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Instructor's Note: These chapters have numerous helpful charts and graphs that could not be included due to software constraints. Readers are urged to find the book in the library if you would like to include them in your report.

Introduction

The Debate About Decline

In 1941, *Life* magazine proclaimed this "the American century."¹ The United States emerged from World War II with its armies victorious and the dollar impregnable. Historian Arnold Toynbee argued that the United States had to succeed Britain as the leader of the world.² President Truman accepted that challenge in 1947, when the United States replaced waning British aid to Greece and Turkey. By the mid-1960s, Undersecretary of State Eugene Rostow claimed that "the United States has now occupied the role of chief policeman for the free world for about twenty years. The office has required diplomatic and military exertions of us in a long series of conflicts—from Iran, Lebanon, Turkey, and Greece to Berlin, Korea, Cuba, and Vietnam."³ At the same time, Harvard Professor Samuel Huntington argued that "by the year 2000 it should be clear retrospectively that the dominant feature of international politics during the thirty years after World War II was the expansion of American power."⁴

"By the 1970s, however, *Business Week* declared that "the colossus that emerged after World War II" was "clearly facing a crisis of the decay of power."⁵ The United States had suffered defeat in Vietnam, an oil embargo, and rising inflation at home. In the 1980s, America slid from the position of the world's largest creditor to that of a net debtor. Its share of world product slipped from 33 percent of the total in 1950 to 23 percent in the 1980s. Its share of world exports fell from 17 percent in 1950 to 10 percent in 1988, and its share of world monetary reserves dropped even more dramatically, from 50 to 9 percent.⁶

By 1989, half the American public believed that the nation was in decline. Only one in five Americans believed that the United States was the top economic power, even though it remained by far the world's largest economy. After President Reagan's military build-up in the 1980s, only a fifth of the people believed that the United States was ahead of the Soviet Union in overall military strength. About a third of the public believed that the country's nuclear arsenal was weaker than that of the Soviet Union, and half believed that the United States' was behind in conventional military strength.⁷ A rash of books and articles published in the 1980s described the decline of nations, and American decline in particular.

Comparisons of Britain and the United States now emphasize the negative rather than the positive. "Today America is where Britain was around the turn of the/ century," wrote MIT economist Lester Thurow in 1985. "Rome lasted a thousand years, the British Empire about 200; why are we slipping after about 50 years?"⁸

Others find the United States position in the 1980s so reminiscent of the British decline in the late nineteenth century that "rather than investigating whether a situation of hegemonic decline and economic crisis exists, it is now possible to examine what effects this situation has had."⁹

Some scholars suggest that the American situation is typical of the imperial overstretch that has occurred throughout history. A growing nation builds its military power to protect its expanding economic interests, but eventually the cost of projecting military power saps its strength and the nation is replaced by another rising economic power. Immanuel Wallerstein sees overstretch as "a regular happening," with decline starting in Venice around 1500, in Holland around 1660, in Britain around 1873, and in America around 1967. "The basic reason was the same: the overall productivity edge relative to that of the closest rival states . . . had begun to fritter away because of aging plant (in the loosest sense of this term) and rising comparative costs of the factors of

production, combined with the high economic costs of political and military imperium which led to rising taxation levels."¹⁰ Paul Kennedy, in his best-selling book *The Rise and Fall of the Great Powers*, writes that "the difficulties experienced by contemporary societies which are militarily top-heavy merely repeat those which, in their time, affected Phillip II's Spain, Nicholas II's Russia, and Hitler's Germany."¹¹

Such historical analogies suggest that major U.S. foreign policy changes are needed. Kennedy, for example, believes that "our overcommitments in foreign policy can be reduced,"¹² whereas political scientist David Calleo attributes America's fiscal deficit to its "comparatively large military expenditures." Calleo suggests withdrawing troops from Europe, and "selective proliferation" of nuclear weapons to our allies.¹³ Walter Mead believes that America's decline will continue.¹⁴ Others also conclude that the United States needs to reduce its international commitments in accordance with its diminishing strength.¹⁵

I argue, however, that these historical analogies are misleading and the diagnosis wrong. Policies of retrenchment are premature and, ironically, they could produce the very weakening of American power they are supposed to avert. Withdrawal from international commitments might reduce American influence overseas without necessarily strengthening the domestic economy. Further, the nations of the world have become so inextricably intertwined that efforts to draw back would be difficult at best.

But before one can attempt to shape policies on the basis of historical analogies and theories of decline, it is essential to have an accurate assessment of America's current position. This assessment can be based on an examination of these four issues: (1) What is America's current power position? (2) How is it changing? (3) What has caused the changes? and (4) What are the appropriate responses? These concerns, which must be dealt with separately, are often mixed together in historical analogies and grand theories of decline. Moreover, contrary to many of the decline assertions cited earlier, the answers to these questions are not solely pessimistic; they often show a more positive view of the U.S. position at the end of the twentieth century.

In this introduction, I explain the terms of the contemporary debate about decline and discuss its importance. Part I is about the nature of power in the past—chapter 1 investigates the history of hegemonic or dominant powers, chapter 2 challenges the validity of currently popular comparisons of Victorian Britain and modern America, and chapter 3 examines in detail the extent and nature of U.S. power after World War II to the present. In part II, chapters 4 and 5 question the ability of potential challengers—the Soviet Union, China, Europe, and Japan—to supersede the United States as the world's leading power. Although this book concludes that the United States will remain the leading power, part III explains why this conclusion, which is based on traditional power analysis, in no way permits American complacency. Chapter 6 examines the changing nature of power in the modern world, and chapter 7 explains the new challenges that such changes present to our society. Finally, chapter 8 outlines a new strategic vision for dealing with the problems of future decades.

Critical Questions

There is no doubt that the United States is less powerful now at the end of the twentieth century than it was in mid-century. Even conservative estimates show that the U.S. share of global product has declined from more than a third of the total after World War II to a little more than a fifth in the 1980s.¹⁶ However, there is less agreement on what these numbers mean.

One problem in assessing U.S. decline is the "World War II effect." Unlike the other great powers, the United States was strengthened by the war. It was not bombed or invaded, and it built impressive military forces and a powerful industrial base. Other nations involved in the war were devastated. In this sense, U.S. economic preponderance in the 1950s was anomalous. But like the boy on the block who dominates while others have the flu, American preponderance was bound to erode as other nations regained their economic health. Further, the recovery of Europe and Japan was an explicit goal of the U.S. policy of containing Soviet expansion. Much of the

relative decline since the 1950s, then, is simply a return to normal after the artificial effect of World War II.

Is Decline Continuing?

Paul Kennedy argues that U.S. decline has been continuous: "The U.S. share of world GNP, which declined naturally since 1945, has declined much more quickly than it should have over the last few years." David Calleo is even more alarmist: "Thanks to economic strain and mismanagement, relative decline has begun to turn absolute."¹⁷

However, other investigations do not support the case for continuous decline in America's share of the world product. Charles Wolf of the Rand Corporation notes that "if a more appropriate and representative base year is used—say, the mid-1960s (or even a pre-World War II year such as 1938)—the remarkable fact is that the U.S. economy's share of the global product was about the same 'then' as it is 'now': about 22% to 24%."¹⁸ Herbert Block's careful estimates of shares of world product date the fading of the World War II effect on the United States somewhat later than Wolf does, but the result is the same. Block estimates that the United States represented about a quarter of world product in the early twentieth century and about a third in 1950. He claims that the postwar American share of world product declined until 1974 and then stabilized. Similarly, the American Council on Competitiveness finds that the U.S. share of world product has held constant at 23 percent since the mid-1970s, and that its share of the product of the major industrial democracies actually increased slightly in the 1980s. The Central Intelligence Agency, using numbers that reflect the purchasing power of different currencies, reports that the American share of world product increased slightly from 25 percent in 1975 to 26 percent in 1988.¹⁹

The results of these studies conflict with the view that American decline has been either precipitous or continuous. They suggest instead that the World War II effect lasted for about a quarter century and that most of the decline worked its way through the system by the mid-1970s and then stabilized. In contrast, those who support the view of continuous decline challenge the use of global product as an indicator. They prefer other indices, claiming that GNP estimates are crude aggregates that change too slowly.²⁰

Changing Yardsticks

How should we measure power in a changing world? Throughout the centuries, statesmen and other observers have mistakenly perceived the metric of power. For example, seventeenth-century mercantilist theorists, who focused on Spain's reserves of gold and silver bullion from the mines in the Western Hemisphere, would not have predicted Holland's commercial rise or the strength of France derived from larger population and improved administrative structures. In the eighteenth century, those who focused on France's population and rural industry would have missed the rise of Britain due to its political stability and favorable conditions for the Industrial Revolution. In 1900, American writer Brooks Adams used the control of metals and minerals as an index of future military and economic power; he predicted "the decline of Britain and the ascendancy of Russia and China."²¹

However, raw materials and heavy industry are less critical indices of economic power today than are information and professional and technical services. According to sociologist Daniel Bell, the first technological revolution happened two hundred years ago, with the advent of steam-powered transportation and factory machine production. The second technological revolution arrived a century ago, when the spread of electricity and chemistry allowed the production of synthetics and plastics. The third technological revolution, underway today, joins computers and telecommunications to produce television imagery, voice telephone, digital computer data, and facsimile transmission.²² These new technologies offer a unified but complex system of services from interlinked computers and electronic mail to information storage and retrieval. The information revolution is changing the notion of markets; no longer geographic places, they have become global networks. Speed and flexibility of response to new information is becoming increasingly

important. If Bell is correct, the appropriate indicators of power today are related to manufacturing and services in the information industries.

The information revolution is having very different effects on different nations. The centralized planning systems of the Soviet Union and China lack the flexibility needed for an information-based economy. The European economies have been slower than the United States and Japan in adapting to the new environment. Japan has made the most rapid gains in high-technology exports, but these gains have come more at the expense of the rest of the world than of the U.S. share, which dropped only slightly over the decade 1980-1990. In chapter 3, I look more closely at indices at several levels of aggregation—from GNP to the-detail of a specific industry—to compare how various nations have fared.

Imperial Overstretch?

Although imperial overstretch is a frequently cited cause of the change in America's power position, the facts do not support the theory. According to the overstretch theory, "the Great Power is likely to find itself spending much *more* on defense than it did two generations earlier, and yet still discover that the world is a less secure environment."²³ However, even after President Reagan's military build-up, the current U.S. defense outlay is only about 6 percent of GNP; in the Eisenhower and Kennedy administrations, it was near 10 percent. Further, the U.S. defense burden is not at all like that of Spain or France in their last days of grandeur. Philip II's Spain devoted three-fourths of all government expenditure to war and war debt.²⁴ The France of Louis XIV and the Russia of Peter the Great devoted, respectively, 75 and 85 percent of their revenues to war and the military establishment.²⁵ In the United States today, just about 27 percent of the federal budget is spent on defense (including veterans' benefits). And unlike the historical examples, America's overseas commitments do not involve the occupation and control of conquered territories.

Paul Kennedy has argued that our net defense burden is greater today because the United States has a lower share of world product than it did previously. He likens the United States to an aging man carrying a pack up a hill, less able to carry the burden than before. But, as figure I.I shows, the ratio of America's defense burden to its share of world product has not increased over time and is even lower now than it was in the 1950s. Although such ratios of aggregates are sometimes unreliable, they still cast doubt on analogies about increasing burdens. Indeed, contrary to the theory of imperial overstretch, the U.S. defense burden today is lighter than it was in the 1950s, and the political burdens of American commitments are lighter today than during the Vietnam War. Some theorists of imperial overstretch assume that defense spending is harmful to the economy, noting that Japan spends a bit more than 1 percent of its GNP on defense and has a higher rate of economic growth than the United States. However, such simple correlations are misleading. South Korea and the People's Republic of China, for example, spent more of their GNP on defense than did the United States in the late 1970s and early 1980s, yet both had even higher economic growth rates than Japan. Moreover, while defense spending has had some negative effects, it also has had some positive effects on the U.S. economy. Few careful and balanced economic studies show conclusively that defense spending had a significant negative *net* impact on the economy.²⁶ A priori assumptions about the effects of defense spending cannot rescue the theory of imperial overstretch from its fatal problem: it simply does not fit the facts of the American position at the end of the twentieth century.

Prior Debates

The debate about America's current position in the world is confusing not only because of fuzzy concepts and numbers, but also because of emotional factors. The idea of decline touches a raw nerve in American politics. Some people react emotionally against discussions of decline because of national pride. But it is counterintuitive and ahistorical to believe that the United States should have the dominant share of world product or power forever. American power has clearly declined

since 1945, and even if the decline has largely halted, some continued erosion would be natural. The appropriate American response to the changing international environment should not rest on an exaggeration of American power. Thus, it is foolish for politicians to treat discussions of decline as unpatriotic, just as it was for those in Spain and Britain who claimed they too were not like past great powers because they had "a superior system."²⁷

Unfortunately, the debate about decline is becoming polarized along ideological lines. Understanding America's position in the world is too important to leave to ideology or to loose historical analogies. All too often, journalists refer to the United States emerging "from World War II as an imperial power" or describe the 1950s as a time when "America bestrode the world."²⁸ However, as we shall see in chapter 3, even at its postwar peak, the power of the United States was far more limited than these exaggerations suggest. Analyses that compare the present with a mythical past depreciate the present U.S. position and contribute to the impression of decline.

Concern about decline would be good for the United States if it cut through complacency and prodded Americans to deal with some of the serious domestic issues outlined in chapter 7. On the other hand, Samuel Popkin has found that excessive anxiety about decline may turn American opinion toward nationalistic and protectionist policies that would constrain our ability to cope with issues created by growing international interdependence.²⁹ Thus, there is no virtue in either overstatement or understatement of American strength. The former leads to failure to adapt, the latter to "cures" that do more harm than the disease.

There is a long history of concern about decline in Western thought. It can be found, for example, in the works of eighteenth-century European writers Rousseau, Montesquieu, Burke, and Gibbon. The idea of decline, particularly as it relates to the history of Rome, even worried the founders of the American Republic.³⁰ Recently, Samuel Huntington identified five phases of what he calls "declinism" in postwar America: (1) after the Soviets launched Sputnik in 1957; (2) after Nixon's announcement of multipolarity in the late 1960s; (3) at the time of the oil embargo in 1973; (4) after Soviet expansion in the late 1970s; and (5) after the onset of Reagan's fiscal and trade deficits in the late 1980s. Huntington suggests that such recurring worries may be "better indications of American psychology than of American power."³¹

There is also a history of premature and misleading predictions of decline. Many eighteenth-century British leaders lamented Britain's decline as a result of losing the American colonies. Horace Walpole foresaw Britain's reduction "to a miserable little island, and from a mighty empire. . . [to] as insignificant a country as Denmark or Sardinia."³² These predictions, colored by the eighteenth-century view of colonial commerce, failed to foresee the new industrial base of power in the Victorian era that gave Britain a second century. Yet at the height of Britain's ascendancy in 1865, Matthew Arnold saw "an imminent danger of England losing immeasurably in all ways, declining into a sort of greater Holland."³³ In 1878, former Prime Minister William Gladstone worried that "America is passing us by as if in a canter."³⁴ At the turn of the century, as we shall see in chapter 2, Britons debated how to appraise their global position but they were unable to reach a consensus or to draw policy conclusions.

Decline is a tricky word because it bundles together two quite different concepts: a decrease in external power and internal deterioration or decay. However, a country may experience decline in one sense, but not in the other. For example, the seventeenth-century Netherlands flourished internally but declined in power because other nations became stronger. Spain, on the other hand, lost external power in part because it suffered an absolute economic decline from the 1620s to the 1680s.³⁵ Or, like Venice, a country may reach its internal cultural peak after outside factors (the shift of trade routes) initiated its decline as an economic power. At the beginning of this century, Vienna was a cultural capital even as the Austrian Empire declined politically.

Obviously, the two concepts of decline are related. Internal deterioration can contribute to loss of external power, but often it is difficult to identify which internal changes were the major causes of power loss and when they occurred. At latest count, scholars have advanced more than two hundred alleged causes of the decline of Rome and still disagree on dates.³⁶ The Romans themselves often saw their world in despairing terms; some of them began to worry about decline as early as 133 B.C., six centuries before the conventional date for the Fall of Rome. From a.d. 300 to

450—the period that modern historians identify as declining—the Roman economy was demonstrably healthy. Financial problems contributed to the gradual paralysis of the state, but commerce and manufacturing were lively.³⁷ As one historian concludes, "the 'Rome that declines' is thus not one single thing but many things, and the search for any one cause across the board is futile. So, too, is the search for any one period in which all aspects of Roman civilization were much changed."³⁸ The eastern half of the Roman Empire survived under increasingly precarious conditions for nearly another thousand years after Roman armies became unable to protect the western provinces. The Western Empire was not the victim of a rising challenger state. It succumbed to the long-term pressure of invading migratory tribes: "In any straight fight they could, and they usually did, defeat superior numbers of Germans. . . . What they could not do was cope indefinitely with this kind of enemy."³⁹

Power is relative, depending in part on what is happening at home and more so on what is happening outside. An empire may survive for a long time after aspects of civilization begin to decay at home if outside challengers are weak. Although civic corruption and loss of administrative and military efficiency may have allowed nomadic tribes to sack Rome, its external challengers were weak. The Fall of Rome in a.d. 476 occurred two centuries after the onset of major corruption in its government and deterioration of its military.

A nation may also decline in power relative to other nations because it chooses not to use the power resources at its disposal. For instance, early eighteenth-century France allowed its naval and fiscal resources to stagnate relative to Britain's, but unlike Spain in the previous century, the French decline was only temporary. The stagnation in French war potential did not represent an absolute decline, as the subsequent Napoleonic Empire proved. Yet in terms of basic resources, "one could argue that France's ability to expand militarily was greater in 1750 than it would be in 1805."⁴⁰ The difference was in the results of leadership and policy choices. A more recent example is the United States. Emerging from World War I as a potentially dominant global power, it nonetheless chose a policy of isolationism that made it a secondary player in world political events. American influence was lower in 1928 than in 1918, but not because it had lost power resources.

Absolute decline, in which there is a loss of critical power resources or of the ability to use one's own resources effectively, is less common than relative decline in which the power resources of others grow greater or are used more effectively. Neither type of decline requires nor implies domestic decay. As Raymond Aron suggests, "[d]ecadence implies value judgments.... Decline simply describes a power relationship."⁴¹ Such external power relationships are the concern of this book. Although in chapter 7 I examine how internal changes affect power relationships, the main focus of this book is on the external dimensions of power, not value judgments about the quality of American civilization at the end of the twentieth century.

Does It Matter?

Some suggest that the current debate on American decline should be regarded as a register of mass psychology and popular fads rather than an analysis of power.⁴² Others ask why Americans should worry about power. Why not focus solely on wealth and live as well as Swedes or Canadians? The short answer is that the United States is not in the same geopolitical position as Sweden or Canada. It cannot afford a free ride in world politics. If the largest country in a world of nation-states abdicates leadership (as the United States did in the 1920s), the results can be disastrous for all. In an assessment of the debate about American decline, British scholar Susan Strange concludes that "we are all in agreement ... on the critical nature of the present end-of-century decade. We share a common perception that mankind ... is standing at a fork in the road. ... In the last resort, it may be that this common concern is more significant than the differences of interpretation."⁴³

Decline and War

Perceptions of change in the relative power of nations are of critical importance to understanding the relationship between decline and war. One of the oldest generalizations about international politics attributes the onset of major wars to shifts in power among the leading nations. Thus Thucydides accounted for the onset of the Peloponnesian War which destroyed the power of ancient Athens, The history of the interstate system since 1500 is punctuated by severe wars in which one country struggled to surpass another as the leading state.⁴⁴ If, as Robert Gilpin argues, "international politics has not changed fundamentally over the millennia," the implications for the future are bleak.⁴⁵ And if fears about shifting power precipitate a major war in a world with 50,000 nuclear weapons, history as we know it may end.

Psychology plays a large role in initiating war as well. It was not merely the rise of Athenian power but also Sparta's fear of that rise that caused the Peloponnesian War. Some historians argue that misperception played a role; ironically, Athenian expansion may actually have tapered off shortly before the onset of the war.⁴⁶ World War I is another striking example. Its immediate precipitant was the punitive response of the Austro-Hungarian government to an act of terrorism. The rashness of the Austrian response was affected by the fear that their empire was in decline and they had no good alternative. The Germans gave their Austrian allies a blank check in 1914 partly because they saw little risk of war and partly because they feared growing Russian strength. Some key officials felt it better to risk war with Russia in 1914 than to face it later. Britain, in turn, intervened because it feared rising German dominance on the continent. Fear of decline played a significant role in the risks that leaders took. In Gilpin's words, "the outbreaks of hegemonic struggles have most frequently been triggered by fears of ultimate decline and the perceived erosion of power."⁴⁷ Some who apply such theories to modern times believe that "a period of increasing war could be expected around 2000-2030."⁴⁸

Of course, such concerns may be too alarmist. There are no iron laws of history. People can learn from their mistakes, and the awesome destructive power of nuclear weapons is a new stimulant to learning.⁴⁹ There is no need for a declining Soviet Union to repeat the role of Austria-Hungary, or for the United States to play Britain, or for modern Japan to be like prewar Japan. But indeterminacy cuts both ways. Dangers persist, and prudent diplomatic calculations may become more difficult when fundamental assumptions are shaken. Historians have attributed the current unprecedented "long peace" among the major powers to fear of nuclear war and to the stability of the bipolar system, in which two nations have dominated the balance of power.⁵⁰

The End of Bipolarity?

Theorists and political leaders have heralded the emergence of a multipolar system for nearly two decades. Mikhail Gorbachev's reforms and the changes in Eastern Europe have led to discussion of the end of the Cold War. What such changes mean for stability is not clear. A reduction in the intensity of U.S.-Soviet conflict is indeed welcomed, but political leaders have had no experience managing a truly multipolar balance of power in the nuclear age. How these leaders learn and respond to new situations will be affected by their perception of opportunities and dangers, including fears of decline. For instance, what would it mean for stability if a Japanese leader grew tired of guiding a mercantile nation and concluded "there's no glory in an abacus, so I vote for grandeur";⁵¹ or if Soviet leaders saw nationalism eroding their country; or if Germans seek to unite the three German-speaking states?

Current changes are taking place in a world that is built on the outcome of the last hegemonic war, which ended in 1945 with the division of Germany. That division temporarily answered the German question that plagued Europe since Bismarck created a state in the center of Europe that, to be strong enough to defend itself simultaneously on two fronts, was also so strong that it frightened its neighbors. In Asia, 1945 meant the end of Japan's bid for military hegemony over the western Pacific, and the adoption of a new commercially oriented approach to international affairs in close alliance with the United States.

The United States did not seek a territorial empire or a hegemony that would keep the losing nations of 1945 in servile positions. Instead, it stimulated their economic revival and strategic partnership to balance Soviet power. To the extent that the United States has had a grand strategy for foreign policy over the past forty years, it has been to promote economic prosperity and political stability in Western Europe and Japan and to maintain close alliances with them. As George Kennan pointed out, after the war, only a few areas in the world had the industrial and technological creativity to affect deeply the global balance of power: the United States, the Soviet Union, Western Europe, and Japan.⁵² Of these, Europe and Japan are close geographically to the Soviet Union. That they are close to America *politically* has been profoundly important to the global balance of power for forty years.

Because the geopolitical world still rests on the tectonic plates of 1945, a rapid shifting of those plates may call for dramatic new strategies. But if the changes are incremental, a radical shift of strategy may do more harm than good. Any strategic assessment must begin with an appraisal of U.S. power in terms of traditional power resources. This assessment is the focus of parts I and II of this book.

Continuity and Change

As we shall see in part III, a good assessment of power must go beyond traditional geopolitics. If we focus too heavily on power transitions among leading states, the historical analogies may mislead us about the nature of other changes that are occurring in world politics. The end of this century will be very different from its beginning. The American problem now is not one of decline like Britain's or of challenge by a rising contender like Germany. The United States is likely to remain the leading power, yet it will have to cope with unprecedented problems of interdependence that no great power can solve by itself. Many of the new issues in international politics—ecology, drugs, AIDS, terrorism—involve a diffusion of power away from states to private actors and require organizing states for cooperative responses. The classical geopolitical agenda of international security among independent nations will continue alongside these new problems of transnational interdependence. A good strategy must focus on both aspects simultaneously. If our analyses are cast solely in terms of the power transitions of the past, we will overlook what is new about the future.

Theories and historical analogies are not just academic; they color our view of the world." As we shall see in chapter 3, the United States was not as powerful in the postwar period as is implied by those who speak of American "hegemony" or "empire." The natural decline after 1945 is often exaggerated by comparison with a mythical past, when America allegedly "bestrode the world." In fact, the World War II effect had largely worked its way through the international system by the early 1970s. As C. William Maynes points out, the loss of nuclear superiority, the end of self-sufficiency in oil, and the challenge to the dollar can be dated back to the Nixon administration,⁵⁴ At that time, some critical adjustments took place, including the withdrawal from Vietnam and the end of convertibility of the dollar into gold. While there has been some relative decline of power in specific sectors since then, the American position has changed much less in the past decade and a half than it did in the earlier period of supposed hegemony. Further, as part II demonstrates, no country is at this time well positioned to challenge the United States for global leadership.

Lest Americans become complacent, however, it is important to emphasize that the traditional focus of statesmen and scholars on the rise and fall of nations and on new challengers and old hegemony neglects to account for a critical new dimension of world politics—the growth of transnational interdependence and the diffusion of power to smaller states and private actors. As we will see in part III, no great power, not even the United States, is placed well enough to deal with these issues alone. One positive message of this book is that American leadership is likely to continue well into the next century. But another message—the changing nature of power—is equally important. Too much concern about a decline of power in traditional terms, or too much complacency about the status quo, may cause Americans to overlook the importance of the

changing nature of power and, as a result, to pursue the wrong strategies as they enter the twenty-first century.

Endnotes

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Chapter 2

The British Analogy

The Great Power is in trouble. A costly intervention in a distant part of the globe disrupted its economy and created doubts about whether it can fulfill its international commitments. Military superiority is lost. Its most powerful rival, the world's largest land power, now has a significant naval force. Forty years ago, the Great Power's economic and industrial capacity was in a class by itself. Now its industrial base is eroding, imports are soaring, and calls for protectionism are rising. It asks its allies to share its burdens but to little avail. Funds are needed to repair the domestic social fabric but no one knows where they will come from. It is uncomfortable being the top nation in a period of relative decline.

Does this scenario describe early twentieth-century Britain or the United States at the end of the century? Paul Kennedy suggests both,¹ and he is not alone in drawing such analogies. Scholars on the Left write of "uncanny resemblances between late Victorian England and the United States today,"² and professors at Harvard Business School argue that "starkly put, the question is whether the United States is in the early stages of a decline similar to the United Kingdom."³

As we saw in chapter 1, theories of hegemonic stability and transition in the modern world are based mostly on two cases: Victorian Britain and post-1945 America. Robert Gilpin, a leading theorist of hegemonic transition, argues that "the *Pax Britannica* and *Pax Americana*, like the *Pax Romana*, ensured an international system of relative peace and security." Since the Industrial Revolution, the United States and Britain have "succeeded in this hegemonic role partially because they have imposed their will on lesser states and particularly because other states have benefited from and accepted their leadership."⁴ The economist Charles Kindleberger argues that a liberal system of free trade has required that one country keep the system open: "For the world economy to be stabilized, there has to be a stabilizer, one stabilizer."⁵ But providing order is expensive. Although smaller countries benefit, they cannot be forced to pay their share of the burden. This, in turn, saps the capability and will of the leading state and contributes to decline.

Others have raised serious questions about the theory of hegemonic stability. For instance, the theory is criticized for its assumption that the order created by the large state is a public good that benefits all states. In some cases, the order created by large states does not benefit others. Even when others do benefit, the large state may not be benevolent; it may merely be acting in its own interests and receiving ample rewards.⁶ The provision of order in this case would be a source of strength to the state rather than a cause of decline.

The theory is also ambiguous about the relationship between military and economic power. It dates Britain's leadership of the coalition that defeated France and created the new order at the Congress of Vienna at the beginning of the century, whereas most scholars date Britain's economic hegemony at least a half-century later. As Arthur Stein points out, "the golden age of free trade in the nineteenth century began decades after Britain's emergence as a hegemonic power. The return to protectionism started in the latter part of the nineteenth century, when Britain, despite the beginning of a decline in its relative power, was still the hegemon."⁷ While Britain enjoyed naval power on the world's peripheries, its military power in Europe was limited and had little relation to its economic policies. It was never powerful enough to impose free trade on the United States or on European countries. Although Britain embraced free trade with the repeal of the Corn Laws in 1846, its decision was unilateral and did not rest on the ability to force other major countries to cut tariffs.⁸ In what two British historians call "the imperialism of free trade,"⁹ British gunboats occasionally forced poor countries in what would today be termed the Third World to open their ports to trade. But there is a significant difference between coercing distant, less-developed countries and winning the adherence of major European rivals. Timothy McKeown makes the point that French and Prussian tariff reductions in the 1860s were triggered more by liberal ideology and domestic politics than by British pressure.¹⁰

Like Cinderella's sisters, the theorists of hegemonic stability and transition find the slipper of nineteenth-century history an uncomfortable fit. According to Robert Keohane, "that the theory of hegemonic stability is supported by only one or at most two cases casts doubt on its general validity."¹¹ If the theory of hegemonic stability and transition really boils down to a poorly based historical analogy, we must doubt its usefulness in explaining the current American situation. To understand why the analogy is misleading, we need to look more closely at the British experience.

How Strong Was Great Britain?

Between 1689 and 1815, Britain and France fought seven major wars. France was the most populous country in eighteenth-century Europe, with 21.5 million people in 1750, compared to a population of 10.5 million in the British Isles.¹² France also had the largest army, while Britain's ranked third or lower. The British navy ranked first in number of ships, but at the time of the American War of Independence, the French-led naval coalition considerably outnumbered the British navy.¹³ Even as late as 1830, the French economy was slightly larger than Britain's, with 14.8 and 14.2 percent, respectively, of Europe's total GNP.¹⁴

Britain's advantages in the eighteenth century were in its naval power, its protected island location, and its more advanced system of credit and public finance which allowed it greater leeway than France in financing its military efforts.¹⁵ As it entered the nineteenth century, Britain maintained these power resources and gained two others: a growing population (which quadrupled from 10 to 40 million) and a burgeoning industrial production. Although British and French manufacturing production were about equal in 1800, by the 1850s Britain surpassed France. Britain's GNP rose nearly 2.5 percent each year during Queen Victoria's reign. In Kennedy's words, "Britain benefited so much from the general economic and geopolitical trends of the post-1815 era that it became a different type of Power from the rest. ... By the 1860s, however, the further spread of industrialization was beginning to change the balance of world forces once again."¹⁶

Britain had a relatively easy time in the first half of the nineteenth century. From the defeat of France in 1815 until the unification of Germany in 1870, Britain benefited from a stable balance of power without the dangers of any one country dominating Europe. Moreover, despite occasional threats, there were no serious challenges to British naval supremacy. Until the 1890s, Britain was able to maintain the standard set by Foreign Secretary Lord Castlereagh in 1817 of a navy equal to the next two fleets combined.¹⁷ The empire was ruled in large part through local troops. Thus, the costs of defense averaged about 2.5 to 3 percent of GNP for much of the century, rising briefly to 6 percent during the Boer War.¹⁸ Britain also benefited from relative political stability at home during times when some of its potential rivals were torn by domestic political turmoil. The nation's liberal philosophy of free trade was not accepted by the United States and, Russia, the two largest economies in the latter half of the 1800s. And, as we have seen, Britain did not impose its trade philosophy on its continental rivals. Even so, the widespread nineteenth-century belief in a limited governmental role tended to coincide with British liberal preferences.

Despite its sources of power, Britain was not as preponderant in the nineteenth century as is implied by those who speak of *Pax Britannica*. Although it may have had the highest per-capita income (some economic historians suspect that the American level was higher), Britain ranked third (behind Russia and France) with a 14-percent share of Europe's GNP in 1830, and third (behind Russia and Germany) with a 17-percent share in 1913.¹⁹ As table 2.1 shows, Britain had the second largest number of military personnel at the end of the Napoleonic Wars and the fourth largest on the eve of World War I. With the exception of the Boer War, Britain's small volunteer army never exceeded 300,000, a quarter of which was tied down in India.²⁰

Britain's leadership in terms of share of world manufacturing production was relatively brief, from 1860 to the 1880s (see table 2.2). Its preponderance was greatest in 1880, but it was overtaken by the United States by 1890 and by Germany early in the twentieth century. However, Britain maintained its leadership in world trade throughout the nineteenth century. In fact, the United States did not surpass Britain's share of world trade until after World War II.²¹ (See table 2.3.) But share of world trade is a poor index of power. A low share may reflect a large internal

market and a low degree of dependence on the outside world, whereas a high share may represent high vulnerability. As British military planners concluded in 1901, when they debated whether to resist or appease the growing American naval strength, even if a strengthened navy could defeat the U.S. fleet, "the vast size of the internal American market and the country's relatively small dependence on foreign trade rendered it virtually immune from even the most complete naval blockade."²² Similarly, Britain's position as the world's leading exporter of capital assured an inward flow of dividends, which meant it did not have to worry about trade deficits, and gave it a nest egg of foreign assets to finance foreign purchases of war materials after 1914. But the nation's export of capital was a mixed blessing. The 8.5 percent of Britain's net national product that was invested abroad in the eight years before World War I represented savings not used for upgrading British industry. In addition, the high value of the pound hurt the competitiveness of British industry.²³

The Decline of British Power

Explaining Britain's decline has almost become an industry in itself, albeit of cottage scale.²⁴ A lengthy list of domestic causes has been adduced. As early as 1898, Henry Adams believed that "British industry is quite ruined." But he also believed that "Germany has become a mere province of Russia."²⁵ In 1900, his brother Brooks Adams wrote that since 1890, "an impression has gained ground that England is losing vitality, that the focus of energy and wealth is shifting, and that, therefore, a period of instability is pending." He blamed, in part, British lethargy and high living, and pointed to the Boer War as an indication that Britain no longer had the willingness to accept casualties in war.²⁶ (Of course, this was soon disproved by the enormous British losses in World War I.)

World War I showed Britain to be an impressive power. It not only had willing manpower but also an industry capable of being mobilized for war, overseas investments that could finance the purchase of U.S. technology and military supplies, and a navy large enough to ensure control of the Atlantic. In addition, Britain could call on the resources of its empire. Of the 8.6 million British forces in World War I, nearly a third came from overseas (though four-fifths of the expenditure was British).²⁷ By 1918, Britain had the world's largest air force and navy and the empire had reached its maximum size. In 1921, both popular and informed British opinion agreed with General Jan Smuts of South Africa that the British Empire had "emerged from the War as quite the greatest power on earth."²⁸

Yet the war, or more precisely, the thirty-year struggle with Germany, did more to hasten British decline than any other factor. Competing with Germany, rather than possessing an empire, drove up defense spending. It is perhaps too simple to say along with Woody Allen (in the movie *Zelig*) that the explanation is easy—"Britain owned the world and Germany wanted it." But if Bismarck and his successors had not unified the many German states into a single continental force after 1870 (with a population already larger than Britain's), the British era might have lasted longer. It was Germany, not the pre-1914 empire, that overstretched Britain.

Of course, the British era would not have lasted forever. Even early in the nineteenth century, Alexis de Tocqueville pointed out the enormous potential of the United States and Russia.²⁹ In 1835, Richard Cobden wrote that "our only chance of national prosperity lies in the timely remodeling of our system, so as to put it as nearly as possible upon an equality with the improved management of the Americans."³⁰ Cambridge historian Sir John Seely argued in 1883 that federation of the empire was the only way that Britain would be able to compete with Russia and the United States, which were "on an altogether different scale of magnitude." In 1879, former (and future) Prime Minister William Gladstone worried that America "can and probably will wrest from us our commercial superiority."³¹

In short, Britain's relative power was bound to decline because of a number of external factors. The spread of industrialization throughout the world was raising new economic and military competitors. The growing strength of Germany meant that Britain would no longer have a free ride on the continental balance of power. Moreover, as we saw in chapter 1, the spread of railways

meant that Britain would no longer have as much time to raise interventionary forces and to transport them to the continent. Also, the distribution of power in the regional balances of the Atlantic and Pacific was shifting because of the growing strength of the United States and Japan. By the turn of the twentieth century, British planners felt they could no longer afford a navy that dominated the Pacific and Western Hemisphere, as well as home waters. Thus, Britain signed an alliance with Japan and appeased the United States with conciliatory measures, including accession to the Panama Canal, which further enhanced American naval strength by allowing the United States to shift its fleet quickly between two oceans. Henceforth, Britain applied the traditional two-power naval standard—that is, a navy equal to the next two contenders—only to its home waters.³²

A final external cause of the decline of British power was the rise of nationalism, which helped to transform the empire from an asset to a liability. In 1914, London declared war on Germany on behalf of the entire British Empire. But long before post-World War II anti-colonial nationalism stripped away Britain's Asian and African colonies, the dominions of Canada, Australia, and New Zealand were resisting rule from London. By the time of the Chanak Crisis with Turkey in 1922, London discovered that it could not automatically count on empire support. After 1926, British military planners no longer considered the British Commonwealth a reliable basis for military plans. Such forces were at best "a possible bonus." Yet, as Correlli Barnett points out, the continued existence of the empire "would pump away from England the military resources she needed for her own war in Europe." American Lend-Lease in 1941 provided those resources, but by 1945, "British power had quietly vanished amidst the stupendous events of the Second World War."³³

There were also internal causes of the decline of British power. Among the most important were the failure to maintain the productivity of British industry, particularly in new sectors, and the nature and level of education. The two factors were related. "British governing class education was really appropriate to a moment in history that had already vanished. ... They hardly thought at all of British power in terms of industrial competitiveness, science, technology, or strategy." Britons found the imperial alternative "more attractive than the 'industrial' one because its upper class was dominated by a landowning aristocracy which set the tone for the rest."³⁴ Although Britain continued to produce entrepreneurs who responded to market incentives, these entrepreneurs focused on the staples of textiles, shipbuilding, and light industry rather than on the new science-based industries. The nation failed to invest in the latest technology in such critical new industries as chemicals, electricity, and precision engineering. "The most sophisticated sectors of the late nineteenth and early twentieth centuries depended far more on applied science. It was in exports from these that Britain was most conspicuously outclassed."³⁵ In 1913, Britain controlled two-thirds of world exports of manufactures in declining sectors but only one-fifth of exports of expanding sectors.³⁶ Until 1902, it had no public secondary school system despite public awareness of German educational superiority. Britain had only 7 universities, compared to 22 in Germany and about 700 colleges and technical schools in the United States.³⁷

As noted earlier, the increasing economic importance of overseas investment was transforming Britain into a rentier society where financial interests maintained an overvalued currency detrimental to British industry.³⁸ Overseas investment rose from 0.2 to 5.2 percent of GNP between 1870 and 1913. By 1900, 80 percent of the capital issues on the London market were for overseas investment. By 1914, Britain owned 43 percent of the world stock of investment overseas.³⁹ As Nobel Laureate Sir W. Arthur Lewis put it in 1978:

Britain was caught in a set of ideological traps. She could not lower costs by cutting wages because of the unions. . . . She could not . . . increase her propensity to export by developing or by paying export subsidies. She could not pioneer in developing new commodities because this now required a scientific base which did not accord with her humanistic snobbery. So instead she invested her savings abroad; the economy decelerated, the average level of unemployment increased, and her young people emigrated.⁴⁰

Finally, Britain had problems with power conversion. Its domestic political process did not allow the full transformation of its potential power resources into, effective influence. Aaron Friedberg

convincingly shows that the problem was not complacency—to the contrary, there was widespread concern about decline.⁴¹ At the turn of the century, "the press argued that England was behind in scientific organization, in the use of machinery, and the training of workers."⁴² But the debate was confused, with little agreement about useful measures or appropriate responses. While return to primacy was impossible after 1900, and Britain did seek out new allies after the Boer War, British elites could have done more to preserve the nation's position and to prepare for coming challenges. British conservatives believed that Britain was financially stretched to its limit and feared the economic effects of raising income taxes. They failed to invest in the forces needed to maintain global naval supremacy and disguised that fact from the public by keeping the same slogans. Thus, the British Empire became dependent on the goodwill of the new regional powers—the United States and Japan. Henceforth, Britain had to avoid embroilment with more than one first-class power in more than one region of the world at a time. Further, it did not implement conscription (as the other major European powers had done after 1871) or pay for an adequate army to help maintain the balance on the continent in the new age of rail mobilization. The 1906 plan for 120,000 troops to assist France proved woefully inadequate in 1914.⁴³

The British debate over trade was phrased in terms of polar extremes of protectionism versus free trade. Little attention was given to temporarily protecting critical sectors or to forcing reciprocity on foreign markets. Colonial Secretary Joseph Chamberlain tried to rouse his Conservative colleagues to a more coherent response, but his protectionist scheme would have made things worse. Not surprisingly, it attracted the support of the least competitive elements of British industry.⁴⁴ In any event, Chamberlain wound up splitting his party. Prime Minister Arthur Balfour's moderate suggestion of selected retaliatory tariffs to force open foreign markets was lost in the ideological cross fire over free trade, and little attention was paid to the security implications of the sectoral composition of British industry.⁴⁵

Joseph Chamberlain was no more successful in the security area. At a 1902 colonial conference, he failed to persuade the colonies to share the burden of naval costs. His plaint that "the Weary Titan staggers under the too vast orb of its fate"⁴⁶ did not pry forth new resources. Nor could Chamberlain convince his conservative colleagues that Britain's burdens were relatively light. In fact, the entire government budget was only 15 percent of GNP (contrasted with nearly 45 percent in modern Britain). And although the Boer War created a deficit from 1899 to 1903, the budget was in surplus thereafter; the national debt in 1907 was not much higher than it had been in the 1880s. A. J. P. Taylor estimates that Britain spent 3.4 percent of its national income on armaments in 1914, compared to 4.6 percent for Germany and 6.3 percent for Russia. Other estimates place Britain ahead of Germany but behind France in its military burden.⁴⁷

So why did Britain decide it could not afford to maintain naval supremacy or an adequate continental expeditionary force? In large part, it was because the adherents of the prevailing economic orthodoxy believed in the negative effects of government spending, and they particularly opposed raising income taxes. Here the analogy to modern American politics is striking. The popular belief that Britain was suffering from imperial overstretch—despite its light defense burden at 3 percent of GNP—caused it not to invest as well as it might have in the domestic and external power resources that could have slowed its decline.⁴⁸

Britain and America: Major Differences

Even if Britain's leaders had played their domestic cards perfectly, Britain still would have seen a significant decline in power in the twentieth century. A. J. P. Taylor speculates that the impressive growth of German industry would have brought Germany to the mastery of Europe if it had not been for World War I.⁴⁹ The industrialization of the United States, Russia, and Japan was bound to shrink Britain's share. Moreover, nationalism would soon erode the empire. In a sense, Britain rose to its leading position because it was on the first wave of the Industrial Revolution in a pre-nationalist era. Yet it is remarkable that such a small country could control a quarter of the world's people in the largest occidental empire since Roman times.

Such special factors in Britain's rise make skeptics wary about the fashionable analogies between Britain's decline and the current situation of the United States. There are at least four major differences in the power positions of Victorian Britain and modern America. The first is the degree of predominance during the period of alleged hegemony. As we have seen, Britain's power resources in the mid-1800s were most impressive in naval force, finance, and manufacturing production. But, as Robert Keohane points out, Britain was never as superior in productivity to the rest of the world as the United States was after 1945. And twentieth-century United States was never as dependent on foreign trade and investment as was nineteenth-century Britain.⁵⁰ Further, as Bruce Russett notes, even during its heyday, Britain was not in first place on some critical power resources, as the United States was after 1945 (see table 2.4).⁵¹ In fact, the United States .not only ranked higher on more dimensions during its "hegemony" than did Britain, but there are important differences of scale that suggest these rankings will persist longer. Britain, an island the size of a middling American state, ruled a quarter of the world. But, as we have seen, the empire quickly fell victim to nationalism and ceased to be a reliable basis for British military plans.

The second major difference between Victorian Britain and modern America is that the United States has been a single, continental-scale economy immune to nationalist disintegration since 1865. Today, American imports account for only 12 percent of GNP in contrast with the British figure of 25 percent in 1914. As table 2.4 shows, even at the peak of its power in the 1870s, Britain had only the third largest economy in the world and it fell to fourth place by 1914. In contrast, the current U.S. GNP is considerably larger than the nearest competitor states. Such differences of scale must be kept in mind when encountering theories of overstretch.

Third, for all the loose talk (and looser definitions) about an American empire, there are important differences between Britain's territorial empire and America's areas of influence. Americans have more choice about types and levels of defense commitments than did Britain. There are more degrees of freedom for all parties. American trade is not as drawn to unsophisticated markets. By 1913, two-thirds of British exports were going to semi-industrial and nonindustrial countries.⁵² Some modern historians argue that territorial empire became a net drain on Britain.⁵³ Whether NATO is considered a forward defense of U.S. borders in which Europeans provide 90 percent of the manpower, or an act of American generosity, it is hard to portray U.S. alliances constituting a similar burden, particularly since the withdrawal of U.S. troops to home bases would not save money unless the units were disbanded. Unlike Edwardian Britain, which had to leave its isolation and cast about for allies at the beginning of the twentieth century, the task for the United States as it enters the twenty-first century will be to renew and update the successful alliances with the great industrial democracies that have been so critical to the global balance of power for the past forty years.

The fourth major difference between the United States and Britain lies in the geopolitical challenges that the two nations face. Most important, Britain faced rising contenders in Germany, the United States, and Russia in 1900. The nearest of those contenders, Germany, had not only surpassed Britain in economic strength but also was becoming militarily dominant and a threat to Britain's supremacy on the European continent. America's external situation today is quite different. Its principal military adversary, the Soviet Union, is the power suffering from imperial overstretch. The Soviet Union dominates an unstable East European empire and its economy has suffered a serious deceleration of the growth that previously allowed Soviet expansion. In addition, Soviet defense is often estimated to be 15 percent of GNP, and some estimates place the costs of defense and empire at more than 20 percent of GNP—some three times higher than the relative burden on the U.S. economy.⁵⁴ The British analogy would be proper if Kaiser Wilhelm II's Germany, rather than passing Britain in economic and military strength, had been declining and searching for a breathing spell from its military build-up.

As we will see in part II, none of the other major world powers is now overtaking the United States in military and economic power. Although Western Europe has the skilled population, the GNP, and the improved Common Market coming in 1992, few observers believe that European integration will progress soon to a single government or a single security policy. Similarly, China may become a potential rival of the United States over a much longer term, but China's human and

technological infrastructure is much less developed than that of the United States or even the Soviet Union. And while many Americans believe that Japan's economic strength is a greater challenge than Soviet military power, economic competition is not a zero-sum game where one country's gain is its competitor's loss. Thus far, Japan has chosen the strategy of a trading state rather than that of a military power. There is no current analogue to the Kaiser's Germany.

The more interesting comparisons between Victorian Britain and modern America lie in the domestic domain. Here, as we see in chapter 7, there are legitimate causes for concern. Productivity growth in the American economy has fallen to an annual rate of 1.4 percent from its 2.7 percent average annual rate in the first two postwar decades. In the 1980s, net national savings fell to a new low of 2 percent, and gross investment at 17 percent of GNP was only about half of the Japanese level of 30 percent. Civilian research and development was 1.8 percent of GNP in the United States, 2.8 percent in Germany, and 2.6 percent in Japan. Foreign inventors accounted for almost half of U.S. patents in 1987, compared with one-third a decade earlier. Yet even here, one should be wary of too simple comparisons with Britain.⁵⁵ Whereas Britain fell behind in leading sectors of chemicals and electricity at the turn of the twentieth century, the United States is today one of the leaders in critical new sectors such as information processing and biotechnology. The United States attracts capital from the rest of the world whereas Britain exported it. Further, emigration drained talented Britons from their homeland, but immigration continually infuses the United States with new labor and energy.

Perhaps the most interesting domestic comparison is political. Will the United States cope with both its international commitments as the world leader and its need for domestic reforms? Here the British experience suggests caution. As we have seen, the reluctance to raise taxes to pay for leadership is an apt analogy. Aaron Friedberg shows how the political processes of Victorian democracy tended to fragment the national debate. He speculates that centralized countries may have a better chance of coordinating a response to early inklings of relative decline than do liberal democracies. On the other hand, in 1900 Britain's competitors were behind Britain in efforts to integrate national assessments.⁵⁶ Fear of decline in Kaiser Wilhelm's centralized political system contributed to the overreaction and war that ultimately deprived Germany of its possible rise to dominance in Europe. The Soviet Union under Brezhnev is a modern case of a centralized autocratic system that failed to respond quickly to warning signals. Thus, even in politics, the jury is still out, and one must be wary of overly simple analogies. With analogy stripped away, we look at the period after 1945 and the alleged hegemony of the United States in the next chapter.

Endnotes

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Chapter 8

Future Worlds and American Choices

The institutions of American democracy were not designed to maximize American power in world politics. Most Americans prefer to tolerate the institutional inefficiencies that protect personal liberties rather than to remove them for the sake of pursuing an optimal global strategy. The result is a messy policy process that reflects the Constitution's "invitation to struggle."¹ Nonetheless, the United States has pursued an effective global strategy for more than four decades after World War II. Today, however, that strategy is frayed.

The postwar strategy of the United States had two dimensions; both reflected the lessons of the 1930s. It stressed that an open international economy would prevent the retaliatory closing down of world trade that had exacerbated the Great Depression and contributed to political instability. In addition, a system of alliances among the Western democracies was needed to contain Soviet power. As George Kennan argued, it was "essential to us, as it was to Britain, that no single Continental land power should come to dominate the entire Eurasian land mass"² The dramatic growth in the world economy and the avoidance of war among the great powers, despite inefficiencies and misadventures, are testimony of the success of the American strategic vision. Containment had the effects that Kennan forecast, albeit more slowly than he expected: "the emergence of divisions within the international Communist movement, the erosion of communism and the resurgence of nationalism, and the exhaustion of communism as an ideology."³ But success bred a new problem. Today, a half century after World War II, many have begun to question the American postwar strategic vision. In the view of historian John Gaddis, "the geopolitical ice is shifting beneath our feet these days in unexpected ways."⁴ The most dramatic change has been in Soviet behavior. In particular, Mikhail Gorbachev's 1988 announcement of major unilateral cuts in conventional Soviet forces and, in 1989, the holding of the first real Soviet elections in seventy years made it more difficult for Western leaders to sustain the image of a Soviet threat that needs to be contained. In 1989, the *New York Times* pronounced the Cold War over, and George Kennan told Congress that the Soviet Union "should now be regarded as another great power, like other great powers."⁵ The Soviet Union's leading Americanologist, Giorgi Arbatov, wrote that the Western press had discovered that Gorbachev's removal of the Soviet stereotype as "the enemy" was his best secret weapon for changing the West.⁶

The decline in Soviet power and the changes in Soviet policy have highlighted other trends, including the erosion of the political division of Europe and the rise of Japanese economic power. Early in the 1980s, the Reagan administration welcomed Japan's increased power as a contribution to containment of the Soviet threat. But by the end of the decade, 56 percent of the American public believed that "economic competitors like Japan pose a greater threat to our national security than military adversaries like the Soviet Union."⁷ In this respect, the contrast between the beginning and the end of the 1980s was indeed dramatic.

Four Visions of the Future

Despite a widespread sense that the world is changing and that containment is no longer a sufficient strategy, there is little agreement on appropriate visions of the future or on strategies to deal with the new conditions they will assume. Predictions and preferences often become intertwined in the opposing visions. The four major visions of the future speak of bipolarity, multipolarity, regional blocs, and polyarchy. Although none of them is likely to provide a true picture of the future, each does provide important clues.

Bipolarity

Some analysts believe that the future will see a continuation (or restoration) of bipolarity. For conservatives, this vision rests on a mistrust of the Soviet Union and a reluctance to part from what

has been successful in the past. For others, it is based on the belief that bipolarity has proven to be a uniquely stable distribution of power in the nuclear age.⁸ Management of a balance of power with complicated nuclear deterrence systems has benefited from the simplifying calculus of bipolarity. But how well will states handle a nuclear balance if they have to consider many powers simultaneously? Whether bipolarity is the reason the world has avoided nuclear war is debatable, but even if true, it still cannot answer whether bipolarity will continue in the future.

Gorbachev's reforms in the Soviet Union may be reversible, and he could be removed from power as Khrushchev was before him. But Gorbachev's successor would not likely choose to erase completely the recent changes in the Soviet Union, for this would probably accelerate rather than stem the decline of Soviet power. As we saw in chapter 4, the Soviet lag in adapting to the third industrial revolution and in developing an information-based economy are the results of problems deeply rooted in the Soviet political economy. Any conservative resurgence that did not address these problems might temporarily restore a sense of Soviet threat among the Western democracies (unless, perhaps, the resurgence were Russophilic and inward-oriented), but it would not preserve bipolarity in the longer term. It is more likely that elements of bipolarity will continue, particularly at the military level, and that concerns will remain about the reversibility of Soviet intentions. But these elements alone are unlikely to be sufficient to restore containment as the central strategic concept for the coming decade.

Multipolarity

A number of observers assume that since the future world will not be fully bipolar, it can best be described as multipolar. Some theorists argue that the flexible shifting of alliances associated with the classical multi polar balance of power will be a new source of stability in global politics.⁹ In 1971, Richard Nixon argued that "it would be a better and safer world if we have a strong healthy United States, Europe, Soviet Union, China and Japan, each balancing the other."¹⁰ More recently, Henry Kissinger predicted the erosion of the dominance of the two superpowers in the 1990s: "You will have the U.S., Soviet Union, China, India, Europe. All of which will be simultaneously economic, political and military powers."¹¹

However, as suggested in part II, the development of a true multipolarity of five countries (much less a sixth, India), with similar levels of power resources in several categories, is not likely to occur in the coming decades. As Stanley Hoffmann observed, "old-fashioned multipolarity resulted from the distribution of coercive power, but this polycentrism results from the devaluation of coercive powers."¹² According to *The Economist*, "'multipolarity' is not only bad English, it is sloppy thinking,"¹³ covering a multitude of different visions. At one extreme, multipolarity merely refers to the diffusion of power. At the other, it refers to a number of roughly equal powers, able and willing to shift alliances frequently to maintain their equilibrium. As argued in chapter 6, some of these countries are likely to be deficient in significant power resources, so the analogy to a classical military, multipolar balance of power is highly misleading. Even if such a situation did come about, the effect of rapidly shifting alliances on nuclear stability would certainly be open to question. As one Asian leader put it, "if America stops being the anchorman, if the Japanese start feeling they have to provide for their own security, it would be a disaster. . . . The Chinese fear a Japan with nuclear bombs even more than the Russians fear a Germany with nuclear bombs."¹⁴

Regional Blocs

Another vision of multipolarity is confined to the economic area and envisages a world of three large regional trading blocs: Europe (with an African appendage), the American Hemisphere, and East Asia.¹⁵ Given the difficulties of coordinating global economic policies and the already existing tendencies toward managed trade, proponents of this vision argue that management of the world economy would be easier, as well as simpler for the United States, if negotiations were carried out among three regional blocs.

While regional trade may indeed increase, this vision abstracts too completely from the broader geopolitical context. Even if global free-trade interests in Europe no longer existed, Europeans would be unlikely to want an economic "fortress Europe" precisely because they would not wish to become a military fortress. Many Europeans want to keep an American security guarantee, and they fear that bloc protectionism might upset that situation. Moreover, Asians would not want to be confined to an Asian bloc that included Japan and excluded the United States. In the Chinese view, "the question of where Japan is heading has aroused grave concern in the international community." A Japanese century or "a Pacific era with Japan as the center" is unacceptable,¹⁶ Japanese leaders are well aware of such concerns and Japanese business does not want to be cut off from the important markets of the United States and Europe. Thus, it is unlikely that either Europe or Japan would move toward a three-bloc trading world unless protectionist policies in the United States pushed them in that direction.

Polyarchy

The fourth major vision of the future is polyarchy— "a situation of many communities, spheres of influence, hegemonic imperiums, interdependencies, [and] trans-state loyalties . . . that exhibits no clearly dominant axis of alignment and antagonism and has no central steering group or agency."¹⁷ Seyom Brown argues that this polyarchic world might be less anarchic and violent than the decline of states into a new feudalism, where different communities engage in a wide variety of conflicts within and across state borders. But political configurations would be complex and unpredictable in such a world. Conflicts would be resolved primarily on the basis of ad-hoc bargaining among combinations of groups varying from issue to issue. The most powerful political entities in a polyarchic world would be "those that are major participants in the widest variety of coalitions and joint or multilateral ventures. . . . They would have the largest supply of usable political currency—in effect promissory notes for support on one issue in return for support on another."¹⁸

The vision of polyarchy is consistent with the diffusion of power and the increase of interdependence described in chapter 6, but it goes much further in its portrait of eroded hierarchy. It overstates the decline of the nation-state as the dominant institution in world politics. However, even if the vision is accurate, it portrays a world in which the United States would still remain powerful relative to other states. The diversity and scale of U.S. power resources would ensure that the United States would be involved in more political games, and thus have more promissory notes to transfer among issues than other states.

American Interests and a New Strategy

None of these four major visions of the future is an accurate or even a desirable prediction. Yet none can be completely ruled out, for the coming decades may see elements of them all. To some extent, their evolution depends on technological and political changes beyond American control. But, as the largest and most powerful state at the end of the twentieth century, American choices will make a difference. A hostile or obstructive response to Gorbachev's initiatives might delay somewhat the erosion of bipolarity. A protectionist trade policy could enhance the prospect of a three-bloc world. Protectionism coupled with American withdrawal from its alliances could stimulate Japanese and European fears that would increase the prospects of real multipolarity. Although polyarchy rests in part on the diffusion of power to nonstate actors and small states, its implications for stability and welfare will depend heavily on whether the largest state takes a lead in organizing collective action among other states or if it simply allows a new feudalism to develop.

Not all observers agree that an American leadership position is so important. Economist David Gordon, for example, argues that the United States should heed John Maynard Keynes' advice to Britain in the 1930s to be self-sufficient. Gordon says that "we should not seek and do not need to be number one. . . . We should begin instead to work toward greater independence from the world economy, seeking self-sufficiency."¹⁹ Similarly, journalist Alan Tonelson argues that American

security and prosperity can be achieved in a "19th century-like world" with means "that fall short of today's internationalist formula of debilitating U.S. military expenditures on its allies' security."²⁰

Why, then, should Americans worry about preserving and mobilizing their power resources for leadership? The simplest answer is that today's world is no longer like that of the nineteenth century, or even the 1930s. Drawing back from current international commitments would not stop technological change, hinder the development and global extension of an information-based economy, or change the high degree of dependence on transnational actors. Terrorism, drug traffic, AIDS, global warming, and other problems will intrude. Further, there are no purely domestic solutions to such transnational problems; rather, collective international action will be a critical part of their solution. Absence of leadership by the largest country would reduce the ability of all states to deal with such problems of interdependence. Polyarchy might develop more quickly and be far less benign if the United States does not continue to develop and mobilize resources for international leadership. Managing interdependence is a major reason for investing American resources for international leadership and must be central to a new strategy. However, certain geopolitical aspects of the world at the end of the twentieth century do resemble the nineteenth century as well as the 1930s. The lessons learned from these earlier periods indicate that if the strongest state does not lead, the prospects for instability increase. The Cold War may be over in the sense that a large part of the ideological hostility has drained out of the U.S.-Soviet relationship and that the Soviet Union is becoming "just another great power." But the reduced role of ideology does not mean the end of great power politics, nor does it allow states to be indifferent to the military balance of power.

The United States will have a continuing interest in European security for several reasons. First, the continued presence of a military giant like the Soviet Union poses what might be termed an existential threat to Western Europe. Because Soviet intentions could change, the mere existence of such impressive and proximate military capabilities cannot be ignored. While European integration will eventually allow Europe to do more for its own defense, a credible American guarantee helps to balance Soviet power. Second, the question of Germany's division has thus far been managed successfully by wedding the Federal Republic firmly to Western Europe and by treating reunification as a cultural and social rather than a political issue. This strategy enjoys the support of a large majority of German (and West European) opinion. Thus, an American withdrawal that exacerbated fears of German reunification or led to German feelings of insecurity might undermine these sources of postwar stability. The effect of the two German states drawing closer will depend on the international context. The American security presence has had a reassuring effect²¹ that will be needed for a considerable time to come. In addition, the situation in Eastern Europe could become politically explosive as those economically weak nations move toward greater national assertiveness. The United States has an interest in a secure and prosperous Western Europe that gradually draws the East European economies and societies toward pluralism. The primary role may rest with the Europeans, but if the United States divorced itself from the process, it might find the future geopolitical situation far less stable.

The United States also has geopolitical interests and a major role to play in the stability of the balance of power in the Pacific. Today, the United States is the only country with both major economic and military power resources in the region. Other Asian powers desire a continued American security presence because they fear a remilitarized Japan. The domestic political consensus in Japan, however, is currently opposed to militarization of its policy. As we saw in chapter 5, the prevailing view is that Japan should not aspire to replace the United States but should work closely with it as a "vice-president" in the international system. The United States' interests in the stability of the Asian balance and in obtaining Japanese help on transnational issues are best served by continuing its alliance and security presence in the region.

Thus, a successful strategic vision for the coming decades must take into account the geopolitical continuities as well as the new dimensions of transnational interdependence discussed in chapter 6. In the geopolitical realm, it will be critical to help manage the decline of the Soviet Union's empire in Eastern Europe in a way that allows evolution without violence or disruption of the process of change in the Soviet Union itself. A successful strategy must also provide reassur-

ance of Western European security and encourage the solution to the German problem that caused three wars within seventy years. In Asia, a successful strategy must manage the impressive rise of Japanese economic power and channel it into global institutions rather than destabilizing regional military investments.

Without a stable global military balance and geopolitical framework, the processes of economic and social evolution could be disrupted. But maintaining the military balance is not sufficient. The United States will also have to invest more heavily in resources for managing transnational interdependence. In the long term of many decades, a new strategic vision may simply concentrate on managing interdependence, but its shape will depend on many unknowns as world politics evolve. The next decades are likely to be, periods of transition; a successful U.S. strategy will have the dual goals of managing the geopolitical balance of power inherited from the past, as well as the emerging interdependence that will increase in the future. Managing complex interdependence may someday replace balance of power, but a successful strategy for the transition must integrate four components: (1) restoring the domestic base of economic strength along the lines discussed in chapter 7; (2) maintaining a geopolitical balance of military power; (3) managing an open international economy that preserves the goal of global comparative advantage without sacrificing long-term domestic interests; and (4) developing a variety of multilateral regimes and institutions to organize the collective action of states for coping with the transnational agenda.

Geopolitical Balance

The two critical tasks in maintaining the balance of power will be managing the decline of the Soviet Empire and updating the democratic alliances in a post-Cold War climate. Some see the Soviet decline as proof of the success of the harsh policies of the first Reagan administration. They propose a strategy of further weakening of the Soviet Empire by continuing the Reagan Doctrine of counterintervention in the Third World, and of military expenditures that stress the Soviet economy and deprive the Soviets of their military advantages.²² Aside from whether public opinion would sustain such a policy, it entails a number of risks. It is likely to divert economic resources from domestic policies that would enhance American economic competitiveness; it promises to create friction with the Allies; and it might lead to risky behavior by the Soviets. As Austria-Hungary showed in 1914, political leaders trying to stave off decline often make fatal mistakes.

Since the Soviet Union will remain the one country that could destroy us, a better strategic vision is to pursue a normal relationship—one that can be summed up as "peaceful competition and cooperation." In the words of a joint U.S.-Soviet report, this means

regularization of the competition to constrain forces that threaten war and to channel efforts toward joint gains and cooperation. Steps can be taken to demilitarize the competition, to hold regular political discussions of regional issues, to extend confidence-building and accident-prevention measures, and to develop institutions for cooperation to meet transnational threats.²³

This vision rests on the opinion that the sources of Soviet change lie largely within the Soviet Union. The United States cannot do much to help except at the margins, but at least it can try to avoid harming the process.²⁴ Establishing an international climate that allows Soviet leaders to focus on domestic reform would be a major U.S. contribution. This does not mean subsidizing the Soviet economy, for that would reduce their incentive to move toward market forces. "Market-oriented reform in communist countries will contribute to economic pluralism and diversity which are likely (though not certain) to promote political pluralism and perhaps a gradual transformation."²⁵ Further, this does not mean that the United States would merely accept agreements that it would not want to live with if Gorbachev's reforms were reversed.

The United States should encourage the development of economic relations with the Soviet Union on normal commercial terms (outside a narrowly bounded group of technologies that could substantially cut our lead times in critical military areas). It should also encourage economic and

social contacts that advance Soviet evolution toward market rationality and political pluralization. Some worry that such changes could rescue the Soviet Union from its fate, and strengthen it so that it will again threaten the United States. But precipitous Soviet decline is even riskier. Moreover, perestroika will not succeed quickly, and if it is achieved along with increasing glasnost and democratization, the United States will face a less threatening Soviet Union than it faced in the Cold War.

The normalization of U.S.-Soviet relations will also help to diminish the threat posed by nuclear weapons. After all; the Soviet nuclear threat arises more from political hostility than from the weapons themselves (for instance, most Americans do not worry about French nuclear weapons). In the coming decades, such an approach holds more promise than alternative visions of premature nuclear abolition, which could actually increase risks in the short run. But the level of nuclear and conventional arsenals can be reduced, and steps can be taken to diminish reliance on nuclear weapons in order to reduce the chance of accident or escalation should a political crisis arise. Constant communication, restructured forces, and an emphasis on "lengthening the fuse" that connects political crises to the ultimate arsenals will be the best alternatives for the strategic relationship in the transitional decades.²⁶

A major problem in past relations between the United States and the Soviet Union has been competition in the Third World. Here the future goal should be consultations to reduce the degree of intervention. It is safe to predict that there will always be turmoil in the Third World. Communication advances and social modernization stir populations from old patterns and lead to strong pressures on weak political institutions. The best approach would allow the forces of nationalism to work for rather than against the United States. Nationalism is the most effective counter to Soviet expansionism, even though nationalist regimes are sometimes anti-American. The United States is bound to be confronted with governments that call themselves Latin American Marxists, African Socialists, or Asian Communists. With some exceptions, the United States can be relaxed about the domestic social changes that such governments proclaim, so long as the changes do not ally the countries with the Soviet Union in ways that alter the world balance of power or that contribute to disorder, terrorism, and proliferation.

The distinction between domestic and international concerns is never absolute, and Americans cannot be indifferent to gross violations of human rights abroad. Nonetheless, by keeping this broad distinction in mind, the United States will be better able to thread its way through social complexity and Third World change without backing itself into a corner that benefits the Soviet Union or complicates bilateral relationships. In some instances, the UN Security Council and UN peacekeeping forces may be diplomatic alternatives to outside intervention. In this sense, the two superpowers may develop a joint interest in reviving the postwar design for an effective Security Council, which was abandoned in the ideological climate of the Cold War.

A particularly sensitive area for U.S.-Soviet relations is Eastern Europe, which the Soviet Union occupied at the end of World War II and has since regarded as essential to its military security. The Eastern European countries are suffering from the inefficiencies of their imported economic systems and, to varying degrees, smoldering with nationalist resentment over Soviet constraints on their freedom. Explosions in Hungary in 1956 and in Czechoslovakia in 1968 were put down by Soviet troops. Increasingly, however, the Soviets have realized the greater difficulty and higher costs of controlling Eastern European economies and governments. They also realize that their regional hegemony is eroding. Soviet policy has begun to tolerate pluralism in Eastern Europe, but they worry about countries leaving the Warsaw Pact and about hostile operations near Soviet borders. The best way to handle the social evolution in Eastern Europe is for the United States to encourage those countries to negotiate various economic agreements with the European Community, and to provide assistance that moves them toward market-oriented economies. At the same time, the United States can diminish Soviet anxiety about precipitous change in the security framework in Europe through negotiations toward the reduction and restructuring of conventional forces in the context of the Conference on Security and Economic Cooperation in Europe, and through prudence in rhetoric.²⁷

Updating the alliances of the democratic industrialized nations is another critical component of a transitional strategic vision. The United States has a strong interest in maintaining the democratic alliances, but with diminished threat and rising economic friction, that task will be more difficult. Gorbachev's honey may prove a more powerful solvent of NATO unity than Andrei Gromyko's vinegar. Public opinion in Western Europe shows a diminished sense of military threat and an increased concern for other issues, such as ecological problems. Despite such greening of European politics, most Europeans still favor maintaining membership in NATO. Friction over burden-sharing, military exercises, and tactical nuclear-force modernization, however, threatens to erode that support.

Updating the NATO alliance has three dimensions. The first relates to the traditional function of deterrence. A residual concern about Soviet military power will keep NATO important to many European political leaders. For the past twenty years support for deterrence has rested on the Harmel formula (named after a former Belgian foreign minister), which couples NATO's defense with efforts to promote detente. With a reduced military threat, arms-control negotiations will be an even more crucial part of the NATO consensus and a way to help manage change on the continent. American leaders must realize that failure on this front could harm NATO far more than military modernization might improve it. Second, updating the NATO alliance calls for strengthening West European defense cooperation within NATO. As one observer put it, a West European security identity should be part of a new Harmel formula: "Moves toward such a European identity are probably the most effective new contribution which Europe can make towards strengthening the alliance."²⁸ Sharing leadership with a strengthened Europe is a means of maintaining a beneficial institutional power resource. Finally, the NATO alliance can be updated by broadening its concerns beyond the purely military. As an institution, NATO has a specific function, but the alliance of democratic nations is concerned with broader threats, including such transnational issues as ecological degradation and terrorism. Summit meetings of political leaders and meetings of parliamentarians can deal with military issues in the context of the broader agenda of public concerns in the Western democracies.

Preservation of the U.S. alliance with Japan is also an important American interest. Japanese public opinion has been less mollified by the new Soviet policies, partly because of a territorial dispute over four small Japanese islands seized by the Soviet Union at the end of the war. The Japanese might be appeased if the Soviets returned the islands, but that would not remove Japan's interest in avoiding the political problems associated with maintaining its military security without an American alliance. Congress recently passed a resolution urging Japan to spend 3 percent of its GNP on defense. The idea was that since the United States is hobbled by defense spending, Japan should be similarly hobbled.²⁹ However, rather than pressing Japan to spend more on its military forces, the United States should adopt the Japanese concept of "comprehensive security" and press Japan to contribute 2.5 percent of its GNP to that broader goal. Since Japan now devotes 1.5 percent of its GNP to its military (by NATO accounting rules), this could mean that Japan would spend at least an additional 1 percent of its GNP on the budgets of international institutions, UN peacekeeping, and economic assistance to developing countries. In return, the United States should be willing to support an increase in Japan's voice and vote in international institutions. In addition, within the military area, the United States should encourage evenly balanced joint projects in order to assure access to Japanese technology and to symbolize the beneficial interdependence in the security area.

An Open International Economy

A critical strategic choice will be between what Edward Luttwak calls "a collective prosperity strategy that would promote further trade liberalization, and a trading-bloc strategy that would 'sell' access to the U.S. market by competitive bidding, . . . mainly between East Asians and Europeans."³⁰ Maintaining an open international economy will be difficult in a world where "development states" follow neo-mercantilist practices. The success of Japan in using government protection to develop new industries has been followed by Korea and others. The United States

does not want to let foreign governments subsidize and target important industries, destroying them one by one and making the U.S. economy look like swiss cheese. At the same time, however, the United States also does not want protectionism to spread, as this tends to make an economy less efficient. Foreign competition is an effective antidote to the cozy and debilitating domestic arrangements that were called economic sclerosis in chapter 7. Non-tariff restrictions were applied to 12 percent of American imports in 1980 and rose to 21 percent in 1984; the rise is estimated to have cost American consumers between \$30 and \$50 billion. For example, economists estimate that each job saved in the U.S. automobile industry by reducing foreign competition adds \$105,000 annually to America's total expenditure on cars.³¹ An open international economy also contributes to global economic growth, which has political and security implications not only for the industrialized countries but also for the developing countries that otherwise would be inadvertently penalized by the spread of trade barriers.

The classical argument for free trade does not rest on reciprocity. When Britain abolished its corn-law tariffs in 1846, it did so unilaterally. Thus, if a country chooses to subsidize its exports, that is like a gift to the importing country's consumers. But modern voters are often more concerned about their roles as producers than as consumers. Even as consumers, they would suffer if a foreign government used subsidies to capture market share, destroy local industry, and raise prices. Moreover, certain goods, such as microchips, may have security implications or spin-off benefits for other parts of the economy, which economists call "externalities." Thus, to ignore the effect of trade on the sectoral composition of the U.S. economy is to ignore the benefits of such externalities. As noted in chapter 2, Edwardian Britain should have devoted more attention to certain new industrial sectors, but it was prevented from doing so by the dominance of classical liberal ideology.³² On the other hand, when governments pick and protect winners (or losers), they may do more poorly than markets and even worsen the situation. Moreover, every industry is likely to plead special circumstances, and national security too easily becomes the first refuge of protectionist scoundrels. Once protection is granted, it is difficult to remove and may lead to cycles of tit-for-tat retaliation.

At times, limited retaliation to the restrictive practices of other countries may be necessary to open their markets, but a general policy of managed or bilaterally balanced trade is mistaken. Concern for the effects of trade on the sectoral composition of the economy is appropriate on security grounds and in economic theory, but any action should be a move toward an ideal of increasing global comparative advantage over time." Government action is appropriate when there are major and clear security effects, or when a new industry with enormous potential spin-offs is in its infancy. Even in such instances, however, subsidy of public goods like basic or industrial process research is better than protection. If protection is granted because of political pressures for early development or adjustment of declining industries, it should be conditional on specific improvements and limited in time. Trade policies will always remain imperfect compromises in democratic nations, but a guiding vision and some basic principles can help to preserve the benefits of an open international economy.

Fortunately, trade is not the only dimension of an open international economy. Current annual global trade of roughly \$3 trillion is a small fraction of the annual financial flows across national borders. In 1987, foreign investment in the United States came to \$1.5 trillion of stocks, bonds, and other assets, up from \$107 billion in 1970. Of the 1987 total, \$262 billion represented direct investment, up from \$13 billion in 1970. Capital also flows in the other direction: American firms have invested a fifth of their capital overseas with a book value in 1987 of \$308 billion.³⁴ When the market share of American multinational corporations operating overseas is added to exports from the United States, American-owned corporations' share of world markets has changed very little since the 1950s.³⁵ A considerable fraction of international trade takes place among the subsidiaries of transnational corporations on the basis of corporate global planning. When tariff barriers are erected, direct investment by these corporations helps to alleviate the effects of protectionist measures.

Ironically, opinion polls show that the American public generally views foreign direct investment in the United States as a problem. Although direct investment helps to bring productive activity and

jobs back to the United States, 40 percent of the American public favors a ban on foreign investment.³⁶ Foreign firms employ only 3 percent of American workers (8 percent in manufacturing) and own less than 1 percent of American land, yet there is growing fear of their political influence and control.³⁷ There is little systematic evidence to support these fears.³⁸ To the contrary, direct foreign investment in factories or land provides a tangible hostage within American governmental jurisdiction, and a foreign identity is a distinct liability in the battle of lobbyists. Thus, maintaining an open attitude toward foreign investment will be an important aspect of maintaining an open economy.

Direct American investment abroad helps to transfer resources and skills to developing countries, but it is not enough alone to induce growth in the developing world. Since the long-term American interest lies in the rapid growth of Third World countries and improving the ability of their governments to deal with transnational issues, additional measures are needed. Alleviation of the debt problem that curbs growth in many developing countries is essential. Curtailment of the American budget deficit would reduce U.S. absorption of Japanese savings, which could then be available for investment in poor countries. In addition, the United States must increase its development assistance (which declined from 1981 to 1988) and keep its markets open to the exports of developing countries. As shown in chapter 6, the poverty and weakness of underdeveloped countries can return to haunt the United States in unexpected ways in an age of interdependence.

Institutions to Govern Interdependence

Maintaining an open international economy will require more attention to institutions for managing economic interdependence, the final component of the strategy for transition to interdependence. Large governments are losing their ability to control private actors that work easily across national borders. The recovery of governmental power, while never complete, can be enhanced by coordinated action among governments. To develop such coordination, the United States will have to invest more heavily in a variety of multilateral institutions than it has in the past decade.

During the 1980s, the Americans rightly concluded that American leadership had to be more assertive but wrongly concluded that leadership meant acting unilaterally. According to *The Economist*, the Reagan administration misread history: "unilateralism was not the way America did business with its allies in its most powerful days in the 1950s. That was when the United States was most involved in multilateral institutions like the World Bank/and the IMF."³⁹ But more important than the Reagan administration's initial resistance to international policy coordination and institution-building was its return to more traditional policies in the face of reality. A world in which Mexico or Brazil might default on massive debts to U.S. banks proved too risky to America's financial health. Financial stability required the intervention of the IMF, whose resources the administration, in a shift of policy, then persuaded Congress to increase. In another shift, when the Reagan administration thought through the security implications of the spread of nuclear weapons, it moved to maintain the international nonproliferation regime. Similarly, when the Iran-Iraq War raised the prospect that the Persian Gulf might be closed, administration planners became more interested in the emergency coordination role of the International Energy Agency (IEA) in Paris. Likewise, AIDS increased American interest in the World Health Organization in Geneva.

The grudging acceptance of international institutions illustrates the impossibility of following a strategy of global unilateralism to guide U.S. foreign policy in an era of interdependence. Even officials who expect little from international institutions have discovered their value in achieving American purposes. Self-interest in an interdependent world, rather than a desire to improve the world or an ideology of collectivism, accounts for this discovery. Global unilateralism may lead to occasional foreign-policy triumphs, but it is an inadequate answer to the host of problems that can be addressed only through international cooperation.

As a great power with a stake in world order, the United States has a strong interest in developing and supporting international regimes; that is, the sets of rules and institutions that govern areas of interdependence. Such regimes vary greatly in their scope and membership,

dealing with issues ranging from monetary issues, international trade, and management of natural resources to cooperation against terrorism, control of armaments, environmental pollution, and the management of particular geographic areas.⁴⁰ In recent decades, for example, a number of these regimes have served U.S. interests by helping to inhibit the spread of nuclear weapons, limiting trade protectionism, and organizing the rescheduling of loans to less-developed countries. The existence of an international regime that discourages proliferation of nuclear weapons has greatly aided American policy in this area and has made the world a safer place. The Non-Proliferation Treaty. (NPT), opened for signature in 1968, and the UN International Atomic Energy Agency (IAEA), created in 1957, are part of the reason that nuclear weapons have spread so slowly, to less than one-third the number of countries predicted by President John Kennedy in 1963. During the last decade, The General Agreement on Tariffs and Trade (GATT) has not kept liberalism in trade from weakening under the pressures of economic distress and rapid changes in comparative advantage. But reflections on what happened in the 1920s and 1930s suggest that without this essentially liberal regime, trade protectionism might well be spiraling out of control.

However, not all international institutions contribute effectively to the management of collective problems. Some rules enjoy less support than others and some organizations are ineffective. Certain international organizations have degenerated into large unwieldy theaters for irresponsible voting blocs. In such instances, a smaller group of governments may need to withdraw or work around the fossilized institutions. But those that do work well help governments in four major ways. First, they facilitate burden-sharing. Governments often will contribute to a common objective only if others do the same, and states find it harder to evade their obligations when a great power can point to clear rules and procedures. International regimes establish a set of standards that can be applied to all states, large or small. Second, they provide information to governments. Shared information is essential for effective action, particularly on issues that cross national boundaries easily, such as controlling the spread of communicable diseases, allocating telecommunications frequencies, and limiting pollution of the atmosphere and oceans. Information-sharing also encourages cooperation on other issues by governments that might otherwise act alone. Important agreements may result when information reveals substantial shared interests. International regimes make other governments' policies more predictable, and therefore more reliable. They also can provide information indirectly; for example, by giving government officials access to each other's policy-making processes through negotiations and personal contacts, by which they can anticipate more confidently their partners' reactions to hypothetical future events.

The third benefit of international regimes is that they facilitate diplomacy by helping great powers keep multiple and varied interests from getting in each other's way. As interdependence links issues, countries become more likely to trip over their own feet. The United States discovered more than fifty years ago that reciprocal trade agreements with one country could harm trade with many others; it became impossible to deal effectively with each issue except in a framework of rules (institutionalized in unconditional most-favored-nation treatment), within which particular negotiations could be carried on. Likewise, when the United States unilaterally proclaimed its decision to exercise jurisdiction over fishing and offshore oil activities near U.S. coasts in 1945, other countries made an escalating series of contradictory demands for control of a wide variety of ocean resources. Well-designed regimes introduce some order into such situations by clustering issues under sets of rules.

Finally, as discussed in chapter 7, international rules and institutions introduce greater discipline into U.S. foreign policy. International rules help reinforce continuity and a long-term focus, in contrast to what typically prevails in democratic politics. They also set limits on constituency pressure in Congress. For example, when domestic vintners sought to exclude European wines, U.S. wheat farmers, worried about retaliation, were able to defeat this move in part by invoking the rules of GATT.

In short, international regimes will be a crucial component of the American strategic vision -for the transition to interdependence. Under such circumstances, the United States must rely on institutional power to organize collective actions to deal with interdependence.

Certainly, not all international rules and institutions are in the American interest. Some may be beyond repair. In some cases, the United States may want to establish smaller groups with higher standards. Some trading partners may be willing to agree to a greater reduction of nontariff barriers than all members of the GATT could agree upon. Sorting out U.S. interests as they relate to each international organization will require more attention in the future.

Importantly, the dichotomy between unilateral and multilateral action is not as sharp as it first appears. The United States is bound to follow mixed strategies in this transitional period. Some multilateral arrangements will be ad hoc or will involve only a few countries. And, though it may seem paradoxical, unilateral action can sometimes play a useful role in building international institutions, as exercising leadership often calls for someone to act first. Nonetheless, any such unilateral action must be structured so that it does not prevent others from joining, and it must be consistent with long-term U.S. goals for international organizations.

A special form of unilateral action is military force. Judiciously used or threatened, military force can play a critical role in maintaining international order. For instance, the knowledge that great powers can, at least in principle, assert their right of passage through contested waters is a useful background to American bargaining over the law of the sea. Indiscriminate use of force, however, can prove too costly in relation to the particular interests pursued; trying to seize oil fields in response to an oil crisis could cause an economic as well as a political crisis. But the U.S. naval force was a welcome stabilizing presence in the Persian Gulf when the Iran-Iraq War threatened to spill over. In other cases, such as environmental pollution and international monetary issues, force is largely irrelevant, and diplomatic hints of force may generate resentment that interferes with American objectives. In instances related to terrorism, drugs, or weapons proliferation, force may play an essential role. A key consideration is always that force should be coupled with legitimacy. If a military action is widely regarded at home and abroad as justifiable, the cost of employing force can be reduced. In the coming transitional decades, as Robert Tucker argues, "force [will remain] an indispensable instrument of order and . . . circumstances may require its unilateral employment."⁴¹ But unilateral initiative does not mean lack of consultation or absence of concern about the opinion of others.

American leadership remains essential to the future world order. In a study of the economic summit meetings held since 1975, Robert Putnam and Nicholas Bayne discovered that "when American leadership within the summit context has faltered, no other country has been able to pick up the slack." But, they warn, the United States was unable to impose cooperation unless it acted in concert with at least one other major partner.⁴²

Conclusions

Americans are rightly concerned about the changing position of the United States in world politics. However, to describe the problem as American decline is misleading. This view directs attention away from the real causes that lie in long-term changes in world politics and suggests remedies that would weaken rather than strengthen America's standing. Withdrawal from international commitments, for example, would reduce U.S. influence without necessarily strengthening the domestic economy. Indeed, given recent experience, what the United States might save in international expenditure would probably increase domestic consumption rather than investment.

Although the 1990s will require Americans to cope with the debts of the previous decade, the world's wealthiest nation should still be able to pay for both its international commitments and its domestic investments. Americans can afford both social security and international security. America is rich but acts poor. In real terms, GNP is more than twice what it was in 1960, but Americans today spend much less of their GNP on international leadership. The prevailing view is "we can't afford it" despite the fact that U.S. taxes are a smaller percent of GNP than in other OECD nations. This suggests a problem of domestic political leadership in power conversion rather than long-term economic decline. The ultimate irony would be for Americans to perceive these short-term problems as indicators of long-term decline and respond by cutting themselves off from

the sources of their international influence. This need not be the case if Americans react appropriately to global changes.

As has happened many times in the past, the mix of resources that produce international power is changing. What may be unprecedented is that the cycle of hegemonic conflict with its attendant world wars may not repeat itself. The United States today retains more traditional hard power resources than any other country. It also has the soft ideological and institutional resources to retain its leading place in the new domains of transnational interdependence. In this sense, the situation for the United States at the end of the twentieth century is quite different from that of Britain at the century's beginning. Thus, loose historical analogies and falsely deterministic political theories are worse than merely academic; they may divert Americans from addressing the true nature of their situation. The problem for U.S. power in the twenty-first century, will not be new challengers for hegemony but the new challenges of transnational interdependence.

The United States has both the traditional hard power resources and the new soft power resources to meet the challenges of transnational interdependence. The critical question is whether it will have the political leadership and strategic vision to convert these power resources into real influence in a transitional period of world politics. The implications for stability in the nuclear era are immense. A strategy for managing the transition to complex interdependence over the next decades will require the United States to invest its resources in the maintenance of the geopolitical balance, in an open attitude to the rest of the world, in the development of new international institutions, and in major reforms to restore the domestic sources of U.S. strength. The twin dangers that Americans face are complacency about the domestic agenda and an unwillingness to invest in order to maintain confidence in their capacity for international leadership. Neither is warranted. The United States remains the largest and richest power with the greatest capacity to shape the future. And in a democracy, the choices are the people's.

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