



The Bologna Center Journal of International Affairs

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1989-1999 EUROPE TEN YEARS ON

Articles Include

**The Lost Hour of Europe: An Autopsy of the
Failed Yugoslav Experiment**

Towards a European Identity?

**Rebuilding the German Past: The Politics of Public
Architecture in Berlin**

Special Feature

BIRTH OF THE EURO

David Calleo

Jeffrey Gedmin Anette Konar

and

Romano Prodi

Book Review

**"There are no Happy Reformers" by Mikhail Gorbachev
and Zdenek Mlynar**

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Introduction

It gives me great pleasure to welcome you to the second issue of the Bologna Center Journal of International Affairs. Building on the success of last year's inaugural issue, we are again bringing you the best of SAIS student talent, as well as contributions from leading commentators and actors in the field of international relations.

In this year, the tenth since the end of the Cold War and the last before the new Millennium, it seems appropriate to take stock of where we are — to look backwards as well as forwards; to attempt, in short, to take the pulse of Europe.

I remember vividly the moment, ten years ago, when I heard over the BBC World Service the roars of the crowd as the Berlin Wall came crashing down. Even — or perhaps especially — without the benefit of television pictures, the instant was unforgettable. But, despite the claims of Fukuyama and others, what I was witnessing along with the rest of the world was not the end of history, but rather the start of a new and more complex story. The initial sensation was, for most, akin to that described two hundred years previously by Wordsworth: "bliss was it in that dawn to be alive". There have certainly been extraordinary — and extraordinarily positive — developments in the subsequent decade, culminating, perhaps, in the launch against considerable odds of the Euro — symbol of European integration.

But the new day that seemed to be breaking has been clouded by events which none of us thought that we could see in our lifetime — in particular the horrors of ethnic cleansing and communal warfare in the Balkans. Alongside near miracles wrought in transition states along Europe's eastern frontier, we have also seen Russia's virtual collapse. The Great Bear turned out to be toothless and moth-eaten to an extent that no one had guessed prior to 1989 — and the danger that it poses now to the states of Western Europe comes less from its strength than from its weakness. Meanwhile, NATO, established to combat the Eastern Bloc threat, has taken on a new — and to some dangerously — expanded role: and is, as I write, engaged in an unprecedented, and uniquely hazardous, war in Kosovo. War and peace, therefore, are hardly questions that have been resolved by the collapse of Soviet Communism.

The issues that this year's contributors address are varied, but all revolve around the manifold ways in which Europe has tried — with varying degrees of success — to come to terms with the massive changes that have occurred since 1989. Some tackle new problems, while others take a fresh look at the old ghosts that continue to haunt us on the verge of the 21st century.

To open the special feature on *The Birth of the Euro* we are honoured to present Romano Prodi, who came to the Bologna Center to give one of his last speeches prior to his appointment to the Presidency of the European Commission. Appositely, his theme was the Euro, and in the lecture and the questions that followed, he roamed widely over the broader role that the Euro will play in the further development of Europe, as well as giving some intriguing hints about his vision for the future of the Commission.

Professor David Calleo sketches some of the major implications of EMU for Europe, and argues that a strong EU is both desirable and necessary if the European states are to thrive in the next Millennium. Jeffrey Gedmin, from his perspective at the American Enterprise Institute, takes a very different line. He wants to give the wake-up call to America: that the further integration of Europe, symbolised by the Euro, is not necessarily in line with US interests. It is a cogently argued call — and a reminder that the community of nations clustered around the North Atlantic rim are not necessarily bound to be partners under all circumstances.

The machinery of the Euro comes under the scrutiny of Anette Konar, who takes on the thorny issue of the independence of the European Central Bank. Faced with a steadily weakening Euro, and a government in Berlin that — even after the departure of Oskar Lafontaine — has very different priorities than its predecessor, the position of the ECB will be one of the most hotly contested topics on the European political scene for some considerable time. This article provides a clear overview of the complexities of the problem, and considerable food for Euro-thought.

Beyond those articles that deal specifically with the new currency, other contributions range more widely, asking, in short, whether we are truly dealing with *A New Europe*. Richard Nield's pithy paper examines one of the great unknowns of the whole project of integration - the idea of European citizenship, a precursor to a truly European identity. Ironically, perhaps, for an English author, he concludes that such a goal is both feasible and altogether necessary for further progress towards European unity.

Richard Pinkham's contribution to the debate is a particularly welcome one, since he casts a careful eye over the issue of airline deregulation: a key aspect in the creation of a single European market. He highlights both the — limited — progress that has been made, and the obstacles that still lie ahead. The concepts that he touches upon apply more widely than to the air-travel sector alone, since they are representative of the difficulties of creating a single market out of the many complexities of Europe's national systems. But as befits a former SAIS student, now himself working for an airline, he is not content simply to describe the situation, but instead seeks to prescribe possible solutions to the problems facing the market for air travel.

After economics and political philosophy, we arrive at other, darker, aspects of the Europe of 1999. Professor Michael Stürmer, a leading commentator on contemporary German politics, and a former advisor to Chancellor Kohl, fires a warning shot across the bows of those who advocate further NATO expansion. NATO may have already admitted Poland, Hungary and the Czech Republic, but Stürmer argues that to go further is to risk antagonising Russia unduly. As such, his contribution feeds into the debate over the precise role and legitimacy of the Atlantic Alliance when, for the first time, it is engaged in offensive warfare.

War is the theme, too, of Christina Balis' powerful exploration of the failure of the West in Yugoslavia. The outlines of the story are tragically well-known, but she paints a vivid picture of what one commentator bitterly called the "triumph of the lack of will." Her piece, therefore, provides the necessary shading to any picture of the state of contemporary Europe by showing what forces were unleashed by the collapse of Communism. Moreover, she gives a careful analysis of the lessons that we could learn from the disaster — lessons which are particularly apposite since the century is ending as it began, with bloodshed in the Balkans.

Completing the features section of this year's Journal, I am particularly pleased to present two contributions on Germany. Frédéric Neumann-Schiedenewind's work on the political economy of Germany displays a profound mastery of the subject, and a neat sense of irony in highlighting the ways in which the engine of Europe is currently misfiring. Jennifer Göppert, on the other hand, looks at the present — and the future — of Berlin, heart of modern German history and focus of the Cold War in Europe. Her examination of the architecture of the refurbished Reichstag shows us that the issues that confront modern democracies can be examined and resolved not just by politics or by economics, but also by the 'softer' arts.

Professor Robert English's review of *There are no Happy Reformers*, by Mikhail Gorbachev and Zdenek Mlynar, rounds off our work, by taking us back to 1989, and to the fate of the Soviet Union's last premier. English's essay draws on this fascinating new source of material on the architect — and chief victim — of *perestroika* to provide fresh insights into Gorbachev's political philosophy and raise more questions about the real role that he played in the ending of the Cold War and the collapse of the Soviet Union.

Taken together, therefore, these articles present a snapshot both of current research at the Bologna Center, and of the state of this most complicated of continents as we enter a new chapter in its history.

Alexander Ruck Keene
Editor-in-Chief

Birth of the Euro



The Age of the Euro

Romano Prodi

Italy and the Euro

I want to say just a few words concerning the three years that it took for Italy to join the Euro. Of course, my point of view is somewhat biased, because I led the battle for Italy. But I want to show you just how important and difficult the battle was, and how many chances we had to take when we decided to enter the process on September 6, 1996. I personally wrote a letter to President Chirac and Chancellor Kohl, stating that Italy was ready to enter. At that point, we failed to meet all five of the Maastricht criteria, and so their reaction was somewhat mixed. However, they could not tell us to stay out, because I also told them that we could attain all the criteria except that of the debt requirement. This latter was, in fact, out of the reach not only of Italy but also of other countries such as Belgium. I have to say that the initial reaction on the part of the other European leaders was very warm indeed. Although President Chirac did not respond directly to my letter, he stated, in an interview a few days later, that we could not have Europe without Italy.

This message was what we needed to demonstrate to Italian public opinion that the country could succeed in reaching its goal. We decided to tackle the problem step by step, by taking on issues such as taxation and by reducing public expenditure. The other vital factor was the lowering of interest rates: when you have an enormous outstanding debt such as the one that I inherited when I took over as Prime Minister — a debt that was 123% of Italian GNP — the interest costs alone are enormous. So the decision to halve the interest rates meant that, within three years, we halved our debt. Moreover, the decision may have helped our plan to put our public finances in order, because it gave the message that we would enter the Euro.

Together with this strategy of restraining our expenditure, we also launched a special tax. When I decided to impose the so-called 'Euro-tax', I was asked if I needed a psychiatrist, because it was difficult for outsiders to understand why I would call a tax a 'Euro-tax' if I was trying to sell the idea of Europe in Italy. However, what you have to understand is that Italian public opinion was undivided. Everybody was caught up in the project, from Milan to Catania, from peasants to public servants working in the world of finance. The people of Italy were all convinced that this was good for the country. They saw it as a political challenge, and so it was in many ways quite easy to wage the battle for public opinion... We could, therefore, celebrate our entry into the EMU on May 2, 1998.

The Hon. Romano Prodi was Prime Minister of Italy from 1996-1998. This article is adapted from a lecture and discussion that took place at the Bologna Center on February 22, 1999, shortly before M. Prodi's appointment to the Presidency of the European Commission. Original transcription by Jennifer Finney. The Bologna Center Eurolecture series is sponsored by BankAustria.

The Euro and the tasks facing Europe

This currency, the Euro, was born strong, but in a period of difficulty. Compared to the United States, the European economy is lazy: it is sleeping, but not in depression. We shall grow this year a little under two percent — but two percent growth with an unemployment rate of over ten percent is not good enough. Unemployment will not decrease, or it will decrease at a negligible rate. In my opinion, the Euro is a precondition for the fight against unemployment, but only a precondition. We might be able to develop a common economic policy, but this would be difficult, because the message during the first years of the Euro cannot be a message of easy expenditure...

We have to find ways to fight unemployment and to increase the rate of growth. There are many proposals as to how best to do this, such as that of Jacques Delors, who suggests borrowing in order to invest in infrastructure or Europe-wide research and development. Above all, though, we need a harmonisation in terms of political economy. When it comes to taxation, it is difficult to have a common policy when countries are so divergent; none of us thought, though, that member countries were identical, so we have started the large task of harmonising the different policies among countries. However, this will not be easy, since [labour] mobility in Europe is much less than in the US. Moreover, the US, which has a common currency, also has a large federal budget that can be used to compensate for different rates of development; the European federal budget, in contrast, is very low — only 1.28% of European GNP. We will, therefore, have to create a common policy without the main instrument we need for such a policy to work...

A common philosophy for Europe

We will unify Europe, but we need some sort of culture shock to make this society act differently: to make it more prone to innovation, and awake to the joy of being a world leader. This is not the way that Europe feels at the moment... We have this fantastic idea, and this fantastic continent supported by the pillars of, at first, German and Mediterranean cultures, and now the Anglo-Saxon and Slavic cultures too. With the Euro we have put an end to nation-states without even thinking about it. States are all based on two pillars: currency and the army. For Europe, the currency question is now over — and we are all debating the future of European armies.

But we have no thinkers, no philosophers, no political scientists or visionaries to give a picture of this new unity. This is the real problem, because it is so much more important than the political issues discussed earlier... This spirit of fermentation has much to do with the problem of integrating with others within the framework of a European citizenship. We can see how our difficulties with Turkey and with the Balkans stem from our habit of launching individual policies without consultation; then we have to ask in the United States to solve the problem. It is not that we lack the weapons to carry out the task: instead, we lack the desire, and it is because we have not yet built a common philosophy that we lack the strength of the United States. At the moment, therefore, we see a Europe where nation states have come to an end, but it is up to you to create a supra-national Europe in their place.

Questions from students at the Bologna Center

Jose Gijon, Spain: What would you do if you became head of the European Commission?

Prodi: For any President, the first task is to reform the institutions of the Commission. This was my experience in two and a half years as head of the Italian government. Although there were very good relations between the heads of state, the decision-making process — in particular the system of unanimous votes — meant in practical terms that you had to lower your ambitions because the train must run at the speed of the slowest wagon. So the first thing that we need to do is tackle the problem of the weighting of votes and the system of majority voting... Second, there is the problem of relations between the Parliament and the Commission, and between the Commission and the fifteen heads of state. Step by step, the powers of the Commission must increase, but we will need a lot of time for this to occur. Third, we need to deal with the question of the number of Commissioners. With the enlargement of the Union, we cannot have the same number [per country] as we have now, so maybe countries will have to pass from having two each to having one. We have many options, but we must solve this problem.

Finally, there is the budget. This is a difficult problem, because, although there is a common agreement not to increase its size, there are also differences between countries as to their share of the burden. This has a lot to do with the Common Agricultural Policy, and it is a nightmare because, in both political and psychological terms, agriculture remains crucial even though it is numerically less and less important. It will be impossible to enlarge the EU with this system of agricultural support. The costs are simply too high when you realize that Poland has more farmers than Germany, France and Italy put together...

I wish to deal with constitutional problems, as they are fundamental: if we solve these it will be easy to solve all the organisational problems that we have. Above all, though, I want to stress the spirit and the soul of Europe because otherwise we will not solve these difficult problems.

Jason Simpson, United Kingdom: How will nation-states and the Commission provide the education and common language necessary to act as a basis for success in the information revolution?

Prodi: Education is the foundation of the soul of Europe that I was talking about, but achieving a common language is an almost impossible problem — because, for instance, even though English is gaining power step by step, it would be politically impossible to make it *the* European language. But the cultural mix will be difficult to attain without such a common language. The problem will perhaps be eased by the new instrument of communication, the Internet, but in any case we will have to deal with this issue for many, many generations... I do not know how soon change will come, but we should note the contribution of these flocks of students going around Europe. Even if they do not actually study anything, they are very helpful for European unification! I should like to create a few European universities, in which we could gather together not only a

lot of European students, but also a lot of non-European students. We can create unity, and have an interface with people from outside Europe.

When I studied at the London School of Economics, I had as classmates many people who went on to become leaders of South American, African and Asian states. But when I visit my colleagues in Asia and South America, the new generation of statesmen have all studied in the United States of America. So, if we want to create cultural unity we must have something that unifies the world — something to which all cultures will come. My priority here would therefore be to create some kind of institution akin to the Bologna, the Oxford or the Cambridge of the Middle Ages, to play the role that is now being performed by American universities. To unify Europe we will need quite a few of these institutions that can gather people from across the world...

Anthony DiPaola, United States: You spoke about creating a European culture. In light of the changes that need to be made to meet the economic challenges facing Europe, do you think that European culture will become more 'American' before becoming more 'European'?

Prodi: This is *the* question: but I cannot give you an answer. If you had asked me this seven years ago, my answer would have been very simple — that European 'continental capitalism' is essentially comparable to the American version. But the events of the last six to seven years have put into our minds the notion of some sort of American superiority. I am not convinced that there is a definite answer to your question because 'European capitalism' is not an invention. It goes back to institutions at the heart of our history and, in my opinion, if we simply translate American philosophy into a European context without digesting it, I do not think that the performance of the European economy will improve. It is a different story, because the minds of the people are different... In my opinion we will reach a point where we look again at our history and shall find a 'European' idea of capitalism, based on market rules, but with some strong European differences. I am not convinced that we will adopt a different philosophy without trying to promote some sort of new 'European' culture... I know that the American philosophy is dominant at the moment, but when I studied this problem ten years ago, the idea was that the strength of European capitalism would dominate the world and so I am not sure that this American victory is definite.

Maria Luisa Panzica la Manna, Italy: Do you think that enlargement of the EU to the East could shift attention from the problems of the Mediterranean?

Prodi: The Mediterranean area was my first preoccupation, and it remains my preoccupation. But we have created expectations [regarding enlargement], and in politics you have to deliver; and I am very worried. I can see how cold some new politicians are towards the idea of enlargement, but while we can delay the process considerably, we cannot tell the countries concerned that they will be let into the EU and then cheat them, when we have already told them this. But the terms of entry will be difficult: it will increase our land area by fifty percent and our population by twenty percent — but all the countries that have applied for enlargement when put together have a lower income than

Benelux. But Italy has been helped by Europe, and I think that we have to do the same thing for others now.

Of course, you are right to be worried about the Mediterranean area. Europe is not sufficiently aware of this problem: we are flooded by immigrants from the area, yet we have no cultural institutions, no centre for Islamic studies, no organisation to deepen our reciprocal knowledge. This is a disaster for continental Europe. But we have to look in both directions, and I think that we have the financial capabilities to do both. Speaking as an Italian, I cannot see any possibility of strong development in the south of Italy without having strong economies on the other side of the Mediterranean, so I hope that there will be deeper attention paid to the problems of Tunisia, Algeria, Egypt and Turkey. But I do not disagree with enlargement to the East: I think that we have to deliver on the promises that we made and engage for enlargement...

Laura Landi, Italy: Are European institutions strong enough to handle the problems involved if and when some of the major European governments turn to the right again in future elections?

Prodi: I do not want to tell you that there is no difference between right and left, but I can tell you that, in reality, the consensus that emerges in meetings of the EU stems more from mutual interests than ideas of right and left. If there are changes in governments, there will of course be changes in policy, but if you examine the ways in which majorities have been reached so far, they were almost never reached along lines of political allegiance, but rather by considering national interests. So shifts will probably be more noticeable *within* parties, when the power of the centre increases again. If we look back in history, we can see how things have changed since 1996, when the majority of governments were right-wing. I was the first person to lead a major country in a political shift, then there was Britain, then France, and finally Germany. The rhetoric may have changed, in particular with more stress on fighting unemployment, but in terms of actual decisions, I do not find any real changes. When I analyse what is really happening, I do not find a difference between right and left, but a more subtle one between different types of interests...

Jody Barrett, United States: A lot of political scientists have pointed out that there are two conflicting tendencies at work today: one being the move towards integration — of which the EU is great example. The other is a closing off of society in an identity crisis that is causing a new backlash in the form of nationalism and ethnic tensions. How do you think that these concepts are playing out in terms of the EU?

Prodi: To take your point about integration: I am from Emilia, I am fat, therefore I am, by definition, an optimist! But I am an optimist because we have a degree of integration despite the tensions that exist... I may be biased but if you take all the interests that we have together, we have globalisation, and not just in terms of financial markets. But we have a few difficult spots in the world that will bring a lot of trouble. Unluckily for Italy they are all close to our borders, in particular the Balkans and the Mediterranean areas, areas for which we really need a common policy. As you know, I am a very firm believer in Europe, but I think that we cannot have any progress towards world peace

without complete and strong agreement between the United States and Europe. We are obliged to move together, to act together, because otherwise we will not have the integration to which you refer...

Europe's Best Bet

David P. Calleo

Since EMU there has been a certain logic and dynamism in European affairs that challenges all countries — each in its own way — to reconsider basic national strategies. This is no less true of Britain and Italy than of France and Germany. Since EMU, of course, there have been more dramatic events in Yugoslavia. It is too early to assess their effect on overall European trends. I suspect, however, that they will reinforce rather than reverse the momentum gained from EMU.

Europe's Economic and Monetary Union is a very great achievement. It represents a remarkable exercise of political will among the continental political classes generally. Not only in France and Germany, but also in Italy and Spain. Too much is now at stake to let the project fail. But making it succeed will require a major advance in Europe's capacity for collective decision-making. European politicians will have to figure out how to establish a common monetary policy for Europe, both in the context of a general economic program, as well as an exchange rate policy.

The new ECB will obviously play a critical role. But with over 12% unemployment, Europe's politicians will not be willing to abdicate their responsibilities to a group of technocrats. This is not to say they want to return to the bad old days of inflationary policies in the 1970s. They would like, I suspect, an ECB rather more like our Federal Reserve than the Bundesbank. Many believe having a common currency, together with a major reserve currency, will give them much greater freedom for moderately expansive policies. Moreover, having a common monetary policy will require some mechanism for substantial fiscal transfers, particularly if the EU enlarges its membership.

How will the EU structure itself to make such decisions? For usual Gaullist reasons, that structure is unlikely to become "federal", at least in the usual American sense of the term. Instead, it will remain a hybrid — a Europe of States with numerous federal elements. "Variable geometry" will doubtless be much in use. But, in itself, variable geometry does not solve the problem of how decisions are made within the inner circle — or how they are enforced on the outer circle.

Because EMU will bring constitutional issues to the fore, enlargement itself will probably grow more problematic. Insofar as it occurs, it will require some regime of tutelage. States of West Europe will be reluctant to endow the prospective new members — with their radically different economies — with real decision-making power over the

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EU. As a result, the EU will become much less of a corporatist institution than it has been, where everyone participates and decisions take a long time, and where small countries have a disproportionate influence. Instead, the EU will become a more imperial structure, where big states call the tune.

Present trends probably also favor Common Foreign and Security Policy (CFSP). There would seem to be three or four reasons: Europe's security problems are different from what they were in the Cold War, when there was a big and highly organized enemy — a nuclear superpower — confronting the West along a very clear frontier. Such a situation called for and legitimated a heavy American presence — among Europeans and Americans both. Now, by contrast, the "new" security problems — terrorism, drugs, gangsterism, and ethnic guerilla warfare — are increasingly internal to Europe. In many respects, they are police problems rather than the traditional military problems of the Cold War. This "internalization" of security, will, of course, grow insofar as the EU enlarges to the East and Southeast.

It is increasingly uncomfortable that the management of such internal problems be directed by an outside power, however friendly. It is uncomfortable for Americans as well as Europeans. Without the Soviet threat, the question of the legitimacy of American leadership in Europe is bound to grow more and more insistent. Moreover, the Americans may well not be very good at managing these new kinds of internal problems. Evolution of American domestic politics does not give much encouragement for those who expect its leadership abroad to be highly professional, constant and oriented toward long-term perspectives.

Europeans tend to be highly critical of the American role in Bosnia, offended by an outsized American tendency for self-congratulation. No doubt, Europeans will eventually find much to criticize about the American role in Kosovo, where American perspectives seem very different from European. The Clinton administration tends to see Kosovo as an opportunity for demonstrating its capacity for leadership of a Western coalition in defense of Wilsonian principles around the globe. Europeans are America's faithful helpers. Europeans see Yugoslavia as a European problem, and as a chance to create a broad pan-European union that will enforce basic human rights and a general regime oriented toward finding common interests. In other words, the best European governments want their Community writ large across Europe. They want American help in Europe, but are not inclined to accept American dictation. They are wary of being enlisted in a global crusade under fitful American direction.

In any event, as the EU becomes an economic and financial superpower, it is an anomaly that it should remain a military dependency of the US — its principal ally but also its principal competitor. And as the future of Europe's defense industries — and with them, European high technology in general — becomes more and more a concern, CFSP will seem more and more attractive.

Of course, a reviving Russian hostility will encourage European eagerness to keep the Americans around. So should continuing instability in the Middle East, where Americans are much better than Europeans at dealing militarily with the Saddam Husseins of this world. But the reverse side, is that to Europeans, Americans increasingly seem to be part of their problems with Russia. Exuberant American military involvement in Russia's Near Abroad is, for example, a constant irritant. Unless Russia goes completely off the rails domestically, Europeans are likely to believe increasingly that their security

is better served by diplomatic engagement — finding a *modus vivendi* with Russia — than by emphasizing an abrasive military preponderance. Similarly in the Middle East, American diplomacy's inability to engage constructively with either Iran or Iraq, or to broker a basic deal among Palestinians, Israelis and their neighbors, is likely to encourage Europeans to distance themselves from that diplomacy. To exaggerate a bit, Europeans will tend to see the United States less as a solution to their security problems than as a major cause of them.

Having policies of their own will require the Europeans to have more serious collective military capabilities. To hedge their bets, they would prefer to have these capabilities within NATO. But not within a NATO that, in effect, requires European initiatives automatically to come under American command. If the United States blocks restructuring of NATO to permit independent European initiatives, Europeans will probably be driven, in due time, to more radical arrangements.

The European Union is not one country, of course, but many. These trends obviously have a different impact on each member, challenging it intellectually and culturally. Among the big countries, Britain remains the most challenged in its European vocation. Joining the European train means rethinking Britain's basic geopolitical strategy since WWI. That strategy has been to ensure the commanding presence of the United States in European affairs, with the belief that Britain's future is best served by remaining America's special friend, a policy greatly favored by the Cold War, but not so favored now. At bottom, it is a strategy based on the assumption that Europe cannot be stabilized internally, and therefore requires an external stabilizer — the United States. Reconsidering that assumption requires some fundamental retooling of the British geopolitical imagination. It requires altering some perspectives on the Continent.

But even among the twin "engines" of European integration — Germany and France, these trends pose basic problems. Germany has found a new, respectable postwar identity as a civilian power. Unlike Britain and France, Germany lacks nuclear weapons. Indeed, in some respects it lacks an independent military, making it difficult to participate meaningfully in collective European defense outside NATO. Changing this requires not only a change of forces and structures, but of mentality. It is part of a complex process whereby Germany recognizes itself once more as a great power, but avoids making the same mistakes as the last time it thought of itself as a great power. Germany's long-term strategy has been to cultivate its special relationship with France — and with the EU in general. But Germany has a new temptation — or rather an old one — its special relation with eastern Europe.

France, too, faces a basic challenge in Europe's new situation. The trends toward greater European diplomatic and military cooperation are those which the French have presumably predicted and wanted — at least since de Gaulle's time. Getting what you wish for is not always a happy experience, however. France has been very skillful all these years in having its cake and eating it too. Moving forward in Europe will presumably require more binding commitments and reduce lower France's margin for maneuver.

Indeed, present trends reflected and reinforced in EMU pressure all European countries to make a more definitive bet on their European Union. Very probably that Union is the best bet for Europe in the 21st century. And in a global system that seems inexorably fated to grow more plural, a strong European Union is probably a good outcome for America and the rest of the world as well.

Behind the Euro. Is Western Europe Turning Anti-American?

Jeffrey Gedmin

The year began with talk of dreams becoming reality. The finance ministers were “visibly moved,” said press reports. The Italian was “proud” to be able to call himself “a European citizen.” The Portuguese called it a page “that can never be turned back, while others beamed about the “new political start.” There was a time when “empires were created through the sound of marching armies,” but today, waxed French finance minister Dominique Strauss-Kahn, “tens and tens of millions give themselves a currency ... to unite their destinies.” It was New Year's in Brussels and the Euro was being launched.

Meanwhile the American press prognosticated that European monetary union would simply be about economics: interest rates and global capital markets, trading volumes and transaction costs. “It’s the most audacious gamble in the history of currency,” said *The New York Times*. Everyone wonders whether the Euro can challenge the dollar as the world’s leading reserve currency. Or how the Euro will make it easier — and cheaper — for tourists. But there’s more to the story. And the implications for American foreign policy are far-reaching.

The economic rationale for the Euro, in fact, has always been weak. When 11 of the European Union’s 15 members joined monetary union on January 1, they embarked on what probably constitutes the greatest voluntary transfer of sovereignty in history. But no one was particularly dissatisfied with the existence of national currencies. No one believed that Europe’s single market required a common currency. And no one agrees today on precisely what the new single currency will accomplish economically. The divergence of views is striking. British Prime Minister Tony Blair says the Euro will make Europe “more efficient and less subsidized, more open and less heavily regulated.” Across the Channel, though, Strauss-Kahn calls the Euro a “tool in the service of a better society, of a social model, that is to say the European model. ..based on greater solidarity” than in the US — code words for shielding inefficiencies and protecting against “unfair” competition and what Mr. Strauss-Kahn calls “the free market illusion.” There’s little question why Ten Downing Street sticks to a wait-and-see approach on joining Euroland.

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But from the outset, Europe's campaign for a single currency has been first and foremost about politics, both high and low. The French sought a price for acquiescing to German unification in 1990. The Germans would give up their beloved Deutschmark and the French would delude themselves into thinking they would run the new Europe. Not for the first time did French blackmail convene with German guilt.

But the notion of the single currency was born of high politics. Ideas for its creation predate Germany's unification and the Maastricht Treaty. The EU has pursued a monetary merger since 1969. The first architect of a detailed plan was Luxembourgger Pierre Werner, who saw his vision undermined by the oil shocks of the early 1970s. But European integration, it was said, was like riding a bicycle. You keep pedaling or you fall off. Had not the European Community (EC) fostered such extraordinary multilateral cooperation after the Second World War? Was not, and against all odds, the historic Franco-German enmity being replaced with new amity? Even in the 1960s and 1970s, it was primarily political objectives, then, that drove considerations about a single currency. Monetary union, Germany's minister of economics Karl Schiller would say, was merely a "prelude" to political union.

The EC's own plans for unity had their antecedents. French foreign minister Aristide Briand had proposed a United States of Europe to the League of Nations in the 1920s. And Briand had his precursors. The idea of seeing the continent "pacified under one sovereign," writes Luigi Barzini, had always been "proposed as a cure-all by great princes, emperors, statesmen, thinkers, poets, and starry-eyed idealists." Victor Hugo, Novalis, Dante, Kant, Metternich, Briand — they all had their dreams.

It was German Chancellor Helmut Kohl, however, who would translate the dream into reality. Kohl's thesis was in sync with the historical ethos. After Germany's unification, the creation of a single currency would lead to a political unity that would once and for all lock in European cooperation and lock out the demons of malign nationalism, blood rivalry, and lethal fragmentation. "The courageous march toward political union," wrote Nobel Prize winner and MIT professor Franco Modigliani this winter, "may end forever the deleterious nationalism that has ravaged the continent for centuries."

Clearly, the idea was not new. What was new, though, were the conditions in Europe. Entirely new. And now the traditional argument driving the process seemed especially strange and contradictory. The EC, now the EU, was in no danger of coming apart. On the contrary. Strong, liberal, democratic nation-states existed throughout Western Europe. And, without having ceded inordinate amounts of sovereignty and democratic control to supranational institutions, they were doing just fine. Multilateralism had become the altar at which all Europeans worshipped. Within the EU itself, the serious battles of the day were now over how to regulate the size of condoms or the curvatures of bananas. At the same time, the new democracies of central and eastern Europe needed a clear hand. But Europe's transitional economies were left outside the EU's door.

There was always "Europe" as the answer to the German Question. But who really thought that the German Question had not been solved? Heinrich Heine had once famously written: "*Denk ich an Deutschland in der Nacht, dann bin ich um den Schlaf gebracht!*" ("When I think of Germany in the night, I'm robbed of my sleep!") When Helmut Kohl gets up in the night, mused *The Economist* a couple of years ago, the only thing the then German Chancellor is likely to think about invading is the fridge. For Gerhard Schroeder, it's probably opinion polls and focus group summaries that the new

German leader devours when nocturnal *Wanderlust* strikes. Germans themselves had argued convincingly at the time of unification that the roots of democracy were deep and secure. There was no serious argument to be had. Today's boring Germans, as Josef Joffe puts it, are interested in "exports, not expansion."

Still, if in Kohl's view an economically and politically united Europe was an antidote to Europe's darker inclinations, others had been developing a thoroughly different, modern perspective. There's been much talk of NATO needing a new mission ("out-of-area" or "out-of-business," as Senator Lugar first put it). Yet few have considered that the European Community, its original objectives having been similarly achieved, would be searching for its own modernized *raison-d'être*. An economically and politically united Europe, the Clinton administration has casually and carelessly assumed, will be a stronger partner to advance our common goals within the transatlantic community and around the world. One wonders.

Historically, Europe had always sought unity as a means to stabilize itself internally. Now, western European officialdom is looking primarily abroad and views the Euro — and a politically unified EU — as the best vehicle to advance Europe's interests in the world. Fair enough. But what are those interests? And are they compatible with Western, transatlantic objectives?

Countering US Hegemony

For clues, start with the French, who lament America as the "hyperpower" and explicitly promote a united Europe as a global counterweight to US influence. Says Prime Minister Jospin: "The United States often behaves in a unilateral way and has difficulties in taking on the role to which it aspires, that of organizer of the international community." President Chirac speaks of a new "collective sovereignty" to check American power and sees the EU and the UN as playing crucial roles. If you can't beat them, outflank them, goes the logic. French Foreign Minister Védrine advocates accommodationist policies toward Iraq, noting that "the French position is that "of all Europeans...the Arab world, the position of the Russians, the Chinese". Wherever one looks - be it Iraq, Kosovo, Iran, Russia or Cyprus - the French are happy to play spoiler. France's Interior Minister, Jean Pierre Cheuvenement, puts the matter succinctly: "We have our interests, and the Americans have theirs."

French mischief — and outright anti-Americanism — are nothing new, to be sure. What is new, though, are the changed conditions of the post-Cold War world. Absent the Soviet threat, America's allies across western Europe are feeling less dependent on the United States. Generational change is underway. And western Europeans have been busy enthusiastically developing their European institutions — with minimal American participation or consultation. What's also new is that it's not only the French who are gnashing their teeth about American hegemony these days. Former German Chancellor, Helmut Schmidt has boasted that the arrival of the Euro means that the US "can no longer call all the shots" in the world. Leading German commentators cheer that Europe will no longer be "seconding US global policies." In fact, "unilateral [read: US] definitions of global behavior will not be acceptable anymore," declares Karsten Voigt, a senior foreign policy expert from Germany's Social Democratic Party. The left-of-center coloration of 13 of 15 current EU governments adds accent to the discourse. But the new opposition

posture has a distinctly nonpartisan flavor. "When America calls for solidarity in the name of 'Western interests,'" says a former advisor to Helmut Kohl, "we increasingly ask whether these are simply US interests cloaked in Alliance rhetoric." German and French leaders alike these days insist that the United Nations assume greater power and influence and hold alone the "indisputable legal basis" for the use of force in international affairs. It may be legal nonsense, but support for the idea in western Europe grows and the intent is to check America's room for maneuver. Its effect, if the idea takes hold, will be to shatter what's left of the West.

It is understandable that, after decades of Cold War dependency, western Europeans of all political stripes have tired of always being the junior partner. It's also clear that the Clinton administration's mishandling of Alliance issues has not helped matters. Secretary of State Albright's schizophrenic dance between overly deferential multilateralism and unilateral bullying, without clarifying American priorities or intentions, destroys precious capital and credibility. But even when the Clinton team is gone, western Europeans will be telling America more often, and more directly, that they want to feel like grown ups. And apart from asserting their new feelings of independence, there's an agenda behind the posturing. What do the allies want?

European vs. Anglo-Saxon Economics

Within Europe, the agenda is to defend the culture of the welfare state. That's why free market spirits like Margaret Thatcher and Vaclav Klaus are persona non grata on the continent. That's why in Germany Gerhard Schroeder, to the lament of industry and entrepreneurs, says "yes" to modernization, but "no" to an end of his country's consensual, minimalist and lowest-common-denominator approach to reform. It's important not to forget that Schroeder inherited the approach from Kohl's Christian Democrats, who count as the country's second Social Democratic party. Don't expect the departure of Germany's leftist Finance Minister Oskar Lafontaine to change things radically. Germany's Free Democrats, the country's only true pro-market party, poll in the single digits and have little influence. In fact, mainstream Germans from the time the Maastricht Treaty was negotiated have talked about monetary union as a defense against Anglo-Saxon economics. And so it is. Schroeder, Blair, and Clinton may congratulate themselves on their common Third Way. But partisan self-congratulation aside, the fact remains that a gulf still separates economic culture on the continent from the way Brits or Americans do business. The reality is, "Germans hate competition," says a senior German diplomat unsympathetic to the state of affairs.

It's curious that Tony Blair thinks that the Euro will be a key to liberalization. This, while EU officials push for "harmonization" of taxes as one more way to eliminate an important competitive advantage the UK has enjoyed in the past in attracting jobs and capital. The EU's direction is clear. "Most EU governments," as economist Irwin Stelzer correctly observes, "given a choice of America's labor market system (flexible labor costs and relatively full employment) or the alternative (relatively high labor costs and relatively high unemployment), quite consciously choose the latter." Like it or not, Mr. Blair's UK will be forced off the fence if it decides to adopt the Euro.

So be it. Europeans are entitled to their choices. But the choices will have implications for the US. First, the single currency will mean more, not less, protectionism

against American goods and services if Western Europeans continue to resist painful reforms. Second, it will mean more, not less, discrimination toward the central and eastern Europeans who continue to languish outside the EU's door. Finally, the Euro will also lead to greater assertion of EU regulatory positions on the global stage. At the Davos World Economic Forum this year, America found itself isolated because its allies had so effectively orchestrated their calls for expanding regulations at the international level.

European vs. Atlantic Security

If the divergent views on economic policy are already becoming apparent, the foreign policy differences between the US and its allies are likely to be even more far reaching in their implication. Beyond the common currency, western Europeans want a Common Foreign and Security Policy. Americans laugh. But Americans laughed once about the Euro, too. And while the Euro is virtually certain to entail a great deal of muddling through, it is also certain to be pronounced a success by its champions. The campaign for political union will proceed. And western Europeans will look for additional ways to assert themselves.

At the summit between French and British leaders in the French port of St. Malo in December, there was talk of Europeans working "within or outside NATO" in the future. The tone and level of interest taken by America's British allies in the so-called European Defense and Security Identity was striking and unprecedented, with all the predictable footnotes about how greater European independence will not undermine the transatlantic link. But it's appropriate for Americans to ask whether the special relationship with Britain is to fade as the UK seeks amalgamation with a European federal state. And when the British and French issue a communiqué affirming that "the European Union needs to be in a position to play its full role on the international stage," it's also appropriate for Americans to ask what exactly Europeans envisage this role to be — and how it will relate to NATO. There have been those on the Left and the Right who cheer the direction and who argue for a neat division of labor in the alliance. The formula is simple according to Senator Kay Bailey Hutchinson: "Europe leads with the United States as backup on the European continent; the United States leads with European and other allies as back up in the rest of the world." The idea is deeply flawed, however, for a number of reasons.

It's important for Americans to understand, especially those who advocate European "leadership," that such leadership may become mired in intra-European petty rivalry; and that transatlantic cooperation may at times suffer, as common European positions are defined in opposition to US policies and preferences. Some of the results are clear in the drawn out phases of conflict resolution that have occupied the Atlantic Alliance in the Balkans already in this decade.

It's also important for Americans to understand that when it comes to the details on issues of broad strategic concern, it's wrong to assume that America's European partners automatically share our goals. Are the allies ready to play "back up" to the US in the world?

The US policy of containing Iran, for example, has faltered in large part because America's allies have been unwilling to go along. And now, despite mixed and contradictory signals from Teheran over the past year, Gerhard Schroeder calmly tells a German interviewer that "the time is ripe for an improvement in the traditionally good" relations

between Germany and Iran. So much for consultation among allies. And so much for common Western analysis and response.

It was never easy during the Cold War. But the value of the transatlantic relationship endures. American isolationists, global unilateralists, and limp multilateralists will revel in the developments and the possibility for disengagement from Europe will become real. Still, the game is not over. There's a need to restore American credibility and articulate a vision for a common strategic culture. It's time to revitalize NATO in word and in deed. The Poles, Hungarians, and Czechs who join NATO this spring can contribute significantly. It's also time for a transatlantic free trade agreement and new Atlantic political institutions that complement NATO, strengthen ties to Western Europe, and reach out to a range of new and potential allies in Central and Eastern European. There are still those among our current allies who insist that the new ideology of Europe can be compatible with Atlanticism and common Western objectives. It's time to join forces with them and put the thesis to the test.

The Political Economy of European Central Bank Independence

Anette Konar

Introduction

On January 1, 1999, eleven of the European Union's fifteen member states entered into an Economic and Monetary Union, (EMU). With EMU, member states have one single currency, the Euro, and one common monetary policy determined by the European Central Bank. Such a union has been on the European political agenda for many years, but it has not been easy to achieve.

There are some obvious advantages to an economic and monetary union. With a single currency, there are no exchange rates to consider, transaction costs will be reduced, competition will increase, and trade will be enhanced. This, it is hoped, will foster growth in Europe and help European companies to become more competitive in international markets. The single currency, the Euro, will be a world class currency, giving more stability to the international monetary system. Thus, in the current period of international crisis, the success of the Euro is important not only for Europe, but also for the rest of the world. European growth and prosperity is a necessity if the global economy is to prosper.

However, the creation of the EMU is not only an economic adventure; an enormous amount of political capital has been invested in the project. For most of the nineties, participation in EMU has ranked first among the economic and foreign policy priorities of most European governments. Euro hopefuls have taken often drastic measures to conform with the Maastricht criteria. Taxes have been raised, budgets cut, monetary policies tightened and painful structural reforms justified as a "sacrifice for Maastricht." Thus, the success of EMU is very much a political goal.

However, the EMU structure is likely to lead to conflict between supranational institutions and national governments. The European Central Bank, (ECB), is the governing body of EMU and the still-existing national central banks. The ECB is the Union's ultimate monetary authority and is to be independent. This means that national governments cannot influence the ECB when it sets monetary policy for member states. So why should this be a problem? Monetary union does not presume political union. Member states' fiscal policies need not be coordinated, but will continue to be set by

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national governments according to national needs and priorities. In other words, monetary policy lies in the hands of a supranational institution, the ECB, whereas fiscal policy will still be controlled by individual national governments. This division may seem clear enough, but it is not as simple as it initially appears.

Monetary policy refers to the choices made by the central bank regarding the money supply. Through controlling the money supply, the central bank also controls interest rates, which in turn influence the level of economic activity. For example, when the money supply increases, interest rates decrease and this may lead to inflationary pressures. The central bank's main goal is to control inflation, and this it does by regulating the money supply and interest rates.

Fiscal policy entails the choices made by the government regarding levels of taxation and government spending. When analysing any change in fiscal or monetary policy, it is important to keep in mind that these policies may not be independent of each other. A change in one can influence the other. This interdependence may alter the impact of a policy change. Therefore, the division of responsibilities between the ECB and national central banks (NCBs) and governments has the potential to lead to both economic and political disagreements.

This paper will look at the consequences of division of powers in economic policy setting, and at how these are affected by the fact that the ECB is independent. It aims to give an indication of the different political and economic effects stemming from ECB independence. However, it will keep in mind that it is very hard to draw any precise conclusions since no similar events have taken place in the past and thus there are no observations to draw from.

The paper will start by giving an account of the debate over Central Bank independence and the difficulties involved in defining this concept. It will then examine whether or not the ECB is truly independent. Finally, it will describe the different effects an independent ECB may have on national central banks, governments, the economy in the Euro area and political problems such as credibility, accountability and democracy.

1: Defining Independence

No clear definition of central bank independence exists in the literature today. Independence is hard to measure since no single indicator exists that can properly take into account all relevant aspects. However, while the precise meanings attributed to the term vary from author to author, they all share more or less the same characteristics.

A comprehensive definition is given by Eijfinger and De Haan¹ and refers to a relationship between the central bank and the government that is comparable to that between the judiciary and the government. Although the judiciary can rule only on the basis of laws enacted by the legislator, it may act freely within the framework provided by such laws, and therefore enjoys a degree of independence.

In order for a central bank to be independent, there are, according to this definition, three areas in which government influence must be either excluded or drastically curtailed: independence over personnel matters, financial independence and independence with respect to policy.

Personnel independence refers to the influence the government has in central bank appointment procedures. It is not completely feasible to exclude government influence in

appointments to a public institution as important as the central bank. However, the level of this influence may differ. It can be discerned by criteria such as the presence of government representatives on the central bank board, as well as government influence over appointment procedures, the duration of terms of office, and powers of dismissal. Sufficiently long terms of office are an important element for protecting central bank autonomy. Short terms of office could make the directorate of the bank more vulnerable to opportunistic political pressures because of the uncertainty of reappointment. In addition, short terms increase the likelihood that every government will appoint a new central banker, and this increases volatility in the conduct of monetary policy.²

Financial independence refers to the ability of the government to finance government expenditure either directly or indirectly through central bank credits. Direct access to central bank credits implies that monetary policy is subordinate to fiscal policy. Indirect access may result if the central bank is cashier to the government or if it handles the management of government debt. In either case, the central bank does not have financial independence.

Policy independence refers to the manoeuvring room given to the central bank in the formulation and execution of monetary policy. In this case, it is useful to distinguish between independence with respect to *goals* and independence with respect to *instruments*. With respect to goals, two related issues are important; the scope the central bank has to exercise its own discretion and the presence or absence of monetary stability as the central bank's primary goal. If the central bank has been assigned various goals, such as low inflation and low unemployment, it has been accorded the greatest possible scope for discretion. In this case, the central bank is independent with respect to goals, because it is free to set the final aims of monetary policy. It may, for example, decide that price stability is less important than output stability and act accordingly. If, however, it is given either general or specific objectives with respect to price stability the central bank's discretionary powers will be restricted.

To achieve its goals, a central bank must also wield effective policy instruments. A bank is independent with respect to these policy instruments if it is free to choose the means by which to achieve its goals. It is not independent if it requires government approval to use policy instruments. (If the central bank is obliged to finance budget deficits, it also lacks instrumental independence. In this regard, financial independence and instrumental independence are related. Instrumental independence is, however, much broader because it also includes the power to determine interest rates.) It is possible for a central bank to have no independence with respect to goals (which are then set by the government), but to be fully independent to choose the methods by which to achieve such goals; in other words to have independence with respect to instruments.

2: Is the ECB independent?

The independence of the ECB is codified in several articles of the Statute of the European System of Central Banks³ and of the European Central Bank (hereinafter the Statute) and in the Maastricht Treaty (hereinafter the Treaty). The Statute is contained in a protocol to the Treaty and thus has constitutional value. This means that they can be changed only by a modification of the Treaty, unanimously agreed and ratified by all Member States. Article 107 of the Treaty reads:

When exercising the powers and carrying out the tasks and duties conferred upon them by this Treaty and the Statute of the ESCB, neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Community institutions or bodies, from any government of a Member State or from any other body. The Community institutions and bodies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the ECB or of the national central banks in the performance of their tasks.

Besides this explicit statement of ECB independence, it can be inferred from several other articles in the Treaty and the Statute. The Statute is contained in the Treaty's chapter on monetary policy which is separate from the chapter on economic policy. In the latter chapter, Article 102a states the general principle that member states shall conduct their economic policies according to the objectives of the Community, as defined in Article 2 of the Treaty. However, the ECB does not have to obey this general principle for two reasons: first, its regulations are not contained in the rules on economic policy, so monetary policy is regarded as partially distinct from economic policy; second, its own support for the objectives of the Community is codified in Article 105, where the condition of no conflict with the objective of price stability is explicitly stated.

Several additional safeguards of the ECB's independence exist. Article 106(2) states that the ECB has legal personality. This means that the ECB shall enjoy in each of the member states the most extensive legal capacity accorded to legal persons under its law, and it may, in particular, acquire or dispose of movable and immovable property and may be a party to legal proceedings. Article 107 states that neither the ECB, nor any NCB, nor any member of their decision-making bodies can seek or accept instructions from the Community, or any national or local government, and that, at the same time, the Community, national and local governments undertake to respect the principle not to influence the ECB or NCBs.

Thus it is clear that from a legal standpoint the ECB is independent when setting monetary policy for member states. But is it independent in practice? To provide an answer to this question the different components of central bank independence suggested by Eijffinger and De Haan will be considered.

Regarding the independence of personnel Eijffinger and De Haan looked at appointment procedures, terms of office, and possibilities of dismissing the central bank executive board. The ECB is made up of an executive board and a governing council. The governing council consists of the members of the executive board and the governors of NCBs (Article 10.1 of the Statute). The executive board consists of the president of the ECB, a vice-president and four other members (Article 11.1). Its members are recommended by the council, following consultation with the European Parliament and the governing council, and their appointment is confirmed by the agreement of members states' governments (Article 11.2). The terms of employment for the executive board are decided by the governing council (Article 11.3) and the members can only be dismissed by the Court of Justice (Article 11.4). The term of office for the president of the ECB is eight years. The eight-year term is longer than that of NCB presidents in most member states

and should be sufficiently long to assure policy stability. Thus, it seems, on paper at least, that the ECB is truly independent in personnel matters.

But in reality, some member states have more say than others. When electing the first ECB President, the debate was little more than a political struggle between France and Germany, each of whom wanted “their” candidate to get the job. Germany backed the Dutchman Wim Duisenberg despite France’s objection. The French President, Jacques Chirac, then threatened to turn the appointment into a controversial struggle until Duisenberg said that he would step down in 2002, halfway through his eight-year term, to pave the way for the Frenchman Jean-Claude Trichet. However, after the ECB officially opened on June 1, 1998, Duisenberg told the Dutch newspaper NRC Handelsblad that there was no deal: “If I want to stay eight years, I will stay eight years.”⁴ It remains to be seen if he will be able to do so without a serious political battle.

Regarding financial independence, the criterion outlined by Eijffinger and De Haan is whether or not the government can finance government expenditure either directly or indirectly through central bank credits. Article 21.1 of the Statute states that:

In accordance with Article 104 of this Treaty, overdrafts or any other type of credit facility with the ECB or with the national central banks in favour of Community institutions or bodies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States **shall be prohibited**, as shall the purchase directly from them by the ECB or national central banks of debt instruments.

Furthermore, Article 104b of the Treaty prevents the Community or any member state from bailing out any other member state with a deficit. Thus, the ECB enjoys full financial independence.

The final type of independence mentioned by Eijffinger and De Haan, is that of policy independence, that is whether or not the central bank is free to determine which goals to pursue and what instruments it can use to pursue these goals. The overall objective of the ECB as set out in the Maastricht Treaty is to maintain price stability. The Governing Council is to formulate policy and the Executive Board is to implement it (Article 12.1 of the Statute). Since the main objective is already established in the Treaty, the ECB does not have full policy independence. Having price stability as the main objective for monetary policy generally means announcing a planned path for the price level and then adjusting the money supply when the actual price level deviates from the target. Therefore, in practice, the ECB does not seem to have much scope for choosing its instruments but, as this is not regulated anywhere, the ECB has formal independence when it comes to choosing its instruments.

As a general conclusion it would seem that the ECB is independent, at least on paper. However, its independence will probably not be truly tested until economic circumstances force the ECB to make unpopular decisions. It will be then, if the ECB is able to withstand political pressure to change its policy from the Community and individual member states, that it could be concluded that the ECB has true practical independence.

3: Why is independence desirable?

It is often argued that a high level of central bank independence, coupled with an explicit mandate that the bank aim for price stability, is an important institutional device for maintaining low and stable inflation. Empirical studies show that, while an independent central bank is neither a sufficient nor a necessary condition for price stability, a country with an independent central bank will, *ceteris paribus*, have a lower rate of inflation than a country where politicians steer the central bank's policy.³ Researchers have also found that there is no relationship between central bank independence and real economic activity. In particular, central bank independence is not correlated with average unemployment, the volatility of unemployment, the average growth of GDP, or the volatility of real GDP. Thus, it seems as though central bank independence offers countries the benefit of lower inflation without any apparent costs.⁴ Because of these findings, many countries have rewritten their laws in order to give their central banks greater independence.

Moreover, having an independent central bank is said to stabilise monetary policy and having a stable monetary policy aimed at low inflation is considered to be an important condition for sustainable economic growth. Most empirical studies, however, show that central bank independence does not enhance economic growth or employment. Also, there is no proof that countries with relatively independent central banks have lower costs of disinflation than those with more dependent central banks. Indeed, most studies suggest that central bank independence is associated with higher disinflation costs.⁵

Hence, central bank independence is not necessarily beneficial, but because of the difficulties in measuring its effects, and indeed, in measuring independence itself, it is hard to draw any solid conclusions. The events in an economy that can be observed and measured are the results of the interaction of many different factors and it is hard to say which factor made the difference. These difficulties notwithstanding, this paper will now go on to describe some of the likely effects of ECB independence.

4: Effects on National Governments

4.1: POLICY COORDINATION

The ECB is responsible for monetary policy, but responsibility for fiscal policy still lies in the hands of national governments. The EMU does not presume a political union, so fiscal policies of member states need not be coordinated. For instance, common decisions on overall taxation levels or on the balance of taxation, such as that between direct and indirect taxation, or between capital and labour, are not required. Instead, these will continue to be set according to national needs and priorities, in line with the principle of subsidiarity. It will also remain the responsibility of governments to keep budgets in check.

Governments did not actually control monetary policy before joining the EMU, but the degree of independence of the NCB varied between member states, and member states also had more direct control over their NCB, through setting its policy rules and goals. Now, all member states must follow the monetary dictates of a supranational institution, the ECB.

One effect of handing over monetary policy to the ECB is that it will be more difficult for governments to "keep an eye on" the economy. Pre-Euro economic policy meant monitoring trade balances, the balance of payments and the foreign exchange and interest rate markets. Governments thus received constant feedback on key indicators affecting national economic performance and could react accordingly. Most of these indicators have now disappeared on a national level even if they remain on the Euro-wide level. If fiscal and economic policies were coordinated among the Member States, things would be easier, but this has not yet happened.⁹

Another, and probably more important, effect is that governments can no longer use the tool of budget expansion, i.e. creating income and employment opportunities through increased government spending, which may imply an increased money supply and higher inflation, in order to alleviate domestic economic difficulties. This method is criticised by those who believe that Europe's unemployment is largely structural, and that therefore governments should make structural changes, such as changes in labour laws and social benefit systems, to make a long term difference to unemployment rates, rather than solving their problems through increased spending.

However, it is important to notice that over the last few years leftist parties and coalitions have achieved parliamentary majorities throughout Europe, and these political ideologies are usually in favour of using monetary policy as a short-term solution for immediate social problems. Left-wing governments traditionally worry much less about inflationary pressures than they do about unemployment statistics, and they think that central banks should focus on output and jobs instead of inflation.¹⁰ The leaders of these new European governments, particularly Germany's short-lived finance minister, Oskar Lafontaine, have vociferously demanded an accommodating monetary policy. The Germans even went so far as to threaten disregarding the three percent budget deficit limit of EMU. The ECB responded negatively and tough negotiations reportedly ensued, apparently resulting in an agreement to expand monetary policy while maintaining unchanged fiscal policies.¹¹ This outcome could, in one sense, be interpreted as a triumph for the ECB which was able to maintain its independence. However, in another, it could be seen as a failure, that is, if negotiations actually did take place and compromises were made. Most importantly, it is necessary to realise that differences in political conviction may well lead to the ECB being set on a collision course with politicians in member states.

Since the birth of the ECB, European governments have made several statements and recommendations, some of which have bordered on the line of orders, as to how they think the ECB should manage the Community's monetary policy. This is most certainly an attack on the ECB's independence and goes against member states' Treaty obligations to respect the independence of the ECB. So far the ECB has responded negatively to all suggestions and even stated that discussions with national governments are not possible. The ECB has to be firm in order to establish once and for all the independence which is so important for the success of its monetary policy. However, there is a risk that when appropriate government suggestions are made the ECB may not consider them just to prove its independence.

Many experts have expressed their doubts concerning the possibility of combining a centralised monetary policy with independently decided national budgets.¹² One step toward coordinated fiscal policies was taken with the Stability and Growth Pact which gave some fiscal powers to the European Council. This pact is meant to guarantee

budgetary discipline amongst members of the Euro-zone by using a system of multilateral surveillance and sanctions if convergence targets are not met. A punitive set of rules will put pressure on member states to avoid excessive deficits or to take measures to correct them quickly if they do occur. It is hoped that these mechanisms will encourage sustainable convergence of national economies, leading to lower interest rates and stronger economic growth.

But the fact remains that while the ECB is responsible for monetary policy, fiscal policies, as well as other macroeconomic policies, are conducted at a national level. This creates a serious risk of conflict between governments and the ECB. These conflicts will most likely arise when economic conditions diverge within the Euro area. Inevitably, the difficulties in coordinating different national policies with the monetary policy of the ECB will create tensions and disagreement.¹² Of course, the same thing may happen within a nation between the government and the NCB, but the intensity of the conflict is likely to be greater in Euroland because national governments bear political responsibility for deteriorating economic conditions whereas the ECB will not be so straightforwardly accountable.

According to some observers, in the event of economic instability, the fact that the ECB does not control all macroeconomic policies may have serious consequences, possibly turning the Euro into a weak currency. If the Euro is a weak currency, then all the benefits it is meant to bring to member states, such as increased competition, enhanced trade, and lower unemployment, will be lost. This will certainly lead to discontent among member states. Therefore, these observers say, the EMU cannot survive without becoming a political union.¹³

4.2: PUBLIC SUPPORT

If powerful sectors in society are displeased with the monetary policy decisions of a national central bank, they have considerable powers of counter-pressure. They can, for example, put pressure on the government, which normally has some reserve powers and last resort ability to over-ride the central bank. More generally, a national central bank cannot disregard public opinion in its own country. But with an international central bank, the ECB, and in the absence of an integrated international political authority, the monetary authority is more remote and the possibilities of intolerable strains arising concomitantly greater. Conflicts will inevitably arise and yet the system does not contain a mechanism by which they can be resolved. As long as ultimate political responsibilities remain with national governments they will be under a compulsion to protect their citizens from what might be considered unreasonable hardships imposed by a remote caucus of bankers. However, if they try to use fiscal policy for this purpose, they might well have difficulties in borrowing the necessary money, because European capital market financiers might consider their deficits to be excessive. In such a situation there might be no acceptable way out and EMU might well be regarded as the problem. Thus, pressure to leave the system, or insist on a drastic change in its nature, would be irresistible.

If several countries came to feel that a change was necessary, there would be a number of alternatives open to them. They could join together to insist that the ECB should follow detailed objectives fixed by themselves collectively, so effectively ending the ECB's independent control of monetary policy. They could also impose barriers to trade and financial transactions, treaty obligations notwithstanding, or try to introduce protective

devices which would nullify the ECB's policies. As a last resort, in spite of the legal and political difficulties involved, they could secede from EMU.¹⁴ The costs of withdrawing from the single currency and re-establishing a separate, national currency might, in reality, not be as large as sometimes thought. If the central political incentive for remaining within the monetary union were to disintegrate, the costs of moving from a single to multiple currencies would be of second-order importance.

However, leaving EMU would mean reneging on an international treaty, and, some argue, it might even mean having to leave the European Union and losing access to the single market. This would not help to rebuild confidence for the reinstated national currency and would most likely make any country think twice before leaving the EMU. The legal and economic problems would simply be too great.¹⁵

Thus, the difficulty of leaving EMU depends on to what extent the laws on the ECB can be regarded as immutable, and this, in turn, depends on the interpretation of the status of the Maastricht Treaty since it is there that the Statute of the ECB is inserted. On one hand, the Maastricht Treaty has the status of any other international treaty, which countries can reject unilaterally. On the other hand, however, it is unlike any other international treaty in that it sets up institutions which, as in the case of the ECB, subtract some national sovereignty from individual member states. In that sense, the Maastricht Treaty can be regarded as constitutional law. Changes in the Maastricht Treaty involve a complex co-ordination of all member states' governments and parliaments, which require unanimity and hence are very difficult to achieve.¹⁶

To avoid scenarios such as the ones described above, or indeed, for the ECB's policies to be successful, the ECB needs to have the support of the member states: not only the support of governments, but also the support of the people (since it is effectively the people who put governments in power). In order to achieve this, the ECB should keep in mind that different member states have different economic structures and that, therefore, its policies may have asymmetric effects. Many experts worry that the ECB's stance may be too strict to be politically acceptable in less benign economic circumstances. Most likely, some of the more peripheral countries will remain relatively more inflation-prone than the core countries and ECB policy may need to loosen up in order to help contain inflationary pressure in these more inflation-prone Member States.¹⁷ Also, implementing the same interest rate level in all Member States may not be the best policy, since different countries have different growth rates.

5: Effects on National Central Banks

On December 3, 1998, all NCBs in the EMU Member States simultaneously cut interest rates. This took economists by surprise; no one had expected rates to be cut before the ECB take-over on January 1, 1999. Some argue that this was orchestrated by the ECB, that it was made possible by the commitment of all European governments to the Stability and Growth Pact, and that it proved that national bankers are abandoning regional concerns in favour of what is best for Europe as a whole.¹⁸ Another explanation is that the action was designed to take the pressure off the ECB to cut rates at its first meeting in January. Many economists feared that recent political pressure for lower rates would cause the ECB to delay rate cuts even if they were justified, merely to prove its independence. This way, the ECB could have more time in which to establish its

credentials. A final, more cynical, explanation is that national central banks could not resist one last fling before losing their power.”

However, NCBs will not disappear, although their autonomous powers have been severely limited by the creation of the ECB. They are now an integral part of the ESCB and must therefore act in accordance with the guidelines and instructions of the ECB. Again, their primary objective must be price stability. If they do not follow the guidelines of the ECB, the Governing Council shall “take necessary steps to ensure compliance” (Article 14.3 of the Statute). National legislation must be in accordance with the Treaty and the Statute; for example, the Statute sets the term of NCB governors at five years.

NCBs do retain some powers though: they will continue to be active in their own areas, such as distribution of credit, allocation of resources and management of payment systems. They are also allowed to perform other functions, not specified in the Statute, under the condition that they do not interfere with the objectives and tasks of the ESCB. Such functions shall be performed with the responsibility and liability of NCBs and shall not be regarded as being part of the functions of the ESCB. Furthermore, subject to the ECB’s approval, NCBs may participate in international monetary institutions.

The Governors of NCBs are members of the Governing Council. It is the Governing Council which formulates Community monetary policy and establishes the necessary guidelines for their implementation (Article 12.1). The Executive Board is responsible for implementing the policy set by the Governing Council. Thus, it might be thought that no problems will arise, since it is the NCB governors themselves who set the policies which they then have to follow. However this conclusion is somewhat naïve.

Different NCBs are bound to have different opinions regarding the formulation of monetary policy and coordinating them will not be an easy task. Eleven of the seventeen members of the Governing Council represent NCBs. Some economists worry that such a degree of decentralisation will weaken the ECB. The Governing Council is supposed to set interest rates according to conditions in the Euro area as a whole, but there is a risk that national governors will be unduly influenced by conditions in their home country.²⁰ Therefore, although each individual NCB does not have the power to set monetary policy in its country, they could, together, have enough influence to hinder the smooth functioning of the ECB, in the event of a disagreement over EMU monetary policy.

6: Accountability and Transparency

The ECB is not a democratically elected institution and it is accountable to no one. Some authors have argued that monetary policy is just like any other instrument of economic policy, such as fiscal policy, and so should be determined entirely by democratically elected representatives. However, such a view implies direct political involvement in monetary policy and this goes against the argument for having an independent central bank. Nevertheless, in every democratic society, monetary policy should ultimately be under the control of democratically elected politicians. One way or another, the central bank must be accountable.

It is important not to confuse independence with isolation or impenetrability. Unfortunately, it seems as though the ECB may be doing just that; it will not publish the inflation forecast central to its monetary policy and the minutes and voting records of its council meetings will remain secret for years afterwards. This arrangement will be a

convenient one for the central bankers who dominate the council, but it will be an inconvenient one for anybody else with an interest in how Europe is governed. The ECB argument is that confidentiality will protect individuals from pressure to vote in line with narrow national interests. But others argue that national interests may actually become more influential if votes are kept secret, because secrecy makes it easier for board members to vote with local interests, rather than Euro-wide ones.²¹

The Statute does put some pressure on the ECB to make its decisions available to the public: the ECB shall draw up and publish public reports on the activities of the ESCB at least quarterly (Article 15.1); a consolidated financial statement of the ESCB shall be published weekly (Article 15.2); and, according to Article 109b(3) of the Treaty, the ECB shall address an annual report on activities of the ESCB and on the monetary policies of the previous and current year to the European Parliament, the Council, the Commission, and the European Council (Article 15.3). However, as stated above, the proceedings of the meetings will remain confidential, although the Governing Council may decide to make the outcome of its deliberations public (Article 10.4). Furthermore, Mr. Duisenberg intends to present himself periodically for scrutiny by the European Parliament, but he has resisted, as too time-consuming, suggestions that he appear regularly before national parliaments. However these measures are hardly sufficient to make the ECB suitably accountable for its decisions and actions.

As has been argued above, the ECB needs public support for its policies in order to be successful. Macroeconomic policy works by affecting people's behaviour, and the perception people have of the credibility of announced policies will affect the macroeconomic outcomes. Eijffinger and De Haan argue that a central bank which continuously conducts policy that lacks broad political support will sooner or later be overridden.²² Furthermore, if there is no attempt to build public support for the ECB's policies, it could become an easy scapegoat for politicians when things go wrong.

In order to achieve this public support, and to assure markets and the public that members of the ECB are operating in the interest of "Euro-land" as a whole, the ECB must be transparent. Therefore, the views expressed and votes made by individual council members should be published as soon as possible after they are made. Both British and American experiences have shown that immediate publication of decisions and lagged publication of the minutes of council meetings help boost central bank credibility.²³

7: Conclusions

It has long been the belief among economists that having an independent central bank controlling monetary policy will lead to higher credibility, lower inflation, and increased growth. However, recent studies have shown that this is not necessarily the case. Whether or not it is beneficial to have an independent central bank is very hard to measure, since the concept of independence has not been sufficiently well defined. Different studies have used different parameters, and have therefore obtained different results.

Furthermore, it is important to notice that existing studies have examined national central banks, and their relation to and effects on the national government and the national economy. Introducing a supranational institution such as the ECB is bound to have different consequences and different considerations must be taken into account. The ECB sets monetary policy for the whole Euro-area, which is made up of eleven countries. These

countries are still in charge of setting their own fiscal policies and, moreover, their national central banks retain some powers over, for example, the distribution of credit, allocation of resources and management of payment systems.

This system makes for a rather confusing division of powers and is likely to lead to conflict between the ECB and member states. When setting monetary policy for the Euro-area, the ECB must take into consideration different economic conditions in member states and be aware of the fact that one policy can have very different effects in different countries. Thus, it is likely that NCB governors, who make up more than two thirds of the Governing Council, will want to create a monetary policy which will benefit their home country, without considering the rest of the member states. It may not be so easy to transform national policy makers into European citizens who are equally concerned about the whole of Euro-land.

In order to make the differences in economic structure that exist between member states as small as possible, their economic policies are coordinated by the ECOFIN Council. Each year, the Council draws up and adopts broad economic policy guidelines, such as common objectives for inflation, public finances and exchange-rate stability. This is done in order to minimise the discrepancies between different member states of the effects of the ECB's monetary policy.

However, the most important condition for monetary policy to be successful is that the governments and people of member states support the policies set by the ECB. The ECB has no political counterpart to balance its monetary power and this is considered by many to be undemocratic. Thus, since the decision-makers of the ECB are not democratically elected, it can be very convenient for national politicians to blame the ECB when things go wrong. Many people are already in the habit of blaming Brussels in general and EMU in particular for domestic problems. This phenomenon does not make it easy to properly implement monetary policy and achieve the desired effects.

In order for governments and people to support the ECB, they must be confident that the decision-makers are acting in the interest of the whole Euro-area, and that they are independent, that is, immune from any political pressures from any individual member state. The best way to show the interests of the ECB is to make their decision-processes transparent and available to the public. This has not been achieved today. Instead, the ECB plans to keep confidential the inflation forecast central to its monetary policy and also the minutes and voting records of its council meetings.

In contrast, the ECB has been very anxious to manifest its independence. As a consequence, the ECB is likely to tighten its policy more than would otherwise have been necessary, and policy suggestions raised by national governments may be ignored, even if the ECB would be wise to listen to them. Monetary policy works best if firms, households and financial markets understand exactly what the central bank is doing. A mixture of discretion and secrecy makes for a dangerous cocktail.

The creation of the EMU and one central bank responsible for monetary policy in an area consisting of countries with very different economic structures is an ambitious grand experiment. It has begun in very good circumstances, with European economies getting stronger and international markets receiving the Euro with optimism. However, it remains to be seen how the ECB will choose to set its monetary policies, and what effects they will have on the member states. The experiment has just begun.

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¹ Eijfinger, De Haan, *The Political Economy of Central-Bank Independence*, p. 2. See also, for example, Canzoneri, Grilli & Masson, p. 55-58

² Canzoneri, Grilli & Masson, p. 55

³ In accordance with Article 106(1) of the Maastricht Treaty, the ESCB is composed of the ECB and of the central banks of the Member States.

⁴ "Don't bank on it", *Newsweek*, July 13, 1998

⁵ Eijfinger, De Haan, p. 54

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A New Europe?

Towards a European Identity?

Maastricht, Amsterdam, and the Introduction of European Citizenship

Richard Nield

Introduction

A major theme of both the Treaty on European Union, signed at Maastricht on 7 February 1992, and the Treaty of Amsterdam, signed in October 1997, is the endeavour to create a common European identity. Article B of the Treaty on European Union states that among the Union's objectives is the assertion of "its identity on the international scene, in particular through the implementation of a common foreign and security policy." Despite the opt-outs given to Denmark and the United Kingdom, the introduction of the single European currency and the establishment of a European Central Bank on 1 January 1999 have similarly been seen as strengthening the trend towards a uniform European identity. The developments towards a unitary defence identity go some way towards answering Kissinger's famous question: "who do I call when I want Europe?", and the deepening of economic ties has been seen throughout the history of European integration as the essential precursor to political harmonisation.

However, the nascent 'European identity' in the spheres of economics and foreign affairs is only skin-deep. Though an important stimulus to the 'European idea', it is not synonymous with a true feeling of 'Europeanness' amongst the peoples of Europe. In the light of such developments as the Common Foreign and Security Policy and the Single European Currency, the question of what it is to be European and the conundrum of how to encourage the development of a specifically European identity among the residents of Europe is becoming increasingly important. Such a concept of a European identity goes far beyond the institutional framework of the EU and the way it is perceived abroad extends into the spheres of political rights and duties, culture, history and ethnicity.

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Nevertheless, the Treaty on European Union and its successor at Amsterdam deserve attention for their recognition of some of these wider implications of European identity. This paper will focus on the extent to which the treaties of Maastricht and Amsterdam have gone beyond institutional changes in foreign and economic affairs and examine to what extent the introduction, at Maastricht, of the notion of European citizenship has laid the foundations of what may grow into a true feeling of 'Europeanness.' In order to do this, four subjects will be examined: first, the notion of citizenship; second, the extent to which the Maastricht and Amsterdam treaties provide the political tools necessary to create a true citizenry; third, the extent to which any common citizenship is in practice possible for and palatable to the national governments and peoples of Europe; and fourth, what hope this gives us for the creation of a strong European identity in the future and what proposals can be suggested to accelerate this process.

Citizenship and its prerequisites

The concept of European citizenship introduced at Maastricht took a significant step towards the recognition that further widening and deepening of the Union must be underpinned by some degree of political unity. Its importance should not be underestimated, particularly in the light of the considerable opposition that the concept faced in countries such as the United Kingdom and Denmark. However, the question of whether its inclusion is a nominal acknowledgement of a vague notion of political alignment, or whether it will act as a springboard towards the creation of a genuine political union with its own identity needs to be examined. To answer this question, we must first be clear on what the label of citizenship entails. Once the idea of citizenship is defined, the final sections of this paper will examine the ways in which these preconditions can be adopted or adapted by the European Union in its search for a collective identity.

In order for citizenship to be meaningful, it is necessary that with the appellation 'citizen' come certain rights, loyalties and feelings of identity with fellow citizens. Brigid Laffan has summarised the main elements which have grown to constitute the Western idea of collective identity as: a historic territory or homeland; common myths and historical memories; a common mass political culture; common legal rights and duties for all members; and a common economy with territorial mobility for members. These prerequisites for collective identity are the benchmarks on which to model a prospective European citizenship.

Laffan goes on to draw a distinction between those elements which relate specifically to identity and those which form the basis of political rights, stating that: "[t]he ethnic dimension of nationality draws on the notion of a common ancestry and on the consciousness of shared identity and the civic dimension rests on citizenship and legal equality, a legacy of the Enlightenment."¹ This differentiation between ethnic and civic identity is useful in assessing the development of collective identity, and this paper will make use of the division to first assess the extent to which the political preconditions of citizenship are developing, and then to look further into the prospects for the development of a cultural identity. The inclusion of citizenship within the civic dimension is, however, restrictive. Citizenship need not be based on such strong ties as nationality, nor can it exist in a vacuum. This paper will treat citizenship in the broader sense of a concept which embraces rights, access to political participation and belonging² and which "is not only a kind of

organizational procedure, but also a way of morally participating in community life for the preservation of its memory and well-being.”³ It will be argued that the construction of the civic dimension of European identity is merely the bedrock upon which a feeling of belonging, and thence social and cultural identity, can be built. To assess how strong this bedrock is, we must first look at the Treaty on European Union at Maastricht and its successor at Amsterdam.

Maastricht and Amsterdam

The Treaty on European Union signed at Maastricht made significant progress towards fulfilling some of the political preconditions for citizenship. The introduction of a timetable for the introduction of the Euro and the formalisation of the “right to move and reside freely within the territory of the Member States”⁴ go no small way towards fulfilling Laffan’s requirement that there be a “common economy with territorial mobility for members.” Similarly the declaration that “[c]itizens of the Union shall enjoy the rights conferred by this Treaty and shall be subject to the duties imposed thereby” demonstrates the existence of a will to create “common legal rights and duties for all members.”⁵ Most important of the rights granted by the Treaty to its citizen body is the right to vote and stand in municipal elections and elections to the European Parliament in other Member States.⁶ This creates a genuine transnational political space within which further rights can be developed in the future.

Within this political space, an embryonic “common mass political culture” is also emerging. Elements of this can be found in the nine areas of common interest (for example asylum and immigration policy, police and judicial co-operation) on which the Council can adopt joint positions and joint actions, as well as in the third pillar of the Union which lays down a series of provisions for ‘Cooperation in the Fields of Justice and Home Affairs’ (the first and second pillars deal with economic and defence policy, respectively).

Many of these developments are reinforced by legal underpinnings and constitutional changes. With the inclusion of both citizenship rights and areas of common interest within the first pillar of the European Union, a legal basis has been given to cooperation in policy areas that were formerly dealt with on a national or informal basis. The introduction of the co-decision procedure will strengthen the role of the European Parliament and increase the legitimacy of EU policy, a crucial aspect of government-citizen relations.

Despite much criticism, the Treaty of Amsterdam has shown a willingness to both broaden and deepen the development of a European political space. The tone of the Treaty is far more positive than that of Maastricht. For example, the desire to reduce the ‘democratic deficit’, an essential condition for the real exercise of citizenship, is made clear in Article 1: “this Treaty marks a new stage in the process of creating an ever closer union among the peoples of Europe, in which decisions are taken as openly as possible and as closely as possible to the citizen.”⁷ In addition, the declaration of the fundamental principles and rights of the Union and its citizens embraces not only humanitarian and political rights, but also social and economic ones.⁸ Similarly, practical advances are exemplified by a further review of the power of the European Parliament, the provision of further details on the nature of judicial and police cooperation and the insertion of the substance of the Social Protocol back into the Treaty of Rome.⁹

There are, of course, limitations to the progress made in the treaties towards the creation of a suitable civic environment for European citizenship. The major criticism which has been levelled at the Treaty on European Union¹⁰ is that the provisions on justice and home affairs were consigned to the third pillar, which does not come under the jurisdiction of the European Court of Justice. The removal of internal barriers which is central to this part of the treaty is therefore largely left to the intergovernmental agreement of Schengen (1985), of which the United Kingdom, notably, is not a part.

The Treaty of Amsterdam has been similarly criticised for failing to do anything but gloss over the weaknesses of Maastricht. Ludlow bemoans the fact that in his view the second treaty was no more than an "ad hoc list of good ideas, which pander to the whims and anxieties of particular governments, but which do not in any fundamental sense enhance our understanding of what EU citizenship means."¹¹ In saying this, Ludlow exposes the central problem which the supporters of European citizenship face: the intransigence of national governments. Maastricht and Amsterdam went a considerable way in introducing what in many ways is a revolutionary concept and one which may still lay the foundations for a real European political union. However, in order to determine whether this will happen, it is necessary to address the problem of the nation-state.

The problem of the nation-state

If the institutions and treaties of the European Union are to lay the foundations of what Laffan called the 'civic dimension' of our notion of citizenship, then the question remains to what extent we can expect the problems of the 'ethnic dimension' to be resolved. A citizenry characterised by strong national loyalties and little sense of a European identity will be difficult, if not impossible, to maintain, for the bonds of loyalty and the sense of belonging which are necessary to bring citizens together will be lacking. As Wiener points out, we cannot create Europeans just by creating Europe.¹²

There is no doubt that the idea of the nation-state has great resilience. It has been the predominant form of political organisation in Western Europe over the last two centuries, and throughout that time the populations of the present member-states of the European Union have been flooded with patriotic rhetoric drawing on images of a common cultural, religious and linguistic heritage and a shared past. There is much evidence for the existence of such strong national mores. A survey of European citizens in 1995 showed that 40 percent of Europeans felt their own nationality only; 46 percent of those surveyed felt their nationality then European; whereas only six percent felt European then their nationality. A mere five percent felt European only.¹³ More recently, a poll which asked European citizens their ordinal preferences for citizenship of region, country or Europe showed that for 61 percent their first loyalty lay with their country (22 percent for the region and only 16 percent for Europe) and for 56 percent of those polled, Europe was their third choice.¹⁴

This reluctance to identify with anything beyond the nation manifests itself more obviously in some nations than others, the national allegiances of the Scandinavian countries and Britain seeming to be the most steadfast. Arter entitles his article on Finland and its referendum on the Treaty of European Union in October 1994, "A vote for the West, not for Maastricht", positing that its entry into the Union was more a reaction to the fall of the Soviet Empire than a desire for European unity. In an interview on Finnish radio

in June 1994, Prime Minister Esko Aho, although a supporter of his country's entry into the EU, stated that it should remain principally an organ of intergovernmental co-operation and claimed that there was widespread consensus on the matter in Finland.¹⁵ Peter Lawler's article on Scandinavian exceptionalism points to a similar reluctance on the part of Sweden, Norway and Denmark to give up their particular identities. Having rejected Maastricht in its first referendum in June 1992, the Danish government stated that "Denmark will have no obligations in connection with citizenship of the Union" and a post-referendum survey found that only 15 percent of Danes accepted the concept of joint citizenship.¹⁶ As Waever put it "Nordic identity is about being better than Europe."¹⁷ Similarly, a United Kingdom Government White Paper of March 1996 stated that "[p]opular enthusiasm for Europe and support for the development of the Union are most likely to be enhanced if the Union refrains from intrusion in national affairs and unnecessary regulation."¹⁸ The Treaty on European Union had a difficult passage in France where Jean-Marie Le Pen, consistently representing between 10 and 15 per cent of the electorate, champions the cause of nationalism. Even Belgium, home of the majority of European institutions, found cause to plead against the provisions of Maastricht guaranteeing the right of all EU citizens to participate in the local elections of a country in which they are resident.

Such strong national sentiments are an obstacle to the creation of European citizenship in both the civic and the ethnic sense. Anderson's argument that it was only the separation of cooperation on justice and home affairs into a third pillar of the European Union which "made it possible for the British, among others, eventually to accept citizenship" is a compelling one¹⁹ and suggests that certain national governments will continue to hamper progress towards a true European identity.

To say that the strength of national identities in certain countries is too great for any real notion of European citizenship to take root is, however, unduly pessimistic. There are other trends which point equally strongly towards such a construct. One important trend is the gradual but significant movement away from the strong national sentiments described above. A recent survey found that among young Europeans, 38 percent were 'sympathisers' with European integration, 33 percent were 'positive pragmatists' and only 28 percent were 'sceptics'.²⁰ Similarly, in polls that asked people whether they 'often' or 'sometimes' feel European, the percentage replying positively was 10-15 percent lower among those born before the Second World War.²¹ A 1983 poll found that whereas 54 percent of those Europeans over the age of 64 said they were 'very proud' of their country, only 29 percent of those under 25 did so.²² Furthermore, these trends away from strong national loyalties are manifested, indeed reinforced, by the much discussed movement towards a Europe of the regions. The next section of this paper will examine this trend and analyse what implications it has for the future of European citizenship.

A Europe of the Regions?

"If one aspect of the dynamism generated by identity politics is re-legitimation and reification of nationness, the other is fragmentation, displacement of its meaning, and hence its delegitimation."²³

Soysal's dramatic statement highlighting the contradictory trends of national identity points to the fact that we are living in a period of re-emerging identities. The break-up of the Soviet Union, Yugoslavia and Czechoslovakia has added seventeen new states to the European continent in only a few years, and many more 'ethnonations', as Soysal calls them, are struggling to be recognised. This phenomenon, moreover, is by no means confined to the Eastern part of the continent. For regionalism does not have to provoke the break-up of empires, bloody wars, and the formation of new nations to be an important political force. The number of regions who want more than for their identities to be subsumed within the personality of the state of which they are a part is growing year on year. To quote from Soysal, who lists but a few, "more and more groups seek economic and linguistic autonomy on the basis of their regional identities: Bretons, Corsicans, Basques and Occitans in France; Scots and Welsh in Britain; Lombards and Sardinians in Italy."²⁴

What is significant for the purposes of this paper is that many of these groups are seeking to assert their identities within a European framework. As Llobera states: "In the overarching institutions of the European Union, ethnonations tend to see a potentially more sympathetic and flexible framework in which to realize their objective of shared sovereignty than they do in the traditional state in which they find themselves at present."²⁵ In 1988, after many years of steadfast opposition to EU membership, the Scottish Nationalist Party adopted an 'Independence in Europe' platform, and Xabier Arzallus, the leader of the Basque Nationalist Party, went as far in 1992 as to say that he and his fellow 'nationals' would "find [their] way to Europe not through Spain, but as Basques... Why should we found a new state in the new Europe? The states will wither away."²⁶ Although the rhetoric of the Basque leader is by any assessment extreme, there is indeed an underlying feeling that Europe can represent the regions better than can the nation states. In 1985, there were two offices representing the regions to the organs of the EC government, by 1994 that number had grown to fifty. Similarly, the Euro-Cities Association, founded in 1985 by six cities, in 1996 represented 38²⁷. Llobera concludes that "a growing pressure from ethnonations and regions to have a more direct say in the decision making of the European Union is the precondition for achieving a federal Europe with a strong democratic Parliament as well as an ever growing role for the Committee of Regions, which in due course could constitute, along with the Council of Ministers, a genuine upper chamber consisting of representatives of the regions and of the existing member states."²⁸ Although he is looking several steps ahead, there is no doubt that the umbrella of a European identity is very appealing for Europe's regions, and the two forces, regionalisation and 'Europeanisation', will continue to be mutually reinforcing.

European citizenship and the future of European identity

In light of these developing trends towards regionalisation, the way in which European citizenship might adapt needs to be examined. The most important point is that European identity must not be exclusive of other identities. As explained above, the attraction of the regions to the idea of Europe is that, unlike their own states, the European Union does not expect a large degree of ethnic homogeneity in its citizens and does not try to eclipse their regional identities with the shadow of European citizenship. To introduce European citizenship is not to introduce an entirely new identity (the futility of

this will be obvious in the light of the above discussion of national and regional loyalties) but to introduce another layer of identity. Cesarani believes that “toleration of a diversity of cultural, regional or other identities - indeed celebration of this diversity — could become the accepted norm of the twenty-first century.”²⁹ Howe agrees that the “Community can expand to embrace those who differ in ways traditionally deemed fatal to the preservation of a viable social order. Ethnic differences can flourish and communication gaps persist within a larger community, if the political salience of these tangible differences wanes.” In order for this to happen, the European Union’s concept of what defines its citizenry will have to be sensitive and flexible.

Where does this leave our aspirations for the development of European citizenship beyond the civic dimension and into the ethnic dimension? Surely, if a multiethnic and multicultural society is to be embraced by Europe, then it can have no real ethnic identity of its own. If we return to Laffan’s components of ethnic identity — a historic territory or homeland and common myths and historical memories — we will find that this is not necessarily true. Many have argued that Europe lacks the same kind of common history and cultural heritage that underpin citizenship in the nation state.³⁰ What this ignores is the tremendous power of the present to find patterns in the past by which to explain itself. As Cesarani explains, “The attempt to construct a notion of homogeneous identity is always an active (if not always a conscious) political project on the part of one group or another, realized through a variety of cultural and institutional forms and strategies.”³¹ Neumann similarly believes that, “The existence of regions is preceded by the existence of region-builders, political actors who, as part of some political project, imagine a certain spatial and chronological identity for a region, and disseminate this imagined identity to others.”³²

Those who wish to shape the European destiny in favour of the creation of a real civic and ethnic identity for the citizens of Europe must take it upon themselves to be such region-builders. Thanks to the slow evolution of the nature of identity, this process of ethnic identity building will be a long and gradual one, but as Howe states, “Slowly but surely beliefs about community will start to adjust to the political and legal infrastructure if that infrastructure protects a prosperous and peaceful community.”³³ There is, moreover, a great deal of European heritage which can be drawn upon to fulfil the idea of a historic territory with common historical memories. Above all, the cultural legacy of the Roman Empire must not be forgotten, and nor must its lessons as to the way in which citizenship can operate. Not only was it a community “in which citizens were able to appeal to more than one set of enforceable standards when claiming their rights”³⁴, but it was also an age which, along with the Greek Empire which preceded it, moulded much of modern European culture. This cultural mantle was then subsequently taken up by different parts of the continent, but often with pan-European effects, examples of which include the influence in art of the Italian Renaissance and the spread of Gothic architecture from its birth in France.

Most importantly, the process through which a sense of ‘Europeanness’ can be added to the pre-existent feeling of identity of European citizens has already begun. In the context of European history, the five decades since the process of European integration began have seen the growth of a striking and unprecedented degree of inter-state cooperation. The Treaties of Maastricht and Amsterdam have taken fundamental steps towards the political underpinning of this process through the creation and elucidation of

the idea of European citizenship, but have had very little time to bear fruit. The trends away from a strong sense of nationhood and towards what could become a 'Europe of the regions' can only be expected to be gradual ones. What the European Union must do in the meantime is to draw on the common ties of its citizens, imbue them with a common but not exclusive sense of European identity, and encourage them to participate in the democratic process of EU decision-making. The Union itself has explained the process in the following terms: "In political terms, 'European citizenship' has to be interpreted as the abandonment of purely economic European integration in that citizens are no longer merely subject to Community rules but become involved in the dynamic process of European integration and Community activities that affect and will increasingly affect their daily lives."³⁵ If this is case, then the emergence of a real European citizenship, both civic and ethnic, may only be a matter of time.

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European Airline Deregulation - the Great Missed Opportunity?

Richard Pinkham

Introduction

After decades of country-sponsored protectionism, Europe's passenger air services sector has entered an era of liberalization. Motivated by a desire to promote a less regulated economic environment and lower air travel prices, the European Union introduced in 1987 legislation aimed at dismantling government regulation of the Community's airline industry. By April 1997, the deregulation process was largely complete.

On paper, the initiative has achieved its desired end-product: companies and not governments now decide which cities receive what level of air service and at what price. The new regime has also heightened competition between airlines and catalyzed more air service throughout the Community. While gratifying, these celebrated results leave unanswered numerous important questions as to the efficacy of Brussels' initiative: how successful has the intervention been in promoting enhanced competition in the sector, catalyzing more service provision, and, most importantly, lowering the prices faced by European passengers?

The overall results, particularly with regard to price levels, are disappointing, with market-distorting state subsidies to individual airlines, discriminatory conditions at European airports, and the use of predatory tactics against fledgling airlines by incumbent carriers all undermining progress towards enhanced competition. Until Brussels pushes to remove these competition-stunting factors from the sector, much of the liberalization program's potential will be left unrealized.

Background

From its inception, the commercial transport of people and goods by air has been subject to government oversight. This regulation was aimed originally at ensuring that people in the air (and on the ground) were safely protected against negligence by the fledgling companies. In later years, when safe operation of commercial air transport became more assured, government turned its attention to regulating financial aspects of

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the industry. Later still, government extended its mandate beyond domestic operations, asserting itself by deciding such as matters as where and how air carriers would be able to serve international markets. The international component of airline regulation — particularly salient in the European sector — was essentially born at the 1944 Chicago Convention. Fearing that their national carriers would be unable to compete with the well-established American airlines in a liberal environment, the European conference delegates voted to institute a system which required bilateral authorization for access to international markets, as well as fare and capacity levels. The end result of this decision, which dashed the United States' desire to promote global "open skies" (insofar as international service was concerned), has been an enduring legacy of stunted competition.

Airline Regulation in Europe: The Rationale

As elsewhere, the regulation of transport was conducted in European countries with public protection in mind, but also somewhat uniquely with the goal of ensuring that transport was used as a tool for national development. Civil aviation in particular was considered as a quasi-public utility whose considerable external benefits merited protective regulation.¹

Continental countries also have had another vital motivation behind their regulation of air carriers — ownership. In Europe, the public service nature of the airline industry motivated most countries to make the institution and maintenance of a scheduled-service airline a national project (to be fully funded by the treasury). The resultant airline would operate both domestic service and be the designated foreign carrier.² As a result, most European airlines were state-owned; several, notably Air France, Alitalia, and Greece's Olympic Airways continue to operate under majority government ownership. As is to be expected, these "flag carriers" have been operated and regulated differently than private providers of air transport.

Origin of Deregulation

The move towards liberalization of the airline industry gained its first major victory in 1978 when the U.S. Congress passed the Airline Deregulation Act after observing that protection and promotion of US carriers was actually harming the consumers it aimed to protect — as prices charged were increasingly incompatible with justifiable costs. The Act immediately generated benefits for American consumers and, less predictably, the domestic airline industry.

With the introduction of *bona fide* competition onto routes that had previously offered consumers one or perhaps two options, fares plummeted, falling 21 percent (adjusted for inflation) between 1978 (when deregulation went into effect) and 1988. Elicited by this drop in fares was a tremendous surge in traffic, as passenger boardings climbed from 245 million to 455 million. For the airlines' part, the end of regulation also signaled the end of their obligation to operate efficiency stifling point-to-point networks, which carriers replaced with the eminently more efficient hub-and-spoke route networks. In addition to saving millions of gallons of jet fuel during the petroleum crisis, the use of hubs is largely responsible for increasing the industry load factor³ from 55 percent to 62 percent.⁴ However, not all the changes brought about by deregulation were positive.

Numerous loopholes were created, in large part because the “head-first” jump into the deregulation process by the US government meant that safeguards against possible abuses by the airlines were not put in place. The result is a situation which has allowed the carriers to operate in a manner not wholly consistent with the intended spirit of open competition. Indeed, the ability of the American carriers to gain substantial market power through the manipulation of such mechanisms as mergers,⁵ frequent flyer programs,⁶ airline-owned computer reservations systems (CRS)⁷ and fortress hubs⁸ has been nothing short of remarkable. A 1993 study showed that, while deregulation of the US airline industry had generated consumer gains (due primarily to fare decreases and increased flight frequency) of over \$6 billion annually (measured in 1977 dollars), a further \$2.5 billion of consumer surplus should have been created, but was captured by the airlines through their exploitation of the imperfectly competitive industry.⁹

The European Response: Bilateral Initiatives

These shortcomings, as well as the incredible financial instability that saw numerous American airlines — both established in and new to the sector — overextend themselves into bankruptcy, seemed to confirm long-held European beliefs that regulation was necessary. However, one country — the United Kingdom — saw it differently. Focusing on the gains achieved, and dismayed by poor performance at home and by other European airlines, a House of Lords Select Committee on the future European Community noted in a 1980 report that “the interests of the [European] consumer appear to be sacrificed to the prestige of flag carrying national airlines and the protected environment in which they operate.”¹⁰

In response, the Thatcher government began reforming Britain’s share of European commercial aviation, both internally and within the Community. These ends were achieved by the complete privatization of British Airways in 1987, and by the loosening of bilateral air agreements with several key countries.¹¹

The British noted that the bilateral agreements, which traditionally restricted air service between two countries to a single carrier from each on any given route, served to keep competition at an absolute minimum. Indeed, in 1987, of the 988 routes existing within the European Community, only 136 were served by more than two carriers,¹² and carriers were allowed to keep capacity below market level (thereby elevating prices faced by travelers). A case in point is provided by the since-voided agreement between Britain and France and its effect on the London-Paris market.

The busiest air route in Europe in 1983 with 2.1 million passengers, the London-Paris market was essentially operated as a duopoly with absolute collusion. Given the high demand, both airlines operated several frequencies with large aircraft, an action that would normally lower prices as the seat-cost for a flight is reduced substantially with large aircraft utilization. Indeed, the lower costs, high yields (which accrue from the fact that the route is heavily traveled by businesspeople and is only 215 statute miles), and relatively high load factors of the route should have resulted in a fare 10-20 percent lower than the European average. However, the lack of competition meant that Air France and British Airways enjoyed the ability to charge passengers one of the highest fares (on a fare/kilometer basis) in Europe.¹³

To change this situation, UK policy makers prevailed upon officials from the Netherlands and then Ireland to liberalize their respective aviation accords with Britain so as to eliminate government interference in: the number of carriers allowed to serve the markets; the amount of capacity supplied to the markets; and the level of fares offered. While the effects of the UK's agreement with the Netherlands were impressive, it was the results of the 1986 treaty with Ireland (the UK-Ireland market is much larger than that between Britain and the Netherlands) that truly highlighted the possibilities of airline liberalization in Europe.

Whereas in the five years before the accord fares between England and Ireland rose 72.6 percent, unrestricted round trip fares fell from an average of Irish £208 to as low as £70 in the four years after the treaty was activated. By 1989, flights between Dublin and London reached 89 a week, up from 32 in 1986, and the traffic between the two countries rose from 1.85 million passengers in 1985 to 4.2 million in 1989.¹⁴ That the operations side of business continued as usual under these conditions scored a major victory for deregulation proponents. As Button and Swann write, the experiment "served to demonstrate that excessive instability need not arise under freer market conditions."¹⁵

Reform on a Community-Wide Basis

Duly impressed by the gains illustrated by the American and especially the British liberalization initiatives, the European Community inserted itself into the process to become a force for change in the sector in the early 1980s.¹⁶ Using the 1957 Treaty of Rome as its foundation, the increasingly self-assured EC began tearing down the protective measures constructed and maintained by the Continent's national transport entities.

Specifically, the EC began to ensure that Article 86 of the Treaty (stipulating that firms may not enjoy "abuses of dominant position"¹⁷) was enforced with regard to the Community's airline sector. This process began in 1987 when the Commission implemented Council Decision 87/602/EEC, essentially mandating that any licensed European carrier could fly on a scheduled service basis into any European market.¹⁸ This decision opened the door to an unlimited number of new carriers to offer services in competition with the Continent's incumbent airlines. As a direct result of this legislation, by 1993 there were 80 new airlines — many low cost — operating from EU countries.

Taking its liberalization program a step further in 1990, the Community instituted two new regulations governing competition in the airline sector. With Regulation (EEC) 2342/90, the EU took the power to establish prices away from the countries whose cities represented the relevant market, instituting a double-disapproval pricing structure. Under this regime, a carrier could only be prohibited from offering fares in excess of a reference fare by five percent if both member states disapproved it.

Subsequent legislation prevented governments from ruling on fares altogether. Furthermore, EU airlines may now offer any fare unless it is determined to be so high as to represent an unfair price to demand of consumers or so low as to represent a possible market violation (e.g., predatory pricing). The new regulations state that offered fares must be "reasonably related to the long-term fully allocated relevant costs of the applicant air carrier."¹⁹

Also instituted in 1990, Regulation (EEC) Number 2343/90 mandated that capacity restrictions on intra-Community flights be lifted. This important piece of legislation

essentially states that any European airline may fly as many seats into any foreign European market as it deems sensible.²⁰

The last major piece of legislation to come out of Brussels, 1992's Council Regulation (EEC) Number 2408/92, stated that by April 1, 1997 any European carrier could offer service on any intra-European route.²¹ This regulation — now in effect — most signally means that cabotage,²² once unthinkable, is now a possibility. For example, British Airways may now fly passengers from Paris to Lyon, or Iberia might operate frequencies in the profitable Rome-Milan market. Current important initiatives of the EU body charged with overseeing competition in the Union (Directorate General (DG) IV) include actions aimed at enforcing Treaty of Rome Articles 92-94, which forbid government subsidies that either distort or threaten to distort competition.²³

Effects of the New Environment

The most immediate and salient effect of Brussels' liberalizing decrees has been the formation of numerous new air carriers. Ireland's Ryanair, for example, has taken aim on some of the routes on which bloated Aer Lingus formerly enjoyed a natural monopoly and in the process has become Europe's most successful airline in its class.²⁴ Ryanair's success, operating efficiently out of Ireland, has prompted the carrier to establish a second hub in London. Similarly, Belgium has seen the advent of two new airlines since deregulation began in earnest. Challenging Sabena are City Bird and Virgin Express, the latter of which is owned by Richard Branson, whose Virgin Atlantic Airways has consistently shaken up British commercial air transport since its birth in 1984.

Two new British carriers, easyJet and Debonair, have invaded the turf of established carriers British Airways and British Midland. The emergence of easyJet is particularly interesting, as it is the carrier most resembling the low-cost carriers that have so dramatically altered the American airline industry. Following the approach pioneered by celebrated American low-cost carrier Southwest Airlines, easyJet exclusively uses one type of aircraft (like Southwest it utilizes an all B-737 fleet, an operating decision that greatly reduces maintenance and training costs), offers no-frills service, and only operates flights out of secondary airports (which are less congested and have lower landing fees than principal airports). This strategy has enabled easyJet to make a dent in the dominance of the incumbent airlines; when easyJet began operations in 1995, it only offered service from Luton to Edinburgh and Glasgow, Scotland; four years later the company provides service to 13 European destinations.²⁵

The Incumbents' Reaction to Competition

Some of the established airlines, notably including Aer Lingus,²⁶ paid the newcomers little mind and charged out to take full advantage of their new rights, opening new destinations, and increasing capacity and frequency in others. Most of these efforts ultimately cost the carriers money, particularly those that had not tackled the problem of their regulation-era inefficient cost structures.

Struck by the need to radically lower costs and heighten efficiency, most of the European airlines — both private and state-owned — have embarked on restructuring programs, although the severity of these programs has varied. Scandinavia's SAS readied itself for its first bouts with fledgling Norwegian carrier Braathens SAAF and Denmark's

Maersk Air by painlessly eliminating \$396 million of non-core related expenses.²⁷ For most carriers, however, restructuring efforts have centered on painful staff reductions.

Much as was the case in the pre-deregulation US airline industry, European airline staffs were prime beneficiaries of the regulation-blunted competition. This system, in which labor satisfaction — from both a staff size as well as salary level vantage point — was acquired through unsustainable employment practices, guaranteed an ultimate day of reckoning, for both the airlines and their employees.

Faced with the reality that European airline costs are approximately forty percent higher than those of their American counterparts²⁸ — even while the most productive European carrier (BA) has not achieved the same level of productivity as the American industry mean — the European airlines have begun to retool themselves. Part of this effort has been undertaken by hiring veterans of the immediate post-regulation American mayhem to oversee their transformations. In this vein, Lufthansa followed the leads of Air France, Swiss Air, and Virgin Express, and brought in an American airline executive to oversee its restructuring. One of former American Airlines director Frederick Reid's first moves as Lufthansa Chairman was to announce a cost lowering target of \$600 million by the year 2001, a cut to be largely achieved through a ten percent reduction in the company's management and administrative ranks.²⁹

However, Lufthansa and other carriers are discovering that employees and unions will not accept such measures quietly. This phenomenon was learned by Air France in 1998 when their pilots reacted to a proposal to bring flightdeck salaries in line with industry averages by conducting a costly and embarrassing strike on the eve of the French-hosted World Cup.

Despite labor difficulties, most European airlines have responded to the new environment by restructuring and acting in a more competitive manner. As with the US experience, a good deal of the benefit for European airlines from liberalization is found in the impetus it provides to operate more efficiently. In the United States, deregulation allowed carriers to structure operations in a more efficient manner, significantly lowering costs and, consequently, fares. For its part, the European airline sector liberalization program has also prompted some efficiency gains, some increases in competition, and some cost decreases. The overall picture, however, remains disappointingly unchanged.

Noting the positive changes, one does observe fare decreases born of increased competition. The UK Civil Aviation Authority reported that during the period in which competition-enhancing measures have been in effect in Europe, national carrier dominance over the civil aviation sector has fallen from over 80 percent in 1992 to less than 70 percent in 1997.³⁰ Similarly, the national airlines' dominance of their local markets fell from 75 percent share in 1993 to 60 percent at the end of 1997.³¹ As a result of this increase in competition, leisure ticket prices have dropped by five percent since 1996.³²

However, overall ticket price decreases have not approached the levels desired, or even anticipated. Indeed, some fares have gone up, especially full-fare tickets, which are up five percent over the same period, rendering them forty percent more costly on a fare/statute miles basis than full-fare tickets in the United States.³³ Why have the results differed so drastically from the American model? The answer lies in a combination of inability of European carriers to achieve cost-saving efficiency gains and continued shortfalls in the stimulation of competition. The efficiency gain shortfalls are for the most part blameless because of the less — relative to the United States — applicable nature of

the hub-and-spoke network in geographically smaller Europe. However, the disappointing lack of competition is overwhelmingly attributable to market manipulations by national governments and Europe's incumbent carriers.

The Competition Factor

While the level of competition has increased, the size of the increases has been minimal. A March 1997 study conducted by the EU revealed that 64 percent of intra-European routes are still operated by one carrier and approximately 30 percent of the routes are serviced by only two airlines. Hence, a mere six percent of routes connecting two European cities receive service by three or more carriers³⁴ — a major reason why fares have remained higher than expected. A study on the forty busiest European cross-border routes revealed that between 1986 and 1996 the lowest business class fares rose 36 percent on those routes (23 in all) on which there was genuine competition (i.e., three or more carriers) and 48 percent on the seventeen routes which were served by a monopoly or duopoly. Similarly, the lowest economy fares rose 28 percent on the contested routes and 46 percent in the monopoly/duopoly markets.³⁵

The difference in price between competitive routes and those serviced by a duopoly of carriers is seen in juxtaposing fares between Heathrow Airport in London and Frankfurt and those from Heathrow to Hamburg. Although of similar distance, the return fare in the heavily serviced Heathrow and Frankfurt market is around £294. Conversely, the Heathrow-Hamburg market, served by only Lufthansa and BA, features a round-trip fare of £442 — a 33 percent price difference.³⁶

What has prevented the anticipated competition from flourishing? A major reason seems to lie in the fact that the legislation enacted did not consider outside factors that have stunted competition, as well as the ability of the incumbent airlines to protect their dominant positions.

Competition Stifling Factors I: Airports

The most important external factors revolve around Europe's busiest airports, specifically access to them and the costs associated with maintaining a presence at them. The costs of doing business at European airports centers on ground handling charges,³⁷ which, often operated as a monopoly by the airport authority, are frequently so exorbitantly priced as to preclude the option of start-up carriers offering service to them. However, even more daunting to the potential vitality of a start-up carrier is the likelihood that it will not even be able to gain access to Europe's most important airports.

While all airlines complain about the dearth of slots³⁸ at London's Heathrow Airport, for a new carrier it is not only virtually impossible to obtain permission to fly from Heathrow with the commercially requisite number of frequencies, but only marginally less difficult at Frankfurt am Main, Brussels Airport, or Charles de Gaulle in Paris. This situation pushes them to secondary facilities, which are generally more difficult for passengers to access and which do not have the connection possibilities available at major airports. Some of the start-up carriers, such as easyJet, which operates out of London's distant Luton Airport, have adapted to these constraints. Generally speaking, however, inability to offer service from major airports constrains a new airline's ability to compete with established carriers.

Incriminatingly, several industry officials believe that access to airport facilities is also granted on a case-by-case basis, with "home-town" carriers receiving unfair assistance. Former head of Virgin Express Jonathan Ornstein charged Frankfurt am Main officials with aiding Lufthansa in its competition with his company, noting that a decision by Delta to drop six of its intra-Europe slots at the airport had no bearing on Virgin Express' inability to acquire a slot there. In an increasingly familiar objection, the Virgin Express chief complained "we can't get a slot in Frankfurt even after Delta released a gaggle."³⁹

Mr. Ornstein similarly expressed a belief that airport officials in Madrid, Barcelona, Milan, and Brussels provide undue assistance to the national carriers. While admitting that Heathrow is genuinely slot constrained, Mr. Ornstein accused other European airports of fabricating reasons for protecting their airlines, saying "they call it capacity constraint, but actually it's just restriction. In Brussels or Milan, you could fire a cannon down the runway and not hit anything."⁴⁰ Aviation economists believe that conditions like these play a major role in present and future competition shortfalls. As aviation economist Pedro Marin states, "the final outcome [with regard to a competitive air travel sector] will depend on access to airport facilities that are tightly controlled by the national flag carriers. If these services are not available on competitive terms they may become the main barrier to entry."⁴¹

Competition Stifling Factors II: State Aid

As previously discussed, the strong nationalistic emotions that European air carriers have historically evinced are not conducive to discipline in the management of an airline. Indeed, since 1991 alone, national governments have offered cash infusions of more than \$12 billion to Air France, Olympic Airways, Alitalia, Iberia, TAP Air Portugal, Sabena, and Aer Lingus.⁴²

To combat the effects of these distortions, technically illegal according to Articles 92-94 of the Treaty of Rome, which forbid distortionary government subsidies, the EU has adopted a stance which attempts to curtail them while not totally declaring war on member country governments. To give struggling carriers latitude to put their respective houses in order, DG IV instituted a "first-time, last-time" policy which mandated one trip to the treasury for the purposes of shoring up and trimming down operations during particularly difficult economic times. The stipulations attached to these disbursements have sought to ensure that the aid is used for controlling damage rather than for expansion, or to aid the airlines in competition with other carriers. These limitations include caps on capacity in competitive markets, a moratorium on fleet growth, submission to periodic financial audits, and a decree that the recipient airline not be a fare leader on routes with specific airlines.⁴³

The somewhat *ad hoc* manner in which the EU has enforced these mandates has angered Europe's privately owned air carriers, who must compete on a playing field potentially made unlevel by market distorting subsidies. This frustration was exhibited when shareholder-owned Royal Dutch Airlines (KLM) charged that Air France was using its 1994-cleared \$3.7 billion cash infusion from the state to compete with it on several key routes. Ronald van der Maaten, KLM's Vice President of Public Affairs, angrily denounced EU wavering on the issue, stating "Air France was not allowed to be a tariff leader on routes competing with us. We have proven that they have used lower fares but

the Commission said that since they had addressed the matter it was okay."⁴⁴ Similarly, Lufthansa's Frederick Reid asserts that the state-owned carriers use the subsidies to dump prices.⁴⁵

Anticompetitive Tactics by Incumbent Carriers

Just as state-owned airlines have perpetuated market distortions, so too have Europe's privately owned airlines acted to protect their turf. Many of these actions are predatory toward the Continent's fledgling carriers — especially the new, low-cost airlines — who represent cause for concern to the incumbents. The proliferation of low-cost start-ups is worrying to the established carriers not only because of the effects the new competition has on their respective bottom lines, but also because of the implications their presence will have during the next economic down-turn.

Recent experience has illustrated a new phenomenon which sees the financial losses suffered by major airlines during times of economic difficulty exacerbated by the presence of low cost carriers. During such periods, business travelers — the key revenue source of the major airlines — are compelled to seek lower cost (even if less convenient and comfortable) modes of travel.⁴⁶ For this reason, the presence of airlines with lower cost structures is a serious threat — a threat that the major carriers are unlikely to accept gently.

Witness KLM, whose management in 1997 sent a fax to easyJet's offices urging the new carrier not to begin service to Amsterdam from its London base, purportedly out of concern that the new airline would find the market too competitive and could go out of business as a direct result. When easyJet ignored the advice and began flying to Amsterdam, KLM drastically lowered its fares on the route, practically forcing the upstart from the market.⁴⁷ EasyJet filed a grievance with Brussels who staged a surprise "raid" on KLM's offices, confiscating documents relevant to the case. In the end, KLM was forced to raise its fares in line with the cost of providing the service.⁴⁸ British Airways has also been accused of engaging in predatory tactics, although its methods have been considerably more subtle than KLM's ill-advised warning fax.

To compete with the upstart carriers that have emerged in its markets, British Airways has followed the lead of several American carriers and created a low-cost arm. "Go," BA's new entrant in the intra-Europe market, ostensibly mimics Delta Express and US Airways' MetroJet in creating a new company with lower paid employees, a single aircraft type, and no-frills service out of secondary airports to profitably compete in the low-fare market. Go's competitors, however, charge that the company represents nothing more than a ploy by British Airways to offer unprofitable fares in competitive markets to drive the new-comers out of business. EasyJet contends that BA's guarantee of Go's aircraft leases, and below market-price sale of insurance, advertising, and other services represent an illegal subsidy.⁴⁹ Furthermore, Debonair, easyJet, Ryanair, and Virgin Express all charge that Go's pricing strategy is predatory, citing numerous fares that they contend no airline striving to break even could offer.

For their part, British Airways and Go deny the allegations. Barbara Cassani, head of operations at Go, maintains that several of the prices were merely promotional and will not be offered indefinitely.⁵⁰ Richard Branson, whose Virgin Atlantic Airways has taken on British Airways in the trans-Atlantic market since its inception and whose Virgin

Express is competing with BA – and now Go – in the intra-Europe market, does not believe it. “BA has done a lot of anticompetitive things over the years,” he says. “I think they are determined to get rid of low-cost carriers and subsidize Go to make it happen.”⁵¹

For reasons related to this type of pressure, only 20 of the 80 airlines birthed by 1993’s liberalization measures were still in operation by 1996.⁵² Consequently, the new carriers still in existence have implored Brussels to ensure that, at the very least, the playing field on which they compete is level.

Brussels’ Response

The EU Transport Commission is taking the unusual step of hiring Europe’s biggest computer services firm, Cap Gemini, to construct models that will assist in determining whether the airlines are charging “unjust” (either too low or too high) prices on relevant routes.⁵³ This initiative was born of research by the EU that revealed that costs remained excessively high on the routes still operated under monopoly or duopoly conditions. EU Transport Commissioner Neil Kinnock suggested the EU would take action on the matter, pointing out that “on some routes our analysis shows that fully flexible fares are significantly higher than can be justified by costs.”⁵⁴

While most feel that the EU has not done enough about issues related to over-priced airport services and gate access at congested airports, experts acknowledge that the Commission is beginning to assert itself in these areas. Progress on the latter initiative was evidenced by the eventual capitulation by the French Ministry of Transport in a two-year battle with Brussels over the granting of coveted slots at Paris’ Orly Airport for British Airways, despite the deleterious effects the move would inevitably have on state-owned Air Inter.

The Union has also asserted itself in the domain of regulating state financial assistance to government-owned carriers, with market proponents celebrating the 1994 refusal to allow a FFfr 1.5 billion (\$277.5 million) injection to Air France. Deeming that reforms at the inefficient parastatal were not occurring at the agreed rate, the Commission blocked the planned disbursement, a decision that was disputed by the airline, but upheld by the European Court of Justice in December 1996.⁵⁵ Similarly, the EU has shown itself willing to investigate and punish anti-competitive behavior on the part of incumbent carriers. Evidence of this willingness was illustrated when the Commission forced KLM to raise its fares on routes on which it was competing with easyJet and when it conducted a surprise raid on Aer Lingus’ offices in Dublin to investigate price-dumping charges made by Ryanair.⁵⁶

Conclusion

The Brussels-mandated liberalization on Europe’s airline sector plainly has made progress in its mission to promote enhanced competition and lower fares in the industry, as is evidenced by a net drop in fares and greatly increased levels of service. Nevertheless, the overall picture of Europe’s commercial aviation sector is disappointingly unchanged, due to a continued combination of slot allocations inherited from the less liberalized era, anti-competitive behavior on the part of the Continent’s incumbent carriers, and lingering national sentiment resulting in preferential treatment being accorded the flag carriers.

Ironically, it appears that *more* regulation is needed for the EU's deregulation measures to achieve their desired effect. For Europe to have a truly competitive airline industry, Brussels must use its mandate to ensure that: 1) all carriers have adequate access to the Continent's busiest airports, even if it forces established airlines to relinquish slots; 2) airport ground handling services are offered in a competitive environment so that fledgling carriers are not priced out of certain markets; 3) state-owned airlines do not utilize their national sponsorship to gain an unfair advantage in their competition with private carriers; and, 4) established airlines are not allowed free reign in their campaigns to eliminate new competition from their markets. Only when the Union is able to make inroads towards the attainment of these competition-enhancing goals will the EU's airline deregulation program realize its considerable potential to protect the interests of European consumers.

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¹ *Flying Off Course: The Economics of International Airlines*, by Rigas Doganis. George Allen & Unwin (London), 1985, page 45.

² Op. cit.

³ The ratio of revenue passenger miles (RPMs) to available seat miles (ASMs).

⁴ "Aviation Policy in Europe," by Kenneth Button and Dennis Swann in *Airline Deregulation: International Experiences*, by Kenneth Button (ed.). David Fulton Publishers (London), 1991, page 100. This condition is attained because whereas previously a flight from one city to another would overwhelmingly be comprised of travelers who were terminating their journey in the second city, under hub conditions a flight from a spoke city to a hub will have passengers flying on to many other destinations, making it easier to fill the aircraft.

⁵ Most of the major carriers have absorbed rivals to gain dominance over their spheres of influence, witness US Air's take-over of Allegheny, TWA's acquisition of Ozark Airlines, and Continental's purchase of People Express.

⁶ Largely thought to be one of the most successful marketing innovations, the frequent flyer program utilizes, inter alia, the principal-agent problem to its benefit, encouraging business travelers take a specific airline's flight (even when a competitor may be offering a lower fare) in order to win points (or "miles") toward future personal travel.

⁷ Which can be (and have been) manipulated so that the carrier that owns the CRS has its flights appear before competitors on travel agents' screens - a distinct advantage.

⁸ Airports in which the entrenched carrier's dominance is so great that rival airlines only offer skeleton service to it. Delta's position in Atlanta and US Airways in Pittsburgh are two prime examples.

⁹ "The Regulation of Transport Markets," by Kenneth J. Button and Theodore E. Keeler. In *The Economic Journal*. Volume 103 (July 1993), page 1031.

¹⁰ "Aviation Policy in Europe," by Kenneth Button and Dennis Swann in *Airline Deregulation: International Experiences*, by Kenneth Button (ed.). David Fulton Publishers (London), 1991, page 100.

¹¹ It is important to understand that airline liberalization has different meanings in the US and Europe. Because the great majority of its flights are domestic, the US liberalization program aims to end regulation in the intra-United States markets. In Europe, most flights cross national borders, rendering regulation there more a matter of protection. The EU's liberalization program seeks to minimize this influence on the market.

¹² "European Community Airlines – Deregulation and its Problems," by Kenneth Button and Dennis Swann in *Journal of Common market Studies*. Vol XXVII, No. 4 (June, 1989), page 269.

¹³ *Flying Off Course: The Economics of International Airlines*, by Rigas Doganis. George Allen & Unwin (London), 1985, page 43.

¹⁴ "Aviation Policy in Europe," by Kenneth Button and Dennis Swann in *Airline Deregulation: International Experiences*, by Kenneth Button (ed.). David Fulton Publishers (London), 1991, page 95.

¹⁵ Op. cit.

¹⁶ Interestingly, Brussels was in large part motivated to institute economic reform in the commercial aviation sector by the hope that a well-publicized success in that arena would make more salable deregulation in other inefficient European sectors, notably including telecommunications. (From: "Budget airlines eye up business travelers as fares go sky-high," by Andrea Rothman and Peter Robison. *The Independent (London)*. June 28, 1998, Business section, page 3.)

¹⁷ *The Economist Guide to the European Union*. London: Profile Books, Ltd., 1997, page 109.

¹⁸ European Community Web Page.

¹⁹ Op. cit.

²⁰ Op. cit.

²¹ Op. cit.

²² Cabotage is the act of flying revenue passengers between two points in one foreign country.

²³ *The Economist Guide to the European Union*. London: Profile Books, Ltd., 1997, page 109.

²⁴ "Stanstead's profile rises with growth in passenger numbers," by Michael Skapinker. *Financial Times*. December 21, 1998. Page 6.

²⁵ "EasyJet, Others Bring Low-Fare Service to Europe." *St. Louis Post-Dispatch*, September 28, 1998. Business Section, page 18.

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²⁷ "SAS Relishes a Dogfight As Rivals Begin to Encroach," by Charles Goldsmith. *The Wall Street Journal*. October 1, 1997, Section A, page 18.

²⁸ "The long haul to open skies; For all the talk of deregulation, Europe's airlines have some distance to travel before they are truly competitive," by Peter Robison and Andrea Rothman. *The Independent (London)*. March 30, 1997, Sunday Business, page 3. The article's source of information is the aviation department at London's Avmark Consulting Services.

²⁹ "Competition ready for takeoff; last legal barrier to air deregulation falls in Europe." *The Dallas Morning News*, April 1, 1997. Business Section, page 1.

³⁰ While European aviation liberalization was completed in April last year, most elements of it have been in place since 1993.

³¹ "Europe's skies freer - so far: Liberalisation has increased competition and encouraged low-cost airlines, but alliances and congestion could undermine these gains," by Michael Skapinker. *Financial Times*. June 18, 1998, World Trade section, page 5.

³² "Budget airlines eye up business travellers as fares go sky high," by Andrea Rothman and Peter Robison. *The Independent*. June 28, 1998, Business section, page 3. The article's source of information is American Express Corporate Services.

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³⁴ "The long haul to open skies; For all the talk of deregulation, Europe's airlines have some distance to travel before they are truly competitive," by Peter Robison and Andrea Rothman. *The Independent*. March 30, 1997, Business section, page 3.

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³⁶ "Heat rises on air fares; Lack of competition keeps airline prices high, says a survey," by Helen Cranford. *The Daily Telegraph (London)*. June 17, 1996, page 32.

³⁷ The term "ground handling" typically encompasses such services as baggage handling, cleaning and refueling aircraft, checking in passengers, and catering.

³⁸ A slot is considered time at an airport gate for disembarking and boarding passengers. Their scarcity reflects major airport capacity restraints vis-à-vis terminal and runway facilities.

³⁹ "The long haul to open skies; For all the talk of deregulation, Europe's airlines have some distance to travel before they are truly competitive," by Peter Robison and Andrea Rothman. *The Independent (London)*. March 30, 1997, Business section, page 3.

⁴⁰ "Cloud over sky free-for-all European Business," by Charis Gresser. *The Daily Telegraph (London)*. April 2, 1997, page 35.

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⁴³ "Disquiet on the state aid front," by Doug Cameron. *Airline Business*. March 1997, page 22.

⁴⁴ Op. cit.

⁴⁵ "Competition ready for takeoff; Last legal barrier to air deregulation falls in Europe." *The Dallas Morning News*. April 1, 1997, Business section, page 1.

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To widen NATO?

Michael Stürmer

On April 4th of this year, three new members joined NATO: Poland, the Czech Republic and Hungary. The decision to invite them was highly controversial in the strategic community, not because of Cold War nostalgia but because of the risk of losing Russia in the process and being faced with huge strategic dilemmas.

When the decision was finally reached, it sparked the joke in Brussels that a bad idea whose time has come.

NATO widening was combined with, and to some extent cushioned by, the NATO-Russia Council set up in 1997. But it still may prove to be a force making NATO weaker instead of stronger. It has already downgraded the Partnership for Peace Programme, an ingenious formula offered after the end of the Cold War for tailor-made cooperation, more with some, less with others.

Now NATO has decided to buy time. Not only because the newcomers are not well prepared, but also because their English is found wanting and some links with the past persist in ex-Soviet armed services. More importantly the old Russian problem is there in a new form. If NATO now decides to call off the continuation of the widening process - except, perhaps, for Slovenia - the West will seem to have subscribed totally to Russia's theory of the 'Near Abroad' and the widening process will have become a hostage to Moscow's interests. If, however, NATO persists, the focus will sooner or later be on Ukraine and the Baltic republics. In 1997 the US gave the Balts strong signals of support. But those signals were not the last step before incorporation in NATO but an Ersatz-substitution in order to gain time and manoeuvring space. The Russians, left and right, reformers or no, have always said that if the Balts or the Ukraine - Belarus is theirs anyway - were to draw closer to NATO, let alone join, this would open the gateway to another Cold War. The chances are that they mean what they say.

In assessing that risk, the logical conclusion must be either to stop the process at tremendous moral cost, or to proceed and pretend that in the end even Russia might be welcome if one day it decides to apply. This is what Strobe Talbott has suggested, in all seriousness, time and time again. Talbott, of course, knows that Russia has more than a few substantial border disputes, including that with China, and does not meet any of the more serious criteria that NATO has developed for candidates. Russia in NATO is pie in the sky - or the end of NATO.

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But why is it so important not to lose Russia? The West admitted the point by setting up, as compensation for the widening process, the NATO-Russia Council. But so far this has not made much of a difference one way or the other. It may be that what we are experiencing now is the renaissance of great power rivalry. The unfriendly climate is there, the antagonistic mood, the militant rhetoric over Iraq, Serbia and many other issues. The United States makes a point of not being dependent on a United Nations mandate if and when immediate action is needed against foreign monsters. Thus the United States makes it clear that they hate to be dependent on Russia's good will, but they also undermine one of the last pillars on which Russia's self-respect and status rest.

By now, the question of Poland, Hungary and the Czech Republic is *causa finita*, though accompanied by grave doubts about its inherent wisdom and military expediency. But on a global scale, the West in general and the United States in particular is paying a price. START I and II are stalling, START III not forthcoming. The idea of building with the Russians a new balance to keep the Middle Kingdom in check has no substance in the real world. A muscular joint policy against proliferators of weapons of mass destruction is beyond anybody's reach or imagination. It may be that all those difficulties would not have arisen without NATO's half-hearted widening process. But the latter certainly aggravated the underlying conflicts.

Finally: where do we go from here? In this impasse the wisest policy is still what Prince Talleyrand told aspiring diplomats: "surtout pas de zèle". Russia still has a long way to go. It will come to appreciate the stabilising role of NATO in the Western neighbourhood; at the same time it will rediscover that proliferation, especially in the Greater Middle East, is the common enemy. And politicians in Moscow cannot fail to appreciate that even regarding China the US and Russia share some vital interests. In short: *Il faut donner le temps au temps*.

The Lost Hour of Europe?

An Autopsy of the Failed Yugoslav Experiment

Christina Balis

The beginning of this century's last decade was marked by euphoric prophecies of a "new world order" and by optimistic theses such as Francis Fukuyama's "End of History." However, as one approaches the end of this century, little of that rhetoric appears realistic. An old disorder seems to shape today's agenda, while historical ghosts have returned to haunt the leaders of a continent still struggling with a bitter past.

The Yugoslav conflict, the "third Balkan war" in a mere century, was not just the most brutal expression of violence on the European continent since the end of the Second World War; it was also the most grandiose single failure of the new "European order." It dangerously shook the very fundamentals of Europe's unique edifice and cast a dark shadow over the plans and visions of its optimistic architects. A great number of accounts have been written already of Yugoslavia's destruction and on Europe's 'failure' to contain (much less to deter) the atrocities that were committed. Few statements have been so widely quoted and cynically commented on as the triumphant announcement of Luxembourg's foreign minister, Jacques Poos, who in 1991 declared:

This is the hour of Europe... if one problem can be solved by the Europeans, it is the Yugoslav problem. This is a European country and it is not up to the Americans. It is not up to anyone else.¹

Referring to Mr. Poos' declaration that the "hour of Europe" had come, one commentator suggested a more fitting slogan — "For Whom the Bell Tolls"² — in light of some of the most infamous massacres in Srebrenica and Vukovar. What Warren Christopher termed "the problem from Hell,"³ demanding, according to Lord Owen, "solutions born in hell,"⁴ sounds like a false echo to the enthusiasts' initial claim of "European solutions for European problems."

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As with so many other ethnic or civil conflicts, history cannot be ignored. Yugoslavia is a region of enormous historic complexity that presents profound difficulties to scholars and policy-makers alike. Tito, the authoritarian leader of former Yugoslavia, legitimized his country's independence from the Soviet Union. He benefitted politically, as well economically, from the existing bipolarity by following a successful policy of non-alignment during the Cold War. However, this 'anti-polar' policy contained the seeds of future tensions. Tito's death in 1980 and the discrediting of his "brotherhood and unity" mantra were followed by the disappearance of the Eastern threat, further eroding the country's fragile sense of nationhood. The gradual deterioration of the Yugoslav economy and the cessation of external economic assistance after the end of the Cold War opened a Pandora's box of previously suppressed problems. The situation was then adroitly exploited by nationalist leaders such as the Serbian President, Milosevic, and his Croatian counterpart, Tudjman.

No satisfactory answer has been given to the question whether Yugoslavia's dissolution and plunge into a brutal war were inevitable. Even more difficult is any attempt at determining when the die was cast. Was it when Tito died in 1980? After the Slovenian plebiscite in the fall of 1990? When Slovenia and Croatia declared their independence in the summer of 1991? Or was it when the European powers recognized their independence at the beginning of 1992?

Europe has not managed to escape the debate unscathed. The critics' arguments are so numerous as to render any effort of establishing some universal and objective truth an almost impossible task. It is true that Europe was just emerging from a long Cold War and was desperately looking at the time for a way to repair its tarnished image after the Gulf War. Its rush into the Balkans was an incoherent and hastily contrived response, which lacked any real understanding of the problem and reflected "a pedagogical rather than a political approach."⁵ European leaders concentrated their efforts on limiting, rather than ending the war, even though there were considerable doubts over the appropriateness of peacekeeping in an area where there was no peace to keep.

A commonly held view is that the Yugoslav crisis was "the wrong crisis [one of disintegration in an integrating Europe] at the wrong time [when it had to cope in Europe with the aftermath of Germany's unification and dramatic changes in the Soviet Union and in the Middle East with Iraq] and in the wrong place [the Balkans, which had ceased to be a region of high strategic importance]."⁶ This may have been a defensible position for the United States to hold, reluctant as it was to become embroiled in another European conflict, but it was certainly not the European impression of the situation. For European leaders, it was the right crisis (one that reflected the new realities of the post-Cold war period) at the right time (just after the first serious discussion of the new concept of a political union) and in the right place (precisely in Europe's backyard).

One commentator remarked in December 1991 that "Yugoslavia has become a test for Europe which Europe cannot pass, with consequences yet unknown."⁷ In 1999, one can say with confidence that Europe has failed this test — with dramatic implications. It was a mishandled experiment, but one that has the potential to provide answers for the future. Yugoslavia cannot be reborn or restored; an autopsy is the only process available to establish whether misguided policies or fatal omissions on Europe's part were to blame. The Balkans are not going to disappear from Europe's agenda in the near future, and the

current conflict over Kosovo offers little optimism for any immediate peaceful resolution in the region.

Eight Causes of Failure:

1. THE CRITICAL COINCIDENCE OF EVENTS

When the Yugoslav crisis erupted, Europe was in search of its identity and was attempting to define a new common foreign policy. The then-EC was just emerging from discussions at the Inter-Governmental Conference (IGC) in Maastricht at which a commitment had been made to create a Common Foreign and Security Policy (CFSP). Such events were taking place amid a general economic slowdown and new geopolitical realities. The Community had to cope with an enlarged Germany after the dramatic events of 1989-90 and increasing German monetary dominance. All these incidents certainly affected the cohesion of European policy, but it should be noted that they did not have a profound influence on the context in which the tragedy unfolded.

2. THE COMPLEXITY OF THE CONFLICT

The Balkans have always been regarded as Europe's tinderbox, containing tremendous ethnic and nationalist forces. The new Balkan war of the 1990s was, probably even more than its predecessors, an intractable combination of nationalist rhetoric, social grievances, economic disasters and political opportunism. It seems as if the 'evils' of the two competing socio-political systems had befallen the once favored protégé of a bipolar world. Entering the stage, the EC was faced with two irreversible facts: the unwillingness of the warring parties to enter into any sort of peace negotiations and their refusal to perceive the Community as a neutral body. It was only when the belligerents, realizing the futility of further military action, decided to take their places at the negotiating table that light became dimly visible at the end of the tunnel. Impartiality was never fully achieved (with the exception of some first UN initiatives), but the new willingness of all players to accept some concessions combined with the presence of a credible military force backed by assertive diplomacy was instrumental in the final signing of the Dayton accords.

3. UNREALISTIC AMBITIONS

Europe's over-ambitious and naive attitude has been pointedly termed the "Sinatra doctrine,"⁸ "we'll do it our way." This was Europe's clear message to its Atlantic partner. But in the absence of a clear plan and with no realistic balance between aims and ambitions, the EC was itself venturing into uncharted waters. It had neither a solution to offer nor the necessary means to impose one. Its hope of acquiring both was, at best, precarious and wishful thinking.

4. THE MISUSE OF HISTORY

Two flaws can be discerned in the ways in which members of the new "Concert of Europe sought to use history to understand contemporary events: the misapplication of the past and the misinterpretation of the present.⁹ Ignoring the alarm bells warning of mounting crisis in 1989-90, European leaders felt they could solve the various disputes

—operating as they did with a one-dimensional perspective and an agnostic, though assertive, rhetoric.

What was required from the very beginning and what was lacking, until events had overtaken any remaining chance of political negotiations, was “a realism that confronts hard choices about hard conditions”¹⁰ rather than the “antiseptic diplomacy” pursued in practice. The European approach should have been one that combined simultaneously technical knowledge, diplomatic dexterity and judicial impartiality, qualities which were never present in sufficient quantities.

The “historical inevitability” of the Yugoslav wars has been most often justified by two theories, one external — the collapse of communism in the Soviet Union — and one internal — the presence of “ancient ethnic hatreds.”¹¹ US Secretary of State Baker has referred to the European tendency to become “prisoners of their own history, falling back on alliances that had been developed decades or even centuries before.”¹²

This confusion about the past and the role of historical grievances was further aggravated by the adoption of policies that failed to grasp the situation’s complexity. A historical approach is imperative in order to reinforce some basic understanding about the motives behind the acts of the warring parties, but it should not amount to a justification for nurturing special historical sensitivities. For those seeking independence, there were perfectly rational and legitimate reasons for their acts: it was not merely the result of some “ill-defined Balkan temperament, a south Slavic predisposition... toward fratricide.”¹³ This misinterpretation of the nature of the Yugoslav crisis, a crisis which had its real origins in the breakdown of political and civil order against an unstable international background, became the quicksand in which Western intervention foundered.¹⁴

Lastly, Europe tended to define the real nature of the war in overly simplistic terms. Owen had characterized the Yugoslav conflict as both a “civil war” and a “war of aggression.”¹⁵ But for most European countries this view was too complex. For the British it was a civil war rooted in bitter history, whereas for the Germans it was clearly a war of aggression. The first approach seemed to offer a justification for Serbian brutality, whereas the second view was flawed by its lack of impartiality, and in its arrogant assertion that Europe could act as the legitimate arbiter in a conflict whose origins were as subjective as one’s interpretation of history.

5. CONFUSION OF PRINCIPLES

In addition to its distorted historical perspective and its failure to understand the main influences at work, the EC failed to set out its principles and to identify its specific “vital interests.” Principles such as liberal democracy, respect for borders, national self-determination, non-aggression and the protection of human rights became entangled in a murky web of declarations, statements and initiatives with no real strategy at their core.

Initially facing a dilemma between supporting the nascent democracies and encouraging separatism, the Community adopted a disastrous “wait and see” policy. It also refused to confront overtly and in a transparent way the fundamental question of self-determination. Although it did later acknowledge the disintegration of Yugoslavia, it refused to apply the same thinking to the controversial issue of the republics’ internal frontiers.¹⁶ The relevance and applicability of such principles became even more obscure afterwards with the involvement of the UN, NATO and the US. Today, a much more

pressing question remains unanswered. After its painful Yugoslav experience, can Europe discern its priorities and special interests in the face of new challenges?

6. INSTITUTIONAL SHORTCOMINGS

The existence of "interblocking", rather than "interlocking," institutions¹⁷ has often been cited as a main reason for the Community's inability to act effectively, especially in the area of decision-making and consensus-building. In addition, the organizational structure of the EC presidency, a rotating position whose occupant changed every six months, meant that it could not present a suitably coherent face to the outside world.

The "troika system" of cooperation between the previous, current and future holders of the presidency did offer some advantages during the crisis by providing the Commission with the *de facto* capacity to act on foreign policy issues, while partly correcting the flaws of the rotating system. However, not even such an arrangement could remain uncontaminated by the strong national attitudes of its partners. Consequently, when the situation became so complex and intractable that the initial bout of hyperactivity was suddenly overtaken by a mute passivity, the absence of an institution capable of taking decisive action led to the "ostrich syndrome," or "the paradoxical spectacle of the Twelve foretelling doom but keeping their heads firmly buried in the sand."¹⁸

The third point to be made here, reinforcing the lack of an effective representative European body and the failure to establish crucial independent institutions, relates to the (still) non-existent EC/EU security architecture. The intervention of the European Community in the Yugoslav crisis was based on "pre-Maastricht EPC machinery" with some *ad hoc* measures but no established and proven mechanism. Illustrative of this is the degree of naiveté and immaturity which the EC demonstrated in its effort to secure the first dozen ceasefires.

Nonetheless, many have argued that even with an effective CFSP in place the Community's performance throughout the conflict would not have been much different. "The real issue," argue Nicoll and Salmon, "is not institutional, whether to have joint integrated commands or corps, the lead played by NATO, WEU or EU, but whether there is an emergent identification of common political and security interests that guarantees unity."¹⁹ This argument brings us back to the issue of "vital interests" and the effect these have on the emergence of a strong "political will." In the words of two political scientists, "institutional engineering cannot replace policy or substitute for a clear strategy" and "errors in European policies are better explained by the chosen political solutions."²⁰

7. LACK OF POLITICAL WILL

The Yugoslav wars bore no resemblance to the Gulf War. The countries involved were faced by another Lebanon and not a second Operation Desert Storm. Four conditions were necessary to ensure the success of the 1990 operation: a powerful moral incentive, strategic importance, a positive chance of success on an open desert battlefield and strong public support. In the case of Yugoslavia, only the moral outcry was capable of inducing unanimous agreement.

It has been argued that the WEU had neither the capacity nor the will to intervene successfully in Yugoslavia. But, even in the presence of the former, the WEU could not in itself have generated the required political consensus. The formal acts of recognition of Croatian and of Bosnian independence, stripped of any tangible support, could neither

secure true independence nor guarantee territorial integrity. The same passive attitude was adopted towards the Serbian proclamation in April 1992 of a new Federal Republic of Yugoslavia that was to include Serbia proper and Montenegro, an act that met with only diplomatic disapproval. It is both ironic and painful to recall that the one thing which truly united the Western countries was their lack of political will to accept the risks of major military intervention.

8. THE "LEADERSHIP DEFICIT"

By the beginning of the summer of 1992, the Community had lost its chance to fulfil a leadership role. Instead of playing the much-needed role of "deus ex machina" it had clearly become a "machina sine deo,"²¹ and the European powers were content to assign responsibility for leadership first to the UN and then to the US and NATO.

The ad hoc emergence of a leader would have required the assertive initiative of one of the EU's more strong-willed members, willing to take over on the task of breaking the norms of traditional consensual decision-making. Bonn's cavalier behavior towards its partners in the last quarter of 1991 seemed, at the time, the strongest indication of such an intention. However, this proved to be a misleading signal. German foreign policy vacillated greatly during the course of the conflict: essentially inconspicuous in the first phase, turning surprisingly assertive during the dramatic months preceding recognition, then lapsing largely into inactivity. This oscillation between "activism and impotence" underlines the traditional German approach towards foreign policy issues, based as it is on the two concepts of "civilian power" and "multilateralism."²²

France, with its active policy and strong commitment in terms of troops, was the other potential candidate for a leadership role. Yet it became more interested in playing the "big power" than in assuming the role of a firm leader in charge of what appeared to be an uncoordinated reluctant flock of bureaucrats. Like Bonn, Paris was advocating its own version of multilateralism, but it did so for completely different reasons.

Thus, by deciding to ignore the more sensitive issues that required coalition consensus, Europe opted for policies of the lowest — and least controversial — common denominator. This approach was soon reversed when each European state found itself competing individually within other multinational institutions for effective participation. Their subsequent willingness to follow "one voice" was surprisingly strong compared to the preceding cacophony within the European Concert.

The solution to Europe's "leadership deficit" is not an obvious one. Brenner suggests two prerequisites: "common recognition that conducting foreign policy is different from harmonizing domestic policy" and "a declining regard for nationalist trappings, for the principle of sovereign independence and for relying on national means to provide for security."²³ These conditions, however, simply emphasize two issues that are not new in the European landscape: the idea of *acquis communautaire* and the controversial question of "sovereignty." Europe is in need of a vision that is not restricted to intangible concepts, but which provides for substantial and effective policies; otherwise, "leadership" will, like so many other terms, be assigned an empty meaning within the already extensive European political vocabulary.

Explaining Failure and Success

When asked why Europe failed, Michael Steiner, the international community's Deputy High Representative in Bosnia-Herzegovina, conceded that its unfounded optimism had led its leaders to believe that "we had overcome the era when wars were thought of as solutions... The Gulf War was understood as something that was possible only outside civilized Europe."²⁴ This was a view reflected in what the Germans called "*Europäische Friedensordnung*", or a "European peace order."²⁵

Moreover the European nations' divergent interests created a dangerously confused mixture of national attitudes. France pursued contradictory aims: promoting the EU's common foreign policy while favoring national goals. British policy was one of "pusillanimous realism,"²⁶ and the Germans followed a flawed approach of creating a political order in the Balkans that no one was willing or able to protect. This mixture of conflicting policies and narrow interests doomed any chance of shaping a common European policy.

Such incompatibility in national policies led to inevitable frictions. Notable examples include: President Mitterrand's unannounced trip to Sarajevo in 1992, the Greek veto over recognition of the former Yugoslav republic of Macedonia, disagreements regarding sanctions on Serbia and the arms embargo on the whole of the former Yugoslavia, and the lack of a unanimous commitment to the enforcement of the Adriatic blockade.

Some critics have gone even so far as to accuse the EC not only of mismanaging itself, but of mismanaging others as well. "At the root of American failure was West European failure. Had the Europeans confronted the problem when the United States alerted them, had they acted more cohesively, had they been more willing to sacrifice, the United States could have joined them in a better, if not entirely successful, strategy."²⁷

In defense of Europe, one can single out some small individual achievements, such as the role played by the organization for European Political Cooperation (EPC) in the initial stages of the Yugoslav crisis. The Community did also shoulder a big part of the burden by providing humanitarian assistance and relief for refugees, while contributing substantially in military terms to the UN. Still, the EPC relied merely on ad hoc initiatives rather than on established institutional mechanisms. Moreover, it always faced substantial national reluctance to provide military contributions. Douglas Hurd's characterization of a 'frustrated Europe' — a feeling equally shared by other players as well as most observers — seems the most appropriate one.²⁸

Conclusions

The question of whether EU succeeded or failed is of little relevance for an assessment of its capacity to deal with such situations in the future. In the words of a European diplomat, the current focus should be on "whether [Europe] had the means of fulfilling its ambitions, and if not, whether it prefers to give itself the means or abandon its ambitions."²⁹

An answer is still needed to the endless "federal problem", since a truly European foreign policy cannot be simply an addition to existing national policies.³⁰ Three controversial issues remain and need to be given special attention: consensus-building

(the question of sovereignty), leadership (the issue of credibility), and defense provision (the idea of the legitimate use of force).

CONSENSUS BUILDING

Carl Bildt pointed out that it is harder to achieve political consensus than it is to rectify institutional shortcomings: according to him, while Washington has to compete among "institutional views", Europe needs to coordinate "national views."³¹ What is required is a clear definition of the decision-making process and the areas where qualified majority voting is to be applied, subject to previous acceptance of the principle by all member states. A clarification of the political *acquis*, an issue that was not adequately covered by the limited scope of reforms undertaken by the Treaty of Amsterdam, is an inescapable precondition for debate over further enlargement.³² A coherent national policy can only be formed on the basis of a common perception of what constitutes "vital interests." When these have been clarified on a national level, an attempt to implement throughout the EU via genuine political cooperation should be considered the next priority. Such processes will not always lead to common action, but it is not necessarily desirable that they should, since, even more than monetary policy, foreign and defense policy still remains "the *raison d'être* of an independent nation-state."³³ In this regard it is unrealistic and even dangerous to exaggerate the need for an all-inclusive foreign policy doctrine.

LEADERSHIP

The second issue, relating to Europe's presence on the international stage, provides a long awaited answer to Kissinger's frustrated question about Europe's spokesman. Brenner makes an interesting analogy between Europe's performance in Yugoslavia and America's experience in its march to becoming a global power. The idea that Europe's "debut performance" in the Yugoslavian crisis was the result of mere inexperience which might in the future be resolved through direct confrontation with post-Cold War realities, can only be supported if the "leadership void" is successfully filled. For the Commission to take up this role, it would have to be granted executive powers similar to those it already enjoys on civilian matters. However, this seems very unlikely to occur, given the still unresolved issue of sovereignty. Whether Germany, France, the United Kingdom or any combination of the three should take the lead is open to debate.

DEFENSE

The defense issue, although a separate problem from that posed by the question of leadership, should be seen in the same light, if a coherent Common Foreign and Security Policy is to be put into place in the foreseeable future. A successful CSFP would strike a balance between political leadership and military command and allow the allocation of different responsibilities among the European allies. Such a concept might attempt to solve the "capabilities-expectations gap"³⁴ as illustrated in the endless debate between "the ends of integration and the means of defense provision."³⁵ According to Gow, two important developments originated in Europe's involvement in the Balkan conflict: "Yugoslavia was an opportunity for Germany to begin its transformation from humble penitent to responsible giant in the framework of European policy," and "France and the UK, traditionally distrustful of each other [...] began to form an axis for military-political

policy and activity in the European context.”³⁶ Germany’s transformation is already visible in the new, more assertive government of Chancellor Schroeder, which lacks the burden of a history carried on the shoulders of previous governments. The Franco-British cooperation and recent talks about Europe’s defense capabilities which culminated in the December 1998 signing of a “Joint Declaration on European Defense” are the most reassuring signs of the potential for creating a common European defense arm. However, the remark made by Belgian Foreign Minister Mark Eysken during the Gulf crisis about the EC being “an economic giant, political dwarf and military worm”³⁷ does not seem likely to lose its relevance in the near future.

The most pressing questions about the ability of the EU member states to act in concert remain. Europe can no longer shrink from its responsibilities before possible future threats to continental peace. It must dare to go a step further and give a qualified statement of intent, backed by determined action, first to itself and then to its transatlantic partner. The US for its part, even if it appears likely to lose its role of the “indispensable nation” at times of great European euphoria, is and should remain part of any future European order. “The future system will include as much ‘European power’ as Europeans will be able to produce and demonstrate,”³⁸ but only as much continental peace as a united transatlantic partnership can provide. Nothing underscores this fact more dramatically than the current developments in southern Yugoslavia.

This decade began with what Richard Holbrooke described as “the greatest collective security failure of the West since the 1930s” and may well close with a reemergence of the chaos of the 1940s. Despite its economic achievements and the successful launch of the Euro, the 1990s were not Europe’s decade, and it remains to be seen whether its performance will improve before the end of the “American Century.”

Endnotes:

¹ ‘News at Ten’, ITV, 27 June 1991; quoted in: C. J. Smith, “Conflict in the Balkans and the Possibility of a European Union Common Foreign and Security Policy,” in: *International Relations* 8:2 (August 1996), p. 1.

² Michael J. Brenner, “The EC in Yugoslavia: A Debut Performance,” in: *Security Studies* 1:4 (Summer 1992), p. 594.

³ Warren Christopher, *In the Stream of History: Shaping Foreign Policy for a New Era*, Stanford: Stanford University Press, 1998, p. 344.

⁴ John Fenski, “The West and ‘The Problem from Hell’,” in: *Current History* 92:577 (November 1993), p. 353.

⁵ Warren Zimmermann, *Origins of a Catastrophe*, New York: Times Books, 1996, p. 147.

⁶ Christopher Cviic, “Who’s to Blame for the War in Ex-Yugoslavia?” in: *World Affairs* 156:2 (Fall 1993), p. 74.

⁷ Steven Philip Kramer, “Western Europe’s ‘Eastern Question’,” in: *The World Today*, December 1991, p. 213.

⁸ Josef Joffe, “The New Europe: Yesterday’s Ghosts,” in: *Foreign Affairs*, ‘America and the World 1992-1993’, special issue 72:1, p. 32.

⁹ Various books, which often lacked adequate objectivity, have also had profound impact on the minds of Western policy-makers, such as Rebecca West’s travel book *Black Lamb and Grey Falcon* or Robert Kaplan’s 1993 best-seller *Balkan Ghosts: A Journey Through History*, the latter one having allegedly provoked “a change of heart” of President Clinton “after reading about history’s cauldron.” (Richard Holbrooke, *To End a War*, New York: Random House, 1998, p. 22; W. Christopher, op. cit., p. 347.)

¹⁰ Michael Brenner, “The EC in Yugoslavia: A Debut Performance,” in: *Security Studies* 1:4 (Summer 1992), p. 592.

¹¹ See Noel Malcolm, “Bosnia and the West: A Study in Failure,” in: *The National Interest*, Spring 1995, p. 4.

¹² James A. Baker III with Thomas M. DeFrank, *The Politics of Diplomacy: Revolution, War and Peace*, 1989-92, New York: G.P. Putnam’s Sons, 1995, p. 645.

¹³ Laura Silber and Allan Little, *The Death of Yugoslavia*, London: Penguin Group and BBC Worldwide Ltd., 1996, p. 159.

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- ¹⁵ David Owen, "The Future of the Balkans," in: *Foreign Affairs* 72:2 (Spring 1993), p. 3.
- ¹⁶ J. Zametica, op. cit., p. 62.
- ¹⁷ Jonathan Eyal, *Europe and Yugoslavia: Lessons from a Failure*, London: Royal United Services Institute for Defence Studies, 1993, p. 79.
- ¹⁸ Simon Nuttall, "The EC and Yugoslavia - Deus ex Machina or Machina sine Deo?" in: *Journal of Common Market Studies* 32, Annual Review, August 1994, p. 14.
- ¹⁹ William Nicoll and Trevor C. Salmon, *Understanding the New European Community*, Hertfordshire: Harvester Wheatsheaf, 1994, p. 212.
- ²⁰ Éric Remacle and Barbara Delcourt, "La PESC à l'épreuve du conflit yugoslave: acteurs, représentations, enseignements," in: Marie-Françoise Durand and Alvaro de Vasconalos (eds.), *La PESC: Ouvrir l'Europe au Monde*, Paris: Presses de Sciences Po, 1998, pp. 270-271.
- ²¹ S. Nuttall, op. cit., pp. 11-25.
- ²² Hanns W. Maull, "Germany in the Yugoslav Crisis," in: *Survival* 37:4 (Winter 1995-96), pp. 100, 125-126.
- ²³ M Brenner, "The EC in Yugoslavia: A Debut Performance," op. cit., p. 603.
- ²⁴ Interview of June 1997 with Michael Steiner, "Don't Fool Around With Principles," in: *Transitions* (August 1997), p. 38.
- ²⁵ See Adrian G. V. Hyde-Price, "The system level: the changing topology of Europe," in: G. Wyn Rees (ed.), *International politics in Europe: The new agenda*, London: Routledge, 1993, p. 27.
- ²⁶ See James Gow, "British Perspectives," in: Alex Danchev and Thomas Halverson (eds.), *International Perspectives on the Yugoslav Conflict*, New York: St. Martin's Press, 1996.
- ²⁷ David Gompert, "How to Defeat Serbia," in: *Foreign Affairs*, July/August 1994, p. 42.
- ²⁸ In his recent book, Lord Hurd states precisely that: "One of the encrusting myths is that the European Union was paralysed by division. Rather we were united in frustration." (Douglas Hurd, *The Search for Peace*, London: Little, Brown and Company, 1997, p. 132.)
- ²⁹ S. Nuttall, op. cit., p. 24.
- ³⁰ See Christopher Hill, "The Capability-Expectations Gap, or Conceptualizing Europe's International Role," in: *Journal of Common Market Studies* 31: 3 (September 1993).
- ³¹ Quoted in R. Holbrooke, op. cit., p. 366.
- ³² Jörg Monar, "The European Union's Foreign Affairs System after the Treaty of Amsterdam: A 'Strengthened Capacity for External Action'?", in: *European Foreign Affairs Review* 2/1997, p. 435.
- ³³ David Owen, *Balkan Odyssey*, Orlando: Harcourt Brace & Company, 1995, p. 344.
- ³⁴ See C. Hill, op. cit.
- ³⁵ C. J. Smith, op. cit., p. 14.
- ³⁶ James Gow, *Triumph of the Lack of Will: International Diplomacy and the Yugoslav War*, New York: Columbia University Press, 1997, pp. 182-183.
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Auf Wiedersehen Modell Deutschland?

The German Political Economy and the Challenges of the 1990s

Frédéric C. Neumann-Schniedewind

Since the day of the currency reform, the policy of the social market economy has been guided by the idea of bringing personal freedom, growing prosperity and social security into harmony on the basis of a free competitive economy and of reconciling the peoples by a policy of openness to the world.

Ludwig Erhard, 1960

A New *Angst*

Germans are again going through one of those bouts of anxiety that hit them about as often as a trough in the business cycle. In the 1960s it was the Berlin Wall, in the 1970s it was the Baader-Meinhof gang, and in the 1980s nuclear weapons. Now, with the country unified, terrorists and cruise missiles gone, there comes a less familiar source of *Angst*: economic stagnation.

The figures speak for themselves: in 1997, unemployment reached a record level of 11.9%, which puts the total of Germans looking for jobs at 4.5 million, levels not seen since the days of the Weimar Republic.¹ Over the last several years, government debt has more than doubled, leaving Germans struggling with the Maastricht criteria.² After the unification-induced boom of 1990, economic growth slowed to a dismal one percent per annum.³ In manufacturing — the backbone of German industry — output was seven per cent lower in 1996 than five years previously, and the workforce has dropped from 11.1 million to 8.8 million over the same period.⁴

This kind of news is hard to get used to. Germany, after all, is the country of the *Wirtschaftswunder*. Following the war, “West German society gave rise to a distinctive kind of capitalist economy, governed by nationally specific social institutions that made for high international competitiveness at high wages and, at the same time, low inequality of incomes and living standards.”⁵ Annual increases of real GDP averaged

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8.2% in the 1950s and 4.4% between 1960 and 1973.⁶ The German economic and social order was widely regarded as exceptionally successful: “the country was not only rebuilt in what was generally referred to as an economic miracle. Its economy developed to become one of the most efficient and productive in the world.”⁷

But no more. The vaunted German model has run into trouble. A “dangerous combination of high wages with short working hours, rigid labor laws, risk-averse managers, overregulation and overtaxation” have turned the German miracle into the ‘German disease.’⁸ In the 1990s, the social market economy (SME) “is unable to cope with a multiplicity of demands on its resources and is weakened by a combination of low domestic demand, intensified international competition, demographic problems and structural difficulties exacerbated by the legacy of unification.”⁹ Germany’s economic institutions simply lack flexibility and fail to promote innovation.

In short, German capitalism has lost its appeal. Abroad, countries in search of an ideal no longer seek to imitate the ‘Rhine model.’ The Poles, for example, now look to Anglo-Saxon capitalism for inspiration. At home, it is slowly dawning on the Germans that the old ways need mending. Globalization, it is held, undermines the foundations of the social market economy. A recent book *The Global Trap* proved an unexpected bestseller.¹⁰ Recommendations range from isolation to the abandonment of *Lederhosenkapitalismus* (traditional German business practices) and the adoption of American cowboy capitalism.

What’s wrong? Does the social market economy still have a chance in today’s global environment? Or are the days of the German model numbered? What are the alternatives? This essay will, first, identify the major elements of Germany’s political economy. Second, it will elucidate the exact challenges. The third part will depict the responses to these threats and point to possible solutions. The conclusion will briefly comment on the role of the state in the postwar period and in the future.

Don’t Take Two for One

The French fiddled with state planning, the British believed in public sector spending, Americans allowed *laissez-faire*, and the Swedes sought labor market regulations while the Japanese juggled industrial policy. Over the postwar period, countries have not converged along a common path of neoliberal modernization. Rather, in advanced capitalist societies “firms are embedded in distinctive social systems of production which have emerged from different institutional trajectories.”¹¹ Germany’s success, it is argued, is based on decentralized state power within a highly centralized civil society.¹²

But to sum up national models in catch-phrases is to ignore change. Though some unique features of Germany’s economic order have persisted since the war, most have changed so fundamentally that it is necessary to speak not of one but of two German models. From the currency reform of 1948 to the mid-1960s, a CDU-led government pursued “an ‘organized’ supply-side policy, biased in favor of industry” and created a “welfare state that provided a partial cushion for those not favored by the dominant economic policy.”¹³ In 1969, the SPD-FDP coalition introduced a new form of German capitalism that is still around today. Here the emphasis is on macrocorporatism with more regulations and consumer oriented policies. The continuity and change of different elements characterizes Germany’s postwar economic development.

Two central components of German capitalism have prevailed over the last fifty years: competition and monetary policy. After the war, officials believed that “the state is obliged to provide a constitutional or statutory safeguard for competition to protect it against the excessive powers of monopolies and cartels and to guarantee fair performance-based competition — which alone is able to bring about at least a tendency for individual and common interests to coincide.”¹⁴ The 1957 Act Prohibiting Constraints on Competition set up an independent cartel office, and even came to be “regarded as a basic law of competition, comparable in importance to the constitution.”¹⁵

A second law in 1957 erected the Bundesbank. Charged with protecting the currency, the autonomous central bank demonstrated the credibility of German anti-inflation policy by establishing a reputation for toughness.¹⁶ Germans became inflation hawks not only as a legacy of the hyperinflation of the 1920s, but also for social and political reasons.¹⁷ Strict control of the money supply also served as a built-in economic stabilizer, “which would eliminate cyclical fluctuations by means of signals to investors provided by an efficiently operating price mechanism.”¹⁸ Moreover, low inflation helped to keep wages in check, and a strengthening Deutschmark guaranteed permanent competitive pressure on exporters.

What the Bundesbank and the Federal Cartel Office have in common is that they are independent authorities insulated from electoral pressure. Objectives like “monetary stability and competitive markets are in this way removed from government discretion and depoliticized.”¹⁹ This largely explains their policy consistency since the war. However, the other four dimensions of the German economic tradition — state intervention, social citizenship, industrial partnership, and corporate finance — have undergone fundamental change. This is partly due to political meddling and partly to weak institutionalization.

During the first decade and a half, economic policy followed ‘*ordoliberalism*’, the notion of a limited state that frames general rules but refrains from intervention. As advocated in the writings of Ludwig Erhard and others from the Freiburg School, the doctrine held that the state should remain a neutral player in the market, allowing only moderate redistribution through progressive taxation and providing just elementary social welfare. “Erhard’s firm personal aversion to state intervention or to collusion in the economy held sway, especially because he was Economics Minister but also because it represented a consensus. His revulsion to state intervention and to monopoly or oligopoly were all the more accepted because they represented a reaction to the Nazi state and to its industrial collaborators.”²⁰

This, however, began to change in 1966 when the SPD came to power. Schiller’s *Globalsteuerung* (universal control) and *Konzertierte Aktion* (cooperation) stressed fiscal policy and government direction — via influence rather than decree — as the main tools to control macroeconomic performance. Perceiving a widespread desire for more welfare and stability, the SPD became “an eager advocate of innovations that would strengthen the government’s capacity for reconciling these two goals.”²¹ Increasingly, the German state also became involved in the affairs of industry. “The growth of state intervention is evident firstly in the steady expansion of subsidies to industry. Moreover, state funds have played a growing role in the most critical processes of industrial restructuring — technology development and transfer — and labor force skill development.”²²

From the outset, the role of the state in the social market economy was to ensure a welfare system for those who might have fallen by the wayside in a totally free market

system. But emphasis shifted here as well. Initially, policies were based on a Christian Democratic approach which pointed to "state responsibilities whilst upholding broad liberal preferences for self-help and the family."²³ From the late 1960s onwards, consecutive SPD and CDU dominated governments expanded welfare provisions. The definition of SME gave more and more weight to the word 'social.' The figures reflect this: while in 1950 social expenditure of total public outlays accounted for a mere 25 percent, in 1994 it was about half.²⁴

Another crumbling pillar of the German model is the spirit of consensus between labor and capital. Co-determination was introduced in 1951 to develop cooperation between management and employees. In the name of social peace, workers were given a voice in supervisory boards and through work councils. Though this arrangement worked well in early years, it soon created confrontation. Work councils started to engage in "considerable supplementary pay bargaining on an informal basis." Moreover, the councils tried to increase their "bargaining activity to protect constituents from technological change and organizational and managerial innovations."²⁵ Similarly, consensus gave way to conflict in sectoral wage bargaining. The strike intensive years of 1978, 1984, and 1994 confirm that "the outstanding appeal of German-style social peace was gradually lost."²⁶

In Germany, 'stakeholders' not only include employees but also banks. Traditionally, financial institutions assumed key posts on supervisory boards, wielding their power through direct or proxy shareholding. Consequently, a tradition of loan rather than equity financing of industry developed. This system had the advantages of stabilizing the German corporate structure, promoting long-term planning, and avoiding take-over battles. Yet over the last two decades, the role of banks has declined because of a reduction in their shareholdings and the development of deeper capital markets. The ten largest institutions have lowered their participation in German corporations from 1.3% to 0.4% in 1994.²⁷ Increasingly, the culture of 'shareholder value' is taking hold.

In conclusion we can see that some important ingredients of the German model have persisted over the postwar period. Apart from its consistent commitment to low inflation and fair competition, "the German political economy continued to allow for decentralized compromise and local commitments supplementing, underpinning and sometimes superseding the high politics of class accommodation at national level."²⁸ However, the original doctrine of the Freiburg School on which the SME was based also underwent considerable change. Social welfare legislation "advanced further than Erhard wanted" and "the government became an instrument for the preservation of existing structures rather than a force for renewal. It stepped into the arena ever more frequently to favor one or another established player or groups of players."²⁹

It is striking that those elements which were subject to political influence or were weakly institutionalized underwent change while others remained stable. Up to the mid-1960s, CDU-led governments approached state intervention and social welfare differently than did later coalitions.³⁰ The role of work councils, trade unions, and banks also changed considerably due to a lack of formal structures.³¹ However, at least in the political realm, "reforms have been constrained by the institutional context of policy-making" which ensured a degree of consistency.³² In 1974, as a case in point, the Bundesbank put an end to any Keynesian temptations by reaffirming that "it would do all in its power to keep the inflation rate down," offsetting the effects of expansionary fiscal policies with high interest rates.³³

Globalization vs. *Gemütlichkeit*

This inherited German model of capitalism, with all its components, faces rising and cumulative pressures in the 1990s. This stems partly from new international commitments such as the European Monetary Union, the stabilization of Eastern Europe and Germany's quest to play a more important role in the UN and NATO. Partly it can be linked to the burden of reunification. Most importantly, though, the difficulties derive from developments in the globaleconomy. In general, "it is not at all clear that the German model provides German actors with the means to deal effectively with this pressure."³⁴ The result: a profound policy dilemma for the Federal Republic.

The costs of Germany's latest international obligations are negligible compared with the scale of funds needed to achieve German unity. Gross transfer payments from the West represent about fifty percent of East German GDP every year, and "net transfers for the period 1991 to 1996 total[led] more than DM 930 billion." As a consequence, the budget deficit rose from one percent of West German GDP to 6.2% in 1993, income taxes went up by 7.5% due to the contentious 'solidarity surcharge', and harsh funding cuts trimmed public services and investment spending.³⁵ Moreover, non-wage labor costs jumped from 35.6 percent in 1990 to a record 41.7% in 1997.³⁶ Thus, by the mid- to late-1990s, Germany was engaged in the largest wealth transfer in economic history — which inevitably proved a drag on competitiveness.

But it would be wrong to blame unification alone for Germany's economic woes. Developments since 1989 may have exacerbated the institutional problems inherent in German capitalism but they did not create them.³⁷ Already before the fall of the Wall, the model had hit its limits with regard to product leadership, labor market flexibility, and cost cutting. It had "slowly begun to deteriorate into a pattern where socially instituted markets, negotiated management, structurally conservative politics, quasi-public associational governance and cultural traditionalism resulted no longer in industrial upgrading, but in an ever-expanding number of people being relegated to an ever more expensive and, ultimately, unsustainable safety net in the widest sense, being kept out of employment at public expense, or in employment at private expense."³⁸

By far the greatest challenge for the German model is globalization. It may seem paradoxical that an economy which is so successful in world markets would be threatened by global competition. In fact, measured by per capita exports, Germans are still number one in the world, ahead of both Japan and the United States. But it is precisely here that one of the key problems lies. Because of its reliance on exports, the German economy becomes more vulnerable as international competition intensifies. New competitors, especially from East Asia and Eastern Europe, squeeze margins for manufactured exports while newly profitable markets are not captured by German companies due to a lack of innovation. Hence, Germany's share of world trade dropped from 11.5% in 1991 to 9.9% in 1996.³⁹

It is easy to exaggerate the consequences of globalization.⁴⁰ Its impact, nevertheless, is real. The process involves an "increasing integration of international markets being brought about by rapidly expanding worldwide flows of goods, services, capital, information, and sometimes people."⁴¹ It also comprises post-Fordism, a shift from mass production to flexible specialization in both products and production processes as a result of accelerating technological change. By dramatically increasing the mobility of factors

of production, the new global economy places “a premium on speed of decision, reduction of costs, flexibility of employment and working practices and more innovative methods of raising capital for new ventures, and more internationally experienced managers.”⁴² All these developments raise serious questions about the continuous effectiveness and viability of the German model.

Even one of the most constant elements of German postwar capitalism, competition, is in jeopardy. Domestic authorities find it impossible to regulate corporate takeovers and strategic alliances by multinational companies. The Federal Cartel Office, for instance, was unable to stop the merger between Boeing and McDonnell-Douglas which “created an aircraft manufacturer likely to dominate the world market.”⁴³

Though it is debatable whether globalization entails ‘the erosion of the state,’ there is no doubt that the process requires a redefinition of the government’s role in the economy.⁴⁴ The success of the German model was in some measure conditional upon “supportive as well as directive public or quasi-public intervention, inevitably organized at national level and dependent on a capacity, vested in the nation-state, to police the boundaries between the national economy and its environment.”⁴⁵ But as borders have vanished, extensive subsidies to industry, together with the attendant increases in taxation and the state’s share of national expenditure have become self-defeating. Faced with levies of up to 53 percent of their revenues, firms simply wave goodbye, taking 300,000 jobs with them.⁴⁶ German foreign direct investment reached DM 50 billion in 1995, with none coming into Germany itself.⁴⁷

Companies also leave for a second reason: wages. At hourly pay rates of DM 45 in manufacturing, Germany has unit labor costs that are 25 percent higher than those of OECD competitors while working hours and machine-running times are the shortest.⁴⁸ The German commitment to social cohesion led to rising non-wage payments which have been “increasing faster than net wages ever since the seventies.”⁴⁹ In the past, upward wage pressure served the German economy well: an incentive for the introduction of capital-intensive manufacturing techniques and the production of high value-added goods. Today, however, an imbalance between productivity and labor remuneration leads to an outflow even of high-skill jobs. Eastern European countries, for example, now supply German companies with a low-paid and educated workforce, close enough to be included in just-in-time production.

Germany’s ‘high road’ to economic success is also endangered by new management methods. Conquering niche markets was the cornerstone of this strategy. The costs arising in the socially circumscribed labor market have discouraged price-competitive production and compelled firms to seek survival with quality-competitive goods. But lean production has changed all that. Integrated quality control, synchronized inventory systems, and team work are designed to make quality products cheaply. Hence, the “juxtaposition between a high and low road of economic success looks increasingly invalid.” With the global spread of flexible, post-Fordist patterns of production, “the business logic that allowed the German model to operate in an orderly and stable manner is rapidly washing away.”⁵⁰

In addition, lean management strikes at the heart of German industrial partnership. It erodes the traditional sectoral pay bargaining process by weakening the craft model of employment. Team work has contributed to the disappearance of individual autonomy, the significance of specific skills, and the high level of task identity enjoyed by craftsmen. This in turn dents the idea of “craft workers enjoying pre-contractual employment rights

—the notion that association with a particular skill ensures that a worker enjoys a relatively autonomous working environment and high social standards irrespective of the employer for whom he or she works.” Rather than deriving their status from being a member of a particular craft community, “the skills and career path of workers are now more intimately tied to the individual enterprise.”⁵¹ As a consequence, employees (and employers), faced with mounting competitive pressure, increasingly opt out of centralized wage fixing and seek plant-level solutions.

Just as German labor needs to adapt to global factor mobility, so does capital. Over the past ten years, “German banks were pulled into world credit and securities markets while German corporations came under international regulatory pressures to shift to US-style accounting, or to open Frankfurt bond and equity markets to non-German institutions.”⁵² The internationalization of finance enfeebles the hold that German banks have over the credit supply to companies, weakening their capacity and motivation to monitor company performance and to promote prudent long term corporate strategy. For instance, Daimler-Benz, now DaimlerChrysler, took the historic step in 1993 of listing its shares on the New York Stock Exchange. As national boundaries wither away, the relationship between German banks and companies will become less intimate and more market driven.

To be sure, not all German companies lose out in the global economy. Large conglomerates have especially profited from the opportunity to escape over-regulation and the tax burden at home. “German big business has been demonstrating its disillusionment with Modell Deutschland by channeling increasing volumes of wealth- and job-creating investment beyond the country’s enlarged borders.” However, together with the domestic cost-cutting and rationalization drive, “the result is a progressive de-coupling of the performance of the domestic economy with that of German companies increasingly set upon globalization.”⁵³ What is good for Siemens is no longer necessarily good for Germany.

It seems that what the global economy demands, the contemporary version of the German model cannot offer. Flexible labor markets and low production costs are the key to success, but both are presently lacking. And it also seems that globalization is set to put central elements of the German model at risk. Without reform, it will not prove competitive nor will it survive. Competition and monetary policy, collective bargaining, and the Hausbank arrangement are unsustainable in their current forms.

Back to the Future

In their attempt to save the German model, policy-makers have engaged in an ‘export-import’ strategy. On the one hand, they try to extend certain features of German capitalism to neighboring countries and international organizations. On the other hand, officials strive to accommodate German institutions to the imperatives of the global economy. However, it is questionable whether reforms have been sufficiently far-reaching. Institutional inertia seems to impede progress. What is lacking is a new sense of direction and a better understanding of how to respond to the challenges of globalization.

Again, it is remarkable that the two most persistent elements of the German model have been successfully spread to the international sphere. To compensate for the emerging impotence of national authorities to effectively regulate strategic corporate behavior, the

Germans, "in coalition with the British and against the French, succeeded in extending their competition regime to the European Community."⁵⁴ The same goes for monetary policy. Over the 1980s, the Bundesbank exported low inflation to members of the EMS. In the 1990s, this policy has taken on a more radical form. The European Central Bank in Frankfurt, modeled after the Bundesbank, has as its overriding preoccupation stability for the new single European currency.⁵⁵

Efforts to Europeanize German industrial partnership, however, have come to naught. Proposals to introduce a corporatist-style tripartite consultation (*Konzertierte Aktion*) in European Union decision-making have failed, as have proposals to encourage European-level work councils.⁵⁶ Attempts to export the SME's social dimension have proven more successful. The Bonn administration wants to make laws in the EU "consistent with the thrust of postwar German industrial relations which had resulted in a high level of protection for German workers." Apart from a non-binding social charter, "the German government also supported inclusion of social policy in the Maastricht treaty, and won a curious agreement to apply qualified majority voting rules and use EC institutions to harmonize social policy among all EC members but the UK."⁵⁷

The Union not only serves as a vehicle for exporting policies, but it also helps to precipitate adaptation within Germany. In fact, "the main source of new thinking on deregulation comes from outside: the European Union has proven a valuable force driving forward liberalization, providing the impetus behind important measures in transport, telecommunications and financial services."⁵⁸ EU deadlines to implement single market legislation, for example, stimulated market liberalization in investment banking. In the 1980s, the government was against any 'Big Bang' experiment. "This aversion was rooted in Bundesbank opposition to the development of money markets, and in the practice of corporate-bank-insurance cross-shareholding among Germany's big publicly listed corporations."⁵⁹ Yet the need to comply with new European standards forced Germans to open their finance sector to international competition, a move that in the long run may even reinforce *Finanzplatz Deutschland* (the concept of Germany as a favorable location for the financial industry).

But constructive change in Germany is still painfully slow. Part of the trouble is caused by one of the most important traits of the German policy style: the search for compromise. "German policy makers prefer non-decisions, incrementalism and the middle ground to radical change and zero-sum games and they believe in long-term solutions."⁶⁰ This may in the past have had its advantages as it promoted a relatively stable business environment. "The politics of West German economic policy has constrained the radical experimentation with either a strong dose of Keynesianism (as in France between 1981-83) or a strong dose of supply-side economics (as in Britain since 1979)."⁶¹ In the 1990s, however, decisive action is required. "The excuse of 'social consensus' is too often used in flabby defence of the now unaffordable status quo. The system of checks and balances needs loosening to help Germany keep up with ever niftier foreign competitors."⁶²

Germany's shopping hour regulation is an instructive example of the country's sloth-like adaptation to change. Only recently was an amendment introduced to the law obliging retailers to close their shops at half past six in the evening at the latest. The German government and trade associations, in the name of cooperation, took decades to reach an understanding. Discounting the job-creating effect of extending store-opening hours, trade unionists argued that "the right of 2.7 million retained employees to go home

at the weeknight closing time of 6:30 P.M. clearly outweighs the desire of a few individuals to shop in the evening.”⁶³ This case underlines the constraints on policy innovation in the Federal Republic. Unless reforms are exacted from outside, the consensus approach will stifle change. German politics tends to grind down “radical policy initiatives so that the end product, if one emerges at all in the form of an authoritative decision or policy output, represents the lowest common denominator between those corporate actors which command the potential to crush the initiative completely.”⁶⁴

Nonetheless, it remains true that this arrangement has one outstanding advantage. If all relevant political forces happen to agree on certain objectives then the necessary adaptations can be quickly enacted. Thus, the current policy immobility may stem as much from the institutional context as from the absence of a vision as to where the transformation will or should lead. “The German inclination to prefer cooperation to competition in policy making was based on unprecedented postwar economic success and a broad based consensus on the welfare state. What we witness today is increasing controversy over what policy makers should achieve. The task of finding compromise has become much more difficult.”⁶⁵

While Germans do not have a clear idea about where globalization is going to lead, they do, in fact, have a model at hand that should offer guidance and enable them to confront the new challenges effectively. Looking back over the past fifty years, it becomes clear that the first version of German postwar capitalism holds some of the answers to today’s questions. The ideas of the Freiburg School are as valid now as they were during the *Wirtschaftswunder* of the 1950s. Only performance-based competition regulated by a government-ordained framework will provide the flexibility necessary for success in the global markets of the 1990s. If *Standort Deutschland* (Germany as a business location) is no longer competitive it is because these principles were compromised over the years.

In other words, it is back to basics. The original German model has at its core a system of competition. “As such it aims to link market freedom and market efficiency with compensatory welfare, whilst retaining the maximum degree of individual freedom. That does not mean a maximum of social policy, but rather requires the basic principles and the overall framework to be shaped in such a way that social justice can evolve out of the system.”⁶⁶ The state should not be a burden through excessive taxation and intervention. Instead, its task is to create an enabling environment for business through a comprehensive yet ‘neutral’ structural policy which is oriented to objective yardsticks and overall societal goals.

Innovation is a good example of this. Germany, once a pioneer of science, is rapidly losing its technological edge which is so important to its high-wage economy. “In microelectronics the number of German patents between 1987 and 1992 shrank from 289 to 181, while Japanese registrations have risen from 17,408 to 23,082. The USA, with a doubling of its patents from 848 to 1,671 (over the same period), is substantially better off than German enterprises.” And there are “similar lags in large computers, communications electronics, office technology, and lasers.”⁶⁷ Clearly, the German state has neglected its job of providing structural support to enterprises. Not only have successive governments rearranged their priorities and slashed public R&D and higher education funds since the 1960s, but they have also generated a chain of legislative restrictions which have proven

to be an increasingly insurmountable obstacle to innovation. To engage in effective research in biotechnology, for example, is virtually impossible these days.

To call for a (partial) return to the policies of the 1950s is not to advocate *laissez-faire*. In *verba magistri*: “It is wrong to regard the Social Market Economy merely as a variety of neo-liberalism. Whereas neo-liberalism regards the machinery of competition as the sole principle of organization, the concept of the Social Market Economy has grown from different roots. These lie in dynamic theory and in social anthropology, both of which were developed in the 1920s under a different view of the State and a development of the concept of a way of life that was largely rejected by neo-liberalism.”⁶⁸ It is the original principles of ‘ordoliberalism’ and the successful policies of the early postwar years that Germans need to look to for inspiration. Moreover, it is here that they will find the broad consensus needed to implement far-reaching reforms.

Not Quite Dead Yet

At first glance it may seem that the global economy is slowly forcing the state’s obsolescence. Over the last fifty years or so public spending has taken an ever increasing share of national GDP while the government has been busy telling people and businesses what to do, or, rather, what not to do. Yet in the 1990s, with the inadequacy of national institutions laid bare, things have changed. Tasks are being transferred to the sub- or supranational level and the state is being told by its citizens and firms to cut back. Susan Strange puts it as follows: “state authority has leaked away, upwards, sideways, and downwards. In some matters it seems even to have gone nowhere, just evaporated. The realm of anarchy in society and economy has become more extensive as that of all kinds of authority has diminished.”⁶⁹

It is not quite that simple. In the age of globalization, the state will probably be relied upon more than ever. In the words of Ludwig Erhard: “wherever society fears mistakes or dangers in a development, it can set limits or create rules via social, economic or fiscal policy action — indeed, in times of need it will have to do so.”⁷⁰ Expect the state to adapt, not decay.

In the late 1990s, therefore, the choice facing Germany’s government is that between ‘defensive’ and ‘offensive’ intervention. Should the state erect barriers that will shield the domestic economy from the onslaught of the presumably ineluctable forces of globalization? Or should the state embrace the global economy and help domestic firms compete internationally? The answer is, in short, that the national economy must withstand the test of international competition. The current version of the German model, however, seems unable to handle the task. Instead, a return to the original principles of Germany’s much vaunted social market economy would mark a promising start. *Auf Wiedersehen Modell Deutschland*.

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- ² Flockton, "Economic Management and the Challenge of Reunification", in Smith et al., 1996, p.213
- ³ (That is one per cent average yearly growth since 1991). In 1993, Germany hit the deepest postwar recession and up to now has not fully recovered, though economic growth last year improved to an estimated 2.4 per cent. See *The Economist's* Economic Indicators, January 3rd, 1998.
- ⁴ see supra. note 2, ibidem
- ⁵ Streeck, "German Capitalism: Does it exist? Can it survive?", in Crouch and Streeck, 1997, p.33
- ⁶ Dyson, "The Economic Order - Still Modell Deutschland?", in Smith et al., 1996, p.196
- ⁷ Biedenkopf, "The Federal Republic of Germany - Old Structures and New Challenges", in Calleo and Morgenstern, 1990, p.81
- ⁸ Nahrendorf, 1997, p.1 (my translation)
- ⁹ Marsh, 1996, p.397
- ¹⁰ see A. Krzeminski "Der Kaiser vom Europa", in *Der Spiegel*, 5.1.1998, p.45
- ¹¹ H. Schumann and H.-P. Martin, Zed Books, London, 1997; The German original was published under the title "Die Globalisierungsfalle" in 1996.
- ¹² Hollingsworth, 1997, p.285
- ¹³ Katzenstein, 1987, p.84
- ¹⁴ Allen, "From Social Market to Mesocorporatism to European Integration: The Politics of German Economic Policy"; in Huelshoff et al., 1993, p.62
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- ¹⁶ Kloten et al., "West Germany's Stabilization Performance"; in Lindberg and Maier (eds), 1985, p.372; Admittedly, the act exempted agriculture, banking, coalmining, insurance, iron and steel, public utilities, telecommunications and transport which meant that only about a half of the West German economy operated according to the laid out principles (see Dyson, supranote 6, p.199). Nevertheless, Germany developed one of the world's most effective competition policies.
- ¹⁷ see Marsh, 1992
- ¹⁸ Smyser eloquently illustrates the political legacy of Germany's hyperinflation experience: "It remains difficult, even after 70 years after the event, to find a German family, especially in the middle class, that does not have either a direct or a family recollection of the destruction wrought upon them by that inflation. They speak of lost jobs, lost homes, lost savings, of heirlooms that they sold in a desperate attempt to recoup only to find that the money they had received had lost its worth within days. They speak of a life's work wrecked in a single hour" (1993, p.137).
- ¹⁹ Owen Smith, 1983, p.20
- ²⁰ see supranote 5, ibidem, p.38
- ²¹ Smyser, 1993, p.141
- ²² Riemer, "Alterations in the Design of Model Germany: Critical Innovations in the Policy Machinery for Economic Steering", in Markovits 1982, p.71
- ²³ Deeg, 1993, p.151/2
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- ²⁶ Koch, 1995, p.145
- ²⁷ Giersch et al., 1992, p.213
- ²⁸ Schröder, 1996, p.366
- ²⁹ Streeck, see supranote 5, p.36
- ³⁰ Smyser, 1993, p.142 and p.143

³¹ Up to 1982, governments were, of course, dominated by the SPD. But even the return of CDU-led coalitions under Helmut Kohl has not brought about a return to the pre-1966 policies of governmental restraint. Sure, Kohl has claimed with his politics of 'Wende' ('turnaround') to introduce dramatic change. Yet, by and large, post-1966 policies were continued. A good example is Schiller's *Konzertierte Aktion* which brings together unions, employers, and the government to hammer out deals. After a more confrontational strategy vis-a-vis unions in the mid-1980s, Kohl reinstituted this arrangement in 1994 in a desperate attempt to cut unemployment in half by 2000.

³² Certainly, the structure of work councils, wage bargaining processes, and bank power are extensively regulated by legislation. However, there are no prescriptions on the exact behavior of these institutions. For example, work councils are not sufficiently limited with respect to the kind of demands they can address to employers, trade unions are not required to follow a consensual strategy, and banks may engage in other activities than corporate finance by loans.

³³ Webber, 1992, p.149;

³⁴ Kloten et al., see supranote 16, *ibidem*, p.387

³⁵ Dyson, see supranote 6, *ibidem*, p.201

³⁶ Brezinski and Fritsch, 1995, p.11

³⁷ Herz, 1997, p.3

³⁸ see Mangen, see supranote 24, *ibidem*, p.250

³⁹ Streeck, see supranote 5, *ibidem*, p.47; It is even possible to argue that "the inherent logic of the (West) German political economy may have forced it to define the problems of unification in a way that made them even more difficult to resolve than they would otherwise have been" (*ibidem*).

⁴⁰ Müller-Vogg, 1997, p.3 (and previous figures)

⁴¹ for a more sober account see, for example, Paul Hirst, 1997

⁴² Tonelson, 1997, p.353;

⁴³ Dyson, see supranote 6, p.203

⁴⁴ Bundesverband deutscher Banken, 1997, p.33

⁴⁵ see, for example, Susan Strange (1997) for an opinion that the state loses its powers due to globalization

⁴⁶ Streeck, see supranote 5, p.49

⁴⁷ first figure in Shlaes, 1994, p.118; second in Flockten, see supranote 2, p.213 (for the period 1990-1994)

⁴⁸ Bundesverband deutscher Banken, 1997, p.25

⁴⁹ Flockten, see supranote 2, p.213

⁵⁰ Eger and Nutzinger, 1997, p.6

⁵¹ Teague, 1997, p.87 (both quotes)

⁵² Teague, 1997, p.86 (both quotes)

⁵³ Story, 1996, p.372

⁵⁴ Marsh, 1996, p.398

⁵⁵ To be sure, Germany's agreement to EMU is widely seen as a German concession to its European partners made not least in order to assuage their objections to and fears about German reunification. However, I believe, that it is in essence in Germany's economic interest to join EMU because - if anything - it will provide Germans with a more competitive currency parity (which may be paradoxical given Germany's commitment to currency stability - yet, we may just sacrifice the D-Mark, the current German argument goes, to save the other features of our German model). In this context, Milward's approach is illuminating. He maintains that "the common policies of the European Community came into being in the attempt to uphold and stabilize the post-war consensus on which the European nation-state was rebuilt. They were a part of the rescue of the nation-state" (1992, p.44). Similarly, German policy-makers try to preserve a central feature of the German model, by extending it to the European sphere.

⁵⁶ Streeck, see supranote 5, p.51

⁵⁷ This said, the SEA did in fact introduce a Social Dialogue but it has remained of little significance (see Dinan, 1994, p.401).

⁵⁸ Huelshoff, "Germany and European Integration: Understanding the Relationship"; in Huelshoff et al., 1993, p.313

⁵⁹ Marsh, 1996, p.396

⁶⁰ Story, 1996, p.371

⁶¹ Sturm, "Continuity and Change in the Policy-Making Process"; in Smith et al., 1996, p.120

⁶² Katzenstein, 1987, p.93

⁶³ *The Economist*, August 7th, 1997, p.21; On the one side, the German consensual approach to policy-making is due to a common ideological commitment to the social market economy which is seen to have served the country well since the Second World War. On the other side, it is necessitated by the constitution: the electoral system encourages coalitions, federalism gives the Länder a strong voice in the Bundesrat, and the important role of self-regulatory associations requires cooperation.

⁶⁴ quoted in Shlaes, 1994, p.118

⁶⁵ Webber, 1992, p.174

⁶⁶ de Weck, 1997, p.1

⁶⁷ Miebach, 1997, p.9

⁶⁸ report from the German chancellor, quoted in Shlaes, 1994, p.119

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Rebuilding the German Past

The Politics of Public Architecture in Berlin

Jennifer Göppert

At the beginning of this year a reunified Germany gave up its beloved *Deutschmark*, the “totem of post-war German prosperity, stability and identity.”¹ Now Germany’s parliamentarians are about to make another major political move, this time a physical one: to the new capital Berlin. The farewell to Bonn signifies the beginning of a new “Berlin Republic.”² Although no one who uses the term now knows exactly what it means,³ we do have some idea of the public architecture that will be the “Berlin Republic’s” visual backdrop. Governmental buildings are not brought into existence casually or at random. They have the power both to inspire and to intimidate, and their image can become the very epitome of the state they represent. Be it the Mall in Washington, D.C., the Kremlin in Moscow or the designs for the new Scottish and Welsh Parliament Buildings, they, as if stories written in stone, embody “national identity and historical consciousness.”⁴ Their creation is a sensitive issue. It causes a reconfiguration of national identity and, as a crucial part of this process, a reconsideration of national history.⁵

“Bonn was a beginning, a city without a past”, recalled West Germany’s founding Chancellor Konrad Adenauer. This lack of history was the characteristic feature of the post-war capital of the Federal Republic.⁶ Bonn stood for cosmopolitanism, for the cultivation of ties with the West and for a certain modesty of presence in international affairs.⁷ This distinctive post-national or ahistorical identity⁸ was reflected in the explicitly modernist glass facades of the government buildings in Bonn. With the return to Berlin, German history is also returning unambiguously to the forefront of political stage. Berlin is a city haunted by German history.⁹ It was the font of Prussian militarism, seat of the failed democracy of the Weimar Republic, headquarters of genocidal Nazi rule and the fault line during the Cold War between East and West. Its architecture tells us an “urban story of the continuities and discontinuities of German history.”¹⁰ With the move to Berlin, Germany has reunited political power and history for the first time since Hitler. It appears that the decision to move the seat of government from Bonn to Berlin by the year 2000 — close though the Bundestag vote was — has given enormous impetus to a new, historically reconstructed, German identity.¹¹

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The journalists Sigrid Löffler and Thomas Mießgang argue that, "in Berlin, the example of architectural symbols is used as a way of metaphorically negotiating over the identity of the future Germany."¹² The choice of Berlin as the new capital has set off a remarkable debate over what kind of official architecture is appropriate for a country whose past has rendered patriotism suspect and whose expressions of national pride have been consigned to the soccer field. There have been other major projects launched in national capitals in this century.¹³ According to the author Michael Wise, though, never before has an endeavour of this kind been carried out with such "anxiety about architectural symbolism."¹⁴ The impassioned public discussion,¹⁵ following the fall of the Berlin Wall, about the redesign of Berlin offers a valuable lens through which to consider Germany's future direction and its relationship to the past. How does the German state intend to present itself through the public architecture of the new capital? What perspective of German history does it adopt? What imperatives have dominated the architectural designs and who has been most influential in its direction? Does a history as burdened as Germany's allow the reuse of architecture from an earlier era or is the wreckers' ball the only solution for fascist and communist legacies? To illustrate these questions this essay will focus on Norman Foster's designs for the renovation of the Reichstag, which is to resume its role as the German parliament building from May 1999.

In Albert Speer's proposal for the "World capital Germania,"¹⁶ the Reichstag was to face the Brandenburg Gate¹⁷ at opposite ends of a planned hundred and twenty meter long north-south axis, the only historical buildings to survive the Nazi reconstruction of the Prachtstraße (Street of Pomp or Magnificence).¹⁸ Recalling the exaggerated nature of Nazi architectural standards,¹⁹ this fact illustrates Michael Wise's remark that "no structure in Germany has a more potent or turbulent presence than the Reichstag."²⁰ Indeed, even after the original cupola was torn down as a safety hazard in 1954 and a simple renovation in the 1960s opened up its interior,²¹ the pompous Victorian structure raised on a stone pedestal still resembled anything but the glass architecture that was characteristic of Bonn's official buildings.²² Therefore it appears all the more surprising that, shortly after the Bundestag's decision to move back to Berlin, the parliamentary body "quietly and with little controversy" voted to use the notorious building as its new home.²³ Yet, the consensus surrounding the plan was short-lived. In the wake of the international competition in 1992-1993 to transform it into a "modern working parliament,"²⁴ the building was depicted as a war-scarred fossil. It was seen as the scene of Germany's darkest hours, as well as an unwelcome symbol of democracy's failure to grow deeper roots under either the monarchy or the succeeding Weimar republic.²⁵

As in the case of the new chancellery,²⁶ the jury was unable to select a clear winner, since it was uncertain which design would best meet the Bundestag's needs at the same time as turning the Reichstag into a new and convincing emblem of parliamentary democracy. The fact that the competition ended in the awarding of three first prizes to foreign architects (the Spaniard Santiago Calatrava, the Dutchman Pi de Bruijn and the Briton Sir Norman Foster) reflects the intense anxiety over the building's image and reputation.²⁷ The common feature of all three winning designs was a radical change to the original structure of the building, in tune with German ambivalence about it. The three winning proposals implied that the notion of democracy embodied in the original building was inadequate to provide an open democratic forum for a unified Germany. Calatrava

redefined the Reichstag's silhouette by crowning it with a delicate glass dome that opened up like a flower. Pi de Bruijn preserved the building in its original form yet housed the legislature's plenary chamber completely outside the Reichstag in a new bowl-like structure placed on an adjacent terrace. The British high-tech architect Foster, like Pi de Bruijn, preserved the exterior of the building yet changed its appearance dramatically by placing an enormous transparent canopy supported by twenty slender pillars over the building. This solution he said corresponded to the "need for a new symbol (...) a new image of an open future." It rendered the building's original structure "present but void."²⁸ Furthermore, Foster proposed a public piazza or forum around the perimeter of the Reichstag at the same elevation as the plenary chamber, placing the government on the same level and under the same roof as the people it served.

Foster's design, the one finally chosen, had to undergo various changes before it was accepted by the German legislature. The final design bore little resemblance to the original idea, most importantly because Foster was forced to abandon the plan for a translucent canopy which had been the defining feature of his initial proposal. He experienced how difficult it was to work with a legislative body as a patron. It meant having ministers and hundreds of deputies peering over his shoulder as he drafted.

The discussion over Foster's Reichstag design mirrored the extent to which the debate over Berlin's new public architecture was intertwined with the reinterpretation of German history after unification. The debate about the legitimacy and form of the reconstruction of the Reichstag was saturated with references to the past. Pressure from conservative parliamentarians to replicate the Reichstag cupola inflamed censure of the building, as critics saw it as a full blown-version of the Pickelhaube - the spiked military helmet worn by the Kaiser's troops in World War I.²⁹ Disagreement over the cupola went along party-lines and was also related to the different interpretations of the past that the cupola was supposed to represent. Ex-Chancellor Kohl's Christian Democratic Union urged the reconstruction of the dome. The liberal Free Democrats, then the minority partner in the CDU-led government, wanted a modern rounded dome; the environmentalist Greens saw no need at all for any elevated roof structure and the Social Democratic Party supported one of Foster's proposals for a large glass cylinder.

Conservative advocates of the reconstruction of the original cupola stressed the fact that the cupola had initially been considered modern and progressive. When it was unveiled, architects hailed it as a form of "design liberation." It differed substantially in material and form from the rounded domes of the past, using a square vaulted shape with a clearly visible steel framework. Moreover, the cupola, which rose slightly higher than the dome of the Royal Palace, joined the domes of the Berlin cathedral as one of the dominant elements of the turn-of-the-century skyline. Supporters of its reconstruction argued that the cupola was intended to be as much a political statement as a decorative element, claiming that the dome of the Reichstag was an explicitly "democratic construction."³⁰ Historians backed these arguments with a decisive reinterpretation of the nation-state and its place in German history after unification.³¹ In the pre-unification narrative, Bismarck's creation of a German nation-state in 1871 had mostly been seen as the starting-point of German peculiarity, or *Sonderweg*. Though approaches differed markedly, historians in both the Federal Republic of Germany and the GDR highlighted the failings of the unified Germany as it had existed from 1871 to 1945 and moved to revise the concept of the nation-state in their work.³² According to Konrad Jarausch it was only

after unification that the rehabilitation of the nation-state, both as a concept and as a positive historical reference-point, offered the possibility of a historically reconstructed national identity that gave the German Empire a more positive role:

Instead of continuing to function as a structural precursor of the Third Reich in the sense of Fischer or Wehler the German Empire of 1871-1918 is restored as a norm of German nation-hood.³³

Critics of the cupola's reconstruction, however, stuck to the earlier interpretation of the imperial past as the beginning of the German Sonderweg. For them the cupola was no more than an authoritarian symbol.³⁴ Notwithstanding the architect's intentions and the pediment inscribed "to the German people,"³⁵ the Reichstag building had become home to a legislature that Bismarck repeatedly ignored. Apart from the proclamation of a German Republic from its balcony by Scheidemann in 1918, the Reichstag — both the institution and the building — had failed to balance the power of crown and church. Although Wilhelm II dedicated the finished edifice in 1894, (nearly a quarter of a century after the founding of the unified Empire in 1871) he sneered at the building and described the institution it housed as the "imperial monkey house."³⁶ Even after its construction had been completed, the formal opening of parliamentary sessions continued to take place at the palace. Referring to the allegedly democratic exterior of the building, opponents of the cupola emphasised that the Reichstag's architect Paul Wallot used ornate decorations that glorified not parliamentary democracy but the successful military campaigns of Prussia's Hohenzollern dynasty and their role in unifying the Reich. Above the main entrance, for example, there was imagery from the medieval Holy Roman Empire, a part of which, a relief of the dragon-slaying St. George, bore the face of the Reich's founding chancellor Otto von Bismarck.³⁷ Thus, in trying to explain the Nazi regime, post-war German historians established the idea of a continuing German peculiarity from Wilhelm II and Bismarck to Hitler. They argued that the cupola was Wilhelmine and therefore that it represented the starting point for everything that was to go wrong in German history.³⁸

The actual history of the Reichstag has been misunderstood at times. When the Red Army conquered Berlin at the end of World War II, its soldiers signalled the defeat of Germany by unfurling the Soviet flag not on top of the Reich Chancellery, from which Hitler had controlled much of Europe, but over the battered Reichstag. For the Soviets and many others, the Reichstag had come to embody fascist terror ever since Hitler had used the famed 1933 Reichstag fire as a pretext to impose emergency rule. Advocates of the building's reuse tried to set the record straight, pointing out that Nazi crimes and atrocities were planned not in the parliament but elsewhere and that Hitler, as Germany's chancellor, only once set foot inside the Reichstag.³⁹ But, be it a historical misconception or not, the Reichstag embodied — in the minds of foreigners and Germans alike — the atrocities of Nazi rule. It was exactly this extremely negative image that turned the wrapping of the Reichstag, by the artist Christo, his wife and collaborator Jeanne Claude in June and July of 1995, into the biggest national *Volksfest* since the fall of the wall in 1989.

Everyone, happy like children, was overjoyed that the Reichstag had ceased to exist and the whole reunited nation celebrated the wish (that) it had never happened and that the murder story of the century had never taken place.⁴⁰

Indeed the wrapping of the Reichstag in specially woven silver nylon cloth with blue ropes made the massive late Victorian building look smaller and lighter. It seemed almost possible that the building underneath might have disappeared. The effect was one of "bulk without weight,"⁴¹ the blue rope and silver fabrics turning the Reichstag into a "precious gift."⁴² Until late 1989, the building had been enclosed in the West by the border that ran just behind it. Now crowds poured in from the former East Berlin, crossing the Spree or strolling north from Unter den Linden. For them the artistic accomplishment absolved the Reichstag from its previous history.

As soon as Christo's wrapping was removed, construction began on Foster's design to remodel the building for the 672 member Bundestag. The design that the Bundestag eventually approved and that was built was the result of countless compromises with what had been in effect a multi-headed client.⁴³ It was not so much the clear conception of one architect, as the "partly muddled outcome of conflicting crosscurrents of the democratic political process."⁴⁴ Foster's initial design had included an enormous translucent canopy suspended over the building. His second, while still opposed to artificially raising the roof above the skyline of the original building to build a new dome for symbolic purposes, discarded the "original umbrella."⁴⁵ However, despite his initial resistance to the idea of designing a new dome this is exactly what Foster ended up doing. Trying to justify the design he had previously opposed, Foster did not leave it empty, but filled it with a pair of spiral viewing ramps intertwined in a double helix. Scheduled to be open to visitors even when the Bundestag is in session, the dome aims to place the public above the politicians answerable to them. Furthermore, translucent roofing, glass elevators and enlarged windows will flood the heavy stone building with as much light as possible in an effort to make "democracy visible."⁴⁶

Foster also tried to recapture the majesty of the interior spaces of the old Reichstag while attempting to preserve their magnificence for visitors rather than parliamentarians. For example, the main entrance, which in the 1960s had been moved to the less prominent north facade of the building, has been shifted back to the grand western portal with its six towering Corinthian columns. Whereas parliamentarians will enter mainly from the new administrative buildings via a side door from the east of the facade,⁴⁷ visitors will be able to mount Wallot's grand central steps. Foster's final design means that the modifications of the 1960s will disappear almost entirely. However the reconstruction of the building's interior grandeur has not come at the cost of neglecting the building's past; rather, it consciously exposes it. Some old raw stone surfaces, including shell and bullet marks, will remain. In the process of uncovering the sandstone walls, hundreds of graffiti messages left by the Red Army soldiers who helped conquer Nazism were revealed. Many of these will also be preserved, constantly confronting the German legislature with evidence of national defeat and humiliation as well as paying tribute to the former Soviet power.⁴⁸

Foster's design was a radical one and to many it showed that Bonn's politicians were bent on transforming Wallot's relic into a contemporary glass house echoing the architectural restraint of Bonn. There, in reaction to Speer's overblown neoclassicism, the Federal Republic conspicuously downplayed architectural grandeur. Government ministries embarked upon a new era by operating from unassuming, makeshift quarters. West German chancellors from Ludwig Erhard to Kohl occupied a squat, clean-lined official residence with the lowly label of the Kanzlerbungalow (Chancellor's Bungalow)⁴⁹ and the modern Parliament was designed with similar restraint in mind. Throughout the decades

when Bonn served as a provisional capital, planners asked whether there was an official architectural style best suited to open societies, and how architecture in a democracy differed from that under totalitarianism.⁵⁰ In Berlin, where dictatorial rule held sway for much of this century, these questions are being posed with a new urgency. Against the remnants of its Prussian, Nazi and Communist pasts, Germany's desire to embody an image of a "liberal democratic polity" in Berlin's new buildings has proven to be a difficult challenge. The German authorities have been trying to find a design vocabulary that will turn its back on the monumentality typical of the country's most worrisome periods. Symbolic equations — such as the notion that glass facades imply political transparency — have been pursued with exaggerated rigor. German politicians have often displayed a tendency to mistake symbols for reality itself, the debate over the cupola of the Reichstag being only one example of many.⁵¹ Officials have weighed many concerns — among them, budgetary constraints, environmental protection, efficiency, and comfort — but it seems fair to conclude that the most crucial of these was that there should be no revival of Speer's exaggerated designs, of the grandiose air of the old Prussian ministries, or of Wilhelmine pomposity.

Although a look at history and comparisons of state buildings under highly disparate political systems makes it difficult to sustain an automatic congruence between architectural form and ideological content, it is clear that architecture can express political meaning.⁵² The vigorous discussion over the reconstruction of the Reichstag's cupola was clearly based on the notion that specific architectural forms convey ideological content. Yet, when considering the arguments closely, it seems that it was the form as representative of a specific past rather than the form itself that rendered its re-use impossible. Likewise, the reconstruction of the cupola went hand in hand with a reinterpretation of the imperial past that historians have embarked on since unification. Above all, unification raised the possibility of employing history again to establish an identity for a new, united Germany. From the perspective of October 1990, the history of a unified Germany no longer looks quite so abnormal.⁵³

The Bundestag's move into the renovated Reichstag will bring parliament and Germany at large back into physical contact with its burdened history. However, the farewell to the "Bonn Republic" provides the "Berlin Republic" with a democratic history to look back on proudly. In Bonn the idea of a master-plan for the government district was dismissed. In Berlin, although Speer's designs ruled out proposals for a north-south axis, there has been a reconsideration of the value of comprehensive architectural planning. When the Reichstag first became the home of the legislature in 1894, its site was well away from the geographical centre of political power. The winning entry of Axel Schultes and Charlotte Frank places the Reichstag at the centre of a "brave self-description of a democratic state."⁵⁴ Likewise, the decisions taken over the redesign of the Reichstag building have reflected the need for images worthy of a cosmopolitan capital. Such images were meant to be commensurate with the urban scale and traditions of Berlin and more demonstrative than the post-war West German government seat in Bonn. The goal of many conservative politicians and intellectuals was for present-day Berlin to become the focal point for national sentiment like the 'normal' and historically less burdened capitals of other countries.⁵⁵ After unification they envisaged Germany attaining a more distanced relationship to its Nazi past. This perspective seems to have shaped the decisions taken over the design of the Reichstag. Whether the reuse of the Reichstag building will

transform Foster's illuminated high-tech cupola into a symbol of liberal democracy will depend largely on the politics conducted beneath it.

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¹ Timothy Garton Ash: *Im Namen Europas. Deutschland und der geteilte Kontinent*. Frankfurt a. M. 1995, p. 41.

² Timothy Garton Ash: "Goodbye to Bonn". In: *The New York Review*, 5th November 1998.

³ The major German weekly *Die Zeit* spent a whole series of articles trying to figure out, where to look for the characteristics of the "Berlin Republic". See e.g.: Happlecht, Klaus: "Im Niemandsland. Die Crux der DDR ist ihre geistige Heimatlosigkeit". In: *Die Zeit*, 10 September 1998. See also: Thomas Mießgang/Hanno Rautenberg: "Die Pickelhaube steht mir nicht. Ein Interview mit Michael Naumann und seine Vorstellungen von einer Berliner Republik". *Die Zeit*, 1998, No 32.

⁴ Michael Z. Wise: *Capital Dilemma. Germany's Search for a New Architecture of Democracy*. New York 1998, p. 11.

⁵ For the link between identity and history see: Eric Hobsbawm: "Inventing Tradition". In: Eric Hobsbawm/Terence Ranger (ed.): *The Invention of Tradition*. Cambridge 1997, p.1-14. Hobsbawm defines the invention of tradition as the "use of history as a legitimator of action and cement of group cohesion". In his introductory essay Hobsbawm particularly focuses on the "nation" for a study of "invented traditions" with its associated phenomena "nationalism, the nation-state, national symbols, histories and the rest." Hobsbawm, 1997, p.12-13.

⁶ Quoted in: Wise, 1998, p. 23.

⁷ Reinhard Alter/Peter Monteath: *Rewriting the German Past. History and Identity in the New Germany*. New Jersey 1997, p. 12.

⁸ In these "post-national" approaches history had only a limited role to play. Both post-war German states were eager to distance themselves from the history of a unified German nation-state, especially the Third Reich. In this scheme of things, historical references, when used at all, played an overwhelmingly negative role in the construction of identity. See for example: Hans Georg Beltz: "German Identity after Unification". In: Alter/Monteath, 1997, p. 40-64.

⁹ Wise, 1998, p. 14.

¹⁰ "(...) eine urbane Erzählung der Kontinuitäten und Diskontinuitäten der deutschen Geschichte." The French politician Jack Lang as quoted in: "Eurovisionen". *Die Zeit*, 24th September 1998, No 40.

¹¹ About the link between history and new German identity see the introductory essay of Monteath/Alter, 1997, p. 1-22.

¹² "In Berlin wird am Beispiel von architektonischen Wahrzeichen die Identität eines zukünftigen Deutschland metaphorisch verhandelt." See: "Eurovisionen". *Die Zeit*, 24th September 1998, No 40.

¹³ For example Brasilia, New Delhi or Ankara.

¹⁴ Wise, 1998, p. 14.

¹⁵ A discussion that was widely accompanied by public interest, making the "info-box" at Potsdamer Platz with its constant exhibition about the future architecture of Berlin into the most popular "museum" in Germany. See: Hanno Rauterberg: "So gut wie nie. Warum die Architektur ein nationales Forum braucht". *Die Zeit*, 7th January 1999, No 2.

¹⁶ "Welthauptstadt Germania"

¹⁷ "Brandenburger Tor"

¹⁸ See: Kapitzki, Christel: *Berlin - Visionen werden Realität*. Berlin 1998, p.87f.

¹⁹ "I was following my brief, which was to interpret the political spirit of the time, Hitler's spirit and this meant gigantic dimensions." Albert Speer as quoted in: Sereny, 1995, p. 158. For a comprehensive description of the politics of architecture under Hitler see: Helmut Wehsmann: *Bauen unterm Hakenkreuz*. Wien 1998. See also: Michael Burleigh: "Nazi Europe: What if Nazi Germany had defeated the Soviet Union?". In: Niall Ferguson (ed.): *Virtual History. Alternatives and Counterfactuals*. London 1998, p. 345-346. Wistrich, Robert: *Weekend in Munich: Art, Propaganda and Terror in the Third Reich*. London 1996.

²⁰ Wise, 1998, p. 121.

²¹ Paul Baumgarten's renovation did not in any sense try to recreate the original, but instead implanted a white modernist chamber into the 19th century shell. Intentionally this refurbishment was carried out with the aim of holding some sessions of the Bundestag in Berlin as a proof of the intent to eventually return there. Protest by the Soviet Union put a hold on that ambition, keeping the renovated Reichstag sidelined, hosting a continuous historical government exhibition titled "Questions asked of German history" ("Fragen an die deutsche Geschichte"). Kapitzki, 1998, p. 87.

²² See: Bonn: Capital of Self-Affecement. In: Wise, 1998, p. 23f. See also: Peter Conradi: "Bewirkt transparente Architektur Demokratie?" *Der Architekt*. 9 September 1995, S. 539-42.

²³ Wise, 1998, p. 121.

²⁴ "Realisierungswettbewerb für ein modernes Arbeitparlament" contrary to its earlier merely representative functions. Kapitzki, 1998, p. 89.

²⁵ Kapitzki, 1998, p. 86f.

²⁶ Rauterberg, Hanno: "Schwarz wie die Unschuld". *Die Zeit*, 19th November 1998.

²⁷ Wise interprets the choice of Foster in itself as a "symbolic gesture" and assumes that it would be "hard to imagine France, Britain or the United States hiring a foreign architect to design a new national legislature." Wise, 1998, p. 126. Yet that is exactly, what happened when the Spanish architect Marilles was chosen to design the Scottish Parliament.

²⁸ Sir Norman Foster and Partners: Reichstag Berlin. Exhibition catalog. Berlin 1994. Quoted in Wise, 1998, p. 127.

²⁹ Thomas Mießgang/Hanno Rauterberg: "Die Pickelhaube steht mir nicht. Ein Interview mit Michael Naumann und seine Vorstellungen von einer Berliner Republik". In: *Die Zeit*, 1998, No 32.

³⁰ Quoted in Wise, 1998, p. 124-125.

³¹ See for example: Jarausch, in: Alter/Monteath, 1997, p. 23-39. Jarausch, himself an advocate of a post-national identity, is very critical of the tendencies in historiography he describes.

³² In the GDR the theoretical justification for this was obvious enough with its exclusive adoption of Marxist theory, but in the Federal Republic as well, partly under the influence of Fritz Fischer's work in the early 1960's, it expressed itself with the focus on social history and a devotion to Alltagsgeschichte (the history of everyday life) in the 1970s and 1980s. See: Jarausch, 1997.

³³ Jarausch, 1997, p. 29.

³⁴ Wise, 1998, p. 130.

³⁵ This inscription was only used after a debate that lasted for nearly two decades between the parliament and the Kaiser who would much rather have seen "to the German Unity" – "der deutschen Einheit" imprinted on its walls. See: Wise, 1998, p. 125.

³⁶ Wise, 1998, p. 124.

³⁷ See Tillmann Buddensieg: *Berliner Labyrinth*. Berlin 1993, p. 77-80.

³⁸ The new Cultural Minister Michael Neumann was faced with the same criticism after expressing his approval of a reconstruction of the Hohenzollern Palace. The term "wilhelmine" still was used with the same notorious connotations. Thomas Mießgang/Hanno Rauterberg: "Die Pickelhaube steht mir nicht. Ein Interview mit Michael Neumann und seine Vorstellungen von einer Berliner Republik". In: *Die Zeit*, 1998, No 32.

³⁹ Michael S. Cullen: *Der Reichstag. Geschichte eines Monuments*. Stuttgart 1990, p. 32f.

⁴⁰ "Alle freuten sich wie die Kinder, daß es auf einmal (...) keinen Reichstag mehr gab (...) und die ganze wiedervereinte Nation feierte den Wunsch, es wäre nie geschehen und es hätte die Mordgeschichte des 20. Jahrhunderts nie gegeben." Benjamin Korn: "Der Mensch, die Maschine des Vergessens. Eine Streitschrift". *Die Zeit*, 1996, No. 47.

⁴¹ Charles S. Maier, 1998, p. 330.

⁴² Peter Conradi quoted in Wise, 1998, p. 126.

⁴³ In a parliamentary decision in 1995. Kapitzki, 1998, p. 89.

⁴⁴ Wise, 1998, p. 128.

⁴⁵ Foster quoted after Wise, p.128.

⁴⁶ Wise, 1998, p. 126.

⁴⁷ The Jacob-Kaiser-Haus will house two thousand rooms for factions, parliamentarians and a part of Germany's administration. See Kapitzki, 1998, p. 91.

⁴⁸ The value of saving all the graffiti was challenged in 1996 when translations were made available, showing that some of the messages were not declarations of wartime patriotism but "scribbles of the sort found on men's room walls." Foster urged for keeping as many as possible, raw language or not. See Wise, 1998, p. 132.

⁴⁹ In which Ex-Chancellor Helmut Kohl is generously allowed to remain even after his retirement. This allows Schröder to move straight into the grand new chancellery in Berlin.

⁵⁰ See e.g. Peter, Conradi: "Bewirkt transparente Architektur Demokratie?". *Der Architekt*. 9September 1995, S. 539-42.

⁵¹ See particularly the discussions surrounding the new Presidency, Chancellery and the Holocaust Memorial. "Hanno Rauterberg: Mit Haß auf das Schöne". *Die Zeit*, 1998, No 24. "Hanno Rauterberg: Schwarz wie die Unschuld". *Die Zeit*, 19th November 1998. See also: Assheuer, Thomas: "Der komplette Artikel: Streit um das Holocaust-Denkmal in Berlin: Mehrdeutigkeit muß sein". In: *Die Zeit*, 1997, No. 4. and Reinhard Baumgart: "Sich selbst und allen unbequem. Der Weg des Martin Walser als 'geistiger Brandstifter'". *Die Zeit*, 10th December 1998, No 51.

⁵² Considering stylistic parallels in political systems of widely divergent ideologies, one can think for example of Bonn's frequent use of glass as an emblem for democratic transparency in Bonn versus Italian avant-garde architecture built under Benito Mussolini's reign. Wise, 1998, p. 16.

⁵³ Instead the history of German separation and the old Federal Republic is presented as the "New Sonderweg." See: Stefan Berger: *The Search for Normality. National Identity and Historical Consciousness in Germany since 1800*. Oxford 1997, p. 176f. See also: Konrad Jarausch: "Normalization or Renationalization? On Reinterpreting the German Past". In Alter/Monteath, 1997, p. 23-39.

⁵⁴ "(...) mutige(n) selbstdarstellung des demokratischen Staates". Axel Schultes and Charlotte Frank quoted in Kapitzki, 1998, p. 88.

⁵⁵ As the unification crisis shows, there does not exist a quasi-natural entity. Reunification once again forced the Germans to reassess their collective identity. National appeals are an attempt to reconstitute the nation in the collective consciousness after 1990 in order to justify unification costs. See for example: "Ich mache mir keine Illusionen. Ein Gespräch mit Oppositionsführer Wolfgang Schäuble". *Die Zeit*, 7th January 1999, No. 2. For a detailed analyses see Heinrich August Winkler: *Rebuilding of a Nation. The Germans Before and After Unification*. Deadalus 123 (Winter 1994), p. 107f.

There are no Happy Reformers

Robert English

**There are no Happy Reformers: a dialogue about
Perestroika, the Prague Spring and Socialism**

("Reformatori nebyvaji stastni: dialog o
Perestrojce, Prazskem jaru a socialismu")

Mikhail Gorbachev and Zdenek Mlynar

Praha, Victoria Publishers, 1995, 210 pp.

Forthcoming in English translation from Columbia University Press

This book is comprised of a series of conversations held from late-1993 through mid-1994 between Mikhail Gorbachev and the late Zdenek Mlynar. The former, of course, was Soviet leader in the era of *perestroika* (1985-91) while the latter was one of the principal architects of the "Prague Spring" reforms in communist Czechoslovakia (1967-68). The similarities between these epochs have often been noted; when asked what was the difference between the two, one of Gorbachev's spokesmen replied, in an oft-quoted quip, "twenty years." That, and the strong personal tie between the two men—a friendship going back to their time as Moscow University classmates in the early "thaw" era—offers uniquely rich material for reminiscence and reflection on the two failed attempts to reform Soviet-style socialism.

In fact, the book reaches considerably further. Organized around three main chapter-length "conversations," its subjects range from the authors' youthful experiences in the 1930s to the fate of world civilization on the eve of the new millennium. The three core chapters are titled *How Fate Brought Us Together*, *How We Tried to Revive Socialism*, and *There Exists Only One World*. They cover respectively: the authors' (and their countries') early experience, crises, and the genesis of reform; the drama and eventual defeat of their efforts once in power; and the lessons and legacies of the Prague Spring and especially *perestroika* in the post-communist countries as well as the fate of socialism and the "socialist idea" on the eve of the 21st century.

Though the text has obviously been closely edited, it retains much of the free-flowing though sometimes disorganized flavor of conversation. A larger irritant is that this "dialogue" is more frequently a monologue. The general pattern is that Mlynar sets the

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context of a particular issue, then queries Gorbachev about his experience with *perestroika*. Nowhere does Gorbachev question Mlynar about his often-corresponding experience, so it is left to Mlynar to go on at some length—absent any potentially fascinating probing from his interlocutor—about the Prague Spring. This is unfortunate, but Mlynar plays his subordinate role well and, in fairness, it is probably true that most readers will be more interested in the more momentous events of *perestroika*.

How Fate Brought us Together

For many readers, this chapter will likely be the most interesting one in the book. This is so because it is rich in personal detail in exploring such issues as “Why we joined the Communist party,” “How we perceived Stalin’s terror,” “Knowledge destroys faith,” and “Tanks in Budapest.” Here, in rather more concise and readable fashion than in his memoirs, Gorbachev tells of his own family’s experience with Stalinism—one grandfather jailed and tortured, another a loyal collective farm chairman. Equally interesting is Mlynar’s reminiscences of the belief in socialism that nurtured faith through the postwar years and (relatively) brief period of Stalinist repression in Czechoslovakia. The authors’ paths then first crossed as students at Moscow State University in the early-mid 1950s, and their recollections of this experience—from particular professors and reading assignments to the general atmosphere of a gathering thaw—is again better told than in their other published writings.

The broad Khrushchev-era revival of belief in socialism’s prospects, motivated by de-Stalinization’s “cleansing of deformations” and Sputnik’s impetus for rapidly “overtaking the West,” is nicely recounted in Mlynar’s and Gorbachev’s own experience. A key point stressed by both authors, and overlooked in many Sovietological writings, is how the latter—regardless of its success or failure—radically changed the prevailing Stalinist outlook. As Mlynar describes,

Stalin never permitted comparisons of socialism or communism with capitalist realities because, as he emphasized, here we are building a completely new world that cannot be compared with anything before. That led, naturally, to isolation from the “other world,” but it had its own logic: our successes can only be measured by our own unique communist ideological standards...If some people in the West live better than us, or in some cases worse, little of that mattered. But Khrushchev, with his slogan “Catch up to America,” fundamentally changed all that...now the goal was to live the way they do...He wanted to strengthen faith in the Soviet system, but [eventually] the impact of such comparison was the opposite, to weaken it.

Here Gorbachev also describes two personal traits that would prove central in his acquisition—and wielding—of power. One was that “from my earliest years I enjoyed rising up above those around me—such was my nature. And it continued when I joined the Komsomol and later the Party—it gave me a kind of fulfillment.” Another was faith in the power of key personnel changes to effect change: “I personally paid dearly for those beliefs that I came to hold during the Khrushchev epoch. Even in 1985, when I occupied the very highest Party post, I believed in the decisive significance of changing cadres...”

In the prevailing Cold War atmosphere of the mid-1950s, and with their admitted “blind faith” in the correctness of the Soviet line, neither author was immediately much moved by the invasion of Hungary in 1956. Soon thereafter, as repression tightened throughout Eastern Europe, Mlynar came to think otherwise and his anguished reflections became the subject of a long letter (“an entire notebook,” Gorbachev recalls) to his former classmate. Gorbachev, still full of Khrushchev-era optimism, candidly admits that he did not share Mlynar’s fears and guilt. For him, rethinking of the Hungarian invasion and much else only came considerably later—when disillusion at Khrushchev’s “voluntarism” set in, especially as, in tandem with his rise in the Party ranks, he gained ever-greater access to the closed-circulation “white books” of critical foreign (and dissident Soviet) political, economic, and philosophical writings. As in his memoirs, Gorbachev emphasizes in particular the influence of his reading of such Eurocommunist or social-democratic figures as Gramsci, Togliatti, Boffa, Garoudy, Brandt and Mitterrand.

Also paralleling his memoirs, Gorbachev describes in vivid detail his frustrations as a regional party boss attempting to make the centralized “command-and-administer” system function more efficiently. Still, in the mid-to-late 1960s, Gorbachev’s horizons remained fairly limited and the concurrent efforts of the Czechoslovak reformers—and Brezhnev’s crushing of them in 1968—did not register as much more significant than the events in Budapest of a decade earlier, his friendship with Mlynar notwithstanding. What did have “far-reaching consequences” for Gorbachev’s outlook was a visit he paid to Czechoslovakia a year later, in November of 1969:

I saw with my own eyes how the people rejected what had been done. In Brno we visited a factory...but we couldn’t make contact with the workers. People just turned away from us, they didn’t want to talk to us. The same thing happened in Bratislava, so there too we found ourselves isolated. For me this was a shock—I suddenly understood that for global, strategic and ideological reasons we’d crushed something that had ripened within society itself. From that moment on I thought more and more about us, and came to some inescapable conclusions—that something was seriously wrong with us.

How We Tried to Revive Socialism

The details of the Prague Spring’s rise and fall—and, thanks to Mlynar’s probing, a sustained comparison with the inception and execution of *perestroika*—are treated in considerably more detail in this second chapter. Here the authors step back from the invasion’s aftermath to recall Mlynar’s highly unusual 1967 visit to Gorbachev at his regional party post in Stavropol. Unfortunately, they shed only a bit more light on this episode than that already published elsewhere. Mlynar’s enthusiasm for the budding reforms in Czechoslovakia was received rather equivocally by his friend: “That’s interesting, and I agree that what you’re trying to do may have real prospects. But to do it here would be impossible.” How Gorbachev would later come to attempt the “impossible,” and in particular the central place of a thoroughgoing democratization of Soviet society, is one of the main, recurrent themes of this chapter.

There are, as elsewhere in Gorbachev’s writings, unresolved contradictions. On the one hand, *perestroika* moved from a brief and ill-fated emphasis on economic “acceleration”

to broader political reforms largely in response to the (unexpected, given Gorbachev's faith in the power of key appointments and in his exhortations to dynamize the party) fierce resistance of the privileged *nomenklatura* elite. On the other hand, Gorbachev stresses that under the influence of experiences as varied as eye-opening foreign travel, frustration with domestic stagnation (as a regional and, later, national Party leader), and study of diverse political and social thinkers (principally, he stresses, the late Lenin), he had become deeply committed to the broad democratization of Soviet society—and the Soviet bloc—well before his appointment as General Secretary in 1985.

But how was such radical change to be accomplished? Early in the chapter Gorbachev describes the program he'd hoped to implement—utilizing *glasnost* to engage intellectuals and society at large in support of evolutionary reforms, as well as his (idealistic, if not naïve) faith in those party cadres (many fewer than he thought) “who'd been waiting for this all of their lives.” While indirectly admitting the shortcomings of his program—that his early economic emphasis on the machine industry failed to guarantee the consumer goods that would have bought broader societal support for *perestroika*, and that the totalitarian system was more resistant to change than he understood at the time—Gorbachev's central conclusion remains that *perestroika*'s failure was essentially the fault of self-interested individuals on both the political right and left.

The former were those powerful *nomenklatura* officials who clung to the old system and sabotaged reform, while the latter were those opportunistic republican leaders (and their allies in the liberal intelligentsia) who simultaneously pushed for even more radical change. In other words, reform failed because of “the revanchism of the reactionaries and the revolutionism of the radicals.” Ultimately, in a conclusion familiar to readers of Gorbachev's writings since the USSR's collapse, an attempt by the reactionaries to turn back the clock (the August 1991 putsch) only played into the hands of the radicals by sabotaging the implementation of a new Union Treaty that Gorbachev confidently asserts could have saved the USSR—and socialism.

Later in this chapter, Mlynar returns to the question of democratizing a totalitarian society by raising the analogy—familiar to those who followed *perestroika*-era debates in Moscow—of “a plane taking off without knowing where it will land.” Further, in one of his best sustained probings of Gorbachev, he recalls the Prague Spring's conception of a more regulated, gradual path to genuine pluralism: first permitting “freedom of the press and contending opinions,” then “allowing various social groups to speak out publicly and take part in political decision-making through societal organizations (trade unions, youth and womens' groups), and likewise organs of local self-management in towns, villages and regions, organs of self-management in work collectives and enterprises, and so on.” And only later, “when society had become accustomed to taking part in a democratic political process, would it be possible to permit free elections with the participation of both the ruling and opposition political parties.” During this time, the encouragement of various platforms and fractions within the Czechoslovak Communist Party would have facilitated its transformation “from democratic centralism. . . to a more social-democratic organ.” Anything more rapid than this envisioned eight- to ten-year process would have been “political suicide.”

Juxtaposing this orderly scenario with the tumult of Gorbachev's reforms, Mlynar pointedly asks: “Didn't *perestroika* appear as chaotic to most regional bosses as Khrushchev's changes had once seemed to the younger Gorbachev?” Gorbachev's

answer is two-fold. On the one hand, he emphasizes the practical problems in regulating the path to democracy, that opposition groups and incipient political parties spring up themselves at the first opportunity. Here, coming ominously close to rationalizing the 1968 invasion, he reminds Mlynar that the Czechoslovak reformers ceded control over change not in eight to ten years, but more like eight to ten months: "It's enough to recall that the summer of 1968 was already something very different from the Prague Spring." On the other hand, Gorbachev also stresses a point of principle, that democratization has a dynamic all its own that cannot be managed like a laboratory experiment, and that "either freedom of choice exists, or it doesn't." That democratization in the USSR quickly led to polarization and political paralysis Gorbachev again blames on the actions of particular radical (and reactionary) officials who failed to act responsibly — not on any failure in the design or execution of the process.

The same, Gorbachev argues with particular passion, applies internationally as well as domestically. He had early come to the belief that Soviet domination of the socialist camp was illegitimate — and that each country's communist party had to take full responsibility for its own society — and told the East European leaders that the "Brezhnev Doctrine" of limited sovereignty was dead immediately upon taking office in 1985. The collapse of the socialist camp clearly surprised and pained Gorbachev, as it did Mlynar, but he rejects the latter's suggestion that "more forceful measures" could have successfully saved it. Again, it was not only a practical impossibility, but also a principled one. The use of force to maintain control of democratization, at home or abroad, was simply inadmissible. To the example of President Lincoln's conduct of the Civil War to preserve the United States, Gorbachev answers that "reference to the history of the USA" is inappropriate:

In the first place, this is an inadmissible, ahistorical approach. Granted Lincoln was a hero in his time, of his country. While giving him his due, I cannot forget what an awful experience the Civil War was for the people of the United States. It's enough to recall Mitchell's novel *Gone With the Wind*... In the second place, I think that in our discussion about the use of violence we can't ignore [over a century later] the change of beliefs concerning such fundamental values as the worth of human life.

Again, the failure of *perestroika* to revive socialism within the USSR — as well as to preserve it as a system of states — derived largely from the failure of others to join in the reforms in a timely, responsible fashion, not from the nature or execution of the reforms themselves.

Here, on the fate of socialism in Eastern Europe, Mlynar changes course and questions Gorbachev not from a conservative but a liberal perspective. In response to Gorbachev's assertion that the East European leaders were to blame for the collapse of the socialist bloc since he'd clearly served notice that they must take responsibility for their own countries, Mlynar reminds him that 40 years of Soviet *diktat* had left those countries — and their leaders — crippled:

To say, in that situation, "Now you are free, we will no longer interfere in your affairs," resembles the case of somebody who, having broken another's leg, then says "And now you're free to go wherever you please."

Gorbachev protests this, noting that in fact he sought to aid East European reformers. But here Mlynar interrupts with barely-contained anger:

When you came to Prague in the Spring of 1987, the entire nation was waiting for you to say at least something like that which you later said in Germany, that life will punish those who lag behind [the need for reform]. That you would somehow communicate that you sympathized with the “Prague Spring.” ... But you told those people that they should be proud of what they’d accomplished over the past 20 years, that 1968 had been chaotic but that difficult time had passed, that you’d “been with them” in that difficult time! Yes, with them, together with your tanks! How could you speak that way? I didn’t understand it then and I still don’t...

Gorbachev protests that he has been misunderstood and that, in any case, he had to tread carefully so as not to undermine the Czechoslovak Party leadership at the time and destabilize the country.

But Mlynar will have none of it:

I don’t doubt your good intentions, but what you said at that time had the opposite effect on people. You disappointed them terribly, your words sounded like praise of the past. You challenged people to follow the path of *perestroika*, but under the leadership of those “normalizers” [i.e., those who crushed earlier *perestroika*-like reforms] who proved themselves faithful representatives of the Brezhnev era that you yourself, at home, criticized as the time of stagnation. There’s no sense in taking this as a rebuke. I just want to explain to you how it affected me. And to ask completely openly: Didn’t you realize that without condemning the intervention, without the political rehabilitation of the “Prague Spring” in Czechoslovakia, that it would be impossible to carry out your own policy of *perestroika*?

This conversation concludes with Gorbachev reminding Mlynar of how high the stakes were at that time (in 1987), how difficult it was to see where *perestroika* would lead and then, as communist regimes began collapsing just two years later, “how terribly difficult it was to stand back and not interfere.”

There Only Exists One World

In contrast to those in the Politburo who pressed hard for steps to preserve the Soviet bloc, Gorbachev’s acceptance of the events of 1989 was eased by an earlier transformation of values that had fundamentally altered his view of social and political development. It was not only the principle of non-interference that prohibited forceful measures to “save socialism,” it was a radically altered perspective on socialism (and capitalism) itself. This is the central theme of this third chapter, though it begins already in chapter two. In 1987, in tandem with his embrace of more radical steps toward political pluralism to overcome *nomenklatura* resistance to reform, Gorbachev recalls undergoing a process of “fundamental reassessment and critical reflection” that led to “a new understanding of socialism” and,

accordingly, to his “striving to overcome [Europe’s] division into blocs and recognition of freedom of choice no matter what the social system in a given country”:

I no longer supported the view of socialism as a particular formulation to which the universal norms of civilization do not apply. Although it is true that I, like you, thought that the result of this freedom of choice in the socialist countries would instead be a synthesis of democracy and socialism.

This rethinking — “the disappearance of the understanding of ‘the socialist world’ as a special formation existing in only a few states, and the beginnings of an understanding of socialism as one of many forces contributing to a worldwide process in search of the future developmental path of civilization”—was what lay behind Gorbachev’s ever more frequent public references not to socialism per se, but to “the socialist idea” or “the socialist choice.”

Mlynar cautiously agrees, but is quick to emphasize socialism’s importance as a counterweight to “the tendencies of capitalism which seek the complete subordination of people to the laws of the market and the profit motive.” Gorbachev, less hostage to this capitalist-socialist dualism, stresses instead the virtues of liberalism.

The liberals proved themselves much more capable of reacting to new challenges than we socialists and communists did. We were too much hostage to doctrine, wearing ideological blinders. They took the initiative, and even showed themselves capable of employing some socialist values and institutions—beginning under the pressure of events—to permit regular interference in the operation of capital. In other words, the possibilities of cooperation, of synthesis, of compromise between different approaches were proven in practice and shown to be advantageous for all.

Gorbachev makes clear his embrace of social democracy which, notwithstanding its emphasis on such “socialist” values as justice and equality, remains a system founded not on a class basis but instead on principles of individual liberty and freedom of choice. To Mlynar’s probing, Gorbachev replies that yes, what he is saying is in fact praise of classical liberalism. Further,

We both have to acknowledge a major mistake which we made as supporters of communist ideology, when [Eduard] Bernstein’s thesis that “the movement is everything, the final goal nothing,” was declared a “betrayal of socialism.” Bernstein’s central idea was that socialism cannot be understood as a [specific] system that emerges as a result of the predetermined, unavoidable collapse of capitalism, but rather that socialism is the never-ending quest to realize the principle of the equal self-determination of the people who make up society, the economy, and the state.

Based on this perspective, and while praising some societal accomplishments and the prevailing popular orientation of “socialist values” in the USSR, Gorbachev is firm in arguing that, on the whole, what existed there was not socialism but totalitarianism.

On the basis of these somewhat divergent views the authors also discuss the role of socialism (or socialist ideas and values) for contemporary civilization on the eve of the 21st century. Here there is much of value and it is interesting to read a thoughtful critique

of liberalism's problems and prospects from the usually overlooked perspective of two "failed" socialist reformers. Here too the authors approach the issues from their now-familiar vantage points—Mlynar the more orthodox, and pessimistic, critic of capitalism—liberalism, and Gorbachev as the optimist and believer in the possibilities of intelligent leadership for overcoming crisis and finding a path to greater peace, prosperity and justice.

There Are No Happy Reformers

Certainly no individual did so much to end the deadly Cold War confrontation (popular paeans to Ronald Reagan notwithstanding) and bring freedom to Russia as did Gorbachev, so it is a great shame that he is so reviled in his own country. Of course, that is largely because he is roundly blamed for having left that country a truncated and deeply troubled shell of the mighty superpower it had once been. And it is about these two aspects of *perestroika*—the union's territorial and economic collapse—that this book tells least.

Beginning with the latter, why did early attempts at "acceleration" fail? What was the impact of the anti-alcohol campaign? What was the law on unearned income, the cooperative movement, and the experience with joint ventures and efforts to attract foreign investment? Perhaps more important—given the recent claims of some embittered erstwhile allies—was a "Chinese model" (putting radical economic reform before political liberalization) ever seriously considered? In this book, as elsewhere, Gorbachev focuses his criticism (sometimes unjustly) on the radical "marketer" economists, from Nikolai Shmelev to Yegor Gaidar. The former is unjustly associated with those "radical intellectuals" who could criticize the past but offered no concrete suggestions for the future. As for the latter, chief architect of Yeltsin's ill-fated "shock therapy," Gorbachev nowhere acknowledges that Gaidar inherited unpaid bills, an empty treasury, and collapsing inter-republican economic structures from *perestroika*.

Probably the book's most glaring omission is an even cursory discussion of nationalism. There are passing references to particular episodes, but the non-specialist reader may not even remember what happened in Tbilisi or Vilnius. More than just these events (massacres of dozens of nationalist protesters, who were unarmed civilians), the role of separatism in the USSR's collapse is almost completely overlooked. At one point Mlynar suggests that it was popular nationalism in the republics that destroyed the union. Gorbachev replies no, it was instead merely a cabal of the republican leaders, led by Yeltsin. But elsewhere Gorbachev admits that one of his early mistakes ("communist prejudices") was a failure to appreciate the continuing depth of national grievances and the extent to which national minorities understandably felt themselves the victims of "Russification."

Still, these should not be taken as damning criticisms for there is much that is extremely interesting and revealing in this book. It will certainly appeal to specialists on the history of the Prague Spring and *perestroika*, and should also be attractive to general readers interested in more global questions concerning the fate of socialism and the future of Western civilization. Above all, it is an intimate and extended conversation between two friends and philosophical soulmates who—rather than "failed" reformers—contributed mightily to the (final?) downfall of totalitarianism.

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