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NATO IN A POST HEGEMONIC WORLD:
THE POLITICAL ECONOMY OF ALLIANCE RELATIONS

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INTRODUCTION

In recent years there has been an increasingly active debate concerning the relative power and influence of the United States and the viability of the liberal economic and political order that was set up in the aftermath of World War II. In particular, there has been considerable discussion and debate about the so-called crisis in Atlantic relations. Some, like John Palmer, have argued that the "economic, military and political world of the Atlantic Alliance, in which two generations of Americans and Europeans have grown to adulthood since 1945, is visibly crumbling."¹ Others, such as Richard Betts, are less convinced that the Alliance is in jeopardy or that the future of the international system is necessarily bleak. Betts seems to accept the logic that the Alliance is currently in a weakened and vulnerable position, a mid-life crisis to use his language; however, he contends that "continuity remains the best bet for the Alliance's future."² Not surprisingly, the Alliance has been trying to play down its difficulties. According to a recent report of the NATO Defence Planning Committee "as the Alliance approaches its fortieth anniversary its strength and cohesion remain as firm as ever, with continuing major contributions being made by both the European and the North American pillars of the Alliance."³

This debate is just beginning to heat up, making it extremely difficult at this point to judge which position is closest to the truth.

There are, however, certain "truths" that for our purposes can be taken to be self evident. These truths, enumerated below, constitute the essential premises of the argument of this paper. First, the North Atlantic Treaty Organization has for some 40 years been the centre of both military stability and economic order in the global system. Second, NATO has been tremendously successful in maintaining a stable and reasonably predictable world order. Third, the international system has undergone dramatic changes in recent times. On the economic side, these changes can be traced to the early 1970s and the unravelling of the postwar system of trade and payments that is frequently referred to as the Bretton Woods system. On the political side, the most dramatic changes are more recent. They relate to the arms-control initiatives of Soviet General Secretary Mikhail Gorbachev. Fourth, the relative position of the United States in the international system is declining; and, finally, NATO will undoubtedly face some fundamental challenges in the next few years.

This paper attempts to address the nature of change in the international system and, in particular, to explore the relationship between declining American hegemony, global economic interdependence, a changing international division of labour, and economic military stability in the North Atlantic area. It understands **security** to be a comprehensive concept that goes well beyond military capability to include economic, political and ideological factors.⁴ It also assumes that a useful and productive way to understand the current NATO dilemma - the so-called crisis in Atlantic relations - is through an approach which explicitly recognizes the dynamic relationship between politics and economics. Having said that, the paper takes an unabashedly systemic approach - emphasizing the constraints and incentives that the international system

poses on its constituent national units and on its own institutional arrangements.⁵ As Robert Keohane has recently noted, "the political economies of modern Western European states do not exist in isolation, but within a context established by the international system."⁶

The central thesis of this paper is that an international system that is undergoing fundamental change (particularly since the most pervasive, if not the most significant challenges are economic in nature) makes the existence of a strong and effective NATO Alliance even more compelling than it was under more harmonious conditions. However, it will be impossible for the Alliance to meet the challenges that it currently faces without important changes in both its structure (i.e., some redistribution of both roles and responsibilities) and its central focus. The changes which take place at NATO must reflect the relative decline in the economic influence of the United States, the rise of Japan, domestic pressures within the United States for a reduction in foreign military commitments, the emergence and importance of regional trading blocs, and other features of pervasive economic interdependence that characterize the international political economy as we head into the 1990s. As a practical matter, the most obvious change must involve a reduction in both the primacy of American political leadership and its economic responsibility. While the United States must continue to play a critical role within NATO it will be increasingly difficult to justify American political leadership in the Alliance with a more pluralistic international economic system.⁷ The following analysis also suggests that it is time for NATO to embrace a more comprehensive approach to the provision of security. In short, and especially when understood in the context of the recent initiatives of the

Soviet Union, NATO is going to have to come terms with its place in a post-hegemonic world.

This paper begins with a brief examination of the recent structural changes in the global economy along with a discussion of declining American hegemony. The second section provides an assessment of the Atlantic Alliance, focusing on the current state of NATO and arguing the case that organizational change is essential. It focuses on the economic dangers to the West, but accepts that political and ideological challenges are also extremely important at this point in time. The third section explores in some detail the current challenges that face the Western Alliance. More specifically, it addresses the notion of increasing economic interdependence, the emergence and significance of regional trading blocs, the impact of uneven economic growth in the OECD area, the implications of recent changes in the global monetary regime, the importance of techno-nationalism and other forms of such conflict, and the need for increased policy coordination and coherence. And, while the main theme of the paper revolves around the economic challenges that face the Western Alliance, it also notes the recent ideological threats to NATO cohesion (both from within and from without). The final section discusses the various ways in which change in the world economy can and will affect NATO - arguing that while both the hegemonic decline thesis and the Atlantic crisis thesis have been overstated in much of the literature NATO must reorganize to meet the challenges of the 1990s.

DECLINING HEGEMONY AND STRUCTURAL CHANGE

In the two decades following World War II the world economy was both prosperous and stable. Western governments had arranged a set of rules and

institutions at Bretton Woods, New Hampshire in 1944 that effectively regulated the global economy, controlled conflict and encouraged growth. It was a period characterized by stable exchange rates under the auspices of the International Monetary Fund (IMF), and increasing trade liberalization through the General Agreement on Tariffs and Trade (GATT). Growth in the OECD countries averaged a healthy 5 percent per annum while world trade grew at roughly 7 percent per year. In fact, the system functioned very well as long as economic power remained concentrated in a small number of states and as long as the United States was willing and able to maintain its leadership role.

The logic of the Bretton Woods system was simple and elegant. International organizations would harmonize trade and monetary relations - thereby avoiding the economic autarky that was blamed for the great depression of the 1930s. The institutional arrangements (along with the norms, rules and procedures that they supported) provided specific economic benefits to the United States in exchange for reconstruction funding, technology transfer, and military support for the European allies. The articles of agreement at Bretton Woods set out a system of fixed exchange rates, where the IMF would act as a central banker. The International Bank for Reconstruction and Development (IBRD) was to provide a system source of equilibrium through reconstruction, aid and development funding. The United Nations was formed in 1945 to provide a broad-based and democratically oriented political framework for the international system. The General Agreement on Tariffs and Trade came into effect in 1947, as an interim measure until the ill-fated International Trade Organization could be sorted out. And, in 1949 the North Atlantic Treaty Organization was formed.

According to Michael Hudson, it was a compromise which met almost everyone's needs - especially the members of the Atlantic community.

Both Europe and America looked forward to a cosmopolitan One Worldism that seemed to dovetail neatly into U.S. economic objectives while providing substantial inducements to Europe in the form of foreign aid, U.S. military support, and a reciprocal demand for exports. However, the textbook principals underlying the postwar economic order rested on the simplistic hope that the economic and political interests of nations might easily complement each other without much sacrifice to any single nation's economic potential or established interests.⁸

Not only did the Bretton Woods system presume that economic conflict could be kept in check, it assumed that the relative capabilities, goals and ambitions of the major actors would remain largely the same. More to the point, it assumed that the United States would be willing and able to provide leadership on an indefinite basis.

The collapse of the Bretton Woods system of trade and payments is normally traced to two seminal events. The first was the announcement, 15 August 1971, of Mr. Nixon's so-called New Economic Policy. Faced with depleted gold stocks, massive outstanding foreign dollar holdings, the reality of a trade deficit, and increasing unemployment and inflation, Mr. Nixon chose to (unilaterally) bring the Bretton Woods system to an end. He accomplished this by ending the practice of freely converting the dollar into gold and by imposing a 10 percent surcharge on all imports. The second event was the OPEC oil embargo of 1973 and the subsequent quadrupling of oil prices (reinforced by the oil shock of 1979). While it is exceedingly difficult to determine at what point the system actually "fractured" or at what point the ideological consensus that characterized Bretton Woods broke down,⁹ what is important here is the idea that the end of Bretton Woods translated into significant structural change in the

world economy.

Much of the literature on the world economy contends that the events of August 1971 represent the beginnings of the decline in American hegemony. The collapse of the Bretton Woods system suggests a situation in which the core state was either "not powerful enough to maintain the essential rules governing interstate relations" or "not willing to do so."¹⁰ The theory of hegemonic stability suggests that the relative decline of a hegemon will necessarily lead to a weaker, less open international economy and an international system that is more unstable and more disorganized.

The world economy in the 1970s and 1980s became decidedly less stable and less predictable than it had been during the so-called long decade of the 1950s. The world economy in the 1970s was characterized by a general economic malaise that could be traced to the lack of confidence in the system and the absence of stable international monetary, trade, and energy regimes. In particular, energy price increases fostered stagnation and inflation (especially in the advanced industrial countries) which led to increasing levels of protectionism, to excess liquidity, to decreasing competitiveness and productivity, and to increasing economic uncertainty and instability. These changes are widely accepted as structural not cyclical - suggesting that any discussion of Western security must be understood in the context of a significant and increasing struggle for productive advantages, markets and employment.

By the end of the decade it was clear that the economic challenges to the Bretton Woods system were anything but transitory. It was equally clear, especially during the recession of 1981-82 and the uneven recovery that followed, that a new international economic order was taking shape.

The central features of this new world economy include: a revival of nationalism and protectionism, extremely volatile exchange rates, the increasing internationalization of production, and the unfolding of a new international division of labour. While change in the international monetary structure is fundamental to a thorough understanding of the evolution of the world economy, economic conflict in the North Atlantic area is shaped mainly by the changing patterns of production, the rise of protectionism and the implications of structural uncertainty.

The most significant implication of the internationalization of production is that it has provided the context for changes in the international division of labour. Over the past 15 years or so, there have been fundamental shifts in the international competitive positions of both the developed countries and the less developed countries. In the first place, the virtual monopoly that the United States once had on technology-intensive industrial production is no longer a reality. In fact, largely owing to the maturing of the Japanese and West German economies, competitiveness among the advanced industrial countries (AICs) has substantially evened out. Second, there has been a dramatic growth in the competitive position of Asian NICs (particularly Korea, Singapore, Hong Kong, Taiwan and South Korea) in the areas of standard technology, labour-intensive manufactured goods such as clothing, and in industrial materials such as steel and copper. Finally, another group of NICs has emerged to pursue standard technology industrial production while the original, more advanced NICs follow Japan into more capital-intensive industries.

An examination of relative factor endowments demonstrates these claims quite dramatically. For example, given the nature of capital intensive high-technology production in the United States it is not surprising that in 1980 the U.S. had 33.6 percent of the world's capital and some 50.7 percent of the world's R&D scientists. These seem to be pretty impressive figures. However, when compared against the 1963 figures, of 41.9 percent and 62.5 percent respectively, it is clear that the United States is losing its preeminence in this area. Japan has been the obvious beneficiary of much of this shift. Japan's share of total world capital rose from 7.1 percent in 1963 to 15.5 percent in 1980, while its share of R&D scientists rose from 16.2 percent to 23.0 percent over the same period. The figures for the NICs, are also instructive. They experienced significant shifts in their share of the world's capital (from 6.2 percent in 1963 to 10.1 percent in 1980) and in their share of skilled workers. With respect to labour, these NICs experienced significant increases in their share of the world's semi-skilled labour (from 24.8 percent to 30.5 percent during the period in question) and a more modest but equally significant increase in their share of skilled labour (from 19.3 percent to 22.0 percent).¹¹

The political, economic, and social consequences of this shift in the international division of labour have been extremely far reaching in the advanced industrial countries. The employment implications alone have served to heighten the fiscal crisis in the modern welfare state. The subsequent realignment of merchandise trade deficits and current account deficits has caused a great deal of resentment. The implications of a realignment of technological superiority and comparative advantage in services has had significant implications with respect to national

security.¹² In short, this shift in comparative advantage toward the NICs poses a serious challenge to all the AICs.

These changes in the production structure and the international division of labour have prompted the AICs - especially the United States - to take steps to avoid the domestic consequences of these changes. Quite simply, this has translated into a significant increase in the use and promotion of protectionist policies and in the move toward bilateral and regional trading arrangements (such as the Canada-U.S. Free Trade Agreement and the push toward the further integration of the European market in 1992) in contrast to multilateral arrangements. In particular, the AICs have increasingly turned to the use of non-tariff barriers (NTBs) such as anti-dumping action, counter-vailing duties, and voluntary export restrictions (VERs) or voluntary restraint agreements (VRAs).

Fuelled by the recession of the early 1980s, the reality of rising structural unemployment in the AICs, the staggering merchandise trade deficit of the United States (which had exceeded \$160 billion by 1987), and mounting global surplus capacity in most of the standard technology industries, protectionism has increased quite dramatically in the 1980s. In the western world, unemployment and resentment have been at the heart of rising demands for protection. Not surprisingly, unemployment was highest in those industries that were most susceptible to foreign competition. And, while unemployment is down somewhat in the United States and Canada, unemployment remains an intractable problem in most of Europe - with rates remaining at or above the double-digit highs reached in the early 1980s. As Joan Spero points out "a growing public awareness of the impact of foreign competition on import competing industries [has]

increased the pressure for protectionist solutions."¹³

To a large extent the recent rise in protectionism can be traced to the United States. In particular, it can be linked to four specific phenomena. First, it has to do with the overvalued and fluctuating U.S. dollar - which, combined with high wages and poorer productivity, has made American goods and services increasingly less competitive. Second, the United States has (perhaps justifiably) reacted strongly to trade restrictions imposed by their developed country trading partners. This perception is heightened by the realization that while they had a \$170 billion merchandise trade deficit in 1987, Japan had a trade surplus of more than \$85 billion. Third, there is a growing feeling in the United States that a great many low cost imports from the NICs (and others) are being subsidized by their national governments and therefore being traded "unfairly" into the United States. Finally, it can be linked to a fundamental underlying division within the United States between the Administration and international capital on the one hand and some parts of Congress and domestic capital (nationally organized industry) on the other. Charles Maier has argued that the resolution of this internal conflict, in favour of the international interests, was the foundation for the Bretton Woods system.¹⁴ This being the case, it is hardly surprising that as productivity and economic growth has declined the conflict over the appropriate direction of foreign economic policy has resurfaced.

Protectionist pressures in the United States have led to friction between it and its major trade partners - particularly Japan and the European Community - which has, in turn, promoted the spiral of protectionism. The continuing reliance on non-tariff barriers negotiated outside of the framework of the GATT has contributed to a global trading

system that is determined less and less by market forces. The bottom line is that there has been a drift toward "managed trade." In manufactures, which account for roughly 40 percent of total world trade, the ratio of managed trade to total trade has risen from 13 percent in 1974 to more than 30 percent in 1987. Moreover, this movement toward managed trade does not appear to be abating in any way as larger political considerations continue to play a significant role in the trading policies of both developed and developing countries.

In sum, the breakdown of the Bretton Woods system precipitated a series of significant changes in the global economy. Attempts at rebuilding the system or "adjusting" to new realities in the 1970s have given way to the realization in the 1980s that a new order is emerging. It is, however, an order characterized by uncertainty and instability. It is a system in which economic management is lacking and unresolved economic crises are commonplace. This uncertainty is pervasive. It exists in all the primary structures (the security, production, monetary, and knowledge structures) and in the secondary structures such as trade. There is real concern in many quarters that this general sense of uncertainty represents a critical flaw in the world economy.

THE STATE OF THE ALLIANCE

NATO emerged in 1949 into a postwar world in which the United States was unquestionably dominant in both economic and strategic terms. The American commitment to Europe, which was embodied in the NATO agreement, was premised on the assumption that the United States and Western Europe were part of a common Atlantic community.¹⁵ The origins of the Alliance cannot

be understood purely in terms of the collective response to a common threat, though collective defence was and is an important feature of the Alliance. The Alliance also reflected cultural and ideological similarities, common economic interests, and a concern (largely in the United States) about what might happen to an unattached Europe. These were strong integrative forces that have been critical in keeping the Western Alliance intact. However, in assessing the state of the Alliance it is important to remember that such an arrangement can at the same time be both inherently cooperative and potentially conflictual. Economic partners are also economic competitors. Cultural and ideological differences might be stressed where similarities once prevailed - especially if mutual resentment were to arise from other quarters. And, if the common threat were to decrease in any way, a United Europe may prove much more independent than a collection of allies in a divided Europe. As Paul Kennedy has recently observed: "however logical the American commitment to Europe may be strategically, that fact is in itself no guarantee against certain military and political complications which have led to transatlantic discord."¹⁶

The argument presented here with respect to the state of the Alliance is that the original sources of cohesion and community have, of late, been the source of strain and fragmentation within the Alliance. This section of the paper identifies the principal explanations behind the formation of NATO and assesses the current state of the Western Alliance in these terms. Specifically, it examines the main political, economic and ideological dangers which currently plague the Alliance. This is followed by a more detailed examination of the three interrelated challenges that face the Western Alliance: intra-Western economic conflict, including the

inability to generate public support for additional defence spending; the widespread perception in the West that the Cold War is ending and that the Soviet threat has largely disappeared; and, the concern over the absence of both leadership and policy coordination in the West.

States join alliances for a great number of reasons. As Stephen Walt has argued in his book The Origins of Alliances, these reasons include security concerns, ideological affinities, and economic exigencies.¹⁷ The most fundamental explanation of alliance formation derives from classic balance of power theory, which contends that states join alliances in an attempt to avoid being dominated by stronger powers.¹⁸ States would ally with or against the foreign power that posed the greatest threat. In other words, "a state joins a multilateral alliance because it faces an overwhelming military threat which it alone cannot resist."¹⁹ This logic suggests that the greater the threat (real or imagined) the more cohesive an alliance is likely to be. The reverse would, of course, also obtain: the less dramatic the threat (or the perception of the threat) the more difficult it would be to maintain cohesion in the alliance. The extent of a threat can be measured by a number of indicators. Among others, these include an assessment of a state's aggregate power, its willingness and ability to project that power, geographic proximity, aggressive intentions, and ideological pretensions.

Another key explanation for the formation of alliances has to do with what Hans Morgenthau has called ideological solidarity.²⁰ Explained in these terms, alliances form not simply as a self-interested response to a common external threat but as a reflection of important similarities in political, cultural and economic goals and objectives. Alliances formed on

these grounds are particularly dependent on the vagaries of ideological hegemony and the need for ideological consensus. In the absence of other conflict, and in the context of effective military policies and economic growth, ideological solidarity can be a strong and effective source of alliance cohesion. However, ideological disagreement can also be a powerful form of internal conflict and can create important strains in an alliance and may reflect resentments and insecurities which arise from other sources.

The third main explanation of alliance formation is economic. It suggests that alliances are formed (at least in part) as a reflection of the economic needs of the various alliance partners. This explanation is broadly consistent with recent theorizing about international regimes. It suggests that regimes (and alliances) are formed as a function of the need to institutionalize "the rules, norms, principles and decision-making procedures around which actors' expectations converge in a given issue area."²¹ Alliance leaders would provide various collective goods (in this case security) in exchange for acquiescence to the broader international system which would provide the lion's share of benefits to the hegemon. The logic behind membership for the other alliance partners has to do with the need for economic and technological support. The more dependent the alliance members are on the lead state, in economic and military terms, the more cohesive the alliance should be. As Walt notes, "stated simply, the hypothesis is: the more aid, the tighter the resulting alliance system."²² Once again, it is important to note that the reverse is also true. The less dependent the alliance partners are on the hegemon (ie., the greater the level of interdependence) the less cohesive the alliance is likely to be. This explanation draws our attention to

transnational and transgovernmental factors as well as more traditional military and economic asymmetries.

To a certain extent, all of these explanations are useful in understanding the origins and the logic of the NATO Alliance. The Alliance emerged specifically in response to a perceived threat from the Soviet Union. However, it also reflected both the need and the desire of the Western countries to develop and maintain an international system which met their economic needs on the one hand and demonstrated their commonality on cultural and ideological matters on the other. To a certain extent, all of these realities have changed. On the security side, the threat (or the perception of it) has diminished. On the ideological front, differences seem to outweigh similarities. And, with respect to economic issues, the influence of the United States and the coherence of an Eurocentric world economy are no longer apparent.

The political dangers that exist in the Alliance at this time appear to be substantial. Individual political systems and national institutions are not at risk. However, as the Atlantic Council of the United States has recently pointed out, "both the Euro-American relationship and the Japanese-American relationship currently appear to be significantly out of balance and at risk."²³ In the period between 1950 and 1980, America's share of total world GNP dropped from 33.9 percent to 23.3 percent. In the same time period, Europe's share of world GNP rose from 7.3 percent to 28.5 percent. Japan experienced the same kind of dramatic growth in overall GNP.²⁴ The Atlantic Council goes on to argue that, despite these dramatic redistributions in productive capabilities, "neither European nor Japanese political leadership and responsibility have grown or matured in

proportion to that remarkably rapid shift in economic strength."²⁵

These political changes in the West have taken a number of specific forms. The most dramatic change has been the recent perception in the West that the threat posed by the Soviet Union has diminished significantly. Other changes which pose political threats to the cohesion of the Alliance include, inter alia: the inability and unwillingness of the United States to make "side payments" to its allies; American frustration over the foot dragging of their allies with respect to them "pulling their own weight" within the Alliance;" the fact that many European citizens (especially in the Federal Republic of Germany) are no longer convinced that the United States acts in the best interests of all on all issues; and, the levelling out of economic power and influence. There is also an important longer term political danger; that is, the combination of these concerns would cause "Europe to be so drawn into the Soviet embrace as to lose or abandon its American protection."²⁶ However weakened the Pax American is by current difficulties in the Western system and by economic pluralism, the resulting "Finlandization" of Europe would drive the final nail into the coffin of Pax Americana.

In many respects, the economic success of the Western Alliance has been both its greatest strength and its most profound weakness. In the early days of the Alliance economic growth was responsible for building confidence in the system and for providing a solid basis for community. More recently, however, the changing economic realities of the world economy have tended to undermine Alliance cohesion. At the most basic level, the economic successes of certain Alliance members (most particularly the FRG) has militated against the need for leadership and the economic bargain that underlay the Alliance. More complicated issues

include the implications of extremely uneven economic growth, a growing trade imbalance between and among NATO members, the dispute over burden sharing within the Alliance, and the persistence of American mercantilism.

There has also been some concern that economic expectations were generated in the 1950s and 1960s which cannot be realized in the foreseeable future. Substantial resources for investment in the future are simply not available at this time in most if not all NATO countries. To complicate matters and engender further resentment, many states will be forced to use increasingly scarce resources to meet national as opposed to collective needs. Moreover, all of these challenges to the economic stability of the system will likely reduce confidence in the United States and as a consequence undermine further the viability of the world economy. Changes in the international division of labour, especially with respect to high technology security-sensitive products also reflect an important and growing source of conflict within the Western Alliance.²⁷

Ideological differences have not, until very recently, been a serious concern in the Western Alliance. Threats to fundamental western values have been few and far between. In the last few years, however, there has been a growing reluctance to understand East-West relations in ideological terms. As we will discuss below, public perceptions of the Soviet threat and (perhaps more importantly) the willingness of the Soviet Union to get into any conflict, have declined dramatically in recent years. This reduction in the perception of the threat is potentially a source of Alliance conflict. Should Mr. Gorbachev continue to convince Western publics that his Glastnost and Perestroika plans are broadly consistent with his dramatic arms control proposals, the Alliance will be in an

increasingly difficult spot with respect to justifying its own existence.

It has become commonplace, even fashionable, to point to the general decline of Western civilization, the apparent absence of Alliance solidarity, and the precipitous decline of the United States.²⁸ While such discussions normally proceed from a legitimate point of departure (i.e, the relative economic decline of the United States and its increasing inability and unwillingness to provide leadership) they all too frequently and too categorically predict an end to the postwar international system. The analysis presented here suggests that while there are serious challenges to the international system, and to the NATO Alliance in particular, there are also continuing strengths. The postwar international system has not changed as radically as some have suggested - indeed, many now argue that the loss of American hegemony has not precipitated the breakdown of the main postwar international economic regimes²⁹ - and is not likely to come apart in the near future. What has happened is that the relative redistribution of power and influence, along with various national fiscal crises and the general tendency toward mercantilism, has put substantial strain on the principal institutions that manage the postwar international system. In particular, there has been consistent and substantial pressure on the trade and monetary regimes. These tensions, combined with the perception that the Soviet threat is diminishing, have proven particularly troubling for the Atlantic Alliance. In short, the growth of international political and economic pluralism and the perception of increasing ideological convergence has had dramatic implications on the Alliance.

It is important, however, not to underestimate the West's political, ideological and economic cohesion. Concern about the current state of the

Alliance is justified (particularly when it comes to public perceptions of the on-going utility of the Alliance). Fatalism with respect to the Alliance is not. Moreover, there is a real problem with the self-fulfilling prophecy syndrome. Should publics in the West continue to undervalue the NATO Alliance it is likely that this public pressure will be destabilizing in and of itself. What we need to do at this point is to understand both the nature and the extent of the challenges to the Atlantic Alliance so that it is possible to determine the implications for the future of NATO. Is the principal threat to the cohesion of the Alliance exogenous; in other words, is the real threat the increasingly common perception that the threat is diminishing when it may not be. Or, alternatively, does the principal challenge to the Alliance derive from intra-Western economic conflict and the emergence of a post-Atlantic world?

CURRENT CHALLENGES AND NEW REALITIES

The argument presented in this chapter is that taken together the challenges that currently face the NATO Alliance are significant enough to have created important new realities at the systemic level which must be incorporated into NATO's frame of reference. The previous section argued that the Bretton Woods system of trade and payments and the political machinery used to manage that system have been fragmenting since the early 1970s. It also suggested that the other primary source of alliance cohesion - the perception of a significant external threat - has, more recently, come under question. It is necessary at this point to examine these claims more closely and, ultimately, to link the implications of

these challenges to the utility and validity of the NATO Alliance. The following section specifically addresses the current economic challenges (and their political ramifications) and argues that it is these internal changes that pose the most serious long-term threat to Alliance cohesion. Once again, the argument here assumes that the threat perception problem is a serious one.

Economic developments have had an impact on the Atlantic relationship in at least three important ways. The first has to do with the vagaries of economic interdependence and the changing international division of labour. Shifts in economic activity that favour Japan and the Pacific region more generally have put serious pressures on the traditional North Atlantic trading relationship. Second, the need to deal with very significant trade imbalances has encouraged a return to mercantilist trade policies which has, in turn, led to the creation and promotion of major trading blocs. Third, large budgetary and merchandise trade deficits in the United States have created a situation where it is increasingly difficult to find support for expensive foreign defence commitments. This fiscal problem has exacerbated, to the point of near crisis, the age old debate in the Alliance over burden-sharing.³⁰

The relationship between growing economic interdependence and Western defence is not an easy one to explain. It is, however, a critical relationship and one in which each factor is extremely sensitive to the other. American defence spending has undoubtedly had significant implications for the global economy while shifts in the patterns of economic growth and the international division of labour have had serious implications for U.S. security policy. As we noted earlier, three critical changes in the world economy are having a dramatic impact on the NATO

Alliance. The first is the general levelling out of economic power and influence with the United States losing its traditional comparative advantage in steel, automobiles, computer technology and, more recently, higher technology industrial products. The second has to do with the fact that these shifts in the international division of labour involve the whole North Atlantic area as opposed to just the United States. While the Federal Republic of Germany has been very successful in economic terms, the real shifts in comparative advantage have been from North America to Japan and the Asian newly industrializing countries (NICs).³¹ In terms of growth in real GNP/GDP, the rate of unemployment, the rate of inflation and the growth of productivity Japan has outpaced the United States since the early 1970s. And not only has Japan's economy been stronger, it has been much more consistent. Japan's rate of real growth has been the highest in the OECD area in all but three of the past ten years.³² The recent figures for Japanese economic growth also indicate that Japan is significantly less vulnerable to external economic shocks than the other major Western developed countries.³³ Finally, many of these states are organizing a larger share of their trade on a bilateral basis as opposed to the more traditional multilateral trading relationships.

This shift in economic influence has been particularly harmful to the alliance. As Charles Doran notes:

these shifts in trade and commerce toward the Pacific Rim inexorably put a strain on trading relationships with Europe. ... With the centre of gravity of the international trading system moving toward Asia, North America's traditional political ties remain European. An inevitable tension exists between the old and the new, between the pull of economics and the dictates of politics.³⁴

To complicate matters, these economic challenges are cumulative as well as cyclical. The resentment has been building up on both sides of the

Atlantic for some time now. Many Europeans believe that the United States manipulated the world economy in such a way as to guarantee that the disproportionate share of the spoils would accrue to the United States. For their part, the Americans tend to blame Europe for free-riding during the period of U.S. hegemonic leadership and beyond - especially in the area of security.

The second major economic difficulty has to do with the evolution of global trading patterns. Protectionism and mercantilism are on the rise, along with increasing bilateralism and the emergence of regional trading blocs. Many factors have contributed to this pattern, though none as directly nor as importantly as the mounting U.S. current-account deficit. In 1987 the United States had a current-account deficit of some \$161 billion while Japan posted a record \$87 billion surplus on its current account and the Federal Republic of Germany had a healthy \$44 billion surplus.³⁵ These figures represent fundamental and troubling imbalances in the global economy which can not easily be adjusted. A number of analysts have argued that the Japanese economic miracle may make the U.S.-Japanese relationship impossible to sustain and will, in any event, have very dramatic implications for the world economy.³⁶ Within the United States there are powerful domestic forces working to redress the trade imbalance. While the bill was not as powerful as many in the United States Congress would have liked, the 1988 Omnibus Trade and Competitiveness Act is a good illustration of the direction that Congress is moving. This domestic pressure has been particularly effective since the GATT has failed to move quickly enough on non-tariff barriers, the inclusion of services, and the issue of intellectual property - even for some of the

most enthusiastic free-traders in the United States.³⁷ Equally troublesome from an American perspective has been the push to complete Europe's internal market. If successful, Europe 1992 will contribute to the evolution of trading blocs. Other key illustrations of this regionalism and bilateralism include the recently concluded Canada-United States Free Trade Agreement and the U.S. - Israel Free Trade Agreement.

Tensions in the global trade regime are particularly important to the Atlantic Alliance because trade relations are normally more politically sensitive than other foreign economic policy issues (and, in some cases, security issues). Given the reality of persistently high unemployment rates, increasing trade dependence, and slower economic growth the search for global markets and the relative success of managed trade will increasingly occupy the hearts and minds of policymakers in all of the Western industrialized states. The persistence of the dispute between the United States and various members of the European Community over farm subsidies is a good recent example of the importance of trade disputes and their ability to undermine Western solidarity. To complicate the picture even further, preoccupation with the U.S.- Japanese trading relationship (which is increasingly imbalanced) is not uncommon in Washington. The third area of economic change and challenge relates to the problem of U.S. budgetary deficits and their impact on defence spending. Budgetary deficits are, if one examines the historical record, not an uncommon feature in postwar America. During most of the so-called long decade of the 1950s, when American hegemony and the Pax Americana was at its peak, the United States was in a deficit position. However, the budget deficits of the 1980s have been enormous by comparison with those in the 1950s and 1960s. The U.S. budget deficit in FY 1986 was \$221 billion. The deficit

dropped to \$150 billion in FY 1987 and is expected to fall further under the provisions of the Balanced Budget Act. However, these figures are still very troubling. The fiscal problem has traditionally been a domestic political matter. In simple terms, "the American public has not paid taxes equal to the combined civilian and military objectives of its government."³⁸ If they are going to respond effectively to this problem the U.S. government will either have to raise taxes (which Mr. Bush has steadfastly promised not to do) or reduce commitments. Given that the latter is the preferred option, there is a strong likelihood that expensive foreign military commitments (ie., troops in Europe) will be among the most vulnerable budget items. As Charles Doran has suggested: "the absolute burden of the expenditures, their distribution within the alliance, and the purposes to which they are being put all are receiving intense consideration in an era of much scarcer resource allocation."³⁹

As with other parts of the argument in this paper, the claim that the United States can not afford to maintain its current military commitments is a contentious one. In a recent review essay on the Calleo and Kennedy books Aaron Friedberg has argued that U.S. strategic "overextension" may be a problem but it is not fundamentally an economic problem.⁴⁰ The difficulty with this reasoning is that it fails to accept (or recognize) the dynamic relationship between American defence spending, the global economy and the NATO Alliance. I have argued above that it is, in essence, a question of what America (and Europe) can afford, about who should bear the burden, and about what kind of defence the West wants and needs.

DEALING WITH CHANGE: THE FUTURE OF NATO

This paper has argued that the American position with respect to NATO must be brought into line with the new economic and political realities of the international system. Contemporary challenges to the NATO Alliance are not transitory and are not simply a reflection of the recent changes in East-West relations. Consequently, maintaining the status quo does not seem to be a reasonable alternative. In other words, devolution seems to be inevitable - but under what conditions? The arguments presented here suggest two alternatives. The first involves a similar NATO organization with political leadership and economic responsibilities being systematically shifted to a coherent European leadership. For the reasons identified in this paper this seems unlikely, at least in the foreseeable future. The second alternative would involve a situation where political leadership and economic responsibilities were more equally shared and where the Alliance was less structured. This option would allow a much greater degree of flexibility for the Alliance - both in terms of responding to intra-Alliance changes in roles and goals and in dealing with change in the international system.

The paper also concludes that the existence of a strong and flexible NATO is especially compelling in a period where we are going to have to deal with the transition from an essentially bipolar political world with a stable, highly structured and leadership-based world economy to a much more pluralistic international system. Among other things, NATO will have to play a more direct role in the larger process of managing the international system. As we move away from a fundamentally hegemonic and leadership-based system to a system characterized by mutual supportorship and joint leadership the political side will need to be "brought back in."

As one senior NATO staff member observed, "member country defence ministers know why NATO is important, the challenge is to make the finance and external affairs ministers aware".⁴¹

Our analysis suggests that the future of NATO will depend on four interrelated factors. First, the Alliance must come to terms with the notion that there are limits to U.S. capabilities. Recent changes in the world economy such as the shifting international division of labour, coupled with domestic pressures for a leaner U.S. defence establishment, make the withdrawal of U.S. commitments (ie., troops in both the European and the Asian theatres) inevitable. Second, the Alliance must recognize the tremendous importance of political and economic interdependence. As Josef Joffe has recently observed, "the essence and enduring legacy of the 1980s crisis [in Alliance relations] is the resentment that interdependence has bred."⁴² Interdependence can, however, also be employed as a source of Alliance cohesion. For instance, in a NATO where European states played a larger collective role in leadership, the integration of the European market in 1992 could provide an important sense of stability and community. Economic interdependence has been such a problem because it is an important reality in the modern world economy on the one hand and broadly inconsistent with the state system on the other. If, however, a more collective and coordinated NATO were to emerge, with a more comprehensive approach to the question of security, interdependence could be a blessing rather than a curse. Third, the Alliance must address the burden-sharing issue without alienating the United States or giving in to nostalgia. Limited deterrence can exist in the context of some form of East-West détente. However, the presence of American troops in Europe is

still essential and the participation of the United States in the Alliance is still critical.⁴³ Fourth, Europe and America must work toward the formation of a new partnership which would take into account these new realities. The continued need for the Atlantic Alliance is really not an issue. The issue is whether or not the Alliance can come to terms with existing challenges and new realities. This does not mean that an attempt should be made to synthesize American and European goals and values or even to establish some grand plan of action. Rather, as Ralf Darendorf has argued, "the suggestion is that a new appreciation of objectives, realities and interests should be sought to guide policy."⁴⁴

The wild card in this whole discussion is, of course, changing public perceptions in the West about the nature and extent of the Soviet threat. Our claim here is that the legitimacy of the Alliance is not and should not be determined exclusively by the need to address an external threat. Should the Alliance come to terms with some of its economic and ideological problems it will be decidedly better able to manage the transition to a new East-West relationship.

Notes

¹John Palmer, Europe Without America: The Crisis in Atlantic Relations (Oxford and New York: Oxford University Press, 1988), p. 1.

²Richard K. Betts, "NATO's Mid-Life Crisis", Foreign Affairs 68(2) (Spring 1989): 37.

³NATO, A report of the Defence Planning Committee, Enhancing Collective Security: Shared Roles, Risks and Responsibilities in the Alliance, Brussels, December 1988, pp. 1-2.

⁴On this point see: J. LeGuyer and L. Sullivan Jr., Comprehensive Security and Western Prosperity (Washington, D.C.: University Press of America, in conjunction with the Atlantic Council of the United States, 1988); see, also, the Council's more recent working paper: Leonard Sullivan Jr., "Organizing for Change: An Essential Part of Comprehensive Security and Western Prosperity," An Occasional paper from the Atlantic Council of the United States, (Washington, D.C., August 1988).

⁵The classic statement of system level analysis remains: Kenneth Waltz, Theory of International Politics (Reading, MA: Addison-Wesley, 1979). For a more recent discussion of the systemic level of analysis see: David P. Rapkin and William P. Avery, "U.S. International Economic Policy in a Period of Hegemonic Decline," in America in a Changing World Political Economy, William P. Avery and David P. Rapkin (eds.), (New York: Longman, 1982).

⁶Robert O. Keohane, "The World Political Economy and the Crisis of Embedded Liberalism," in Order and Conflict in Contemporary Capitalism: Studies in the Political Economy of Western European Nations, J. Goldthorpe (ed.), (Oxford: Oxford University Press, 1985), p. 15.

⁷This argument has been made much more thoroughly and in a more compelling fashion by David Calleo. See, "Early American Views of NATO: Then and Now," in The Troubled Alliance: Atlantic Relations in the 1980s, Lawrence Freedman, (ed.), (New York: St. Martin's Press, 1983), pp. 7-27; and, Beyond American Hegemony: the Future of the Western Alliance (New York: Basic Books, 1987). See also: D. Denon (ed.), Constraints on Strategy (London: Pergamon-Brassey, 1986) and O. Trevorton, Making the Alliance Work (Ithaca, NY: Cornell University Press, 1985).

⁸Michael Hudson, Global Fracture: the New International Economic Order (New York: Harper and Row, 1977), p. 9.

⁹For a detailed treatment of the collapse of the Bretton Woods system, see: Hudson, Global Fracture. Some students of international political economy argue that the Bretton Woods system depended very heavily on the notion of consensus (or ideological hegemony). See, in particular: Robert W. Cox, "Gramsci, Hegemony and International Relations: An Essay in Method," Millennium: Journal of International Studies, 12(2) (1983): 162-175; and Arthur Stein, "The hegemon's dilemma: Great Britain,

the United States, and the international economic order," International Organization, 38(2) (Spring 1984): 335-386.

¹⁰The underlying argument here is that the Bretton Woods system can be understood in terms of a specific historical moment has passed. The debate now centres on the extent of the decline of United States hegemony and the composition, character and extent of a non-hegemonic world economy. The literature on hegemonic decline is enormous. For a useful overview, see: Paul Kennedy, The Rise and Fall of the Great Powers: Economic Change and Military Conflict From 1500 to 2000 (London: Unwin Hyman, 1988); David P. Calleo, The Imperious Economy (Cambridge: Harvard University Press, 1982); Bruce Russett, "The mysterious case of vanishing hegemony: or, is Mark Twain really dead?" International Organization, 39(2) (Spring 1985): 207-232; Robert O. Keohane, After Hegemony: Cooperation and Discord in the World Political Economy (Princeton: Princeton University Press, 1984).

¹¹See Peter Morici, The Global Competitive Struggle: Challenges to the United States and Canada (Toronto and Washington: Canadian-American Committee, 1984).

¹²This problem is exemplified by the recent conflict between the United States and Japan over the construction of the new Japanese fighter aircraft, the FSX; see "The sun also rises over Japan's technology," The Economist, 1 April 1989, pp. 57-58.

¹³Joan Edelmann Spero, The Politics of International Economic Relations (New York: St. Martin's Press, 1985), p. 118.

¹⁴Charles S. Maier, "The Politics of Productivity: Foundations of American International Economic Policy after World War II," in Between Power and Plenty: Foreign Economic Policies of Advanced Industrial Countries, Peter J. Katzenstein (ed.), (Madison: University of Wisconsin Press, 1978), pp. 23-50.

¹⁵David Calleo, "Early American Views of NATO," in The Troubled Alliance, p. 23.

¹⁶Kennedy, The Rise and Fall of the Great Powers, p. 519.

¹⁷Stephen M. Walt, The Origins of Alliances (Ithaca, NY: Cornell University Press, 1987), p. 18. On balance of power theory, see: Inis Claude, Power and International Relations, (New York: Random House, 1962); Edward V. Gulik, Europe's Classical Balance of Power, (Ithaca, NY: Cornell University Press, 1955); Ernst B. Haas, "The Balance of Power: Prescription, Concept or Propaganda?" World Politics, 5 (July 1953): 442-477; Morton Kaplan, System and Process in International Politics, (New York: John Wiley, 1957); and, George Liska, Quest for Equilibrium, (Baltimore: Johns Hopkins University Press, 1977).

¹⁸See Stephen M. Walt, The Origins of Alliances.

¹⁹Charles F. Doran, "The Origins and Limits of NATO Cohesion", in America's Alliances and Canadian American Relations, Lauren McKinsey and Kim Richard Nossal (eds.), (Toronto: Summerhill Press, 1988), p. 120.

²⁰Hans J. Morgenthau, Politics Among Nations, (New York: Knopf, 1948).

²¹Stephen Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables", International Organization, 36(2) (Spring 1982): 185.

²²Walt, The Origins of Alliances, p. 41.

²³Sullivan, "Organizing for Change," p. 6.

²⁴OECD, Economic Outlook, 41 (June 1987): 2-3.

²⁵Sullivan, "Organizing for Change," p. 6.

²⁶Calleo, Beyond American Hegemony, p. 19.

²⁷On this point, see David G. Haglund, "The U.S - European Security Problematique: Economics, Strategy and Security in an Aging Alliance," in this volume.

²⁸While a reading of any major daily newspaper in the late 1980s confirms this point, it is driven home by the tremendous popular success of Paul Kennedy's The Rise and Fall of the Great Powers in 1988.

²⁹There has been a very lively debate in the academic journals on the relative decline of the United States, the persistence of international economic regimes and the implications of changes in the relative capabilities among states. See, among others: John G. Ruggie, "International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order," International Organization, 36(2) (Spring 1982): 379-415; Susan Strange, "Still an Extraordinary Power: America's Role in the Global Monetary System," in The Political Economy of Domestic and International Monetary Relations, R. Lombra and W. Witte (eds.), (Ames: Iowa University Press, 1982) pp. 73-93; Russett, "The mysterious case of vanishing hegemony"; Duncan Snidal, "The limits of hegemonic stability theory," International Organization, 39(4) (Autumn 1985): 579-614; and, Joanne Gowa, "Rational Hegemons, Excludable Goods, and Small Groups: An Epitaph for Hegemonic Stability Theory," World Politics, 41(3) (April 1989): 307-324.

³⁰For a lengthy discussion of the burden-sharing issue, see Robert White, "NATO in the 1990s: The Burden-Sharing Debate," in this volume.

³¹On this point, see: Morici, The Global Competitive Struggle and F. Deyo, The New Political Economy of The Asian Industrialism, (Bolder, CO: Westview Press, 1987).

³²In 1978 Japan's economy grew at 5.2 percent - second only to the United States which grew at 5.3 percent and well above the OECD average of 4.3 percent. In 1986 Japan's economic growth was outpaced by both Canada and the United States. And, in 1986 Japan's economy grew at a steady 2.5 percent, which was lower than the OECD average by about one-half of a percentage point. OECD. OECD Economic Outlook, 43 (June 1988): 145.

³³On the rise of Japan, relative to the decline of the United States, see: Clyde V. Prestowitz, Trading Places: How We Allowed Japan to Take the Lead, (Washington: Georgetown University Press, 1988); Bruce Scott and George Lodge, U.S. Competitiveness in the World Economy (Boston: Harvard Business School Press, 1985); and Miyazaki Yoshikazu, "Debtor America and Creditor Japan: Will There Be a Hegemony Change?" Japan Economic Studies (Spring 1987): 58-96.

³⁴Charles Doran, "The Origins and Limits of NATO Cohesion," in America's Alliances and Canadian-American Relations, p. 126.

³⁵OECD, OECD Economic Outlook, 43, p. 57.

³⁶James Fallows, "Containing Japan," The Atlantic, May 1989, pp. 40-54; Michael Naught, "United States - Japanese Relations," Current History, April 1988, pp. 149-153; and Karl Wolfren, "The Japan Problem," International Affairs (Winter 1987): 288-304.

³⁷Karen Pennar, "The Gospel of Free Trade is Losing Apostles," Business Week, 27 February 1989, p. 89; Paul Magnusson, "Trade: Will We Ever Close the Gap," Business Week, 27 February 1989, pp. 86-92; and "The ravishing of trade," The Economist, 25 March 1989, pp. 13-14.

³⁸Calleo, Beyond American Hegemony, p. 110.

³⁹Doran, "The Origins and Limits of NATO Cohesion," p. 127.

⁴⁰Aaron L Friedberg, "The Political Economy of American Strategy," World Politics, 41(3) (April 1989): 381-406.

⁴¹Confidential interview, NATO Headquarters, Brussels, 21 February 1989.

⁴²Josef Joffe, The Limited Partnership (Cambridge: Ballinger, 1987), p. 175.

⁴³For a thorough discussion of the need for a continued, though more moderate U.S. role in the Alliance, see: Ralf Dahrendorf, "The Europeanization of Europe," in A Widening Atlantic: Domestic Change and Foreign Policy, Andrew Pierre (ed.), (New York: Council on Foreign Relations, 1986).

⁴⁴Dahrendorf, "The Europeanization of Europe," p. 54.