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## AMERICA AND EUROPE: GLOBALIZATION AND THE CHANGING GEO-STRATEGIC ENVIRONMENT\*\*

*This study discusses the post 9/11 events and the changing geo-strategic environment. It does so by drawing on American and European history. Particular emphasis is placed on external shocks experienced by America and how such shocks changed the country's external relations particularly with Europe. It stresses the need to improve the quality and quantity of information if these relations are to be mutually productive. This is especially, but not exclusively, the case in economic and monetary policy, banking, finance and capital markets.*

*Section II draws on several historical episodes in American and European relations. Section III discusses what is to be done. Section IV discusses who will do it.*

*Key words: America - history, Europe - history, external relations*

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## America and Europe

### *The Peace of Paris 1763, the American War for Independence, and the Re-Ordering of North America: The First Exogenous Shock*

Much in our age depends on economic and political decisions. Many of these decisions have had more profound consequences than are generally acknowledged. In any event, they are good examples of movements that transcend individual motives and affect the course of world events.

Consider the global economy of the 18<sup>th</sup> century. Thanks to the opening of the Atlantic in the 16<sup>th</sup> century, Europe became the center from which America, Africa and Asia could be reached. A new global economy had been created. First to set the course and profit from the new economy were the Portuguese and the Spanish for much of the 16<sup>th</sup> century. Their decline opened the door for the British and the French and the Dutch. The net result was the expansion of the global economy and economic growth of Europe, which became incomparably wealthier than any other part of the world. The new wealth was produced by increasing scientific and technical knowledge which in turn it helped to produce. Taken together more wealth and more knowledge, helped to produce one of the most singularly important ideas that of the idea of progress.

In the 18<sup>th</sup> century global economy, it was foreign trade that was most important to the individual participating countries. The largest enterprises were active

in it and most capital was accumulated from it. And it was foreign trade that led to international rivalry and war. To win in such an environment merchants needed strong material backing including strong diplomatic military and naval support. Only Britain and France had the revenues to offer such support to their merchants. For both countries between the end of the War of the Spanish Succession in 1713 and the beginning of the French Revolution in 1789 was a period of impressive growth in wealth and commerce.

To judge from available evidence both France and Britain were about equal in their total foreign and colonial trade by the 1780's. The British during the 1780's enjoyed proportionately more than the French of the trade with overseas America and Asia while the French enjoyed considerably more of the trade with Europe and Middle and Near East. Nonetheless the contest for markets played a key role in the colonial and commercial wars between Britain and France throughout the 18<sup>th</sup> century and into the Napoleonic wars from which Britain emerged triumphant.

With above as background turn now to the Seven Years' War or better known in America as the French-Indian Wars 1756-63 which began in America. Essentially, the war was a phase in the long dispute between France and Britain. At issue was supremacy in the growing world economy, control of colonies, and command of the sea. Both held possessions in India, in the West Indies and the American mainland.

In America, France held more territory, the British were people. In preparation for the forthcoming war the British government in 1754 called a Congress at Albany in New York in the hope that the American colonies would assume some, selective responsibility. The result was the "Albany plan of union" drawn up by Benjamin Franklin, which the colonial legislatures refused to accept for fear of losing their independence. In short, the colonies were willing to rely on the British military to defend them from the French and Indians.

The importance of the peace settlement of 1763 for the future United States was that France ceded to Britain all French Territory on the North American mainland east of the Mississippi River, Canada thereby became British and the colonials of the Thirteen Colonies were relieved of the French pressure beyond the Alleghenies. France also ceded to Spain all holdings west of the Mississippi River and its mouth. Thus, France abandoned the North American continent. Closing the prolonged war of the mid-18<sup>th</sup> century made 1763 an important turning point with far reaching implications for the world as subsequent events were to underscore.

Now firmly a part of an English-speaking world America north of Mexico and its British subjects seemed secure, and Britain had again maintained the command of the sea. This assured safety for British sea borne commerce while all other countries depended ultimately on the political disposition and requirements of the British. Nevertheless, the French still would remain to play a significant role in

the American Revolution that would ultimately detach a significant part of North America from the British grasp.

### *The American Revolution*

For all their problems the bulk of the British colonies managed to launch a successful revolutionary movement and establish the republic of the United States of America. In many respects this was part of revolutionary movement running from 1763 to 1789. To be sure there is much that is unique about the American Revolution. For one thing, it was the British military, financed by loans and taxes in Great Britain that drove the French out of America. Even the Indian threat was put down by officials and army units taking their orders from Great Britain.

The British government certainly tried to make the American colonials pay a larger share of the expenses of Empire. They were content to pay only local taxes. Such custom duties for which they were liable were duties to enforce the Acts of Navigation and Trade to direct commerce to raise revenue. In any case, these duties were seldom paid. The colonials paid only such taxes as were approved by their own respective legislatures for local purposes. For all practical purposes, the American colonials had a considerable degree of tax-exemption within the British Empire. It was against this form of provincial privilege that the British Parliament began to move.

With the Revenue Act of 1764 Britain began a program of actual and systematic collection of taxes while reducing and liberalizing customs duties payable in America. In 1765 Britain attempted to extend on all uses of paper, as in newspapers and commercial and legal documents, the payment of a fee which was certified by the attachment of a stamp. The reaction to the Stamp Act on the part of the Americans was swift and violent especially among editors, businessmen, lawyers, the most literate and articulate groups in America. Very soon the Stamp act was repealed in 1766. In 1767, the British tried once again to push for tax acceptable to the Americans. These were so-called Townshend duties which taxed colonial imports of paint, paper, lead, and tea. Again the Americans rejected payment of such duties and the Townshend duties were repealed except for the one on tea which, was kept as token of the sovereign power of Parliament.

Thereafter, the Americans continued to resist taxation and the Parliament refrained from any drastic use of its sovereign power. This was not to last. In 1773, the Americans had another illustration which to them underscored the disadvantages of belonging to a global economic system in which the main policies were made on the other side of the Atlantic Ocean. This time the East India Company was in

difficulty. It had a large surplus of tea and it wanted new commercial privileges in return for those that it was losing by the Revenue Act of 1773. Previously, the Company had been required to sell its produce at public auction in London. Other merchants then handled the wares from London on. In 1773, Parliament granted the Company the exclusive right to sell tea through its own agents in America to American local dealers. This in effect, shut out the intermediary American merchant from an important source of revenue since tea at the time was an important consumer commodity. The result was that the tea was boycotted in all American ports. And in Boston a group disguised as Indians (the famous Boston Tea Party) invaded the tea ships and dumped their cargo into the harbor. For this act the British government closed the port of Boston and thus threatening the city with ruin. Certain local elections were forbidden as were the holding of town meetings.

To this may be added the passage by Parliament of the Quebec Act in 1774 whereby the British granted the Canadian French their civil law and Catholic religion and so setting the foundation for the future British empire. It also defined the boundaries of Quebec more or less as the French did so as to include all the territory north of the Ohio River (present states Ohio, Indiana, Michigan and Wisconsin). Moreover, no mention was made of such representative Institution as juries and assemblies common to the older colonies. The Americans were outraged. The Quebec Act together with the closing of an American port of Boston and destruction of an American government were put together and labeled "Intolerable Acts" to be strenuously resisted. This was no longer an issue of taxation. It became clear that a government that had to take into account the French Canadians, East India Company's problems and British taxpayers stood little chance of satisfying the Americans.

Since 1763 and collapse of the French empire in North America, Americans were increasingly less inclined to forgo their own interests to remain in the British Empire. British policies had managed to antagonize broad segments of the population. Increasingly, Americans came to the conclusion to determine their own political future. Still, the thought of independence in 1774 was shared by only a few people.

Nevertheless, fighting began in 1775. Radicals convinced the moderates that the choice now lay between independence and enslavement. And, of course, the French could be counted on for the support of the avowed aim of the American rebels was to disassemble the British Empire. On July 4, 1776, the Congress adopted the Declaration of Independence, by which the United States assumed its separate and equal station among the powers of the earth. The War for American Independence quickly turned into another European struggle for empire. Following the American victory at Saratoga, the French government in 1778 recognized the United States and concluded an alliance with the new country and declared war on Great Britain. This was soon followed by Spain more concerned with the restoration of the

British empire in North America than by the disturbing example of an independent American republic to its own colonies in America. Soon the Dutch were drawn in as were other European countries irked at the British employment of blockade and sea power in time of war, formed an "Armed Neutrality" to protect their commerce from dictation by the British fleet. By the peace treaty of 1783 the British government recognized the independence of the United States. The new country also obtained territory as far west as the Mississippi River. Canada remained British and 60,000 Americans loyal to Britain went to Canada thereby giving Canada a large English speaking population.

The impact of the American Revolution and Declaration of Independence abroad was considerable. Boldly voicing the natural right philosophy of the age "that all men are created equal, that they are endowed by their Creator with certain inalienable rights, that among them are life, liberty and the pursuit of happiness." Like a thunderbolt the words hit the American and foreign publics.

More than any other people, Americans came to believe that government should possess limited powers only, and operate only within the terms of a fixed and written constitutional document. Each of the thirteen new American states quickly provided themselves with a written constitution containing virtually the same principles. All included separation of powers, right to change government whenever it became destructive of their happiness and safety. All approved a bill of rights of the citizens and the things no government might justly do.

Federalism went along with the idea of a written constitution as a primary offering of the Americans to the rest of the world. Like constitutionalism, federalism developed in an atmosphere of protest against centralized power. The pre-1789 arrangement under the Articles of Confederation whereby the United States was a union of thirteen independent republics was unsatisfactory. In Philadelphia in 1787 a new constitution was drawn up by a constitutional convention and remains to this day the oldest written instrument of government still in operation. The constitution underscores that the United States is a union in which individuals were citizens of the United States for some purposes and of their particular states for others. In effect, persons not states composed the federal republic, and the laws of the United States fell not merely on the states but the people.

Another significant event indicating the nature of the new republic is the Northwest Ordinance of 1787. It provided that new states, identical in all legal respects with the old, but excluding slavery, should be formed in the area north of the Ohio River. In effect, the western lands were to be developed not by a system of colonial subordination or of competitive expansion on the part of the original states, as may well have happened but on the principal of elastic federalism in which new areas, as they matured, should enjoy the same rights and liberties won by war and revolution in the old. Thus the vast lands of the Mississippi Valley and

beyond were made ready for the settlement of the North American continent by Europeans. Thus with the adoption of the new constitution in 1789 the revolutionary period in British America can be considered closed. A new player came on the scene, the United States of America, primed to push toward internal and westward expansion.

The importance of these developments in the new United States was not lost on Europe. They were taken as proof that the ideas of the Enlightenment were practicable. The American Revolution made these ideas much more acceptable and added to the force of developments in Europe making the thought of the later Enlightenment more democratic. Indeed, the United States replaced England as the model country for advanced thinkers. Such was the response of the United States to its first significant exogenous shock in the form of the re-ordering of North America in the 18<sup>th</sup> century.

### *The War of 1812: The Second Exogenous Shock*

Consider now the War of 1812 as the second exogenous shock in the United States. The net effect was to turn the United States inward to the settlement and development of its vast lands and ultimately led to the famous Monroe Doctrine. This doctrine, in effect, announced the North and South America as out of bounds for meddling by foreign powers.<sup>2</sup>

In many respects the War of 1812 can be described as America's second war for independence. Britain simply trampled American rights on the high seas. The British attack on the American vessel Chesapeake, waning prospect that a weak neutral in the Napoleonic Wars of the period might compel fair treatment from mighty belligerents locked in mortal combat all contributed to the War of 1812 and the second exogenous shock on the United States.

President James Madison is remembered as the "Father of the Constitution," the founder who most shaped the outcome of the Philadelphia Convention of 1787. He was also president during the War of 1812 when the British captured Washington and burned the White House and inflicted general destruction. This direct attack on the United States is to be repeated on only two other occasions - December 7, 1941 and September 11, 2001.

The subsequent end of the war and the Treaty of Ghent seemed to settle nothing, merely returning to the status quo ante bellum and ignoring the wartime grievance so often proclaimed as the cause of the war, in fact the United States, by standing up to Britain had won a second war of independence. The Senate ratified the treaty unanimously and President Madison declared the conflict ended. Celebrations again

resounded throughout the country, as not only were its independence and honor vindicated but an era of growth and prosperity began.

President Madison sensed at the time that the era, obsessed with foreign wars and fraught with danger for the new republic ended and another, devoted to vigorous, peaceful growth could begin. John Quincy Adams had observed to the British commissioners at Ghent that he hoped they were signing the last treaty of peace between Great Britain and the United States.<sup>3</sup> Thus far Adams' hope is realized.

### ***December 7, 1941: World War II, Cold War and Preventive War: The Third Exogenous Shock***

The Japanese attack on the United States on December 7, 1941 is the third exogenous shock the country experienced in its history with profound consequences.

At the very time that the Japanese representatives in Washington were carrying on conversations with the American Secretary of State Cordell Hull, on December 7, 1941, without warning, the Japanese launched a heavy air raid on the American naval base at Pearl Harbor in Hawaii and began to invade the Philippines. Simultaneously, they launched attacks on Guam, Midway, Hong Kong and Malaya. The Americans were caught off guard at Pearl Harbor; close to 2500 were killed; the fleet was crippled; and the temporary disablement of the American naval forces allowed the Japanese to roam at will in the Western Pacific. The United States and Great Britain, declared war on Japan on December 8. Three days later Germany and Italy declared war on the United States as did their Axis allies.

When World War II ended in 1945 only two great powers were still standing in any strength: the United States and the Soviet Union, though the United Nations Security Council provided seats for five powers. The characteristic of a two-state system, not found in a multiple state system, is that each super-power knows positively in advance who its only dangerous enemy can be. Following World War II the United States and the Soviet Union fell into this unpleasant dualistic relationship. From 1945 on, there set an a diplomatic and ideological clash of interests and ideas which came to be known as the "Cold War."

The professional military had little, if anything, to do with the phenomenon of the "Cold War" (a term first used by Walter Lippman in 1947 in a study entitled *Cold War*, which is usually understood as the postwar confrontation of the United States and the Soviet Union).<sup>4</sup> How is it that the United States became involved after shunning all foreign entanglements with alliances for much of its history and quickly demobilizing after World War II? Did it do so to "save the British Em-



pire” and the fraternal organization of English-speaking peoples, as some argue and many hoped it would do? Did America, a former colony itself, consciously set out to make the world “safe for old empire”? Was it, after all, some conspiracy designed to accept world leadership, as others argue? Or, is it really a tragedy of errors that are responsible for the confrontation? Whatever the original reasons, they have long since passed into the mists of time. After the revision the counter-revision. The purpose here is to focus on the road to the Cold War so as to better understand the profound changes in the post-World War II sociopolitical and economic environment.

At the same time the United States and the Soviet Union were the most powerful countries in the world. It is their confrontation that provided the solvent for the dissolution of the Soviet Union itself. In the closing years of the 20<sup>th</sup> century and into the 21<sup>st</sup> century the United States remains the world’s most powerful country, indeed, the only super-power remaining.

It is difficult to date precisely the Cold War’s outbreak, since there was no formal declaration of war. Conflict of interests between the United States and the Soviet Union surfaced at the Yalta Conference in February 1945. These tensions became pronounced upon the death of President Roosevelt and the succession of Harry S. Truman in April 1945. The American monopoly of the atomic bomb, successfully detonated in July 1945 and used against Japan in August 1945 to end the Pacific War, together with the then unsuccessful Potsdam Conference in July-August 1945 seemed to increase tensions. The Soviet Union under Stalin took the occasion to consolidate Communist gains in East Europe. By 1947, Hungary, Poland, Bulgaria, Romania and (in 1948) Czechoslovakia were under strong Soviet influence. Yugoslavia broke with the Soviet Union in 1948 and embarked on its path of development and ultimate dissolution in 1991.

The Greek Civil War and attempted Communist takeover in December 1947, together with Soviet attempts to dominate the Western sectors of Berlin and incorporate the entire city into the German Democratic Republic (formally established in October 7, 1949), set off an alarm in the United States, preempting vigorous reaction. American reply to alleged Soviet threats had already taken form as early as 1947 in the Truman Doctrine and Marshall Plan.

In retrospect it is difficult to say whether the position taken by the Soviet Union under Stalin in Europe was aggressive or defensive in those early years. Perhaps fear of the American monopoly of the atomic bomb and an American president’s demonstrated willingness to use it propelled the Soviet Union into defensive reaction, including the consolidation of a perimeter of defense. Moreover, the Soviets have always felt that the United States continued to regard the emergence of the Soviet Union in 1917 as “an illegitimate child of history.”

On the other hand, it could also be that the truth is just as likely to be neither in the “revisionist” Stalin forced into isolation by the behavior of his wartime allies, as

argued by some people during the war of Vietnam, nor in the pre-revisionist dictator driven to expanding Communist power to the limit by creation of puppet regimes. It is possible, for example, that Stalin created the Soviet empire as a by-product of the victorious war against Nazi Germany. It could be that he would have preferred, and indeed even attempted, to do so by means other than military conquest in order to avoid confrontation. The reason he could not do so is to be found in the Soviet system that bred him and tied his hands and that he felt compelled to perpetuate by his execrable methods. It was, accordingly, the Soviet system that was the “true cause” of the Cold War.

The practices by which Stalin reached his objectives were devious. They might have been less so had his treatment by the Western allies been more straightforward. But the ineptitude of the diplomacy of the declining power of Great Britain and the inexperienced and indeed unwilling America often meant that those countries were weak and divided when they should have been firm, and firm only when it was too late.

The American view as seen by Dean Acheson from the State Department, underscores the difficulties at the time getting a correct reading of Soviet intentions.<sup>5</sup> In particular, the State Department, according to Acheson, ran into sterile argument between the planning staff and Soviet experts. The latter challenged the belief that Acheson shared with the State Department planners that the Soviets gave top priority to world domination in their scheme of things. The Soviet experts countered that Acheson and the planning staff attributed more of a Trotskyite than Leninist view to Stalin and that he placed the survival of the regime and “communism in one country” far ahead of world revolution. Acheson goes on to argue that he and the Department did not dissent from this but that difference to him was more theoretical than real in devising courses necessary to eliminate the weak spots that so tempted the Soviets to probe American and allied resolution. And while it may well be true, as later academic criticism concluded, that America overreacted to Stalin, which in turn caused him to overreact to policies of the United States, the various critics, argues Acheson, were not called upon to analyze a situation in which the United States had not taken action that it did take.

American public and congressional support for such a wide-ranging global commitment on the part of the United States required considerable cultivation. In his book, *Present at the Creation*, Dean Acheson suggests that it was not a simple task to obtain such support. Not the least source of the problem was the special ties between the United States and Great Britain. To be sure, such special relations have existed and, in fact, do exist. There is after all a common language and a common history between Great Britain and the United States - though a common language, can and often does, lead to misunderstanding and it certainly does not assure Affection as Acheson correctly argues. And indeed, before Pearl Harbor many in the United States had no desire whatsoever to again become involved in

a fraternal struggle in Europe - in fact some condemned the whole misadventure as Britain's "imperialist" war.

Acheson's argument that the commonality of British and American interests in long-standing British support for the Monroe Doctrine against the Holy Alliance and Britain's ultimate support for the Union during the American Civil War while Napoleon III of France occupied Mexico is but a case in point. Writing about a special relationship, in his view, can rule increase suspicion among America's allies of secret plans and purposes, which they did not share and would not approve, and would only give proof to some Americans that the State Department was a tool of a foreign power.

Such an attitude did not endear Acheson to many nor did it serve him well before many Congressional Committees. Moreover, Acheson did not suffer fools lightly - though suffer them he did. A case in point is the senator from Wisconsin, Joseph McCarthy, whose name is given to a phenomenon broader than his own participation in it, the hysteria growing out of fear of communist subversion that followed both world wars. The result was a national disaster of the first magnitude. Damage inflicted from the various charges and countercharges during 1950-1953 engulfed universities, government foreign and civil services, and indeed the private sector. Congressional assaults on the executive branch approximated those in 1919-1923 under Attorney General A. Mitchell Palmer. It also brought with it a new definition of American foreign policy. This is contained in the now well-known document NSC-68 (National Security Council paper 68), which became national policy in April 25, 1950. The document was abruptly classified. This is unfortunate since a clear statement of U.S. foreign policy would have avoided many subsequent misunderstandings on the part of both friends and adversaries.

We have it from Acheson that the purpose of the document was to so bludgeon the mass mind of the top government that not only could the President make a decision but that decision could be carried out. Even so, it is doubtful if anything like what happened in the next few years could have been done had not the Communists attacked South Korea and opened the "hate America campaigns." The conflicting aims and purposes of the United States and the Soviet Union are stated in the document the United States placing priority in an environment in which societies could exist and flourish and the Soviet Union in world domination.

The soviet threat was pictured by Acheson as similar to that which Islam posed centuries earlier with combination of ideological zeal and fighting power. This time it was United States energy and power that stood in way. As for the capabilities and resources for meeting such a threat NSC-68 recommended specific resources for a large and immediate improvement of military forces and weapons, and of economic and moral factors that underlay America's and its allies ability to influence the conduct of other societies. Although no specific cost estimates are available, Acheson estimated it roughly to be about \$50 billion per year for defense

expenditure as compared to the \$14 billion defense ceiling at that time. Postwar Keynesian policies designated to keep the economy up to full draft would serve to mobilize the resources necessary.

What started as a conflict over postwar Europe soon spread to Asia following the Communist victory in China in 1949, thereby giving the Cold war its global dimension. Matters were not helped when in June 1950 the Korean War broke out and the Chinese intervened in October 1950, serving to confirm to many people in the United States that the country was confronted with a worldwide Communist conspiracy. The fact is that apparently the Chinese and Soviets were not acting in consort. China reacted in the fear that its territory was threatened by the American advance to the Yalu River in October 1950. Japan, as a consequence, was strengthened and organized as a bastion against China in 1957 and Okinawa retained by the Americans as a military base.

The period 1949-1962 witnessed the Cold War in its full fury. It spilled over into the Middle East with the Baghdad Pact of 1955, the Eisenhower Doctrine in 1957, and American intervention in Lebanon in 1958. Uprisings in Poland and Hungary in 1956 were viewed as threatening to the Soviet Union as was unrest in Latin America to the United States. Finally, the Cuban Missile Crisis in 1962 forced both the Soviet Union and the United States to check the drift toward a third world war. Both concluded that they had far more to lose than to gain by continued conflict and tension eased to the point that a nuclear test treaty was signed in 1963.

The tragedy of the Cold War was compounded when its focus shifted to Southeast Asia, where the United States had been increasingly involved since at least 1954. Some Americans came to believe in the so called "domino theory" that China and its brand of Maoist Communism was the real threat to American and world security - especially after its acquisition of nuclear potential in 1964. In support of their case such believers also pointed to the growing Sino-Soviet conflict and quieter Soviet rhetoric in post-Khrushchev days as evidence of greater moderation in Soviet policy. Increasingly, Americans became involved in support of various dubious client states and governments in Southeast Asia. The disastrous American venture ultimately peaked in Vietnam when under President Johnson (1963-1968) more than 540,000 American troops were involved in an Asian land war.

The futility of the entire American misadventure became increasingly evident when Vietnamese resistance could not be broken without resort to nuclear weapons, which would very likely draw the Chinese openly into war, broadening the scale of conflict to a worldwide conflagration. The economic strain on the American economy, becoming increasingly evident throughout the 1960s, convinced most people that it was time to cut America's losses and call an end, letting the dominoes fall where they would. This became an election issue in 1968. President Nixon succeeded Johnson in 1969 and American withdrawal began in earnest in 1973.

These overtures on the part of President Nixon produced further results with visits to Peking and Moscow. These meetings ushered in a new era and, according to some observers, presaged an end to the Cold War a few years later under Presidents Reagan and Bush, and Chairman Gorbachev.

Among the many victims the Cold War can count the Bretton Woods monetary system, the International Monetary Fund, World Bank, and the United Nations, which narrowly missed destruction. Gone too, are the days of the bi-polar power contest between the Soviet Union and the United States. Only the United States now remains as a truly global power.

### ***September 11, 2001: The Fourth Exogenous Shock and Pre-Emptive War***

The end of the Cold War and the emergence of the United States as the sole super power is undeniable. Russia once the power center of global socialism now has a largely private economy and a flat income tax of 13 percent. Vladimir Putin, re-elected in 2004 for another term hopes to clear away all the bureaucratic underbrush left over from communism so that private businesses can grow and prosper. The Chinese communists embraced capitalism. In short, the old-fashioned command economy is dead.

Another challenge soon exploded on the world scene with the exogenous shock received by the United States. The significance of the events of September 11, 2001 on the United States and rest of the world cannot be sufficiently stressed. Once again, American reaction to an exogenous attack from abroad brought predictable response. Post-World War II containment or preventive war will simply not do the job when dealing with undeterrables such as Al Qaeda, or undetectables such as Iraq or Iran passing Weapons of Mass Destruction to terrorists. According to many analysts, there is no such thing as containment. They argue that there is no deterrence, no address for the retaliation. In their view there are two options - do nothing and wait for the next attack, or get them before they acquire the capacity to get you. This is called pre-emption. In short, this is pre-emptive war.

To conduct pre-emptive war a high quality and quantity of information on potential enemies is necessary. How is such information to be acquired? Certainly, cooperation particularly on the international level is required. Clearly, such cooperation may be difficult to obtain.

After initial sympathy for America following the 9/11 events, support for such a venture as pre-emptive war is not readily forthcoming. Many advanced countries have or already had their wars with terrorism. Some people in these countries feel

that claims about terrorism as grossly exaggerated and American reaction singularly dangerous for everyone.

This reaction has prompted the United States to move ahead on its own or at best with several groups of countries. The fallout has been in America less willing to depend on the United Nations, the international court, International monetary fund, the World Bank and other international institutions. All have come in for sharp criticism by private and public groups in the United States. Given America's reaction to past exogenous strikes discussed in this paper and its power and presence, it is wise for the rest of the world to pay close attention. So far as the United States concerned the world has changed since September 11, 2001 whatever others may think.

It is understandable that Croatia as a small country prefers that such an undertaking as «preventive war» have the approval and cooperation of the United Nations including the Security Council. This is all the more understandable given Croatia's centuries long experience in dealing with various manifestations of fundamentalism.

Finally it should be mentioned as not less important the other side of medal of in this way conceived complex «Globalization and the Changing of Geo-Strategic Environment». Some aspects of this other side of medal have been considered in Dragomir Vojnić's work «Market - Damnation or Salvation». This work has politically-economic approach and emphasizes especially the problems of sustainable development.

These problems are very crucial for the least and the weakest, as well as the strongest and the most powerful countries, which however in the research and tracing the ways of sustainable development have the most important role and responsibility. Altogether, the entire consideration of problems of different kinds of fundamentalism and terrorism must also take into account this other side of medal.

### **What Is to be Done?**

Containment has given way to pre-emptive war. Containment was deigned for the Soviet Union and its allies now long gone. The transition process provides useful lessons for our current problems and insights into what is to be done. In particular the transition processes and policies have often failed to take into adequate account that every country considers itself and its place in the contemporary world as unique. Justice and peace is more likely to prevail from a realistic acceptance of conflicting values and interests.

Consider, globalization and "the Washington consensus." Thanks to increasing international trade in goods and services, capital flows, and operational linkages

among business firms, worldwide integration and interdependence is now a fact of life. This is globalization.

For all of its many problems, globalization is worth pursuing as a way to raise the world's living standards. Its call for open markets is direct. It is often not simple to put in practice as public policy. Its decline during the turbulent years between World War I and II underscores how difficult it is to put such a policy in place. Nevertheless, by the 1950's the world economy again resumed its forward trend toward globalization. Still the road is not smooth.

The rules governing the global economy are results of almost endless talks that more or less reflect the bargaining power of the negotiating countries. This in turn depends on the size and economic strength of each country. The more powerful the country and its economy, the greater the damage that it could inflict by its withdrawal from the process of rules certification, and thereby the greater the ability to shape those rules. This places the United States as the principal factor determining the content of the rules and procedures that accompany globalization. In effect the United States is the dominant power in such global organizations as the International Monetary Fund and World Bank as well as in the World Trade Organization.

Moreover, American position and influence has been consistent for many years irrespective of political changes in Washington. So much so that it prompts economists to label the package pursued by the United States as "the Washington consensus,"<sup>6</sup>

In its original formation by John Williamson in 1999, "the Washington consensus" is comprised of the elements:(1) fiscal discipline in government spending;(2) a redirection of public expenditure away from subsidies;(3) a reduction of marginal tax rates;(4) decontrolling interest rates;(5) moving away from fixed exchange rates to more market- determined ones;(6) trade liberalization;(7) liberalizing foreign direct-investment inflows;(8) privatization of public enterprises;(9) deregulation of output markets;(10) securing private property rights.

The objectives of "the Washington consensus" are straightforward. They are to promote the role of markets and provide a high degree of freedom to market participants including multinational financial institutions, banks, and corporations whose preferences are indeed reflected in "the Washington consensus."

Most observers agree that "the Washington consensus" has worked to promote trade liberalization. It has also provided consumers world wide with an increased flow of goods and services. Serious problems however, arise in the financial markets and labor markets thanks in part to the reduction in the role of government that is called for by the consensus.

World wide capital and financial flows present a singular problem for governments. As distinct from direct fixed investments undertaken by multinational

firms, financial flows may well represent speculative placement of funds in capital markets. The movement of such funds can now be moved very rapidly indeed. Mistakes are now quickly felt worldwide particularly in the short term flows. This sensitivity has served to further the fragility of global capital markets. The risks of crises have increased drastically. The result is that capital flows into a country that is then followed by flight leaves in its wake bankruptcy and indebtedness for all actors. Financial crisis of the 1990s are cases in point.

No small wonder that some economists are once again looking at the free flow of capital and its practicality. A growing list of economists including Joseph Stiglitz are skeptical about the desirability of unregulated short term capital flows. In fact, Stiglitz argues that freeing up markets may have had a perverse effect of contributing to macroeconomic instability by weakening the financial sector.

The other area where the consensus comes up short in the view of its critics is in the labor market. If globalization is to move forward some arrangements must be made to compensate the losers. This may include a strengthened safety net. The industries that go bankrupt and their displaced workers should not become the victims. Progress such as job retraining, temporary income supports, stipends, or tax benefits for relocations associated with employment, health care and insurance would reduce resistance to globalization and its negative impact. Unfortunately, these are the very issues on which the consensus is not explicit.

Owing to their particular role in a country's, economy banking and other financial services can be very difficult to transfer from one country to another or indeed from one area to another in the same country. Banks, for instance, are still pre-eminent in the financial system of a country although other financial institutions are growing in importance.<sup>8</sup> In the first instance, they are vital to economic activity, because they reallocate money, or credit from savers to borrowers. Second, banks are at the center of the clearing system of a country. By working to clear payments, they help firms and individuals fulfil transactions.

Because banks provide credit and operate the payments their failure can have a more damaging effect on the economy than the collapse of other businesses. Thus governments pay particular attention to the regulation of banks. This is the important issue of preserving stability in a country.

In addition to stability of the economy two other issues are important. One is whether the banks promote economic efficiency by channelling funds to those who will make the best use of them. The other is whether banks and financial systems promote fairness by providing capital, credit, and financial services in a nondiscriminatory and nonexploitative manner that enables all citizens to participate equitably in economic life.

Unfortunately, in important ways, banking and other financial institutions without their monitoring by alert governments may well fail in many instances to



meet the above criteria of stability, economic efficiency and fairness. In the instance of stability as banking institutions get bigger, there is always the possibility that the failure of one bank could destabilize the entire financial structure and send the real economy into a tailspin. Especially sensitive may be branches of foreign banks whose knowledge of local conditions may leave something to be desired.

As financial institutions become ever larger and spread over more territory, their growing power increases the likelihood of “market failure.” In the market place, concentrated economic power becomes monopoly power that enables banks (and other large financial conglomerants) to set prices including various fees, higher than they otherwise would be in a competitive market where many banks, foreign as well as domestic, compete. Concentration of economic power may also have negative political consequences as well including blocking government policies with which they disagree.

Equally important, as banks get bigger their decision making power is in headquarters located many miles from communities where their customers live. This is especially the case of foreign megabanks that may well be able to mass produce standard loans at relatively low cost, but they lose touch with details of local economic life needed to actually direct financial resources to their most productive use.

There is, finally, the issue of fairness. Again foreign banks and their branches may unfairly neglect areas of a country. For example, some small businesses that may be very well adapted to local conditions may not do well in the new automated “credit-scoring” typically used by the big lenders, and may therefore end up being denied the credit they need to develop and prosper.

The Wall Street Journal in 2003 in several articles addresses “Banking on Europe’s Frontier: Financial Companies Find Potential - and Pitfalls - in the East.” (Marcus Walker). An illustration from Walker’s article will serve to underscore our discussion. Walker writes that foreign bankers in East and Central Europe have had to overcome significant cultural, legal and personal issues. An overly centralized management had singular problems. Locals have a better grasp than most outsiders of the numerous historic grievances between the region’s nationalities and the local style of doing business. One banker says the difference between by-the-book Czechs and free wheeling Hungarians is as big as the cultural difference between Germans and Italians.

Citigroup, Inc., one of America’s influential banks, is looking to carve out a large market share in East and Central Europe’s banking markets. Citigroup financed Western companies during the Cold War; during the transition years of 1990s it has expanded into retail and local business banking usually by opening its own offices, but also by acquiring Polish corporate lender Bank Handlowy.

The banks most active in the region, however, are second tier European banks that saw a chance to expand with limited investments. The biggest new players are those that have been most aggressive in acquiring newly privatized banks in the region.

### **Who Will Do It?**

Studies to improve the qualitative and quantitative information envisioned in this paper can be and indeed are conducted in several institutions world-wide. Yet, one organization stands out as best by location and experience to undertake such studies. This is the Ekonomski Institut in Zagreb, Croatia and the journal *Ekonomski Pregled*.

The international environment since September 11, 2001 has changed. The threats of terrorist activity against Croatia's interests and those of other countries in the Atlantic, the Mediterranean, and around the world including the United States have increased. For these countries to protect their national interests qualitative and quantitative information is necessary in all of human activity. The focus here is an economic, financial, and banking information and analysis.

The Ekonomski Institut has long cooperated with such organizations as the Vienna Institute for International Economic Studies (Vienna, Austria) Institute for International Economic and Political Studies (Moscow, Russia), Center for Yugoslav-American Studies, Research and Exchanges (Tallahassee, Florida, USA) as well as many others in the region and elsewhere.<sup>9</sup> These organizations cooperated during the years of the Cold War and the post Cold War years and through the years of transition from earlier command economies to market economics.<sup>10</sup>

What is now needed is to systematically draw on these studies for the qualitative information they contain and so serve as a base for further work and insight into the now changed environment. The *Ekonomski Pregled*, established in 1935 and so the oldest journal of its type in the region, could well serve to disseminate the results. The establishment of a Center for Croatian-American Studies within the Ekonomski Institut could serve as coordinator for seminars, public forums, and similar activities. Banks, financial organizations and businesses, Croatian, American, and European, should be invited to participate in these activities.

## FOOTNOTES

1. The importance of this period for subsequent events was indicated to the authors by Dr. Zvonimir Baletić. For subsequent periods see also John L. Gaddis, *Surprise Security and the American Experience* (Cambridge: Harvard University Press, 2004).

2. For discussion of events leading to the War of 1812 and its aftermath including the Monroe Doctrine, see Ralph Ketcham, *James Madison: A Biography* (New York and London: The Macmillan Company, 1971).

3. *Ibid.*, p. 598.

4. See George Macesich, *Political Economy of Money: Emerging fiat Monetary Regime* (Westport, CN: Prager, 1999) p. 67-75.

5. See Dean Adison, *Present at the Creation* (New York: W.W. Norton and Company, 1969).

6. John Williamson, "What Should the Bank Think About the Washington Consensus?" Institute for International Economics. 1999. See also Jay Mandle, "Reforming Globalization" Challenge. March/April 2001. pp 24-38.

7. Joseph Stiglitz, "More Instruments and Broader Goals: Moving Toward the Post-Washington Consensus," World Institute for Development Economic Research Annual Lecture. January 7, 1998.

8. For a discussion of these banking issues, see George Macesich, *Issues in Money and Banking* (London, Westport, CT, 2000).

9. See, for instance, Dragomir Vojnić, "Transformacija Centra za jugoslavensko-američke studije, istraživanja i razmjenu Državnog Univerziteta Floride" *Ekonomski Pregled* 1-2, 1992. Pp122-130.

10. Gorazd Nikić, *Tranzicija u Hrvatskoj: Deset godina stabilnosti tečaja i cijena* (Zagreb: Binoza press i Ekonomski Institut, 2003).

## AMERIKA I EUROPA: GLOBALIZACIJA I PROMJENE GEOSTRATEŠKOG OKRUŽENJA

### Sažetak

Rad obrađuje događaje nakon 11. rujna i promjene geostrateškog okruženja. To čini oživljavajući američku i europsku povijest. Posebni naglasak stavljen je na vanjske udare koje je pretrpjela Amerika i kako su takvi udari promjenili međunarodne odnose zemlje, naročito s Europom. Naglašena je potreba za poboljšanjem kakvoće i količine informacija kako bi ti odnosi bili uzajamno produktivni. To je naročito, ali ne isključivo, slučaj u ekonomskoj i monetarnoj politici, bankarstvu, financijskim i kapitalnim tržištima.

Poglavlje II prikazuje nekoliko povijesnih epizoda u američkim i europskim odnosima. U poglavlju III raspravlja se o tome što treba učiniti. Poglavlje IV govori o tome tko će to učiniti.