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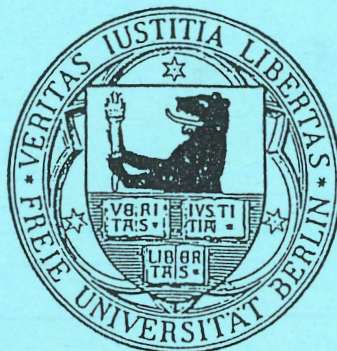
JOHN F. KENNEDY-INSTITUT
FÜR NORDAMERIKASTUDIEN

Abteilung für Politik

WORKING PAPER No. 49/1992

SCHERRER, CHRISTOPH

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and the Transformation of Europe



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John F. Kennedy-Institut
für Nordamerikastudien

Freie Universität Berlin

Lansstrasse 5-9

1000 Berlin 33

Germany

The U.S. Foreign Policy Establishment and the Transformation of Europe¹

The so-called "corporate liberal establishment", i.e. the internationally oriented banking and corporate capital, oligopolistic producers of consumer goods and large retailers, dominated hegemonically post-war U.S. foreign policy. It propagated international activism and "economic altruism" for helping United States' allies (there was, however, more altruism in the early years than later). At the end of the Cold War the conditions for these policies have drastically changed. Anti-communism which legitimized international activism has become irrelevant, the allies have become economically very strong, and the European Community may turn into a "Fortress Europe", possibly attempting to gain exclusive influence in Eastern Europe.

In this paper I want to explore how the interests of the "corporate liberal establishment" are altered through these changing circumstances and whether it can maintain its hegemony over U.S. transatlantic policies.

U.S. interests in Europe 92

Despite the talk of "Fortress Europe," the U.S. business community has welcomed Europe 1992. In a 1989 Fortune/Ernst&Whinney poll a majority of U.S. chief executives believed that Europe 92 will benefit their industry (1989: 7). Especially the organization of internationally oriented companies, the U.S. Council for International Business, has come out in support of EC 92 (Jenkins 1990: 299), but also the all encompassing trade association, the National Association of Manufacturers (NAM; Cooney 1990). The Advisory

¹ This paper was first presented at the ecpr Joint Sessions of Workshops held at the University of Limerick, Ireland, 30th March - 4th April 1992.

Committee on Trade Policy and Negotiations (ACTPN), authorized by Congress in 1988 to advise the President on all trade matters, has even denounced the public focus in the U.S. on "Fortress Europe" as "counterproductive" (Advisory Committee 1989: ii).² U.S. business expects expanded trade opportunities, and U.S. transnationals with a number of subsidiaries in Europe (e.g. Ford) feel well positioned vis-a-vis European corporations, which often command a strong market position only in their home countries (e.g. FIAT, see Fortune/Enrst&Whinney 1989).

Even before 1992, U.S. businesses benefited from the anticipation of the Single Market project. From 1985 to 1989 U.S. exports to the EC have almost doubled, turning a substantial trade deficit into a modest plus (OTA 1991: 197). U.S. direct investment in the EC has been growing by 15 % per year between 1986 and 1990 (Aho 1990: 125). U.S. subsidiaries in the EC had sales in excess of \$ 600 mio. in 1988 (Hufbauer 1990: 25). Support in the United States for EC 92, however, is not just based on immediate commercial interests, but also has emerged because the neo-liberal discourse of EC 92 with its focus on market efficiency fits the world view of U.S. managers well.

Despite this warm welcome for the European initiative, various trade associations have voiced their concern about a number of EC 92 rules, of which the following three have been considered to be most problematic (Cooney 1990: 15):

1. Product standards, testing and certification: U.S. companies are concerned that the new EC-wide standards might, intentionally or unintentionally, serve as technical barriers to U.S. products. They worry about effective access to the standards-setting process.
2. Rules of origin: The EC has interpreted its rules of origin to discriminate against products from U.S. and UK plants of Japanese firms. U.S. transnational companies are afraid that the EC's

² Its members come from major corporations, such as Procter & Gamble, Mobil, and General Motors, as well as from farm lobby groups and two trade unions (Advisory Committee 1989: iii-iv).

flexible rules of origins impede their ability to source globally according to cost-and-quality criterias.

3. Public procurement: The EC has proposed directives at opening procurement to non-national suppliers in the water, energy, transport, and telecommunications sectors. U.S. companies may not be eligible for bids, especially if the EC continues to insist on reciprocity, i.e. the lucrative European government procurement market will be denied to U.S. exporters as long as the U.S. maintains its own "Buy American" preferences (see ACTPN 1989).

U.S. corporations have urged their government to address these concerns in direct negotiations with EC officials. The Department of Commerce and the U.S. Trade Representative complied. The EC responded in some areas favorably, e.g. by dropping a proposed requirement that road haulage companies be majority-owned and controlled by Community nationals in order to compete for transportation business within an EC member state (Hills 1990: 512) and by promising to accredit U.S. labs for testing products (OTA 1991: 201).

Recent events may, however, impede the effectiveness of U.S. government negotiations with the EC. The persistent trade deficit with Japan, the end of the Cold War, and a drawn out domestic recession have weakened public support (or to be more precise, the support among politicians; Gergen 1992: 15) for free trade and for expensive international commitments in general. In the Presidential campaign of 1992 all Democratic candidates are espousing some kind of "It's time to take care of our own!" theme. Pat Buchanan, the Republican challenger of President Bush, takes a a definitely isolationist "America First" stand.

Waning domestic support for a liberal world market may reduce the arsenal of negotiating tools of U.S. governments to threats, because it puts important channels of influence (finance, security commitments) as well as bargaining chips (e.g. reciprocity) into jeopardy. The impact of reduced financial resources for foreign policy objectives will become most evident in Eastern Europe. It is generally perceived that private investment in the Eastern

economies will require massive public investment in infrastructure. For that purpose the EC governments have proposed a European Bank for Reconstruction and Development (EBRD). The Treasury Department considered U.S. participation crucial as an avenue of influence to Eastern Europe (to ensure that private U.S. firms will receive equal treatment) and as a way to reaffirm the transatlantic alliance (Mulford 1990). Though eventually the Bush administration was able to obtain congressional support for its participation in EBRD (especially after having successfully rewritten the bank's constitution), it had to contend with strong criticism from the Republican right, especially from Senator Jesse Helms, who condemned multilateral commitments in general (Helms 1990: 2). But bilateral help for Eastern Europe has not been granted in greater amounts, the Bush administration was even reluctant to ask Congress for funds (Lugar 1992: 91).

The end of the Cold War has reduced the value of the nuclear umbrella the U.S.A. has provided for the Western allies. The allies may therefore not be as accomodating as Senator Lugar would believe: "The defense shield we have provided to the world gives us leverage to advance our ideals and insist that Europe, Japan, and others address fundamental American interests." (Lugar 1992: 98). Plans to withdraw U.S. troops completely from European soil, which have become popular with an increasing number of Democrats and the Republican right, may even jeopardize the last bits of political pull that came along with this security deal.

Finally, rising protectionist sentiment may bar U.S. trade negotiators from obtaining better market access for American companies abroad by offering reciprocal action in the United States.

In sum, U.S. influence in Europe and its ability to cooperate with Europeans in sustaining a liberal market environment depends on whether domestic support for international activism can be up held. Before I want to speculate about the prospects of domestic support, I want to look at some theories that might explain how the United

States, despite mounting trade deficits, has managed so far to stick to the postwar liberal world market order.

Explanations for the dominance of free traders

In the immediate post-war era pluralists and realists were at ease in explaining the dominance of free-traders (Bauer et al. 1963, Lowi 1964, Keohane/Nye 1977, Keohane 1980). Most industries displayed a foreign trade surplus and the United States of America reigned supreme among nations. After 1970, when the trade surplus turned into a huge deficit and when the United States international predominance eroded, however, the United States continued to espouse a free trade rhetoric.

This contradiction is explained by authors, who stand in the tradition of Max Weber, through the independent status of policy makers. For example, Stephen Krasner has argued that state actors try to represent the national interests. When confronted by a choice of interests, state actors would usually give priority to broader foreign policy concerns over more narrow economic interests, such as the inexpensive supply of raw materials (Krasner 1978).

Similarly, Judith Goldstein has argued "that continued support for the liberal economic regime is a function of the acceptance by the policy-making community of a set of rules and norms" (1986: 180). This ideological consensus of decision makers rests on the belief that free trade is beneficial as long as all participants respect the rules. The recent increase in exceptions to the free trade rule while upholding the rule in principle fits well with these statist arguments. However, no one has explained how the ideological consensus of state actors is formed and how it is reproduced. Furthermore, the assumed coherence and internal cohesiveness of the state bureaucracy in this Weberian tradition contradicts the institutional structure of the U.S. state, commonly described as decentralized, fragmented and relatively responsive to social forces (e.g. Huntington 1968). Even in the area of foreign policy, where according to Krasner a "strong state" exists (Krasner 1978,

Within the heterogenous U.S. business community, the primary Traeger of the fordist project, i.e. the internationally oriented banking and corporate capital, oligopolistic producers of consumer goods and large retailers acquired a hegemonic position during the New Deal (Ferguson 1981, van der Pijl 1984). This "corporate liberal establishment" propagated the free flow of goods and capital to the extent that it was compatible with the stability of the capitalist world market (a strategy of "imbedded welfarism," Augelli/Murphy 1988: 140). Because of their control of the most productive segments of the U.S. economy, they were capable of integrating the material interests of important parts of the working class and other capital fractions. The pursuit of their foreign economic policy objectives was facilitated by the trade surpluses which almost all branches of the U.S. economy were showing in the immediate post-war period. Furthermore, the transnational companies served the national interest by securing raw materials for the U.S. economy (Gilpin 1987: 242). Finally, their project was helped by the anti-communist convictions of most U.S. citizens and the common belief that the Great Depression had been deepened by protectionist measures (Pastor 1980).

The hegemony of the "corporate liberal establishment" was buttressed by "organic intellectuals" which in the field of foreign policy were especially prominent in the Council on Foreign Relations and among the anti-communist labor leadership (Gill 1990: 51-54; Wolfe/Sanders 1979).

The hegemony of the corporate liberal establishment, however, did not imply a tight rule over the business community (Lynn/McKeown 1987), nor did the ruling block held exclusive access to the state. Accordingly, the influence of the internationalists on foreign (economic) policy was subjected to changing fortunes. Until the end of the 1960s they dominated foreign policy; most social forces consented to the establishment of a liberal world market order. The support of most trade unions was, however, lost in the late 1960s when foreign producers scored their first great successes. In the Nixon-administration the internationalists had to share power with more domestic-market oriented groups. This became painfully clear

when, in 1971 -- the year of the first trade deficit since the turn of the century -- President Nixon abandoned the Bretton Woods Monetary Order and imposed unilaterally a ten percent import surcharge. The latter policy alarmed the internationalists since unilateral U.S. protectionist action would have seriously undermined the credibility of the free trade gospel. The internationalists reacted by founding the infamous Trilateral Commission, which explicitly included CEOs and political consultants from Western Europe and Japan. The Trilateral Commission's credo was to overcome the nation state: "The public and leaders of most countries continue to live in a mental universe which no longer exists -- a world of separate nations -- and have great difficulties thinking in terms of global perspectives and interdependence" (Trilateral Commission Task Force Report, "Toward a Renovated International System," January, 1977, quoted in NACLA 1981: 6; see also Sklar 1980, Gill 1990: 132-142).

At first the Trilateralists were successful. The import surcharge was rescinded and through their influence on the Washington Post and the New York Times they may have contributed to the fall of Nixon (Mead 1987: 53-77). They supported their fellow member Jimmy Carter who, as President, started the experiment to manage the world market (and world politics) in close collaboration with the most important allies.

The limits of trilateralism

At the end of Carter's tenure the Trilateralists considered their own project as a failure. The revolution in Iran and the Soviet intervention in Afghanistan were interpreted as results of a lack of Western determination. They argued, a decision-making structure built on consensus cannot adequately avert the challenges to the capitalist world order (Rosati 1987). In addition, the allies displayed little willingness to share in the costs of maintaining the Pax Americana. West Germany's Chancellor Helmut Schmidt was not inclined to support the Carter-administration's policies of economic expansion. He refused to defend the U.S. dollar. The

Dollar's subsequent precipitous decline in 1979 forced Carter to impose high interest rates and budget austerity (Block 1987: 114; Guttman 1989). The world of nation states, which supposedly had been already overcome, had shown its nasty face.

In response, the internationalists turned to the unilateralist position espoused by the supporters of Ronald Reagan. U.S. interest were to be furthered by the "free play" of market forces. International cooperation was no longer considered necessary. Complaints of other countries, that the U.S. budget deficit and high dollar were distorting the international monetary and financial system, went unanswered (Gilpin 1987: 155). Instead, it was hoped that the unilateral actions would force other countries to pursue "structural (i.e., microeconomic) policy reforms to bring down inflation and free up labor, capital, and product markets" (Nau 1990: 216).

The limits of unilateralism became apparent shortly after its adoption, i.e. when Mexico was on the brink of defaulting on its loans. Mexico's liquidity crisis also threatened U.S. banks. The Reagan-administration was forced to negotiate a common debt crisis strategy with other creditor nations. Furthermore, the policy of strengthening the dollar had made imports ever more cheaper and ubiquitous. The hard pressed domestic industries were calling ever louder for protectionism. These calls had to be deflected by a devaluation strategy, which also presupposed cooperation with the other central banks. Unilateral action would have risked an uncontrollable flight out of the dollar. Thus by the mid-1980s the United States returned to cooperation, albeit cooperation should not be confused with harmony of interests (Cohen 1988: 215).

Using the trade deficit to uphold free trade

The devaluation of the Dollar, however, did not bear the expected fruits. Especially the trade deficit with Japan kept rising. In order to deflect domestic protest, the then Secretary of the Treasury, James Baker, started a campaign to open-up markets for U.S. products worldwide (Cohen 1988: 215). The Trade Act of 1988

created with the Section 301 a "'crowbar' that could, with the aid of threatened tariff retaliation, pry open foreign markets determined by the United States to be closed to its exports" (Bhagwati 1989: 440). The trade deficit thereby provides bargaining power to U.S. trade negotiators. The economies of Japan and Western Europe have become addicted to exporting to the United States. An exclusion from this market would cause severe domestic problems. The efforts to open up the Japanese market culminated in the Structural Impediment Initiative of 1990 which obliged Japan to make sweeping changes in domestic commercial practices (Moran 1990). Thus, Baker's strategy aimed at placating domestic producers while regaining leadership initiative among OECD nations by spearheading the trade liberalization efforts.

Another reason why the Trade Act of 1988 did not turn outright protectionist was that the internationalization of the U.S. economy had become irreversible. Although more companies were facing competitive imports, the volume of exports, the number of exporters, and the importance of exports to some companies had increased. Furthermore, an increasing number of companies have become dependent on foreign suppliers and thus felt threatened in their competitive position if protectionism would have forced them either to pay tariffs or to switch back to domestic supply sources (Destler/Odell 1987). In addition, imports were popular with the U.S. population as consumers. The macro-economic effect of rising import levels had also been anti-inflationary.

However, by the summer of 1990 the U.S. foreign policy establishment became afraid that the Structural Impediment Initiative may not be sufficient to suppress the calls for protectionism, since it was unlikely to produce rapid results (Bergsten 1990: 99). In fact, facing a recession and experiencing the end of the Cold War, they were alarmed about reinvigorated isolationist forces. To stem the tide they urged domestic reforms, since in the words of the president of the Council on Foreign Relations, Peter Tarnoff: "If (...) the United States is consumed by its failure to resolve internal social problems, American leaders will have little political support for an activist international role" (1990: 79;

for similar calls, see Bergsten 1990, Kirkpatrick 1990, and Hoffman 1990).

These calls went unheeded since the decisive defeat of Iraq in March of 1991 reversed temporarily the relationship between domestic and foreign policy. For a short time it looked as though international activism no longer required domestic prosperity, that it compensated for domestic failures. The victory over Saddam Hussein had symbolically rewarded the U.S. population for its support of the foreign activism of its elites. In addition, many U.S. companies were awarded lucrative contracts from Kuwait and Saudi Arabia (Business Week March 11, 1991: 26f). The foreign policy establishment had thus won a new licence for international activism which it put to use by obtaining so-called fast-track authorization for the negotiation of a free trade agreement with Mexico (Gergen 1992: 11). This "window of opportunity" (Gergen) for active internationalism, however, has been shut by the beginnings of the Presidential campaign of 1992. Thus, the foreign policy establishment faces again the daunting task of garnering domestic support for its commitment to a liberal world market order and its intentions to stay involved in the transformations of Europe.

Prospects of sustained internationalism

Quite evidently, public support for international activism depends on the state of the economy. The basic policy choice seems to be either to demonstrate in the face of contradictory evidence that a further push to open the U.S. economy (e.g. with a Free Trade Agreement with Mexico) will unleash growth potentials or to develop strategies to increase the competitiveness of U.S. businesses in order to make better use of the opportunities the world market has to offer. The latter position, first proposed by a handful of politically liberal intellectuals and union officials, is gaining more elite acceptance. Just recently, an erstwhile prominent believer in the exigency of macro-economic policies, Fred C. Bergsten from the Institute of International Economics (Bergsten

1983), chaired a panel on U.S. competitiveness appointed by President Bush and Congress which called for policies to help specific sectors (New York Times March 5, 1992: D2). Even the concept of "strategic" or "managed" trade has gained intellectual respectability and business support (see OTA 1991, and CUOMO-Commission 1988).

Despite mounting support, there are a number of reasons to be skeptical about whether these targeted state policies to enhance international competitiveness can be implemented and will deliver the desired results. First, a state directed competitiveness strategy (even in the disguise of a business-government partnership) runs counter to the strong dislike of "government interference" among U.S. managers (Vogel 1978). The labor unions, which have traditionally called for tripartite consultations, lack the political clout to impress such corporatist arrangements on business and the state (Scherrer 1992). Second, the institutional preconditions for corporatism are not met in the U.S. case, i.e. centralized and powerful associations of capital and labor as well as a "strong" state (Wilson 1982). Capital is split along a number of axes, labor unions represent only about 15 % of employees in the private sector, and the state is highly fragmented and therefore lacks the capacity for carrying out a coherent policy. SEMATECH, the Semiconductor Manufacturing Technology Center sponsored by the Department of Defense to strengthen the manufacturing capabilities of U.S. chip producers represents an illustrative example of the limits of a national effort to improve international competitiveness. On the one hand SEMATECH had come under strong criticism from some maverick producers for unfair subsidization of industry giants, and on the other hand, those very same giants, such as Motorola, Texas Instruments and Intel, teamed up with Japanese producers for the development of the next chip generation (Business Week, Jan. 16, 1989: 39).

Third, the success of such competitive efforts rests on the premise that the world market offers growth potentials. Growth, however, may only come at the expense of other nations, since the conditions for a new economic upswing are not yet met. For one, the fic-

titious monetary claims, which have piled up immensely in the last decade, have to be depreciated (Hübner 1988). A solution to the various debt crises is unlikely. Furthermore, there is no production paradigm in sight whose productivity increases would compensate for the concurrent increase in the technical composition of capital (Scherrer 1992). If growth can only be gained at the expense of others, the ever faster race for competitiveness may lead to a crisis inducing divergence between productive capacities and social demand (Boyer/Coriat 1987).

But even if international competitiveness is to be regained and domestic growth is reinvigorated, the foreign policy establishment may still find itself without public support for maintaining a U.S. presence world wide. The potent force of anti-communism will be hard to substitute. If one follows Enrico Augelli's und Craig Murphy's argument, that the American mass public desired role in foreign-policy is to be part of a successful global crusade (1988: 71), then neither "Realpolitik" nor trilateral "consensus" foreign policy will gain mass appeal.

In sum, although there might be no real alternative to a commitment to the liberal world market order, domestic support in the U.S. for its maintenance is far from assured and therefore the level of U.S. involvement in the transformation of Europe will remain contested.

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