can, say, in two or three decades, result in an overwhelming preponderance of societies with a successful record of solving their problems without resorting to coercion or violence. The establishment of such a preponderance of stable, effective, and democratic societies gives the best promise of a favorable settlement of the Cold War and of a peaceful, progressive world environment.[8]

By the mid-1970s, most of the advanced industrial countries, especially the United States, began to experience donor fatigue. Classical economic assumptions guided America's aid program. It was thought that a lack of money was the worst obstacle to Third World development. Thus large American grants to a country would theoretically set off a virtuous savings/investment cycle. Unfortunately, development proved far more complex than classic economic theory allowed. In all too many poor countries, there seemed to be little development to show for all the cash. Instead, the result of most aid programs was widespread waste, corruption, and inefficiency. And for the United States, often the recipient country politically bit the hand that fed it by refusing to go along with Washington on UN votes, military bases, or economic policies. For these reasons plus the global economic slowdown, from the late 1970s, the amount of aid from the United States and many other industrial countries leveled off for the next two decades. Bilateral foreign aid has increased since the terrorist attacks of September 11, 2001, and the American wars in Afghanistan and Iraq.

Most donors tie at least some aid to the recipient's purchase of the donor country's goods and services. Japan has the most blatantly tied aid program; where Japanese export subsidies end and aid begins is impossible to say. Tokyo has underwritten its exports with "tied aid" aid since it sent abroad its first reparations during the 1950s. As Japan's economic power grew, ever more donors felt compelled to follow suit. Washington's agricultural aid program, for instance, gives recipients loans to buy American grain, and is thus largely a subsidy to producers.

Since its inception, the Group of Seventy-Seven has called on the wealthier nations annually to transfer at least 0.7 percent of their GNP, as well as give more grants, softer loan interest rates, and longer repayment schedules, and eliminate tying aid to purchases of the donor's goods and services. Only the Scandinavian countries, Luxembourg, and the Netherlands have complied with those requests. The two wealthiest countries, the United States and Japan, are actually among the stingiest in terms of aid as a percentage of GNP and the terms at which it is extended.

Recipients generally favor multilateral over bilateral aid. Bilateral aid tends to be tied and restricted. Multilateral aid is usually targeted on specific projects but at least the recipient has slightly more discretion over how it is spent. There is a variety of multilateral aid organizations, including regional development banks, various UN programs, EU, OPEC, OECD's Development Assistance Committee (DAC), and private charity institutions.

The IMF and the World Bank are the world's two most important multilateral lending agencies. Their aid programs complement each other. The World Bank funds specific development projects while the IMF extends short-term development loans to countries suffering from international payments deficits. Both institutions are headquartered in Washington, D.C., in adjacent buildings. Although the World Bank is often criticized for pouring money into wasteful large-scale projects that are inappropriate for the recipient country, the IMF's lending policies have received the most criticism.

Debtors are highly critical of the IMF prescription, which includes cutbacks in government spending, restrictive fiscal and monetary policies, a currency devaluation, high interest rates, and the removal of trade and investment barriers. Government cutbacks in price supports for food, fuel, and other necessities hurts the poor the most. The currency devaluation inflates prices for those with enough money to afford foreign consumer goods and industries that depend on foreign equipment and technology. Finally, the removal of trade and investment barriers often leads to an influx of foreign goods and services that bankrupt domestic businesses that cannot compete. The result is that the economy is pushed into a deep and sometimes intractable recession. "IMF riots" are common whereby those worst hurt rampage in the streets. Thus debtors complain bitterly that the result of following IMF policies is not economic development but economic chaos and a political crisis that often leads to a coup or even revolution.

Despite these often grim results, Third World nations accept IMF loans for one clear reason—poor nations find it almost impossible to borrow money from private lenders without one. An IMF loan signals to private international bankers that the recipient is credit-worthy.

Third World countries have no power to change IMF policies. Although they make up 75 percent of IMF's membership, their relatively low contributions mean that they account only for about 35 percent of the votes. The United States alone holds about 20 percent of the votes, while the other leading industrial states control another 45 percent.

Does foreign aid help a nation's development? Over time aid donors and recipients have learned to use resources more effectively. During the 1970s, the World Bank shifted some of its funding from the development of large industrial and infrastructure projects to basic human needs, and many other countries' aid programs followed suit. Humanitarian aid has generally been the most successful in nurturing development. While many industrial projects have failed to make money, such basic needs as health, sanitation, and education have improved or at least have not deteriorated as rapidly as would have been the case without such humanitarian aid. Yet even aid, which is relatively well-administered, may contribute little to a nation's development. For many donors the hundreds of millions of dollars they have sent abroad for aid seems to have neither sparked genuine development nor gratitude among the recipients. Although foreign aid will remain important to keeping many Third World countries from collapsing completely, it is clearly no development panacea.

## Multinational Corporations

Modernization and dependency theorists are adamantly opposed on the role of foreign multinational corporations (MNCs) in a nation's development. Modernization theorists believe that foreign investments represent a net gain for the recipient and are often the key to development. Poor countries lack money, technology, managerial skills, and access to foreign markets, and MNCs can provide all of those assets. Dependency theorists see MNCs as neocolonial usurpers that promise but do not deliver those assets. Once entrenched, they suck out as much wealth as possible and corrupt the political process to keep that country poor and docile.

Reality, as always, is much more complex than these theories assert. It is impossible to generalize about foreign investments in the Third World. The relative positive and negative effects vary from one country, sector, corporation, and time to the next. For every example of a foreign investment behaving according to modernization theory, another can be found that mirrors the dependency perspective.

The operations of multinational corporations in Third World countries have been criticized on many grounds. Perhaps the most important is the sheer power of most MNCs. Of the 100 largest economic entities in the world, about half are countries and the rest corporations. Many multinationals are much wealthier than many of the countries in which they invest. They thus have enormous bargaining and corrupting power to ensure they extract the best entry and operating terms from poor, weak host governments. MNCs offer things that poor countries desperately need. It is easy for MNCs to play off one poor state against the others to get the best deal. By competing against each other to bribe officials for investment permits and other facilities, MNCs frequently exacerbate existing corruption. Those officials involved may gain riches but by allowing the MNCs often unlimited and subsidized investments, the country's development suffers and wealth flows abroad.

When a government tries to limit how much profit can be repatriated, the MNCs evade the restriction through "transfer pricing" or charging enormous amounts on the equipment and components imported to their investment from other subsidiaries. The MNC does not really pay more since it is paying itself. It is simply a method to transfer profits out of the country and skip taxes and sometimes capital controls. As a result, the subsidiary sends home money that otherwise might have been spent on much cheaper components from indigenous businesses. By manipulating their accounts to make it look like their subsidiaries are losing money, the MNC often ends up paying little or no taxes to the host government.

Many foreign investments become enclaves in which little if any wealth trickles down to the rest of the economy; the investment acts like a sponge that soaks up local capital and expatriates it. That way MNCs minimize their own exposure and maximize that of their host government and local investors so that they will provide all the support they can.

The MNCs often dominate the host economy's most advanced sectors, thus controlling any significant domestic development. Once in a country, the MNC often gobbles up, Pac Man–style, other local businesses. Few local businesses can compete against an MNC, and many are bankrupted or bought out by the new investors. Productivity is usually much higher in the MNC than similar local businesses. Thus unemployment rises because local firms are often much more labor-intensive than the MNC. The foreign investors can offer more money and benefits, and better facilities to natives and thus often mop up a country's most talented workers. The MNCs create new socioeconomic classes that widen existing gaps between the "haves" and "have nots." They demand foreign luxury goods that further drain wealth from the economy and disrupt the culture. Meanwhile, there are no significant technology transfers. The technology that is invested is either obsolete or so advanced that it is inappropriate for that country. The result is often a net drain on a country's wealth and the development of underdevelopment. For these reasons dependency theorists vilify MNCs.

Despite these potential costs, most governments actively solicit investments from foreign corporations. Although Marxist dogma asserts that MNCs are neocolonial forces that enslave poor countries, even the communist governments of China, Vietnam, North Korea, and the former Yugoslavia and Soviet Union set aside that belief and enacted policies to attract foreign investment. What country would attempt to attract foreign investors if the costs exceeded the benefits?

Over time, most Third World governments have nurtured their bargaining skills so that they maximize the gains and minimize the costs of foreign investment. Bureaucracies are hiring experts in international law, accounting, taxes, business, and other skills necessary to negotiate head to head with MNC representatives and then carefully regulate established foreign investments. Third World power increases further after the MNC has set up shop. New regulations can be enacted and the MNC usually goes along because the compliance costs are lower than the disinvestment costs. Laws can be enacted, which limit the amount of profits, royalties, and other income an MNC can repatriate, and the amount of goods an MNC can import. Domestic content and mandated export laws further encourage MNCs to buy components locally and export the finished products. Brazil, for example, has 99 percent local content requirements for its automobile industry. Other laws are even more restrictive. Some governments have laws whereby MNCs can set up joint ventures only in which a majority of shares is held by indigenous investors. There are "sunset laws" whereby an increased number of shares are turned over to indigenous investors until after several decades the entire operation has been nationalized. Indonesia, for example, has sunset laws of thirty years for most foreign investments. Most Latin American governments follow the Calvo Doctrine, which asserts the host country's right to determine what is adequate compensation for nationalized investments.

A government's success in enforcing or even enacting these laws depends on its relative power, and that power depends on how badly MNCs want access to that nation's markets and resources. Countries like Brazil, Indonesia, Mexico, and South Africa, with their huge populations and rich resources obviously, have much more bargaining power than small states with limited markets and resources. Nonetheless, the bargaining power of virtually all Third World countries has grown as the global economy has become more competitive. Governments can play off one MNC against the others, a practice that was more difficult in the 1950s and 1960s when there were fewer MNCs and most were American.

An increasingly popular means of attracting and managing foreign investments is to designate an export processing zone (EPZ) in which firms can produce only for export. Host governments provide infrastructure and freedom to investors from tariffs on imported components. In return, the government and country enjoys a controlled laboratory in which to learn production, managerial, financial, and marketing skills.

Among the complaints against MNCs is that they worsen corruption in Third World countries by handing out ever more massive bribes to officials to approve their operations. In 1977, the U.S. Congress addressed that problem by passing the Foreign Corrupt Practices Act, which made it illegal for American firms to use bribes to obtain foreign business. Shortly thereafter, with considerable American pressure, the Organization for Economic Cooperation and Development (OECD) issued its "Guidelines on International Investment and Multinational Enterprise," but the provisions are nonbinding and vague.

Although any state has the sovereign right to nationalize any businesses, foreign or domestic, international law requires that a government compensate foreign investors if it does so. At the first GATT round in Geneva in 1947, the United States attempted to enact provisions that would safeguard investments against nationalization unless compensation was given. Representatives of Latin America and other developing countries succeeded in tabling the American proposal and instead pushed through provisions that allowed host governments to restrict MNC operations. Passage of this proposal prompted American business interests to lobby against pending Senate ratification of the Havana Charter that would have created the ITO.

During the 1970s, there were several attempts to regulate foreign investments. The 1974 UN "Charter of Economic Rights and Duties of States" declared the sovereign right of nationalization but only says that compensation should be appropriate, thus giving governments wide latitude in determining it. That same year, the United Nations followed up the Charter by creating a Center on Transnational Corporations that collects data on international investment flows, and, in 1975, a Commission on Transnational Corporations that discusses issues. But neither of these two organizations has adequately addressed the question of how to determine compensation for nationalized assets. In 1980, UNCTAD formulated a code that regulated MNC business practices including transfer pricing and cartels. There was a wave of nationalizations during the 1970s, most of which were in extraction investments. But the practice has declined since then as host governments have acquired more skill at indirectly managing foreign investments.

The cost of nationalizing foreign investments usually far exceeds any hoped for benefits. If a government nationalizes a MNC's holdings without compensation, other MNCs may be afraid to invest there. Thus that country's development will suffer the loss of potential jobs, wealth, managerial expertise, market access, and technology created by those potential foreign investments. Meanwhile, the victim will lobby its home government to pressure the Third World government that has nationalized its holdings for compensation. For example, after governments nationalized United Fruit Company land in Guatemala and ITT's investments in Chile, those corporations pressured the White House, which eventually backed coups in those countries that brought more compliant elites to power. Washington is legally armed with the 1964 Hickenlooper and 1974 Gonzalez amendments, which respectively empower the president to sever aid and GSP privileges with any country nationalizing American investments. The U.S. Overseas Private Investment Corporation insures businesses against loses in many though not all countries. Thus with every American foreign investment, Third World governments potentially face not only the power of that particular investor, but also its home government and other MNCs.

Despite all the potential problems that MNCs can bring to a country, there are arguments that MNCs can evolve into truly global organizations that transcend national concerns. This global vision was perhaps best expressed by former World Bank President Alan Clausen who argued that "the idea that this kind of business enterprise can be a strong force toward world peace is not so farfetched. Beyond the human values involved, the multinational firm has a direct, measurable, and potent interest in helping prevent wars and other serious upheavals that cut off its resources, interrupt its communications, and kills its employees and customers."[9]

The issue of direct foreign investments in the Third World must be put in perspective. First, as we have seen, 75 percent of direct foreign investments is within the First World. Of those in the Third World, most are concentrated in a few countries. In 2009, five countries—China, Singapore, Mexico, Turkey, and Brazil—accounted for more than half of all investments in the Third World. Although mining corporations invest wherever there are viable sources of minerals and oil, manufacturing investments tend to be limited to those countries with favorable infrastructure, markets, workforces, and policies.

Thus although direct foreign investment may be a slight portion of Third World GNP, the investments are often a prominent portion of the host's economy and are concentrated in the most advanced sectors. Because they are highly capital- and technology-intensive, extractive investments tend particularly to take over that entire sector.

Also, when most people think of MNCs, they imagine the IBMs, Toyotas, and Philips of the advanced industrial countries. In fact, many MNCs are based in Third World countries like India, Brazil, and China, to name a few. Most of these Third World MNCs, however, are much smaller than those from the advanced industrial countries.

MNCs invest overseas for many reasons—access to cheap labor, closed markets, raw materials, energy resources, farm land, technology, or laxer regulations. A corporation that provides a good or service to another corporation may well set up shop overseas when its client does. The bottom line is that foreign investments should make money.

Firms are sometimes pulled overseas by the actions of foreign governments, which try to entice foreign investment by raising trade barriers while offering incentives to foreign firms. These government subsidies can include free or cheap land, tax holidays, grants, loans, and infrastructure. MNCs can increase the amount of incentives they receive by playing off one government against the others.

Firms are sometimes pushed overseas by their own governments. Tokyo, for instance, from the late 1960s began offering incentives to heavily polluting industries to move elsewhere in order to "houseclean" Japan. The U.S. tax code has encouraged many American corporations to move their operations overseas by deferring paying taxes on their income until they bring it home. As a result, most MNCs simply reinvest anywhere but home. American firms can also deduct any taxes paid to overseas governments from the taxes they owe to the United States. Those policies can let to more unemployment, lower tax receipts, and greater socioeconomic problems in the United States.

Most MNCs reflect the culture, values, and sometimes even policies of the countries in which they are headquartered. For example, although it has not always been successful, the White House has not hesitated to pressure its corporations to follow government policy when the situation demands. It has imposed an economic embargo on American sales to Cuba since 1961. In 1968, the White House forbade the sales of factory equipment from a Belgian subsidiary of an American company to Cuba even though the Belgian firm had struck the deal before it was acquired by the American firm. Although Washington tried, it failed to rally American petroleum corporations around the flag when OPEC quadrupled oil prices in 1973. The American firms instead went along with OPEC, fearing that to do otherwise might result in all of their foreign assets being nationalized. In 1982, the Reagan administration ordered American firms to stop selling equipment that would be used for a gas pipeline from the Soviet Union to Europe. The result was that European firms got the business that the White House denied American firms. And sometimes U.S. government policies follow the pressure of American MNCs. The White House helped topple the governments of Guatemala in 1954 and Chile in 1973 when the American corporations United Fruit and ITT complained that their respective investments in those countries were nationalized without adequate compensations. But these dramatic examples are the exception rather than the rule, and mostly disappeared with the Cold War.

There is conflicting evidence over an MNC's effect on the recipient's international trade and payments accounts, with some studies showing a net gain and others a net loss. Traditionally, the foreign investments of MNCs in Third World countries were twice as profitable as those in other advanced industrial countries. The balance changed during the 1980s. Now the reverse is true. Yet foreign investments, if managed properly, can be a net gain for the host country.

## Consequences

Third World political activism reached a height during the 1960s and 1970s with the General Assembly resolutions of the Group of 77 and UNCTAD, and OPEC's success in nationalizing oil production and quadrupling oil prices in 1973 and further doubling them in 1979, and more recently in 2008 prices soaring past $150.

Yet, any development successes within the Third World will come from immersion within rather than isolation from and cooperation rather than defiance of the global economy. While OPEC is becoming more powerful than ever, the Group of 77 and UNCTAD are being eclipsed by the emergence of a dozen regional free trade associations throughout the Third World. Despite such efforts, the importance of the Third to the First World is diminishing. About 80 percent of the trade and 75 percent of the foreign investments of wealthy countries are with each other.

The lesson is that poor as well as rich countries can benefit from global trade and investments. It is a government's duty to ensure that its country maximizes the potential gains and minimizes the potential costs of trade and investment in an increasingly interdependent world. Most Third World regions and countries have geoeconomic importance, be it for its markets, resources, or industries, and thus will remain important to multinational corporations and the countries in which they are headquartered. Foreign aid will continue, and while its total volume may stagnate or even diminish for some countries.

In terms of political leverage, the global environmental crisis presents the Third World with the opportunity for extracting wealth and technology from the more advanced states that the Cold War once did. At environmental conferences in Rio de Janeiro in June 1992, Kyoto in December 1997, Buenos Aires in November 1998, and Copenhagen in December 2009, the Third World countries argued that any costs associated with dealing with the greenhouse effect and ozone layer should be borne by the rich countries. The Third World would continue to industrialize, and if the rich countries were concerned about pollution then they would be forced to transfer the technology and wealth necessary to cut air and water emissions. Environmental battles between the First and Third Worlds may be to the twenty-first century what conflicts over MNCs, nationalization, commodity prices, and so on were in the twentieth century.

CHAPTER 9

# The Global Environmental Crises

*We master nature by obeying her.*

*Francis Bacon*

*The substance of man cannot be measured by the Gross National Product. Perhaps it cannot be measured at all, except for certain symptoms of loss.*

*E.M. Schumacher*

*What does it mean to redefine one's relationship to the sky? What will it do to our children's outlook on life if we have to teach them to be afraid to look up.*

*Albert Gore*

*The global economy is literally destroying the natural systems that support it.*

*Lester Brown*

*No more basic threat to national security exists.*

*American Assembly Conference, 1990*

## The Dilemma

Few have more succinctly expressed the plight of humanity than the ecologist Garret Hardin with his 1970 essay "The Tragedy of the Commons." He described a village green where everyone can graze their sheep but no one is accountable for its upkeep.[1] The unregulated common ground is eventually overgrazed and destroyed. As that resource's degradation is ever more apparent, the herders' instinct is to graze their livestock there as much as possible before it disappears, thus accelerating the destruction. The herders gained in the short term; all the villagers lost over the long term.

The earth and the humans who inhabit it face the same "tragedy of the commons." Within forty years, the world's current population of 6.7 billion will most likely soar past 9.5 billion. Like people today, future generations will demand an ever higher living standard and quality of life. Tragically, similar to the once prosperous village commons, at some point the earth will be unable to satisfy the material demands of all those people.

Every "ecosystem" or distinct area of interdependent animals, plants, terrain, and climate has a "carrying capacity" or limit on the amount of life it can sustain. The earth is one vast complex ecosystem that is rapidly deteriorating as a result of several interrelated and accelerating environmental catastrophes—the "population explosion," the "greenhouse effect," "ozone layer depletion," "deforestation," "desertification," and "biocide" or species extinctions. And that environmental destruction imposes enormous destruction of wealth and power on humanity—anywhere from $8.7 trillion to $47 trillion from 1961 to 2000![2] These crises boil down to one central problem—too many people demanding more than the earth can provide as resources or absorb as pollution.

When exactly will people destroy the earth's carrying capacity? While experts debate that question, there is no doubt that scores of regions around the world have suffered the devastation that will eventually engulf the globe. Populations have grown too fast and demanded too much from the regions in which they live, thus rendering that land uninhabitable. Environmental refugees fleeing those wasted lands increase demands on steadily diminishing productive lands elsewhere, thus quickening their degradation and eventual destruction. The result is an environmental "domino effect." The number of people and percentage of the world's population ravaged by famine, drought, floods, poverty, diseases, and malnutrition of near biblical horrors worsen. Within the next fifty years, while billion more humans will lack even such basics as water, food, fuel, jobs, or shelter, as in Garret's overgrazed commons, every human will be hurt directly or indirectly from the earth's worsening degradation. Lester Brown clearly states the crisis' essence: "the global economy is literally destroying the natural systems that support it."[3]

While right-wing ideological extremists shrilly deny these scientific realities, ever more governments and people around the world understand that ever more people and pollution are provoking a global environmental catastrophe. Over the past three decades, environmental concerns have crept steadily from the wings of the global agenda of priorities and are approaching center stage.

The first comprehensive attempt to identify and deal with the range of environmental crises was the 1972 Stockholm Conference on the Human Environment and the formation of the United Nations Environmental Program (UNEP). Unfortunately, nothing much came from that initiative as the Cold War and global economic stagflation took precedence as the next dozen years. Then during the mid-1980s, environmental concerns once again became a priority. In 1985, scientists discovered a hole in the ozone layer over Antarctica; two years later delegates signed the Montreal Protocol in which they pledged eventually to eliminate the chemicals that cause that destruction. In 1986, the Chernobyl nuclear plant in the Soviet Union exploded, causing a massive release of radioactivity that devastated the region and drifted over Europe and slowly circled the earth. That disaster starkly reminded thoughtful people of their power either to destroy or nurture the earth. In 1987, the United Nations published "Our Common Future," which systematically analyzed the environmental threats to humankind and called on all nations to work together to confront those threats. In 1988, James Hansen, a chief NASA scientist, announced that global warming was real, man-made, and would cause ever more devastation to the earth. That same year, to the surprise of many, the conservative British Prime Minister Margaret Thatcher declared herself a "green" and urged sweeping international efforts to deal with the world's worsening environmental catastrophes. In July 1989, the Group of Seven meeting of the leaders of the United States, Japan, Germany, France, Italy, Britain, and Canada announced that environmental threats to the world were as important as economic ones. By the late 1980s, more than 140 countries had national environmental agencies, up from 25 countries in 1972.

During the 1990s, many countries took some steps toward addressing those worsening problems. The 1992 Earth Summit at Rio de Janeiro brought together 7,000 delegates of 178 nations and 8,000 journalists. Two treaties were signed, one against global warming and the other for biodiversity; each called on signatories to take voluntary measures to alleviate those crises. The 1997 Kyoto protocol to the 1992 Greenhouse Treaty imposed on the signatories legally binding standards and timetables. There was a hiatus during the eight years that George W. Bush was president, as his administration not only denied those environmental catastrophes, but worsened them by blocking any international efforts to address them while violating and degrading America's own environmental laws and regulations. In contrast, President Barack Obama recognized the dangers and has tried to rally the world's great powers against them. Yet, despite his efforts, a conference at Copenhagen with delegations from 192 countries in December 2009 ended in deadlock.

Nonetheless, we have come a long way from the 1972 Stockholm Conference. From then through 2010, countries have negotiated, signed, and ratified over 150 treaties that deal with environmental problems. The trouble is that at best all these measures have merely slowed the devastation of the planet. It may be too late to act decisively, even if the political will could somehow be conjured up to do so. How will future generations look back on their ancestors who not only fiddled as the earth literally burned, but kept feeding the flames?

## Overpopulation

All the environmental problems inevitably result from too many people demanding too much of the planet. In his 1798 "Essay on the Principle of Population," Thomas Malthus predicted that in the future the world's population would grow exponentially while its food grew arithmetically. The ultimate end would be mass famine and death.

Though he did not anticipate the scientific revolutions that would increase food production, Malthus was certainly right about population. Between the time of Jesus and Malthus, the world's population increased from roughly 200 million people to 1 billion, an annual glacial rate of about 0.2 percent. Then, during the nineteenth century, humans proliferated with the interrelated agricultural, industrial, technological, medical, and sanitation revolutions that started in Europe and spread globally through imperialism and trade. Advances in health, hygiene, and food production and distribution cut infant mortality and malnutrition and allowed people to live longer. In a phenomena known as the "J-Curve effect," the world's population grew at an ever faster rate, as much as 2–3 percent annually in the poorest countries. By 1900, the world's population was 1.6 billion, by 1950 2.5 billion, by 1970 3.6 billion, and by 1999 it surpassed 6 billion! By 2010, it had leapt to 6.7 billion.

The latest estimate of the UN Population Fund is that the world's population will increase by one-third and peak at about 9.5 billion people around the year 2050. Probably 97 percent of that population explosion will afflict the already overburdened Third World. In 1950, Third World countries had twice the population of advanced industrial countries; in 1990, they had three times as many people; and by 2020 they are expected to have four and a half times more mouths to feed, bodies to cloth, and hands to employ. One of three people is from China or India, while almost 45 percent of the world's population is Asian. Although the populations of most industrialized countries will level off, in contrast and according to the 2004 Census Bureau Report, America's population is expected to bloat from 303 million to 420 million between 2003 and 2050; most of that explosion will come as political, economic, and environmental refugees pour into the United States from around the world.

Ever more of the world's population is crammed into cities. There were only two megacities with populations over 10 million people in 1960. By 2000, seventeen megacities sprawled and polluted across swaths of the earth. By 2015, there will be at least twenty-six megacities. Whether it is a megacity or not, urban areas are having ever more problems housing, feeding, and employing everyone who want to live there. Of the 3 billion people packed in Third World cities, over 100 million sleep in the street or beneath makeshift shelters, 220 million people have no clean drinking water, and nearly half a billion lack toilets. Garbage piles up in the streets or clogs sewers, worsening floods and breeding disease. Perhaps a billion people live in shantytowns ringing city centers. For 1.1 billion people the never-ending ever-thickening fog of air pollution permeated with carcinogens sickens and shortens lives as each inhabitant daily sucks in the equivalent of two or more packs of cigarettes. City services like water, electricity, sewage, transportation, school, clinics, police, sanitation, and jobs are overwhelmed and falling further behind the flood of people, disease, crime, malnourishment, ignorance, joblessness, homelessness, prostitution, and despair. All this is an enormous waste of human potential. In Bangkok, for example, pollution shaved an average 4 IQ points from children while traffic jams annually cost the economy as much as $1 billion. China's health care costs from pollution may rise from $32 billion in 1995 to $98 billion in 2020. The miserable conditions provoke violence whose global cost in injuries and lost productivity is $500 billion each year.[4]

A nation's birth rate is shaped by many factors. In traditional cultures, large families are a source of social prestige and economic security. A man is highly regarded if he fathers many children, in some cultures even with two or more mothers. Another reason is the lack of education about and access to contraception. Outside of China, scientific family planning methods are available to only one of three people in the Third World. The wealthier and more educated a population, the lower its birth rate. Population increases tend to slow only after a country reaches a per capita income of $2,500. The world's richest nations have actually experienced stagnate or declining birth rates, and those populations have increased only through immigration.

Throughout the modern era, new technologies have enabled a larger proportion of humanity to lead better lives, allowing some to argue that overpopulation is a myth. The economist Julian Simon was the most fervent advocate of "the more the merrier" or "cornucopian" view that the population explosion is wonderful because it provides more minds to think up new technologies to improve living standards and more consumers who can buy ever more goods and services.[5]

Nearly all scientists and other analysts dismiss idealists like Simon as hopelessly naive and warn that the world's rapidly increasing population will eventually devastate the planet, bringing varying degrees of misery to all. They argue that a massive, systematic international effort must be undertaken simply to slow the world's population increase—family planning education and access to safe, cheap contraception must become universal. But that costs money, organization, time, and political will.

The UN Population Fund leads international efforts to encourage family planning and contraception. That campaign has been undercut by some governments for religious or ideological reasons. During the 1984 "International Conference on Population" in Mexico City, President Reagan announced that he would withdraw American financial and political support from international family planning programs including the Population Fund and International Planned Parenthood Federation. During the 1992, Rio de Janeiro Earth Summit, President H.W. Bush joined with the Vatican and Saudi Arabia to force the population issue off the agenda. In 1993, President Clinton resumed American aid to international family planning organizations. That lasted until 2001 when, in one of George W. Bush's first acts in office, he cut off those funds.

Family planning remains a national rather than an international policy, with some states trying to curb population growth while most others are either unable or unwilling to do so. No country has taken more sweeping population control measures than China whose government promotes one-child families as the ideal. To that end, the government gives extra benefits for fourteen years to a couple who has one child, takes those benefits away with the second child, and imposes a tax on each subsequent child. Birth control clinics and family planning information are widely disseminated.

China's policies have been successful. Between 1960 and 1992, the birth rate plummeted from 6.0 to 1.9 children per couple where it has stayed ever since, a level comparable to that of the advanced industrial democracies. Yet many have criticized China's policy for the pressure exerted on women to abort any additional children, as well as the unintended effect of leading to the infanticide of girl babies, which are not valued as much as boy babies. Other governments have achieved less spectacular results with less controversial means. From 1950 to 2007, the Third World halved its average children per couple from 6 to 2.8, a significant drop but one that will still cause the population to soar.[6]

Tragically, natural forces such as famine and disease may succeed where governments have failed in curbing population. As the earth's arable land and drinkable water diminishes and population skyrockets, food becomes scarcer and often nonexistent for ever more people. The result is mass famine in which millions die. Disease too can devastate populations. For example, in some countries and regions, AIDS may accomplish what family planning has been unable to do. The populations of African countries worst hit by AIDS have plummeted.

The world's birth rate has declined significantly from some mix of policy, personal choice, and nature. But it has not dropped enough to reverse the population explosion. Ever more regions of the earth are unable to sustain all those new people squeezed among those already trying to survive. And those harsh conditions for existence will only worsen in the years and decades ahead.

## Global Warming

Many of us take our life on earth for granted. Few understand how fragile our existence and all life actually is. Only 0.03 percent of the earth's atmosphere is carbon dioxide; most of the rest is nitrogen. While seemingly miniscule, that carbon dioxide is essential. If there were no carbon dioxide in the atmosphere, the earth would be 34 degrees centigrade colder and ice-covered. Life exists on earth because the amount of carbon dioxide in the atmosphere traps just enough heat. Other planets are not so lucky. Mars has too little carbon dioxide so the planet is lifeless and frozen; Venus has too much—the planet's surface is hot enough to melt lead.

There is no question that the world's average temperatures are rapidly rising. In the late nineteenth century, scientists began making the first systematic readings of global temperatures. In the 1890s, average global temperatures were about 58.2 degrees Fahrenheit; by 2000, they had risen to an average 59.6 degrees, or over one full degree. The decade from 2000 to 2009 was the hottest on record. Not only have average temperatures never been hotter, but global climates have been far more erratic. Devastating droughts, floods, hurricanes, and wild regional swings in temperature have been severe and will worsen.

So what has caused global warming? Industrialization and the destruction of the world's forests are clearly responsible. The first warning was issued more than a century ago in 1896 when Swedish chemist Svante Arrhenius predicted a greenhouse effect and global warming caused by the burning of fossil fuels. Unfortunately, the next serious study did not occur until 1957 when the Scripps Institute of Oceanography estimated that half of all carbon dioxide released was being trapped in the atmosphere. Then it took another three decades for scientists to mobilize their efforts to understand the problem. In 1987, the World Meteorological Organization (WMO) and UNEP jointly established the Intergovernmental Panel on Climate Change (IPCC), composed of the world's 2,500 leading climatologists, to measure the greenhouse effect. On June 23, 1988, Dr. James Hansen, the director of NASA's Goddard Institute for Space Studies, announced before a Senate Committee that "Global warming has begun."

Two years later, in 1990, the IPCC echoed Hansen's conclusions that the earth was rapidly heating up and the greenhouse effect was to blame. It did so in the first of a series of reports compiled by those 2,500 experts from around the world. Each subsequent report in 1995, 2001, and 2007 found ever more evidence that the planet was rapidly warning, that humans were overwhelmingly the cause, and that the results would be ever more devastating to the wealth and power available for humanity.

By using state-of-the-art supercomputers capable of analyzing trillions of bits of data, the IPCC's three 2007 reports dwarfed the preceding reports in sophistication, breadth, and depth. The first report summarized all scientific evidence for global warming, the second explored the impact, and the third recommended steps to slow global warming.

Which chemicals cause the greenhouse effect? There are four major culprits—carbon dioxide, chlorofluorocarbons (CFC's), methane, and nitrous oxide—each of which has both natural and human sources. The burning of fossil fuels accounts for about half of greenhouse gases. When fossil fuels like coal, oil, wood, and natural gas are burned, the carbon combines with oxygen to make carbon dioxide. CFCs and halons—the same chemicals which deplete the ozone layer—also contribute to as much as 15–20 percent of the greenhouse effect by reventing infrared radiation from escaping into space. Methane and nitrous-oxide account for much of the rest.

About half of the carbon dioxide emissions are naturally absorbed sponge-like by the world's oceans and forests that convert the gas into oxygen, a process known as photosynthesis. The trouble is that the ocean's ability to absorb more greenhouse gases is reaching the saturation point while the world's forests are being destroyed, thus releasing all that stored carbon dioxide back into the atmosphere. About 20 percent of the carbon dioxide emissions are caused by the destruction of the tropical forests. When those trees are cut down, carbon dioxide is absorbed no longer; when they are burned, they release the stored carbon dioxide into the atmosphere.

Of several means of measuring the greenhouse effect, the best is to examine ice cores drawn from the polar caps. By analyzing the chemical composition of each layer, scientists can determine the amount of carbon in the atmosphere dating back a million years! What scientists have found are natural fluctuations in the amount of carbon in the atmosphere; and a steadily rising amount since the industrial revolution's dawn in the 1770s. Carbon dioxide concentrations in the atmosphere climbed from 280 parts per million from the 1770s to 315 parts per million by 1958. Then, in just five decades between 1958 to 2008, the amount of greenhouse gas in the atmosphere jumped to 387 parts per million, the highest concentration in a million years! If humanity allows that to continue, the amount of greenhouse gases will double within the next century. That will cause the average earth temperature to rise from three to eight degrees Fahrenheit by the year 2030, which would be the warmest the earth has been for over 2 million years!

The relationship between the populations and carbon dioxide emissions of the rich and poor countries is shifting. Until recently the rich countries emitted far more carbon emissions than the poorer countries. But with one-third of the world's populations, China and India are emitting ever more greenhouse gases; in 2007, China surpassed the United States as the world's worst polluter.

Global warming is already proving to be an economic disaster for ever more people. How bad might it get? If the frozen tundra begins to melt, it will release huge amounts of methane that will speed up the greenhouse effect and make it unstoppable. A global warming of six degrees will melt most of the world's glaciers across Antarctica, Greenland, and the highest mountain ranges, which, in turn, would cause ocean levels to rise at least three feet. Low lying regions around the world will be inundated. Hundreds of millions of people will flee flooded coastal or drought-stricken areas for less affected regions, which would then be devastated as their carrying capacities are overwhelmed—an environmental domino effect! According to a 600-page economic analysis of a British treasury ministry team led by Nicholas Stern, the World Bank's former chief economist, global warning will destroy as much as 20 percent of annual economic growth during the twenty-first century, an amount equivalent to trillions of dollars. In stark contrast, the cost of slowing and eventually reversing global warming is only 1 percent![7]

Given that vast gap between the ever worsening economic costs inflicted by global warming and the costs of mitigating that devastation, surely the world would be united in investing whatever it takes to deal with the crisis.

Alas, no! Tragically, despite the irrefutable scientific evidence, powerful right-wing ideological and industrial groups deny those realities, and wield enormous efforts through advertisements, conferences, and articles to get politicians and the public to believe that global warming is a myth and thus nothing should be done to cut back pollution and embrace renewable sources of energy. That struggle between scientists and deniers over global warming goes back more than three decades. To date, the coalition of right-wing ideologues and industrialists has succeeded in either watering down or spiking any attempts to mitigate global warming.

The first significant battle erupted in 1988, the World Conference on Changing Atmosphere in Toronto called on nations to reduce their fossil fuel use by 20 percent by the year 2005. Although only a few nations attended the Toronto Conference, it succeeded in putting the greenhouse crisis on the global agenda. In September 1989, the United Nations issued its "Climate Change: Meeting the Challenge," which included a plan for addressing the greenhouse effect. In 1990, the UN General Assembly resolved to negotiate and sign the Framework Convention on Climate

Change at the 1992 UN Conference on Environment and Development in Rio de Janeiro.

The 1992 "Global Warming Treaty" called for industrial countries voluntarily to reduce their greenhouse emissions and extend financial and technological aid to poor countries so they can eventually comply with the treaty. President George H.W. Bush originally opposed the treaty with the false claims that the problem was not serious and that the United States would probably reach the targets anyway so there was no need to sign. Bush agreed to sign the treaty only when the timetables were removed in which each signatory agreed to reduce its greenhouse emissions to 1990 levels by the year 2000. The other countries reluctantly agreed, and the treaty was signed by over 153 countries.

In April 1993, President Bill Clinton declared that the United States would meet the original Greenhouse Treaty's goals of reducing emissions by the year 2000 below the 1990 level, and unveiled a systematic program to achieve that goal. Congressional Republicans blocked his proposals. In 1997, Vice President Al Gore led the diplomatic way in negotiating the Kyoto Protocol to the Global Warming Treaty, which required thirty-eight advanced industrial countries to cut their emissions between 6 and 7 percent below their 1990 levels by the year 2012. That treaty was never ratified because of overwhelming Senate opposition.

Shortly after taking office in 2001, President George W. Bush declared that "Kyoto is dead" and swore that the United States would not honor the global warming treaty. Despite that by 2003, the treaty was ratified by the required 55 percent of countries producing 55 percent of greenhouse gases. Those countries are now trying to honor their duty to their children and all of humanity.

Those efforts are not just undercut by the United States. A bloc of poor countries led by China and India argue that the rich have made the mess and thus should bear the costs of cleaning it up. The rich countries argue that those countries that contribute the most to global warming should cut back their emissions the most, regardless of whether they are rich or poor. However, until 2009, nearly every rich country has tried to cut back its emissions except for the United States, which under the administration of George W. Bush first denied the scientific reality of global warming, then claimed that the cleanup costs would exceed the costs of global warming, and finally refused to do anything about it until China and India joined the effort. President Barack Obama has committed the United States to joining the effort to slowly and ideally reverse global warming. But his efforts to lead the way to significant reductions among the world's worst polluters at the Copenhagen Conference in December 2009 failed.

The most recent offensive of the "denial" front culminated in early 2010. They spent two years not only scrutinizing every line and footnote of the IPCC's 2007 reports but also hacking into the e-mail of IPCC scientists. After all those efforts the worst they could find in 3,000 pages of text and thousands of e-mails were two controversial statements. One was a scientifically unsupported claim that the Himalayan glaciers would disappear in thirty years. Another was in the e-mail of a scientist who wrote that he had "tricked" some data.

The IPCC investigated both accusations. They corrected the glacier sentence. They completely exonerated that scientist's "trick," which in British scientific slang merely means to solve a problem. Intellectually science crushed the pseudoscience and outright lies manufactured by the coalition of right-wing ideologues and industrialists. However, politically, the conservatives defeated the scientists by getting ever more people to believe in their lies.

Yet science and global warming will not disappear no matter how powerful the forces of deceit and ignorance that deny those realities. What does dissipate is the power of leaders to jointly make and implement the array of policies that might mitigate global warming.

How could cuts in greenhouse gases be achieved? Enormous reductions could occur if the government (1) eliminated its huge corporate welfare for the fossil fuel industry; (2) imposed steadily rising pollution taxes on fossil fuels; (3) provided generous tax cuts and subsidies for alternative energy industries and for conservation efforts by businesses and households; (4) imposed ever higher standards for fuel efficiency and antipollution for vehicles and other machines that directly or indirectly produce greenhouse gases; (5) engaged in massive reforestation; and (6) increased subsidies for mass transportation.

Many of those who oppose the Global Warming Treaty claim that compliance would hurt economic growth. Is that true? In reality, if the United States achieved the treaty's standards, not only America's economy would be far richer but also America's national security would be greater than if nothing was done. The reason is simple. Energy is expensive. The more households and businesses reduce their use of energy, the more money they will save with which to spend on other things. Pollution damages the health of its victims. Health care costs drop as pollution drops; here again there is more money to invest more productively elsewhere in the economy. Oil accounts for nearly half of all energy consumed by Americans, and nearly two-thirds of that comes from foreign countries. Cutting back oil consumption not only cleans the skies but also reduces America's dependence on foreign sources of oil. All the money that goes to foreign oil producers would instead be picking the pockets of American households and businesses. Thus does the conservation and diversification of energy sources at once create new wealth and enhance national security.

History reveals that the conservation and diversification of energy reaps enormous profits. Traditionally, the creation of wealth and increased energy use marched hand in hand. Between the 1920s and early 1970s, energy use increased 0.9 percent for every 1.0 percent increase in Gross National Product (GNP). Organization of the Petroleum Exporting Countries' (OPEC) quadrupling of oil prices in 1973 and further doubling in 1979 forced most governments, businesses, and consumers to use energy more efficiently. As a result, global energy efficiency has doubled from the 1970s to the 1990s, which means that not only is the earth less polluted than it would have been, but also is wealthier as well. As a barrel of oil neared $150 in 2008 ever more people around the world began to invest in new energy conservation and diversification efforts, which, undoubtedly, will reap enormous savings.

All the international, national, and personal measures taken to reduce global warming may be too little too late. While the advanced industrial nations have achieved significant efficiency gains, poorer nations, many with huge populations, are rapidly industrializing. America is the world's second worst polluter and its greenhouse emissions increase daily. Even if energy efficiency annually increases by only 1 percent, atmospheric carbon dioxide will increase from 365 parts per million in 2000 to 600 parts per million by 2075. A 2-percent annual energy efficiency increase would hold down the concentrations to 463 parts per million by 2075. Global warming and the accompanying devastation is inevitable. The only question is how bad it will get. That depends on the extent of international efforts to curb fossil fuel pollution. So far those efforts have been mostly symbolic rather than substantive.

## Ozone Layer Depletion

Until the 1980s, most people had either never heard of ozone or associated it with a type of ground-level pollution. Human life exists, in part, because the earth is cocooned in an ozone layer that absorbs most of the sun's deadly ultraviolet radiation. Until recently there has been a natural balance in the ozone layer.

Human-made chemicals are now destroying that balance and rapidly eating away the ozone layer. The culprits are chemicals that contain chlorine and bromine, the worst of which are CFCs and halons. Before being banned, CFCs were used in air conditioning, aerosol sprays, seat cushions, computer chip cleaners, and foam insulation, among other things, while halons fueled fire extinguishers. Just one molecule of those chemicals can destroy, Pac Man–like, as many as 100,000 ozone molecules. The amount of damage varies depending on how much sunlight interacts with the molecules; the erosion is the worst in winter, especially at the north and south poles where the light is feeble and fleeting. Powerful, sustained sunlight replenishes some of the ozone that is lost, but the net effect is the steady depletion.

The damage to the ozone layer is already severe and worsens daily. New York now absorbs as much radiation as Caracas, Venezuela. During the late winter, the ozone depletes by as much as 40 percent over the United States, Canada, Europe, Russia, and Japan. Over the next forty years, the ozone layer could thin by 5–10 percent. Even if all CFC and halon production ceased, those existing in the atmosphere will destroy ozone for another 100 years.

Ozone depletion will affect life on earth in various ways. Humans will suffer increased skin cancer, cataracts, and depressed immune systems. If the ozone layer declines 10 percent overall, there will be a 25-percent increase in melanoma skin cancers. Even more troubling is the effect on some plants. To varying degrees, all crops are sensitive to increased doses of ultraviolet rays. Crop yields will fall as ultraviolet exposure increases. Perhaps the worst effect will be on ocean life. High doses of ultraviolet rays kill the phytoplankton (one-celled animals) and krill (tiny shrimp-like creatures) that form the basis of the ocean food chain. If they die, all species higher up the chain will die as well. The world's climates will change as the ozone layer diminishes. When the stratospheric ozone absorbs ultraviolet rays, heat is generated, which, in turn, creates winds, the source of weather patterns.

No link in the chain of interrelated environmental crises has been more effectively addressed than the ozone layer destruction. Like the greenhouse effect, some scientists predicted an ozone layer depletion before it was scientifically proven. The first warning came in 1973 when two University of Michigan professors, Richard Stolarski and Ralph Cicerone, explored the chlorine chemical effects of NASA rocket blasts on the atmosphere. The next year two professors—Mario Molina and Sherwood Rowland—at University of California, Irvine, found that, unlike most other gases, CFCs stayed in the atmosphere and destroyed it for decades.

A general scientific understanding of the CFC danger led to a public and eventually a political consensus in the United States and elsewhere. By the late 1970s, millions of Americans refused to buy aerosol spray cans and other CFC products. In 1977, the American government responded to public opinion by passing a law banning CFCs from 90 percent of aerosol sprays; Canada, Sweden, Demark, Finland, and Norway followed suit. These countries, known as the "Toronto Group," pressured other countries and international organizations to cut back their own CFC emissions. In 1980, the European Community froze production of two of the worst CFC chemicals and cut back production 30 percent from its 1976 levels.

In the 1980s, the UNEP forged an international consensus on the need to take more comprehensive measures. In 1985, the world learned that the ozone layer over Antarctica thinned by as much as 50 percent during the winter. That scientific proof was an important impetus behind the efforts of twenty-four countries to negotiate and sign later that year the Vienna Convention on the Protection of the Ozone Layer, which was the first international attempt to identify, if not systematically deal with, the problem. The Convention called for more far-reaching measures to be undertaken by 1987. In September 1986, the Alliance for Responsible CFC Policy, a coalition of over 500 American firms and consumer groups, called for sweeping international action. Faced with that powerful coalition, Washington embraced the cause and pressured other countries to go along.

International negotiations began in December 1986 and concluded in September 1987 with the signing of the Montreal Protocol on Substances that Deplete the Ozone Layer. The twenty-four signatories agreed to freeze production of eight chemicals by 1989, freeze halon production by 1992, and cut CFC emissions by 50 percent by 1998–1999. In 1988, several international and NASA studies revealed that CFC emissions had doubled between 1975 and 1985 despite the national and international steps taken, making it apparent that the Montreal Protocol did not go far enough to address the problem.

Prime Minister Margaret Thatcher led the way to a new treaty that encompassed most of humanity with far tougher standards. In March 1989, representatives of 123 countries gathered in London for the "Save the Ozone Conference" called by Thatcher. While virtually all those governments agreed on the danger of the ozone layer depletion, as usual the rich and poor countries differed sharply over who should bear the costs of compliance with the treaties. About 25 percent of the world's population accounted for 85 percent of CFC use. The poor countries argued that either they should be allowed to use cheaper CFCs for refrigeration, air conditioning, and so on, or the rich countries should pay the tab for substitute chemicals and equipment.

Leading the rich countries, Thatcher finessed their objections with two concessions—poorer countries would be allowed an extra decade to comply with the tougher standards while the richer countries would provide them the financial and technical aid necessary to swiftly convert to chlorofluorocarbon (CFC)-free technologies. In 1990, ninety-three nations signed the London Protocol in which the richer countries agreed to end production of ninety-seven chemicals by the year 2000, and the poor countries by 2010. The wealthier countries created a $180 million fund to help the poorer countries convert to CFC-free technologies, and offered China and India an additional $80 million if they joined the treaty. Since 1991, the rich have provided an additional $1 billion to help poorer countries reach their commitment to end the use or manufacture of ozone depleting chemicals by 2010.

There has been considerable progress toward reaching the London Protocol's goals. The advanced industrial countries have granted various subsidies for firms researching CFC substitutes and imposed taxes on CFC production. As a result, corporations have created substitutes for CFCs, most of which are actually cheaper. Air conditioners and refrigerators are the largest CFC users in the United States. As much as one-third of CFC emissions come from leakage, half from recharging and repairs, and a fifth from accidents, disposal, and manufacturing. CFCs in air conditioners and refrigerators are increasingly better sealed and recycled rather than released into the atmosphere. Although there are not yet any substitutes for halons, the release of that chemical could be cut by two-thirds by curbing extinguisher discharge testing.

Those measures slowed the ozone layer's destruction. By the year 2000, the production and use of ozone destroying chemicals had plummeted 85 percent from its height in the 1970s. Further drops, however, will be less dramatic. The black market for CFCs is as much as 30,000 tons a year. Meanwhile, those chemicals still in the atmosphere continue to steadily eat away the ozone shield that protects us; in 1999, the European Space Agency reported that the ozone layer over Europe had plummeted to one-third its natural level. Nonetheless, reports in early 2010 offered the encouraging news that the destruction may have peaked and the ozone layer was actually starting to repair itself. Whether that is a permanent or temporary trend, however, remains to be seen.

Regardless, the ozone layer treaties are an outstanding example of the international identification of a problem and efforts to overcome it, even before scientific evidence established beyond a doubt the reality of the crisis. Public opinion and interest groups, responding to widely publicized scientific studies, proved a decisive factor in pressuring the governments of the United States and Europe to act. National efforts led to international efforts that became increasingly comprehensive in addressing the problem. The earlier agreements gave industry the time and incentive to develop substitutes before an outright ban took place. The richer countries gave generous aid to the poor countries so that they could comply with the treaty. Signatories can retaliate against any countries that refuse to abide by the treaty. The success of the ozone layer treaty could have been a model for managing other environmental crises, especially for the greenhouse effect. So far, tragically, that has not happened. Till now no one has displayed the decisive and creative leadership of Prime Minister Thatcher.

## Pollution, Wealth, and the Quality of Life

The same pollution that causes the global ozone and greenhouse crises whose devastating economic costs worsen steadily with time inflicts upon nations immediate and vast economic costs in worse health, lost productivity, forgone opportunities, and blighted urban and rural regions. The World Health Organization (WHO) reported in 2005 that over 2 billion people or one of three live in air considered unfit to breath. In the United States alone, over 200 million people or two of every three Americans live in areas whose air the Environmental Protection Agency (EPA) deems so unhealthy that it annually inflicts 120,000 deaths and $40 billion in health care and lost productivity! In Athens the number of deaths rises sixfold on heavy pollution days. In Budapest one of seventeen deaths is attributed to air pollution. In Bombay breathing the air equals smoking ten cigarettes a day. In Mexico City, the pollution exceeds world health standards 300 days a year, and seven of ten newborn babies have lead levels that indicate brain damage.[8]

In high enough doses, air borne chemicals can impair the body and mind, and diminish or outright poison the food upon which we subsist. Sulfur dioxide can cause or worsen coughs, colds, asthma, bronchitis, and emphysema. Particulate matter can carry toxic metals into one's lungs. Ozone, formed when sunlight causes hydrocarbons and nitrogen oxide chemicals to react, can damage lungs. Nitrogen dioxide can cause lung problems including bronchitis, pneumonia, and influenza. Carbon monoxide interferes with the blood's ability to absorb oxygen, which ultimately can cause death. Lead harms the brain, kidneys, circulatory, reproductive, and nervous systems. The damage to crops can also be severe. For every one percentage point increase in ultraviolet rays, soybean yields are reduced by the same amount. Ground-level ozone alone is estimated to reduce America's corn, wheat, soybean, and peanut yields by 5 percent; halving ozone pollution would increase annual crop yields by $5 billion. Mercury from coal-fired electrical plants accumulates in freshwater and ocean fishes; thus all people but especially children and pregnant women are advised not to eat some kinds of fish more than once a week because the heavy metals absorbed by the fish have reached dangerous levels.

We do not have to live with that. Air and water pollution in the United States, European Union, and Japan has lessened considerably because of sweeping laws passed in those countries during the 1970s and 1980s. For example, America's 1970 and 1990 Clean Air acts have had a significant effect on pollution. Between 1970 and 2000, the United States cut sulfur oxide emissions by 35 percent and particulates 65 percent. Those progressive policies greatly enriched the United States in many ways.

The claim that there is a tradeoff between economic wealth and environmental health is utter nonsense. In reality, economic development and environmental protection are inseparable. Historically, those countries that have invested the most in environmental protection have developed faster than those that continue mindlessly to spew pollution and waste energy. The annual global market for environmentally sound products is already $500 billion and will increase steadily. In the United States alone, environmental protection is a huge and ever-growing industry that generates $200 billion annually and employs 5 million people. New technologies such as scrubbers, cleaner-burning coal, nitrous-oxide controls, energy conservation, and catalytic converters, to name a few, have cut pollution and increased productivity. Alternative fuels such as natural gas and hydrogen cause lesser pollution than do coal and oil. Likewise, mass transportation, bicycles, and walking reduce pollution.

There are many steps that governments can take to reduce pollution. Taxing emissions forces producers to pay pollution's full costs; giving tax cuts to those who reduce pollution provides incentives for businesses to invest in equipment and production techniques that minimize pollution. Emission trading can also diminish the problem if the standards for compliance are tough enough. Industries are assigned a pollution level. If they exceed it, they can buy "pollution rights" from firms that have reduced pollution below that level.

Recycling can dramatically reduce fossil fuels emissions. For example, steel produced from scrap cuts air pollution by 85 percent, water pollution by 76 percent, and eliminates mining wastes completely; recycled paper cuts air and water pollution 74 percent and 35 percent, respectively, and eliminates clear-cutting forests. Energy savings are also great: recycled aluminum costs only 5 percent of that produced from bauxite ore; steel from scrap only 35 percent that of steel from iron ore; recycled glass 65 percent that of glass from natural materials; newsprint from recycled paper 40–75 percent that from wood pulp.[9]

Other measures can help reduce pollution. Public opinion can have a powerful effect on polluters, and most firms do all they can to cover up their pollution. "Right to know" laws require businesses to reveal just how badly they are poisoning the earth and thus give citizens the chance to boycott or protest those firms until they clean up their mess. Recently, that basic American freedom was sharply curtailed. Using national security as an excuse, the George W. Bush administration suspended "right to know" laws for all federal government installations.

Although it has already taken some important steps, the United States could do much more to clean up its carbon dioxide and other pollution. Washington has lagged well behind its competitors in implementing policies that encourage the technological and product breakthroughs essential to remaining economically competitive and environmentally sound. America's government spending programs remain largely shaped by politics rather than an understanding of the economic and environmental challenges the country faces. In 2008, Washington spent $1 billion subsidizing various environmental technologies including nonpolluting solar, wind, geothermal, and hydroelectric energy sources. That same year American taxpayers gave away about $20 billion worth of direct and indirect subsidies to farmers alone, and doled out about the same amount of corporate welfare to ranchers, miners, drillers, and loggers to exploit and destroy public lands. American gasoline prices are three to four times cheaper than those of other advanced industrial countries. A dollar federal tax on a gallon of gasoline and similar tax hikes on other carbon emissions would at once force people to use energy more efficiently, increase business and household savings, and reduce America's trade deficit, national debt, and dependence on foreign oil.

The Europeans took significant international measures to deal with various forms of pollution even before the 1992 Global Warming Treaty. The 1974 Helsinki Convention for the Protection of the Baltic, 1974 Paris Convention for the Protection of the North Sea, 1976 Bonn Convention for the Protection of the Rhine Against Pollution by Chlorides, and 1976 Barcelona Convention for the Protection of the Mediterranean addressed important pollution issues. Ten industrial countries signed the 1979 Geneva Convention on Long-Range Trans-boundary Air Pollution, which advocated sharp cutbacks in air pollution. In 1984, twenty-one governments signed the Helsinki Protocol in which they pledged to reduce sulfur emissions by 30 percent, which was followed up by the 1988 Sofia Convention whereby signatories agreed to a further 30 percent cut in sulfur emissions and a reduction in nitrogen oxides. The European Union has attempted to create environmental standards to which all members must adhere. In 1988, Brussels issued a Directive on the Limitation of Emissions of Certain Pollutants, which created a country-by-country plan for pollution reduction whereby the richest countries were required to reduce their emissions between 60 and 70 percent by 2003, while the poorer countries like Portugal, Greece, and Ireland were temporarily allowed to increase emissions.

Regions elsewhere in the world have made little or no significant progress. Although the United States, Canada, and Mexico have enacted laws protecting their environments, there has been little coordination among them. Continental environmental concerns were not addressed until the 1993 North American Free Trade Association (NAFTA). Pollution remains a severe problem there and in most other regions around the world, and imposes enormous losses in wealth, productivity, health, and the quality of life.

## Deforestation

Only 20 percent of the world's surface is land and only about 20 percent of that land is forested, of which 13 percent are temperate forests and 7 percent tropical forests.[10] The world's forests are essential for protecting and enhancing human life. Temperate and tropical forests act as the earth's lungs, annually absorbing vast amounts of carbon dioxide that would otherwise drift up into the atmosphere and worsen the greenhouse effect. Forests are more than trees; they are vast, complex, and fragile ecosystems of hundreds of animal and plants species in temperate forests and tens of thousands in tropical forests. Once destroyed, most temperate forests are difficult to replenish and most tropical forests are lost forever.

The survival of humanity and tropical forests are intricately linked. There are anywhere between 3 million and 30 million animal and plant species on earth, most of which live in tropical forests. In one ten-acre stretch of Borneo rain forest, there were over 700 tree species! Tropical forests are gold mines of medicines and other products. One of four drugs currently sold is derived from tropical forests. Over 70 percent of the 3,000 plants currently known to fight cancer are tropical. In the Amazon basin, Indians use over 1,300 plants for medicinal purposes. Gathering the fruits and plants of tropical forests creates much more wealth for many more people than does clear-cutting it and converting it to pasture or single-crop farms. One study in Peru found that the net annual value of harvesting forest fruits and latex was thirteen times greater than clear-cutting. Finally, tropical forest reserves can bring in tourists and thus income.

The world's forests are rapidly diminishing. One-third of the world's forests have already been destroyed, and every year 20–25 million more hectares, an area the size of Belgium, are lost to chainsaws, bulldozers, and arson. By 2020, at their current rate of destruction, between 80 percent and 95 percent of all tropical forests will have disappeared, and by 2050 virtually all will have been destroyed!

Deforestation adversely affects both the global and regional climates as it "reduces transpiration of water vapor into the atmosphere, changes the albedo (reflectivity) of the earth's surface, removes an important 'sink' for air pollutants, and, through burning, contributes to the greenhouse effect by releasing of carbon dioxide and other greenhouse gases into the atmosphere. At the same time, the essential services provided by intact forest ecosystems—such as watershed protection, flood control, the storage of carbon in plant tissues, or the breakdown of pollutants—are being degraded or destroyed."[11] Deforestation's most serious consequence is on the greenhouse effect. The cutting down and often outright burning of forests accounts for about one-third of all carbon dioxide emissions. And all of that translates into economic losses for humanity that, depending on the forest, could range from several times to hundreds of times worse than the profits for the few who destroyed those forests.

Why is clear-cutting a forest, especially those in the tropics, and converting it to farmland economically destructive? About 95 percent of all tropical forest soils are fragile and nutritionally poor. Most of the vegetation's nutrients come from their own ability to take nitrogen from the atmosphere. Thus clear-cutting rapidly erodes the land, making it unsuitable for agriculture or even livestock within a few years. It also silts streams and rivers, which destroys fishing industries. For example, clear-cutting the South Fork of the Salmon River in Idaho earned logging corporations $14 million but cost the fishing industry $100 million. Finally, clear-cutting destroys a region's tourist industry—few tourists would want to visit stump-filled eroded landscapes.

Why then would anyone want to destroy the forests? The simple answer is greed. Clean-cutting a forest is a quick and easy profit for those involved. The huge logging corporations make most of the money; host governments skim off surprisingly little revenue—often far less than the money they invested in the infrastructure and administration to destroy the forests. The U.S. government, for example, is notorious for selling permits to clear-cut national forests for a fraction of what logging firms would pay for access to private lands. Debt-burdened Third World countries are particularly apt to clear-cut forests for short-term gains even if it means future economic and environmental devastation for that region. As forests diminish, the value of their wood rises, and thus the incentive to clear-cut them even faster.

Huge livestock corporations clear-cut or burn forest and convert it to pastureland. Most of the beef production goes not to hungry people in that country but to hamburger chains in the advanced industrial countries. For example, while beef production in Central America increased threefold between 1955 and 1980, beef consumption in the region actually fell. But most of those ranches would be bankrupt if they did not receive huge government subsidies. Another reason for deforestation is the maldistribution of farm lands. In Latin America, for example, 7 percent of the population owns 93 percent of the land while 70 percent of the population has little or none. Thus many peasants drift into the tropical forests to slash and burn a patch for farming. The problem with both ranching and subsistence farming is that tropical soils are very fragile and easily washed away within a few years, forcing the rancher or peasant to move on and destroy yet another swath of forest.

The bottom line of deforestation, like all other environmental problems, is overpopulation. The populations of countries like India, Brazil, Nigeria, and Indonesia have more than doubled over the past thirty years, and the resulting increased demand for goods, services, jobs, and land devours tropical forests. Many governments actually subsidize the migration of the poor to the forests to relieve the pressure on existing cities and farmlands. Indonesia, for example, spends $10,000 for each family it relocates in the tropical forests. Simply building roads into tropical forests not only encourages developers to move in but also destroys vast amounts of trees.

About 2 billion people around the world use wood as their primary energy source; in Africa alone, 75 percent of all energy comes from wood. Virtually everywhere, people are stripping wood from the land faster than it can be replenished. Once the local wood supply is depleted, people use dried human and animal dung for fuel rather than for fertilizer, and in so doing degrade existing farm land. Eventually the land is exhausted and the people migrate elsewhere where they repeat the same vicious cycle of land destruction.

So, while deforestation leads to profits for loggers, ranchers, farmers, and foreign consumers, the nation's real assets just as steadily diminish—by as much as 4–6 percent annually for major tropical timber exporting countries. Special interests benefit from destroying the forest in the short run; everyone suffers enormous direct and indirect costs over the long run.

What international and national policies can alleviate the crisis? A range of national measures can be taken to slow the destruction of the world's forests, particularly the priceless tropical forests. Land reform is an essential step. Peasants migrate to tropical forests and systematically destroy them because they lack land and basic needs elsewhere. Land must be redistributed from the huge plantations, which often leave vast amounts fallow, to the poor landless peasants. Land distribution, however, will not work unless it is accompanied by the extension of credit, technology, fertilizer, and education to the new peasant proprietors so that they can productively work their land. Allowing indigenous people the right to the land they have lived on for millennia would protect both them and the forests. Over the long term, family planning and free universal access to contraceptives can alleviate some of the population pressure on forests.

International debt relief including more debt-for-nature swaps can protect forest tracts and reduce the pressures on poor governments to clear-cut other forests to help service their debts. Fourteen countries account for about half of the Third World's foreign debt and two-thirds of tropical deforestation. Targeting those countries for debt-reduction combined with sustained development and conservation policies could remove the incentive for clear-cutting forests for short-term gains.

Economic policy in most countries is divided among a range of ministries and agencies whose interests and actions often conflict. The result is enormous mismanagement, misallocation of resources, slower economic growth, and worsening environmental problems. In order to be effective, development and land use planning must be coordinated under an umbrella of goals and means that incorporate notions of sustained development for all rather than short-term special interest payoffs or market "solutions."

Environmental impact studies should precede any development schemes that will destroy forests. Short-term gains for a few must always be weighed against the long-term loses, not just for that nation but for all of humanity. An important step in this direction would be to change the system of computing national wealth so that it includes the depreciation of national natural assets. If clear-cutting forests were counted as a net economic loss rather than gain, governments would do more to preserve rather than destroy them. Unfortunately, it is difficult to compute the value of a forest to alleviating the greenhouse effect, watershed protection, biodiversity, and so on.

New forestry techniques seek to manage existing forests rather than convert them to tree farms or wasteland. Clear-cutting is abolished. Instead, small clumps of trees are cut selectively, leaving most of the forest intact. Trees are cut down only at the rate at which they are replanted, a practice known as sustained yield. In the tropics, only 0.1 percent of all the forests can be logged at sustained yield. Tropical forestry involves managing the sustained yield of logging and the gathering of medicinal plants, rubber, fruits, nuts, and selective tree cutting.

In the United States, as in most timber producing countries, the government subsidizes the logging industry. If loggers had to pay market costs for the trees they destroyed on public lands, the treasury would gain and the higher prices for wood products would decrease demand and stimulate greater conservation and use of substitutes. In the United States and Canada, while more trees are harvested, the number of people employed by the timber industry falls. Meanwhile, one of four logs is exported, and most of them to Japan. If the United States and Canada forbade the export of raw logs, the foreign demand for wood products would cause employment to rise in both countries as refined wood products were made at home rather than overseas, and then exported.

International efforts to address deforestation have been limited. In 1985, the UN Food and Agricultural Organization (FAO) submitted the Tropical Forestry Action Plan (TFAP) to offer assistance to governments to preserve their tropical forests. In 1987, the International Tropical Timber Organization (ITTO) was set up by forty-eight national governments to encourage sustainable timber harvests.

To date, the most sweeping measure addressing deforestation was the Bush White House proposal at the 1992 Earth Summit that called for a ban on the cutting of tropical forests and pledged $150 million to aid forestry programs. The tropical forest countries protested the proposal, arguing that they had just as much right to log their forests as oil producing countries had to pump oil. They also asked where the income foregone from logging would come from and suggested the advanced industrial nations could pay them not to log if they were so concerned about the issue. Finally, they demanded that the proposed treaty cover temperate as well as tropical forests. The Bush administration did not effectively counter these charges and the proposal lost its remaining credibility when aerial photos were circulated showing the devastation of America's forests from clear-cutting. The treaty was rejected and a nonbinding statement declared, which simply recommends that countries assess their deforestation and attempt to arrest it. At home President Bush did nothing to prevent the destruction of America's national old growth forests.

While the tropical forest treaty was rejected at the Earth Summit, a Biodiversity Treaty was signed by 153 countries in which they agreed to preserve plant and animal species by creating and implementing their own management plans. The wealthier countries pledged to help the poorer countries accomplish their biodiversity preservation plans. President Bush refused to sign, arguing that the treaty was too vague in detailing how foreign aid would be used and that it would not agree to transferring technology to the Third World without compensation.

Meanwhile, the destruction of the world's forests and other ecosystems continues. The UN's Global Biodiversity Assessment estimates that as many as 5 million of the estimated 20 million species on earth could become extinct by the year 2025. Anywhere from 15 to 50,000 species annually die off, a daily rate of 50–150, most of them in tropical forests. Even if humans destroyed only 2 percent of all species over the next twenty-five years, that rate would be 1,000 times the natural rate. There has not been such a mass species extinction since the dinosaurs died off 65 million years ago. Destroying millions of species whose benefits to humanity remain unknown has been compared to "eating our seedcorn." Many of the indigenous peoples are dying with their forests, and with them the medicinal secrets of thousands of plants and animals. And after wiping out most of the earth's natural resources, will we end up destroying ourselves as a species?

## Desertification

Most Americans take water and food for granted. They think nothing of turning on the tap and filling their glasses, taking long hot showers, or washing their cars; going to huge supermarkets in which there are tens of thousands of cheaply priced foods. These activities may someday become luxuries if the world's population continues to increase, fresh water sources just as steadily dry up, and once productive land is transformed to deserts.

Only 20 percent of the earth's surface is land. More than two-thirds of the land's surface is already desert or mountain. Since 1945, over 4 billion acres of land, an area the size of India and China combined, or 15 percent of the world's arable land, has lost all or most of its productivity. Every year, roughly 15 million acres of productive land, an area the size of West Virginia, becomes desert; an additional 50 million acres become too degraded to support grazing or crops. As Lester Brown puts it, "an estimated 24 billion tons of topsoil washes or blows off the land annually—roughly the amount of Australia's wheat-land. Each year, the world's farmers must try to feed 88 million more people with 24 billion fewer tons of topsoil." A recent UN study revealed that desertification threatens about 8 billion acres upon which 1.5 billion of the world's 6 billion people currently live a largely subsistence existence by raising crops and livestock. When their soils blow away, water holes run dry, and trees are hacked down to stumps, where will all those people go and how will they live? By the year 2030, if current erosion rates continue, the world may have to feed two or three times more people with 960 billion fewer tons of topsoil (more than twice the amount on U.S. farmlands) and total cropland will have fallen by one-third.[12]

Until recently, global food production kept up with the amount of new mouths to feed. The global food problem involved distribution rather than production. When droughts and famines occurred around the world, foreign nations that cared sent surplus food to the starving. However, from the late 1980s through today, the world's population has begun to surpass the amount of food available to feed it.

Soil is one of our most precious natural resources. Trees, brushes, and grasses hold soil in place and absorb water. An inch of soil may take anywhere from 200 to 1,000 years to form. An exposed inch or more of soil can be swept away in one violent storm. In ever more regions, land is overcultivated, deforested, overgrazed, and/or overirrigated. Overuse erodes the soil; continued overuse converts once productive land to desert. In America's corn and wheat regions, the yield falls by three to six bushels per acre or as much as 6 percent for every inch of topsoil lost. Soil nutrients are further depleted in poor countries that have suffered deforestation. Without wood, the only fuel hundreds of millions of people around the world have to burn is human and animal waste, which would normally be used to fertilize fields. Erosion not only diminishes a land's crop or grazing productivity. When soil has been stripped away to bedrock, water runs off quickly rather than percolates down through the earth to replenish aquifers. The runoff collects in huge floods downstream. Between 1960 and 2000, India's flood-prone regions almost quadrupled from 47 million to 175 million acres.

Fresh water comes from one ultimate source—the sky—that feeds streams, lakes, rivers, fields, reservoirs, and underground aquifers. But those land sources are disappearing for many interrelated reasons. The demand for water increases with a population's numbers and affluence and at some point inevitably overwhelms that region's existing surface and underground supplies. Meanwhile, various types of pollution foul ever more water sources.

Most devastated regions can never be restored. The soil has been washed and blown away or become salinated. Surface and underground waters have dried or become polluted. Those people who remain eke out meager existences. There are no financial, technological, or political resources to limit let alone reverse the land's steady degradation.

Deforestation and desertification change regional climates. Vegetation and rainfall decrease and increase simultaneously, a process known as evapotranspiration. Abundant vegetation absorbs moisture and then releases it back into the air, which causes clouds and more precipitation. As vegetation is destroyed, less water is absorbed and thus less released back into the atmosphere. A related phenomenon is "albedo" in which more solar radiation is reflected back into the atmosphere as vegetation decreases, which, in turn, causes dryer air to sink and rainfall to decline further.

Perhaps nowhere has desertification been more tragic than in the African Sahel, a vast belt of savanna lands south of the Sahara desert. Over the past several decades, the human population has steadily exceeded the Sahel's carrying capacity. The land's grasses have been overgrazed, its trees chopped down for fuel, its soil blown or washed away, and its water drunk dry. The result has been the steady advance of the Sahara desert south and the equally steady march of environmental refugees to lands and cities beyond. Those lands in turn deteriorate as the population swells under the weight of a high birth rate and millions of refugees. That environmental domino effect will become increasingly severe as the population increases and available lands diminish. Ironically, a fraction of Africa's soil loss represents a gain for others. Winds carry African soils all the way across the Atlantic Ocean to South America and the Caribbean. Most soil, however, ends up in rivers and oceans.

The Sahel is only one of at least several dozen once verdant regions around the world that are becoming desert. The Nile River valley, the north China plains, the Indian subcontinent, the Jordan River valley, Central Asia, and the American West are the most prominent regions where the demand for water exceeds the supply. Conflicts over remaining water sources will increase steadily and could be a major cause for future wars.

Egypt is already virtually all desert. In 2009, more than 85 million people were crammed along the tiny ribbon of vegetation and concrete bordering the Nile River, and the population is increasing by 1 million every nine months. Further up the Nile, Sudan, Kenya, and Ethiopia have embarked on development projects that could divert considerable water from Egyptian homes, farms, and factories downstream. To supply households, the government may have to cut back water to cotton and sugarcane farmers, which would worsen Egypt's trade deficit and ability to service its $50 billion foreign debt.

Desertification is afflicting the Indian subcontinent. The once vast forest that protected the watersheds of the Ganges, Indus, and Brahmaputra river systems has been decimated, leading to enormous flooding downstream during the monsoon season and droughts at other times. As the populations of India, Pakistan, and Bangladesh soar, the tropical forests are clear-cut, surface, and aquifer water sources are polluted or dry up, and once fertile soils erode into barren desert. China's 1.3 billion people account for one of every five humans on the planet but they enjoy only 8 percent of the world's fresh water. Today in northern China, over 300 cities suffer varying degrees of water shortages, which worsen as surface and aquifer sources dry up or become fouled. Between 1950 and 2008, the water table below Beijing annually dropped 3–6 feet for a total drop of 16–160 feet below the surface; meanwhile Beijing's two reservoirs frequently dry up. And global warming is rapidly melting the sources of China's greatest rivers—glaciers in the Himalaya mountains.

For several decades, the former Soviet Central Asian republics served as the Soviet Union's fruit, vegetable, cotton, and rice basket. But massive irrigation and industrialization projects transformed once rich grasslands and huge freshwater lakes into desert. The Aral Sea region has been the most devastated. The diversion of water from the Aral caused it to rapidly recede and salinate, thus destroying a once rich fishery and ruining much of the surrounding farmland.

Regions in the United States itself are experiencing ever greater water shortages. Seven southwestern states and northwestern Mexico depend on the Colorado River for much or most of their water. That river is so overexploited that it runs dry more than thirty miles before the Sea of Cortez. Texas and New Mexico along with northeastern Mexico depend on the Rio Grande River for much of their water. That river is a mere trickle when it reaches the Gulf of Mexico. The Ogallala Aquifer runs beneath the middle Great Plains states from northern Texas to North Dakota. For decades, tapping that source of water allowed American cities, towns, and vast farmlands and ranches to flourish. But that aquifer is running dry and ever more people are leaving that once productive region.

The first serious international attempt to identify the desertification crisis and propose possible solutions was the 1977 UN Nairobi Conference that produced the "Plan of Action to Combat Desertification." Although the Plan presented twenty-eight recommendations, the United Nations and those countries most in need lacked the funds, organization, and political will to implement them. The International Fund for Agricultural Development (IFAD) has set up hundreds of pilot programs to teach peasants more efficient farming methods that conserve rather than destroy the soil and their own livelihoods, but its efforts remain limited and underfunded. The UNEP estimated that it would take at least $4.5 billion annually for two decades to arrest desertification. That may be an optimistic assessment.

Governments can take many relatively simple measures to conserve water and soil. Contour and terraced plowing combined with leaving strips of vegetation along and within the plowed lands can reduce erosion and increase water infiltration into the crops and aquifers. Replanting trees and other vegetation and spreading mulch can slow the erosion of existing soils and begin the centuries' long process of soil creation. Leguminous trees are particularly good at absorbing nitrogen in the air and fertilizing the soil. The most important target for replanting should be the steeper watersheds that are most vulnerable to erosion.

Huge water subsidies to farmers are a major reason for the overuse of water and subsequent desertification. If farmers had to pay market rates for water, they would try to conserve it as much as possible. But when they pay water rates as little as 10 percent that is charged to households, they tend to waste as much of it as possible.

Globally, before 1980, the amount of irrigated lands increased faster than the population; since then, slower. Irrigated lands are generally three times more productive than rain-fed land. Yet this higher productivity can be costly. Improper irrigation techniques can both deplete underground water tables and waterlog and salinate soils. Ironically, while irrigation drains aquifers, the water table may actually rise directly under the irrigated lands. The result is sometimes a waterlogged soil in which crops rot from the roots up, a phenomenon known as a wet desert. Drip irrigation is the obvious solution. Long hoses are stretched along each crop row and a hole drips water at the root of each plant. The only problem is that it is initially much more expensive in equipment and labor.

The "Green Revolution" of the 1960s was supposed to be the solution to predictions of worsening food shortages and famine. New strains of high yield seeds would dramatically increase farm productivity. The trouble was that these seeds required huge amounts of water and fertilizer to flourish. This was particularly costly for Third Water countries, which had to import the fertilizer or divert even more water to farming from other needs. The result was that debt grew with production.

The "biotechnology revolution" of the 1990s provided new strains of seeds that can survive in poor soil with little water and repel insects and disease. Yet biotechnology is no panacea for global food production. Even if it were magically planted everywhere, it would slow rather than halt desertification. As in all other environmental crises, desertification occurs when a human population exceeds a region's carrying capacity. As long as populations steadily increase, desertification will continue to engulf one region after another around the world, loosening floods of environmental refugees, which soon overwhelm yet another region's carrying capacity. If the world is currently failing to feed nearly 7 billion people, how can it ever feed another 2 billion by 2050? Thomas Malthus's dire prediction may become true after all!

## The Dying Oceans

Anyone who has ever stood on a beach and gazed out across the endless waves to the horizon or flown or sailed over its depths cannot help but feel awe at the ocean's immensity, beauty, and mystery. Tragically even the oceans are not indestructible. The scouring of the ocean depths for fish and the drainage of pollution into those waters worsens as the world's population increases.[13]

Fish are a vital food source. About one of every four people on the planet or 1.5 billion people rely on fish as their major source of animal protein. Some species are important for more than being part of food chains. Oysters, for instance, filter pollution. The oyster population of Chesapeake Bay was once so abundant that it could clean those waters in three days; today they can clear only a tiny fraction of the filth that drains into it.

Between 1950 and 2000, the world fish catch quintupled from 21 million tons to over 100 million tons. Today more fish are being consumed than are being naturally produced. A domino effect of overfishing is devastating ever more species, which puts more pressure on surviving species. Of the world's 280 commercial fish species, around 75 percent have already been overexploited and depleted while only 25 percent are lightly or moderately exploited.

The world's fish species are rapidly diminishing not only because of demand, but also because of ecologically destructive fishing methods. Drift net fishing by over 1,000 Japanese, South Korean, and Taiwanese ships have ravaged many fish species. Drift nets are up to forty miles long and act as huge vacuums that sweep up and kill everything in their way.

Pollution also destroys fish populations or makes them unfit to eat. Human waste released into water can increase nitrogen levels and the algae that feed on nitrogen. When algae blooms, it sucks the oxygen and thus fish life from the infected waters. Many seas and lakes have "died" at least partly from nitrogen-algae blooms, such as the Adriatic and Baltic seas, and various coastal zones along the United States. The immediate economic losses are in lost fishing and tourist revenue; the long-term losses involve increased fishing pressure on other regions, which depletes those sources.

Other pollutants are also harmful. Heavy metals are released in the oceans by coal-burning, mining, factories, ship discharges, incineration, pesticide runoffs, and other pollution sources. The ocean food chain rests on the tiny zooplankton and phytoplankton that live in the 1/100th inch thick microlayer of the ocean's surface. Heavy metals and chemicals such as mercury, lead, copper, PCB's, DDT's, cadmium, and zinc concentrate in the microlayer at rates 10–10,000 times greater than elsewhere in the ocean. These heavy metals enter the ocean food chain and ultimately human beings, with harmful effects on each link. They have devastated some local animals such as seals in the North and Baltic seas, beluga whales in the St. Lawrence Seaway, and made it advisable for humans not to eat tuna, swordfish, salmon, and other deep-sea fishes more than once a week. Sometimes these chemicals directly harm humans. Between 1953 and 1968, 649 people died from eating mercury contaminated fish from Minamata Bay in Japan. Every year, about 21 million barrels of oil enter the sea from land runoff and 600,000 barrels are accidentally spilled into the ocean. These oil spills devastate local sea life. Plastic bags can kill animals like turtles and seals that mistake them for jelly fish; over 30,000 seals die annually from ingesting plastic bags.

Coral reefs, sea grass ranges, and mangroves are the "nurseries" for much ocean life, and have been called the tropical forests of the oceans. Coral reefs alone are home to over 1 million species and 2,000 kinds of fish. Hundreds of millions of people are directly employed harvesting these species and many more people supplement their diets with seafood from the reefs. Pollution has destroyed hundreds of reefs, grasslands, and mangroves around the world. It is estimated that 100,000 jobs and $80 billion in income disappears annually from reef destruction alone, while millions more suffer malnutrition. By 2010, half of all coral reefs were dead or dying, while most others were noticeably degraded.

Ozone layer depletion also threatens the world's oceans. The amount of ultraviolet rays striking the earth will increase by as much as 20 percent over the next half century. Ultraviolet radiation slows photosynthesis, inhibits the growth, and mutates the genes of phytoplankton and zooplankton. The 15 percent ozone depletion over Antarctica resulted in a 15–20 percent decrease in surface phytoplankton. As the ozone thins over the earth, the phytoplankton will correspondingly die off, which would, in turn, devastate the entire ocean food chain. This phytoplankton die-off would also exacerbate the greenhouse effect. Until now the oceans have slowed the greenhouse effect by absorbing about 45 percent of the carbon dioxide produced, with phytoplankton the major absorbent. There is no guarantee that phytoplankton ranks could eventually be filled by radiation resistant species.

Several international agreements have helped manage ocean fish and natural resources. More than 90 percent of all fish can be found within a couple hundred miles from shore. During the 1970s, ever more countries declared exclusive economic zones (EEZs) of 200 miles from their coastline and then attempted to regulate fishing within their EEZs. That is a nearly impossible task for countries with tiny navies. Even the United States with its huge Coast Guard cannot prevent poaching within its oceans.

The assertion of EEZs was legally codified with the 1982 Law of the Sea Treaty. To date, over seventy countries have declared EEZs. The Law of the Sea calls the oceans beyond the EEZs the "common heritage" of humankind and includes tenets that regulate and distribute the profits of ocean mining, as well as address navigation rights and pollution control. The Reagan and Bush administrations refused to sign the treaty and encouraged others to do likewise. The Clinton administration did sign the treaty and submitted it to the Senate where Republicans bottled it up in the Foreign Relations Committee, thus preventing its ratification. The treaty needs about a dozen more ratifications before it comes into force.

Another important treaty was the 1972 London Dumping Convention that bans the dumping of hazardous radioactive, chemical, and heavy metal wastes into the oceans. Since then the treaty has been amended to ban the incineration of trash at sea by 1994 and the discharge of plastic bags and oil by ships.

Even when international treaties are ratified, countries can simply ignore them. For example, in 1982, the International Whaling Commission declared a global moratorium on whaling beginning in 1986. Japan, Norway, and Iceland continued to defy the moratorium, pointing to a loophole that allows each country annually to kill up to 2,000 whales for "scientific" purposes. In 1974 and 1988, the United States threatened to use a 1967 law that allows it to retaliate against those nations that hunt endangered species. The whalers ignored the threat and kept whaling. Washington has yet to enforce its own law.

As with all other environmental catastrophes, the international community has only begun to address the calamity of the world's dying oceans. Some agreements have been negotiated and signed on certain issues. But compliance is scant. What is needed is a comprehensive effort to revive the dying oceans. But as usual the power of ignorance, inertia, ideology, and industry prevents such an international regime.

## Consequences

Can the world achieve "sustainable development" in which living standards and the quality of life for an ever greater portion of humanity improve while the environment's degradation is halted and ideally reversed? Or will the world's population and development pressures continue to degrade the global environment until living standards and life quality decay steadily for ever more members of future generations?

Political inertia remains the biggest obstacle to dealing with these problems. It is much easier to do nothing than to undertake the financial and administrative effort needed to address those crises. This "tyranny of the immediate" causes politicians to serve entrenched interest groups rather than the general welfare of present and future generations. That political inertia is compounded in the United States by the extreme right-wing ideology that denies science and promotes the myth that environmental crises are myths.

Another problem is how economic growth and environmental destruction are measured. Perceptions precede policy. In order to act on an issue one must first recognize it. Our perceptions are shaped by existing methods of analyzing phenomena. Many of those methods distort our understanding of the real world. Environmentalists argue that economists treat pollution as a free indulgence for business without weighing pollution's often far greater costs for society and eventually the world as a whole. Measurements of economic growth do not include such economic losses as clear-cut forests, polluted streams, depleted aquifers, and eroded soils. Forests, for example, are valued for their "stumpage" or amount of cut logs and not for their value in protecting watersheds, promoting tourism, filtering pollution, producing medicines, fruits, nuts, fish, game, and biodiversity. The difficulty is in assigning values to those destroyed environmentally sound economic opportunities.

Most countries outright subsidize environmental exploitation and degradation. The United States leases at below market rates or outright gives away its public water, minerals, trees, and grazing land to farmers, loggers, miners, and ranchers, a policy known as corporate welfare. If these businesses had to pay the full costs of exploiting these resources, including their depreciation, they would carefully nurture rather than waste them. The exploitation of natural resources should reflect its true cost.

Yet there has been some progress. Ever more people understand that economic wealth and environmental health are inseparable, that one nurtures the other. Such practices as reducing waste, conserving forests, recycling, boosting energy efficiency, and promoting mass transportation actually increase economic growth, diversity, jobs, health, wealth, and, thus national security. Likewise, environmental degradation—pollution, deforestation, desertification, the greenhouse effect, and so on—hurts the economy and national security.

What more can be done? Some have proposed a WTO style multilateral organization that confronts systematically rather than piecemeal the range of global environmental issues. Every government must realize that national security ultimately depends on global environmental security, and then act accordingly. Institutions, money, understanding, laws, and enforcement—all are vital to addressing the world's environmental crises. And all are in short supply.

CHAPTER 10

# Consequences

*The biggest challenge to statesmen is to resolve the discordance between the international economy and the political system based on the nation-state.*

*Henry Kissinger*

Globalization has become the key concept for understanding life in the twenty-first century. But what is popularly known as globalization is really just the latest stage in the development of the global economy that emerged as a result of Western imperialism and mercantilism over five centuries ago. Since then, though war and threats of war have provoked the most vigorous bouts of diplomacy and shifts in international power, other issues have become ever more vital in shaping global politics. War today is unthinkable as an option for nearly all states in nearly all conflicts among them. But that reality is the natural outcome of half a millennia of deepening and broadening global interdependence.

All along thinkers have tried to make sense of the opportunities and threats that globalization presents humanity. Two centuries ago, in 1795, Immanuel Kant predicted in his "Essay on Perpetual Peace" that international relations would eventually evolve into a system in which conflicts are resolved by peaceful cooperation rather than war.[1] Kant foresaw three developments that would lead to a "perpetual peace": (1) the conversion of authoritarian states into liberal democracies (republicanism); (2) the evolution of international law and organization into an authoritative system that binds all sovereign states (federalism); and (3) economic development and interdependence (hospitality).

Kant's vision is fast becoming a reality as geoeconomic forces muscle aside geopolitics to dominate global politics. Instead of a world characterized by violence and anarchy, there is an increasingly orderly world in which the means and effectiveness of power varies according to what the issue is, how other issues and priorities are related to it, and how skillfully the participants wield power to assert their respective interests. Richard Rosecrance neatly summarizes the differences between a geopolitical and geoeconomic outlook: "in a power world states act as coherent units, force is a usable instrument of policy and there is a hierarchy of international issues dominated by questions of military security. Interdependence refers to a world in which states can no longer fully regulate policy, there are multiple channels of access between societies, no hierarchy of issues, and force is generally unusable. The difference between these two systems concerns the means that are used to advance state interests."[2]

The global system is undergoing changes as profound as those that followed the 1648 Treaty of Westphalia, which set in motion the modern nation-state system. With the Cold War's end, the United Nations embarked upon an unprecedented series of peacekeeping ventures. Meanwhile, the world becomes ever more tightly knit economically, politically, environmentally, and socially. Regional political economic communities like the European Union (EU) and North American Free Trade Association (NAFTA) broaden their membership and relations. International organizations like the World Trade Organization (WTO), World Bank, and International Monetary Fund (IMF) channel trade and development along ever more narrow lines. Like war, is the nation-state rendered increasingly obsolete as globalization transforms the world?

There is no question that national sovereignty is eroding steadily as the world becomes more interdependent. Even the most authoritarian of governments are barely able to stem the influx of goods, services, investments, immigrants, drugs, pop culture, pollution, disease, money, and so on, and the outflow of skilled workers and scientists, money, and secrets. International law, morality, and opinion are increasingly important constraints on state behavior. Mass communications have put every government, even the most oppressive, in media fishbowls, in which their blunders and crimes are inevitably exposed to the world. Whether the world intervenes or not is another matter. It all depends on the power and interests of the states capable of doing so.

Nonetheless, the role of the United Nations, other international organizations, and international law in global politics remains secondary, although there is the potential for that status to change. Most states already obey international law most of the time while all states are members of the United Nations, and most states enjoy membership in dozens of international organizations. Will this growing matrix of international organizations and law eventually develop into a world federation, in which states abandon their sovereignty and accept the decisions of a global government? How interdependent can we truly become? Can diverse peoples ever truly understand and empathize with one another?

These questions can be answered only with time. One thing is certain, the nature of global politics is rapidly changing. But all the swelling power and wealth of nation-states and international organizations alike is falling ever shorter of what is necessary to manage let alone resolve ever worse problems plaguing humanity. Two crucial and inseparable problems beyond all others challenge humankind.

One is how inequitably wealth and power are distributed around the world. Roughly 20 percent of people enjoy 80 percent of the world's wealth while 80 percent of humanity scramble for the remaining 20 percent. A billion people live on less than a dollar a day; 2 billion live on less than two dollars a day. And most of those deprived people exist and die with the proverbial whimper rather bang. While terrorism annually kills thousands of people around the world, tens of millions perish from starvation and disease and billions of others live in misery and deprivation. The lives of eight of ten of the nearly 7 billion people on the planet are characterized by poverty rather than affluence, violence rather than security, and disintegration rather than integration with the rest of the world. They squat in shanty towns or refugee camps or doorways wondering how they will get their next handful of coins or food. Or day after day they work from dawn to dark in a shop, factory, or construction site in return for just enough money to feed, cloth, and shelter their families.

As with all other issues of global politics, theorists debate the causes and consequences of poverty. Realist, Marxist, Dependency, and World Systems theorists tend to argue that poverty is inevitable because those with power and wealth do everything possible to keep and enhance it at the expense of everyone else. These days, multinational corporations play the role that colonial officials and soldiers once did in controlling and exploiting poor countries for the benefit of rich countries. In contrast, Liberal and Modernization theorists argue that power and wealth are not static, but are constantly shifting depending on the impact of countless decisions. Furthermore, they argue that globalization empowers people as never before to improve their lives. The result is while the number of poor may be increasing, they are a steadily smaller proportion of humanity as ever more people grasp ever more opportunities laboriously to pull themselves upward.

Among the most outspoken of the optimists is Thomas Friedman who asserts that "the earth is flat," meaning that the playing field is being leveled among countries and entrepreneurs struggling to create wealth. The differences between the First and Third Worlds, or at least the dynamic parts of each, is narrowing. Once poverty-stricken countries like China and India, the world's first and second most populous, no longer supply just cheap labor to investors. Much more importantly they supply cheap, skilled, and diligent labor who will eventually transform their countries from mass poverty into mass prosperity. For instance, over 300 million Indians are already considered to be middle class, although their standard of living is lower compared to the middle-class people in the Western world, while 800 million Indians are still poor or poverty-stricken.

What can or should be done about the world's poor? Can every country in the world successfully develop? Or are economic winners and losers not only inevitable, but is the success of some actually built on the exploitation, "dependence," and continued poverty of others? Is the failure to develop largely a result of internal or international forces?

The world's gravest challenge involves slowing and ideally halting the earth's ecological destruction. All human activities have an environmental impact, some relatively benign and others devastating. Every ecosystem has a particular carrying capacity or threshold beyond which too many humans or animals living there will destroy it. As the greenhouse effect, ozone depletion, deforestation, desertification, and other environmental calamities reveal, the world's population has already exceeded the earth's carrying capacity.

Like Kant, Malthus made predictions that reverberate today. But Malthus was as pessimistic as Kant was optimistic about the fate of humanity. He believed that the world's population will eventually exceed its ability to feed itself. Malthus ultimately may be right about the earth's inability to sustain an ever swelling population that may well soar toward 10 billion people by mid-twenty-first century. And nearly all those births will take place in the world's poorest countries, thus compounding the vicious cycle of poverty in which they are trapped.

Also, since the industrial revolution began over two centuries ago, an ever growing amount of gases and chemicals have thickened the atmosphere as well as poisoned the air, water, and earth that people depend on for life. The buildup in the atmosphere traps ever more heat that ordinarily would dissipate into the void of space. The worsening greenhouse effect could cause the earth's average temperatures to rise as much as nine degrees Fahrenheit during the twenty-first century.

Why does this matter? Scientists warn that the soaring heat is melting glaciers and permafrost, which will inundate low-lying coastal areas and warp precipitation patterns so that ever more severe droughts, hurricanes, floods, and other weather batter ever larger regions of the earth, and destroy the homes, livelihoods, and lives of ever more people. As if that were not dangerous enough, a cocktail of chemicals are eating away at the ozone layer in the atmosphere, which screens most of the sun's ultraviolet rays from reaching the earth. As the ozone layer deteriorates, the increased ultraviolet radiation could destroy sensitive microscopic plants and animals at the food chain's base, thus jeopardizing all other life forms including humans.

The bottom-line of all the world's ever worsening environmental catastrophes is too many people producing and consuming too many things and spewing too much poisonous pollution. For decades, grassroots environmental organizations in America, Europe, and elsewhere have struggled to make fighting those catastrophes a global priority. Those efforts led to a turning point in global politics. In 1992, representatives of 178 countries attended the Earth Summit in Rio de Janeiro and emerged with a nearly unanimous global consensus on the environmental crises and how to address them.

Since then environmental issues have moved steadily from the fringe to the core of global politics. The reason is as simple as it is profound. In an increasingly interdependent world, "national security" and "global security" become increasingly indistinguishable, nowhere more so than in environmental issues.

Yet awareness is only the first step. Tragically there is often a gap between agreeing that a problem exists and doing something substantial to diminish or, ideally, eliminate it. The most successful effort so far has generated a series of treaties by which countries agreed to eliminate the production or use of chemicals that destroy the ozone layer. As a result the destruction has slowed and nature may eventually repair the ozone layer. In contrast the efforts to reverse global warming have largely failed. At the Earth Summit in 1992, representatives signed a treaty in which they agreed to voluntary limits on greenhouse emissions; a protocol to the greenhouse treaty signed at Kyoto in 1997 made adherence to the reduction of emissions mandatory. That effort was harshly undermined in 2001 when President George W. Bush, claiming against evidence that antipollution efforts would be too costly to industry, declared that "Kyoto was dead" and withdrew the United States from the treaty. Although President Barack Obama, after taking the oath of office in January 2009, pledged to lead international efforts to combat global warming, little has been accomplished so far. As for the other related environmental catastrophes, the global population explosion, deforestation, desertification, and biocide, the world community has made little or no progress.

The United States has not been the only country dragging its feet on environmental issues. China surpassed the United States as the world's worst greenhouse gas emitter in 2007, and steadfastly refuses to commit itself to joining other industrial countries in reducing emissions 80 percent by the year 2050. Indeed, few governments are willing to make the short-term sacrifices vital for the planet's long-term survival. The world's poorer countries argue that environmental treaties place an unfair financial burden on them, and that the wealthier nations should pay for the antipollution technology and related costs that the poorer countries are required to adopt. While most governments continue to fiddle on environmental threats, the earth burns, at times literally.

The world's problems are proliferating and becoming ever more entangled with one another. Although geopolitical issues that involve the threat or use of violence dominate the headlines, it is geoeconomic disputes over international trade, investments, and finance; human rights, nation-building, failed states, mass poverty, labor exploitation, and foreign aid; volatile oil prices; global warming, deforestation, desertification, ozone depletion, and the population explosion; pandemics like AIDS, SARS, and H1N1; immigration, child labor, sexual slavery, and drug smuggling; devastating natural disasters like hurricanes, tidal waves, and earthquakes, which largely shape global politics.

Complicating that is the rise of transnational forces and thus interests. While global and national interests mesh, the interests of transnational forces such as multinational corporations (MNCs), nongovernmental organizations (NGOs), and terrorist groups are ever more diverse and in conflict. For instance, NGOs that champion environmental causes increasingly battle MNCs whose profits depend on their factories, refineries, and products freely polluting and destroying the earth.

Thus governments and international organizations will have to display unprecedented levels of cooperation, foresight, flexibility, and decisiveness to analyze and act on that array of intertwined and worsening global problems. The trouble is that powerful and almost invariably industrial interests in each country are doing all they can to thwart that cooperation. The reason is simple. They are part of the problem; they profit enormously from the status quo and could be less profitable if the problem that they exploit diminishes.

The global imperative to cooperate and act will be ever more difficult to ignore. Sooner or later the superpowers will have to cooperate with one another to manage common and worsening problems. Presidents of powerful countries can only deny the self-destructive realities of, say, global warming, only so long. Eventually they will have to acknowledge and at least pretend to act on the swelling mountain of scientific studies and demands for action by concerned governments and peoples around the world. And all that will take unprecedented amounts of wealth and power. Otherwise globalization will sooner or later self-destruct. Like Disney's *Sorcerer's Apprentice,* humankind has unleashed forces of globalization that it can barely understand let alone control.

# Notes

## Introduction

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