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1. World politics—Periodicals. 2. International relations—Periodicals. 3. Policy sciences—Periodicals. I. Association of Professional Schools in International Affairs. II. Woodrow Wilson School of Public and International Affairs. III. Title: JPIA.

ISSN: 1070-521x
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In 1996 the *Journal of Public and International Affairs* enters its seventh year as North America’s only academic journal that exclusively publishes the scholarly work of graduate students in public and international affairs. This year has witnessed record levels of participation by students both at the Woodrow Wilson School and from other APSIA member schools. In February, 30 students gathered at Princeton to select the eleven papers appearing in this volume. The authors in the 1996 *JPIA* represent nine different schools in public and international affairs, broader representation than ever before.

The selected papers cover a broad range of significant issues. Each paper covers an important topic relevant to current policy. Two authors, Tom Lewis and Perry Urken, explore the political economy of macroeconomic policy. Three graduate students, Jennifer Shea, Christopher Stefes and, Aaron Fellmeth, focus on the urgent questions facing the European Union. Two writers, Graham Craft and Evelyn Farkas, examine the politics of cultural identity and social institutions in Eastern Europe. Robert Youngman evaluates the extent and quality of cooperation between business and environmental activists on trade issues, and David Edelstein proposes an alternative U.S. Social Security system based on lessons from the Chilean model. Two authors, David Johnson and Kevin Roth, analyze different aspects of the Chinese military. Finally, Philip Ritcheson argues for a new U.S. defense strategy.

Circulation of the *JPIA* will expand beyond the nation’s schools of public policy and international affairs to include principal library research indices and, in a step toward the cyber-age, on the World Wide Web. You can find the 1996 *JPIA* at [http://www.wws.princeton.edu/~jpia](http://www.wws.princeton.edu/~jpia).

We extend our gratitude to the sponsors of the *JPIA*: the Association of Professional Schools of International Affairs (APSIA) and the Woodrow Wilson School of Public and International Affairs at Princeton University. In particular, we thank APSIA Executive Director Kay King for her constructive guidance, Dean Michael Rothschild and Associate Dean James Trussell for their unwavering support, Pat Coen for her indefatigable patience, Ellen Kemp for her excellent technical support, Agnes Pearson for her generous logistical help, and Assistant Dean Ruth Miller for her unflagging confidence in this project. Most of all, we thank the student authors and editors whose dedication and energy has made publication of the 1996 edition of the *JPIA* possible.

Darius Nassiry  
Kyle W. Danish  
Susan E. Miller  
Deborah N. Piekes
Over the last half-decade the European Union's democracy deficit has become a topic of serious concern among scholars, politicians, the press, and the public. Commentaries inevitably focus on the Commission, the Council, or Parliament. This paper addresses the heretofore ignored question of how the European Court of Justice affects democracy in Europe. It argues that the Court's impact has been great on the extension of its own jurisdiction, on the jurisdiction of the European government, on the balance of power between member state governments and the European government, and on the distribution of power between appointed prime ministers and elected parliamentarians in the member states. The Court has repeatedly used procedurally undemocratic and extralegal methods, thereby significantly threatening the representativeness and responsiveness of public policy in Europe. The article advocates judicial restraint and a more open, accountable, and representative European Union.
Introduction

The democracy deficit of the Commission, Parliament, and Council of Ministers of the European Union (EU) has been widely debated.¹ Scholars and European citizens alike have often pointed out that the only directly elected body, the Parliament, suffers from a notable lack of power (Boyce 1993; Wallace and Smith 1995, 152–54; Volcansek 1992, 110). For example, while the Parliament—supposedly the most democratic EU institution—gained power from the consultation procedures of the Maastricht Treaty, it remains unable to propose or pass legislation. Criticism has also been directed inter alia at the Commission, which seems responsible to nobody in particular (Boyce 1993, 458);² at the secrecy and high degree of removal of the Council from European voters (Boyce 1993, 458, 470); at the Council’s veto provision, which can be seen as inherently antidemocratic insofar as it allows a minority to block majority legislation (Weiler 1991, 2467); at the relative lack of openness in the EU’s proceedings (Leonard 1994, 4–5); and at the slow pace of progress on the EU’s goal of subsidiarity (Bermann 1994, 340–41).³ However, the role of the European Court of Justice (ECJ) in Europe’s democracy deficit has been largely ignored.

One commentator has observed that “[e]xpansion of EC legislation increasingly subordinates the courts and the citizens of the member states to legal norms originating outside national legislation. [The EC’s] various legal systems are not determined democratically. The people are ‘sovereign’ in the national state and the ‘subjects’ of the EC” (Lepsius 1992, 63). This democracy deficit is a serious problem for the EU member states and their citizens. “Democracy” as used in this article refers to the institutionalized accountability and responsiveness of policy makers to the citizens of the polity (Dahl 1971, 1–2), whether expressed through referenda, elected representation, or some other means. Expansion of the EU’s powers absent democratizing amendments to the foundational treaties damages the cause of democracy in Europe. The ECJ has been a primary contributor to just such an expansion of the EU’s powers. The ECJ as a threat to democracy therefore merits much closer examination than it has heretofore received.

This paper analyzes two related ways in which the unelected ECJ infringes upon European democracy. The first is the ECJ’s ongoing expansion of its own judicial review powers. Some civil law countries of Europe, like France, have a strong tradition of legislative supremacy that
seems to argue against judicial review. Even in a country with a weaker tradition of legislative supremacy, such as the United States, endless debate has focused on whether judicial review is constitutionally mandated (or even allowed) and whether such review is advisable. Because there are major differences in the structure, function, and mandate of the U.S. Supreme Court as compared to the ECJ, it is striking that no similar debate has occurred over the advisability of judicial review in the EU. This is surprising a fortiori because judicial review appears to conflict with the judicial philosophies of several of the EU member states.

Second, the ECJ contributes to the EU's democracy deficit through judicial lawmaking and its influence on the separation of powers. Judicial lawmaking can redistribute policy making power from the more democratically responsive member state governments to the less democratically responsive institutions of the EU, and from the more responsive to the less responsive organs of the member state governments. Judicial review and judicial lawmaking are both potentially countermajoritarian. While judges no doubt must sometimes make law (at the very least, between the parties before the court), the question of where to draw the line has implications for the principle of separation of powers. Historical, political, and philosophical differences between the U.S. federal government and the several European governments suggest that the lawmaking function of the ECJ should be more restrained than that of the courts of the United States.

The article first discusses the problems of democratic representation inherent in the concept of judicial lawmaking and how these problems relate to the ECJ in the context of the Maastricht Treaty. It then examines the ECJ's actual behavior through case studies, and demonstrates the Court's departure from its original mandate as expressed by the Treaty of Rome and the Maastricht Treaty. Finally, it analyzes the evidence and concludes that the ECJ threatens the cause of European democracy.

**Judicial Review, Separation of Powers, and the ECJ's Mandate**

The ECJ has increasingly exercised powers like those of the U.S. Supreme Court and unlike those mandated by the founding treaties of the EU. Yet there are many features of the civil law systems of the largest EU member states, including France, Germany, Italy, and Spain, that differ from the U.S. common law system. Even the British common law system differs significantly from the American in many important areas. Because the
United States and most member states of the EU differ so greatly in their approaches to judicial review and separation of powers, it is ill advised for the ECJ to exercise these powers.

The Problem of Judicial Review

In the United States, the separation of powers doctrine is part of a system of checks and balances in which an independent judiciary guarantees the rights of the individual from the potential tyranny of the majority. As the sphere of court lawmaking has expanded through a slow but persistent process of bootstrapping, concerns about the resultant "countermajoritarian quandaries" have grown among academics and occasionally politicians. Yet rarely has the idea of judicial rule making aroused any serious concerns about elite oppression. While courts sometimes have used their powers to this end, they also have used them in ardent protection of individual rights against the wishes of the majority (Roe v. Wade 410 U.S. 113 [1973]; Brown v. Board of Education 347 U.S. 483 [1954]). The founders of the United States government were more concerned with tyranny by the executive or legislative branches than with tyranny by judges.

In marked contrast, legislative supremacy is the rule for European civil law systems. This principle is generally thought to preclude judicial review of legislative decisions, and to preclude judicial lawmaking as well. The separation of powers in civil law systems thus has very different implications for the role of the courts. In Belgium and France, matters of executive or legislative overreaching are handled by a Conseil d'État, not by the regular courts. Germany, Italy, and Austria provide for judicial review, but only through a separate system of administrative courts. This is a relatively new invention, having only been instituted after World War II. The English for a long time denied altogether that judicial review occurs in England.

Yet judicial review is an important topic in American legal history, to understate the case. Every U.S.-trained law student must confront Marbury v. Madison (5 U.S. [1. Cranch] 137 [1803]). Marbury v. Madison was the U.S. Supreme Court's first attempt to justify judicial review of executive and legislative decisions and actions. In Marbury, the plaintiff asked the Supreme Court to review the constitutionality of an act of President Jefferson. While Chief Justice Marshall's majority opinion denied the plaintiff a right to a judicial remedy in the particular case before it, it held that the Supreme Court did have the power to review presidential actions that violate a specific duty assigned by law. Marshall's reasoning
was spare: “It is emphatically the province and duty of the judicial department to say what the law is. Those who apply the rule to particular cases, must of necessity expound and interpret that rule” (*Marbury v. Madison* 5 U.S. [1 Cranch] 137 [1803], 177). Since “[t]he judicial power of the United States is extended to all cases arising under the constitution” (*Marbury v. Madison* 5 U.S. [1 Cranch] 137 [1803], 178) and the Constitution is the supreme law of the land, the courts have a duty to review the constitutionality of the legal acts of the other branches of government. *Marbury v. Madison* is the foundation of judicial review in the United States. The question of whether the Supreme Court actually possesses or should possess the authority that Marshall attributed to it has been the subject of extensive debate (Bickel 1962; Burt 1992; Commager 1958; Dahl 1957). An independent court may be largely immune to the influence of popular prejudices and is to that extent better qualified than the executive or legislative branch to assert the inviolability of constitutional rights or duties (Burt 1992, 29). While neither the U.S. Supreme Court nor the ECJ is popularly elected, they nevertheless may be considered potential pillars of democracy in preserving the rights inherent to a well functioning democracy. But this is only true so long as the judiciary remains independent and reactive, rather than political and proactive. The doctrine of judicial restraint has a long and illustrious history. Alexander Hamilton wrote, in *The Federalist* No. 78, that the judiciary is the “least dangerous to the political rights of the constitution” because, among other reasons, it “can take no active resolution whatever” (Hamilton et al. 1988, 393–94). Similarly James B. Thayer argued in 1893 in *The Harvard Law Review* that, while the judiciary has power to nullify legislation violating the Constitution “beyond a reasonable doubt,” courts “must not, even negatively, undertake to legislate” (Thayer 1893, 148–52).

The line between the proactive and reactive styles of judicial decision making is fuzzy but vital. There is no obvious answer, for example, to the question of how much authority courts must afford the other branches’ interpretations of the Constitution. Yet if an independent judiciary inserts countermajoritarian principles into a state’s political life beyond those necessary to the enforcement of its constitutional mandate, the judiciary infringes upon the “sovereign” right of the people to control their destiny within the confines of their state’s constitution.

Such an arrogation of authority could damage democracy a great deal. This is particularly true in a nonconstitutional nonstate like the European Union, where almost all the authority of the governing body is derived
indirectly from the citizens. While neither of the most powerful players in the EU (the Council of Ministers and the Commission) is a model democratic institution, the ECJ is undoubtedly the least democratically accountable of all the EU's governing bodies. For the ECJ to gravely overreach its authority could be catastrophic for the legitimacy of the European regime, particularly (but not only) if it asserted its activism contrary to public opinion.

The ECJ's Mandate

The EC and EU treaties, unlike the U.S. Constitution, impart to the highest court the duty to "ensure that in the interpretation and application of this Treaty the law is observed" (Treaty of Rome 1957, art. 164). Article 173 of the Maastricht Treaty states:

The Court of Justice shall review the legality of acts adopted jointly by the European Parliament and the Council, of acts of the Council, of the Commission and of the ECB . . . and of acts of the European Parliament intended to produce legal effects vis-a-vis third parties. It shall for this purpose have jurisdiction in actions brought by a Member State, the Council or the Commission on grounds of lack of competence, infringement of an essential procedural requirement, infringement of this Treaty or of any rule of law relating to its application, or misuse of power.

Thus the ECJ has an explicit mandate for judicial review. Once the ECJ finds an action against any of the EU organs mentioned in Article 173 to be well founded, the ECJ "shall declare the act concerned to be void" except in the case of regulations (Maastricht Treaty 1992, art. 174). This is a very broad grant of power, particularly considering the principle of legislative supremacy that reigns in most influential European states. Not only does the Maastricht Treaty grant the Court extensive powers of judicial review, it requires the Court to nullify the acts described in Article 173, with no apparent discretion to administer less drastic remedies.

Yet despite the seemingly broad power that the Treaty of Rome imparts to the Court, it also requires that each governing body—including the ECJ—"act within the limits of the powers conferred upon it by this Treaty" (Treaty of Rome 1957, art. 4(1)). This clause implicitly forbids any form of judicial activism not specifically prescribed by the Treaty. Thus, while
the ECJ's interpretation of law appears to be supreme within the EU, the ECJ would seem, at least in theory, to be limited to a strict interpretation of the Treaty. Joseph Weiler has interpreted the judicial review function in precisely that light, arguing that it was intended mainly to protect the rights of member states against Community overreaching rather than to protect the rights of individuals (1986, 1111).

Article 171 of the Treaty of Rome requires member states to comply with the rulings of the ECJ with no right of appeal, and (as amended by the Maastricht Treaty) also gives the ECJ power to penalize states for noncompliance (Maastricht Treaty 1992, art. 171(1), (2)). Indeed, the Maastricht Treaty even gives the Council the right to grant the ECJ "unlimited jurisdiction" with regard to such penalties (Maastricht Treaty 1992, art. 172). Article 171 would thus give an activist ECJ a broad power to annul the democratically legislated wishes of any member state of the EU. This potentially puts the ECJ directly at odds with the democratic governance processes of the member states. Whenever the ECJ's interpretation of an undemocratic European law conflicts with a member state's democratically-enacted law, the ECJ's interpretation of the foundational treaties requires European law to prevail automatically.

This potential for abuse by the EU would be especially worrisome if member states did not have a de facto veto on the ECJ's excessive judicial activism. Member states themselves are responsible for executing EU law, and history has proven that when the ECJ goes too far, member states may decide to exercise that leverage. The fact remains, however, that member states almost invariably obey the Court's rulings, even when those rulings are contrary to the states' perceived (at least short term) interests. This means that although the ECJ's potential for abuse must be subtle, it is not merely theoretical. The Court's power to overrule democratically legislated measures is real, and must be confronted.

**Trends of Democracy in the European Union and the ECJ**

The ECJ's judicial activism in expanding the powers of the EU has been extensive. First, the ECJ has raised EU law to a higher level than the municipal or even constitutional law of member states. Second, the ECJ has interpreted EU law to preclude unilateral legislation by member states in any area of overlapping competence with the EU, except under very narrow circumstances. Moreover, the ECJ has persistently ballooned the
sphere of EU competence through its leniency on the Council and Commission in their use of extraordinary powers (Treaty of Rome 1957, art. 235); its invention of whole areas of jurisprudence uncontemplated by the foundational treaties (e.g., human rights); its attempt to virtually replace the legal systems of member states within EU areas of competence (i.e. the doctrines of exclusivity and direct effect); and its numerous but subtle ways of broadly interpreting the EU's and its own jurisdiction (Treaty of Rome, art. 177). These all point to a particularly self-serving brand of judicial activism on the part of the Court.

The Supreme Court of Europe?

For the ECJ to assert successfully the supremacy of European law, the courts and governments of the member states must defer to its rulings. Courts of the member states are not immune to feeling that, by claiming to preempt national law and even national constitutions, the ECJ threatens the "sovereignty" of the state. The concept of such a "supreme court," whose decisions override the decisions of the highest courts of any sovereign member state, is unique. The Court's power seems especially threatening considering the recognized democracy deficit of the institution whose law the Court interprets. Getting member states to comply with the Court's rulings (or those of the Commission and Council, for that matter) has not always been easy, although ultimately the Court has been almost uniformly successful.

The ECJ itself—not the Maastricht or Rome Treaties—declared the supremacy of EC law over the constitutional law of any member state in 1964, in Costa v. Enel. Most member states of the EU accept that European law trumps national law and even national constitutions, and a few European parliamentarians have (unsuccessfully) proposed a constitutional regime in Europe with the ECJ as the supreme constitutional court. Nevertheless, member states' courts have sometimes refused to implement ECJ decisions, thereby, in effect, denying the absolute supremacy of the ECJ. The French Conseil d'État has occasionally refused to follow an ECJ decision, and the Italian Corte Suprema initially put EU law and Italian law on the same plane (Petriccione 1986, 321). Eventually, the Corte Suprema admitted European supremacy within its sphere of competence as determined by the national authorities; however, given that the ECJ rules on its own jurisdiction (a practice called kompetenz-kompetenz or compétence de la compétence), a potential conflict between national and
ECJ interpretations of the limits of the ECJ’s jurisdiction remained. The ECJ predictably opposed the Corte Suprema’s attempt to limit its power in any measure (Amministrazione delle Finanze dello Stato v. Simmenthal, S.p.A. 1978). Eventually, the Corte Suprema bowed to the ECJ even on this condition (Petriccione 1986, 322–23).

Germany’s constitutional court, the Bundesverfassungsgericht, has in the past refused to recognize the supremacy of EU law and the ECJ (Garrett 1995, 174; Internationale Handelsgesellschaft mbH v. Einfuhr und Vorratsstelle für Getreide und Futtermittel 1974). The Bundesverfassungsgericht initially reasoned that first, because the organs of the EC were not democratic, and second, because the EC lacked protection for “human rights,” no transfer of powers from Germany to the EC could deprive German citizens of their constitutional protections (Solange I 1974; Wincott 1994, 258–59). For the ECJ to maintain its supremacy over the German constitutional court, it had to develop a jurisprudence protecting human rights (Wincott 1994, 256; Volcansek 1992, 115–16). As a result, the ECJ pragmatically developed a body of case law that had, by 1987, convinced the German constitutional court that European law did in fact adequately protect human rights (Wincott 1994, 262–63).12

**Judicial Overreaching in the ECJ**

Rare (or nonexistent) is the scholar who argues that the ECJ is not guilty of overreaching its authority; indeed, they commonly acknowledge its activism (Volcansek 1992, 109). As Weiler has pointed out, “[i]n its entire history there is not one case . . . where the Court struck down a Council or Commission measure on grounds of Community lack of competence” (1991, 2447). There is little disagreement that many ECJ decisions are motivated by a desire to enhance the Court’s reputation and authority by extending the ambit of European law (Garrett 1995, 180–81). Even Helmut Kohl, the europhilic Chancellor of Germany, accused the ECJ of overreaching its authority in 1992, claiming it “does not only exert competencies in legal matters, but goes far further. We have an example of something that was not wanted from the beginning” (Mattli and Slaughter 1995, 189). Several years earlier, French Prime Minister Michel Debré was quoted as having stated: “J’accuse la Cour de Justice de mégalomanie maladive” (Mancini 1989, 595).13 This section outlines several important areas in which the ECJ has overreached the authority granted to it by the
EU's foundational treaties. The question at issue is whether the ECJ is in fact guilty of unwarranted judicial activism.

**Fundamental Human Rights**

Neither the member states nor any organ of the EU has conferred a mandate on the ECJ that would allow the Court to strike down legislation enacted by the other organs of the EU for what it deems to be violations of fundamental human rights (Weiler 1986, 1105). Indeed, the Treaty of Rome did not directly mention anything like "fundamental human rights." Yet since 1969 the Court has held that such rights are "enshrined in the general principles of Community law and protected by the Court," (Stauder v. Ulm 1969) and that "respect for fundamental rights forms an integral part of the general principles of law protected by the Court of Justice" (Internationale Handelsgesellschaft 1970). In Internationale Handelsgesellschaft, the Court relied on laws common to most European states. In essence, the ECJ claimed to have derived the principles of fundamental human rights from the common constitutional traditions of the member states—an approach that would presumably preclude it from extending human rights protection to areas where member states' constitutions significantly conflict. The Court also relied in part on the European Convention for the Protection of Human Rights and Fundamental Freedoms (Solange II 1987), which, even if it had been signed by all the member states, was not European law in the same way that a statute enacted by all 50 U.S. states does not become federal law. In effect, the Court used sources of customary international law as if it were the International Court of Justice rather than a European federal court.

The Court, for pragmatic reasons, went well beyond interpreting existing law in this area. To increase its power over the Bundesverfassungsgericht, which had denied the ECJ's supremacy over German constitutional law, the ECJ essentially created a new EU jurisprudence of human rights out of thin air. Fortunately, the ECJ's rules do not seem at variance with those of the member states. If those rules did differ, however, the ECJ would have been unilaterally and undemocratically imposing its will on the member states in an act that could reasonably be described as dictatorial. Furthermore, the pragmatic provenance of this new body of law may be related to the ECJ's occasional reluctance to actually invoke "fundamental human rights" in subsequent, apparently appropriate cases.
Three undemocratic aspects of the Court's lack of respect for procedure take this example of overreaching beyond the academic. First, it sets a disturbing precedent. The ECJ must not become comfortable with the idea that it can engage in the wholesale creation of laws absent a democratically-conferred mandate. Second, the Court's motivation was clearly pragmatic. The Court was not necessarily concerned with protecting human rights so much as with solidifying its hegemony over the Bundesverfassungsgericht. Finally, whatever the substantive merits of the fundamental human rights jurisprudence, democracy must be understood as a procedural system. An institution that protects freedom and property through dictatorial means is not a democratic one, even if it reaches the same results. By the definition employed in this article, democracy requires institutionalized accountability to the citizens. Any system that creates policy without accounting for citizen preferences is undemocratic regardless of the merits of the substantive policy it promulgates.

U.K. Sea Fisheries

The ECJ is normally more subtle in its attempts to expand the applicability of EU law and its own authority to interpret that law. For example, in the 1981 U.K. Sea Fisheries case (Commission v. United Kingdom 1981), the Commission brought the United Kingdom before the ECJ on charges that it had failed to fulfill its duty to refrain from promulgating environmental legislation without EC approval. The Council had adopted a regulation that provided for the Council to determine within six years certain conditions for environmentally friendly fishing. The Council failed to reach such an agreement, and instead agreed to interim measures for the next six months that allowed member states to catch up to a certain amount of fish determined by the Commission. The United Kingdom, taking advantage of the fact that the Council had failed to reach any agreement, adopted its own measures over Commission objections. The Commission brought its case before the ECJ, claiming that once the Council and Commission had decided to legislate on a matter of EC competence, member states could no longer adopt unilateral measures, even if such measures did not conflict with any measures adopted by the EC organs. The United Kingdom argued that member states “have an inherent power and right to take conservation measures, except in so far as they have limited that right by treaty.” The main question at issue was: whose power should fill a vacuum in an area of law in which the member
states and the EC have overlapping competence? The ECJ ruled, in very strong language, that EC law filled in the lacuna. Once subject matter comes within EC competence, the Court held, member states irretrievably lose their ability to act unilaterally (Commission v. United Kingdom 1981, op. part paras. 18, 20).

This very broad interpretation of the EC's (and by extension, the ECJ's) powers—in contravention to commonly recognized principles of treaty interpretation in international law—exemplifies the doctrine of exclusivity, which the Court has persistently advanced since U.K. Sea Fisheries. Nowhere does the Treaty of Rome require that member states lose their competence in any field that overlaps with EC competence. Although the ECJ's reasoning in the U.K. Sea Fisheries decision may not be completely unfounded, it is at least questionable that, where the allocation of power was uncertain, the ECJ should have presumed to expand the powers of the undemocratic EC to override democratic legislation of the member states without any clear Treaty of Rome mandate to do so. Building on U.K. Sea Fisheries, the Court has gone beyond the principle of supremacy of EU law and has upheld the doctrine of exclusivity of EU law in other areas of EU competence. Entire fields of legislation are preempted by the EU such that, if the EU fails to act (as it did in U.K. Sea Fisheries), national legislatures are effectively paralyzed unless given EU approval.

The Court's Article 177 Jurisdiction

The Court has also attempted, with some consistency, to expand its own Article 177 jurisdiction. Article 177 of the Treaty of Rome provides the Court with jurisdiction when a question of EU law arises before "any court or tribunal of a Member State." In addition, Article 177 requires courts "against whose decisions there is no judicial remedy" that are confronted with questions of EU law to refer the legal question to the ECJ. In C. Broekmeulen v. Huisarts Registratie Commissie (1982), a Netherlands doctor with a Belgian diploma was denied registration by a private society whose approval was necessary to practice in the Netherlands. The question arose of whether the private society's Registration Committee constituted a "court or tribunal" for the purposes of Article 177. The Netherlands government thought not, noting that an adverse decision could be appealed to a Netherlands court (C. Broekmeulen v. Huisarts Registratie Commissie 1982, paras. 11, 15), but the ECJ nevertheless accepted jurisdiction on grounds of expediency: "it is imperative, in order
to ensure the proper functioning of Community law, that the Court should have an opportunity of ruling on issues of interpretation and validity arising out of such proceedings" (C. Broekmeulen v. Huisarts Registratie Commissie 1982, para. 16).

The Court's interpretation of its own jurisdiction in this case is expansive indeed. The Netherlands government is presumably most knowledgeable about whether the Registration Committee is one of its courts or tribunals. Moreover, a strict interpretation of the Treaty of Rome would probably favor the Netherlands government's argument. Yet the Court did not hesitate to impose a pragmatic solution despite its apparent lack of jurisdiction. This ruling was one of a pattern. As Anthony Arnull has pointed out, "[t]he term 'court or tribunal' has been construed broadly by the Court and it embraces any organ of a Member State which performs a judicial function, regardless of its classification under national law" (1993, 130)—a point well illustrated by the C. Broekmeulen case.

Direct Effect

Perhaps the most stunning example of the Court's expansion of EU powers is its creation of the doctrine of direct effect. The doctrine of direct effect posits that courts of the member states must directly enforce EU law that is clear and precise enough to require no implementing legislation on the part of the member states. Without delving too deeply into a complex and much discussed subject (Arnull 1986; Curtin 1990), it is sufficient to note that the foundational treaties nowhere confer "direct effect" upon themselves. A straightforward reading of those treaties—which are founded upon a principle of interstate cooperation—seems to indicate that European law was meant to be incorporated into the law of each state, and that each state was to implement that law itself.

Article 11 of both the Rome and Maastricht treaties states that "Member States shall take all appropriate measures to enable Governments to carry out, within the periods of time laid down, the obligations with regard to customs duties which devolve upon them pursuant to this Treaty." This quite clearly represents a mandate for state implementation of Community directives—and by implication, a denial of any direct effect for the treaties. Of course, such an arrangement might amount to letting the fox guard the chicken coop, but it is intuitively sensible. It is, after all, highly questionable that most member states would have agreed to a system wherein EU directives were to apply within their territory in the absence of implement-
Article 11 was included in the treaties for the very purpose of insuring that each member state maintained control over the implementation of EU policy in its own territory, except where the member states had explicitly undertaken to give the EU regulatory competence.

Nevertheless, the ECJ interpreted the Treaty of Rome to confer direct effect in the case of *N.V. Algemene Transport en Expedite Onderneming van Gend & Loos v. Nederlandse Administratie der Belastingen* (1963). *Van Gend & Loos* concerned the importation of West German ureaformaldehyde into the Netherlands in 1960. A dispute about the proper tariff classification of the product under EC law led the importer, Van Gend & Loos, to lodge a complaint against the government of the Netherlands for violation of the Treaty of Rome. Van Gend & Loos argued that, by reclassifying ureaformaldehyde into a heading with a higher tariff, the Netherlands had violated Article 12, which prohibited member states from introducing new tariffs or increasing old ones. The Dutch Tariefcommissie referred two questions to the ECJ, only one of which is relevant here:

> Whether Article 12 of the EEC Treaty has direct application within the territory of a Member State, in other words, whether nationals of such a State can, on the basis of the Article in question, lay claim to individual rights which the courts must protect . . . *(Van Gend & Loos 1963, 3).*

In other words, if an individual (or company) claims that a member state violated his or her rights under European law, must courts of that state apply European law directly? Or must the individual wait until the Commission or another member state brings the case before the ECJ?

Naturally, the answer to this question determined in large part the relevance of European law for individuals. If European law were found to apply only to states, then individuals would have no effective remedies, and thus no effective rights, under European law. That dynamic, however, represents a practical consideration, not a question of interpretation of the Treaty of Rome. Both the Netherlands and the German governments argued vigorously that the ECJ had no jurisdiction because *Van Gend & Loos* concerned the application of the Treaty of Rome to a specific factual case rather than the interpretation of European law. Van Gend & Loos countered that Article 12, because it imposes only a negative obligation (not to increase duties), does not require national legislation and so must be applied directly. The Commission chimed in with a remarkably expansive and expandable pragmatic (but not particularly legal) argument:
An analysis of the legal structure of the Treaty and of the legal system which it establishes shows on the one hand that Member States did not only intend to undertake mutual commitments but to establish a system of Community law, and on the other hand that they did not wish to withdraw the application of this law from the ordinary jurisdiction of the national courts of law.

However, the Community law must be effectively and uniformly applied throughout the whole of the Community.

The result is first that the effect of Community law on the internal law of Member States cannot be determined by this internal law but only by Community law, further that the national courts are bound to apply directly the rules of Community law and finally that the national court is bound to ensure that the rules of Community law prevail over conflicting national laws even if they are passed later (Van Gend & Loos 1963, 7).

Although the Advocate General wrote a well-considered opinion concluding that Article 12 had no direct effect, the Court thought otherwise. It held that "the EEC Treaty . . . is more than an agreement which merely creates mutual obligations between the contracting states" (Van Gend & Loos, op. part para. 10). Van Gend & Loos had argued only that Article 12, which requires member states to refrain from introducing new tariffs, had direct effect—but the Court’s holding went much farther. Moreover, it seems unlikely that such a sweeping constitutional interpretation was the intent of the majority of the member states. Such a remarkable expansion of the EU’s (and hence, the Court's) powers has caused considerable controversy in legal and political circles.

After Van Gend & Loos, the Court nevertheless continued to augment the direct effect doctrine to include other articles of the treaties and even directives. The Court itself has admitted that “[e]ven before there was the idea of citizenship of the Union, the Court had inferred from the Treaties the concept of a new legal order applying to individuals and had in many cases ensured that those individuals could exercise effectively the rights conferred on them” (Report of the Court of Justice 1995, emphasis added). In Watson and Belmann (1975), for example, the Court held that “Articles 48 to 66 of the Treaty and the measures adopted by the Community in application thereof implement a fundamental principle of the Treaty, confer on persons whom they concern individual rights which the
national courts must protect and take precedence over any national rule which might conflict with them" (Watson and Belmann 1975, op. part para. 1). The Court's pragmatic decisions are clearly beyond the scope of the terms of the Treaty of Rome and, like many ECJ decisions, run contrary to established rules of treaty interpretation under international law. While the Court's desire to extend the protections of European law to individuals is commendable, it simply had no mandate to extend its power in this way.

Other Cases

Examples of ECJ judicial activism could be multiplied ad infinitum, but a few additional decisions suffice to illustrate the Court's tendency to decide cases in a manner that extends the jurisdiction of the EU and its own authority within that jurisdiction. Is it important to note that the attempts by EU organs to extend their jurisdiction rarely go unopposed by member states, as the U.K. Sea Fisheries case illustrates. But even if member states always acquiesced to EU overreaching, such overreaching would still damage the cause of democracy.

The Court has expanded its jurisdiction in a most subtle manner by giving itself the rather unEuropean power of stare decisis. Stare decisis is the common law—not civil law, for strictly speaking civil law has no such rule—principle that a legal issue decided by a court must not be relitigated. This rule has two functions. First, it conserves judicial resources, and second, it prevents the court from contradicting itself. The first case in which the Court gave itself the power of stare decisis was Sri CILFIT v. Ministry of Health (1983). In CILFIT the Court ruled that the Article 177 duty of member state courts to refer questions of EU law to the ECJ did not apply where "the correct application of Community law is so obvious as to leave no scope for any reasonable doubt" (CILFIT 1983, op. part paras. 16, 21). A requirement to refer such questions to the Court might "deprive the [Article 177] obligation of its purpose and thus empty it of its substance" (CILFIT 1983, op. part para. 13). In other words, the Court asserted that its rulings could make a legal issue clear beyond a "reasonable doubt;" those rulings thus had the effect of stare decisis despite the general civil law principle that courts do not make law.

Furthermore, the Court has used its power under Article 235 to expand EU jurisdiction to a virtually limitless degree. According to Article 235,
the Community and this Treaty has not provided the necessary powers, 
the Council shall, acting unanimously on a proposal from the Commis-
sion and after consulting the European Parliament, take the appropriate 
measures (Treaty of Rome 1957).

The already very expansive words of this provision have been interpreted 
broadly by the Court19 so as to open up "practically any realm of state 
activity to the Community, provided the governments of the Member 
States found accord among themselves" (Weiler 1991, 2450). Article 235 
was plainly intended for exceptional circumstances (Usher 1988, 30), but 
the organs of the EU have used it for such mundane measures as adding 
to the list of food products subject to the EEC Agricultural Policy in an 
annex to the Treaty of Rome (Weiler 1991, 2444–45). This expansive use 
of Article 235 allows the Council and Commission to avoid amending the 
foundational treaties and thereby to avoid having to consult national 
parliaments. Democracy in Europe can only suffer from such unjustified 
evasions of democratic accountability (Weiler 1991, 2452).

The Verdict: Does the ECJ Damage Democracy?

The foregoing examination of ECJ rulings is not intended to provide a 
complete listing of the Court's overreaching, but is meant to make it clear 
that, despite the Court's prudent-but-occasional admission of either its 
lack of jurisdiction or the preeminence of national law over European law, 
the jurisprudence of the Court may be characterized as excessively activist. 
Scholars commonly acknowledge the Court's activism, but, as Mary 
Volcansek has noted, "[w]hat is truly remarkable... is the almost total lack 
of criticism and virtual sycophantic praise of the Court's action" (1992, 
109). The time has come to ask how this activism affects European 
democracy.

The Vienna Convention on the Law of Treaties, which codified well 
established rules of customary international law when it entered into 
effect in January 1980, provides that "[a] treaty shall be interpreted in good 
faith in accordance with the ordinary meaning to be given to the terms of 
the treaty in their context and in light of its object and purpose" (art. 31(1)). 
Moreover, a traditional rule of international law has been to interpret 
treaties in such a way as to minimize their infringement of the sovereignty 
of states (Weiler 1991, 2416). The ECJ, insofar as it is constrained to 
adjudicate in accordance with international law, must respect these rules
when interpreting the EU treaties from whence it derives its own authority. Yet the Court has extended its powers or the powers of the EU beyond what seems permissible by the "ordinary meaning" of the words of the foundational treaties in a multitude of cases. Thus, it is correct that

[the combined effect of constitutionalization and the evolution of the system of remedies results . . . in the removal from the Community legal order of the most central legal artifact of international law: the notion (and doctrinal apparatus) of exclusive state responsibility with its concomitant principles of reciprocity and countermeasures (Weiler 1991, 2422).

The ECJ's activism has largely transformed the EU from a consociation under international law to a "constitutionalized" union (Parti écologiste "Les Verts" v. European Parliament 1986, 1365; Stein 1981, 1). But by what mandate has this transformation occurred? The subtlety and counter-majoritarianism of the ECJ's activism merits rethinking the powers of the ECJ and the political nature of the EU.

Assuming that the European Union, as a government, is less democratic than most of its member states, then any extension of European power at the expense of the autonomy of the member states would appear prima facie antidemocratic. The lack of accountability—democratic or otherwise—inherent in the European Court of Justice is another reason for one to be concerned about the Court's overreaching. Thus, the first way in which the ECJ has contributed to Europe's democracy deficit is through its unauthorized transfer of powers from the member states to the less democratic EU.

Yet the democracy deficit to which the ECJ contributes consists of more than solely the transfer of power from member state governments to a nondemocratic supranational authority. The ECJ's rulings also transfer power from the legislative branch in the member states to the executive and judicial branches. While that result follows in part from the structure of the treaties (Weiler 1991, 2430), the Court has enhanced the power of the executive branches beyond what the treaties contemplated through its activism in extending the ambit of the treaties and its own jurisdiction. The treaties offer no authority for the court's expansion of EU powers in U.K. Sea Fisheries or Van Gend & Loos, nor for the court's extension of its own jurisdiction in C. Broekmeulen or CILFIT. A significant difference exists between a democratic vote that transfers power to the executive branch
and judicial lawmaking that has the same effect (Weiler 1991, 2470). Thus, the second way the ECJ has contributed to Europe’s democracy deficit is by transferring power from the more democratic legislative branches of the member states to their less democratic executive branches.

Article 4, Section 1 of the Treaty of Rome plainly limits the ECJ’s activism to the admittedly broad powers it prescribes. That provision has become somewhat of an American 10th Amendment for the Treaty of Rome, honored more in its breach than its observance. But its inclusion in the Treaty was deliberate. The member states could afford to limit the ECJ’s activism in this way because there is no danger of any real dictatorship in the EU. In contrast, the judicial check on legislative and executive powers in the United States insures against arbitrary powermongering by any branch that chooses to disregard its constitutional duties. There was never any such fear in the EU (at least, no such rational fear) because no legislature can exercise a dictatorship without control over some form of executive—and the de facto “executive” of the EU is none other than the member states themselves. The Council will undoubtedly continue to uphold its duties under the Maastricht Treaty and refrain from exercising dictatorship; if the Council overstepped the limits of its authority too egregiously, member states would refuse to enforce its directives. Only a very limited judicial review is therefore necessary.

As one observer remarked with some understatement, it must be questioned whether the Court may invent rights and remedies as it has sometimes done. “The Court of Justice is not under democratic control... [therefore], there ought to be limits to judicial activism” (Wincott 1994, 257). The “fundamental human rights” example is a case in point. If the member states or the citizens of the EU had desired to create such a legal regime, they could well have done so. Josef Weiler has asserted that the Court’s “fundamental human rights” rulings alleviate the democracy deficit by putting a check on the EU’s powers, and actually “curtail[ing] the freedom of action of the Community” (1991, 2438). This argument only has merit if the Council or Commission were in any real danger of violating fundamental human rights—an eventuality that seems very doubtful, in part because member states exercise a de facto veto on Council and Commission policy as the executive branch of the Union. In any case, the question is not whether the Court’s substantive ruling advanced human rights or democracy or anything else. The question is whether the ECJ had jurisdiction to do so, and clearly it did not. In other words, the Court’s substantive ruling was laudable, but it lacked the
proper procedure that is at the essence of democracy. Indeed, democracy is little else than a political procedure that guarantees few substantive ends other than those necessary to the proper functioning of democracy itself. By creating a "law" of fundamental human rights without the democratically mandated competence to do so, the Court set a precedent (which it quickly followed) for exceeding its own jurisdiction.

As Thomas Jefferson has pointed out, even the judiciary's "honest error must be arrested, where its toleration leads to public ruin" (quoted in Commager 1958, 34). Because all of the member states recognized the same human rights that the ECJ's new law protected, no substantive harm was done to any democratic legislation in this instance. Yet the ECJ clearly had no right to create such a law, and insofar as the ECJ is unaccountable to the citizens of the EU, its creation of a new legal regime was undemocratic. Ends cannot be assumed to justify means in a democracy. Commentators, unfortunately, sometimes act as if ends do justify means. Even so outspoken a critic of ECJ activism as Hjalte Rasmussen (1986, 8) has argued that judicial activism may qualify as a "social good" if judges are responsive to public opinion. But does occasional voluntary responsiveness to public opinion, even if a "social good," qualify as democracy? Does not a stable democracy require institutionalized responsiveness to the majority? Moreover, does not democracy entail public debate and, most importantly, public accountability? These vital procedural considerations must figure into the calculus. A dictatorship guaranteeing free speech for the time being is not granting democracy to its subjects—it is granting a temporary and reversible public freedom. Democracy is not just public freedom; it is majority rule and certain enshrined and institutionalized public freedoms that make majority rule sustainable and desirable. Though strong majoritarian judicial activism may produce some quantity of social good, it may not be worth the long-term cost of the ECJ's usurpation of European democracy.

Conclusion

Given the lack of democracy, legitimacy, and accountability in the European Union, the ECJ's activism has been excessive and has further widened the EU's democracy deficit. Of all the organs of the European Union, only the ECJ openly claims that the Treaty of Rome created a constitutional regime. If the EU is a constitutional regime, that fact is largely due to the ECJ's activism. Yet constitutionalism can be pointless,
and even potentially dangerous, in a nondemocratic regime. There is something profane about constitutionalizing what Weiler has aptly called a "gouvernement des juges . . . designed to control a gouvernement des fonctionnaires" (1986, 1117). This activism seems particularly invasive and unjustified considering the conservative purposes of judicial review in the foundational treaties.

Often, europhilic scholars—and there are many who admit it freely, including Weiler (1986, 1109) and this author—laud the Court’s independence and European spirit, often forgetting that the Court expands the powers of a Union that, however efficient and politically advantageous, lacks the popular support of almost half the European population. Worse, scholars have heretofore failed to recognize the link between the ECJ’s overreaching and the EU’s democratic deficit. Their misunderstanding stems from overlooking the importance of procedure to democracy. Democracy is a procedural political system that results in certain substantive ends (such as freedom of speech and association, or the right to vote). Scholars have let their enthusiasm for the laudable substantive ends advanced by the ECJ blind them to the Court’s less worthy procedural means.

Did the Maastricht Treaty improve the representativeness and accountability of the European Community? A little. But it certainly did not compensate for the damage done to democracy by an unrepresentative and almost completely unaccountable Court shifting power from the member states’ legislatures to the member states’ executives; from the member states’ governments to the Commission; and from the member states’ courts to the ECJ over the course of 35 years. It is possible that the ECJ has promoted democracy by promising to ensure the protection (at the EU level) of fundamental human rights. But that does not justify the means by which it created those rights. When the ECJ created its human rights doctrine, member states were not ignoring human rights violations. Nor does the Court’s promise to protect human rights excuse its almost relentless overreaching. The ECJ is guilty of damaging European democracy with good intentions. Unfortunately, there is no reason to believe that it will reverse the direction of its decisions any time soon. The best that European citizens can hope for is that the EU itself will become more accountable, open, and responsive, and that the governments of the member states or the other organs of the EU will be less hesitant to restrain the Court in the future.
The 1996 Intergovernmental Conference (IGC) will undoubtedly prove relevant to the prospects for greater democracy in the European Union. The purpose of the Conference is to plan the future of the EU, with the particular intent of revising the foundational treaties. Its agenda, outlined by the report of an eighteen-member Reflection Group (1995), suggests that democracy in the EU will be a subject of discussion this fall.

While the Reflection Group's report is predictably vague, it clearly indicates a desire to promote greater European democracy, or at least the appearance of democracy. For example, the report repeatedly expresses concern with improved transparency. Transparency is certainly a sine qua non of democracy; citizens can hardly make informed decisions and demands without access to information about the EU's inner workings. At the same time, however, the report refers to democracy mostly for rhetorical impact, and it offers no serious agenda on how to improve the Union's responsiveness. It suggests that the Conference should make the Union "closer to the citizens," but closeness is not enough. The critical question is whether the EU's centralized government, comprised of the Commission, Council, and Parliament, will be adequately responsive. The proposals that the report does offer, such as increased national parliamentary participation in EU decision making, are promising but underdeveloped.

Similarly, the report's terse treatment of the ECJ evidences the Reflection Group's lack of awareness of, or concern with, the ECJ's overreaching. Rather than proposing to relegate the Court to a reactive role or to limit the Court to the jurisdiction explicitly assigned to it, the Reflection Group vaguely advises strengthening the ECJ's role in the EU. This position merely echoes what the Court advocates in its own submission to the IGC (Report of the Court of Justice, 1995). The Court's report urges the strengthening of its power over individuals and over acts of other EU organs. Only one of the Reflection Group's members cautioned that the consequences of the ECJ's increased power and jurisdiction could be "disproportionate in their effect."

The agenda of the 1996 IGC gives cause for cautious optimism that the Conference will result in increased transparency in the EU. On the other hand, it offers no reason to believe that responsiveness will improve significantly, or that the powers that the ECJ has arrogated to itself and to the EU generally will be curtailed. By ignoring this problem, the governments of the member states pass up a rare opportunity to reverse an expansion of the EU's democracy deficit.
Notes

1 Formerly the European Community (EC). This paper will refer to the EU and EC interchangeably, depending on the time frame in question.

2 Technically, the Council and Parliament may exercise some influence over the Commission, as the Council may change the number of Commissioners by unanimous vote (Maastricht Treaty 1992, art. 157) and the Parliament retains a right to disapprove the Commission as a body when it is first nominated (Maastricht Treaty 1992, art. 158(2)). In reality, particularly considering their restrictions (unanimity, disapproval as a body, etc.) and the rarity of their actual exercise, these powers amount to very little. On the other hand, as if to make a point about the real power member states exercise over the Commissioners, British Prime Minister Margaret Thatcher had a habit of referring to the British appointees as “our Commissioners” (Taylor 1991, 118).

3 Scott et al. (1994, 47, 55–57) argue that subsidiarity can promote democracy by improving the accountability of policy makers to citizens.

4 For example, consider Adair v. United States (208 U.S. 161 [1908]), one of a series of post-Lochner (Lochner v. New York, 198 U.S. 45 [1905]) cases denying Congress the right to regulate interstate commerce. In Adair, the Supreme Court overturned a law promulgated by Congress that made it “a crime against the United States to unjustly discriminate against an employee of an interstate carrier because of his being a member of a labor organization” (169). Henry Steele Commager compiled a laundry list of the Court’s countermajoritarian meddling in chapter two of Majority Rule and Minority Rights (1958).

5 While the Court has many times defied popular sentiment, there is reason to question whether the Court is in fact countermajoritarian. One ambitious social science study has found that, based upon comparisons of public attitudes and Supreme Court rulings, “the modern Court has been an essentially majoritarian institution” (Marshall 1989, 129). A more recent study supported this conclusion, though it found that the relationship was more subtle and reciprocal (Mishler and Sheehan 1993, 96). If correct, these assessments may contradict the assertion that the Supreme Court is independent, but they do support the argument that the Court is not significantly countermajoritarian. On the other hand, the Mishler and Sheehan study did find that the Court had become significantly less responsive to public opinion since the election of Ronald Reagan in 1992. “The decisions of the Court during the Reagan years were significantly countermajoritarian” (Mishler and Sheehan 1993, 97).
In other words, a governmental body devoted to upholding the principles of the Constitution insures that the "rules of the game" remain democratic (Holmes 1993).

The argument made here may be considered an assumption of this article. The question of whether judicial activism damages democracy merits a much more nuanced and complete treatment than it can be given here. One point worth noting, though, is that judicial activism would not necessarily damage democracy so long as judges kept to interpreting statutes, and their activism were directed at giving those statutes maximum effect insofar as they expressed the legislative or popular will. The problem with this approach, however, is that one may question the ability of judges to discern what such will actually may be, if indeed it even exists (Radin 1930, 870; Schacter 1995, 107; Shepsle 1992; Zeppos 1992, 1087).

While the EU certainly has elements approximating constitutional statehood, its members have denied it official status as such. The Treaty of Rome (as amended at Maastricht) remains a treaty, not a constitution, and the European Union remains a union, not a state, even if it is a "union among the peoples of Europe" (Treaty of Rome 1957, pmbl.) rather than a union among the states.

That duty belongs to the President under the U.S. Constitution, which requires that the President "take care that the laws shall be faithfully executed . . ." (U.S. Constitution, art. 2, sec. 3).

The Treaty of Rome also requires the institutions of the EU to obey the Court's rulings but, in contrast to the treatment of recalcitrant member states, does not provide for penalties for their failure to act (Maastricht Treaty 1992, art. 176).

For example, Articles 65 through 67 of the Netherlands constitution, read together, give supremacy to EU law over national legislation where they conflict. Article 28(1) of the Greek constitution states that "international conventions . . . shall be an integral part of domestic Greek law and shall prevail over any contrary provisions of the law." The Italian constitutional court held in favor of European supremacy in *Frontini v. Ministero delle Finanze* (1974).

However there is reason to doubt the sincerity of the ECJ's commitment to those "rights," as it has occasionally failed to uphold them in seemingly appropriate cases (Volcansek 1992, 116).

"I accuse the Court of Justice of Maladivist megalomania" (author's translation). The tiny Maldivian Islands, a full member of the United Nations, pretend to form a microstate.
However, the Commission did implicitly encourage the ECJ to protect human rights through its case law in statements made in the official journal (Wincott 1994, 260).

The Court has sometimes made exceptions when the member state's legislation fulfilled a strict set of requirements. In *Commission v. Federal Republic of Germany* (1987), for example, the Court held that, in the absence of common rules relating to the marketing of products within the Community sphere of competence, national laws restricting the free movement of goods “must be accepted” if the rules are proportional, impartial, and necessary to an important purpose.

This is not to say that the Court has uniformly attempted to expand its own jurisdiction. There are many cases in which the Court has declined jurisdiction; for example, see *Criminal Proceedings Against Regis Unterweger* (1986).


To take a more recent example, six member states have recently opposed the EU Transport Commissioner's attempt to coopt the entire field of European civil aviation and use of airports, which would essentially take negotiating power out of the hands of each state (U.S./E.U. Relations 1995, 1, 12).

For a full analysis of the Court's use of Article 235, see Weiler (1991, 2442–50).

Nor did the ECJ's judicial activism accomplish anything meaningful in the field of human rights. Since the member states are ultimately responsible for the execution of the EU law, and since the member states themselves adhered to a convention protecting the “fundamental human rights” recreated by the Court, the ECJ merely reaffirmed the member states' duty to uphold those rights.

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China's development of a “blue water” navy is a growing security concern to East Asian and South-east Asian nations. Taiwan and countries bordering the South China Sea have particular cause to worry about China’s growing force projection capability. Prior to 1978 China possessed mainly a “brown water” navy, with limited long-range force projection capacity. Since 1978 China increased expenditures in weapons research and development and sought to professionalize its naval service by instituting training regimes and a merit-based promotion program. By 1995 China had greatly expanded its long-range arsenal. Recent concerns related to China's naval development have focused on China's interest in developing or acquiring an aircraft carrier. The growth of Chinese nationalism, parallel to economic and military expenditure growth, has directed particular international attention to China's stated intent to "reclaim" sovereign territory, particularly the Spratly Islands and Taiwan. Practically, there are limited options for the United States for curtailing Chinese naval development, as most weapons development is conducted indigenously. U.S. policy goals,
consequently, should not focus on trying to halt China’s military development, but rather should seek to define what response is appropriate for the United States given such development: delineating what kinds of military actions are antithetical to U.S. interests and clarifying the U.S. response to aggression deemed to transgress such established limits.

“Trust in virtue, not walls.” Chinese Minister, 280 AD

“The general who is skilled in defense hides in the most secret recesses of the earth; he who is skilled in attack flashes forth from the topmost heights of heaven. Thus, on the one hand, we have ability to protect ourselves; on the other, to gain a victory that is complete.”

Sun Tzu, *The Art of War*

The People’s Liberation Army Navy (PLAN) is presently nine years through a 13-year modernization program aimed at developing a more technologically advanced and professionally trained naval force. The goal of this modernization program, some analysts suggest, is to fundamentally transform China’s “brown water” navy into a “blue water” navy capable of force projection into China’s ocean periphery (Ngok 1989, 175).

Chinese leaders project that it will take fifty to sixty years for the Chinese military to reach a level of technological parity with Western nations¹ (Ngok 1989, 175). Many naval vessels presently in use are Soviet models either purchased in the 1960s or manufactured using Soviet-designed plans. It will certainly take time for Chinese research and development efforts to replace aging Soviet-designed forces with indigenously designed vessels and weaponry on technological parity with contemporary equipment. The prospect, though, of a future China bent on establishing regional power status armed with the latest-technology equipment is not a comforting thought for many East Asian nations.

China has 11,185 miles of coastline and 6,500 sizable islands within its claimed national boundaries (Ngok 1989, 173). Further, China has over one million square miles of claimed territorial waters which it has sworn to defend. Border conflicts and Exclusive Economic Zone (EEZ) disputes with other nations over claims to islands, sea-bed resources and/or fishing
areas extend from Japan to Malaysia. Clearly, a well-equipped, well-trained naval force would be required to defend such a large area. Chinese policy makers claim that the development of a strong naval force is necessary to protect sovereign territory, economic rights, and commercial shipping in the immediate region.

As the present Commander-in-Chief of the navy stated, “We will never forget that China was invaded seven times by imperialist forces from the sea. The nation’s suffering due to lack of sea defense still remains fresh in our minds” (Mack 1992, 6). China’s concern for national defense and proclaimed need to develop a strong navy are legitimated by China’s historical experience. There is a fine line, however, between “offensive” and “defensive” naval forces. In years passed, China commanded a considerable sphere of influence in Central and East Asia. Emerging nationalism in China for reclamation of “lost” territory is effecting a growing concern among East Asian countries that China will utilize a modernized military to seek to establish a dominant regional position through military action.²

So what kind of modernization program is the PLAN, the military branch most capable of short-term, sustained force projection, undertaking, and what are the implications of that development to regional security in East Asia and for the United States? This paper will focus on five specific areas relative to these questions: Chinese force development since 1978, the history of the PLAN, present policy objectives for the PLAN, contention over the Spratly Islands, and the present security situation in the Taiwan Strait. Relative to the situations in the Spratly Islands and the Taiwan Strait, this paper will contend that the United States should take a clear stand against Chinese military action which disrupts commercial shipping in the South or East China Seas, or which attempts to impose sovereign rule against Taiwan citizens’ democratically determined interests.

Military Modernization in the PLAN
Prior to 1980

At its creation in 1948, the PLAN was no more than a few haggard patrol ships taken by the Liberation Army from Nationalist forces. During the 1950s and 1960s the PLAN was greatly expanded, with the assistance of Soviet aid, to include several Riga-class frigates, Gordy-class destroyers, Romeo-class submarines, and a number of corvettes and patrol boats. From the mid-1960s to mid-1970s PLAN development was marginal due
to internal turmoil, military preoccupation with defense of the Sino-Soviet frontier, lack of a venue within which to purchase equipment, and Mao's preoccupation with a "People's War" founded upon utilizing man-power (IISS 1980–81, 59).

The rehabilitation of Deng Xiaoping in 1977 and China's weak showing in the Sino-Vietnam Conflict in 1978 created a politically viable environment for a shift away from a "People's War" to the development of a professional standing army. Deng Xiaoping first pronounced the need for military modernization in 1975. Upon ascending to the position of preeminent leader in 1978, Deng made military modernization one of his pillar Four Modernizations. China's desire to possess "blue water" capabilities was first signaled through 1980 naval exercises in the South Pacific, and later became more clear as China began to conduct a greater number of "blue water" naval exercises (Ngok 1989, 174). In 1987, the PLAN was specifically listed among the forces targeted for modernization in a thirteen-year military development plan (Yu 1994, 146).

**CCP Objectives for PLAN Development**

Originally, of all the modernizations, military modernization was given the lowest priority by Chinese leaders. Deng Xiaoping stated emphatically, beginning in 1977, that military development would be subordinated to basic economic development. Deng emphasized this point in 1980 and 1981 by decreasing the budget for the PLA by some ten to twenty percent (IISS 1982, 64). Since Deng has assumed the position of preeminent leader, the PLA has been through a major organizational shuffle and has seen a reduction of personnel from 4.5 million to 2.3 million, including the demobilization of roughly 90,000 naval personnel (Hurly 1988, 98).

Over the last six years, however, since the Tiananmen Massacre, the military has both gained a stronger voice in politics and has had its budget dramatically increased. Western estimates of China's defense budget for 1993 are approximately $21 billion, an increase of 60 percent since 1989 (Klintworth 1994, 13). In fact, between 1993 and 1994, China's defense budget increased by twenty-two percent. These increases are partially accountable to double-digit inflation rates. But inflation cannot account for the entire increase, as inflation rates have not risen above 16 percent over the last few years. There is speculation that the increase in China's defense budget in 1994 directly matches the funding necessary to develop two small aircraft carriers (Lu 1994, 16). Other sources have calculated that
the PLAN budget increased by 35 percent in 1993, the year after the Fourteenth Communist Party of China (CPC) Congress (Yu 1994, 147).

The political power of the PLAN was increased at the Fourteenth CPC Congress in 1992, with a nine percent increase in the number of PLA seats in the Central Committee and the elevation of former Commander of the Navy Liu Huaqing to the Politburo Standing Committee. Liu Huaqing had been a strong proponent of modernization during the late 1980s while Commander of the Navy, advocating among other things the procurement of early-detection equipment, development of more technologically advanced weapons systems, and the acquisition of aircraft carriers (Williams 1993, 16). Liu's ascension to the Standing Committee position has arguably provided a favorable boost to China's efforts to develop PLAN forces, particularly in the effort to acquire an aircraft carrier.  

The general outline of present policy for PLAN modernization is outlined most clearly within the general prescriptions for the PLA laid out in the Final Version of the Fourteenth CPC Congress Report:

The Army should work hard to adapt itself to the needs of modern warfare . . . [and] should more successfully shoulder the . . . mission of defending the country's territorial sovereignty over the land and in the air, as well as its rights and interests on the sea; and should safeguard the unification and security of the motherland. At the same time, it should consciously subordinate its interests to the general interests of the country's economic construction. . . . It is necessary for the Army to strive to satisfactorily carry out all construction and reform work; to earnestly place education and training in a strategic position; to raise the quality of officers and men in an all-around manner. . . . It is necessary to attach importance to scientific and technological research in national defense, national defense industries, as well as improve weaponry and equipment step by step (Communist Party of China Congress 1992, 15).

In concert with these directives, the PLAN has in recent years emphasized the development of training programs for naval personnel, research and development efforts in weapons and shipbuilding technologies, manufacture of new weaponry, and protection of EEZ and territorial claims in the South China Sea.
Change in Force Composition and Other Modernization Efforts: 1978 to 1995

From 1978 to 1995 PLAN forces gained important airborne technologies and aircraft, built a significant number of higher technology submarines, destroyers and frigates, and implemented a series of new training regimes for PLAN personnel. Additionally, the PLAN has been actively involved in conflicts over the Spratly and Paracel Islands, has conducted extensive “blue water” naval exercises, tacitly challenged the right of passage of U.S. naval forces through waters off China’s coast, and participated in offensive military exercises off Taiwan’s coast.

Organizationally, the PLAN is divided into three regional fleets of approximately equal size: the North Sea Naval Region Group, headquartered at Qingdao, with major bases at Dalian, Lushun, Qinhuang Dao, and Tianjin; the East Sea Naval Region Group, headquartered in Shanghai, with major bases at Dinghai, Xiamen, Ningbo, and Honshu; and the South Sea Naval Region Group, headquartered in Zhangjiang, near Hainan Island, with major bases in Beihai, Guangzhou, Huangpu, Shantou, and Yulin. The PLAN is purported to be in the process of building three new large naval bases to be completed by 1998, ostensibly able to accommodate aircraft carriers (Naval Commander 1993, 22). Another recent construction project by the PLAN air force was building an airstrip on Woody Island in the Paracels for use as a possible jump-off point for engaging in conflicts in the Spratlys. It is suggested that some of China’s recently purchased Su-27 Flanker long-range bombers will be stationed at this airfield to enable the naval air force to support PLAN military activities in the Spratlys (Shang 1995, 4).

The Chinese shipbuilding industry has made marked advances over the last seventeen years. The shipyards at Wuhan, Hudong, and Dalian have, since 1978, perfected the manufacture of sales-quality frigates, selling five Jianghu-class frigates internationally, one to Bangladesh and four to Thailand (Prezelin 1993, xv). The industry has also developed the Luhu-class missile-launching destroyer, the Jiangwei-class of missile-armed frigates, the Wuhan-C class of diesel submarines, the Type 039 nuclear submarine (as yet unnamed), a diesel submarine capable of firing anti-ship missiles, and a mine-laying vessel. Modifications have been made to Riga-class frigates (now Chengdu-class), a G-class submarine (now Wuhan-A class), and to four Gordy-class destroyers (now Anshan-class). (The Wuhan-A and Wuhan-C class submarines have underwater
ballistic missile firing capability.) In addition to the vessels listed above, the Chinese have indigenously produced since 1978: eight Luda-class destroyers, twenty-one Jianghu-class frigates with heliports added to accommodate the new helicopter force, forty Romeo-class submarines, seven Ming-class submarines, four Han-class submarines (a nuclear class of submarines), and numerous corvettes, patrol vessels, and amphibious craft. Foreign purchases of naval vessels include four Kilo-class submarines in 1995 and roughly eighty minesweepers. Force additions to the Naval Air Force include seventy-two Su-27 Flanker long-range bombers and sixty-five attack helicopters (Mack 1992, 16). Other foreign equipment purchased includes French DUUX-5 sonar equipment and U.S. Landsat satellite ground station equipment (Yan 1993, 47).

Other weapons and technologies developed in the last seventeen years include: seaborne refueling capability for submarines, air-to-air refueling capability for J-8 class fighter craft, Haiying 2, 3, 4, and 5 missiles, Hongqian surface-to-air missiles, and mine-laying technology. These technologies, as well as the technologies necessary for the modification and manufacture of vessels and weapons systems were likely completed through efforts of the Naval Weaponry Assessment and Research Center, created in 1978 to do research and development work for the PLAN (see Table 1).

The PLAN has also undertaken efforts to revamp training programs and has established two new military units: a marine unit and a ship-based air unit. All naval officers are now required to pass qualification tests for promotion and recruits are required to undertake more rigorous training regimes prior to active-duty service (Xu 1993, 41). Official Chinese media publications have touted the development and implementation of computer simulation and at-sea training programs, both for new recruits and officers. These training programs include high-technology battle simulation programs, submarine simulation programs, marine and air unit training programs, and more thorough on-board vessel training (Huang 1993, 29). Training for aircraft carrier pilots and captains is also purported to be underway (Yan 1993, 47).

The significance of these force developments and training programs is that they provide the PLAN with a viable projection force. At-sea exercises including extended underwater submarine exercises, extended destroyer missions, submarine versus destroyer simulations, and mock naval battles are all indicators of China’s intent to develop a viable “blue water” force (Huang 1993, 29). China’s development of the Luhu destroyer, modifica-
Table 1. PLAN Force Strength and Military Hardware.

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<tr>
<td>Personnel:</td>
<td>300,000</td>
<td>350,000</td>
<td>260,000</td>
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<tr>
<td><strong>Submarines:</strong></td>
<td>75</td>
<td>116</td>
<td><strong>100</strong></td>
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<tr>
<td>Romeo class</td>
<td>50</td>
<td>90 Romeo class</td>
<td>(est.) Romeo class</td>
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<tr>
<td>W-class</td>
<td>21</td>
<td>20 W-class</td>
<td>(drydock)</td>
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<tr>
<td>Ming class</td>
<td>2</td>
<td>3 Han class</td>
<td>9 Ming class</td>
</tr>
<tr>
<td>(modified Romeo</td>
<td>2</td>
<td>2 Ming class</td>
<td>5 Han class</td>
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<tr>
<td>class)</td>
<td></td>
<td></td>
<td>1 SSBN sub</td>
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<tr>
<td>G-class</td>
<td>1</td>
<td></td>
<td>1 Golf (SLBM trials)</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>1 Wuhan class</td>
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<tr>
<td><strong>Surface combatants:</strong></td>
<td>26</td>
<td>46</td>
<td>55</td>
</tr>
<tr>
<td>Destroyers:</td>
<td>11</td>
<td>15</td>
<td>18</td>
</tr>
<tr>
<td>Luda class</td>
<td>7</td>
<td></td>
<td>2 Luda class</td>
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<tr>
<td>Gordy class</td>
<td>4</td>
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<td><strong>Surface combatants:</strong></td>
<td>46</td>
<td>55</td>
<td>1 Luhu class</td>
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<td>Destroyers:</td>
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<td>Luda class</td>
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<td>Anshan class</td>
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<td><strong>Frigates:</strong></td>
<td>12</td>
<td>31</td>
<td>37</td>
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<tr>
<td>Riga class</td>
<td>4</td>
<td>20 Jianghu class*</td>
<td>29 Jianghu class*</td>
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<td>?</td>
<td></td>
<td>5 Jiangnan class</td>
<td>3 Jiangwei class*</td>
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<td></td>
<td></td>
<td>4 Chengdu (modified</td>
<td>2 Jiangnan class*</td>
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<tr>
<td></td>
<td></td>
<td>Riga class)*</td>
<td>2 Chengdu class*</td>
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<tr>
<td></td>
<td></td>
<td>2 Jiangdong class*</td>
<td>1 Jiangdong class*</td>
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<tr>
<td><strong>Patrol/Coastal</strong></td>
<td>vessels: 633</td>
<td>vessels: 682</td>
<td>vessels: 870</td>
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<td>vessels:</td>
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<td><strong>Torpedo crafts:</strong></td>
<td>140</td>
<td>140</td>
<td>160</td>
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<td><strong>Minewarfare:</strong></td>
<td>30</td>
<td>33</td>
<td>121</td>
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<tr>
<td>Minesweepers:</td>
<td>30</td>
<td>33</td>
<td>120 Minesweepers</td>
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<td></td>
<td>(+44 transport ships)</td>
<td></td>
<td>1 Mine-layer</td>
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<tr>
<td><strong>Amphibious:</strong></td>
<td>?</td>
<td>4 (?)</td>
<td>51</td>
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<tr>
<td>(+44 transport ships)</td>
<td></td>
<td>(+65 transport ships)</td>
<td>(+400 support vessels)</td>
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<tr>
<td>Naval air force:</td>
<td>(Personnel: 30,000)</td>
<td>(Personnel: 34,000)</td>
<td>(Personnel: 26,000)</td>
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<tr>
<td>700 fighters</td>
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<td>600 fighters</td>
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<td>130 torpedo carrying</td>
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<td>130 torpedo carrying</td>
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<td></td>
<td></td>
<td>50 bombers</td>
<td>25 bombers</td>
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<td></td>
<td></td>
<td>50 helicopters</td>
<td>65 helicopters</td>
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</table>

tions of diesel submarines, perfection of manufacture of Han-class submarines, purchase of Su-27 bombers, and modification of frigates to accommodate heliports all contribute to China's long-range force projection capability, legitimating neighboring countries' concerns about China's purpose in naval buildup. These concerns would be further substantiated should China acquire or manufacture an aircraft carrier.

**China's Aircraft Carrier Aspirations**

In 1992, China conducted negotiations with the Ukraine for the purchase of a 67,500-ton Kiev-class attack aircraft carrier. When, due to either contention over price or international pressure, those talks proved fruitless, China began negotiations with Russia the following year for the purchase of two 40,000-ton carriers. These talks proved equally unsuccessful. From the evidence of these negotiations and public statements by senior Chinese military personnel, it can be inferred that the Chinese military is intent on acquiring at least one, if not more, carriers (Naval Commander 1993, 42-43).

The addition of an aircraft carrier to the PLAN fleet would indisputably strengthen China's force projection capability. Having an aircraft carrier on patrol near the Spratly Islands would permit either a first-strike or quick response capability in area conflicts. An aircraft carrier would also enable China to more effectively project force into strategic shipping lanes in the South China Sea. Should confrontation with Taiwan escalate, a carrier would greatly enhance China's ability to enforce a shipping blockade. An aircraft carrier would also permit China to project force into the Indian Ocean and permit a quicker and more decisive response to activities in the Sea of Japan. These issues are of serious concern to countries of the region and to the United States.

In 1989, China purchased a medium-sized Australian carrier as scrap, taking the opportunity to inspect the vessel before it was dismantled. Citing this experience and the experience China has gained from manufacturing a 120,000-ton tanker for Norway, some sources have suggested that China is already building its own carrier using a deck design similar to that of the Australian vessel (Yan 1993, 47). According to these sources, the PLAN has already submitted plans to the National People's Congress (NPC) to have two carriers in service by the year 2000. These two carriers will be roughly 40,000 to 50,000 tons, boasting a 70-meter flight deck able to accommodate twenty planes. Estimated costs for
the manufacture of the carriers is 10 billion yuan, or roughly $1.2 billion. Western sources question the validity of suggestions that the Chinese are building a carrier given that, based on cost, the earliest the Chinese could have a carrier would be 2005 (Grazebrook 1995, 14). However, the Chinese have already commissioned a Spanish company, Empresa Nacional Bazán, to produce a carrier design for them for a 23,000 to 25,000-ton vessel. Bazán has offered to manufacture each carrier for $350 to $400 million, a price well within China’s financial constraints (Lok and Karniol 1995, 8). Suggestions of carrier training programs already underway further raise questions about the process of carrier development in China.

Certainly, the size and type of carrier China might build will determine how China’s force projection capability would be enhanced by carrier construction. A carrier such as Thailand’s 11,500-ton Bazán-built “ski jump” flight deck carrier, which carries ten to twelve airplanes and ten helicopters, would not dramatically enhance China’s force projection capability. However, a carrier such as the Ukrainian 67,500-ton Kiev-class carrier, which carries 80 to 100 aircraft, could greatly increase China’s force projection potential.

The implications of the development of an aircraft carrier are unquestionable—a carrier would increase China’s ability to project force. This has given the prospect of possible Chinese carrier acquisition particular strategic significance. The head of the Chinese Academy of Military Sciences has stated that China is “not prepared to permit the Indian Ocean to become India’s Ocean” (Naval Commander 1993, 22), raising the question as to Chinese intentions for involvement in the Indian Ocean. Possession of an aircraft carrier would also unquestionably increase China’s ability to project force into the Spratly Island region, making China’s patrol of that area more foreboding to neighboring countries. The possession of two aircraft carriers would also make a military blockade of Taiwan more viable, a point discussed in greater detail in the next section. The more salient issue on this point, even among Western military experts, does not seem to be whether or not China will get a carrier, but when China will get a carrier. The U.S. policy should necessarily be premised on the inevitability of such a development.

Is PLAN Buildup a Threat?

The building of corvettes and frigates capable of rapid response, and destroyers and possibly an aircraft carrier capable of moderate force
projection, suggest that China is pursuing development of two PLAN force employment objectives: rapid deployment and long-distance patrol. The goals put forth by China for employment of its armed forces—for protection of sovereign territory and commercial shipping—would be commensurate with this force structure. The question is whether or not these naval force developments are potentially antithetical to international peace.

Sino-Soviet rapprochement has permitted the Chinese to divert their attention from Northeast Asian security. This has permitted China to pay closer attention to other strategic areas; in recent years the most significant has been the Spratly Islands. A cogent argument exists that China needs to have good relations with its neighbors for economic development (Klintworth 1994, 14). Yet the Chinese have not been deterred by economic considerations from risking confrontation with its trading partners, as demonstrated by an incident between the U.S.S. Kitty Hawk and a Chinese Han-class submarine in late 1994. Beijing has also shown little interest in naval arms control, and seems hesitant to become involved in multilateral negotiations on regional security (Mack 1992, 6). These issues raise serious question as to China’s peaceful intentions.

Chinese policy of force projection into the Spratlys is unclear. At a forum on Sino-American military relations, Chinese negotiators placed particular emphasis on Taiwan and on border disputes, “implying the need for some form of projection force to deal with [these issues].” The negotiators further emphasized the inability of China to tolerate infringement on “territorial integrity” (Pacific Forum 1987, 7). One concern surrounds how teaching PLAN sailors and officers the “history of subjugation of China by other countries through use of naval forces” might encourage overzealous behavior among naval personnel (Yu 1994, 151). In 1992 the NPC passed a law claiming sovereignty over the entire Spratly Island region and over the Sengaku Islands off the Taiwan coast. Official Chinese policy is to assert China’s right to utilize the economic resources within 200 miles of the Chinese coast, as stipulated in the Law of the Sea. These policies raise question as to China’s willingness to use force to secure territorial claims, particularly into the South China Sea, as well as how far rights to protect commercial shipping would extend. This raises the question again of China’s interest in the Indian Ocean. China could arguably be seen as walking a fine line between defending national heritage by asserting its right to economic development through use of
Contention Over the Spratly Islands

Contention over the Spratly Islands is a volatile security issue. China, the Philippines, Taiwan, Malaysia, Vietnam, and Brunei all claim sovereignty over parts of the Spratly Islands. The largest number of islands and atolls are held by Vietnam, followed by the Philippines. The contentiousness of the debate over the Spratlys stems from the speculation that there are large oil and gas deposits in the region. Although China is the fifth largest producer of oil in the world, China became a net importer of oil for the first time in 1994. In order for China to continue its current economic development path, it will have to find new energy sources, making the exploration and extraction of oil from the Spratlys all the more important (Richardson 1994, 27). As part of the Seventh Five Year Plan (1986 to 1990), the Chinese government determined that completing a comprehensive scientific survey of the Spratlys was a key element of securing Spratly resources. At present, China, the Philippines, and Vietnam have all signed contracts with private companies for oil exploration in the Spratlys (Beaver 1994, 18). Chinese economists have estimated that, in 1995 alone, some 30 to 50 million tons of oil were taken from wells in the Spratly area by non-Chinese interests, Vietnam being the largest extractor of oil reserves (Lin 1994, 37). Chinese articles warning about the inability of Chinese fishermen to fish in the Spratly waters and about the possible expansion of Japanese naval involvement in the region are indicators that the Chinese leadership may be preparing the country for use of force in the Spratly region10 (Lin 1994, 37).

The history of a Chinese presence in the Spratly Island region extends back to 200 B.C. when Chinese fishermen were first recorded as having traveled there on fishing expeditions. Chinese sovereignty nominally extended down to the island chain during the dynastic era, but was never formally asserted. In 1950 Vietnamese forces took over the islands after they were abandoned by Nationalist forces. Clashes between Chinese and Vietnamese forces over the Spratlys became more pronounced in 1987 when China began projecting more force into the region. In 1988 China captured several Vietnamese-occupied atolls and islands, and took several more in 1992, bringing the total number of islands and atolls controlled by the Chinese to nine.
China and Vietnam have, in recent years, fought a number of times over islands in the South China Sea. In 1974 China invaded and established a stronghold in the Paracels, approximately 200 miles south of Hainan Island. Fighting over the Paracels broke out again during the 1978 Sino-Vietnamese War and again most recently in 1983, but China has maintained a strong grip on the islands which it is unlikely to loosen. In July 1994 the PLAN deployed two warships to block the resupply of a Vietnamese rig near a drilling concession China gave to United States-owned Crestone Oil (Smith 1994, 284). Despite an agreement between China and Vietnam to resolve disputes over the Spratlys without violence through bilateral negotiation, it would appear unlikely, given the history of conflict, that those dictates will be followed.

The prospects of resolving disputes in the Spratlys seem fairly dim. The Chinese government is firmly opposed to the idea of holding multilateral talks on the Spratly issue. As stated by Foreign Minister Qian Qichen, "while sovereignty over the islands is non-negotiable, joint ventures to exploit the natural resources of the area can be negotiated on a bilateral basis" (Smith 1994, 275). In the last few years, Malaysia, the Philippines, and Vietnam have engaged in multilateral negotiations on the Spratlys, without the involvement of China. China has seen these negotiations as an attempt by these three countries to create an arrangement among themselves in order to present China with a fait accompli (Chen 1994, 898). Any deal on the Spratlys will necessarily have to involve all interested parties. Peace prospects will largely hinge on the results of drilling efforts presently underway; should extractable amounts of oil be found, it is unlikely China will permit further drilling by other countries without established bilateral agreements.

The Possibility of Military Engagement Across the Taiwan Strait Mainland

Chinese military action following Taiwan President Lee Teng-hui's trip to the United States in June 1995 has restored a state of heightened military tension to the Taiwan Strait. In July of the same year, one month after President Lee's trip, Mainland forces fired six Dongfeng-21 and Haiying-8 missiles from Anhui Province into a designated area near strategic shipping lanes off Taiwan's coast, signaling their ability to blockade shipping channels using inland-based armaments. In August, the Mainland conducted joint navy-air force exercises in the East China Sea
involving simulations of the types of warfare necessary for enforcing a naval blockade, including sea-to-sea, sea-to-air, and undersea exercises. In November, immediately prior to Taiwan's legislative elections, army, air force, and naval forces conducted amphibious assault exercises on the coast of Fujian Province to show that contingency plans had been formulated for an invasion of Taiwan, and to serve as a warning to Taiwan against seeking independence. In January, the New York Times reported that Beijing had developed a plan to undertake a thirty-day missile bombardment of Taiwan should Lee Teng-hui be elected president and undertake measures leading toward Taiwan's independence. The same report noted that army and air force units in Fujian Province had been reinforced to substantiate the credibility of a Mainland invasion (Tyler 1996, A2).

The issues surrounding Taiwan's reunification with the Mainland are complex. Forty-seven years of separate governance raise question as to whether Taiwan is a part of China or is a separate national entity. Historically, Taiwan's status as a province of China has been ambiguous. The first major settlement on Taiwan in the mid-1500s was Portuguese; they were replaced quickly by the Dutch. The Dutch were defeated by the Ming general Zheng Cheng-gong, who ruled Taiwan as an independent despot after the fall of the Ming Dynasty until his death in the mid-1600s. Considered a backwater, Taiwan was largely ignored by the Qing Dynasty, who ceded the island to Japan in 1895 as a result of the Sino-Japanese War. Populated largely by residents of Fujian Province who crossed over either with Zheng Cheng-gong or after his victory, the Qing were long regarded by Taiwanese as foreign rulers. At the end of World War II Taiwan was returned to Chinese sovereignty. Conflict between local Taiwanese and Mainland armed forces, leading to the deaths of 10,000 Taiwanese civilians in 1947, created enmity toward Mainlanders among the Taiwanese. The Mainland Kuomintang government was thereafter viewed by many Taiwanese as a foreign occupier. Taiwan was ruled by a Mainland minority until the late 1980s and early 1990s when local-born residents were first permitted to fill government seats. At present, both the Taiwan government and the Mainland government officially claim that there is only one China and Taiwan is a part of that China, although the Taiwan government asserts that the welfare of Taiwan is its primary concern.

At issue today is whether or not Taiwan is unquestionably a part of China, or if Taiwan has a distinct national culture that permits it to claim
independent status. Mainland policy is clear on this issue: Taiwan is a part of China. Jiang Zemin appears to be investing heavily in public support for his strong stance against Taiwan independence and against permitting foreign interference to influence the resolution of the Taiwan issue. This could signify that Jiang is basing part of his claim to legitimacy to proceed Deng as preeminent leader on his professed intent to return Taiwan to common sovereignty. The domestic importance of this issue in Mainland China could partly explain the heightened volatility of the present situation.

As democracy has developed in Taiwan, trade frictions between the United States and Taiwan have increased. Taiwan has reduced its percentage of foreign trade conducted with the United States, and has asserted an independent voice in resolving its economic and trade disputes with the United States. If Taiwan’s citizens determine, in a democratic forum, that they are culturally and historically part of China and there are moves toward reunification (as possibly already signaled by the dramatic increase in trade between Taiwan and the Mainland over the last six years), the United States would have little reason to become involved in a military conflict between Taiwan and the Mainland, particularly given the serious consequences of such a conflict. However, if the Taiwanese people decide that they are a separate cultural and historical nation and wish to be a separate state, American involvement in a military conflict would be protection of a people from hegemonic forces, and could be supported on principle. Several Western analysts have attempted to determine whether or not Taiwan is a separate historical and cultural nation, but have reached no conclusion. The real state of Taiwan’s national definition lies somewhere in between these two extremes, making policy issues difficult to resolve.

Recognizing the importance of air power to an amphibious assault, Taiwan has made efforts to purchase the latest-technology fighter aircraft. Recent purchases of F-16 and Mirage 2000 fighters give Taiwan clear air superiority over Mainland J-8 and Su-27 fighters. U.S. military advisers believe that Taiwan’s present air and ground forces provide sufficient capability to withstand a Mainland invasion (Wang 1996, A2). Taiwan’s greatest problem, however, is its need to rely on foreign weapons purchases to stock its military arsenal. Taiwan’s navy consists primarily of decommissioned U.S. vessels purchased prior to 1980, with the exception of a class of frigates and two submarines purchased from the Netherlands. Given the rapid expansion of frigate and destroyer forces in the PLAN, the
Mainland will soon possess clear naval firepower superiority over Taiwan forces. The possession of an aircraft carrier would solidify Mainland naval superiority, making a blockade a more enforceable strategic option, particularly given Taiwan's geography. The targeting of missile tests off Taiwan's southeast and northeast coasts in July of last year was a deliberate proclamation of the Mainland's capability to fundamentally disrupt Taiwan's shipping.

U.S. support for the Kuomintang extends back to World War II. Present conditions would suggest that the United States should unambiguously express a strategic position relative to possible military conflict between Taiwan and the Mainland. The ambiguity of Taiwan’s historical and cultural status aside, the majority of Taiwan’s citizens do not want to return to the Mainland’s direct sovereignty in the immediate future. The only circumstance under which the Mainland would likely invade Taiwan and under which direct American military engagement would be necessary is if Taiwan made an unambiguous move toward independence. Economic ties and a desire to reunify Taiwan on a non-antagonistic basis are incentives for the Mainland to seek non-violent reunification. In the event of invasion, U.S. policy toward Taiwan should be to provide unconditional support for Taiwan as an independent country being subjugated by a regional hegemonist. In the absence of such a move toward independence, expression of military support signified by the patrol of several U.S. destroyers and clear statements of American concern may be sufficient to deter offensive Mainland action. In any event, the United States should make efforts now to gain support from countries exporting high technology goods to the Mainland to agree to implement comprehensive economic sanctions against the Mainland in the event that the Mainland interferes significantly with commercial shipping to and from Taiwan. The sanctions would only be used if expressions of concern and demonstrations of force prove to be insufficient deterrents against Mainland military aggression.

Conclusion

With continued economic growth, it is likely that China will continue to expand its naval forces, intensifying security tensions in East Asia. The addition of an aircraft carrier to PLAN forces would significantly enhance China’s ability to project force and thereby expand China’s capability to reestablish a regional sphere of influence. Obviously, this raises questions
about the future role of the Chinese navy in East Asian affairs. Continued economic growth will necessitate increased utilization of all available resources. Nationalistic tendencies in China make it unlikely that the government will back down anytime soon on the issue of Spratlys' sovereignty; in combination with the difficulty of arranging mutually beneficial arrangements in the absence of multilateral talks, the situation in the Spratlys remains extremely volatile. It is not inconceivable that a war could break out between China and Vietnam if substantial oil deposits are found as a result of exploration by either side, and the United States should have exigency plans in place to prepare for such an event.

Given the political importance of reunification, it is unlikely that China will decrease pressure on Taiwan to assent to common sovereignty. The unambiguous "reminders" of military exercises throughout 1995 and the released information on "secret" missile attack plans in December of that year make clear the Mainland government's refusal to permit Taiwan to effect a distinct and separate national identity. A public affirmation of a distinct Taiwanese national identity, either by the country as a whole or by the government specifically, would likely result in a conclusive military campaign by Beijing. Development of the PLAN to enable troops and weapons to be ferried across the Taiwan Strait and to enable enforcement of a naval blockade would be key to the success of such a campaign.

Although the presence of a strong Chinese navy may be threatening, there are limited options for restricting Chinese naval weapons development. Most Chinese weapons are indigenously developed, and weapons research and development will produce more technologically advanced equipment as time goes by. Aircraft carrier development and advancement of the capabilities of the Luhu destroyer and the nuclear submarine fleet are likely underway at the present time. While worrisome, PLAN expansion is a logical outcome of China's economic development; given China's strategic history and previous power position, it is not extraordinary for China to be investing heavily now in military development. The issue for the United States is less how to stop this development than how to deal with it. The utilization of containment policy is only practical as it recognizes that China will have certain advantages over the United States in force projection capability in the immediate East Asia region. China is due a great power status: the United States cannot reasonably keep China from developing a strong military and establishing its sphere of influence.

U.S. policy should therefore make China aware of what the tolerable limits will be for Chinese military expansion. It is in the interest of neither
country for China and the United States to become enmeshed in an arms race. The recognition of China's great power status, and the acknowledgment that the United States has limited capacity to restrict Chinese military projection into its near-abroad affairs can prevent this eventuality from occurring.

With respect to China's involvement in near-abroad affairs, U.S. policy should first delineate which issues China considers territorial and which China considers extra-territorial, as direct conflict with China over territorial issues could result in serious confrontation. The Spratly Islands dispute and reunification with Taiwan are both territorial issues and should be handled very delicately. From a U.S. perspective, the Spratly Islands dispute is primarily a commercial concern. Specifically, it is not in the United States' interest for regional conflict to escalate to a level where it disrupts commerce or causes regional instability. The United States should clearly emphasize the need to maintain open commercial shipping lines; American policy must state explicitly that any disruption of shipping lines will result in U.S. naval involvement. Clearly, the discovery of oil or natural gas deposits in the region will change the nature of the Spratly Islands conflict. In the event of such a discovery, the United States will need to direct more explicit attention to this issue than is now presently given.

The issues concerning U.S. policy toward possible Mainland military activity against Taiwan are more complex, as it involves the lives of 21 million people. The policy of the United States should clearly delineate the U.S. response to a Mainland attack on Taiwan. Should the Taiwan government, with the support of its citizens, make an unambiguous move toward independence, the United States should support Taiwan in principle and should provide military support in the event of a Mainland reprisal. The actions of the new Taiwan government will play a large role in determining the future strategic situation in the Taiwan Strait. The United States should make efforts to gain international consensus for the imposition of coordinated economic sanctions against the Mainland should the Mainland intentionally engage in activity intended to disrupt commercial activity, such as missile attacks on commercial shipping. The United States should make known the credibility of such a response to Mainland military action to help deter armed invasion.

Sino-American conflict over security issues is becoming an inevitability. Respecting that, it is important to observe what China sees as being important for its defense now with an eye to understanding what tenor its
weapons development course will take in the future. Focus on submarines, destroyers, air power, and aircraft carriers suggest a desire for big offensive weaponry.

As suggested in the introductory quotes of this paper, "containment" can only be effective to a limited degree. The United States will not be able to keep China from being involved in a limited capacity in its near-abroad affairs. Certainly, though, the United States should keep China from disrupting regional stability or interfering with commercial activity to the greatest extent possible. U.S. policy should clearly state a position relative to Chinese military action which permits China respect commensurate with its great power status while unambiguously delineating where a stand will be taken against military aggression.

Notes

1 Policy goals are occasionally projected fifty, sometimes a hundred years, into the future by Chinese government officials. Such statements are intended to reflect consideration for the country's long term interests.

2 Recently, an electronic countdown board was erected in Tiananmen Square in front of the National History Museum, counting down the days and seconds to Hong Kong's return to Chinese sovereign territory. The author talked informally with people in China about the board and they expressed an enormous sense of pride and satisfaction with it, claiming that the reclamation of territory constituted a Chinese victory. Recent policy statements (Jiang's Eight Points) suggest a similar national interest in reclaiming Taiwan.

3 It is difficult to make a definitive determination of Chinese defense expenditures as military personnel payroll expenses, arms sales, and outside business ventures are not computed into the budget. Official figures for the PLA budget are 52 billion yuan per year, or roughly $5.9 billion. It has been suggested that China sold a total of $14.4 billion worth of equipment between 1983 and 1991, money which could have been used in military expenditures. (The sale of five frigates over the last two years would substantially increase this arms sales figure.) Military payrolls, by far the largest slice of the unaccounted budget, are estimated to run between $8 to $10 billion per year (Klintworth 1994, 13). Additional unaccounted monies are accrued through the commercial activities of the PLAN's maritime shipping service. According to Chinese newspaper accounts, the PLAN had made 50 million yuan in profit from shipping contracting as of June 1992 (Hu 1992, 1).
There have been some signs of disagreement between Liu Huaqing and Foreign Minister Qian Qichen regarding the acquisition of a carrier. Presumably with Liu's support, in recent years naval personnel have been making bold public statements concerning the necessity of carriers. The boldness of these statements suggest that carrier acquisition is hotly contested, otherwise such deliberations would be handled in a closed forum, and not in public. Qian, also taking his position to the public, has stated in talks with neighboring countries that China's peaceful intentions are signified by China's lack of a carrier (Lok and Karniol 1995, 8). The ramifications of this debate are unclear, but could make neighboring countries aware that internal dissent over carrier acquisition exists.

Yulin, being on the southern-most tip of Hainan Island, is purported to be the South Sea fleets first-response point for conflicts in the South China Sea.

Landsat satellite ground station equipment was originally given to China in the early 1980s for surveillance use along the Soviet border.

The article (Naval Commander 1993, 42-43) quotes naval air commander Wang Yong-qing on China's need to acquire carrier forces.

This amount, as noted earlier, exactly matches the increase in the PLA budget for 1994.

It was noted in the same article that India already has two small carriers in their naval fleet. The clear inference is that China will acquire two carriers to have at least numerical balance with India. It also suggests that the Chinese are considering projecting force into the Indian Ocean. This projection of force may represent an expression of friendship with Myanmar or another method of checking India's interests for regional power.

Restrictions on fishermen's access to sovereign waters and concerns about Japanese re-militarization could both be used as justification for Chinese force projection. (Japanese re-militarization remains an issue of "national concern" and could justify such action.) The fact that these articles are being published suggests that Chinese leaders may be drumming up nationalist support for Spratly military engagement.

Taiwan is split north to south by mountains. The majority of Taiwan's industry is located on the Eastern side of the island, with the two major ports, Keelung and Kaohsiung located at the northern and southern tips of the island. A naval blockade could successfully encircle Taiwan's commercial trade by closing off the access points at the north and south entry points to the Taiwan Strait.
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Regionalism, edited by Jason C. Hu, Andrew N. D. Yang, Richard Yang, and 
Circumventing the State: Securing Cultural and Educational Rights for Hungarian Minorities

Evelyn N. Farkas

The Hungarian minorities in Romania and Slovakia are embroiled in a struggle over cultural and educational rights, pitting them against the central governments in Bucharest and Bratislava. Both sides clash in an intellectual space devoid of creative thinking; the space is occupied by a premise that the government must define and finance education and cultural institutions. This paper addresses this presumption by exploring the theoretical justifications for removing the state from the process of establishing such institutions for ethnic minorities. The Hungarian case study demonstrates how the character of the state can determine the role, or viability, of alternative social structures. The study concludes that these non-governmental institutions effectively and essentially counterbalance state power, and therefore must be fostered within the confines of the current nominal democracies in Slovakia and Romania.

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Introduction

The nation-state is an entity under constant challenge from the various nations that either have no state of their own or are forced to live separated from the state of their ethnic kin as minorities. This situation has become exacerbated since the end of the Cold War, since grievances can now be aired safely. Groups are asserting their “collective rights” to “autonomy” or “self-determination,” or merely attempting to reserve independence in certain regulatory domains. But what should the state forfeit? How far do rights of ethnic groups extend? What operational necessities or practicalities follow from this?

The problem of accommodating ethnic minorities can be elucidated via an examination of the Hungarian minority situation in Central and Eastern Europe. This case involves demands for certain language rights and cultural freedom, at a minimum, accompanied by additional claims for educational rights, administrative powers and even certain types of autonomy that fall short of secession. The minorities and their allies are engaged in creating legal and political safeguards that will delineate areas of independent activity. Individuals have been working on the international, regional and national levels to forge constitutions and secondary law that would grant minorities certain rights pertaining to culture, education, and language—most of these pertain, directly or indirectly to the use of the Hungarian language. Yet in the area of Europe, once commonly referred to as the “East Bloc,” the process of obtaining guarantees for minority rights and for their exercise has been contentious. New “democratic” governments have been unwilling to acquiesce to any proposals leading to decentralization, and in some cases, simply the notion that minorities may remain unassimilated by the majority language and culture.

According to most proposals or paradigms for addressing minority rights, the state—the central government and its administrative apparatus in the first instance, and beyond that, local government—must be persuaded to take some positive action to grant positive rights. Positive action implies that the state must do something and the right which is granted is the right to commit a particular act. Herein lies the problem: the nature of power and bureaucracy and the unique history and culture that has shaped political attitudes in Central and Eastern Europe have combined to produce a formidable obstacle to liberalization. The majority governments are not interested in relinquishing power. International
pressure has been most effective at forcing change, but even this has been minimal, and sometimes only cosmetic.

Moreover, even the minorities assume that it is government that must grant them the rights and privileges they seek; only government can take action to meet their needs. The operative assumption on all sides is that the government will define the scope of its power and that of the minorities. The Hungarian minorities in Romania and Slovakia are currently embroiled in a struggle over cultural and educational rights, pitting them against the central governments in Bucharest and Bratislava. Both sides clash in an intellectual space devoid of creative thinking; the space itself is defined by certain premises that regrettably remain unquestioned. The first of these premises is that the government must regulate and delineate the role, function, scope, and substance of educational and cultural institutions, and second, that these must be state-financed. Such premises predate current governments, and even the recent communist regimes—which were most blatant in their intrusion, especially in terms of content—finding their roots in the administrative organs of the Austro-Hungarian monarchy. Both assumptions, however, must be challenged if the Hungarian minorities are to obtain greater autonomy and control over the education of their members and the dissemination of their culture. As long as Hungarian minorities remain dependent on state sanction and government coffers, the fate of their education and culture will remain subject to capricious government policies and vulnerable to centralizing tendencies, to policies of assimilation and possibly even eradication.

This paper addresses this presumption by exploring the notion of negative state action and the theoretical justifications for removing the state from the process of establishing viable educational and cultural institutions for ethnic minorities. The first section summarizes attempts to secure minority rights within the state-centric international context. This is followed by an exploration of the concepts of liberty and the state, culminating in a description of the liberal democratic state. Education and culture are addressed within this context, in the fourth section, with particular emphasis on the way in which any monopoly, especially a state, can infringe upon liberty and thus, true liberal democracy.

In the fifth section, the practical likelihood of creating and maintaining educational and cultural systems particularly in non-liberal state settings is assessed with reference to the Hungarian minorities in East Central Europe, particularly those in Slovakia and Romania. The case study demonstrates how the character of the state can determine the role or even
the viability of alternative social structures, especially when it precludes the enforcement of existing international and even national legislation intended to protect individuals and groups living as permanent ethnic minorities. The final point expresses the conviction that these nongovernmental institutions counterbalance state power, and therefore must be fostered within the confines of the current nominal democracies in Slovakia and Romania.

The Struggle for Minority Rights in the Nation-State System

The rise of the nation-state and nationalism created the minority status. Under multiethnic monarchies or theocracies ethnicity was constrained by stronger political forces. It was only when territory was consolidated into new states based on cultural and linguistic affinity that this changed. The charge of nationalism, to make ethnic and territorial boundaries coincide, threatened many nations with extinction or assimilation. States obtained "sovereignty" that was to protect them from domination or interference by outside powers; within its boundaries state government was the sole enforcer of law and order. Later, as notions of self-government and democracy evolved, individual rights began to encompass rights to observe different religions, and cultural traditions and to employ different languages. In some cases, this was reflected in a "bill of rights." Such individual rights were extended to collectivities or ethnic groups to some extent with the introduction of the term "self-determination," and through Woodrow Wilson's Fourteen Points. Though self-determination was based on individual rights, in practice it was granted to geographically-concentrated groups, not scattered members of a diaspora. Ethnic communities now appeared to have the option to secede from states to create their own polities.

Ultimately, however, self-determination as it was exercised through secession, or irredentism was doomed. First, it was difficult to gauge the will of groups in a democratic manner, because in order to determine what was a majority vote, some arbitrary, or at least subjective, district lines had to be drawn. "The absolute right of self-determination as expressed in referenda is sociologically irrelevant if it does not contain general criteria concerning electoral boundaries" (Ankerl 1994, 9). Second, the concept came into direct conflict with balance of power politics. Fear of a multitude of unstable small states and, closer to home, of a diminution of influence, led the large powers to resist any attempt to shift boundaries.
Finally, the Third Reich, where Hitler used the pretense of protecting ethnic Germans to invade neighboring sovereign states, led most decision makers to view collective rights in a critical light. The 1948 United Nations Universal Declaration made no reference to the rights of groups. In the 1960s, however, experts began to express dissatisfaction with the UN Charter and other existing human rights documents for their failure to separate minority rights from human rights, thereby leaving them unattended. The drafters of the 1966 UN Covenant on Civil and Political Rights (CCPR) included Article 27, which stated: "in those States in which ethnic, religious or linguistic minorities exist, persons belonging to such minorities shall not be denied the right, in community with the other members of their group, to enjoy their own culture, to profess and practice their own religion, or to use their own language" (Benoit-Rohmer and Hardeman 1994, 10). Here it was acknowledged that minorities had cultural, religious and linguistic rights "in community" with one another. It was a step away from the strict argument that minority rights are only a subset of human rights.

In the final analysis, power politics won out in Europe with the 1975 Helsinki Accords, in which all parties, from the Soviet Union and its satellites to the Western Europeans, agreed to respect post-World War II borders. Borders were never to be altered again, and in exchange, minorities would ostensibly be able to exercise their rights. The Soviet Union and the Eastern Bloc countries committed themselves to a document that included a "Declaration on Principles Guiding Relations Between Participating States." Principle VII, paragraph 4 declared:

participating States on whose territory national minorities exist will respect the right of persons belonging to such minorities to equality before the law, will afford them the full opportunity for the actual enjoyment of human rights and fundamental freedoms and will, in this manner, protect their legitimate interests in this sphere (Benoit-Rohmer and Hardeman 1994, 10).

Whether they were willing to take their obligations seriously or not, the communist countries were now accountable for meeting certain standards. Measurement of these standards, which referred only to individuals, continued to be troublesome, but the Helsinki Accords provided human rights groups and sympathetic governments with something to point to as the basis for their arguments on behalf of discriminated persons.
In the post-Cold War period much of the debate among minority group advocates, international lawyers and bureaucrats has focused on bringing collective rights onto the agenda of the organizations charged with addressing human rights and stability in Europe. Proponents of extending collective rights to minorities to supplement their individual rights argue that this be done based on rights that accrue to individual members of an ethnic group when they come together or act as a group. Accordingly, minorities require additional protection because "some rights find their locus in the community rather than the individuals who comprise the community" (Geroe and Gump 1995, 675). Beyond this, advocates of collective rights are divided between those who maintain that national legislation and international agreements should secure the rights of minority ethnic groups without granting rights that the majority does not share, and those espousing a more "aggressive" approach whereby, "minority group members must be given extra rights, rights that extend beyond those extended to the majority" (Geroe and Gump 1995, 675). The latter approach is based on reasoning similar to that of the U.S. Supreme Court *Regents of the University of California v. Bakke*, 438 U.S. 265 (1978) majority opinion that under conditions of disproportionate discrimination formal inequality may be necessary to remedy the resulting situation. "The fact that facially neutral statutes can impact more adversely on minority groups than upon the majority suggests that collective guarantees of rights for ethnic minorities that exist beyond those afforded to members of the majority are both necessary and justified" (Geroe and Gump 1995, 684).

The debate about collective rights continues to be waged in international fora, as well as within the context of national legislative proposals. In 1990, the Conference on Security and Cooperation in Europe (CSCE), Copenhagen Conference on the Human Dimension placed the minority issue on the agenda. The Copenhagen Document that resulted from the conference contains a list of rights, "the broadest inventory of minority rights to have been adopted by an international body to date" (Benoît-Rohmer and Hardeman 1994, 10). The document defends the rights of "persons belonging to national minorities to exercise fully and effectively their human rights and fundamental freedoms without any discrimination and in full equality before the law" and obliges states to "adopt, where necessary, special measures" to insure full equality (*Human Rights Law Journal* 1990, 233). Specific rights that can be exercised individually or in community include: utilizing the mother tongue in private and public, professing and practicing religion, establishing and maintaining cross-border contacts, establishing organizations and associations and partici-
paring in non-governmental organizations. States are required to create conditions that protect and promote the ethnic, cultural, linguistic, and religious identities of national minorities. This can be accomplished by forming “appropriate local or autonomous administrations corresponding to the specific historical and territorial circumstances of such minorities and in accordance with the policies of the State concerned” (Human Rights Law Journal 1990, 233). Finally, the CSCE states recognized the right of individuals to seek remedy in the event that their rights are harmed.

The 1992 UN Declaration on the Rights of Persons Belonging to National or Ethnic, Religious and Linguistic Minorities Article 4.3 maintains that states should create opportunities to learn or be instructed in a minority mother tongue. Yet this, like the CSCE/OSCE documents, is conditioned by the words “wherever possible.” Likewise, the 1995 Council of Europe Framework Convention for the Protection of National Minorities, though it produced an extensive list of rights accruing to ethnic, linguistic, cultural or religious minorities, continued to firmly uphold the central role of the state. The parties to this agreement, like the OSCE and UN documents, were the states. Moreover, almost an entire section (section III, articles 20–22) was devoted to reaffirming state sovereignty. “Nothing in the present framework Convention shall be interpreted as implying any right to engage in any activity or perform any act contrary to the fundamental principles of international law and in particular of sovereign equality, territorial integrity and political independence of States” (Council of Europe 1995, section III, article 21). In all of these instances, the debate regarding collective rights remains unresolved. The terms identity, minority status, sovereignty, territorial integrity and political independence are not clarified and none of these documents are legally binding. Regardless, when one speaks of collective rights or individual rights, they both depend on the state for enforcement.

The Theoretical Basis for State Non-Intervention

The arguments for limiting state intervention are the product of classic liberal, “libertarian,” or like-minded thinking. This “libertarianism” refers to a system of politics that implies free-market capitalism, political and civil liberties, and room for ample pluralism in cultural, artistic, educational, and religious approaches to human life” (Machan 1989, xv). It proceeds from an exploration of the concepts of freedom and rights, natural and individual, and of the distinction between liberalism and democracy. The main contention, according to proponents of the “mini-
mal state," is that the individual and his or her rights are the foundation of society and that there is no collective, no state, with special rights beyond that of individuals. While majority-rule is necessary for the operation of a democratic system of governance, it must be carefully limited to certain domains, so as not to infringe upon, or violate, individual rights.

Liberty, Hayek writes, "is that condition of men in which coercion of some by others is reduced as much as is possible in society" (1960, 11). Liberty precedes all social organization. It exists as part of the Lockean state of nature. As such, it rests on the notion of negative rights, rights that protect against infringement by any other person or entity, including a state, however voluntary the basis of its existence, or its laws. For Hayek, the virtue of liberty, freedom of thought and action, is the fact that it alone makes progress possible. "The case for individual freedom rests chiefly on the recognition of the inevitable ignorance of all of us concerning a great many of the factors on which the achievement of our ends and welfare depends" (Hayek 1960, 29). The values that humans hold and the ability to meet material and other needs determine success and survival. However, the fact that there is no universally accepted way of meeting human needs points clearly to the necessity for competition. The state, created and maintained upon the voluntary consent of the individual members, must refrain from monopolizing power or action. A state monopoly would hypothetically never remain permanent.

Nonetheless, states have historically demonstrated a propensity to increase their power over individuals via centralization and bureaucrati­zation. Surprisingly, this trend is accelerating instead of reversing in some of the newly democratizing countries of Central and Eastern Europe. The old ideology is being substituted by nationalism and enforced by a more thorough centralization in many more cases than existed during the communist era (King, 1996). The politicians, already accustomed to emphasizing the needs and virtues of the collective, the state or "the people," and to dismissing the role of the individual, now define the people in ethnic terms, according to the dominant nation. It is this political process that places the liberty of minorities in jeopardy.

According to one prominent Slovak ethnologist, in the territory of contemporary Slovakia ethnic conflict has historically manifested itself as the struggle of a particular ethnic group against the state. The succession of conflict since the interwar years (1914–18) has pitted Jews against a Hungarian state, Germans against a Czechoslovak state and now, Hungar-
ians against a Slovak state. "All conflicts that took place did [so] as a conflict of one part of an ethnic community on the one hand and state power on the other hand" (Kalavský 1995).

The Character of the State: Democracy and Liberalism

The character of a state determines the extent to which individual rights, or liberty, will be protected. No modern state is a minimal one, but within the range of existing redistributive regimes there are various mechanisms of governance and philosophical justifications for state intrusion, or regulation. Democracy is one method of governing, where majority rule determines what policies will prevail. Since Schumpeter redefined the classic theory of development, the consensus holds that "democratic method...is that institutional arrangement for arriving at political decisions in which individuals acquire power to decide by means of a competitive struggle for the people's vote (1947, 269). This system affords peaceful change, safeguards liberty and offers a means to educate the citizenry of a state. But it knows only one limit to government—prevailing majority opinion. For this reason, democratic states, especially those saddled with the totalitarian legacy of communism, must be moderated by liberalism.

Democracy can decide what must be done, but not whether it is fitting to act at all.

Clearly it is necessary for people to come to their own agreement as to how necessary tasks are to be performed, and it is reasonable that this should be decided by the majority; but it is not obvious that this same majority must also be entitled to determine what it is competent to do... If we recognize the rights of minorities, this implies that the power of the majority ultimately derives from, and is limited by, the principles which the minorities also accept (Hayek 1960, 107).

The community of individuals under a regime must have a common body of principles capable of limiting, or alternatively challenging, short-term preferences of a temporary majority.

Liberalism, with its insistence on preserving areas of action beyond the realm of the state or at a minimum providing competing alternatives is then, the greatest proponent of a civil society—the plurality of institutions opposing and balancing the state and controlled and protected by the state," according to Gellner (1994, 1). Liberalism creates the possibility that
a dynamic pluralistic society can exist. Democracy is the framework, but perhaps Gellner omits the intervening variable, liberalism, which enables civil society to develop. Though the state maintains its monopoly on enforcement, the civil society can ensure that state regulation takes on a negative nature, as opposed to a positivist one that results in overwhelming government regulation. The pluralistic society can temper the state's ability or desire to exercise its power; this is most crucial in the sensitive areas of education and culture.

**Education and Culture**

"Politics—indeed educational policies—can be used to further, transform, or destroy a social, cultural or national identity and does affect groups or individuals in different levels of scale of change" (Brock and Tulasiewicz 1985, 1). That liberty is the protector of diversity becomes infinitely clearer when one considers the situation of ethnic minorities, those who espouse alternative perspectives and cultures and who advocate alternative systems to foster their needs and goals. If democracy is coupled with liberty the path will be clear for ethnic minorities to organize, establish, and fill in the political framework with their unique contributions to society. If ethnic minorities in the new Central and Eastern European democracies seize the opportunity, they will find that they have created something that is protected, but not directed, by the state.

The troubling scenario occurs when liberal democracy appears to be far out of reach, when only institutional or nominal democracy exists and ethnic minorities are permitted a voice to express concern, but not to affect legislative change. The simple Lockean notion of democracy is insufficient because it assumes all majorities are temporary; it fails to account for permanent ethnic minorities (Freeman 1995, 11). At the core of the current dispute between ethnic Slovak or Romanian majorities and Hungarian minorities is the fact that the division between them is permanent. It is not linked to shifting political debates, but rather to the question of identity, which at this point does not co-exist with a strong sense of civic, as opposed to national, participation, or belonging. Under these circumstances, what hope is there for alternative education or culture? This scenario, where majoritarian democracy exists without meaningful compensation for minorities, is the one addressed in the Hungarian case study.

Government support of agendas that neglect minorities or damage their status often become issues of survival not only because of the money governments refuse to grant minorities, but also because of the funding
they provide to their pet projects. In Slovakia, minorities charge that some of these new initiatives are directed against them (*Government Defends Ethnic Policy* 1995). If minorities perceive that government support will determine their chances of economic, political or cultural survival, the first arena to be affected by such a struggle will be the educational one; its impact can be felt for generations. "In multinational states the problem of who is to control the school system tends to become the chief source of friction between nationalities. . . . To one who has seen this happen in countries like the old Austria-Hungary, there is much force in the argument that it may be better even that some children should go without formal education than that they should be killed in fighting over who is to control that education" (Hayek 1960, 379).

Yet if the goal is to remove government from the equation, as liberal thinkers urge, the task in Slovakia and Romania is formidable. It is particularly difficult to imagine the possibility of nonintervention given the historical legacy from the period of Hapsburg rule up to and including the Cold War era. Even after the Hapsburg empire had been destroyed, old political patterns were evident, leading to observations that "our nominally republican system is actually built on an imperial model, with our professional politicians standing in the place of the praetorian guards" (Nock 1946, 19). Likewise, in this time of transition from communist rule, it is unrealistic to expect central governments to revoke recently enacted detailed legislation in areas affecting minorities, such as language and education, and moreover to abstain from any regulation at all. However, this does not mean that efforts should not be made to undercut the role of the government, to erode and counterbalance state activity. In fact, the most important charge to the people of Slovakia and Romania of any ethnicity is to create alternatives to the government monopoly. In short, a civil society must be established because this is the only way that under the current regimes minorities will obtain greater autonomy in the educational and cultural spheres. If minority groups can forge their own structures and financial foundations, they will cease to depend on the central government for their cultural sustenance.

**The Hungarian Minority Case**

In the aftermath of World War I and with the conclusion of the treaties of Trianon and St. Germain, the borders of Austria, Hungary and Romania were redrawn and the two "successor states" of Czechoslovakia and Yugoslavia came into existence. The new borders left members of all of
the nations, or ethnic groups, outside of the state. Each nation-state contained citizens of a different ethnic group and many states suddenly found themselves with a substantial diaspora community in the region. This was most dramatic in the case of Hungary, which lost two-thirds of its territory and one-third of its population. Roughly three million Hungarians suddenly became foreign citizens. Today, close to two million ethnic Hungarians live in Romania; 600,000 in Slovakia; 400,000 in Serbia (or somewhat less since the recent Balkan war); 200,000 in Ukraine; and approximately 200,000 combined in Austria, Croatia and Slovenia (Schöpflin 1993, 2). One out of three Hungarians lives in one of the countries bordering Hungary (Sunley 1993, 28).

The Hungarians in Romania and Czechoslovakia suffered under communism from various forms of discrimination; they were targeted by Ceausescu, Husak, and their deputies for assimilation and treated as second class, potentially traitorous, citizens. As the proclaimed transition toward democracy occurred, new constitutions were drafted and political structures and secondary laws were formulated to implement them. The Hungarian minorities, comprising nearly 8.9 percent and 10.7 percent of the Romanian and Slovak populations respectively, were not included in the drafting process. Their contributions came in the form of proposals for broader educational, cultural and political rights for minorities and in their negative response to government proposals that ranged from the reactionary and discriminatory to the conservative, laden with weak language and inadequate instruments to ensure legal and political implementation and enforcement.

All of the constitutions fell short of minority expectations. In Romania, while Article 6 of the constitution granted the right of ethnic identity, Article 1 proclaimed the “unitary and national state” of Romania and Romanian as its only official language. A Romanian foreign ministry official explained, “the formal approach is that unitary is an antonym to federalist state. The word national should be read according to paragraph 4 [of the Romanian constitution]: ’Romania is a common land of all its citizens’” (Farcas 1994). Yet if this were the case, why not employ “democratic” instead of “national” or “republic” instead of “national state?” The September 1992 Slovak constitution, likewise speaks of “the Slovak nation” and designates Slovak as the sole official language.

Ethnic groups in Romania and Slovakia are entitled to form parties and minority members have the right to obtain interpretation for documents and in court. In Romania, according to Decree-Law Number 8 on registering and establishing political parties (enacted 31 December 1989)
251 members are required to register a party. Decree-Law Number 92, adopted 18 March 1990, guarantees that, "organizations representing the national minorities registered at the date of adoption of this decree-law which fail to gather the necessary number of votes in order to get a mandate to the Assembly of Deputies are entitled to one deputy mandate. . . . Organizations of national minorities will be considered similar to political groups, if they propose lists of candidates on behalf of respective minorities" (White Paper 1991, 7). Beyond this, "the Romanian Government sets out from the principle according to which democracy is one and indivisible: there cannot exist one democracy for persons of Romanian ethnic [sic.] descent and a different democracy for the persons of other ethnic descent living in Romania" (White Paper 1991, 1–2).

On the local or national level, Hungarian minority groups have peacefully articulated their demands—special rights to self-government on the cultural and administrative levels, which they call "autonomy." The ethnic patchwork that is East Central Europe must be accepted and managed, they argue. In the Hungarian case, this may mean "guaranteeing genuine rather than merely formal equality of rights of the national and ethnic minorities, creating various forms of autonomy" (Tabajdi 1994, 17). Minorities that are territorially scattered, the Hungarians assert, ought to have cultural autonomy, while those in compact areas could compound their cultural rights with territorial autonomy and regions of contiguous minority communities might receive regional autonomy. A solution could involve a combination of some or all of these rights to local self-government.

**Liberty**

The current "democratic" governments of Vladimir Meciar and Ion Iliescu in the Slovak Republic and Romania respectively, are not liberal. While democratic constitutions and institutions exist, the political cultures are far from liberal in the classic sense. Slovak and Romanian citizens may suffer infringements of their individual rights, but the ethnic minorities in these two states are more routinely stigmatized and disadvantaged, politically and economically. In both countries the governing coalitions have introduced secondary legislation regarding education and language rights that directly conflicts with the national constitutions and threatens to strip minorities of even those rights that were preserved under communism. This situation of nominal-institutional democracy has led one Hungarian politician in Slovakia to conclude, "Ethnic conflict came about because the
[1989 Velvet] Revolution was based on democratic, not liberal concepts” (Petöcz 1995).

“Things have been made worse by an extreme centralization, which is, in part, inspired by a striving not to allow any decisions to be made at a level where the ethnic and socio-cultural mix might be different than that at the level of the [nation-state] (Várady 1994, 2). The centralized political structures and processes serve majority interest at a cost to minorities. In Slovakia, for example, the Meciar government has continually advocated redistricting southern Slovakia, the region where Hungarians are most heavily concentrated, so that the Hungarians would be divided among five larger districts running wider from north to south, clearly diluting the ethnic minority vote. Under Iliescu, the system of government-appointed prefects has worked to undermine the power of local authorities by placing a check on their activities. When local authorities in several counties permitted the posting of bilingual or trilingual (Romanian-Hungarian or Romanian-Hungarian-German) signs, the prefects filed lawsuits against the localities and in Mures County, where Hungarians constitute 40 percent of the population, the prefect had the signs dismantled in 17 villages without waiting for a court decision (Rumanian Government Prefects 1994, 2). In 13 out of 16 cases argued from 1993 to July 1994, the courts ruled in favor of the government-appointed prefects and against the democratically-elected local councils, despite the fact that the prefects acted in violation of Article 7(4) of the Council of Europe’s Recommendation 1201 (Protocol on the Rights of National Minorities to the European Convention on Human Rights) and Article 6 of the Romanian constitution, which protects minorities’ right to “preserve, develop and express their ethnic, cultural, linguistic and religious identity.”

The ethnic Hungarian political parties have responded to the challenge of centralization and the perceived opportunities inherent in the transition to democracy with their proposals for local, ethnic self-government. Without exception, the main organizations representing the Hungarians living in the Central and Eastern European diaspora advocate a concept they call “autonomy” as the solution to their troubles and the method of resolving the conflicts that have evolved between them and their ethnic majority governments. “Autonomy” as it is used in the literature and statements of the Hungarian minorities refers to self-government in cultural, educational, and administrative domains. The minority leaderships elaborate by dividing this autonomy concept into three components: personal autonomy, local autonomy and territorial autonomy.
The types of autonomy were designed to correspond to the different minority situations within which the Hungarians find themselves. Minorities that are territorially scattered obtain cultural autonomy, while those in compact areas—where they are concentrated and make up over 50 percent of the population (in Romania this applies to Hargita and Maros counties where 75 to 80 percent of Hungarians are concentrated)—compound their cultural rights with local autonomy, and contiguous minority communities may also receive regional autonomy. Local autonomy augments personal autonomy by providing the minorities with additional language rights in local administrative procedures. Regional or territorial autonomy is only possible if the members of the minority are physically concentrated. If not, personal autonomy is necessary to protect minority rights to education (separate schooling) and preservation of cultural traditions, not to mention language (Markó 1994).

**Education and Culture**

**Romania**

The Helsinki Watch noted three years after the Romanian revolution of 1989 that Hungarian minorities lack equal access to education in their mother tongue (*Struggling for Ethnic Identity* 1993, 123). There are insufficient Hungarian teachers and classes given the level of demand, and local school inspectors and government officials harass those Hungarian schools that are operating. Of the total teaching units (preschool, primary, secondary and vocational) 8.4 percent are Hungarian. At the preschool to university levels 235,912 students (4.9 percent of the Romanian student population) were learning Hungarian. About 7,000 students of the almost two million-strong Hungarian minority in Romania are receiving a higher education. Ethnic Hungarian teachers comprise more than five percent of the country's teaching staff. At Babes-Bolyai University of Cluj-Napoca some subjects are taught in Hungarian. In response to student requests, new groups have been organized for studying mathematics, physics, chemistry and history in Hungarian. Some 1,350 Hungarians attend Babes-Bolyai and 597 attend courses in their mother tongue. The Medicine and Pharmacy Institute and Theatrical Institute, both in Targu Mures, have Hungarian language programs. At the former, 97 percent of the student body studies in Hungarian; at the latter, all students study in their mother tongue. Unsatisfied with this limited menu, Hungarians have been campaigning for the reestablishment of the Hungarian-language János Bolyai
University, which existed in various forms for 400 years until 1959 when it was merged with Babes University to form Babes-Bolyai University (White Paper 1991, 20).

The right to education in the mother tongue, granted by Article Art 32 (3) of the Romanian constitution, was qualified by the clause: “The ways in which these rights are exercised shall be established by law” (The Legislative and Institutional Framework 1993, 18). On 28 June 1995 parliament passed and on 24 July Iliescu signed an education law which provides only for education in the mother tongue at the primary and secondary levels. Tuition in minority languages is restricted at the tertiary level. The study of and proficiency in the Romanian language is compulsory for every Romanian citizen regardless of nationality, a provision which provides a potential justification for denying ethnic minorities translators for official (judicial, etc.) proceedings. The elderly, who were full-grown adults before they involuntarily became Romanian citizens, are particularly vulnerable. “Proficiency” is also an imprecise term, open to interpretation. Another article grants “officially recognized churches” the right to organize educational systems to train their personnel, a provision that is far too narrow in its exclusion of non-recognized churches, the congregation, or members of the community at large.

More disturbing, a provision dealing with educational content holds that,

[the history of Rumanians and the geography of Rumania are to be taught in the Rumanian language at the secondary level and according to the same curriculum and textbooks used by Romanian [sic.] classes. In primary education these subjects are taught in the mother-tongue (Rumanian Chamber of Deputies 1994, 3).

Romanian history and geography cannot be taught at the secondary level in minority languages and all children will be taught the history of the Romanians, not the history of the nation-state. Already, “... the Chairman of the German Democratic Forum, representing some 100,000 Saxons and Swabians in Romania, has complained about the fact that the Romanian history books do not mention the existence of ethnic minorities in the country” (Minority Affairs 1995).

The education law also bans minority-language vocational training in legal, technical, agricultural and commercial subject areas and provides exclusively for university education in pedagogy and the arts, “if re-
quested and provided for by law." On the vocational level, according to ethnic Hungarians, the education bill eliminates training in subject areas that was permitted even by Ceausescu (though he successfully forced a decline in the number of institutions teaching in minority languages). This would be tantamount to a restriction of access to jobs and professions to minorities in their native language, a violation of ILO Convention No. 111 and its 1991 Recommendation to the Romanian government. In a memorandum to the Council of Europe, the Romanian government asserted,

[medical and vocational training, as well as the teaching of history and geography, have always been held in Romanian, the national language of the country. Therefore, it is not a matter of imposing restrictions on the education for the minorities (Further Details 1994).

Finally, the education law maintains that all educational facilities will remain in the hands of the state. The Hungarians, who have yet to obtain compensation for or regain properties expropriated under communism, are permanently denied redress. In fact, the Honorary President of the Hungarian Democratic Union in Romania (HDUR) claims, "[t]he education law renationalizes the church education, limiting secondary and post-secondary education to the Romanian language" (Tókes, 1995). Responding to the Council of Europe queries regarding the issue of restitution of ecclesiastical property, the Romanian government remarked, "the scarcity of financial means with which the confessional education is confronted does not spare the educational system in general during this difficult period of transition and economic restructuring" (Further Details 1994).

The law flies in the face of the spirit and principles enunciated in the Copenhagen CSCE/OSCE concluding document, the Romanian constitution and Council of Europe recommendations (particularly Recommendation 1201, 1993). U.S. officials stated that, "it does not appear at this point that the law itself as written violates international standards. However, if as implemented it becomes a repressive issue we [the Clinton Administration] would have a big problem" (Holbrooke 1995). One observer notes, "all ethnic problems have become politicized . . . Hungarians are interpreting the education law in the worst light partly because it serves their purposes" (Burke 1995, 1). The responsibility for the ethnicization of politics lies, nonetheless, with both Romanian and Hungarian leaders.

On 18 July 1995 the HDUR executive body issued a twelve-point plan
to protest against implementation of the education law. The strategy included lobbying international organizations, utilizing the Hungarian diaspora to inform the international public opinion, and staging several rallies. The twelfth and final point instructed the HDUR “Crisis Commission” to draft “proposals on further ways to protest, including possible forms of civil disobedience” (Ethnic Hungarians 1995). Most encouragingly, however, in a separate statement the executive chairman of HDUR stated that the party will take steps to organize an alternative Hungarian education system in Transylvania (EIU Country Report 1995, 10).

**Slovakia**

Education levels in all of the Hungarian minority communities decreased since the 1950s relative to the national majority populations. In Slovakia, an average of 16 Hungarians out of 1000 citizens graduate from college or university, while for Slovaks the comparable figure is 37 out of 1000. The percentage of ethnic Hungarians within the pool of those who obtain a university education has moved from 5.2 percent in 1959–60 to 4.9 percent in 1990–91 (Memorandum 1992, 4). There is no Hungarian university and the number of elementary and grammar high schools with Hungarian language instruction has decreased. In 1955, 565 elementary schools were attended by 61,325 students. By 1970, 490 schools educated 68,902—on average each remaining school had to assume responsibility for 32 additional pupils. By 1990, 257 elementary schools served 48,405 students (Memorandum 1992, 3). The trend was different for grammar schools, for which the number of Hungarian schools went from nine in 1955 to thirteen by 1968 and the number of Slovak schools with Hungarian language classes rose from two to nine. In 1990 ten Hungarian schools were operating and eight Slovak schools had Hungarian classes. These increases, however, reflected changes in the grammar school student population, which rose from 1,980 in 1955 to 4,045 in 1968 but fell to 3,782 in 1990 (Memorandum 1992, 3).

The current Meciar government has adopted a new education program, which entails the gradual establishment of an “alternative” or bilingual education system. Officials explain,

> at these schools students would study part of their curriculum in their mother tongue and part of it in the Slovak language. The current schools for ethnic groups with the entire curriculum taught in their native
tongue would remain in place. Hungarian parents would be able to opt for either having their offspring’s entire education in their mother tongue or for alternative education (Newspaper Comments 1995).

Parents are now able to choose Slovak instruction for their children in currently Hungarian-language schools. The dismissal of several non-sympathizing principals of Hungarian language secondary schools indicates the Slovak government’s intent to bring all schools under closer government control, probably at the expense, literally and administratively, of the Hungarian schools. Slovak officials have asserted that where there is even one ethnic Slovak in a Hungarian majority village, a Slovak-language school must be established. The proposal has raised the ire of Hungarian political leaders and sparked student demonstrations and declarations advocating civil disobedience.

Furthermore, the government eliminated the 80 million korunas that had been allocated to the Hungarian minority from the 130 to140 koruna total allotted to all Slovak minorities for the maintenance of their cultural and educational infrastructure (Position of the General Educational Meeting 1995). Compounding this, a new language law was passed by the Slovak parliament on 15 November 1995. The law restricts the official use of non-Slovak languages to marriage ceremonies. It could also effectively lead to the abolition of all non-Slovak press. This measure exploits the fact that the Basic Treaty Slovakia signed with Hungary to guarantee territorial borders and minority rights defers at various points to national legislation. The treaty has been accepted, and even praised, by ethnic Hungarians in Slovakia, but restrictive national laws—violating the principles, letter and spirit of the treaty—would place this important prerequisite to normalization of Hungarian-Slovak relations into jeopardy. Ethnic Hungarians protest:

Justification for teaching in our native language is solely determined by the state, not by citizens or demand. Education is still the main area in which state totalitarianism can be followed, even though Slovakia’s political system has formally become pluralistic. The only reason why education in Slovakia has not been delegated to local governments is not to allow elected Hungarians to have a voice in matters of education (Position of the General Educational Meeting 1995).
Conclusions: Alternatives to State-Centric Solutions

The theoretical argument for removing the state from the educational and cultural spheres has considerable merit particularly in light of accepted notions of individual rights, and given assumptions about progress and creativity which are shared by classical liberals, and many Western citizens today, except those of the most Hobbesian sort. It is however, impractical to consider the wholesale reversal of history and legislation to bring about the virtual absence of government intervention in these areas. This is particularly true in Slovakia and Romania, and for this reason any implementation or application of the laissez faire argument is confined by the reality on the ground. Government will not be removed, but it can be circumvented and ultimately balanced by the civil society.

Just as “theorists of democracy who operate in the abstract, without reference to concrete social conditions, end up with a vindication of democracy as a general ideal, but are obliged to concede that in many societies the ideal is not realizable,” so must advocates of classic liberalism accept the constraints the particular culture and history of Central and Eastern Europe place upon the realization of their theory (Gellner 1994, 188). The traditional model of democracy assumes one type of individual, informed and principled, participating in a secular, individualist state. Yet many countries are attempting to adopt the democratic paradigm, despite the fact that some of these prerequisites do not exist. Indeed, existing culture must often be reconciled with democratic structures. The irony of democracy is that while “the underlying model is that of a society which is the fruit of the will of its participants or members,” people live in a culture they do not chose (Gellner 1994, 184). “A culture is a system of prejudice” (Gellner 1994, 185). It precedes democratic decision making and cannot be selected by democratic means.

This is not to say that socio-political presumptions cannot be altered and should not be challenged. Indeed, the civil society as a whole, or at a minimum its constituent elements, will offer alternative mentalities and methodologies. Hopefully, the stubborn notion that the minorities must rely on the state for the perpetuation of their unique language, culture and education will be replaced by independent activity within the scope of local activity. If the state will not protect different ethnic groups, as it does in Switzerland, South Tyrol and Belgium, then it must be counterbalanced. For it is most certainly a futile exercise to attempt to convince politicians such as Vladimir Meciar of the necessity for liberal national legislation.
Under the current regimes in Romania and Slovakia, as the case study above demonstrates, no meaningful change can be realized in the legal status of ethnic minorities. This is not to say that the minorities should not argue their case before parliament or continue to negotiate with their Romanian and Slovak counterparts, but the most fruitful results can be achieved by circumventing the current leadership. Local initiatives and independent activity ought to be harnessed to erode and ultimately diffuse the power of the central government and to nurture the roots of a potential groundswell of support for individuals and political groups with a more liberal approach. It is instructive to note how vehemently Meciar rails against nongovernmental initiatives, especially those supported by the Hungarian-American financier, George Soros. That Soros has been declared persona non grata by the Slovak government is not simply a result of some anti-Western, anti-Hungarian or anti-Semitic vendetta, although these emotions certainly color Meciar's rhetoric. An astute politician, Meciar can clearly comprehend a threat to his power. Likewise, the political and (if Meciar has his way) constitutional struggle between the premier and Michal Kovac, the President of the Slovak Republic, also reflects not only Meciar's desire to further consolidate power within his office, but also opposition to a President who advocates dialogue and a more conciliatory approach to the Hungarian situation. Significantly, Kovac's chief foreign affairs advisor is a strong supporter of nongovernmental organizations. "NGOs," he asserts, "have a role in establishing relations between citizens and the government" (Demes 1995).

In the field of education the first step towards establishing alternatives to state the monopoly, especially under current political circumstances, should entail the reprivatization of church properties so that the familiar and proven church schools might lead the way to independent initiatives in the realm of education and culture. Subsequent efforts would involve lobbying against detailed legislation and the proposal of broad laws which would protect all minorities, even Slovak or Romanian minorities in Hungarian majority regions or school districts, but would not delineate for local communities the structure of their educational and cultural institutions. The state of school systems in southern Slovak districts or in Transylvania must not be a national issue; debates concerning this topic should be localized. The question of Slovak and of Romanian national identity must be resolved constitutionally, at the highest level, so that a broad, flexible and multiethnic definition prevails. Beyond that, the national governments should concern themselves with economic and
foreign policy and be satisfied with merely drawing the broad outlines for educational and cultural activities, most of which are at any rate a matter of local implementation. NGOs are not banned in Slovakia or Romania and to date there is no detailed legislation regulating their activity, although such legislation has already been proposed. This lack of detailed positive legislation offers perhaps the greatest opportunity for reducing state involvement in education and culture. As NGOs and other private (possibly profit-making) organizations expand their scope of activity, they will either replace, compete with, or supplement state activities and ultimately diminish state authority in those contexts.

The ethnic Hungarian representatives have responded to the government initiatives by offering alternative legislative proposals and by internationalizing their situation, drawing support from Budapest and bringing their cases before international fora provided by the European Union, NATO, OSCE, and UN. Yet this response reveals a tendency toward the same state-centric thinking exhibited by the national governments they rail against. By fighting the battle on terms set by the state government, the minority blindly fails to exploit the opportunities inherent in decentralization.

In short, it will not be the legalization of the notion of “collective rights” or the inclusion of Hungary, Slovakia and Romania into the European Union or NATO that will offer the possibility for Hungarian minorities to protect their education and culture. Instead, their ability to do so will be inextricably intertwined with the fate of the structure and process of governing in the nation-states concerned. Only negative legislation and decentralization—removing the prime ministers and other national politicians from the process—will grant ethnic minorities, Hungarians and others, the freedom to act according to their interests.

Notes

1 Nation is defined as a group of people who share a national consciousness, which can be based on several variables in any number of combinations: history, phenotype, language, territory, etc. See Ernest Gellner, Nations and Nationalism (Ithaca, NY: Cornell University Press, 1983), p. 1.


See writings of Max Weber and Cyril Northcote Parkinson.

The situation in Slovakia and Romania is most politically sensitive. There are more Hungarians in either country than in Serbia, Ukraine, Croatia or Austria.

The term nationalism is used here, as Gellner defines it: "...a political principle which holds that the political and the national unit should be congruent." See Gellner (1983, 1).

See the writings of J.S. Mill and his contemporaries.

At the January 1995 CSCE summit in Budapest the organization was rechristened the Organization on Cooperation and Security in Europe (OSCE).

The term liberal is used throughout this paper in the common 18th–19th century meaning, connoting a laissez-faire or hands-off approach to government.

The term minimal state is employed by Robert Nozick, for example, to refer to a state concerned with only the minimal governance need to ensure protection and democracy.

Most of these Sub-Carpathian Hungarians (85 percent) live in a 25 kilometer zone along the Slovak, Hungarian and Romanian border that was given to Czechoslovakia after the first World War and taken by Stalin in 1945.

CIA World Fact Book:

This point must not go unappreciated, nor should it be taken for granted, despite the fact that the ethnic Hungarian leadership is composed of intellectuals, usually literati, who advocate rational, democratic and non-violent means toward obtaining their ends.

This is not necessarily the case where the minority political leadership is concerned, since they can turn to the mother-country, Hungary, and to the international Hungarian diaspora for assistance.

The protocol, ratified by Romania, holds: "In regions in which substantial numbers of a national minority are settled, the persons belonging to that minority shall have the right to display in their language local names, signs, inscriptions and other similar information visible to the public." Article 20 of the Romanian constitution gives precedence to international law over Romanian law.
The relevant portion of Council of Europe Recommendation 1201 (1993) reads: "Every person belonging to a national minority shall have the right to learn his/her mother tongue and to receive an education in his/her mother tongue at an appropriate number of schools and of state educational and training establishments, located in accordance with the geographical distribution of the minority."

Of course a lower birth rate would affect the statistics.

The Slovak President, Michal Kovac, signed the bill into law upon the stipulation that the government adopt a separate minority language law, which would protect the language rights that now appear threatened. The Slovak Minister of Culture has stated that the drafting process has been initiated.

The ideal voter, as defined by democratic theory, also does not exist in the established democracies i.e., of Western Europe, the United States and Japan.

Reprivatization, that is returning nationalized properties to their former owners, is distinct from privatization, which is selling state property to private individuals who had no prior claim on said property.

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Searching for Answers to the Macedonian Question: Identity Politics in the Balkans

Graham Craft

The Balkans have often been described as the “powder keg of Europe,” an explosive mix of ethnic rivalries and ancient hatreds. For many twentieth century observers it was the Macedonian question, and not the issue of Bosnia-Hercegovina, which seemed most likely to provide the spark which would ignite the entire region. Following the break-up of Yugoslavia, a UN Preventive Deployment Force was dispatched to Macedonia, not to contain a conflict, but to prevent one from occurring. The newly independent Macedonia suffered from internal instability and troubled relations with its neighbors, especially Greece. Western observers have tended to portray the Macedonian question, like the terrible Bosnian war, as a product of immature states and blood feuds between tribal ethnic groups. This perspective contrasts the perennially troubled Balkans with a peaceful and civilized Europe. Adopting a different view, this essay examines the process of identity politics in the region and finds a classic example of contending claims to national self-determination and absolute state sovereignty. Given

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Western Europe's bloody experience with national rivalry, suppressed only by the exigencies of the Cold War, the Balkans do not appear to be either abnormally violent nor dysfunctional. It is suggested that peace in Europe has been accompanied by a move away from state sovereignty and the adoption of a new sense of European community. Western observers require a sort of selective amnesia in order to sustain the idea of a peaceful Europe and a warlike Balkan region. This muddled thinking only serves to obscure the possibilities for lasting peace in the region; a goal that may only be obtained as the Balkan peoples discover a means to transcend the logic of national identity based on territorial sovereignty.

Introduction

The troubled course of Macedonia's first few years as an independent state has been overshadowed by the tragic conflict in nearby Bosnia-Hercegovina. Occasional Western news reports chart the fluctuations of the tense relationship between Skopje and Athens. Less frequently do references appear to the UN Preventive Deployment Force (UNPREDEP) in Macedonia that currently involves 1161 troops from the United States, the Nordic countries, and a handful of other states (*Peacekeeping and International Relations* 1995, 12–13). UNPREDEP is unlikely to get any increased attention given the recent surge in NATO and IFOR activity in Bosnia that began in late 1995. The Macedonian experience, however, can offer important lessons that have implications for the success of the Dayton accord on Bosnia. Conflicts throughout the region can be viewed, at least in part, as an outcome of the politics of identity; a combination of ethnicity, international relations, and a search for stable political communities.

This paper examines a particular aspect of identity politics in the Balkans—the contentious issue of Macedonia's political and cultural status. Often referred to as the "Macedonian question," this issue has been a recurrent theme in Balkan politics for at least a century. The violence associated with this conflict has been variously ascribed to the pernicious effects of ethnic nationalism or to inherent antipathies among the Balkan
peoples. In either case, solutions to the problem generally involve attempts to redraw Balkan maps in a way that will permit the formation of mature, modern, and peaceful states. The sovereignty of states and peoples, either as a principle to be upheld or as a rule that must be compromised, has been central to most understandings of this process. This paper argues that sovereignty, and other modern political ideas, cannot provide a lasting solution to the Macedonian question. Therefore, critical and post-modern accounts of international relations are examined for their relevance to the Balkan experience. This paper concludes with some tentative suggestions for new thinking on the possibility of peace in the so-called powder keg of Europe and the strategies for achieving it. Although these conclusions are drawn from the Macedonian situation, there is reason to believe that they also may be relevant to the political dynamics of Bosnia-Hercegovina.

At present, the outlines of geographic Macedonia are not a matter of serious dispute. What is under contention are the political, ethnic, and cultural boundaries of Macedonia and its neighbors. Serbian, Bulgarian, and Greek policies and politics all offer different versions of what Macedonia is. In the past, these conceptions have been used to secure and sometimes extend the boundaries of the nation-states involved, often resulting in violence. Many observers, especially in the West, believe this violence to be the result of deeply ingrained hatred between Balkan peoples. Others reduce Balkan nationalisms to dreams of resurrecting ancient empires like greater Bulgaria or greater Serbia. This paper suggests that this violence, and hatred where it exists, is not something inherent to Balkan peoples, nor does it stem entirely from simple dreams of empire. The Macedonian situation can be better understood as an illustration of the defects of modern conceptions of political community; especially the idea of an international system of sovereign nation-states.

Since the mid-1980s cherished ideals in international relations have come increasingly under attack. Sovereignty, for so long the building-block of international affairs, has been singled out for criticism even by mainstream commentators such as Jessica Tuchman Matthews. Some have questioned the ability of the state to make sovereign decisions about vital issues like the environment, trade, or finances. These are seen to be a part of an international or global pattern that is beyond the control of any single state (Taylor 1994). The dizzying multiplication of the number of peoples in the world and the negative connotations attached to nationalism have
helped to undermine traditional devotion to the ideal of the nation-state. But not only key elements of international relations have come under fire. Some authors, writing from critical and post-modern perspectives, have suggested that modern notions about political community in general may be fundamentally unsound (Walker 1993, Campbell 1992). Adopting a perspective supplied by these commentators brings into question the thesis that Balkan nations are simply immature states which can become peaceful only after they begin to resemble the mature states of the international community.

Post-modern Critiques of International Relations

Long cherished ideals of political community like national self-determination and national sovereignty have been undermined by what Eric Hobsbawm calls the "murderous reductio ad absurdum of nationalism in its territorial version" (Hobsbawm 1990, 133). Nonetheless, national sovereignty remains a building-block of international relations, even if narrow ethnic nationalism is increasingly frowned upon in the West. Post-modern theorists suggest that violence is inherent in any form of sovereign state, even when it is not based on ethnic or nationalist principles. R.B.J. Walker feels that sovereignty is an ontological trap. In his 1990 article, Walker illustrates how the idea of sovereign states has come to define all political possibilities in modern life. Inside sovereign states, citizens build rational, peaceful, and secure communities. Outside of these states exist only foreigners who by definition are people with different values and interests who therefore cannot be completely trusted. Consequently, justice is possible inside states, but violence is always a threat in relations between them. This perspective leads to familiar notions of national security as the supreme concern of states and is typical of the realist school of international relations.

Yet Walker would not have us wholeheartedly embrace a liberal-internationalist vision of a more peaceful world through integration between states. The desire to ensure peace by expanding feelings of community usually does not overcome the artificial division of the world into domestic and foreign. Walker holds that liberal-internationalists simply want to extend one form of domestic identity to other countries. This accepts the realist notion that peace is only possible inside a homogenous community similar to the state. At the same time, liberals
may ignore a realist insight that people are different and that they value their uniqueness. Walker’s book *Inside/Outside* is largely dedicated to exposing this contradiction in modern political thinking. "Universalism, to put it bluntly and heretically, can be understood as the problem, not the solution" (Walker 1993, 77). For Walker, both traditional schools of international relations assume that a common identity is a prerequisite for political community and security. Examples of this in practice are the North Atlantic Community and the (former) European Community that are commonly described as zones of common values and shared identity.

Themes of "inside/outside" and "us/them" dominate the studies undertaken by David Campbell as well. While Walker concentrates on the deficiencies of international relations theory, in *Writing Security*, Campbell focuses almost entirely on the effect of these theories (and practices) on domestic life. Like Walker, Campbell sees the "inside/outside" dichotomy as the source of insecurity in the modern world. Campbell analyses how this dichotomy is perpetuated by a need for states to define themselves in relation to other states. Once the domestic sphere is seen as safe, the external sphere becomes almost automatically dangerous. For this reason, Campbell has labelled foreign policy a "discourse of danger."

For Campbell, notions of national security function primarily to forge a common identity inside states by highlighting differences in the international arena and by denying or repressing differences within the domestic community. In fact, the constant attention to foreign threats is portrayed as a means to marginalize dissident groups inside the state. The natural diversity of outlook and interests that exists in any sizable group of humans requires constant suppression if the ideal of a sovereign (national) identity is to be maintained. Hence the Cold War preoccupation with the Soviet threat also (or primarily) served to deny American identity to anyone who did not fit the dominant discourse about Americans as liberal, capitalist members of heterosexual, Christian families. The defenders of the Free World identified not only the external threat from the USSR but also internal threats from Communists, trade unionists, civil rights activists, Jews, and homosexuals hauled before the House Committee on Un-American Affairs or otherwise monitored and suppressed for the sake of national security. What was really being made secure was a single, homogenous identity for the nation itself (Campbell 1990, 276).

For both Walker and Campbell, sovereign identity requires this style of thinking which understands identity in terms of difference. Something
which is sovereign is by definition complete and sufficient in itself. This is the classic inside/outside dichotomy. Sovereign entities, either national or personal, imply unitary identities of some kind. This dichotomy produces an understanding of us and them which leads inevitably to the discourse of danger whenever identity is tied to sovereign sites such as modern states. When read from this perspective, Macedonia’s recent history seems less a tale of ancient tribal hatreds and more a reflection of the pernicious effects of an international system of sovereign nations; an all or nothing game between “us” and “them.”

The Macedonian Problem

In a 1991 article Robert Kaplan tells a revealing story about the different conceptions of Macedonian identity. On a visit to Skopje, the capital of the Republic, Kaplan is presented with three different books on the history of Macedonia. Each comes from an official of either the FYROM (Former Yugoslav Republic of Macedonia), Bulgarian, or Greek governments. Depending on the authorship of the book, geographic Macedonia is described as historically and culturally an integral part of either the Bulgarian, Greek, or Macedonian nations. If one of these books is accepted as representing the truth, the other two must be completely false. All three nations adopt a perspective on history that effectively excludes all other perspectives.

Kaplan’s story makes a revealing point. Despite general agreement on the territorial boundaries, there are clearly identifiable Greek, FYROM, and Bulgarian perceptions of Macedonia. These three conceptions include mutually exclusive versions of history, culture, and national identity. To these three competing views we can add, at least, a Serbian position and, in general terms, a Western one. These standpoints have been, and continue to be, used to promote identity politics in a variety of ways. All are based on the modern conceptions of the nation-state and national sovereignty. The proposed solutions to these conflicts are themselves generally based on national sovereignty. As such they presuppose and help perpetuate a way of looking at the world that assumes peace and community inside a state and anarchy and violence outside it. The combination of identity politics and the concepts of national states and national sovereignty have proved everywhere to be a deadly combination.

While the Balkan states are often held to be immature or backward members of the international community, their relations in Macedonia
mirror the logic of nation-state formation all over the world. Each state's Macedonia policy (including that of FYROM itself) supports the definition of external borders and the formation of communal identity inside them. This analysis has its roots in the inside/outside dichotomy outlined above. Writing of the modern concept of sovereign states, Walker asserts that:

Within states, the possibility of universalist claims to the good, the true, and the beautiful is opened up to actualization . . . Between states, however, the lack of community can be taken to imply the impossibility of history as a progressive teleology, and thus the possibility merely of recurrence and repetition (Walker 1993, 63).

Given the lack of community between states, it is generally assumed that it is anarchy and violence that will "recur and repeat." This is because modern political philosophy tends to be dichotomous. Therefore, if safety and community characterize one half of the dichotomy, threat and evil must describe the other half. If progress is only possible inside a community then outside it history will merely repeat itself again and again. In Macedonia, as elsewhere, this dualistic vision has had violent and tragic consequences.

Historical Background

Macedonia entered modern world politics in 1878 when the Treaty of San Stefano created the Bulgarian state. Carved from Ottoman territory, this state included the northern half of present day Bulgaria and extended east to Albania and south into Greece. Thus Bulgaria included all of geographic Macedonia. The new state, however, was short-lived. Fearing that this greater Bulgaria would act as an agent of Russian influence in south eastern Europe, Great Britain and Austria-Hungary demanded that it be reduced in size. In the same year, at the Congress of Berlin, it was decided that Bulgaria would lose all of the lands it had acquired west of the Pirin mountains, that is most of geographic Macedonia. These lands were returned to Ottoman control under which they remained until the Balkan Wars of the early twentieth century. Over the following 65 years Greece, Bulgaria, and Serbia struggled directly and indirectly to gain control of geographic Macedonia.

From the perspective of FYROM, Macedonians themselves represented one of the key actors in this period of national struggle. Much of this
conflict represented a competition for the identity of Macedonians of rival church officials, school teachers, journalists, and publicists. Nonetheless, as Kaplan notes, these cultural/political struggles often turned bloody, involving armed uprisings against the Turks, numerous terrorist activities, and four wars. These Serbian, Bulgarian, and Greek "guerillas" fought not only against the Turks (for national liberation) but also against one another (for national identity), a pattern that would be repeated after 1912 in the first and second Balkan Wars.

After the swift rise and fall of greater Bulgaria, many uprisings occurred against Turkish rule. They were all crushed, but they remain as powerful memories of nationalist struggle. Except for the Turks, all sides continue to see the casualties of these suppressed revolts as martyrs for national liberation. Even if we are discussing the same group of people, present day Bulgarians see these martyrs as Bulgarian, while for FYROM they are obviously Macedonian heroes.

In 1912 Greece, Serbia, and Bulgaria united forces to drive Turkey out of Europe in what became the first Balkan War. They were almost completely successful. But, while Bulgaria was fighting the Turks in Thrace near the present day Turkish border, Greece and Serbia occupied most of Macedonia and immediately set about securing not only their military, but also their cultural hold on these areas. Whole villages were ordered to convert to the religious denomination, and to adopt the language, of the national forces that occupied them. What followed were forced conversions to either the Serbian or Greek Orthodox Church, and the mass expulsion of those who refused. At times the penalty for refusal was considerably more severe than mere expulsion (Carnegie Endowment 1993, 72–107). Most of the territory that now makes up FYROM was absorbed by an expansionist Serbia under the titles South Serbia and Old Serbia (Pettifer 1992, 477).

Bulgaria felt betrayed by its former allies and the Bulgarian military launched an attack on Serbian and then Greek forces to "liberate" Macedonia in the Second Balkan War. Bulgaria was defeated and lost almost all of its newly acquired territory in Thrace as well. In Macedonia, Bulgaria retained only the Pirin mountain region. The desire to reverse this situation was one factor that led Bulgaria to side with Germany in both world wars. Bulgaria's primary objective in both cases was the return of Macedonia. Bulgarian occupation of Macedonia during World War II is said to have been heavy-handed at best, thereby contributing to a growing sense of a separate Macedonian identity (Kaplan 1991, 102).
During 1943, as Tito's partisans fought the Germans and Bulgarians, Macedonians were promised their own republic in a future Yugoslav Federation. After the War, a separate Macedonian nation formed an important part of the design for the new Yugoslavia. As a separate nation, Macedonia neutralized any Bulgarian claims to Yugoslav territory by asserting that Macedonians were a separate people. It also diminished the relative size of Serbia, in comparison with the other constituent elements of the new republic. With the creation of a Macedonian nation came the creation of Macedonian minorities in Bulgaria and Greece (Perry 1992a, 36). Both of these countries have tended to strenuously deny the existence of any Macedonian minorities within their territory. Bulgaria refuses to recognize Macedonians as a separate people while the Greeks maintain that their minority population is in reality made up of slavophone Greeks. The Greek Civil War (1946–49) resulted in an exodus of between 80,000–100,000 Slavs from northern Greece. Most of them settled across the border in Yugoslav Macedonia. The possible desire of these slavophone Greeks to return to their original homes is one factor which aggravates Greek-FYROM relations today (Perry 1992a, 36).

**Current Politics**

At present, Greece accepts the existence of a separate people and state on its northern border, but it rejects that they are Macedonian. Macedonia, as a concept, seems to be integral to modern Greek identity. As such there can be no separate (non-Greek) Macedonian state or people. An example of this can be seen in the following quotation from the introduction to a book financed by the Chamber of Commerce of Thessaloniki:

> The systematic counterfeiting of the history of Macedonia by the Skopjans since 1944 [and] the fact that in recent years Skopje appropriated part of the history of the Greek people . . . caused the Greeks to react and defend their cultural heritage. Throughout history the name Macedonia was used in Greece as a geographic term in order to refer to the inhabitants of Greek Macedonia (Institute for Balkan Studies 1992, preface).

Greece's primary objection has been the very use of the name Macedonia by FYROM. A Macedonian state is also perceived as a threat to the contiguous Greek province of the same name (Greece—With Closed
Eyes? 1992). In part this is because of the presence in Macedonia of the aging slavophone Greek refugees of 1946–49. The Greeks can accept (perhaps they actually need) the existence of a different people beyond their northern border. What the Greeks contest is the idea that these people are Macedonian. It is assumed that a national state for Macedonians would naturally incorporate all of geographic Macedonia. Greek identity politics presently work to preserve their northern border, and their national self-image, by ascribing otherness to FYROM.

For its part, Bulgaria accepts the existence of a Macedonian state, but rejects that of a Macedonian people. Bulgarian identity is intimately bound to Macedonia as an area inhabited by Bulgarians. Evidence of the depth of this sentiment is contained in one of the books to which Kaplan refers in his article. Published by the Bulgarian Academy of Sciences, *Macedonia: Documents and Material* contains over 900 pages of references purporting to trace Bulgarian history in Macedonia from before 681 A.D. until the present (Bulgarian Academy of Sciences 1978). As such, a separate state can exist in FYROM, but there can be no Macedonian people. If there were, Bulgarians would lose much of their historical self-image, and part of their (potential) territory. The idea of a Macedonian state, inhabited by ethnic Bulgarians, allows them to retain their history and the prospect of extending their western border, by denying the otherness of FYROM.

Serbia officially recognizes the Macedonian people although they do not recognize the legitimacy of the newly independent FYROM (Karaosmanoglu 1993, 8). Serbia was once part of the same Yugoslav Federation as Macedonia. It was within this federation that Macedonian nationality was first recognized. It is now difficult for the Serbs to renounce this position officially. The nonofficial position is a bit more complicated, although it can be reduced to simple terms which reflect the Bulgarian standpoint. In nonofficial dialogue Macedonia is sometimes remembered as South Serbia and its people are understood to speak Old Serbian (Perry 1992a, 43). Thus, the official line rejects the legitimacy of the FYROM state and the popular conception rejects the idea of a separate Macedonian people. Both the official and popular positions can be used to justify Serbian expansion to incorporate FYROM, by denying Macedonian otherness.

It is this constellation of pressures that determines the outer limits of the FYROM position. FYROM Macedonians assert an independent history, culture, language, and identity that differentiates them from all of their neighbors. Therefore they also claim that Bulgaria contains a small
Macedonian minority within its borders, mostly in the Pirin region. They make a variety of usually muted claims to (Greek) Aegean Macedonia as well (Perry 1992b, 15). To enhance their status they have sought, since independence, to gain recognition from the international community for their sovereign state and their separate identity.

Identity Politics and Territoriality in the Balkans

As noted above, each of these national perspectives on Macedonian identity requires a negation of the others. The official FYROM identity requires a clear cultural and territorial boundary between themselves and the Bulgarians, Greeks, and Serbs. To support their claims to a sovereign identity, Macedonians must speak a different language than their neighbors. This negates the Bulgarian and Serb perspectives on the identity of the people living in Macedonia. Furthermore, if a truly Macedonian national culture exists in FYROM, it also negates the idea that Macedonia is a purely Greek identity.

FYROM finds itself in a double or triple bind as it seeks to meet and deflect the perspectives of all of its neighbors simultaneously. To secure itself from Greece and Albania, all it requires is a separate language. Since the most prevalent language is Slavic, however, this difference is not enough to separate FYROM from Serbia and Bulgaria. To completely set itself apart, FYROM must stress both its “slav-ness” and its “Macedonian-ness.” The FYROM Foreign Minister has asserted that:

> We have used that name [Macedonia] for centuries to try to draw a distinction between us as a people and the surrounding people, the Bulgarians, the Serbs, the Greeks and the Albanians . . . It is very important to our identity. So if we eliminated the word “Macedonia” from our name we would in fact create a crisis of identity, we would sterilize the region where we live and we would reopen a century-long debate about who the people who live here are (Perry 1992b, 15).

All of these qualities outlined above seek to maintain a homogeneous sense of community within FYROM. This suggests that FYROM’s identity politics are directed inward at least as much as they are a defense against purely external pressures. FYROM must convince not only the world but also itself that it exists. Such an analysis is in keeping with what David Campbell has called “Foreign Policy” (as distinct from foreign policy as
normally understood). According to Campbell, Foreign Policy is a process of ascribing difference to foreigners in order to support a domestic identity (Campbell 1992, 76). For Campbell, all identity is understood in terms of difference. Therefore it does not matter if a specific identity politics is explicitly a matter of foreign or domestic policy. In terms of identity the two are inseparable. Campbell asserts that the state supports its own identity by treating everything foreign as a threat, turning traditional foreign policy and identity politics in general into a “discourse of danger” (Campbell 1992, 77). This is necessary for Macedonia as all of the Balkan states accept the traditional ideal of a nation-state as the sovereign container of political community (Taylor 1994). Returning to Walker’s description of modern conceptions of political community, we find Balkan states fitting perfectly into traditional patterns of international relations. Inside the nation-state there is assumed to be a common culture, identity, and purpose. Outside the state can exist only others who by definition do not partake of the common domestic culture, identity, or purpose. It is this understanding that leads international relations theorists all over the world (and not just the Balkans) to assert that nothing but anarchy and the threat of violence can exist beyond the level of individual states.11

In their most extreme forms these communities are not complete until they incorporate all of their people. Members of other ethno-national groups are seen as foreign to the state, and therefore as possible traitors or sources of foreign interference. As such FYROM Macedonians must be different from Serbian and Bulgarian Slavs. Otherwise they would find it hard to resist pressures to join Serbia or Bulgaria. This conception also explains the forced language and religious conversions, and exchanges of nationals which followed the first and second Balkan Wars.

Identity Politics: The Balkans and The West

Western perspectives tend to place Macedonia at the center of the Balkan powder keg.12 The positions of the various regional actors are taken as evidence that Balkan peoples cannot live peacefully together. They are assumed to harbor innate and mutual hostilities which make cooperation and peaceful coexistence impossible. This conception underlies the western idea of balkanization.

In this century, Western observers have tended to highlight the animosity and violence which are easily discerned in Macedonian and Balkan relations. As Todorova notes, “'Balkanization' not only had come
to denote the parcelization of large and viable political units but also had become a synonym for a reversion to the tribal, the backward, the primitive, the barbarian” (1994, 453). Indeed Todorova has suggested that the Balkans serve as a kind of internal “other” for Europe, allowing Western Europe to define itself as stable and civilized compared to the volatile and barbarous Balkan states to the East. She argues that the Balkans are “geographically inextricable from Europe, yet culturally constructed as the ‘other’ “ (1994, 455). Of course the Balkans occupy that part of the world that the West defines itself as “west of.” Her analysis points out that the concepts we use to identify modern Europeans are relative. There could be no Western Europe without an Eastern counterpart. Todorova argues that we need an Eastern “other” in order to see ourselves as a distinct and coherent community in the West. In this reading, the Balkans were invented by the West, and simultaneously imbued with negative connotations. If political community was possible inside the West then modern thinking demanded a polar opposite outside Europe where such community was not possible. Thus, many in the West came to see the Balkans as located outside of Europe altogether.

Yet, we cannot blame all of the region’s troubles on Western prejudice. While it is difficult to deny Western complicity in Balkan strife, dating to the Congress of Berlin and before, it is not clear that all conflict in the region can be traced to the past and present machinations of the Great Powers. In the current context, the West may have bungled early decisions about recognition for the new Balkan states. Nevertheless, to directly trace all Croat, Serb, and Bosnian Muslim violence to these decisions (or earlier ones by the Great Powers) would mean acceptance of the Balkan “other” as a simple, tribal people who can only follow the instructions and example of their Western superiors. Thus, Balkan troubles cannot have been caused simply by Western prejudice or interference. It is easier to accept, however, that Western perspectives affect the way that the UN, NATO, the EU, and the Contact Group members define the Balkan crisis and respond to it.

Like Kaplan, most Western understandings of the Balkans assume that they are inhabited by peoples with a timeless antipathy for all their neighbors. Even sympathetic observers, like John Fraser, describe the Balkans as “tumultuous” and “grudge-bearing areas” (Fraser 1994, 301). Fraser wonders what the international community can do to bring peace to the region since “history shows that the peoples of this tormented region are extraordinarily stubborn and single-minded” (Fraser 1994,
Kennan, for his part, recognizes Balkan nationalism as the source of bloodshed in the region. Yet he believes that there is something peculiar to the Balkans which makes their nationalism so deadly.

The strongest motivating factor for the Balkan wars was ... aggressive nationalism. But that nationalism...drew on deeper traits of character inherited, presumably from a distant tribal past: a tendency to view the outsider, generally, with dark suspicion, and to see the political military opponent, in particular, as a fearful and implacable enemy to be rendered harmless only by total and unpitying destruction (Kennan 1993, 11).

Thus it is the extraordinarily violent nature of the Balkan peoples, and not of the modern nation-state, which is understood to cause conflict in the region.

In a later book, Campbell applies his ideas to the Allied conduct during the Gulf War, in part to determine why the American public seemed remarkably unmoved by the scale of death and destruction wrought by coalition forces in Iraq. In Campbell’s reading, the U.S. reaction to Iraq’s invasion of Kuwait was dominated by a tendency to view the “other” as evil incarnate, and an enemy to be utterly destroyed (Campbell 1993, 2). Given Campbell’s perspective, is it possible that Kennan, and others like him, are missing the point in their commentaries on the “tribal” nature of ex-Yugoslavia and its neighbors?

Kennan assumes that Balkan tribalism pre-dates nationalism. It would be interesting to have Kennan’s views on the source of the American demand for the unconditional surrender of Germany and Japan during the Second World War—or the U.S. world view during the Cold War which portrayed the Soviet Union as a constant menace to civilization and an “evil empire.” What Kennan ascribes to Balkan tribalism, Campbell and others attribute to the nation-state and the dictates of modern political thought in general. It is instructive in this regard that Western Europe has surpassed the Balkans this century in terms of violent, nationalist warfare and genocide. Barbara Tuchman, no post-modern theorist, has painted a portrait of Europe before World War One that rivals the Bosnian conflict for national rivalry and prejudice leading to war. Despite the despicable and horrific nature of ethnic cleansing in Bosnia, it will not result in as many deliberate civilian deaths as did the Nazi holocaust or even the Allied
air campaign against Germany and Japan. After the war, the Potsdam conference of 1945 sanctioned the mass expulsion of German citizens from Czechoslovakia, Poland, and Hungary. Up to 40,000 Germans may have perished during these population transfers—a process that some have labelled ethnic-cleansing (Oxford Analytica 1996, A11). This ethnic-cleansing cannot be solely attributed to the extreme emotions of the immediate post-War period. In February 1996 the U.S., British, and Russian governments all made statements defending their decision at Potsdam. The U.S. State Department declared that the decisions taken at Potsdam were “soundly based on international law” (Wartime Allies Back Expulsion Pact 1996, A10). The world wars are not the only examples of ethnic nationalism that modern European history witnessed. Balkan atrocities today have their terrible reflection in Western memories of the horrors inflicted on civilians by both sides during for instance the Spanish Civil War. And while the West fears the spread of nationalist strife from the Balkans it should remember that this has tended to flow the other way in this century. Winston Churchill chose to back Tito’s partisans during the Second World War because they were “killing more Germans” (Fraser 1994, 306). Immediately following the war, the British government knowingly repatriated thousands of Croatian citizens to Communist Yugoslavia where it was widely understood that they would be executed (Fraser 1994, 306). These examples show that it requires a highly selective memory to be able to portray the Balkan peoples as unusually warlike or to suggest that their mutual hostilities stem from some tribal nature that we in the West outgrew long ago. Indeed this brief historical sketch shows that the West is neither less violent than the Balkans, nor necessarily uninvolved in atrocities which have been committed there. This analysis is not intended to show that the West is the sole cause of Balkan troubles but merely to break down the self-satisfying illusion of “us” as entirely separate and distinct from “them.”

It is only after the horror of two world wars, and under the peculiar constraints of the Cold War, that Western Europe has come to enjoy the longest period of peace in its history. Exceptions still persist, even in the West. Is the (as yet unresolved) conflict in Northern Ireland any less tribal than Serb-Croat enmity? The Irish “troubles” have certainly been more violent than the current Greek-Macedonian tension. Peace in Western Europe is not so much a virtue of the maturity of its nation-states as a result of the hegemonic role played by the US and the desire for unity in the face of the perceived Soviet threat. Post-war Germany was divided and
occupied, its sovereign powers limited by its Constitution. The other Cold War allies were similarly, though less explicitly, under the American wing. Beginning with the Marshall Plan, the West Europeans were encouraged to build a new, expanded notion of political community. In the process leading to the current European Union (EU) these states forged an identity that transcends the autonomous political community of the mature nation-state. The (bloody) habits of modern, sovereign nation-states better describe Europe at the beginning, rather than the end, of the twentieth century. Satisfactory answers to the tensions in the Balkans may also require, not a transition to mature nation-states, but a reappraisal of the ideal of a system of sovereign states.

Yet western responses to the Balkan conflict seem to betray a remarkable absence of memory. When radical Balkan groups demand a single state for their people, western observers tend to look for ways to (yet again) redraw the map of the region to accommodate various incompatible nationalisms. This began with the Badinter Commission which drew up *Guidelines on the Recognition of New States in Eastern Europe and the Soviet Union* which was adopted by the EC Council in December 1991 (Gow 1994, 471). Similar concerns informed the subsequent Western initiatives including the Vance Owen peace plan, the Contact Group proposal, and the recent Dayton accord to end the Bosnian conflict and create a new, viable Bosnian state.\(^{14}\) While the Vance Owen plan would have maintained a unified Bosnia with ten provinces (based partly on ethnic lines) the newest agreement creates a nominal Bosnian state composed of a Bosnian Serb Republic and a somewhat looser Muslim-Croat Confederation. What all of these plans sought to create was a sovereign Bosnia which would not fracture into smaller, ethnic states nor be absorbed into Serbia and Croatia.

A critical reading of these Balkan perspectives highlights the fact that states and sovereignty remain central to most of them. Two basic explanations for Balkan conflict can be discerned. The first, following Todorova, could imply that the Balkans are the victims of Western prejudice and interference. A second approach is highlighted by Kennan who contends that the Balkans must be administered by more civilized states until they learn to act like mature members of the international community (Kennan 1993, 14). He sees them as tribal societies which need to catch up to Western Europe. Not all Western perspectives are as condescending as that suggested by Kennan. But, as we have seen, Western observers tend to assume that the Balkans are an improperly
functioning part of the machinery of the modern international system. James Gow, for example, traces conflicts in the Balkans to fundamental misunderstandings about the meaning of sovereignty, self-determination, statehood, and security. The answer, for Gow, requires a correct understanding of these terms, so that competing claims to sovereignty and self-determination can be resolved (Gow 1994, 457). This, more or less, has been the end-goal of the series of international peace plans for the area, including the most recent Dayton accord.

**Alternative Perspectives**

None of the perspectives examined so far seem capable of supplying answers to the Macedonian question. Another reading, built on the discussion in this paper, is that Macedonia actually may be an example of the logic of mature nation-states. Therefore the answer may not be to force the Balkans into the black boxes of the modern state system. It is possible that peace will come to the Balkans only when they find a way to transcend the modern state.

The policy implications to be drawn from this analysis are admittedly vague. The preceding section suggested that some insight might be gained from a more self-conscious analysis of recent developments leading to the EU. Very little in depth work has been done to date, however, to examine Western European identity and the decline of absolute state sovereignty from a critical perspective. John Gerard Ruggie has written about the practice of "extraterritoriality" whereby foreign envoys are present in the heart of a sovereign state, yet are theoretically outside of its jurisdiction. This leads Ruggie to suggest that some means of decoupling identity and territory has always been necessary in international relations when the demands of collective coexistence cannot be resolved inside a rigid system of absolute state sovereignty. In Ruggie's view, this process is most advanced in the EU, where sovereignty is both shared and divided between a number of national, regional, and functional identities (Ruggie 1993, 172). A similar analysis has been developed by Daniel Deudney, who has traced the development of the United States before the Civil War when, according to Deudney, the country was both more and less than a homogeneous nation-state. Identity and sovereignty are seen as dispersed between federal, state, and popular levels in something that resembles but does not equal an international community. These conflicting, decentered sovereignties balance one another, allowing various
combinations which prevent any one source from dominating the others. He refers to this situation as "negarchy" and while it has disappeared from the American scene Deudney believes that it can help illuminate the situation in the EU, which can be viewed as neither an international alliance nor a European super-state. The perspective supplied by Ruggie and Deudney seems to suggest that lasting peace in Western Europe has been accomplished not by mature, sovereign nation-states but by an erosion of traditional concepts like national sovereignty. Why should we expect the opposite outcome in Balkan politics?

In any event, membership in the EU is not offered here as a haven for Balkan nations. Nor should the EU be considered as a model for (another) Balkan Confederation. Following Walker and Campbell, this analysis must reject these options as well. Based as they are on the idea that political community is an expression of common traits and a shared identity either of these options would merely replicate the inside/outside dichotomy on a larger scale. Alternatives which offer bigger or smaller political communities miss the point. This approach simply repeats the logic of nation-states (identity/safety inside and difference/danger outside) on a different scale. Indeed, there is always a danger that this will be the outcome of the current experiment with the EU. If the Germans, French, and other nationalities merely exchange nationalism for a sovereign identity based on Europeanism, then the EU will become nothing more than a super-state. The challenge therefore is to find a process which allows for multiple, shared sources of identity which undermines the distinction between us and them. Such a decentered identity is not located in allegiance to any single source (like the people or the state). Within the context of the EU Ruggie and Deudney believe that this may be happening. If this is true, then what is needed is to broaden this sense in Western Europe and to encourage it elsewhere.

Walker reminds us that current understandings of political community, which we take as timeless truths, are really only historical constructs. The current system of state sovereignty arose out of the social, economic and political upheavals in Europe during the collapse of the feudal order. Before the rise of nations and nationalism, popular identity had many different sources at the same time. Allegiance might be felt for the Pope as a religious leader, the king as a nominal political leader, and the local feudal lord for more immediate and practical concerns. Thus a serf might have found himself or herself identifying with different groups for different elements of identity. There was no sovereign, all-defining group
to which a person could belong. Consequently it was difficult to fall into the black and white categories of us and them. According to this perspective, we have no reason, other than amnesia, to believe that political communities must reflect current understandings of sovereignty.

This conclusion will not be popular with those in the West who are seeking to devise concrete solutions to the Balkan crisis. To the policy analyst, it is frustrating to discover that the Balkans are less of a foreign problem which we can attempt to fix and more of a reflection of what is wrong with our own community.

Although the discussion here has centered on Macedonia, the lessons to be learned may have more immediate application in Bosnia. Bosnia, like Macedonia, is plagued by conflicting definitions of what Bosnia-Hercegovina is and who are the peoples who live there. This is reflected in its internal strife and by the positions and actions of its neighbors, Serbia and Croatia. Fortunately, the Dayton accord may be the best framework yet devised for Bosnian peace. Although still concerned with maintaining a sovereign Bosnian state, there appear to be opportunities to foster cross-cutting allegiances among and between its constituent parts (Bosnian-Serb Republic and the Muslim-Croat Confederation) and with Serbia and Croatia (Bosnia's Peace 1995, 56). As the agreement is worked out in practice over the next months and years it may be useful to worry less about state sovereignty and give more attention to decentered identities which can allow the region's residents to feel like members of several different communities simultaneously. This perspective could be applied to other efforts at promoting peace and cooperation in the region, including the ongoing negotiations over an acceptable name for FYROM. What will be most important is the need to overcome political concepts which stress absolute sovereignty and imply that communal identity is an all or nothing condition.

Conclusion

The preceding analysis suggests a starting point, rather than an end-goal, for the resolution of current problems in the Balkans. It suggests that Macedonia's troubled relations with its neighbors are not merely a reflection of ancient hatred or tribal behavior, but something more complex. If the assumption of mature nation-state status did not bring peace to Western Europe we are foolish to ascribe Balkan problems to the immaturity of its nations.
The implications of the Macedonian question should be considered when addressing the even more pressing Bosnian question as they arise from many of the same issues. At the very least, it may be more than a bit naive or disingenuous to suggest that the proper future for the Balkans is full membership in the modern international community. Indeed it may be the attempt to create traditional, sovereign, nation-states which underlies much of the violence in Balkan politics. Inter-ethnic relations in the region reflect a logical outcome of modern ideas about nations and political community, rather than an aberration of them. Therefore, conflicts in the region are not likely to be resolved through a fixation on current standards like state sovereignty and inviolable national territory. As in Western Europe the solution is more likely to be found in an attempt to transcend the confines of sovereign nation-states.

Before the we in the outside world can attempt to mediate and help resolve the Balkan conflict, we must first make sure that we understand it. We must also be more aware of our own history and experience. The kind of selective amnesia which permits us to view the Balkans as unusually violent and tribal, while comforting for those in the West, can hardly supply any useful insights into the real problems of the Balkan peoples. It also blinds us to the fact that the Balkan condition is not a separate case clearly distinguishable from our own. The stark inside/outside process clearly visible in Balkan politics should be seen for what it is—a reflection of our own ideas about political community. We will not be able to help solve their problems until we realize that, to a certain extent, we are them.

Notes

1 See Glenny and the Macedonian Question, 1992.
2 John Fraser's examination of the current Balkan crisis draws important parallels between the situation in Bosnia, Macedonia and the other former Yugoslav Republics. The Bosnian war also involves conflicting versions of what Bosnia-Hercegovina is and who are the people who live there.
3 In general terms, this includes all of the contiguous areas bearing the name Macedonia; including the Former Yugoslav Republic of Macedonia, the south-western corner of Bulgaria around the Pirin Mountains (Pirin Macedonia) and the Greek province of Macedonia centered on Thessaloniki (Salonika).
To speak of national policies and other trends is necessarily to speak in generalizations. It is not the author's intention to suggest that all members of any national group share or support the perceptions and beliefs which are described in this paper as Macedonian, Greek, Serbian etc.

See especially George Kennan's introduction to *The Other Balkan Wars*.

An example of this view is found in Kaplan, 1991. See also Macedonia—Next on the List?, 1992.

See (Kaplan 1991, 94–104) Control over Macedonia was a key issue in the first and second Balkan Wars and it can explain Bulgaria's motivations in both World Wars as well.

Andrew Rossos traces Macedonian national identity back to at least half a century before 1946 (Rossos 1994, 369). The point here is not that Tito created Macedonian nationalism but that he gave it formal legal and institutional expression.

At issue has also been the use of the Star of Vergina in the Macedonian flag and certain articles of FYROM's constitution which could imply designs on Greek territory. However, as of October 1995, Macedonia had taken steps to reword the contentious articles and redesign its flag. In response to these gestures Greece lifted its trade embargo on FYROM, although relations are still strained pending resolution of the main issue—the use of the term Macedonia in FYROM's name (Krause 1995).

FYROM's insistence on a separate Macedonian identity and Bulgaria's rejection of it are exhibited in the language controversy which has marred relations between them. Macedonian representatives insist that they cannot properly understand Bulgarian and that they must speak through translators. With equal vehemence, their Bulgarian counterparts claim this is unnecessary as they are all speaking the same language: Bulgarian. As the Bulgarians rarely wait for the translation before replying, there must be a fairly high level of understanding on their part. However, even private individuals and groups in Macedonia sometimes correspond with Bulgarians in a second (or third) language on the grounds that Bulgarian and Macedonian are mutually incomprehensible.

This conception of anarchy at the international level is fundamental to the dominant Realist school of international relations. It assumes that there are three levels of political relations: the individual, the state, and the international. Political community is possible at the first and second level only. A classic description of this hierarchy is offered in Waltz 1959.

Both Kaplan and Kennan exemplify this trend.
It has been suggested that Balkan violence differs from Western violence less in its severity and more in its source; with Western conflicts described as the result of cold political calculation while violence in the Balkans is perceived as a result of ethnic tension. This accusation overlooks both the fairly obvious ethnic nationalism in recent European history and the extent to which “ethnic” nationalism in the Balkans is just that: national. The current conflict in Bosnia, and the Greek-Macedonian dispute (to take only two examples) reflect the extent to which emotionally-laden “inside/outside” rhetoric is used to advance calculated political interests. What has been termed ethnic conflict by others is called “the politics of identity” in this paper with the intention of demonstrating the logical relationship between sovereign identities of any kind; ethnic or otherwise. The “rational” calculations made by the Great Powers at Potsdam, for example, are equally an example of “us/Them” and the “politics of identity.”

For a comparison of these plans and their accompanying maps see “Peace at last, at least for now” (Peace at Last 1995, 56).

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Regional Deterrence in the Future Security Environment

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Traditional deterrence in the current security environment is likely to fail. In some scenarios, U.S. response options are insufficient, thus constituting a deterrent gap. A strategy of “assertive persuasion” has the potential to reestablish a “dynamic deterrence” foundation while building on U.S. strengths and minimizing its political-military vulnerabilities.

Introduction

A key threat to the United States is the prospect of facing a regional power that, unlike Iraq in the 1990–91 Gulf War, has a more sophisticated arsenal, a greater understanding of technology, and a greater willingness to employ the full strength of its weaponry against intervening forces. Asymmetric and indirect strategies will also challenge traditional U.S. political-military calculations regarding power projection. These developments will complicate U.S. deterrent options. This paper argues that deterrence in the current security environment is more likely to fail and that U.S. response options are insufficient. This constitutes a deterrent gap. A strategy of “assertive persuasion” has the potential to reestablish a “dynamic deterrence” foundation while building on U.S. strengths and minimizing its political-military vulnerabilities.

This paper is divided into three major parts. The first part deals with the changing post Cold War environment and is divided into three subsections. In the first subsection, the 1990–91 Gulf War is used as a case

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study. This conflict exemplifies a portion of the modern conflict spectrum and highlights variables that impact regional deterrence. In the second and third subsections, two further specific factors that have altered the traditional Cold War environment are analyzed: proliferation and the ongoing technological, organizational, and operational evolution in military affairs. The second major part examines the role of military force and deterrence in the post-Cold War environment, arguing that traditional U.S. political-military criteria regarding the use of force are too stringent and potentially detrimental to U.S. deterrence efforts. In the third and final part, a strategy of "assertive persuasion" is proposed. This part is broken into three subsections, as well, in which the required components of deterrence are discussed: communication, capability, and credibility. The central focus of this paper is on the potential use of Weapons of Mass Destruction (WMD) or conventional "niche" capabilities by a regional power.

Factors That Alter the Traditional Cold War Environment

United States-Soviet deterrence reflected the unique post-war bipolar nuclear competition. Its subsequent replication between the United States and regional powers in the post-Cold War world is unlikely. Both the United States and the Soviet Union devoted considerable resources to military competition, manifested in part by the creation and maintenance of robust, survivable strategic nuclear forces. With these forces came institutions and concomitant constraints on nuclear use. The United States and Soviet Union also became risk-averse and conservative in their use of nuclear weapons—particularly after the Cuban Missile Crisis. This achieved, in retrospect, a measure of predictability. Deterrence, however, was based on abstract notions that corresponded with an overarching foreign policy designed to contain one primary adversary (Martel and Pendley 1994, 17–18; Dunn 1993, 39; George and Smoke 1974, 2, part 1). The present era, however, will require a spectrum of context-dependent strategies to contend with the problem of WMD and conventional niche capabilities possessed by a range of regional powers.

The 1990–91 Gulf War

An examination of the U.S. experience with Iraq, from the summer of 1990 through the conclusion of the Gulf War, uncovers three relevant issues for
U.S. regional deterrence policy. First, during the events leading up to Iraq's invasion of Kuwait on 2 August 1990, there was no deterrent relationship between Washington and Baghdad. When the United States attempted, belatedly, to establish immediate extended deterrence during the last two weeks of July 1990 it failed (Morgan 1993). Both communication and credibility had been undermined; U.S. deterrent signals were neither clear nor persuasive because its Iraqi policy, codified in National Security Directive 26 of October 1989, was designed to further political, military, and economic relations, moderate Iraq's international behavior, and encourage Baghdad to stabilize the region as a counter to Iran.

Second, the extension of immediate deterrence through operation Desert Shield was made necessary in large part because of the formidable political-cultural-strategic divide between the United States and Iraq. For example, Saddam held obstinate views of the United States, in particular that the United States was seeking to undermine his regime through covert action and economic warfare. In addition, Saddam was convinced that the United States would not react to his quick alteration of the status quo, and he was equally sure that the United States would not be willing to suffer casualties over it. Furthermore, Saddam's invasion of Kuwait had become necessary for domestic political and economic reasons and he saw an opportunity to reassert both Iraq's claim against Kuwait and to control oil pricing (Allan 1994; Haffa 1992; Watman and Wilkening 1995). Thus, effective communication was blocked—through skewed perceptions and domestic political considerations—with the result that each escalation created more obdurate and intransigent behavior.

The conflict with Iraq also indicates that the United States may encounter "undeterrable" or "unstoppable" actors in the future—at least until a greater appreciation for different cultural and value systems can be incorporated into new deterrence concepts. The prospects for non-violent interaction of U.S. and non-U.S. concepts of rationality in a crisis are challenged by the existence of conflicting ethnic, religious, and domestic political perspectives. The United States, too, must grapple with alternative value systems in which interests, incentives, and disincentives are determined in a manner which may defy U.S. attempts to deter. These different conceptions of rationality will erode the effectiveness of U.S. deterrence strategies.

Third, U.S. military effectiveness in the Gulf War challenged the dominant nuclear deterrence paradigm of the Cold War by highlighting the possibility of using conventional forces and missile defenses in a
deterrent role. Demonstrated U.S. advantages in conventional weapon technology also increase the likelihood that opposing forces will adopt asymmetric strategies. These options could include the use of WMD, low-intensity-conflict (LIC), or even forms of information warfare, designed to thwart U.S. military-technological preeminence.

Technology Diffusion

The continuing scope and pace of proliferation of WMD, delivery systems, conventional and space-related technological components, know-how, and processes challenge U.S. deterrence efforts. Divergent histories, political-strategic cultures, perceptions, values, and interests influence the decision to acquire or develop these capabilities—for deterrence, stability, regional dominance, and/or desires for prestige—and they will retain their motivational power (Martel and Pendley 1994, 21–26; Millot, Molander, and Wilson 1993).

Currently, at least 24 countries possess or are pursuing WMD. By the turn of the century, twenty or more developing countries could acquire ballistic missiles, at least nine could have nuclear weapons, thirty or more could have chemical weapons, and ten could maintain biological weapons stockpiles (Woolsey 1993, 1995; Payne 1995, 203, fn. 5; 1992; Roberts 1993). It is expected that proliferative capabilities in these categories will vary widely.

A key concern for the United States regarding new WMD powers revolves around the degree of control and the incentives for use of these capabilities. WMD capabilities impute a greater sense of political-military confidence, heighten an opponent's sense of vulnerability, and can make conflict more likely (Millot 1994; Garrity 1993a, 152–53; Garrity and Weiner 1992, 64). Despite arguments to the contrary made by Waltz and Van Creveld (Sagan and Waltz 1995, 42–45; Van Creveld 1994, 269),¹ the possibility of “safe and secure” ownership of these weapons is questionable. Given an owner country’s frequent geographic proximity to enemies, the emphasis placed by owners on crisis readiness, and in some cases their level of animosity toward other regimes, the stability of such environments must remain in doubt. The pressures to act in a crisis due to various domestic forces and, similarly, the potential for these regimes to distract their populations from deteriorating socioeconomic issues by turning to external conflict add to destabilization in a proliferated world. In addition, many Third World regimes of concern are dominated by military-run or weak civilian-led governments, while varying infrastructural
capacities, safety standards, and political and technical competence in safe and secure command and control may not be adequate (Sagan and Waltz 1995, 48–49). Finally, “reliable” ownership is controversial because there have already been instances of missile and Chemical Weapons (CW) use in the Third World. Ballistic and cruise missiles have been used in regional conflicts eight times since the Third Arab-Israeli War in 1967, and CW has been used at least three times since 1967 (Carus 1991, 3–11; System Planning Corporation 1992, 7–10, 32; OTA-ISC-559 1993, 58, fn.18; Waters 1990).2 The use of CW is particularly significant since it represents violations of international norms.

The proliferation problem, however, is more expansive and pervasive than WMD and ballistic missiles. Conventional weapons diffusion of diesel submarines, anti-ship cruise missiles, wake homing torpedoes, mines, unmanned aerial vehicles, C3I systems, and tactical fighter aircraft, is a burgeoning strategic threat as well (Sokolski 1994). The acquisition of these systems may allow for “niche competitors” to pursue strategies designed to prevent or limit U.S. involvement in a region. The globalization of the arms industry, illustrated by the conundrum of dual-use technologies, is another emerging proliferation challenge which may create and sustain niche suppliers (Bitzinger 1994). Space is a further dimension of the problem, in part because it is difficult to distinguish between a civil and military space program. Space-based proliferation concerns also include satellites and other targeting and navigational capabilities that increase missile accuracy, lethality, and sophistication (Nolan 1991, 40–41; MDST 1995, 10, fig.1–2).

Proliferation is thus a process that yields long-term benefits to the recipient country. While the transfer of completed items continues, proliferation today is increasingly composed of production processes and components. The future of technology diffusion is likely to be marked by the transfer of development processes that generate enabling technologies. Proliferation continues in tandem with technological development and economic realities; though it can be slowed, it cannot be eliminated (Moodie 1995, 188–89).

Other proliferation-related challenges that impact the future of regional deterrence include the “handful of weapons” problem and the “virtual arsenal” puzzle. The former refers to the reality that, in order to influence U.S. behavior, a regional adversary requires only a small number of nuclear weapons rather than a high-quality superpower arsenal (Molander and Wilson 1993, 20, 26, 30; Mandelbaum 1995, 22). “Virtual”
capabilities and arsenals refer to prepositioned personnel with materials that can be rapidly built or assembled. For example, a nuclear infrastructure could be revealed, its production capability surged; changes in infrastructure operations to expose a military capability could be considered nuclear employment (NSPA and ANSER 1994, xiv–xv, ch.2). Other elements of this problem include the rising quality of scientific and technical infrastructures in the developing world, the improvement of commercial nuclear infrastructures, as well as the accumulation of fissile material (Roberts 1995, 7; Makhijani 1995; Wohlstetter and Jones 1995, 11–12).

Technology diffusion promises to shape future security affairs by enabling asymmetric strategies. These strategies could attempt to neutralize U.S. high-technology advantages, preclude or limit U.S. involvement in a region, or—in hopes of undermining U.S. national cohesion—raise the perceived costs of political-military intervention through the threat of protracted and bloody conflict (Garrity 1993b; Mahnken 1993; Dunn 1994; Cohen 1994; Blackwell, Mazarr, and Snider 1993). As an illustration, opposing forces could control the threshold of conflict by pursuing limited objectives which may not necessarily elicit U.S. attention. In the pursuit of these limited objectives, niches within the spectrum of conflict could be exploited, such as guerrilla warfare, terrorism (possibly with WMD), LIC, WMD, or economic, financial, or communications dislocation through nascent or more advanced forms of information warfare. Niche capabilities could complicate U.S. military operations by impeding logistical operations, access to key facilities, or by coercing U.S. friends and allies to prohibit U.S. access to the theater.

The Evolution in Military Affairs

How the United States deters, as well as the strategic landscape in general, will be affected by the ongoing evolution in military affairs. There are three components to this evolution: operational innovation, organizational adaptation, and emerging technologies. Any one of these elements can be individually important, but to capture their full potential, the synergistic effects of these elements must be utilized (Cooper 1994, 19–21; Mazarr 1994, 8-27).³

In sum, the conduct and effect of military operations in the Gulf War have been interpreted as a vision of a new way of conducting war: precision munitions, stealth, and space-based (near real-time) information
assets providing local commanders with information that yielded detailed situational awareness of Iraqi forces. Three particular advantages of U.S. forces in Desert Storm are key to the future evolution of the U.S. military. First, superior Command, Control, Communications, and Intelligence (C3I), comprising satellites, tactical navigational systems exemplified by the Global Positioning System (GPS), and reconnaissance platforms such as JSTARS and AWACS. These capabilities coalesced to give the operational commander enhanced situational awareness. Though there are problems to be addressed, joint combat power benefited from the free flow of information in a top-down, bottom-up, and side-to-side fashion (Allard 1994, 165–66, 171–77). A second advantage was in air defense suppression through stealth, cruise missiles, and antiradiation missile strikes against key enemy command and control nodes. Third, precision munitions combined with stealth technology to greatly facilitate efficient and lethal attacks against enemy centers of gravity. Importantly, it was the synergy among these elements that made their impact on Iraqi forces truly dominating.

The current evolution in military affairs is about further integration and timely military action based upon precise information, "coherent operations" that continue the trend away from strategic, operational, and tactical distinctions, and the elimination of pyramid-style command structures (Cooper 1994, 26–31; Metz and Kievit 1995). The future of military affairs rests on the systems that generated the success of Desert Storm. Yet it also relies on a new "system of systems" composed of battlespace awareness, advanced Command, Control, Communications, Computers, and Intelligence (C4I), and the use of precision force (Owens 1995b). Battlespace (i.e., space, air, land, sea, and undersea) awareness is based on sensing and reporting technologies associated with intelligence, surveillance, reconnaissance (ISR) that provide local commanders with precise information on the location and disposition of enemy forces. Advanced C4I relies on technologies that gather and extract pertinent information from battlespace awareness which are translated into a deeper and more thorough knowledge of the battlespace. This more thorough knowledge—referred to as Dominant Battlespace Knowledge (DBK)—can form the basis for missions and assignments (Johnson and Libicki 1995). Lastly, precision force exploits ISR and C4I and continues the trend towards timely, lethal, and discriminate strikes against enemy centers of gravity (Allard 1994, 164, n.4, 175–77; Cooper 1995, 26–31; Kraus 1995; Libicki
"Coherent operations" envision simultaneous parallel operations that are synchronized, integrated, and conducted at a high operational tempo, with high lethality and mobility, and that occur throughout the depth and extent of the theater.

The evolution in military affairs will allow the United States to retain and further develop the significant technological advantages demonstrated in the Persian Gulf War. In doing so, U.S. decision makers will be able to reduce the effectiveness of WMD, niche capabilities, and other asymmetric strategies that seek to either protract a conflict or make it too costly for the United States. In turn, U.S. regional deterrence may be enhanced. However, in order to assure the success of regional deterrence, the United States will need to be more willing to use its military capabilities, demonstrating their effectiveness.

The Role of Military Force and Deterrence in the Post-Cold War Environment

Should military force remain a key function and tool of foreign policy, or should diplomacy and trade predominate in the promotion of U.S. interests and pursuit of objectives? The issue of how the military will be used and the composition of effective force are now of critical importance for regional deterrence planning. The United States prefers to use military force as a last resort when there are clear threats to vital national interests. It takes time to gain (or form) public support and the United States usually exercises a range of unilateral and possibly multilateral diplomatic and economic options before resorting to force. But the chances for miscommunication and misperception between the United States and a regional power with WMD have increased. This heightens the prospect that immediate deterrence will fail. Reliance on the use of military force as a compellent may be required to reestablish deterrent thresholds.

The current—and foreseeable—international political environment constitutes a multidimensional power spectrum that can be envisioned as a three-level structure. The top level is traditional state-centered military power, presently embodied by the United States. The second level is distinguished by economic and technological strength and has been composed of the United States, Europe, and Japan for the last 20–30 years. These two levels are comprised of advanced nation states. The third level corresponds to sub-state, non-state, and transnational challenges to state authority and legitimacy. These groups and organizations, ranging from
ethnonationalist or religious groups to international criminal organizations, have a wide dispersal of power at their disposal and an increasingly pervasive and negative influence (Nye 1991, 46; Van Creveld 1991; Haass 1994, 1–18).

In this framework, power—the ability to achieve one's goals by altering the behavior of another entity—consists of resources and the ability to convert these resources into power potential. Yet resources comprise more than what is measured by traditional indices of population, raw materials, military forces, and territory. Resources also include economic strength, technological prowess, political stability, and the appeal of culture, ideas, and institutions. Nye distinguishes between command (hard) power—the power to induce or in some other way change what others do, through coercion if necessary—and co-optative (soft) power—the power to shape what people want, through culture and ideas for example (Nye 1991, 42).

Because power is multidimensional and international relations are currently in a period of uncertainty, it is not surprising that there are different ideas as to how and when to use force as a deterrent (Allan 1994; Stern et al. 1989, 315–16; Jervis, Lebow, and Stein 1985, ch. 8–9; Chayes and Chayes 1995). However, a flexible and adaptable merging of diplomacy and force that creates a more credible foreign policy is still required. Declaratory policies, though, continue to advocate that overwhelming force (possibly with artificial time lines) for the protection of vital national interests be used only as a last resort and only when casualties can be limited (Garrity 1993b, 152–153). While these criteria may be appropriate in some limited circumstances (for example, in the case of a Major Regional Contingency), they do not offer the basis for a flexible and effective U.S. policy for the broader range of possible scenarios. Similarly, sole reliance on military force to achieve political objectives cannot be the policy prescription for all circumstances.

Since general deterrence between the United States and regional powers is unsure, and because extending immediate deterrence may fail due to political-cultural-strategic divides, a willingness to use limited amounts of force when less than vital interests are threatened may contribute to the reestablishment of regional deterrence by communicating intent, will, and capability more credibly (Luttwak 1995, 110–12, 115; Nathan 1996, 61). Policies allowing for a more flexible use of force will allow the United States to respond quickly and effectively to threats from regional powers. When deterrence is uncertain, the use of force supple-
mented by diplomatic efforts could have positive impact. Operation Desert Shield in August, 1990, is illustrative of a quick use of force as a successful deterrent. Military force was rapidly deployed to deter Iraq and defend Saudi Arabia. As those forces did not have the capability, or authority, to threaten Iraq, room for diplomacy remained (George and Simons, 1994, 7-8, 10-11; Cimbala 1994, 169 fn.5). The quick U.S. reaction to Iraqi troop deployments in October 1994 is another example of how a limited signal of intent contributed to the reestablishment of credibility and thus the maintenance of deterrence. Similarly, the punitive firing of Tomahawk cruise missiles at Iraq’s military intelligence headquarters in response to evidence of an Iraqi plot to assassinate former President George Bush is a demonstration of a limited, yet effective, military response (Davis 1995, 22-23).

Several points emerge from the preceding analysis. A proper balance between statecraft and military force is necessary, given the continuing struggle for advantage in an international system where national power and relative position remain inherently important. Due in particular to the proliferation of military technology and advances in the development of high technology, power has become more diffuse and multidimensional, allowing for the possibility of accelerated state-based challenges. The prospects for altering the concept of deterrence are greater now than ever before. Yet distinctly different political-strategic cultures and value hierarchies, and the predominance of domestic political pressures in many countries, indicate the possibility of encountering “undeterrable” actors. Proliferation will increase their capabilities and means at their disposal, perhaps even expand their foreign policy ends, and allow for the utilization of asymmetric strategies. The nature of the WMD environment increases the stresses upon the system. A more active and flexible response to regional powers offers the best chance for strengthening the foundations of deterrence. By remaining with a policy of “all or nothing” options when its interests are threatened or impinged upon, the United States would encourage encroachments in regions or the testing of boundaries by regimes interested in altering the status quo.

A Proposed Strategy of Assertive Persuasion

Given the greater tendency for traditional threat-based deterrence to fail in the changing post Cold War environment, the nature of U.S. responses to regional power threats to U.S. interests is critical. U.S. strategic and
extended deterrence policy is still dominated by the nuclear paradigm, while conventional forces in a deterrent role have historically been unreliable—primarily because the threat of punishment by conventional deterrent forces does not imply to aggressors a high enough cost for their actions, should they disregard the deterrent measures. Thus, there is a deterrence gap between the United States and regional powers. While deterrence has traditionally been based on the threat to use force to punish or deny, force now needs to be used to punish and deny enemy military objectives promptly in order to reestablish regional deterrence based on three key elements: communication, capability, and credibility (Snyder 1977, 39–43; Kaufmann 1989, 171–73).

In what follows, “assertive persuasion” is advocated as a strategy that fills the deterrence gap by laying the foundations for the establishment of “dynamic deterrence”. This strategy takes advantage of the evolution in military affairs, reduces the impact of proliferation, niche capabilities, and asymmetric strategies, and would replace the current emphasis placed on nuclear deterrence with a new triad composed of precision forces, Ballistic Missile Defenses (BMD), and a secure nuclear reserve composed of strategic and tactical nuclear weapons. With assertive persuasion, the United States would not threaten the use of force but would instead practice “precision punishment” and denial through offensive military operations. Missile defenses would offer a damage limitation capability while facilitating military operations. Secure nuclear weapons would remain in the background projecting a deterrent shadow. The use of precision punishment and denial capabilities is necessary to convince opponents that these tools of assertive persuasion work forcefully, effectively, and discriminately. Once credible reputation has been established, dynamic deterrence, based on the threat of precision punishment and denial, will be possible.

**Communication**

The probability of miscommunication is higher when interests are not clearly defined, commitments are not expressly stated, and when opponents are already fixed on their objective. U.S. diplomatic and military reactions in the last two weeks of July 1990 illustrate this. Effectively communicating interests, intent, and consequences poses a series of problems. Communication is the key to knowing your enemies: their goals and what they are willing to risk. Through successful communication of
a credible threat of action in a deterrence situation, opposing leaders are made to focus on the probability of suffering maximum losses. They should be relatively unbiased in their assessments of information and realistically link actions to consequences; be well-informed and understand the interests, intentions, commitments, and values of their opponent; and base their decision on the military capabilities arrayed against them as opposed to domestic, internal factors (Payne and Fink 1993, 28; Payne 1993).

Yet this is a stringent set of requirements that may be difficult to meet in a crisis. To illustrate, Saddam Hussein failed in every one of these categories. His actions were shaped by domestic political factors. He had an unalterable belief that the United States was seeking to undermine his regime, therefore, incentives for a non-violent solution were reduced and numerous diplomatic offerings were rejected (Allan 1994, 218–220; Haffa 1992, 159–160; Watman and Wilkening 1995, 3–6, 27–36, 45–47). He misperceived the U.S. commitment, although Desert Shield and Allied deployments were not merely shows. In addition, Saddam was ill-informed about U.S. capabilities and modern warfare. He chose war in the face of military superiority and was willing to absorb punitive retaliation. Saddam exemplifies the type of opposition that the United States may face in the future: the decision maker who is disdainful of the status quo, willing to accept high risk and costs, and dependent on regime survival at the expense of all else (Payne 1993). Such opponents will be more likely to misperceive or underestimate U.S. threats and will therefore present significant deterrence challenges.

Consequently, the stable deterrent relationship manifest in the bilateral superpower nuclear framework of nearly a half century is not transferable to current regional deterrence dilemmas. In its place, an approach based on strategic personality would attempt to establish a more comprehensive knowledge of varied proliferators by pursuing key avenues of analysis where the United States has traditionally been deficient: history; culture (including ethnicity and religion); attitudes of the decisional unit; and alternate value systems. By utilizing a strategic personality approach, a mix of reassurances and threats may eventually be possible. For purposes of assertive persuasion, strategic personality would determine what instrument would affect the opponent's situational perception (Blackwill and Carter 1993, 236–37). For instance, drawing upon assessments of an opponent's strategic personality, precision punishment could focus on targets that the opposing regime values most. Given advancing levels of
precision location, identification, targeting, attack, and assessment, future opponents would be particularly susceptible to strikes. These strikes could target exposed communications; transportation; and energy production and distribution centers (Record 1994, 153; Cohen 1994, 124; Sample 1994).

**Capability**

Deterrence can be achieved by threatening punishment or denial of enemy military objectives through the defeat of their forces on the battlefield. In its most fundamental form, denial is non-offensive and focuses on territorial defense. Denial, therefore does not emphasize punishment of an aggressor (Snyder 1961, 14–16). But the Gulf War display of precision munitions, stealth, and space-based information assets was suggestive of a credible form of compellence—assertive persuasion through precision punishment and denial—that will bridge the deterrence gap and eventually constitute dynamic deterrence (Allan 1994, 207). A wider range of discriminate offensive military operations would facilitate precision punishment and deny the enemy its war objectives. Offensive contingencies would exploit U.S. advantages in conventional weapons technologies; stealth, precision strike, power projection with mobile forces; minimal dependence on logistics; and superior C4I capabilities (Haffa 1992; Nitze 1994). This approach, depending on U.S. objectives, could culminate in rapid and comprehensive strikes throughout the enemy's territory. Additionally, conventional preemptive strikes—disabling or destroying WMD programs before they can be used in a crisis or conflict—and preventive action—destroying the adversary's means of acquisition, development, or deployment of WMD—could be taken against opposing states before they are in a position to threaten U.S. forces, allies, or friends.

While preemptive and preventive options should not be excessively used, they are options that should not be discarded. Ideally, preventive operations would not involve overt military action. Alternatives include special operations forces, covert action, or possibly even the use of information-based attacks. These capabilities could be used when there is evidence that a crucial acquisition or key development milestone in a WMD program is about to be achieved and other attempts to dissuade that country have failed. Pursuing preventive options during these phases would probably be the most advantageous and least costly, even if
unsuccessful, since the more visible these capabilities become, the less vulnerable they are to this type of action. In a crisis or transition towards conflict, preemptive operations would be warranted if the threat of WMD attack against U.S. troops, allies, and friends is imminent. A preemptive operation could blunt the imminent attack or reduce an opponent’s ability to retaliate (Floumoy 1993, 148–52; Zelikow 1993, 164–78).

*Precision punishment would need to have excellent intelligence for either option.* An opponent’s force disposition, defenses, and military operations would need to be well known in order to determine the chances of success of preemptive strikes. Intelligence would need to provide for the location, size, strengths, and weaknesses of key facilities, components, and command and control centers. In a preventive attack during the acquisition and development phase, for example, the United States would need to be careful that it is in fact destroying a militarily-relevant target, not a purely commercial target, and that the expected benefits of action outweigh their cost. What are the chances for success, both in the short-term as well as the long-term? Will this attack halt their nuclear ambitions or inspire renewed efforts? Considerations of the likelihood and nature of retaliation—both directly on the United States, its troops, allies, and friends, or indirectly against U.S. interests abroad—would need to be incorporated as well.

This is a series of demanding tasks for the intelligence community. Proliferating WMD programs are likely to be small, dispersed, and some will be concealed within otherwise legitimate commercial enterprises. Thus, it will be a challenge for the intelligence community to determine whether a WMD-capable program actually exists, if it is in fact designed for civilian or military purposes, or has already produced a widely capable arsenal (Blackwill and Carter 1993). For military purposes, careful assessment of whether a specific target is worth destroying or disrupting, as well as determinations of technical location—in other words, “which building/window/time has to be targeted to achieve the desired effect”—are necessary (Smith 1995).

*BMD would complement offensive denial operations.* Missile defenses would reinforce regional deterrence in three ways. First, BMD will allow the United States to reassure friends and allies and, consequently, facilitate coalition-building. Second, BMD would limit the effectiveness of a potential strategy of a regional power: targeting the U.S. political-military vulnerability in the area of conflict prolongation and casualty sensitivity. Whereas regional powers may aim to exploit this vulnerability, as Saddam
sought to do in the Gulf War, the United States would be able to "attack the enemy's strategy" by denying them this alternative. Consequently, BMD allows for, and facilitates, power projection operations into WMD-laden regions while devaluing the utility of WMD and missile attacks. Third, BMD would limit damage to U.S. forces, thus eventually enhancing deterrence while contributing to U.S. control, or dominance, of escalation (Payne 1991, 50–51, 144; Director's Workshop Report 1993; Crospey 1994, 16–18; MDST 1995).

Nuclear weapons cannot yet be excluded from the deterrence equation, despite growing policy and financial support for some form of extended conventional deterrence complemented by BMD. Because fewer forces will be stationed abroad and there will be a greater dependence on power projection, extending nuclear deterrence may be more applicable, particularly in a scenario where U.S. and allied forces could be overrun by a conventional attack (Payne 1992, 269–82; Pape 1992; Quester and Utgoff 1994). But until precision punishment capabilities and the will to use them have been demonstrated by the United States and accepted by adversaries as an effective deterrent, the destructive power of nuclear weapons and the inability of these regimes to defend against them serve as psychological reinforcements of the prospect of massive damage and, therefore, deterrence. Further, extending nuclear deterrence in a regional conflict in order to deter WMD use may be more credible than previously thought. Saddam's cousin and son-in-law, Hussein Kamel al-Majid, who oversaw Iraq's Weapons of Mass Destruction (WMD) programs, claimed after his defection that the fear of nuclear retaliation deterred Iraqi use of CW in the Persian Gulf War (Inside Saddam's Brutal Regime 1995, 82).

The concept of extended nuclear deterrence does not, however, refer to strategic nuclear forces. These weapons are too disproportionate to any threat the United States might face from a regional proliferator—with the exception of a WMD attack on the continental United States—and, thus, any threats involving these forces would most likely not be perceived as credible. Regional powers might even be encouraged by the prospect of such an incredible threat which amounts to U.S. self-deterrence. Deterrence may fail and the United States would be forced to make good on its threat or risk severely undermining the credibility of its extended deterrence policy. Therefore, small and flexible nuclear weapons would be more appropriate to deter these regional threats. These capabilities would have the added advantage of reassuring U.S. allies and friends while offering a plausible retaliatory capability in the event of WMD attack (Quester and Utgoff 1993; Strain 1993; Dowler and Howard 1995).
Credibility

The capability to punish and deny by putting at risk those things of value to a regional power through offensive military operations and BMD must be perceived as credible. Credibility depends on an adversary's perception of U.S. capability and political will. Establishing credibility is critical and there will be pressure on the United States to demonstrate these dynamic deterrent capabilities; the will to use them; their intensity; sophistication; the skill with which they are employed; and their reputed overwhelming effectiveness in order to reestablish deterrence. Despite the effectiveness of Coalition Forces in the Gulf War, conventional deterrence still has a negative reputation. It has been prone to failure in the past since aggressors often do not consider conventional deterrent forces capable of inflicting upon them a high enough price for their actions. As Saddam demonstrated, the political benefits to a small power can outweigh the military costs imposed by a large power (Orme 1987; Paul 1994, 35). Given the current deterrence gap, the establishment of dynamic deterrence may require the use of assertive persuasion to cultivate a reputation and reestablish thresholds beyond which challengers realize they will elicit a particular response.

The credibility of precision punishment and deterrent can be reinforced by forward presence activities in peacetime and in crisis periods. Forward presence can stabilize regional security, or at least reassure allies and friends, by demonstrating U.S. commitment to regional ties, guaranteeing ready access to the region, and allowing for a quick response should U.S. regional interests be threatened. Additionally, military exercises and training with pre-positioned equipment demonstrate the potential for interoperability, should a multilateral approach to a crisis be chosen, and the potential for rapid deployment in a crisis. Presence in a crisis situation would be undergirded by appropriate deployments of U.S. military forces, whether Navy Carrier Battle Groups, Marine Corps Amphibious Ready Groups, Air Force squadrons, or Army rapid deployment forces. These activities would signal politically—though less so than a peacetime forward presence—intent, resolve, and reassurance and, thus, could constitute a deterrent, while allowing for the option to transition to more aggressive functions.

Rapid projection of power is crucial to reassuring allies and friends, establishing a credible deterrent, or formulating a sensible crisis management response. Quick response can be achieved through position: naval
forward presence, Air Force bombers deployed from the United States, and forward deployed ground troops signaling a higher level U.S. political commitment (Davis 1995; Owens 1995a, ch.6–8; Perry et al. 1995). The United States must be able to demonstrate its capability to decisively defeat aggression when necessary, but the United States must also be capable of more limited uses of military power in order to resolve crises and signal commitment and resolve. The quick U.S. reaction to Iraqi troop deployments in October 1994 and the firing of cruise missiles at Iraq's military intelligence headquarters are examples of the value of limited military options, pre-positioned assets, and forward presence (Davis 1995, 22–23). These illustrations also offer evidence of the feasibility of precision punishment and minimal dependence on overseas basing, as well as the importance of discrimination. The use of precise and discriminate fire enhances the credibility of U.S. deterrence and the effectiveness of threats to punish or deny.

Conclusion

Despite U.S. preeminence, the international system is in a transitional period in which a lack of structure; the pace of technological development and its dissemination; and the continuing communications revolution are creating and sustaining sources of instability as well as providing the actual means for redressing grievances. The end of the Cold War has brought comprehensive power (political, military, economic, cultural) to the United States and has broadened the scope of deterrent options. The lessons drawn from an analysis of this post Cold War environment are that general deterrence may not exist in regional settings; immediate deterrence will need to be extended; there may be a deterrent gap; and that assertive persuasion will bridge the gap and eventually establish dynamic deterrence.

In the post-Cold War security environment, the rapid pace of technology proliferation as well as the increasing sophistication of global science and technology capabilities is expected to result in increasing numbers of countries armed with WMD and niche capabilities. This has important implications for competing U.S. security strategies, including deterrence. WMD could be used to coerce, deny access, disrupt and even defeat military insertion operations. WMD also could allow a regional power to pursue asymmetrical strategies that take advantage of U.S. political-military vulnerabilities by raising the costs of intervention.
If the Iraqi model is any indication of future paths to proliferation, a military dominated political structure supports a rigidly centralized decision-making unit. Secrecy, deception, and dispersal will characterize WMD programs. In order to preserve these capabilities without attracting external attention, decisions regarding force development, deployment, and their use are made in a very small group. In a crisis, this group would be insulated without the benefit of balances or alternative opinions, thereby increasing the tendency to misperceive, making conflict more likely (Dunn 1993, 38).

Current U.S. strategic deterrence policy is, at a minimum, inappropriate and potentially incredible and self-deterring as well. There is no mutuality of destructive capabilities, yet a developing country could cause great pain with WMD, and the United States would be hard pressed to assure the nuclear destruction of a Third World country. Even a U.S. extended deterrence policy that depends on tactical nuclear weapons is questionable. U.S. interests may not be so vital as to warrant the use of nuclear weapons. The United States has an interest in maintaining the nuclear taboo, and the potential for noncombatant casualties and collateral damage could impede a nuclear-use decision (Cropsey 1994; Kaysen, McNamara, and Rathjens 1991; Dunn 1994). In turn, incredible threats or self-deterrence could undermine the value of U.S. security commitments to allies and friends.

The legacy of conventionally-based deterrence may require the United States to be willing to use effective force—compellent measures or "early forceful options"—more often in order to (re)establish an effective post-Cold War reputation that supports U.S. deterrent options. Compellent measures—short of war—can be employed to reinforce diplomacy, (re)establish deterrence, or project a shadow of threat in tandem with diplomacy. Though the U.S. post-Cold War reputation for decisive and effective use of force in defense of vital interests may remain (Gray 1992, 259; Perry 1991; Guertner 1993), the Persian Gulf War also demonstrated U.S. liabilities that will be scrutinized by regional competitors in the future. Mistakes made by the Iraqis are unlikely to be repeated again. Assertive persuasion—the utilization of precision punishment and denial—could communicate intent, capability, credibility, and sustain the reputation necessary to establish dynamic deterrence. These concepts would be operationalized with forward and rapidly deployable conventional forces, missile defense capabilities, and a secure mix of strategic and theater nuclear forces (National Security Planning Associates 1994).
The ability to employ precision punishment options—to punish; prevent; preempt; deny adversaries their military objectives; and impose upon them overwhelming military defeat—promises to enhance U.S. deterrence and power projection options. Evolving technologies, such as stealth, precision munitions, space-based near real-time ISR, and BMD constitute particularly powerful tools of diplomacy and war. Such capabilities also allow for similarly potent forms of punitive, persuasive, and compellent targeting. Targets include military forces and infrastructure; economic; communications; and energy sources; and even the institutional foundations of an enemy regime's political authority (Record 1994, 154).

In the final analysis, however, deterrence is a "cooperative relationship"; leaders of another state have to choose to be deterred. This calls for continued involvement and interaction with allies and friends to demonstrate both commitment and access to the region (Gray 1992, 258, 264). But the most credible U.S. deterrent policy will allow (1) tailored capabilities which, (2) facilitate the political decision to use force to, (3) negate a future adversary's attempts to avoid our strengths through asymmetric strategies. Deterrence stands a better chance of success if U.S. military forces are capable of being deployed rapidly, of intervening with mobile forces sufficient to defeat an attack (preferably without sustaining heavy casualties), and of protecting allies and coalition partners if necessary (Owens 1995a, 12-25).

Assertive persuasion, based on a new "system of systems", will communicate a more credible message of U.S. capability and will to adversaries. Advanced C4I allows commanders to bring precision force to bear at weak spots already identified through ISR. The synergistic effect of these capabilities could constitute a potent deterrent to the use of WMD as well. Such power could undercut the effect of WMD and begin to form the basis for dynamic deterrence. By negating the implied threat of high casualties, assertive persuasion measures can create a more favorable political-military environment for the United States than an adversary's use of WMD implies. This will, in turn, cast doubt in the minds of regional aggressors and instill a sense of futility in proliferators' minds by devaluing the political-military potency of their nuclear weapons.

The United States is the only current superpower. It can use force more effectively and more easily on the current and foreseeable security landscape and, in some respects, with fewer consequences. The United States must continue to be self-regulating and judicious in the use of its
power, particularly its military power, but it is not in the U.S. interest to portray weakness, indecision, or paralysis due to overly strict parameters. This could encourage the very acts we wish to forestall.

Notes

1Kenneth Waltz argues that because international politics remains a self-help system countries will determine their own fate, that the balance of terror is indestructible, miscalculation is difficult due to the destruction of just one nuclear weapon which imposes potential costs that outweigh potential gains, and new nuclear nations will be more concerned with their safety and mindful of dangers. Van Creveld argues that the presence of nuclear weapons is leading to the elimination of large-scale interstate war.

2As an illustration: in the 1967 Arab-Israeli War Egypt fired Styx cruise missiles at Israel, Argentina fired Exocets against the British Royal Navy in the Falklands war, and Iraq fired 88 Scuds at Coalition Forces in the 1991 Persian Gulf War. With regard to CW Egypt is suspected of using CW against Yemeni forces in 1967–68, Iraq and Iran used these weapons against each other in their war, and Baghdad used CW against its Kurdish population.

3Michael Mazarr identifies RMA pillars as: information dominance, synergy (i.e., jointness), disengaged combat (distance, mobility), and civilianization (i.e., the idea that building blocks for future warfare will be built more on civilian assets instead of military. Nonlethality is closely related).

4Precision force use may come to include information warfare (IW). The information revolution can be seen either as a functionally-based definition of a potential RMA, or as a supporting capability that enables seamless, high-speed, high-intensity warfare. As a separate technique of war, IW does not yet exist, though as a distinct form of warfare there are several manifestations, including: command and control warfare, intelligence-based warfare, electronic warfare, psychological warfare, hacker warfare, economic information warfare, and cyberwarfare. At this inchoate stage, though, there are more questions than answers inspired by IW.

5Even the Joint Chiefs of Staff have declared that, “in all cases, U.S. military forces must be able to undertake operations rapidly, with a high probability of success, and with minimal risk of U.S. casualties.” (U.S. Department of Defense 1993, 3.; Payne 1995, 203, fn.4).

6It is precisely this environment that leads Charles William Maynes to argue that the opportunities to use military force are limited. (Maynes 1995).

7On this point, the author acknowledges work done with Kerry Kartchner and Patti Barwinczak at ANSER.
Many of these themes were expounded upon in the Report of The Commission On Integrated Long-Term Strategy which was released in January 1988. (Commission On Integrated Long-Term Strategy 1988)

Forward presence refers to forces deployed or stationed in key areas overseas and providing the link between peacetime operations and crisis. They are able to act as a deterrent, transition to a quick reaction force, or respond to other contingencies. The following comments on forward presence are drawn from Jacquelyn K. Davis, *Forward Presence and U.S. Security Policy* (1995, 21–40).

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Assessing Prospects for Business-Environmentalist Cooperation on Trade and Environment Issues

Robert Youngman

This paper examines a number of current issues and proposals in trade and environment, and offers an assessment of the likelihood that business and environmentalists will seek and arrive at consensus views on these topics. After reviewing the setting for current cooperative dialogues, the author considers a range of factors which will affect the parties' motivation to negotiate. The author concludes that a convergence of views is possible in a number of issue areas, and offers some ideas to foster cooperation and defuse conflicts.

Introduction

Although the trade and environment debate addresses complex and multifaceted issues, assessments of the likelihood that environmentalists and business representatives will agree on these issues are often oversimplified. Optimistic observers assert that trade objectives and environmental objectives are compatible and that the two sides merely need to realize this fundamental truth. These observers argue that continued growth in international trade cannot occur unless environmental objectives such as natural resource conservation are met. They also contend that the most pressing environmental problems will be addressed only when econo-

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mies are sufficiently developed (i.e., through free trade). The argument does not, however, provide any indication of how or whether business\(^1\) and environmentalists will negotiate and resolve their many disagreements.

Pessimistic observers, on the other hand, are skeptical that the two sides will overcome ideological differences and reach a meaningful consensus. The ideological problem can be summarized in three phrases: business seeks a set of obligations to restrain unilateral governmental behavior; environmentalists permit and encourage unilateral behavior to serve a higher good; and you cannot have it both ways (Morris 1995). The trade and environment literature emphasizes this dichotomy. For example, the Business and Industry Advisory Committee (BIAC) to the Organization for Economic Cooperation and Development (OECD) asserts that “economic growth and development are fundamentally positive forces for the environment,” and that “trade measures are only in rare cases an appropriate means of achieving environmental goals” (BIAC 1993, 1). By contrast, one environmentalist argues that many trade delegates have not “accepted that trade is only a means to an end, and not an end in itself. Many politicians have yet to accept that given the ultimate objective of sustainable development, free trade can only take place within the social and environmental limits prescribed by this objective” (Arden-Clarke 1993, 72). Another environmentalist maintains that trade “does not have a sacred wall around it, holding other needs away. The larger goals of societies sometimes will hold trade and all of economics subservient” (Kane 1993, 67).

Few participants in the trade and environment debate adhere strictly to the pessimistic or optimistic view. Nevertheless, optimistic platitudes regarding mutual compatibility are a common feature in the public debate. Conversely, a number of interviews with debate participants suggested that pessimistic views are generally restricted to private fora, perhaps in order to preserve the upbeat mood of conferences. The problem with such perspectives is that they obscure factors affecting the likelihood that business and environmentalists will work to reach agreement on particular issues.

Such factors as ideology, direct interests, “triggering events,” and “best alternatives to a negotiated agreement” (BATNAs) are bringing environmentalists and business together to discuss a limited but growing range of issues. A consideration of these factors can provide a richer and more accurate assessment of the likelihood of convergence than the oversim-
plifications of either optimists or pessimists. This paper examines business’ and environmentalists’ ideology, interests, and BATNAs as well as the impact of triggering events and other factors on their motivation to negotiate across a range of trade and environment issues.

The factor identified most frequently by pessimists—ideology—certainly plays a role in determining whether the two sides seek agreement. If ideological differences between an environmental group and a business are large, they are unlikely to negotiate. For example, one would not expect Greenpeace to enter into a dialogue with Norwegian whalers for a compromise on commercial whaling.

Ideology, however, does not tell the whole story. Although some philosophical views cannot be bridged, potential exists for cooperation on narrower issues for which specific direct interests converge. This kind of political cooperation is a political art—forging a consensus between antagonistic parties on targeted issues. Despite ideological differences, agreement on specific issues is possible and offers grounds for optimism. For example, Corning, Inc. may not have supported the U.S. Clean Air Act before the company went into the catalytic converter business, but it would now join with environmentalists to oppose the weakening of tailpipe emissions standards (Smith 1995).

A third factor affecting the likelihood of business-environmentalist cooperation is the existence or absence of “triggering events,” which produce a flurry of activity on trade and environment issues (Esty 1995, 5). For instance, discussions between business and environmentalists emerged before and during the negotiation of the North American Free Trade Agreement (NAFTA) (Hudson 1995).

A fourth critical factor is each party’s BATNA (best alternative to a negotiated agreement) (Fisher 1983, 104). When parties consider participating in a cooperative effort, they determine whether the results will justify the effort. To do so, they calculate their BATNA—either formally or informally—and their expected utility of participation. If a party perceives that its BATNA (i.e., unilaterally lobbying the government or doing nothing) is superior to any potential agreement, it will not enter the negotiation. A party’s BATNA calculation may take into account its perceived influence over policy making in the absence of cooperation as well as the expected role of its government in international negotiations. In the first case, if either side believes it has greater influence over its government’s policy on trade and environment, that side will be less interested in seeking common ground with the other side. In the second case, if either side perceives that its government will not play a leading
role in the World Trade Organization's (WTO) trade and environment discussions, it may decide not to dedicate scarce resources to cooperative efforts aimed at influencing its government's policy making process.

BATNA estimates are uncertain. A party cannot be sure that its government will adopt a policy that is superior to any potential agreement. The potential value of joint action "is not fully obvious at the outset [of most negotiations]." As a result, each party's perception of the "zone of possible agreements" emerging from a dialogue is unclear and subject to change (Sebenius 1992, 333–34). Thus, motivation to enter into cooperative efforts may derive from triggering events such as NAFTA, or perceptions that one's BATNA is unattractive or uncertain.

As noted above, NAFTA played a critical role in triggering business and environmentalists to cooperate in 1992–93. The setting for cooperative efforts has changed since that time, but one should not conclude that such efforts cannot succeed under different conditions. Considering triggering events as the sole indicators of probable success overlooks the potential role of other factors—ideology, interests, and the parties' perceptions of their BATNAs.

Even without an imminent NAFTA negotiation, a number of efforts have been launched recently to bridge business and environmentalist positions on these issues. These efforts, generally described as dialogues, have focused on issues that are currently under discussion at WTO in preparation for the December 1996 ministerial meeting in Singapore. Dialogues that have been or will soon be initiated include the Trade and Environment Council led by former Deputy U.S. Trade Representative Michael Smith; the Policy Dialogue on Trade and Environment led by Professor Abram Chayes of Harvard Law School and Professor Lawrence Susskind of MIT; the Energy and Environment Study Institute (EESI) dialogue on minimum standards for manufacturing and processing industries led by Gareth Porter; and a Pew Foundation-sponsored dialogue to be facilitated by David Wirth and Rodney Leonard of the Community Nutrition Institute. Such dialogues may influence emerging U.S. policies on trade and environment. Given the leading role traditionally played by the United States on these issues and the potential for U.S. recommendations to influence WTO decision making, efforts such as the Trade and Environment Council may have significant impacts. The dialogues are taking place despite a number of factors working against their potential for success. For example, until recently, the U.S. government's commitment to trade and environment seemed questionable. Created in November 1994, the Clinton administration's Trade and Environment
Policy Advisory Committee (TEPAC) is convening for the first time in April 1996. Coupled with the 1994 congressional election results and the subsequent Republican attack on the environmental agenda, the postponement of the first TEPAC meeting seemed to indicate that trade and environment is fading as a national issue. Moreover, the timing of the WTO ministerial meeting after the 1996 U.S. presidential election has prompted some observers to predict that the United States will not play the active leadership role necessary for progress to be made on trade and environment issues (Smith 1996). Some participants in the debate have also argued that the WTO's consideration of these issues is now an ongoing process, not a discrete triggering event justifying the dedication of their scarce resources to cooperative dialogues.²

The heterogeneity of the communities involved in the trade and environment debate is another factor which may prevent broad-based coalition-building and may limit the success of the dialogues. First, neither the environmental nor the business community is monolithic in its views. Each community is comprised of parties with different ideological perspectives and interests which vary with each issue. The business community, for example, consists both of exporters supportive of uninhibited free trade and import competing companies favoring protectionism. Some exporters, particularly those with high environmental compliance costs, encourage efforts to raise foreign environmental standards. Other exporters, particularly multinational corporations, have mixed views on this issue. Import competing industries naturally support efforts to increase foreign competitors' environmental compliance costs.

Dividing the environmental community into neat categories is even more difficult. During the NAFTA vote, environmentalists were characterized as either pro-growth or anti-growth and pro-labor (Audley 1995, 356). Since NAFTA, some would argue, this distinction has become more refined, and the environmental movement has divided into two groups. One group concentrates on ensuring that the WTO incorporates environmental objectives into the trade regime. The other group questions the legitimacy of the WTO to make decisions affecting sustainable development and stresses that a whole basket of concerns—environmental, labor, and human rights, among others—must be addressed simultaneously (Hudson 1995).

Business and environmentalists are not the only parties to the trade and environment debate. Most trade and environment discussions today invoke the interests of a third party—developing countries. In U.S. trade and environment debates, each side claims to safeguard developing
countries' interests, but it is clear that developing country interests are not monolithic. For example, developing country exporters' interests are not identical to those of the citizens of developing countries, whose health, as some environmentalists contend, can suffer from lower environmental standards and who often are not informed about environmental dangers (Hudson 1995). Thus, like the environmental and business communities, developing country interests are fragmented, making broad-based agreement nearly unattainable, and even small coalitions difficult to create.

Despite the various factors working against cooperative efforts between business and environmentalists, dialogues continue to emerge and provide some cause for optimism. These dialogues are prevailing in a negative negotiating environment as a result of the factors on which this paper focuses—ideology, interests, triggering events, and BATNAs. As this paper will discuss, the combined impact of these factors may well lead to new and expanded dialogues on several issues. This paper is not intended to provide an exhaustive review of each issue, nor to predict which specific proposals will bring consensus. The rapidly changing events preceding the 1996 WTO ministerial meeting render predictions difficult, if not impossible. Rather, the aim is to provide a brief introduction to each of the issues and proposals and to explore the factors existing at the time of this writing that will have an impact on the likelihood for cooperation. By identifying both likely areas of continued disagreement and promising areas for convergence, this paper will explain the basis for optimism fueling current dialogues as well as the skepticism of some observers and participants.

In Part One, the paper defines two major categories of issues and proposals and provides brief summaries of each. Part Two examines each party's ideology, interests, and motivation to negotiate for each of the issues. After reviewing these factors, Part Two highlights the obstacles to a convergence of views and identifies those proposals with the most promise for progress in future dialogues. Part Three concludes with a number of ideas to promote successful dialogues on trade and environment issues.

**Part One: Current Issues and Proposals in Trade and Environment Policy**

The trade and environment literature repeatedly raises a number of themes and proposals aimed at bridging the persistent gap between the business and environmental communities. Despite the rich assortment of
bridge building proposals, progress toward practical consensus on trade and environment issues remains slow. The proposals often seek to capitalize on the similarities between business and environmentalist rhetoric on certain issues. However, ideological rhetoric is but one factor to consider in assessing the likelihood for convergence of views, as is discussed in Part Two.

Although certainly not a complete list, the issues and proposals discussed in this paper are some of the most prominent in the trade and environment debate today. The issues and proposals can be grouped into two convenient categories: concessions to developing countries, and mutual integration proposals. These categories are defined and reviewed below in Part One. Part Two considers the factors that will affect the likelihood for convergence on each of the issues and proposals and offers an assessment of this likelihood.

Concessions to Developing Countries

The United Nations Conference on Environment and Development (UNCED) was largely responsible for generating and solidifying a consensus, as reflected in Agenda 21, on the need for industrialized countries to provide assistance to developing countries in order to promote sustainable development (IISD 1995, 9). In the trade and environment community, there appears to be widespread agreement that industrialized countries should assist developing countries in their efforts to meet stringent standards for products to be exported to industrialized countries. Reflecting this agreement, a number of proposals offering concessions, remedies, and incentives for improving environmental performance have been discussed. The following four types of developing country-related proposals are often raised: regulatory transparency, transitional provisions, financial and technical assistance (including technology transfer), and linkage proposals.

Regulatory Transparency

A range of emerging environmental policies in industrialized countries create significant challenges to developing country exporters. For example, when governments impose minimum recycled content requirements for certain products, foreign producers who do not have access to recycled materials or the infrastructure required for recycling are at a disadvantage (UNCTAD 1995a, 5). Not all environmental policies have
significant trade impacts. However, those that affect process and production methods, such as carbon taxes, are more likely to affect developing country producers (UNCTAD 1995a, 14, 23). Some government procurement policies—bans on tropical timber, for example—affect products of significant export interest to some developing countries and lead to costly trade displacements (UNCTAD 1995a, 17, 23).

The difficulties for developing country exporters created by these policies are exacerbated when industrialized country regulations are not “transparent” and information is scarce or unavailable. Some emerging policy instruments lack notification requirements and formal mechanisms allowing foreign companies to comment (UNCTAD 1995a, 23). WTO is currently investigating whether notification requirements cover instruments such as ecolabelling, packaging requirements, waste handling requirements, measures by the sub-federal and the private sectors, environmental subsidies, and deposit refund schemes (WTO 1995a, 4). It may be especially difficult for exporters to obtain information regarding voluntary industry agreements and public procurement policies from dispersed sources such as municipalities or industrial sectors (UNCTAD 1995a, 23). According to the United Nations Conference on Trade and Development (UNCTAD), developing country exporters have sometimes “incurred costs, delayed decisions, or shifted to other materials because of lack of sufficient information regarding requirements in importing countries” (UNCTAD 1995a, 23). UNCTAD’s proposal addressing regulatory transparency calls on governments to consider which environmental policy instruments should be subject to additional WTO regulatory transparency requirements, such as those contained in the Technical Barriers to Trade Agreement (UNCTAD 1995a, 24). A recent meeting summary from the WTO’s Committee on Trade and Environment (CTE) indicated that the adequacy of WTO transparency and notification requirements is currently being reviewed (WTO 1995a, 4). However, in spite of signs that action may be taken on transparency issues, significant barriers to a successful dialogue between the U.S. business and environmental communities on regulatory transparency remain. These barriers will be discussed in Part Two.

**Transitional Provisions**

Like proposals for regulatory transparency, transitional provisions are intended to help developing country exporters comply with industrialized countries' environmental requirements. One international business trade
organization recommends that the international community apply "special transition periods and rules" to developing countries during the implementation of multilateral environmental agreements (MEAs) (WICE 1993a). A recent UNCTAD report concluded that the competitiveness effect of industrialized country environmental regulations could become significant for small and medium sized enterprises (SME) in developing countries. Accordingly, UNCTAD recommended that in the short-run, "there may be a need to grant more leeway to SMEs, in the course of imposing more stringent standards on the sector as a whole" (UNCTAD 1995b, 26-27). A similar proposal was made at a 12 September 1996 CTE meeting. In addition, the European Community (EC) has called for "differentiated schedules for compliance" with measures affecting market access for developing countries, as long as environmental objectives are not undermined (WTO 1995c, 4).

**Financial and Technical Assistance**

Financial and technical assistance addresses the problem of inadequate resources in developing countries to meet industrialized country environmental requirements. Nearly all participants in the trade and environment debate recommend technical and financial assistance to developing countries. UNCTAD, for example, recommends that developing country SMEs be given technical assistance and special financing in the medium term and financial assistance in the long term (UNCTAD 1995b, 27). The World Industry Council for the Environment (WICE) also suggests that foreign aid packages for developing countries include financial and technical assistance for the improvement of their environmental product standards (WICE 1993c). Dan Esty advocates an "eco-tech pool" funded by industrialized countries which would subsidize environmental technology purchases by developing countries so that the latter can address global environmental issues (Esty 1995, 21).

Plans for financial and technical assistance often include technology transfer proposals. Rarely are these proposals fully elaborated. Consequently, the proposals arouse the concern of business. For example, business interests in industrialized countries fear that they will be compelled to enter into licensing agreements that bestow on developing country companies the right to reproduce patented environmental technologies (Morris 1995). For this reason, WICE notes that "demands for access to environmentally-sound technology on a concessionary basis
should not be allowed to undermine the commercial viability of developing and trading such technology" (WICE 1993b). WICE also states that technical cooperation with developing countries should be "coupled with intellectual property protection" (WICE 1993a) which, according to some observers, would speed the flow of technology to developing countries (Esty 1995, 21).

**Linkage Proposals**

While the three types of proposals discussed above each provide an incentive for developing countries to comply with environmental measures, linkage proposals explicitly include both carrots and sticks. One proposal calls on the Global Environment Facility (GEF) and the World Bank to condition developing country loans on the preparation of environmental enforcement plans (WICE 1993a). Another proposal offers expanded market access for developing countries in return for commitments to environmental improvements, citing NAFTA as an analogous precedent (Esty 1995, 21). Financial resources, debt relief and new technologies are also discussed (Esty 1995, 21).

**Mutual Integration Proposals**

Mutual integration proposals reflect the view that trade and environment conflicts can be resolved if the objectives of free trade and environmental protection are both respected. Because they call for increased involvement of one party in the others' realm, these proposals appear custom-made for tradeoffs. Mutual integration proposals fall into the following areas: increasing WTO transparency; integrating multilateral environmental agreements (MEAs) and the WTO; and increasing the involvement of businesses in the formulation of environmental policy.

**WTO Transparency**

The origins of the WTO transparency issue can be traced to the traditionally secretive and diplomatic culture of the General Agreement on Tariffs and Trade (GATT). The GATT culture has recently come into conflict with the law-oriented environmental culture, which strongly supports public participation in decision making (Esty 1995, 6). During the tuna-dolphin conflict, the WTO dispute settlement panel did not consult with environmentalists (von Moltke 1993, 121). The outcome of the
dispute impressed on the environmental community the importance of non-governmental organization (NGO) access to WTO decision making and of greater transparency. Proposals on WTO transparency involve the "extent and form of NGO participation in the workings of the WTO" (Cameron 1995, 30); the creation of working groups or standing advisory committees for continuous NGO input; the public availability of documents submitted to WTO dispute settlement panels; the granting of observer status to NGO groups at panel meetings; and consultation with the environmental community in connection with panel decisions (Cameron 1995, 30–37). The United States and the EC endorse WTO dispute settlement panel consultation with environmental experts in judging the necessity of a trade measure incorporated into an MEA, and the proportionality of the impact of such trade measures to the expected environmental benefit (WTO 1995a, 7–8).

Business has also indicated its support for greater WTO transparency, although the recommendations are not as extensive as those of the environmental community. One proposal would give dispute settlement panels the option of inviting NGO comments at the start of the process and would provide an opportunity for NGOs to submit comments before final report adoption (USCIB 1992, 1). Business and WTO officials share concerns, however, that the dispute settlement process may become politicized, and that too many NGO representatives will be admitted into WTO proceedings (Gavin 1995).

**Multilateral Environmental Agreements and the WTO**

One of the most pressing issues for CTE is the compatibility of MEA trade measures with the rules of the trading system. From the business perspective, there is too much uncertainty regarding how WTO rules will apply to trade measures incorporated into future MEAs such as the Framework Convention on Climate Change and the Biodiversity Convention (Morris 1995). To address this uncertainty, the U.S. Council for International Business (USCIB) advocates an “ex ante” approach in which the permissible procedural and substantive conditions of MEA trade measures are clearly established (Morris 1995). For example, USCIB proposes that MEA trade measures not impose a burden on trade that exceeds the "putative beneficial environmental effects, as determined by a balancing of interests" (USCIB 1993b, 5). The USCIB proposal contains several other criteria that MEAs should meet to be granted an exemption under GATT Article XX.
Environmentalists, on the other hand, want to ensure that existing and future MEAs utilizing trade measures are insulated from challenges under the trade rules. They want environmental policy makers to continue to have the latitude to employ trade measures as effective compliance tools (NRDC 1995, 16–17).

**Business Involvement in Formulating Environmental Policy**

Using arguments similar to those employed by environmentalists regarding WTO transparency, USCIB proposes that the negotiation process for MEAs be opened to active participation by interested businesses and industries (USCIB 1993b, 1). Participation by business, USCIB argues, will ensure that relevant trade issues are taken into account, and that a proposed MEA has “the level of business support which any agreement will need in order to succeed” (USCIB 1993b, 1). Dan Esty has proposed a series of bridges to close “the perceived gap between policies that promote freer trade and those designed to support environmental protection” (Esty 1995, 17). These bridges include a joint “business-environmental initiative to improve life-cycle analysis and global decision making,” and a “business-environment NGO trade and environment advisory committee either within or outside of the World Trade Organization” (Esty 1995, 18–19).

**Part Two: Assessment of the Likelihood of Convergence through an Examination of Ideology, Interests, and Motivations to Negotiate**

The issues and proposals reviewed in Part One represent some of the most important trade and environment conflicts awaiting resolution. As discussed in the introduction, the initiation of dialogues on some of these issues suggests that ideological differences and an unpromising political environment have not eliminated all hope for cooperation. Nevertheless, it would be unreasonable to assume that these dialogues will produce a swift convergence of views across all, or even many, issues. For each category of issues and proposals, the parties' ideology, interests, and motivations to negotiate will vary. In some cases, these factors vary not only by category, but by individual issue.

Business and environmentalists are by no means homogeneous groups. In this paper, the views of “business” are frequently equated with those of USCIB or the World Industry Council for the Environment
(WICE)—business organizations with major export interests which support the tenets of free trade. USCIB represents many large U.S. multinational companies and is arguably the most prominent U.S. business voice on trade and environment matters. The views of "environmentalists" presented here generally represent those of such organizations as the National Wildlife Federation (NWF), the World Wildlife Fund (WWF), and the Natural Resources Defense Council (NRDC), which are among the leading environmental voices on trade and environment. Many nuances in the views of both communities cannot be captured using this approach. However, because the U.S. government has consulted most closely with these organizations on trade and environment issues, and in order to facilitate the analysis, this paper uses them to represent each side.

For each of the categories discussed in Part One—concessions to developing countries and mutual integration proposals—Part Two examines the parties' ideology, interests, and motivations to seek cooperative agreements. In assessing the likelihood for a convergence of views, the paper notes the major obstacles and identifies those proposals or themes which hold the most promise for progress in future dialogues.

Concessions to Developing Countries

Proposals offering concessions, remedies and incentives to developing countries reflect a perspective endorsed in Agenda 21 and elaborated by organizations such as the International Institute for Sustainable Development (IISD). IISD directed a joint effort by traders and environmentalists to define a set of principles on trade and sustainable development. According to IISD,

the promise of sustainable development . . . is that it forces a broadening of perspectives: trade policy-makers must be concerned about environmental impacts, makers of environmental policy must be concerned about trade impacts, and both must question the impacts of their policies on impoverishment and equity, within and between nations... Until we can link progress in dealing with the underlying problems of development to progress in addressing shared environmental concerns, there will be no satisfactory resolution to the issues of trade and environment (IISD 1994, 5–6).
The adoption of sustainable development as an overarching, integrating concept in the trade and environment debate may be a means of circumventing conflict. To borrow a concept from negotiation theory, the trade and environment clash can be considered a "value conflict". Such conflicts are caused by "different ideologies and exclusive intrinsically valuable goals" (Moore 1986, 27). As discussed in the introduction, some believe that free trade is an end in itself, while others believe that trade should only be a means of attaining other important social goals, such as environmental protection. A standard approach to eliminating value conflicts is to "search for [a] superordinate goal that all parties share" (Moore 1986, 27). Sustainable development is an example of such a superordinate goal. Unfortunately, the superordinate goal approach has not eliminated the persistent differences in ideologies, interests, and motivations between the two camps. Until developing countries participate fully in the trade and environment debate, the term sustainable development will be used by the business and environment communities primarily to serve their own interests.

**Business and Environmentalist Ideology**

Business and environmentalists approach developing country issues from different perspectives. With the belief that unhindered free trade will bring prosperity and environmental protection, business equates developing country interests with those of developing country business and industry. Business regards differences between environmental standards applied in developing and industrialized countries as a legitimate source of comparative advantage. Its views on the manner in which to address these differences, however, are mixed. Some representatives oppose international agreements calling for upward harmonization of developing country standards unless such agreements address verified environmental harms (Morris 1995). Others support upward harmonization, but link it to financial and technical assistance from industrialized countries (WICE 1993a).

Environmentalists, on the other hand, do not identify developing country interests exclusively with those of developing country companies. Business emphasizes that developing countries must balance environmental protection with more pressing social and economic needs. In response, environmentalists argue that if the citizens in these countries were informed about the health risks of pollution, and if their political
systems permitted, these citizens would push for higher environmental standards (Hudson 1995).

**Business Interests and Strategies**

Business positions on regulatory transparency, transitional provisions, and technical and financial assistance for developing countries reflect the extent to which their direct interests are invoked. Business is generally supportive of promoting regulatory transparency and a level playing field, and would endorse government efforts to ensure developing country company awareness of emerging environmental policies. Although not critical to business, the resolution of concerns about regulatory transparency may reduce information costs for multinational corporations operating in developing countries and reinforce the operation of an open, non-discriminatory trading system. Transitional provisions are also somewhat peripheral to business interests. However, WICE does include "special transition periods and rules" among the various proposals offering "special consideration" to developing countries to assist them in upward harmonization (WICE 1993a). Proposals on technology transfer, on the other hand, generate strong reactions from business. As noted in Part One, business is concerned that proposals on technology transfer could result in intellectual property rights infringements. Clearly, business interests would be much more supportive of proposals for technical assistance that provide them with profit-making opportunities. In some cases, business support for such proposals can determine whether they receive government support (Connolly 1995, 5).

Business' stated positions on issues such as financial assistance to promote upward harmonization or compliance efforts may belie their interests. WICE views promotion of upward harmonization as beneficial to business, because it eliminates the possible competitive advantages conferred by lower environmental standards. Although it is less concerned about the impacts on competitiveness of differential standards, USCIB considers bilateral or multilateral financial assistance to developing countries to be a "legitimate instrument by which developed countries assist developing countries to achieve agreed objectives" (USCIB 1993a, 2–3). Accepting the legitimacy of aid, however, does not necessarily mean business will actively support aid proposals.

Business ideological views are clear on linkage proposals involving increased market access or reduced agricultural and textile industry
subsidies, but its interests may be mixed. Business groups support increased trade liberalization and subsidy elimination in theory (WICE 1993a) but are less likely to actively seek either if their members are affected negatively. A campaign by pro-trade business to reduce fiercely protected agricultural subsidies would create very powerful enemies. As one observer noted, one should not “pick fights” (Smith 1995).

**Environmentalist Interests and Strategies**

Perhaps the most fundamental interest of U.S. environmentalists with regard to developing country issues is ensuring that U.S. domestic environmental standards do not succumb to downward harmonization. It is prevention of backsliding at home that often motivates environmentalists to promote upward harmonization abroad (Hudson 1995). Environmentalists generally support all aid proposals that encourage developing countries to improve standards. These proposals include technical assistance, technology transfer, debt relief, loans, improved market access and direct financial assistance. Because environmentalists aim to raise developing country standards, they would favor financial and technical assistance over transitional provisions. However, as long as transitional provisions are not disguised means to perpetuate lower standards, environmentalists would support such provisions in the absence of aid (Schorr 1995).

Regulatory transparency raises a tension between the tactical interests of environmentalists and their more substantive interests. One environmental representative indicated that he would view skeptically any business recommendation for regulatory transparency that was aimed specifically at environmental regulations. Because it is not a primary goal of business to assist developing country companies, he would suspect the recommendation was intended only to call attention to the burdensome nature of domestic standards (Schorr 1995). The negative attention might generate pressure to lower U.S. standards or have a chilling effect on emerging environmental policies. Thus, despite environmentalists’ interest in promoting foreign compliance with environmental regulations, some might be reluctant to consider a business-led effort for greater environmental regulatory transparency in WTO. Nevertheless, the environmental representative noted that he would be more likely to consider such a proposal if it were a part of a larger package to assist developing countries in raising their standards (Schorr 1995).
Motivation to Negotiate

The business community, and to a lesser extent the environmental community, lack motivation to pursue joint solutions on developing country issues. First, the political climate for negotiating a developing country package involving aid is poor at the present time. With domestic budget battles threatening to continue into the 1996 presidential election campaign, the U.S. is unlikely to initiate an ambitious aid plan to assist developing countries on environmental issues. Both environmentalists and business are doubtful that U.S. financial assistance will be significant (Hudson 1995; Heine 1995). Even if a triggering event occurred, such as an environmental disaster, it would be unlikely to change the bias of industrialized countries toward devoting their foreign aid environmental funds only to global commons issues. Such issues typically are not the most pressing environmental problems in developing countries (Connolly 1995, 3). With such a gloomy outlook for government action on financial assistance proposals, the motivation to seek agreement and jointly influence policy making is minimal.

The outlook for joint solutions is not improved by a consideration of interests. Business has no direct interest in assisting developing country companies. In spite of WICE's stated positions on the merits of raising developing country environmental standards, business should not be expected to take a leading role in advocating greater financial assistance. Quite simply, such assistance would benefit its competitors. For similar reasons, linkage proposals involving financial assistance to developing countries in return for upward harmonization are also unlikely to receive unambiguous business support.

The environmental community, on the other hand, does have a direct interest in upward harmonization and the prevention of downward harmonization in the United States. Preventing pressure, however, is a proactive effort, and proactive efforts often take second priority to more pressing matters. Without any direct impact on business or any immediate and pressing effect on environmentalists, prospects for negotiation on developing country issues are unpromising.

Notably, the only party for whom a discussion of these issues would invoke direct interests—developing countries—are rarely involved in U.S. business and environmentalist dialogues. Until representatives of developing countries actually participate in these discussions, there will be no true motivation to negotiate; business and environmentalist interests from
industrialized countries merely will use developing country proposals as vehicles to serve their own priorities.

Given the unpromising negotiating environment, no effective trigger event, and no direct or immediate interests in these issues, the BATNA for both environmentalists and business is simply to do nothing. However, less ambitious proposals discussed below may offer hope for the creation of a better negotiating environment and a limited convergence of views.

Areas of Possible Convergence

Although environmentalists and business may not have a strong motivation to seek a convergence of views on developing country issues, two factors may lead to dialogues on a subset of those issues. First, although there is little hope for an effective triggering event for discussions on financial assistance, WTO consideration of other developing country issues may bring the parties together. For instance, at the September 12 CTE meeting, the European Community suggested that it might support transitional provisions for developing countries. CTE has also discussed the environmental benefits of eliminating agricultural subsidies and tariff escalation on labor-intensive goods (WTO 1995c, 5) as well as the link between rules on intellectual property rights and the “generation and transfer of environmentally-sound technology” (WTO 1995b, 1) Discussions on regulatory transparency have also taken place, although several delegations, including the United States, believe that

for the most part the level and mix of transparency for various types of measures appear[s] to be satisfactory and that it [is] important not to overburden active processes of notification (WTO 1995a, 2–4).

A second factor which may encourage consensus is effective mediating. For a significant number of developing country issues, the interests of environmentalists and business are surprisingly similar. An effective mediator can take advantage of this proximity of interests by convincing the parties that entering into dialogues will prove beneficial. Specifically, even though regulatory transparency and transitional provisions are not issues of key importance to business and environmentalists, their positions may be bridgeable. If the parties are able to agree on noncontroversial issues first, they may create the trust and understanding necessary to achieve a convergence of views on more difficult issues. A key task for
mediators is convincing the parties that their BATNAs—doing nothing—are not better than any potential joint solution.

A number of less ambitious proposals provide potential opportunities for a convergence of views and the fostering of a good negotiating atmosphere. For example, a select group of business representatives—i.e., those with a more direct interest in assisting developing country companies—and environmentalists might agree on a joint recommendation for increased financial assistance. Similarly, parties could agree to modest joint statements calling for increased market access for developing countries, reduced agricultural subsidies, and debt relief. Parties might also agree that government should provide financial incentives to business to provide technical assistance to developing country companies. Even if these proposals fail to address more fundamental issues, they may foster a positive negotiating atmosphere.

**Mutual Integration Proposals**

As with developing country issues, mutual integration proposals address a particular type of negotiating dilemma or conflict. While issues in the former category rarely invoke the direct interest of the parties, mutual integration issues involve nothing but direct interests. Interest conflicts are caused by "perceived or actual competitive: substantive (content) interests, procedural interests, [or] psychological interests" (Moore 1986, 27). To address such conflicts, one possible "intervention" recommended for mediators is to find "integrative solutions" and "tradeoffs to satisfy interests of different strengths" (Moore 1986, 27). For instance, efforts to satisfy environmentalists' interests in securing NGO participation in the WTO are coupled with efforts to meet business concerns regarding confidentiality and manageability. Recommendations calling for business involvement in formulating environmental policy mirror WTO transparency proposals, and are most likely offered with integrative tradeoffs in mind.

This integrative approach may foster a convergence of views. Nevertheless, the strongly held views of the business and environmental communities on these issues and their reluctance to commit to tradeoffs at this time, make forging agreements a challenging task for mediators.

**Environmentalist Ideology, Interests, and Strategies**

Environmentalists argue that the international trade regime must be more sensitive to environmental concerns and should not take precedence over
efforts to protect the environment. When proposals to measure the trade impact of environmental agreements are raised, environmentalists respond that, on the contrary, WTO should be required to demonstrate that trade is environmentally sustainable (Schorr 1995; Hudson 1995). Environmentalists also contend that issues such as the legitimacy of environmental goals and the proportionality of environmental benefits to trade impacts "should not be put into GATT's tool kit" (Charnovitz 1994, 486). One observer noted that proposals to subject MEAs to trade-restrictiveness tests would limit U.S. negotiating authority and infringe on national sovereignty. He maintained that the U.S. government already takes countless factors into account in international environmental policy, and should not be second-guessed by the WTO (Van Hoogstraten 1995). Submitting all potential agreements to a trade-restrictiveness test may be yet another excuse not to have an agreement (Hudson 1995). In the debate over MEA proposals, environmentalists are attempting to put international environmental policy on an equal footing with international trade policy and to insulate the former from the demands of the latter. Although this may prove to be impossible, environmentalists seek to ensure that existing MEAs with trade provisions are judged compatible with the WTO and that future MEAs are constrained by as few trade requirements as possible.

Environmentalists are against a tradeoff between WTO transparency and increased business involvement in formulating environmental policy. They argue that business already has a seat at the table (Hudson 1995), and that many institutions dedicated to setting environmental standards have been subject to "capture" by private interests (IATP 1995). Some groups are concerned that WTO transparency would open WTO to a flood of private sector representatives. Nevertheless, environmentalists clearly have a strong interest in having greater input into WTO decision making, even at the risk of being further overpowered by business (Schorr 1995). If they are able to penetrate the secrecy surrounding WTO policy making, environmentalists have a much better chance to prevent legitimate environmental laws from being overturned by an overzealous trade regime.

**Business Ideology, Interests and Strategies**

Business positions on mutual integration strive "to maintain the integrity of the open trading system through a strengthened set of internationally agreed rules which constrain arbitrary or unilateral actions by governments (Morris 1995)." Business asserts that environmental policy need not
and should not disrupt the trading system. If environmentalists took trade considerations into account, business argues, the objectives of free trade and environmental protection could peacefully coexist. As previously discussed, when trade measures are included in a MEA, business recommends that the negotiating parties consult with WTO representatives and that such measures be required to meet several criteria (USCIB 1993b, 3). Fundamentally, business is interested in discouraging the inclusion of trade measures in MEAs by establishing criteria which limit their applicability.

With regard to WTO transparency, business supports facilitating information flow and reinforcing WTO's ability to draw on expert advice but does not wish to grant WTO access to all types of organizations. Business fears that doing so could transform the WTO into a United Nations-like institution characterized by many dissonant voices and little progress. If NGOs are granted increased access to the decision making process, business expects to share in the increased access (Gavin 1995). Unlike environmentalists, business does not view the existing trade regime as fundamentally skewed (Morris 1995). It is not in business' interest to promote NGO involvement in WTO decision making, and it can be expected to fight quietly to limit the extent of NGO participation.

Business is also resistant to potential tradeoffs in the mutual integration category. For example, the idea of trading off environmentalist input in proportionality decisions in exchange for greater business involvement in environmental policy making is considered unnecessary. USCIB argues that the balancing requirements in current WTO rules do not constitute a real problem for legitimate environmental measures. According to business, if MEAs took business' criteria into account, conflict on these matters could be completely eliminated (Morris 1995).

**Motivation to Negotiate**

The motivation of both parties to participate in dialogues on WTO transparency and the relationship between MEAs and trade rules comes from three sources. First, unlike the developing country proposals, the direct interests of the parties are engaged. Second, the CTE is currently considering transparency and MEA trade measures and will make recommendations on these topics for the WTO ministerial meeting in December 1996 (Inside U.S. Trade 1995, 15). For these two issues at least, the WTO discussions are a triggering event analogous to NAFTA and may spark
business-environmentalist dialogues. Third, the U.S. government has already indicated its positions on the issues of WTO transparency and MEAs. The U.S. has shown strong support for increased NGO participation in WTO (Greenwire 1994) and has defended the use of trade measures in MEAs. At a CTE meeting, the U.S. representatives said that trade measures are often critical to the achievement of MEAs' environmental objectives, pointing to the Basel Convention on Transboundary Movements of Hazardous Waste and Their Disposal, and the Convention on International Trade in Endangered Species as examples (WTO 1995d, 2–3).

As discussed in the introduction, the parties' motivations to enter into dialogues and seek consensus depends on their BATNAs. If environmentalists are convinced that the United States has adopted their arguments on MEAs and WTO transparency, they may conclude that their interests would be better served if they did not compromise their positions by participating in a dialogue. Even if environmentalists entered into dialogues, they would be likely to strike tougher bargains. This may explain why environmentalists have until recently shown little interest in discussing USCIB's recommendations on criteria for trade measures in MEAs (Morris 1995).

These factors might lead one to conclude that dialogues on mutual integration issues are unlikely. The strong ideological views and interests of the parties as well as a reluctance to engage in dialogues could conspire to undermine cooperative efforts. As one participant in the debate noted, it is not his job to come to consensus. It is his job to inform the government of his organization's recommendations, and to try to advance the interests of his constituents. Despite all of these factors, dialogues on WTO transparency and trade measures in MEAs have taken place, and others are expected in the near future. As discussed below, there is no reason to expect that progress in current dialogues will not continue.

One mutual integration issue omitted from the above discussion is business involvement in formulating environmental policy. WTO will not discuss the issue because governmental consultation with business regarding MEAs is not within WTO's jurisdiction. As a result, the WTO ministerial meeting will not be a direct triggering event for dialogues on this issue. At present, the parties appear unlikely to discuss business involvement because environmentalists may perceive that they have no need to consider the issue. The possibility remains, however, that this issue may be considered in the context of a tradeoff.
Areas of Possible Convergence of Interests

As discussed above, a number of reasons explain why dialogues on mutual integration issues might fail to yield results or not take place at all. Nevertheless, the Trade and Environment Council has reportedly come to at least partial agreement on WTO transparency issues (Smith 1995). The outcome of the Policy Dialogue on Trade and Environment's dialogues on these issues suggest a nascent convergence of views.\textsuperscript{14} The Policy Dialogue also reported progress on the issue of trade measures in MEAs.\textsuperscript{15} An upcoming dialogue led by the Community Nutrition Institute is currently taking up both issues (Caldwell 1996).

The progress made on these mutual integration issues in recent dialogues, and the progress that can be expected in future dialogues, may be explained by three factors: the triggering event of imminent WTO decision making on these topics; the U.S. position on these issues; and the unpredictability of government decision making. WTO discussions on these issues seem to have played a role similar to NAFTA in inspiring the parties to negotiate. The U.S. position on mutual integration issues has positive and negative effects on the likelihood of convergence. Some U.S. positions on mutual integration issues favor environmentalists' viewpoints, leading environmentalists to strike a hard bargain or choose not to bargain at all. On the other hand, because business' perceived BATNA is worsened by the current U.S. position, business can be expected to offer concessions on WTO transparency and MEAs. Although some environmentalists will reject these offers, more moderate environmentalists might be more amenable. Lastly, the unpredictability of government decision making may play a role in enhancing environmentalists' desire to negotiate. Business interests may succeed in shifting U.S. government positions at the last minute. Given this possibility, some environmentalists might conclude that supporting a consensus position that would receive government support\textsuperscript{16} would be preferable to insisting on a less compromising position which might be rejected.

With regard to business involvement in environmental policy making, it is conceivable, though unlikely, that a dialogue would generate an integrative package containing a business involvement provision. This scenario presumes, however, that environmentalists are willing to forsake their interest in insulating environmental policy making from business interests. Business would be obliged to make significant concessions elsewhere to obtain such an outcome.
Part Three: Additional Ideas to Foster Cooperation and Defuse Problems

Part Two addressed the key role of ideological views, interests, triggering events and perceived BATNAs in determining the likelihood that business and environmentalists will seek and arrive at negotiated agreements on several trade and environment issues. The emphasis on these factors, however, is not meant to suggest that other factors cannot influence outcomes. In particular, the manner in which mediators conduct dialogues can have a strong influence over parties' decisions to enter into a new dialogue and to seek consensus. With this in mind, Part Three suggests how a favorable environment for negotiations may be promoted and proposes additional ideas for creating consensus.

BATNAs

Mediators seeking to develop support and solicit participants for a dialogue must concern themselves with the parties' perceived BATNAs. To lower, or worsen perceived BATNAs, mediators might emphasize the uncertainty of government decision making and indications that the government will take positions adverse to each party's interests. The government can also help raise perceptions of the benefits of cooperation by affirming that it endorses cooperative efforts, and that it will take such efforts seriously. Such a statement would have greater credibility if the TEPAC were to convene on a regular basis.

Solutions Without Dialogues

Not all trade and environment issues need to be addressed through WTO or a consensus-seeking process. For example, the International Standards Organization (ISO) 14001 standard may be considered a unilateral solution to a trade and environment problem. The 14001 standard requires that any company desiring ISO certification must "establish and maintain an environmental management system (EMS) based on self-determined environmental policy and goals" (UNCTAD 1995a, 19). ISO is a voluntary scheme, but is a first step toward addressing competitiveness concerns arising from differences among the environmental requirements of different nations. Increasingly, ISO 14001 certification is a de facto requirement for developing country firms because a growing number of industrialized countries insist that suppliers meet certain environmental
standards or have an EMS in place (UNCTAD 1995a, 18–19). Although the environmental community is now involved in ISO discussions (Housman 1995), the 14001 standard was largely the outcome of business discussions.

Ecolabelling represents another solution involving neither the WTO nor a business-environmentalist consensus. Ecolabelling initiatives have emerged in dozens of countries as separate, typically uncoordinated, initiatives designed by governments and NGOs (IATP 1995). Business reactions to the proliferation of ecolabelling schemes suggest their dissatisfaction with the lack of business involvement in devising such schemes (Morris 1995). Although ISO 14001 and ecolabelling may be seen as problematic, they demonstrate that solutions to trade and environment problems need not come from WTO or a completely inclusive process.

An instructive example of a unilateral solution was the decision by the World Conservation Union (IUCN) and other NGOs to create an NGO Resource Center. The Center will address the problem of poor information flow from WTO to developing country NGOs, and vice-versa. If there is sufficient NGO or business support, this approach to addressing information dissemination problems might be applied to the issue of regulatory transparency.

**Broaden Dialogues**

As noted above, the government should encourage business-environmentalist dialogues. Efforts should be made to bring particular dialogue groups together on a regular basis in order to forge stronger ties among the participants. When several dialogues are well established, efforts should be made to bring members of all dialogue groups together in a broader setting. Broader dialogues would legitimize the process of consensus seeking and create a shared sense of identity and objectives among former adversaries. Initial meetings could establish the broadest possible constituency with which to seek consensus and influence policy making.

**Invite Developing Country Representatives to Dialogues**

As discussed in Part Two, business-environmentalist dialogues on developing country issues will be skewed until developing country interests are legitimately represented at these discussions. Initial dialogues might focus on a tradeoff package in which developing countries address business and
environmentalist concerns while satisfying their own concerns within existing constraints. For example, parties might agree to a package calling for verifiably improved developing country compliance with existing domestic and foreign environmental standards; an effort to liberalize developing country investment regimes; increased technical and advisory assistance to developing countries; and a program providing financial incentives for technology transfer.

Conclusion

Participants in the trade and environment debate often hold diametrically opposed views on the prospects for successful business-environmentalist dialogues. Optimistic observers emphasize that trade and environment can and should be mutually supportive while glossing over important differences between business and environmentalists in ideology, interests, and motivation to negotiate. Pessimists describe differences in interests and ideology as insurmountable obstacles to consensus and question the value of dialogues. Such assessments of the debate are overly simplified. Although an optimistic viewpoint may facilitate discussion, it must inevitably be reconciled with the more adversarial, distributive aspects of the debate. Pessimistic assessments may ignore the progress that has been made in a number of business-environmentalist dialogues and eliminate opportunities to seek a mutually beneficial convergence of views. Progress in dialogues has demonstrated that ideological rhetoric and philosophical differences do not tell the whole story. In assessing the likelihood that business and environmentalists will seek a convergence of views, one must also consider their direct interests on particular issues and the variety of factors affecting their motivation to enter into dialogues and seek consensus.

The outlook for progress in current and upcoming dialogues may be somewhat more encouraging than the assessments in this paper indicate for two reasons. First, triggering events cannot always be foreseen. The WTO could conclude, for instance, that developing country companies are significantly affected by insufficient or unenforced regulatory transparency requirements. Such a finding may trigger an outbreak of dialogues on regulatory transparency and related issues. The recent unexpected announcement that the TEPAC will finally be convened may also act as a trigger for other dialogues. Second, several observers have noted the potential for a political backlash to globalization in which the impacts
of economic interdependence trigger a rejection of international cooperation and a return to isolationism. The emergence of Patrick Buchanan as a potent force in the 1996 Republican primary suggests that a globalization backlash, if not already here, is not far off. A backlash might trigger an effort led by business to rebuild support for a free trade consensus. Some environmental groups might participate in such an effort, fostering cooperative ties between the two communities. The need to rally a pro-trade consensus might also be triggered by trade wars, originating from frictions between the U.S. and China, Japan or the European Union.

This paper equates business and environmentalist views with those of only a handful of influential organizations. In doing so, it may overstate differences in ideology and interests and underestimate the motivations of members of each community to seek a convergence of views. Some businesses may in fact have an interest in assisting developing country companies. Furniture manufacturers in industrialized countries, for example, may be interested in addressing problems faced by developing country exporters of tropical timber (Levy 1996). In addition, mediators generally take individuals' interest in seeking consensus into account when choosing potential participants for dialogues. Although some dialogues may represent only a limited range of views, they may nonetheless have an influence over the debate. In conclusion, a number of reasons indicate that current dialogues, which are persevering despite an unsolicitous negotiating atmosphere, are likely to play an important role in transforming the trade and environment debate.

Notes

1 In this paper, "business community" or "business" will refer to both business and industry.
2 The National Wildlife Federation does not plan to participate in the Trade and Environment Council dialogue, citing other priorities (Hudson 1995).
3 Agenda 21 is the UNCED's lengthy listing of environmental needs and concerns. See especially, chapters 1, 2 and 33.
4 The debate over the use of process and production methods (PPM) has been described by former Deputy U.S. Trade Representative Michael Smith as the most vexing issue faced by trade and environment policy makers, and perhaps the most difficult conceptually as well. Since a discussion of the PPM debate could easily constitute an entire article, this particular article does not analyze it. This exclusion is not intended to suggest that the PPM
debate is a peripheral issue; it is among the most important issues within trade and environment politics.

The quotes come from the World Industry Council for the Environment (WICE) which was created as an initiative of the International Chamber of Commerce (WICE 1993a). Since issuing this and other publications cited here, WICE merged with the Business Council for Sustainable Development to form the World Business Council for Sustainable Development (WBCSD).

The Global Environment Facility (GEF) is an international financial institution that transfers financial resources to developing countries to compensate them for the incremental cost of implementing projects or programs that address problems of global environmental concern. The GEF funds in four focal areas: climate change, stratospheric ozone depletion, biodiversity loss, and pollution of international waters. A partnership of three international agencies manages the GEF: the World Bank, the United Nations Development Programme, and the United Nations Environment Programme.

In the tuna-dolphin conflict, Mexico challenged the GATT-compatibility of a U.S. ban on tuna imports from Mexico. The ban was imposed pursuant to the U.S. Marine Mammal Protection Act (MMPA).

There are certainly other environmental organizations, such as the Center for International Environmental Law (CIEL), with whom the U.S. government consults on trade and environment issues. These organizations are relatively moderate in their goals (hence their cooperative relationship with government policy makers).

Upward harmonization refers to the incremental strengthening of developing country standards to match standards in industrialized countries.

If the US. makes a strong stand against additional measures to increase regulatory transparency, however, this will have a negative impact on business and environmentalist motivation to enter into dialogues on the topic.

In the case of regulatory transparency, the development of trust between participants in a dialogue would be critical in light of environmentalists' suspicions about business' intentions. Environmentalists might be willing to join business in supporting regulatory transparency in the interest of avoiding charges of green protectionism and possibly to gain concessions on other issues. One environmentalist notes that such convergence could serve the function of fostering cooperation (Schorr 1995).

Of course, the potential list of parties who might sign on to such a statement would be limited to those who have no direct ties to the agricultural industry.
or to businesses affected by the proposed tariff reductions. Again, a more visible joint effort on these issues would probably be considered too politically risky for business.

Particularly for the mutual integration category, the lines delineating ideological views, interests and strategies are blurred. For instance, parties may make ideological statements regarding their strategies and willingness to bargain. In addition, interests are often suggested if not stated in ideological pronouncements. Interests and ideology are often distinguishable, as suggested by the discussion of developing country issues. Nevertheless, since ideologies, interests and strategies on mutual integration issues blend together, this paper discusses them under a single heading.

Some of the areas of common ground, as interpreted by the facilitators, included the need for “broad access to information about WTO activities and decision-making;” “a presumption of open access to all final WTO documents including panel decisions, with the exception of documents related to negotiations;” and the establishment of “an office or officer responsible for regular liaison with NGO representatives, not only from environmental groups but from other interested communities.” The parties also expressed support for a “managed process” for NGO involvement “tailored to the special needs and circumstances of the WTO and governed by principles and rules, including limits on the number of participants (“a formula of three representatives from environmental organizations, three from business and three from labor, was discussed with some interest”), equitable geographical distribution, and a requirement that the participants be knowledgeable in the subject matter” (Policy Dialogue on Trade and Environment 1995, 1-3).

According to the facilitators, participants agreed that a decision should be taken at the WTO ministerial “interpreting Article XX of the GATT as covering restrictions mandated under selected existing MEAs.” A list of criteria to be applied to potential MEA trade measures was agreed upon, and possible additions to the list were debated. In addition, several participants agreed that a “special ‘fast-track’ procedure might be established whereby the WTO Council could pass on the consistency of a particular MEA with the criteria adopted” (The Policy Dialogue on Trade and Environment 1995, 5-7).

This calculation would assume that the government would choose a consensus view over others.

It should be noted that the World Business Council for Sustainable Development (WBCSD) was one of the organizations involved in the decision to create the NGO Center. Nonetheless, the majority of the other
organizations involved were environmental organizations, and WBCSD is perhaps the "greenest" of business organizations. Therefore, this solution can be considered as originating largely from the environmental community (Cosbey and Bidwell 1995).

Such events as the "Trade and Environment: Challenges for 1996" conference sponsored by the Global Environment & Trade Study and New York University Law School could provide the starting point for broad-based efforts to seek a convergence of views.

Again, the article refers here to the poor political climate for promoting financial assistance to developing countries.

Business has argued that investment liberalization would bring environmental improvements to developing countries by opening their economies to multinationals using cleaner technologies. Clearly, business interests would be satisfied as well (Heine 1995).

For example, participants in the Trade and Environment Council and the IISD dialogue to draft a set of principles for sustainable development were selected in this manner (Smith 1995; Cosbey 1995).

The author would like to thank Marc Levy for his helpful structural and substantive suggestions; Tom Beierle for his patient and thorough editing; and the numerous interviewees who were kind enough to share their knowledge and perspectives.

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German Politics and EMU Convergence

Perry Urken

The Maastricht Treaty delineates several "convergence criteria" that govern the entry of all member states of the European Union (EU) into European economic and monetary union (EMU). Because macroeconomic adjustment within monetary union significantly reduces the severity of austerity measures necessary to attain convergence, this paper argues that a rapid transition to monetary union is far more desirable than the gradual convergence process outlined in the Maastricht Treaty. Since monetary union is a political as well as an economic process, this paper analyzes the political dynamics within Germany and the entire EU that have led to the acceptance of the gradual approach to monetary union and the convergence criteria. The paper concludes with an explanation of how the emergence of several salient political crises, combined with certain political conditions, will result in the beginning of the rapid transition to monetary union in the EMU and the abolition of the convergence criteria.

Monetary union is never a matter of convergence, but of political will—the will to foot the bill which union imposes.

—Brian Reading, The Fourth Reich

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Introduction

In the eyes of West Germany’s Bundesbank, the end of the world began on July 1, 1991. On this day the conversion of East German ostmarks to Deutsche marks began, a process that would help solidify a newly united Germany. The Bundesbank’s reservations were shared by economists all over the world; from a strictly economic viewpoint, the rush to German monetary union made no sense at all. However, the political will to proceed with rapid monetary union was strong enough to overcome the resistance of the Bundesbank and other domestic opposition. Karl Otto Pohl, president of the Bundesbank at the time, called German monetary union a “disaster” and cautioned that the process would be equally ill-fated for the European Union (EU) if it did not rigorously adhere to the Maastricht Treaty’s plan to achieve macroeconomic convergence of member states before the start of monetary union (Gunther et al. 1993).

The Maastricht Treaty, ratified—albeit narrowly—by all EU member states, delineates several “convergence criteria” that govern the entry of states into European economic and monetary union (EMU). A member state may participate in the monetary union provided that (1) its inflation rate is not more than 1.5 percent higher than the average of the three lowest inflation rates in the EU; (2) its currency’s exchange rate has remained within the normal bands of the European Exchange Rate Mechanism for at least two years prior to entry; (3) its budget deficit is less than 3 percent of the nation’s GDP; (4) its government debt is less than 60 percent of GDP; and (5) its long-term interest rate is less than 2 percent higher than the average interest rate in the nations with the three lowest inflation rates in the EU (European Commission 1990).

Because the degree of austerity needed for convergence is considerably reduced by macroeconomic adjustment within monetary union, this paper argues that rapid transition to monetary union is preferable to the gradual process outlined in the Maastricht Treaty. Monetary union is a political as well as an economic process; therefore to understand attitudes towards the pace of convergence one must analyze the political dynamics within Germany and the EU. The emergence of several political crises and conditions will result in a trend toward rapid transition to monetary union in the entire EU and the abolition of the convergence criteria.
German Monetary Unification: Economics Versus Politics

Economics

Pohl's strongly negative characterization of German monetary union was a response to the horrendous conditions Germany endured for the first several years after its implementation. In an effort to avoid stigmatizing East Germans, the government converted ostmarks to the much stronger Deutsche marks at a 1:1 ratio. As the Bundesbank predicted, this resulted in short-term economic disaster.

Former East Germans, who had always longed to acquire Western products but were unable to afford them, suddenly found that their buying power was incredibly strong because of the 1:1 conversion rate. They rushed to purchase western German goods and shunned the low-quality products made in eastern German factories. Because of monetary union, the region could not use exchange rate controls or tariffs to protect its industries (Baylis 1993). In addition to the extremely sparse demand for their output, eastern German firms faced much higher real wage costs because salaries were also converted to Deutsche marks at a 1:1 rate. As a result, unemployment and corporate bankruptcy quickly spread throughout the former East Germany (Reading 1995).

Economic problems were not confined to the eastern portions of Germany, however. After a brief boom, triggered by short-lived eastern German demand, the recession that enveloped most of Western Europe struck western Germany with full force. But fiscal policy could not be used liberally to offset the recession, as huge transfers had already been committed to eastern Germany. East Germans had used these transfers almost exclusively for consumption rather than investment, so the Bundesbank did not want to lower interest rates significantly because of the threat of increasing inflation. At the same time, tax revenue was much lower than usual because of the recession. All of these factors raised the public sector deficit from 2.1 percent of GDP in 1990 to 3.2 percent in 1993 (Walter 1995).

Because of the handicap that this public debt inflicted on the government and the Bundesbank's reluctance to lower interest rates, western German firms were forced to make their own adjustments to the recession. These largely took the form of extensive restructuring efforts or the transfer of production operations to other countries where wages and benefits were less costly. As a result, between 1992 and 1994, almost
900,000 Germans living in the former West Germany lost their jobs (Walter 1995).

**Politics**

Despite the plethora of economic arguments against German monetary union, sufficient political motives existed to induce the former West German government to accept the costs that monetary union would impose. The economic conditions that emerged in the wake of German monetary union came as no surprise to Chancellor Helmut Kohl and his coalition government. The Bundesbank had persistently cited these dangers in its campaign to derail monetary union. But German policy makers felt that the political benefits of the process outweighed its economic costs.

The most pressing political problem at the time was the surge of former East Germans who had rushed to the West as soon as the Berlin Wall fell. At one point 40,000 citizens migrated to the former West Germany each week. By spreading the powerful Deutsche mark eastward, western Germany effectively promised former East German citizens that their living conditions would rise to the levels enjoyed in the former West Germany. Consequently, the monetary union largely defused the migration problem (Reading 1995).

The other political crisis facing the government concerned the perennial threat to German stability emanating from Eastern Europe. Security from Eastern threats has been a priority for Germans since the Ottoman Turks in the sixteenth century posed the danger of invasion. Peter the Great and the Russians were the source of German anxieties in the eighteenth century. Early in the twentieth century, the Bolshevik Revolution and Soviet expansionism created a new threat from the East. This escalated into the postwar partitioning of Germany and placed the eastern threat within Germany's traditional boundaries. As the Cold War era ended, Germany reunified and the instability of the newly democratizing Eastern European states emerged as the primary threat to the nation (Blech 1995).

By merging with eastern Germany, newly freed from the clutches of the USSR, the former West Germany inherited a multitude of economic deficiencies and sociopolitical liabilities that threatened to drag the region into the Eastern European zone of instability. The Bonn government therefore strove to ensure that the low productivity, weak currency, social unrest, and political instability of the former East Germany would not
cross its borders. Monetary union was viewed as an extremely effective means of anchoring the former East Germany to the stability and prosperity of western Germany, as well as limiting the possibility that western Germany would succumb to the serious problems faced by its former neighbor.

The political urgency confronting the German government was also based on its interest in self-preservation. Today Helmut Kohl is affectionately known as the "unification chancellor." After his victory in the 1994 general elections Kohl solidified a hold on power that eclipses the duration of any other current European leader. In addition, at the end of his current term he will have served longer than any other German chancellor since World War II (Reading 1995). This personal success would not have been possible were it not for the overall success of German unification.

The government's narrow margin of victory in the 1994 elections reflected a disgust with the economic conditions in the former East Germany as well as political and public opposition to various aspects of the unification process. On the other hand, Kohl's victory and that of his Christian Democratic Union (CDU) coalition party was a display of approval from German voters. The victory rewarded the government's ability to reunite a nation while bolstering Germany's long-term economic strength and maintaining Germany's massive degree of influence over Western Europe and the EU, all of which could not have been achieved without monetary union (Sontheimer 1995). One might reasonably infer that Kohl and his party would have lost the 1994 election had the German monetary unification effort been aborted by the economic-based reservations of the Bundesbank and other opposition.

Germany and the EU Convergence Criteria

That rapid monetary unification was accomplished in Germany without a preceding period of convergence does not necessarily mean that this approach would also succeed in the case of European monetary union. The two processes have many irreconcilable differences, including the sizes of the relevant geographic areas and the full political union of a united Germany as opposed to the limited political union currently present in Europe.

But each process shares an important dynamic. In both cases, Kohl and the CDU's politically motivated support for monetary union was pitted against the Bundesbank's strong reservations based on economic and
monetary criteria. As this paper has described above, although the Bundesbank was vehemently opposed to German monetary union, the salience of the political issues connected with the process eclipsed the Bundesbank’s concerns in the eyes of the German government.

However, no such salience presently exists in the case of European economic and monetary union. As a result, Kohl and the CDU do not possess the political impetus necessary to overcome the opposition of the Bundesbank. Thus, the Bundesbank has faced minimal government interference in its efforts to delay EMU and has succeeded in solidifying the rigorous adherence to the strict convergence criteria outlined in the Maastricht treaty as a cornerstone of the German government’s policy regarding EMU. And because Germany wields nearly absolute power over European monetary policy, adherence to the convergence criteria has quickly become the priority of all member states wishing to qualify for EMU. Member states have been shadowing the Bundesbank’s interest rate movements for many years and have continued to mimic Germany’s monetary policies by embracing the convergence criteria as the definitive standard for macroeconomic health. Klaus Liebscher, the chief executive of Austria’s central bank, exemplified this attitude in a recent statement in which he said that for Austria, “as [for] an economically stable country like Germany, economic convergence is a must and cannot be tampered with. Fiddling with the convergence criteria . . . should be clearly opposed” (Austria Central Bank 1995).

The German government had three main reasons for adopting a strategy of gradual convergence with regard to EMU. First, most Germans view their powerful Deutsche mark as a symbol of national pride as well as a valuable economic asset. According to one survey, 70 percent of Germans are reluctant to sacrifice their currency in exchange for a common European currency (Staunton 1995).

Largely as a result of this attachment to the Deutsche mark, public support for EMU within Germany is currently quite low. Another opinion poll reported that 61 percent of Germans were opposed to the process (Traynor 1995). Consequently, Kohl and the CDU’s ability to proceed with monetary unification at the present time is limited, as the political support of that 61 percent is at stake. The gradual convergence strategy thus provides a convenient means for the government to postpone EMU; given time, it hopes the German public will view the idea more favorably.

The second reason for the government’s adoption of the gradual convergence strategy concerns organizational theory. The first law of
organizational behavior holds that an institution will never wholeheartedly cooperate with any venture that will result in its own demise. European monetary union would mean the end of the Bundesbank, since monetary policy would be controlled by the European Central Bank once a single currency is established. Thus it is not surprising that the Bundesbank insists upon a gradual macroeconomic convergence of the European member states before they can participate in EMU. The alternative would be immediate convergence, which would result in the loss of the Bundesbank's formal autonomy and the dramatic reduction in its influence over German and European monetary affairs. (Buiter, Corsetti, and Roubini 1992).

Third, unlike the case of German monetary union, where the large-scale migration from East to West Germany was stemmed by the transfer of ostmarks into Deutsche marks, Europe does not currently face a political crisis that political leaders can use to justify introducing a common currency before macroeconomic convergence is attained. Thus, the cautious approach toward EMU championed by the Bundesbank is not directly threatened by major political initiatives.

The gradual approach adopted by the European Union is lauded by proponents of the "coronation theory." Coronation theorists argue that monetary union should merely be the official formalization of a preceding, extensive period of macroeconomic convergence. According to this theory, adjustment should take place predominantly outside of the monetary union. Europe is now in the midst of this adjustment period as member states struggle to meet the Maastricht convergence criteria. The following section argues, however, that in the case of EMU it is better to pursue macroeconomic convergence within the monetary union, rather than outside it.

An Alternative Strategy for the Transition to EMU

Although macroeconomic convergence is truly necessary for the long-term survival and credibility of a common currency, as the success of German monetary union demonstrated, convergence does not necessarily have to precede monetary unification. Paul DeGrauwe of Leuven University argues that convergence in Europe would be much less painful if it were preceded by the introduction of a single European currency, as gradual convergence threatens to split the European Union into EMU and
non-EMU factions (1995a). Because the purpose of EMU is to unite the economies of all member states, the gradual convergence strategy is, as stated in The Economist, "like a slimming club telling would-be members to get thin before they join" (Russian Roulette 1995).

Governments of countries with high inflation generally lack credibility in monetary policy. The success of the European Monetary System, before its near destruction, in lowering inflation throughout the EU showed that a credible commitment to an exchange rate arrangement in which low inflation is a priority is an effective way of reducing the costs of disinflation (DeGrauwe 1995b). Today, in an environment in which member states are left to their own devices to achieve reductions in inflation, high-inflation member states must raise interest rates higher than countries with low inflation in order to achieve a given inflation rate reduction. Higher interest rates result in an increase in unemployment and a reduction in growth. But high-inflation member states would not face this disadvantage within EMU because these nations would automatically inherit a much lower inflation rate once a single currency is introduced.

Assuming that a majority of the large, influential EU economies possess a low inflation rate, in the short term the inflation rates of smaller, high-inflationary member states will converge to the rates of the larger countries once a single currency is adopted. Presently this low inflationary core is anchored by Germany and France and supplemented by Belgium, Luxembourg and the Netherlands. Countries such as Greece, Italy and Spain would see their inflation rates decrease immediately upon monetary unification. This would significantly reduce the costs in terms of unemployment and inflation in these member states since much of the inflation reduction would be accomplished without an increase in interest rates (From Here to EMU 1995).

In the long term, however, the inflation rates of these countries will only remain low if the future European Central Bank is dedicated to the long-term maintenance of low inflation and price stability. Most independent central banks produce low inflation largely because their reputation is not backed by the credibility of a national government, but instead rests on the bank’s ability to convince the public that it can produce economic stability (Alesina and Summers 1993). DeGrauwe and other proponents of rapid transition emphasize that the success of this alternative hinges on the European Central Bank’s ability to bring about these economic conditions.
Imposing certain rules and restrictions upon the members of the future European Central Bank can ensure low inflation and price stability to a degree. For example, it could be mandated that countries that fail to control their budget deficits forfeit their right to help formulate monetary policy. Although this option might cause domestic political problems within member countries, it would eliminate the possibility that European monetary policy could be adversely affected by heavily indebted countries desiring an excessively expansionary monetary policy. Other restrictions could include removing from the board of the European Central Bank directors representing member countries that fail to attain price stability (DeGrauwe 1995b).

The convergence of EU inflation rates would also be greatly accelerated within EMU simply because only one currency would exist. Although inflationary pressures will still exist in those countries experiencing serious inflation difficulties, the pressures would be alleviated somewhat as the single currency would bring a similar rate of inflation to each member state (DeGrauwe 1995b).

Critics of DeGrauwe’s rapid transition strategy, such as Minford (1992) and Hughes Hallett and Vines (1993), insist that these gains are illusory for two main reasons. First, they believe that policies designed to lower inflation do not directly reduce growth and employment. Instead, Europe’s chronic unemployment problems are mainly viewed as a result of the high non-wage costs of full-time employees. Because of the reluctance of European firms to pay these benefits, they are hiring part-time employees in their place, leaving a score of qualified, motivated people out of work.

Although the high costs of full-time labor are a contributing factor to Europe’s unemployment dilemma, the effects of macroeconomic policies designed to reduce inflation, such as those mandated by the convergence criteria, remain a primary contributor to high unemployment rates. Many economists dismiss the logic of the Phillips Curve, which posits an inverse relationship between inflation and unemployment. But the majority of Phillips Curve critics question its utility as a basis for macroeconomic policy making, not the fact that this inverse relationship exists (Rutlidge 1995, 126). The empirical evidence for this relationship is overwhelming, having generally held for 35 years (Fuhrer 1995, 42).

Second, the skeptics assert that although currency union will result in short-term inflation reductions for some member states, it will not
eliminate the fundamental differences that exist among the economies of member states. The price differences today between goods made in Greece and Germany, for example, are reflected in the exchange rate between the drachma and the Deutsche mark. Under monetary union, however, these price differentials will vanish, rendering Greece's goods uncompetitive because of the greater productivity of German labor. EMU's opponents conclude that any gains made by a rapid transition will be more than offset by the introduction of this kind of competitive disadvantage.

However, as the German case illustrates, the extent of this damage is likely to be much less severe than critics suggest. After ostmarks were exchanged at a 1:1 rate with Deutsche marks, industries in the east of Germany were initially devastated by their lack of competitiveness with western German companies and by widespread unemployment. But today, less than five years later, the eastern German economy is firmly on the road to recovery. In June 1995, the region's economic growth rate was recorded at an impressive 9 percent and export growth was tracked at 25 percent (Miller 1995).

The conversion of member state currencies into euros will likely be at rates that are much more accurate than the rate adopted for German monetary unification. The more accurate the conversion rates are, the more price differences will be preserved within monetary union. Although the conversion rates will not reflect economic realities perfectly, the resulting distortion of prices is likely to be significantly less than that experienced in German monetary union.

If the European Central Bank manages to establish low inflation throughout the EU, reductions of public debt would be easier within EMU. Under the gradual convergence plan currently in place, member states must resort to increasing their interest rates in order to cut inflation. This increases the interest payments faced by countries, making it harder for them to meet the Maastricht public debt criteria. If member states were inside EMU and within the realm of a European Central Bank that kept inflation low, these countries would inherit low inflation and would not be forced to raise interest rates. This would ease the fiscal convergence process (From Here to EMU 1995).

Convergence within EMU would facilitate fiscal adjustment in another way. Because the EU member states presently have their own currency, countries with high inflation or excessive deficits must pay a premium on their interest rates because of the risk that their currencies might be devalued against the Deutsche mark. With a single currency, no such risk
exists since national currencies would disappear. *The Economist* determined that the cost of this premium to Italy is 1.5 percent of GDP per year, and to Belgium it is 2 percent of GDP per year (From Here to EMU 1995). Within EMU the abolition of this premium would bring countries with excessive deficits much closer to the fiscal positions mandated by the Maastricht Treaty.

**Future Political Crises and the Abolition of the Convergence Criteria**

Although the collapse of the Berlin Wall paved the way for German unification and resulted in worldwide celebrations, it also released a massive wave of East German migrants. The rapid transition to German monetary union and the spread of the Deutsche mark stemmed this flow with a promise of a sound economy for the former East Germany. At the same time, German monetary unification also protected the western regions of Germany from the political and economic instability of Eastern Europe by anchoring the former East German economy to the powerful Deutsche mark.

In the EU, however, a political crisis that might necessitate such a rapid transition toward monetary union, such as the migration of eastern German citizens to western regions, has not yet materialized. In addition, German security from the uncertainties of Eastern Europe has not been seriously threatened since the ratification of the Maastricht Treaty. As a result, critics and opponents of EMU have been able to institutionalize a strategy of gradual macroeconomic convergence of EU member states prior to the start of monetary union. Their only accomplishment so far has been to delay EMU indefinitely. The deadline for the start of monetary union has already been pushed back once and could be extended again if an insufficient number of countries qualify for, or wish to adopt, a single currency. In time, however, given the economic hardships imposed by the Maastricht convergence criteria, European monetary union, like German monetary union before it, will emerge as a palatable solution to salient political crises.

Because the gradual convergence strategy will exacerbate certain economic problems within the EU, future crises could include rising unemployment in the EU member states. The high interest rates required to lower inflation to the levels specified in the Maastricht criteria bring about a steady deterioration of growth and employment rates. In addition,
well before the drafting of the Maastricht Treaty, the vast majority of European countries effectively relinquished control over interest rates to Germany. The combination of German economic dominance over the continent and the excessively strict convergence criteria has mired Europe in a chronic unemployment crisis. The impending rage of citizens in countries such as Italy, Finland, Spain, and Belgium (where unemployment is especially high) is a serious and growing threat to the fortunes of the political parties and individuals currently in power. Indeed, Italy just took over the rotating European presidency in January, and its acting prime minister, Lamberto Dini, has emphasized that reducing unemployment is his priority. He insists that “it is not possible to think of monetary union with European unemployment at 11 percent.” Tony Blair, the leader of Britain’s Labour party and widely expected to be the United Kingdom’s next prime minister, has also stated that the European unemployment crisis should take precedence over the preparation for monetary union (Smart 1996).

A rapid transition to EMU could quickly put a stop to the two major dynamics exerting upward pressure on European unemployment. Because the convergence criteria would be abolished, European macroeconomic convergence would take place within monetary union. As discussed earlier, inflation convergence within EMU requires much less severe austerity measures than those currently being endured as member states converge outside EMU. The existence of a common currency and a single central bank in Europe would dramatically alter EU inflation rates and bring them much closer to parity. The deterioration of member state employment rates imposed by macroeconomic convergence would be significantly reduced, since the remaining inflation adjustments required for member states would be negligible compared to the tasks they face today.

In addition, member states would no longer be required to mimic German interest rate movements—a requirement designed in the best interest of Germany’s economy, not the economies of other member states. Pressure to adhere to German rate increases often forces EU member states to adopt excessively high interest rates that are much too extreme for their economies, resulting in costly reductions in growth and employment rates. Once EMU begins, however, the formulation of monetary policy would no longer rest solely in German hands but would include the input of all member states taking part in monetary union.

When unemployment reaches a level that threatens European leaders’ hold on power, more and more politicians will make jobs rather than
monetary union their priority, as have Dini and Blair. But Chancellor Kohl and other proponents of EMU will not give up on monetary union simply because of an unemployment crisis, no matter how severe. Indeed, Kohl now supports deep structural changes and spending cuts for the economies of member countries—policies that are unpopular domestically but that would prevent higher interest rates and the consequent rise in unemployment. In the longer term, however, Kohl and other policy makers will realize that the only way to solve Europe's growing economic crises while preserving EMU is to proceed with a rapid transition to monetary union.

The move toward convergence criteria is likely to provoke yet another crisis before EMU is achieved. The costs of macroeconomic convergence outside of EMU are extreme because of the enormous gaps between the macroeconomic statistics of most EU member states and the numbers mandated by the convergence criteria. Because of these severe costs, many EU member states will be excluded from EMU if it begins in 1999 as scheduled.

All member states except for tiny Luxembourg would not qualify for EMU were it to be implemented today. Some countries have inflation rates well above the limits imposed by the Maastricht Treaty. The average inflation rate of the member states with the lowest inflation in the EU (Finland, Belgium, and Luxembourg)—the maximum inflation rate allowed by the Maastricht criteria—is currently 2.63 percent. Greece (at 8.2 percent), Italy (at 6.0 percent), Spain (at 4.4 percent), and Portugal (at 4.0 percent) must impose severe austerity measures if they are to reduce inflation to the appropriate level by the end of 1997, the deadline for initial EU membership (Country Data 1996). For other member states, the exchange rate rule poses a major problem. Britain, Sweden, Italy, Finland, and Greece are currently outside the bands of the Exchange Rate Mechanism (Smart 1995).

The greatest problems for most EU member states, however, are posed by the criteria for fiscal policy. Thirteen of the 15 member states presently do not qualify for the Maastricht budget deficits or public debt criteria. Even mighty Germany is currently running a budget deficit slightly above the cut-off. As of 1994, France, Britain, Spain, Portugal, Italy, Greece, and Sweden had budget deficits at least twice as large as the maximum permitted by the Maastricht Treaty. In addition, the public debts of Greece, Italy, and Belgium were well over 100 percent of GDP, significantly higher than the 60 percent mandated by the convergence criteria (From Here to EMU 1995).
To meet the Maastricht fiscal requirements, member states with excessive deficits require policy prescriptions that would dethrone even the most popular of governments. Consider the task facing Italy, for example, whose public debt exceeds 124 percent of GDP and whose budget deficit amounts to almost 10 percent of GDP as of 1994 (European Commission 1995). An Italian study showed that even if the budget deficit were reduced to 3 percent of GDP by the deadline, public debt would only be reduced to 94.7 percent of GDP. In order to fulfill both fiscal criteria, a surplus of more than 9 percent of GDP must be achieved before the deadline—a feat that would entail "severe budgetary policies as cannot be envisaged" (Caporale 1992, 69).

England and Denmark have already secured the right to opt out of the process, as they fear that the necessary economic adjustments would inflict excessive hardships on their citizens. It is unlikely that Italy, Greece, or Spain will be able to make such adjustments by the 1998 deadline, and it is probable that many other member states will also fail to meet the criteria within the designated timetable.

As a result, there is a very real possibility that the convergence criteria might split the EU into an EMU bloc and a non-EMU bloc. Such a split would threaten the very concept of unity on which the European Union is based. Fortunately, the most powerful country in the EU is also the one that has the most to lose from such a split. A divided Europe is an unstable Europe in the eyes of German leaders, and political instability within Western Europe is fatal.

Germany fears instability for two reasons. First, political instability would significantly diminish Germany's economic strength. The majority of German exports (54.4 percent of them in 1992) went to the EU member states (Schwarz, 1991). But German trade within the EU would suffer from a split because the resultant political tensions would threaten the single market. Barriers to trade within the EU that the single market has eliminated may be resurrected if the EU is politically divided.

Second, and perhaps more significant, political instability within the EU would expose Germany to the perceived security threat from Eastern Europe. Were its political, economic, and social ties to Western Europe severed, Germany would be in limbo between the capitalist democracies to the west and the unstable, former communist countries undergoing a drastic political and economic transition to the east. The powerful legacy of security threats from the East, in addition to the very real instability that
currently envelops most of Eastern Europe, ensures that Germany will attempt to preserve Western European stability at all costs. The use of monetary integration to prevent East German economic and political conditions from dragging West Germany into the Eastern European zone of instability illustrates the importance to Germany of being firmly docked in Western Europe. The European Union shields Germany from the insecurity of Eastern Europe. Presently Germany has legitimate reason to be concerned about the possibility of political and economic destabilization in Eastern Europe. The temporarily diffused Bosnian crisis is the largest outbreak of warfare within Europe since World War II. Slovakia, because of prime minister Vladimir Meciar's backward policies, has stalled its privatization efforts and shown signs of returning to autocratic rule (Slovakia Slips Backward 1995). In Poland Lech Walesa recently lost the presidential election to Aleksander Kwasniewski, a former Communist. And most significant, the reforms in Russia are severely threatened by the Communist Party's recent gains in the parliamentary elections and by President Boris Yeltsin turning his back on economic reform in an attempt to appease right-wing sentiments in the country. Yeltsin, who is a long shot to win the upcoming presidential election, recently accepted the resignation of Anatoly B. Chubais, the last liberal member of what has become a hard-line Russian cabinet (Stanley 1996).

In the face of public doubts within Germany about EMU and other aspects of European integration, Chancellor Kohl and his party have insisted that without solid European political unity, the continent risks the rebirth of old national rivalries that could lead to political, economic, and even military hostility within the region. The chancellor's dream of a federal Europe encompassing the present 15 member states as well as many Eastern European nations would permanently stifle this threat. European monetary union is the most important piece of Kohl's federal European puzzle. But the chancellor will not permit monetary union to destroy political unity by splitting the EU in half; this split would dash all of his hopes of ever realizing a permanent union (Europe's Iron Chancellor 1996).

Despite the lack of political crises that would diminish the economic reservations about EMU, realizing monetary union in Europe still hinges on a considerable increase in public support for the proposed single currency. This is especially true in Germany, where Helmut Kohl would
not dare to threaten his coalition's slim majority by proceeding with a process that 61 percent of Germans oppose (Traynor 1995). Several opinion polls show that if an early election were to be held today, the CDU would lose its parliamentary majority to the coalition of the Social Democratic Party and the Greens (Boyes 1996). This opposition coalition is currently attempting to exploit public wariness of a single currency in order to propel itself into power (German SPD Opposition 1995).

Kohl, whose popularity rating has plummeted by ten points in the last several months, is in an especially precarious position. As the CDU is barely clinging to its majority, the chancellor himself has come under pressure to resign as head of his party. The replacement of Kohl, (perhaps by Wolfgang Schaeuble, the party's current parliamentary leader), is seen by some in the party as a means of revitalizing the CDU (Weight of Woes 1996).

The education of the citizens of member countries about the benefits of European monetary unification has only recently begun in earnest; it must be intensified in order to win their support. Because of the domestic political conditions in Germany, a rapid transition to monetary union cannot occur without public backing. In Germany this is an especially daunting requirement, given the status accorded to the Deutsche mark. A 1996 survey conducted by the Allensback Institute showed that 77 percent of high-level German executives support EMU. Assuming that these executives are familiar with the implications of monetary union, this poll suggests that the support of German citizens, informed about the costs and benefits of the single currency, is certainly attainable.

Despite the dire domestic political crisis faced by Kohl and his party, the chancellor is still the most powerful politician in the EU. Kohl shows no signs of bowing to pressure and abandoning his dream of monetary union and a federal Europe. In fact, Kohl has reportedly stressed to his party members that the goal of monetary union must be pursued rigorously despite current public opposition. The dangers associated with an EU split and the European unemployment epidemic will render the gradual convergence strategy for EMU an unfeasible alternative. With German monetary union Kohl demonstrated that he is willing to adopt a rapid convergence strategy that is disdained by many economists and politicians. If the support of the German public is attained, there is no reason why he would not adopt this strategy again.

Just as Germany dictates much of European monetary policy, it is also firmly in control of the EMU process. Presently, the lack of sufficient
political impetus for EMU has allowed the Bundesbank and other opposition to delay monetary union by stressing the economic necessity of macroeconomic convergence before the introduction of the single currency. Helmut Kohl's intense desire for EMU will not be abated permanently by such economic reservations, just as his quest for German monetary unification did not falter in the face of the Bundesbank's fervent opposition. As soon as the dangers of the European unemployment epidemic and the threat of a destabilizing split of the EU are imminent and EU public opinion has warmed significantly toward EMU, the most powerful man in Europe will insist, as he had in the case of German unification, that a rapid transition to monetary union is the best means by which to defuse these pressing crises.

German officials have often formulated monetary policy with a blind eye to the ramifications of their actions on the rest of Western Europe. The acceptance of a rapid transition strategy to EMU would also be primarily a German decision. However, because the abolition of the convergence criteria would allow for adjustments within EMU, thereby drastically easing the pain EU citizens must endure as a result of macroeconomic convergence, this would be one case in which German preferences are in harmony with the best interests of the entire European Union.

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EU Integration of the Visegrad Countries

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This paper analyzes the prospects for integration of the Visegrad countries—Hungary, the Czech Republic, Slovakia, and Poland—into the European Union. It argues that integration of the Visegrad countries will be a lengthy process that will not be concluded for at least 15 to 20 years, based on two observations. First, the transitions of these four eastern countries to democracy and capitalism, which are preconditions for EU membership, are not yet complete. Second, the admission of the Visegrad countries creates unique problems to which the EU member states have not yet found appropriate solutions. The paper argues that the Visegrad countries are not primarily responsible for the obstacles to integration; rather, the EU is making integration of the Eastern countries more difficult than it need be. Finally, the paper notes that integration is by no means an absolute necessity. The Visegrad countries should consider alternatives to European integration not only because of difficulties posed by the EU but also because the alternatives could prove more beneficial for stabilizing their democracies, economies, and the region as a whole.
Introduction

The fall of the Berlin Wall in November 1989 caught governments in the East and West by surprise. The Eastern European countries immediately looked to the West for ideological direction as well as economic, political, and military support. This paper outlines the major developments between the European Union (EU) and the Visegrad countries (VCs: Hungary, Poland, Slovakia, and the Czech Republic) concerning political and economic cooperation and their long-term integration. It argues that neither the EU nor the VCs are yet ready to integrate fully. The process of integration, which is necessarily slow and incremental, will not be completed for at least 15 to 20 years. The VCs' transitions toward stable democracies and market economies, which are prerequisites for admission to the Union, are proving to be difficult and lengthy.

The primary obstacles to admission of the eastern countries, however, lie not in the East but in the EU's own reluctance to integrate the VCs. The EU's Ostpolitik contains major contradictions between rhetoric and action. Although the EU's policy is intended to facilitate the VCs' ability to meet the admission criteria, it has resulted instead in the EU's reaping of profits at the expense of the East's fragile economies. Furthermore, the EU is divided over admission of the VCs because of divergent economic and political interests of its own member states. In addition, previous patterns of integration are no longer applicable and must be re-thought because each VC embodies distinct political and economic characteristics that makes it very different from the other nine countries that were previously granted admission to the EU. Finally, the EU remains preoccupied with unresolved internal issues related to the Maastricht Treaty. The paper presents a brief history of developments in, and interactions between, Eastern and Western Europe. It then proceeds to present the VCs' incentives to join the EU and the EU's incentives to enlarge. However, it must be emphasized that full integration by the VCs is not inevitable, and some alternatives to their integration are therefore proposed.

A Framework for Analysis

Historical Overview

This historical overview consists of three segments: Western European integration, Eastern European developments, and East-West relations. This segmentation also serves to illustrate the division between East and West that existed for 45 years and must now be overcome.
The Single European Act (SEA, enacted in 1987) marked a leap toward instituting a federal structure in the European integration process. The SEA's significance is evident partly in the legal framework it furnished for transforming the European customs union into a single market. In turn, the single market provided ammunition to proponents of further integration. To achieve this ambitious objective, additional transfers of national sovereignty to the European level were unavoidable. Although some member states, especially Great Britain, resisted further losses of national sovereignty, growing economic competition in the world market and the increasing impracticability of managing global challenges individually supported the need for a 'deepening' of the European Community (EC).

The crucial impulse for integration came with the fall of the Berlin Wall. German reunification fostered fears of German hegemony in Western Europe. The Maastricht Treaty, signed in 1991, provided leverage to restrict Germany's power by tying it closely to the process of European integration. Accordingly, the Maastricht Treaty necessitated transfers of national sovereignty in economic and monetary policy as well as closer cooperation in social, immigration, and home affairs. The EU member states also pledged to strengthen their commitment to a common foreign and security policy (CFSP). To this end, integration was accelerated to a pace that had not been seen in the 40-year history of the EC. This departure from the usual step-by-step process, however, created several problems. For example, certain governments faced difficulties in achieving popular agreement for the treaty. In 1992 the exchange rate mechanism of the European Monetary System (EMS) derailed, bringing into question the possibility of creating monetary union. Today, monetary union is still the most hotly debated issue, and is unlikely to begin as planned in the targeted year of 1999 because only one country—Luxembourg—can currently fulfill the criteria for admission. Finally, the inconsistency and weakness of West European policy toward Yugoslavia made a mockery of the CFSP. Notwithstanding these problems, admission was granted in 1995 to Sweden, Finland, and Austria, each of which left the European Free Trade Association (EFTA) to join the EU.

In an effort to avoid potential dependence on the West, the Eastern bloc nations had previously established the Council for Mutual Economic Assistance (CMEA) in 1959. Falling short of its intention to be the Eastern bloc's alternative to the EC, the CMEA never contained a supra-national authority whose decisions were binding on member states, failed to coordinate policies toward non-member states, and kept intact internal
trade barriers (Baylis 1994, 90). Despite these shortcomings, however, the CMEA did foster trade among its member states and with the USSR. Although the CMEA disintegrated in 1991, the groundwork had already been laid for intra-regional cooperation. On February 15, 1991, Poland, Hungary, and Czechoslovakia signed the Visegrad Declaration, institutionalizing policy coordination among them and simultaneously seeking their integration with Western Europe. Policy coordination was evident at the May 1992 Prague summit, when the VCs agreed to jointly submit their applications for EC membership. Although the Visegrad Declaration led to a free trade agreement among the signatories in December 1992, trade among the former CMEA countries and with the former Soviet republics declined dramatically (Baylis 1994, 100).

The VCs' need to orient their economies toward the West was obvious. Economic ties between East and West were not new, however, having originated during the Cold War. An early example of economic cooperation between East and West was the case of Romania, which was recognized in 1974 as a 'developing nation' by the EC and was subsequently granted preferential status. Still, it was not until 1988 that the CMEA and the EC signed a mutual recognition agreement establishing formal relations. Though mostly political in nature, this recognition agreement did allow individual CMEA countries to negotiate trade agreements with the EC. Soon after the original agreement was signed, Hungary signed its own treaty with the EC that included quota reductions on approximately two thousand items. Unfortunately for the Hungarians, no EC concessions were made on Hungarian steel products or agricultural exports, sectors in which they were most competitive. By 1989 the EC had signed similar agreements with Poland, the USSR, and Czechoslovakia.

The future importance of these agreements was in the diplomatic foundation they established. In July 1989 the EC Commission was mandated to implement the PHARE program (Poland/Hungary: Assistance to the Restructuring of the Economy). The program, which was extended to the other Eastern European countries by mid-1990, coordinated bilateral aid of 300 million ECU ($390 million) from the G-24 countries for food assistance, establishment of joint ventures, management training, access to Western European markets, and environmental cooperation (Baylis 1994, 98). The PHARE program was instituted following negotiations over organization of the European Bank for Reconstruction and Development (EBRD). The EBRD, which provides loans to developing Eastern European economies, began operations in
1991 and was an explicit statement of the EC's commitment to assist the VC economies. By 1990 the EC countries had passed the CMEA countries as Hungary's foremost trading partner. Also in 1990, Hungary became the first Eastern European state to become a full member of the Council of Europe.6 The Czech and Slovak Federal Republic joined the Council in February of 1991; Poland was admitted in November 1991; Bulgaria was first admitted as a guest, and its status was upgraded after its political situation stabilized. Romania, originally denied admission due to lack of human rights progress, was recently admitted as an associate member. Membership in the Council is particularly significant because members benefit from the Demosthenes Program, which provides subsidies, education, and assistance in the development of democratic institutions in Eastern Europe (Kritz 1993, 25).

The European Association Agreements, signed by the VCs and the EC in December 1991, were seen as the next logical step toward integration. The Association Agreements were meant to establish the framework that would lead to full integration by offering various trade concessions and economic assistance programs to the VCs (Bugajski 1993, 212). The EU's December 1992 Edinburgh summit served to further inflate the VCs' hopes for EC membership because it was the first time the EC had officially expressed willingness to accept the VCs into their organization. At the 1993 Copenhagen Summit, the EU established the following guidelines, vague though they were, for membership:

Membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressures and market forces within the EU. Membership presupposes the candidate's ability to take on the obligations of membership including adherence to the aims of political and economic and monetary union (Copenhagen Summit, European Council 1993).

At the December 1994 Essen Summit, the European Council went a step further, explicitly stating the EU's intention to help integrate the states of Eastern Europe. At the same time, however, the Council acknowledged the need to create institutions and procedures to realize this goal. Therefore, it concluded that no negotiations for accession would be undertaken until after the 1996 intra-governmental summit, at which time
these institutions and procedures are to be established. In April 1994 Hungary and Poland each applied for full membership to the EU, hoping to be accepted by 2000. The Czech Republic and Slovakia each plan to submit their applications after the 1996 conference, also aiming for acceptance in 2000.

VCs' Reasons for Looking West

Why are the VCs so anxious to join the EU? The answer is based on a combination of ideology and economics. Ideologically, the EU embodies western democratic ideals. Economically, the EU represents one of the strongest, most stable markets in the world. For the newly emerging democracies and economies of Eastern Europe, membership in the EU is seen as a way to enhance their legitimacy and stability. The EU has also established rules that may provide the VCs with goals and models to follow. Of equal importance is the economic situation, since EU members have the money for aid and investments as well as control over trading markets. The VCs are afraid that they will not advance economically and will continue to be viewed as a buffer zone between East and West if they are not made a part of European integration (Karp 1993, 7f). Mette Skak, a scholar of Eastern European economic and social issues, identifies two further important considerations when evaluating the policies of the VCs: "the structural factors outside the control of the decision maker" and "the aims, strategies and perceptions of the decision makers themselves" (Skak 1993, 119). The structural factors relate to the quest for political, economic, and military stability. The motives of the decision makers also complicate the analysis since many of these current decision makers are the same people who ruled under the communist system.

Whatever their motives, the VCs' plea to the EU has been to establish guidelines and an estimated time line for their integration. In reply, the EU has established only vague criteria and no concrete time line for admission of the VCs, thus far enunciating only the following: definitely not until after 1996, probably not before 2000, and possibly not before 2010. Nonetheless, it is toward these vague criteria that the reform policies of the VCs have been aimed with the hope that integration will soon follow.

EU's Reasons for Integrating the East

The collapse of the Soviet bloc ended 40 years of European division and has freed the Europeans from the fear that their countries could become
the theater of nuclear war. At the same time, however, new threats have emerged in Eastern Europe. As we have seen in the former Yugoslavia, difficult economic conditions and unstable political environments have fostered nationalism and ethnic strife. Although these conflicts are local in nature, they can easily spread. Before 1989, the divisions within Europe bred political and economic turmoil in Eastern Europe. Today, there is no longer a wall protecting Western Europe from problems in the East. Economic problems in East/Central Europe might result in a significant outflow to the West of unemployed migrants or refugees fleeing ethnic conflicts. It is therefore not only a moral obligation but also in the self-interest of Western countries to help stabilize the East (Baldwin 1995, 475).

It is self-evident that the EU must assume major responsibility for supporting the East. Considering the EU’s economic power and geographic proximity, there are few other countries or organizations able to help the Eastern European countries stabilize their democracies and economies. Additionally, the VCs offer increasingly large export markets for western companies. In 1992 both EFTA and the EU registered trade surpluses of $1.9 billion with the Central European countries, and exports may increase by more than 10 percent annually over the next ten years (de Weydenthal 1994, 25). It is therefore no surprise that the EU’s engagement with the VCs is larger than anywhere else in Eastern Europe. The VCs not only have the most stable democracies and prosperous economies in Eastern Europe but also the closest historical and cultural links to Western Europe. Consequently, the VCs are likely to be the first countries in the East that will be granted admission to the EU. This could take years if not decades, however, because the EU’s common interest in integrating the VCs has been undermined by divergent national interests of EU member states.

Integrating the East: EU’s Problems

Issues at Stake

The EU’s functioning rests on a complex set of economic and political compromises. As one example, the assignment of national quotas on agricultural products is based on an enigmatic clearing system. Although achieving compromise among its divergent national interests is eased by the possibility of formulating package deals, this also means that every significant change in one sector requires adjustments in other areas to maintain the system’s balance. The establishment of the single market, for
instance, which primarily favors the northern industrialized countries, was accompanied by a doubling of structural funds, which buffers the southern member states from setbacks they have experienced owing to their participation in the single market.

Admission of the VCs would necessitate new adjustments among the current member states. Considering their economic and political situations, which challenge different interests of EU member states, new compromises would be difficult to find. The admission of Sweden, Finland, and Austria should not be taken as precedent for the ease of the VCs' admission. These three newest EU members already enjoyed stable economic and political circumstances before applying for membership. Moreover, the EU is in an advanced state of integration, which means that every new admission creates a huge number of open questions that must first be settled (e.g., the issue of a European security system). The following five issues illustrate problems the member states face in settling their disputes over admission policy for the VCs.

First, the West European governments fear that a united Germany will eventually develop a disproportionate amount of power in Eastern Europe. German capital is already dominant in the VCs. In Hungary it accounts for 30 percent of total foreign capital; in Poland for 35 percent. Moreover, a large share of VC exports goes to Germany (Spector 1993, 339). Fear that Germany's dominant economic position could eventually be used to influence VC voting behavior in the EU is widespread. The French government is also afraid of being pushed to the periphery, whereas enlargement to the north and east of Europe pulls Germany more toward the center of Europe.

Second, the integration of the VCs would create huge financial strains on the EU's budget. It is estimated that enlargement would raise the cost of the Common Agricultural Policy (CAP) by $47 billion annually. Moreover, the VCs would be eligible upon admission to receive the same amount from the EU's structural funds. Admitting the four eastern countries in 2000 could increase annual EU spending by 58 billion ECU, which is 60 percent of the EU's projected budget for the year 2000. Because a region is eligible for EU financial support as long as its average income is less than 75 percent of the EU average, this budget drain is likely to remain for decades. "If the EU income average grows at 2 percent and Visegrad's averaged three times that pace, two decades would pass before they reached the 75 percent cutoff" (Baldwin 1995, 447). Accordingly, the EU would have to increase its demands for budget contributions
from wealthier members and/or reduce regional aid to those countries that are currently net recipients. Either alternative would be difficult to push through. Wealthier members would be forced to increase taxes to enlarge their contributions, a highly unpopular measure considering that they are already net contributors. On the other hand, Spain, Portugal, Greece, and Ireland are unlikely to cede many of their subsidies.

The powerful agricultural lobby is especially resistant to integration of the VCs. Speaking for the Spanish farmers, who are greatly dependent on agricultural and regional subsidies, Carlos Westendorp, the Spanish minister for European affairs, says that enlargement should not be used to discuss reforms for EU agricultural and development subsidies (International Herald Tribune 1995). The Spanish government has gained support from France, which also hosts a strong farmer lobby. In contrast, the British government refuses to enlarge the EU budget because Britain's benefits are only marginal. The British also fear that a budget increase would lead to an increase in Brussels' interference with national affairs. Hence it becomes clear why the three EFTA countries were granted membership without hesitation. Taking their wealthy economies into account, the EU will likely profit from the admission of Austria, Finland, and Sweden.

Third, the VCs' comparative advantage lies in exactly those areas in which the EU already faces intense competition. The production of textiles, steel, coal, and agricultural goods is heavily subsidized in EU countries. By granting the VCs admission to the single market, the West European industries and farmers would face a painful loss of profits, hitting southern countries in particular because of their concentration on textiles and agriculture. Moreover, the southern countries fear that the VCs would attract foreign investment that would otherwise go into their own economies. The VCs are not only closer to the center of Europe but also offer cheaper wages and lower social welfare costs than Spain and Greece (Axt 1993, 434). Therefore, it is no surprise that the EU has made it clear from the outset that the CAP will remain closed to non-EU members and that agricultural, steel, coal, and textile protection will remain sacrosanct. Considering the wealthy economies of Sweden, Austria, and Finland, granting membership to these countries spurred almost no resistance from western governments.

Fourth, the EU decision making process is characterized by the search for consensus and compromise, often making 'package deals' necessary. For Sweden, Finland, and Austria, enlargement did not undermine the
EU's ability to form package deals since all three countries had already built a close network with the EC. In addition, all three governments commanded a large diplomatic staff. The prospect for the VCs' membership is very different. Both sides have only recently started to cement a stable network with the EU. Additionally, the VCs do not command the large bureaucratic staff that would be necessary to present their interests effectively in Brussels and implement EU directives at home. Little knowledge exists in Brussels about future policies of the VCs. Assuming that the VCs join in 2000, less than five years is available in which to formulate a consistent European policy. Current EU members required more than twenty years for these tasks. Admission of the VCs to the EU would create one added problem related to the decision making process in Brussels. Under existing voting rules, admission of the VCs would shift voting power from large to small countries. This shift implies that wealthier countries would need to pay for what the poorer countries want in the EU budget. Although Germany has generally accepted such reductions in its voting power, the French and British governments have not.

Finally, the Maastricht Treaty foresees closer cooperation in the foreign and security policies of member states. Based on a compromise between adherents of NATO and proponents of an independent European security system, the member states agreed to develop a European defense identity that is strongly linked to NATO. The preferred vehicle for a common European security policy is the West European Union (WEU), which was founded in 1954. Yet it is not clear whether the WEU will ever gain any important security function in Europe. Therefore, it should not matter that the VCs want to join the WEU as a stepping stone to full membership in NATO. The VCs, facing an unstable political situation and increasing nationalism in Russia, regard NATO membership as essential for their security. Membership in the WEU, however, has security implications for NATO. According to the WEU treaty, an attack on one member state obliges other WEU partners to provide military assistance. In case of an attack on one WEU member state, NATO would automatically become involved because most WEU members are also NATO members. In view of the dominant position of the United States in NATO, U.S. troops could become involved too. Membership of the VCs therefore also depends on U.S. approval. Since the Atlantic Alliance is already under extreme pressure because of debates over NATO's post-cold war role, the Europeans will likely respect the interests of their American partner.
In conclusion, the question of VC integration fosters a recurrence of old conflicts inside the EU. The budget and decision making issues, in particular, provoke struggles between the rich North and the poor South, between small and big countries, and between industrial and agrarian lobby groups and consumers. Low-wage countries such as Spain, Greece, and Portugal fear economic competition from the Visegrad countries. Moreover, they have grave misgivings that the EU’s financial transfers will be re-directed to the East. The rich countries in the North understand southern fears but are not willing to compensate the Mediterranean countries and Ireland for the costs that would be imposed by integrating the East. In addition to economic and financial conflicts, the Paris-Bonn axle, which has always been the motor of European integration, could be endangered because of France’s refusal to give up its political supremacy in Europe. Apprehension that Germany could expand its political influence in Europe influences the French attitude toward the EU’s enlargement. Finally, the issue of establishing a new European security framework is still unresolved.

The VCs are not the source for the intra-EU conflicts, however. Instead, these conflicts are based on divergent interests within the EU that have been in existence since the Rome Treaties, interests that cloud the EU’s attitude toward integration and spark nationalist sentiments in Europe.

EU’s Big Confusion

Caught by surprise, the EU, western governments, and the eastern countries lacked any strategy for dealing with the end of Europe’s division and its implications for East and West. Today, the EU and its member states have not yet developed a consistent Ostpolitik. Instead of freezing its deliberations on West European integration to digest the implications for the continent, the EU member states have burrowed more deeply into the Maastricht trenches. Indeed, West European centrism reaches back to the beginnings of the EC. The question of how widely the boundaries of a future EC should be drawn never occupied the minds of the ‘founding fathers’. If there is any consistency in the EU’s Ostpolitik, it lies in the fact that it does not serve the interests of Eastern Europe. In accordance with the Association Agreements, the EU continues to protect the interests of West European farmers, the coal and steel lobbies, and the textile industry against the VCs’ export industries, as it has done since the first trade agreements in the 1980s.
This lack of a coherent strategy to integrate the eastern countries, however, does not mean that the western governments are ignorant of the VCs' requests for EU membership. But instead of matching these requests with a creative spirit, the EU member states mingle them with the struggle over the right structure of the future union. The Maastricht Treaty does not include an obligatory strategy for further integration. As Werner Weidenfeld, professor at the University of Mainz, has written "the existing gap between the tasks and the decision making capacity of the EC has not been closed in Maastricht" (Weidenfeld 1992, 322). Instead, Maastricht's shortcomings have again provoked the eternal struggle between those who favor and those who oppose further transfers of national sovereignty to Brussels. The issue at stake is the decision between deepening or widening—between furthering integration within the EU or immediate enlargement of the Community through accession of new member states.

The Danish and British governments have asked for immediate admission of the eastern countries. They argue that deepening would take the EU further away, which would make it more difficult for the eastern countries to join. Their claim for brisk enlargement, however, is not based on altruistic support for the eastern countries. Although Britain and Denmark have granted to opt-out of some provisions of the Maastricht Treaty (e.g., the EMU), these countries would still prefer to turn back the wheel of the Community's history rather than accept the EU's further integration. The possibility of the EU's enlargement provides them with a reasonable argument to freeze the present state of integration without necessarily being accused of taking a negative stance toward the EU. Moreover, the British government welcomes opening of the eastern markets because it expects that increased competition in an unregulated single market will cut its production costs and thereby strengthen its position in the world market. This argument has already led to Thatcher's unreserved approval of the SEA (Dinan 1994, 154).

The supra-nationalists, on the other hand, argue that a deepening of the EU is a prerequisite for its enlargement. According to the European Commission, "an enlarged Community will not be able to operate effectively without major institutional change. This will, in particular, affect the Commission, Council, and Parliament. The only realistic path for the Community is toward a federal Europe" (Spector 1993, 337). European supra-nationalists fear that the EU's responsibilities for VC membership would break the EU apart. In addition to the commission, this view is shared by the governments of the Benelux countries, France, Germany,
and the European Parliament. Whereas the European Parliament and the European Commission are interested in further integration because it would enhance their institutional position, however, the French government opposes further transfers of sovereignty but still regards it as the lesser evil. The alternative is an immediate enlargement accompanied by an increase in German power and influence within the EU. The German government takes a particular stance in this debate, relying on the EU's capacity to integrate horizontally and vertically and proposing a simultaneous deepening and widening of the EU. The problem with the German Spagat (splits) is that Germany, which is still suffering from the financial burden of reunification, is increasingly less willing to pay for this solution.

Keeping this struggle in mind, the EU's vague admission criteria are perfunctory. Owing to its lack of clear concepts, nobody knows where the 'train of integration' will pull up today and where it will go tomorrow. The Europeans' perplexity also makes it difficult to lay down clear admission criteria. The European Council's statement at the Copenhagen summit is hardly a specific guideline for admission. One is tempted to assume that its ambiguity bears the intention to keep the East at a distance. It is therefore not surprising that the Council made clear at the Essen summit that the EU would not commit itself to awarding membership to applicants that fulfill the admission conditions.

**Toward Integration: A View From the East**

**Policy Goals, Implementation, and Effectiveness**

With hopes of minimizing the length of the integration process, the VCs have consistently formulated their reform policies in the manner dictated by the EU. The Treaty of Rome states that "Any European state may apply to the Community" (Treaty of Rome 1957, Article 237). This, however, is neither a sufficient condition for membership nor a direction in which to aim policy. At the 1993 Copenhagen Summit, the European Council outlined basic criteria for membership. The Council requires, for instance, that all members have an established rule of law and institutions that guarantee democracy. Both of these concepts are vague and subject to definitional arguments. But, in June 1990, the Commission on Security and Cooperation in Europe (CSCE) established criteria for what qualifies as rule of law under democracy and some of the basic institutions necessary to guarantee it, including:
... representative government in which the executive is accountable to the voters, either directly or through the elected legislature; the duty of government to act in compliance with the constitution and laws; a clear separation between the state and political parties; accountability of military and police officers to civilian authorities; consideration and adoption of legislation via regular public procedures; publication of regulations as a condition for their validity; effective means of redress against administrative decisions and the provision to the person affected of information about the remedies available; an independent judiciary; protection of the independence of legal practitioners; and numerous requirements in the area of criminal procedure.\textsuperscript{7}

That the VCs made immediate and definitive efforts to build their institutions in accordance with these comprehensive standards indicates a commitment to the democratic process within those states. Moreover, the stability of democratic regimes depends upon popular involvement and support. Through surveys of political attitudes and economic behavior, the Paul Lazarsfeld Society in Vienna has traced popular support during the transitions in Eastern Europe. The surveys indicate that popular support for these transition regimes is significantly higher in most countries, with the only exception being a decrease in popular support among Hungarians—from 58 percent supporting the communist regime to 51 percent favoring the 1993 regime. The Society predicts an average acceptance rate of 78 percent by 1998 in all of Eastern Europe, with the average for the VCs coming to almost 82 percent (Rose and Haerpfer 1995, 433ff). This large percentage of popular support is reflective of the institutionalization of democracy into society.

The Paul Lazarsfeld Society conducted a similar survey to evaluate popular responses to the economic systems during the transition period. Popular support for these new economic systems was lower than for the political systems in every case, and lower than that for communist systems in most cases. Yet the Society still predicted that the majority of people would approve of the new economic systems by 1998. Popular support is one indicator of a stable market economy. Without such support, governments can find it difficult to convince their citizens that they must endure some hardships before realizing the benefits of capitalism.

Economic indicators support strides the VCs have made toward successful market reforms. In its 1994 report the UN Secretariat of the
Economic Commission for Europe (ECE) named three positive macroeconomic tendencies that could be observed in all of the VCs: an increase in output growth; a slow-down of inflation and; improved current account positions (Secretariat of the Economic Commission for Europe 1993, 29f). GDP growth in the Czech Republic, Poland, and Slovakia ranged from two to five percent in the first part of 1994. The growth rate in Hungary was slower but still positive. The Czech Republic and Slovakia also had the lowest inflation rates in the region at 10 and 12 percent per annum, respectively. Though not as low as in the Czech Republic and Slovakia, inflation rates in Hungary and Poland also fell from their 1993 levels. In addition, all four countries showed improvements in their current account balances. By these standards, all of the economies of the VCs qualify as functioning market economies.

Nonetheless, the successful resurgence of former communists on the electoral front, particularly in Poland and Hungary, reflects the dissatisfaction of voters with domestic economic and social welfare issues. Despite these developments, however, virtually no one in either the East or the West views these reform communists as a threat to the transition process; instead they are viewed as ‘normal’ politicians. Hungarian and Polish voters are not utterly disillusioned with the transition process. Rather, voters are simply expressing their dissatisfaction with the ineffectiveness of incumbents’ policy initiatives, particularly in the realm of economic development and social welfare. Indeed, former communist Aleksander Kwasniewski, Poland’s newly elected president, made clear from the outset of his campaign that he would not only continue to pursue integration with the EU but would also maintain support for transition economic policies.

Although this assessment of the political processes in Hungary and Poland is well-founded, it neglects an important and complex structural element that includes consideration of the current power structure, its relation to the communist legacy, and the legitimacy of new institutions. Empirical evidence supporting these assertions can be found in the financial prosperity of former nomenklatura; in Poland and Hungary they have reaped 50–60 percent of the economic benefits from privatization (Applebaum 1995, 18). The EU is in danger of poor policy implementation if it fails to realize potential long-term implications corresponding to perpetuation of the communist power structure, economic exclusion, and political instability. Economic prosperity and political success inarguably tend to accompany one another in democratic systems.
In addition, the European Association Agreements have made it extremely difficult for the VCs to fulfill the economic criteria necessary for their admission to the EU. The terms of the 1991 European Association Agreements and their subsequent modifications, granted at the 1993 Copenhagen Summit, include:

- the recognition of the objective of post-communist European countries to attain full EU membership;
- a commitment to harmonize domestic economic legislation with that of the EU;
- promises of further EU financial and technical assistance (no specific amounts were indicated);
- the possible introduction of free trade in services as well as full liberalization of market access for industrial products within five years of the agreements' trade provisions (the Interim Trade Agreements) having entered into force;
- the elimination of quantitative restrictions on industrial imports on the date the Interim Trade Agreement enter into force, except for imports governed by the Multi-Fiber Agreement and the European Coal and Steel Community;
- the granting of tariff and/or quota concessions on industrial imports;
- the elimination of some quantitative restrictions on agricultural imports when the Interim Trade Agreements enter into force; other restrictions will be either gradually liberalized or maintained, depending on revision of the Common Agricultural Policy;
- the reduction of duties on food imports; permitting increases in agricultural imports of up to 10 percent annually for the five years following the ratification of the full European Association Agreements (Galinos 1994, 20).

Implicit in the wording of these agreements is a dualistic message typical of the EU's policy toward integrating the VCs—supportive of these newly emerging democracies and market economies, yet concerned foremost with their own economic well-being. This attitude is reflected in the restrictions placed on the VCs' exports. The Association Agreements do not allow the VCs to make significant progress in trade with the EU primarily because of restrictions maintained in 'sensitive sectors' such as textiles, steel, and agriculture, areas in which the VCs typically have a comparative advantage. As reported by Eurostat, the terms of these Asso-
Association Agreements resulted in an increase in the EU's trade surplus with Eastern Europe from 2.5 billion ECU in 1992 to 5.6 billion ECU in 1993—hardly reflective of a policy designed to help emerging economies catch up with EU members. In response, the VCs are becoming restless and skeptical of EU policy. The VCs have consistently undertaken legislative and economic reforms in an attempt to meet the membership criteria thus far established by the EU. Despite these reforms and impressive economic strides, though, the EU still fails to offer concrete guidelines or a timeline for potential integration.

The EU's Lack of Responsiveness

Although the EU realizes the importance of market access, it has failed to formulate a concrete policy and change its system to allow for smooth integration of the VCs. Policy emphasis in the EU has been aimed primarily at changing the political and economic institutions of the VCs before even considering integration. The EU has not, however, made any real accommodations to aid this process of integration by opening up its markets to the VCs. Skak (Skak, 134) presents three arguments for the necessity of market access as a precursor to the consolidation of the East's young democracies and market economies. The first is the loss of trade with former CMEA countries. The second is the need for an increase in overall trade accompanied by a change from centrally planned to market economies, something to which both the VCs and the international system must adapt. The third is rooted in a theory of democratization. This argument stresses that democracy must be consolidated with the middle class, which is dependent upon export earnings to provide it with the capital needed to increase its prosperity. Without open markets, a solid middle class may never develop and, as a result, democracy will not be strengthened. This leads to a fundamental question of integration: Are the interests of the EU and VC hopelessly opposed? As one Organization for Economic Cooperation and Development (OECD) official was quoted as saying, "For those areas where they [the VCs] are most competitive, the industrialized countries are the most protectionist. This is virtually unresolvable" (Mihalka 1995, 474). Is this true? Can the interests of the EU and VCs be reconciled or do they necessarily go in different directions?

If history provides any guidance, a solid argument can be made that the VCs should not attempt to fully integrate, at least not yet. Kurt Huebner, political economist at the Free University of Berlin, cites
empirical surveys indicating that long-term positive changes for states in the international wealth hierarchy have affected very few countries (1993, 543). This fact is one not discussed in conjunction with the integration of Eastern Europe into the EU. Moreover, Heinz-Jurgen Axt, professor at the Technical University of Berlin, provides several examples of this lack of improvement for new EU members. Both Spain and Portugal have benefited somewhat from membership in the EU as a result of increases in foreign investment. Both countries, however, have also experienced trade deficits that have not been outweighed by financial transfers from the EU.

The economic situation in Greece, which has seen few benefits from increased foreign investment, has not improved at all. Indeed, one could argue it has worsened. Between 1986-89 Greece's overall trade balance worsened, domestic producers lost from 5–15 percent of the market share, and import penetration eroded the productive foundation of Greek industry. Agricultural subsidies have also not led to an improvement in the productivity of Greek agriculture. These are potential dangers about which there is little discussion or serious thought in the VCs. The November 19, 1994, issue of The Guardian reported that the EU and other OECD members had converted what was a one billion dollar trade deficit into an eight billion dollar surplus over a five year period. This has lead to criticism of the EBRD, which has been blamed for favoring loans to East-West joint ventures over thousands of small entrepreneurs in the East (Traynor 1994, 41).

Conclusion

Prospects for Enlargement

Although the EU's problems integrating the VCs are manifold, Alain Juppe, the French foreign minister, nevertheless emphasizes that it is not a question of whether the eastern countries will join the EU, but when and how. Answering these two questions is a difficult enterprise, but it seems obvious that the "classical Community method" of integrating new members will not work. In the past, new members were integrated into the Community's institutional structure without settling all disagreements. Instead, outstanding disagreements were left until the new member was inside the club and had full decision making and voting rights. It was also common that "problems created by increasing the economic diversity of
an enlarged Community [were] addressed by the creation of new policy instruments overlaid onto existing ones rather than by fundamental reform of the inadequacies of the latter” (Preston 1995, 454). Continuing the classical method would certainly lead to financial deadlock in view of the huge strain admission of the VCs would place on the EU’s budget. Moreover, Brussels’ decision making procedures in which decisions about membership are taken by the Council of Ministers according to the unanimity rule would either collapse under the amount of unsettled disputes or would delay decisions.

Accordingly, there is overall agreement that open questions and disputes regarding enlargement and shortcomings of the Maastricht Treaty must be settled before VC membership can be negotiated. This implies that negotiations will not take place before 1996, when the Intergovernmental Conference reviews the Maastricht Treaty. After 1996, prospects for integration still do not look very promising. At the moment, only Germany strongly supports, and would also be able to pay for, the integration of Eastern Europe. Germany, however, is not enough. In the past, the motor of integration has been the Bonn-Paris axle. Today, France is very cautious about enlargement, fearing it will lose its dominant position in Europe. But it is not only France that must be taken into account. Virtually every member state must be assured it will not be worse off after the expansion from fifteen to nineteen members. Considering the open questions, this is likely to be a time-consuming enterprise. Three years have already been taken ratifying the Association Agreements. A good guess would be that the VCs eventually join the EU around 2010.

In the meantime, the ‘pre-access strategy’ issued at the Essen summit will strengthen political ties between East and West. The EU and the VCs envisage close cooperation between their foreign ministers and have scheduled regular meetings on security, terrorism, and human rights. Economic ties will be strengthened by the abolishment of all trade barriers at the beginning of the next century following full implementation of the Association Agreements. This step-by-step strategy gives the eastern governments time to cement their democracies and promote their economies. It will provide the EU member states with an opportunity to settle their disputes in order to stabilize their own integration process. This strategy is identified with an integration model called the “Europe of concentric rings,” whose underlying assumption is that the speed of integration should not be determined by the weakest member state or, in the case of the VCs, by new applicants. A possible pattern might be that
six or more member states that fulfill the monetary criteria proceed with
integration by joining the EMU, while the other states take longer periods
of time. The VCs would stay outside the Maastricht framework but would
be economically tied to the EU by a customs union, which would prepare
them for joining the single market and eventually the EMU. Although this
model has been criticized because of its centrifugal tendencies, the EU has
in fact already devised opportunities to opt out of the overall integration
process. Given current resistance and problems with integrating the VCs
immediately, this model is the only likely alternative to bring the VCs into
the EU. "But such is the rapidity of change and uncertainty of events that
nothing can be predicted with much confidence" (Nugent 1992, 327).

Obstacles and Alternatives to EU Membership

Skak makes an important point in stating that "The Visegrad countries' quest for EC membership and market access is a similar dual quest for the
reassertion of national pride and the achievement of international
reintegration" (Skak, 132). EU admission has, however, been the focal
point of all reform policy. Though integration with the world community
is an admirable and necessary goal, it must be asked at what cost
integration is acceptable. The VCs have shunned attempts at intra-regional
cooperation except in terms of that which would lead to eventual
integration with the EU. Their fear is that too much intra-regional
cooperation will work against eventual EU membership. Indeed, Vaclav
Havel has even called Visegrad cooperation an artificial construct of the
West. This attitude is most evident in Hungary and the Czech Republic,
the latter being the current forerunner in meeting EU criteria and the
former having pursued the most aggressive integration policy at an early
stage.

In contrast, Poland and Slovakia have displayed the most nationalistic
sentiments. In the spring of 1992 opposition to the Association Treaty
revealed itself in Poland, perhaps in response to domestic economic
hardships felt as a result of adopting policies geared toward integration.
Former Slovak Prime Minister Jan Carnogursky, who engineered Slovakia's
independence policy, said in a personal interview that "Slovakia prefers
a linkage to the West but if the West—that is, the EC—takes a negative
attitude, Slovakia will be able to go to the East and then the West loses
an important buffer" (Skak, 131). These assertions of VC national pride are
few and certainly outweighed by their unwavering quest for EU member-
ship. Reactions within each of the VCs have also varied. Poland, for example, nurtures close ties with Germany and acknowledges Germany's predominant economic and growing political position within the EU. The importance Poland attributes to Germany's position is evidenced by the fact that Aleksander Kwasniewski's first official trip abroad as Poland's president was to Bonn. The Czech Republic, on the other hand, because of unsettled animosities with Germany, has decided to accede based on tight monetary and liberal market policies.

Do the VCs have any choice in reforming their political and economic systems or is full integration with the EU their only hope for prosperity and stability in the future? The main arguments against alternatives to EU membership are twofold: one economic, one socio-political. The economic argument is embedded in the fear that the VCs will be forever left out of economic advances unless they are part of the EU. The socio-political argument points to historical animosities that are exacerbated by ethnic, religious, and cultural differences, and claims that integration with the West is the only way for the East to avoid domestic and regional instability. Inherent in the socio-political argument is the potentially dangerous mixture of ethnicity, nationalism, and democracy. Both arguments assume that not entering into the EU will preclude the VCs' cooperative relations with it.

Though the economic argument had considerable weight when Central Europe first emerged from communist control, it is less convincing now. The economies of the VCs are open, aid patterns and agreements have been established, and yet EU markets still remain protectionist in sensitive areas. It is in the interest of the EU to help the emerging democracies and their economies, and they have. Yet it is not in the interest of the EU to improve those economies at a cost to their own, and it is unlikely that the EU will undertake policies that are not ultimately in its own best interests. Furthermore, the VCs are not necessarily guarding their own interests as they formulate economic policies in anticipation of EU membership. Foreign trade policy is a relatively new concept for the VCs and they have naturally looked to Western models for guidance. Moreover, excessive focus on trade, aid, and investment risks neglecting the microeconomic reforms needed in the VCs to develop their internal economies. It must not therefore be assumed that the VCs can only stand to benefit from EU membership.

The socio-political argument is even less firmly grounded. There is no doubt that there is great ethnic tension in the area, but such tensions do
not preclude communication and cooperation. Ethnic tensions were largely suppressed but never resolved under Marxist-Leninist regimes. By neglecting resurgent minority issues in lieu of concentrating on European integration, the VCs are essentially ignoring this issue. Though typically viewed as a source of disagreement and potential upheaval, minorities may also act "as bridges between neighboring states that can help foster cooperation and mutual understanding" (Bugajski 1993, xvii). None of the VCs are without minorities, so the topic is a good one for communication and could serve to create a more unified feeling within the states themselves as well as within the region. Slovakia and Hungary signed a bilateral treaty in 1995 that included agreement on treatment of ethnic Hungarians within the Slovakian state.

Regional cooperation gives the Eastern European states strength and credibility within their borders, within their region, and within the entire international theater. Instead of looking west for legitimacy, these states could look to themselves. This is not to say that the VCs should turn away from the EU, but rather that they should cooperate with the EU as a unified whole. The benefits of intra-regional cooperation were acknowledged by the EU-Hungary Association Council at its July 1995 meeting. The overriding issue is based not purely on economic, political, or security factors but is instead based on an intricate combination of the three. Moreover, the policy debate regarding accession of the VCs must also consider international, regional, and domestic circumstances. The Visegrad Declaration set a good precedent for cooperation but, in defining its ultimate goal as EU integration, fosters unnecessary competition and disagreement among the signatories. Indeed, the Czech Republic and Hungary even view Poland and Slovakia as impediments to their integration.

What has been ignored in the pursuit of EU membership is the commonality of interests among the VCs—all are newly emergent democracies that are striving for a political and economic place in the international arena. They are together in unique historical and developmental positions as the first nations ever to emerge from communism and undergo the transition to democracy and capitalism. The VCs themselves possess similar social, political, and economic characteristics, which could serve as a foundation for regional cooperation among themselves. EU members are shedding their nationalistic identities at the same time that the VCs are trying to establish them.
For the VCs to accomplish both of these tasks simultaneously will be difficult if not impossible. Creating a sense of national identity and integrity is essential to consolidate a democracy. Though one typically thinks of its more violent forms when reported by the media, nationalism need not be xenophobic or reactionary; it can be a politically mobilizing force that respects the cultural integrity of others. Historic animosities and ethnic tensions are going to have to be faced and overcome before true stability is achieved in Eastern Europe. Sweeping these concerns under the rug while focusing on EU integration serves only to delay their discussion.

The benefits of overcoming obstacles to regional cooperation would far outweigh the costs. By discussing and dealing with ethnic tensions in a direct manner, the VCs would prevent future disagreements that are bound to arise regardless of their EU membership status. Moreover, the states and the region would have a stronger sense of identity and unity. For the first time in their histories, the VCs would not be subordinate to other powers. The economic might of the region may take a very long time to develop, but the likelihood of it improving dramatically because of membership in the EU is slim. The region's countries would be wise to address the other issues that face their societies. It is true that stable, prosperous economies are supportive of stable, successful democracies, but economics alone does not create political stability. Legitimacy within a society rests on stability at all levels.

The most viable alternative to EU membership is a form of regional cooperation. The VCs share common interests and aims. Instead of focusing their attention on adapting to the EU, they must pay closer attention to their internal reforms. By cooperating with one another, the VCs could create secure, stable relationships and institutions. This would serve to make the region as a whole and the VCs as individual countries more attractive partners for the EU. In addition, it would strengthen the VCs and make them less dependent on the EU. The VCs cannot and should not ignore paths to cooperation with the EU. By the same token, they should not make EU membership their immediate and exclusive goal. The VCs and the EU both could benefit from loose cooperative efforts while consolidating their own institutions. When both are coming from more equal and stable positions, full integration of the two regions could prove more beneficial to all. Time must not be the overriding concern for either the VCs or the EU.
Notes

1 As a result of the Maastricht Treaty, the EC was renamed the EU effective October 1993.

2 It should be noted that Germany, being aware of its neighbors’ fears, strongly supported the Maastricht Treaty. Indeed, Maastricht can be regarded as a tradeoff in which Germany exchanged its support for further European integration in return for British and French support for German reunification.

3 The primary criteria are reductions in the public debt and inflation rate as well as a tight public budget.

4 The CMEA included the GDR, Poland, Czechoslovakia, Hungary, Romania, and Bulgaria as well as Cuba, Vietnam, and Mongolia. Originally formed in 1949, it was not activated until 1959.

5 Exports from Czechoslovakia to the EC increased from $2,481 million in 1988 to $5,761 million in 1992. Meanwhile, exports to other Central and Eastern European countries declined from $2,579 million in 1988 to $1,129 million in 1992. The same years in Hungary reflect an increase in exports to the EC from $2,205 million to $5,313 million, with a decrease in exports to Central and Eastern European countries from $1,696 million to $672 million. In Poland, the increase in exports to the EC went from $3,467 million to $8,446 million while the decrease in exports to Central and Eastern European countries went from $2,366 million to $709 million.

6 The Council of Europe, though not officially tied to the European Community, was seen as a stepping stone to membership in the EC.

7 The CSCE met in Copenhagen in June 1990 and established the most comprehensive standards for rule of law and democracy ever adopted by an international organization. The CSCE reasserted its commitment to human rights and respect for minorities, as originally established in the Helsinki Final Act of 1975. Commitment to ideals of democracy and legitimacy was included for the first time.

References


Privatization of Social Security in the United States: Magic Bullet or Sleight of Hand?

David B. Edelstein

The social security system in the United States is racing towards its own death. In 35 years the number of Americans over age 65 is expected to double, while the number of new workers will likely decline. As a result, the Social Security Trust Fund, which relies on current taxes to pay benefits, is predicted to deplete its resources by 2029. The program long considered untouchable by politicians is now in desperate need of meaningful reform. This paper reviews the importance of social security and examines its likely future. It briefly examines options put forth to reinvigorate the system, focuses on the potential of social security privatization, and concludes with a solution which is both politically feasible and fiscally responsible.

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The Funding Dilemma

Demographers tracking the United States population have chronicled what many would consider to be extraordinarily good news. In the past 60 years, the average life expectancy for people reaching the age of 65 has leapt from 12.6 to 17.5 additional years of life. By 2030, those who reach 65 years of age can, on average, expect to enjoy an additional 19 years (Kerrey 1994, 14). This trend, together with the aging of the “baby boomers,” will double the number of Americans over age 65 in the next 35 years (U.S. Bureau of the Census 1995, Table 17). Demographers have also observed a decline in the birthrate over this period and anticipate further declines (U.S. Bureau of the Census 1995, Table 4; U.S. Bureau of the Census 1975, Table B1-4). Most would consider this to be good news as well.

Taken together, however, these trends are extremely bad news for those responsible for maintaining the health of the Social Security Trust Fund. The social security system in the United States is an unfunded, or pay-as-you-go, system. Tax revenues collected from current workers are used to pay the benefits of current retirees. Under this framework, the number of workers per retiree, or support ratio, determines the burden on those workers.

The support ratio has fallen dramatically over time and is expected to continue its downward trend. In 1950, there were 16 workers for each recipient of social security. Today there are only 3.2 workers per retiree. The Board of Trustees of the Social Security Trust Fund predicts that by 2030 only 2 people will be contributing to the Fund for each dependent retiree (Board of Trustees 1995, 122).1 Anticipating the declining support ratio, Congress has sharply increased social security tax burdens in the past 20 years. Table 1, which presents total tax liabilities in constant 1995 dollars, provides evidence of the magnitude of the rise in taxes necessary to keep up with the dwindling support ratio.

The relatively high present-day taxes yield revenues which exceed annual obligations of the Trust Fund, thus providing a surplus for the federal government. This strategy was planned with the goal of raising revenue necessary to provide for the “baby boom” generation, those born following World War II and into the mid-1960s (1946–1964). Most baby boomers will retire between the early 2010s and the early 2030s, significantly boosting the government’s fiscal responsibilities. The trust fund surplus is expected to peak in 2013 at about $1.3 trillion (in constant
Table 1. Old Age and Survivors Insurance, Tax Rates and Taxable Income in Constant Dollars.

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax Rate</th>
<th>Maximum Taxable Income (1995 constant dollars)</th>
<th>Maximum Tax (1995 constant dollars)</th>
</tr>
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<tbody>
<tr>
<td>1937</td>
<td>2%</td>
<td>$31,917</td>
<td>$638</td>
</tr>
<tr>
<td>1951</td>
<td>3%</td>
<td>$21,212</td>
<td>$636</td>
</tr>
<tr>
<td>1971</td>
<td>8.10%</td>
<td>$29,505</td>
<td>$2,390</td>
</tr>
<tr>
<td>1991</td>
<td>11.20%</td>
<td>$60,065</td>
<td>$6,727</td>
</tr>
<tr>
<td>1995</td>
<td>10.52%</td>
<td>$61,200</td>
<td>$6,438</td>
</tr>
</tbody>
</table>

Source: 1993 Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance

1984 dollars) (Subcommittee on Social Security 1994, 53), but will then begin a steady decline as more baby boomers retire and the support ratio continues to fall. As the government continues to pay out more than it collects in taxes, it will deplete this large surplus. Intermediate estimates by the Social Security Trust Fund’s Trustees predict that by 2029 the Fund will be insolvent and the government will have to provide general funding or raise taxes to support continued benefit payments (Subcommittee on Social Security 1994, 47).

These predictions have led many workers to question whether they will ever see the money which is currently being taken from their paychecks. Critics of the system have labeled social security a “Ponzi scheme”—paying off early investors with the money of later investors, who typically get little or no return from their investment (Genetski 1993). More telling than such name calling are the results of a recent survey of 500 Americans ages 18 to 34:

- Eighty-seven percent of young people do not think the social security system will have the money available to provide them benefits when they retire.
- Nearly two-thirds of young people surveyed do not believe Social Security will even exist by the time they retire.
- Almost twice as many young people believe in unidentified flying objects (UFOs) as believe in the long-term existence of the social security system (Subcommittee on Social Security 1994, 124).
At best, the long-term vitality of the social security system is uncertain. This paper reviews the importance of social security and examines its likely future. Given constraints imposed by the goals of social security and political considerations, the paper briefly examines options which have been put forth to reinvigorate the system. The paper focuses on the promise and problems of one option, social security privatization, and concludes with a solution which is both politically feasible and fiscally responsible.

Why Do We Have Social Security?

Over 60 years ago, President Franklin D. Roosevelt unveiled his plan for a system which would "take care of human needs and at the same time provide the United States an economic structure of vastly greater soundness" (Social Security Administration 1996). Initially set up to supplement retirement funds, the program quickly came to be seen as an effective social program to raise the living standards of older Americans. The poverty rate among the elderly has declined from 35 percent in 1959 to 13 percent in 1994. Without these benefits, the Social Security Administration estimates that the rate of poverty among the elderly would likely approach 50 percent (Kunerth 1995).

Social security is only designed to serve as a floor of income protection. In what has been called a "three-legged approach," private pensions and personal savings and assets are meant to serve as the primary means of income upon retirement, with social security benefits providing supplemental assistance (Subcommittee on Social Security 1994, 100). As President Eisenhower explained, "The system is not intended as a substitute for private savings, pension plans, and insurance protection. It is, rather, intended as the foundation upon which these other forms of protection can be soundly built" (Social Security Administration 1996). The federal government provides this essential foundation at a minimal cost. The system transfers billions of dollars ($323 billion in 1994) at an administrative cost of less than 1 percent of the benefit expenditures (Papian 1995).

The social welfare aspect of the program cannot be overlooked; social security plays a crucial role in maintaining a good standard of living for older Americans. This is especially the case for poorer individuals, who may not have had opportunities to contribute to pension plans or amass large savings. Today, social security benefits provide 90 percent of the total income for over a quarter of the elderly and for 14 percent of those...
receiving social security payments, it is the sole source of income (Seffers 1995). However, the poor are not the only ones who benefit from social security. Among nonpoor elderly families, nearly one-third of income is derived from social security. These benefits have been largely responsible for the rise in income among the elderly in recent years, as the per capita median income has risen from $3,408 in 1975 to $11,032 in 1992, yielding a 24 percent increase in real purchasing power for this age group (Subcommittee on Social Security 1994, 60). This rise in income is even more dramatic when viewed in conjunction with downward trends in contributions to private retirement funds: "employer contributions dropped 51 percent between 1980 and 1991 while total private pension contributions dropped 22 percent between 1985 and 1991 (in constant dollars)" (Hershey 1995, D2).

The progressive nature of the social security system serves twin goals: adequacy and equity (Subcommittee on Social Security 1994, 70). The adequacy goal seeks to ensure that those with the lowest income will have sufficient resources upon retirement. The equity goal seeks to help those who earned more in their lifetimes sustain the quality of life they have come to enjoy. Although the current social security tax structure, with a uniform tax which only applies to the first $61,200 in earnings, is clearly regressive, the redistribution of these funds favors those who earned less during their working years. For example, a retired worker who consistently earned one-half of the earnings of the average worker receives roughly 65 percent of the average benefit. In contrast, someone who consistently earned 50 percent more than the average worker receives about 30 percent more than the average benefit (Subcommittee on Social Security 1994, 30).

The State of Social Security Today

The U.S. Social Security program, by many accounts the country's most effective social program, appears to be speeding towards insolvency. Legislators have long realized that drastic reforms would be needed to maintain the baseline social security benefits. However, unlike recipients of most social programs, social security recipients are heterogeneous, vocal and politically powerful. This distinction has earned social security the reputation of being "the third-rail of American politics" (you touch it and you're dead). Indeed, most presidential candidates in the current election cycle, have refused to discuss how they would breathe new life
into the social security system. As *Time* magazine concluded in a recent cover story:

The problem is the sort that representative governments are not good at solving: a potential disaster that can be clearly foreseen but is not imminent, and that can be escaped only by accepting some present pain as the price of avoiding much worse future pain. So long as the crisis is not about to burst next month, Democrats will see political profit in portraying any proposal to change social security as a Republican conspiracy to starve the poor and elderly. Republicans will think the only defense is to swear eternal fealty to the system as it is. Whether both parties can overcome the impulse to demagoguery and agree on some reasonable reforms poses nothing less than a severe test of democratic government (Church 1995).

Despite the existence of such political obstacles, Congress has successfully instituted reforms in the past to maintain the health of the system. In 1977 Congress approved a payroll tax increase to be phased-in over the following 12 years and a new indexation structure which more accurately reflected the impact of inflation. In 1983 Congress acted to reduce the rate of growth in social security benefits, increase the tax rate once again and reduce benefits to those who retire before age 65. This legislation also increased the age at which people become eligible for full benefits, which had not been altered since the Social Security Act was passed in 1935. In addition, the 1983 legislation made one-quarter of income received from the Trust Fund subject to taxation. This was boosted to 85 percent in 1993 (Gokhale 1995).

Further changes along these lines present opportunities to prolong the solvency of the Trust Fund. Legislation passed in 1983 established an increase in age of full eligibility, beginning to increase gradually from age 65 in 2003 and reaching age 68 by 2017 (Passell 1996). Given the large increase in life expectancy since the original social security legislation was passed, a more rapid extension of the retirement age may be justified.

Cost-of-living adjustments, which have also been modified in the past, have also come under scrutiny in recent months. A number of prominent economists, including Federal Reserve Board Chairman Alan Greenspan, have suggested that the current method of calculating inflation and the corresponding cost-of-living adjustment overstates true inflation by as
much as 1.5 percentage points (Driscoll 1995). Reducing the cost-of-living adjustment would offer a second mechanism to provide partial relief.

While such measures may offer effective short-term solutions, more fundamental changes must be made to the social security system if it is to continue to serve as a floor on retirement income into the next century. Additional tax increases may be politically difficult to implement and big cuts in benefits may not be feasible in the present political climate. Several legislators have offered more unconventional solutions that they believe have the potential to reform the system in a way which both taxpayers and retirees would endorse.

Legislation submitted by Senators Kerrey and Danforth, Senator Simpson and Representative Porter all rely on a mix of conventional reform proposals, as well as a unifying element which has not been seriously considered in the past. All three proposals suggest that taxpayers should have greater control over a portion of their social security contributions. While none of the proposals eliminate the taxpayers' obligation to provide contributions to the Social Security Trust Fund, they all reduce the obligation slightly and replace it with a private savings requirement. These reforms, as well as others put forth by academics and private sector experts, have sought to "privatize" the social security system to varying degrees.

**Privatization as a Solution**

Proposals to rebuild the social security system take a number of forms, ranging from a slight shift in government responsibility to the elimination of government involvement in the social security system. Most of these proposals for privatization fall into two broad categories: those that aim to improve the investment performance of the Social Security Trust Fund and those that give individuals more control over the money they contribute to the Fund. Proponents of privatization plans claim that allowing alternative investments will result in higher rates of return, which will stimulate economic growth and postpone the expected insolvency date. In addition, they argue that privatization would remove the growing surplus from the government's control, thus promoting greater fiscal responsibility.

This latter advantage, that gained from removing the surplus from government control, deserves elaboration. In anticipation of the jump in the number of social security recipients brought about by the retirement
of the baby boomers, Congress increased the tax burden to build up a stock of reserves in the Social Security Trust Fund. By law, these funds must be invested in a special class of U.S. Treasury securities. However, under the unified budget system used by the government, all cash receipts are used to meet current expenditures, with excess contributions used to reduce the size of the federal budget deficit. If the Social Security Trust Fund surpluses were not used in this manner, this year's budget deficit would be more than $250 billion, rather than the official figure of slightly less than $200 billion (Marlowe 1995).

Many have argued that this system makes it easier for the government to act in a fiscally irresponsible manner, since the true gap between receipts and expenditures is partially hidden from public view. To the extent that lawmakers perceive these funds to be available for additional current spending (at an artificially low cost), the provision of future benefit payments, which are dependent on the surpluses currently being accumulated, may be problematic. While this does not present a flaw in the social security system, the effect of this budgeting practice should be considered in any reform efforts.

A second aspect of the present system which allows fiscal irresponsibility is the way in which assets in the Social Security Trust Fund are used to finance government debt. Debt is a way of lowering taxes on current generations in exchange for a promise to tax future generations more heavily. Social security similarly "borrows" from the current young in exchange for a promise to repay them when they are old. The key difference is essentially a legal one. It is easier for the government to default partially on social security payments than to default partially on debt payments. While social security payments can be lowered in a variety of ways, debt service can only be lowered in real terms through inflation. From this perspective, the social security system can be seen as a low-cost borrowing mechanism for the government (Rogoff 1996).

### Improving the Investment Performance of the Social Security Trust Fund

One method to privatize social security would be to allow the government to invest the surplus in private securities which can be expected to yield higher returns than the special Treasury issues in which the surpluses are currently invested. In addition to the potential of increasing the yield of assets in the Social Security Trust Fund, separating the Trust Fund money
from the budget would force the Treasury to borrow more from the public, permitting a more accurate assessment of the budget deficit.

These supposed benefits are outweighed by the negative aspects of allowing such private investment. The primary argument for investing the trust fund in private securities, the opportunity to gain higher returns, is flawed in several ways. While it is true that returns on Treasury securities have historically been poorer than those of stocks and bonds, the variance of the return has been significantly smaller for Treasury securities. In fact, between 1926 and 1992, common stocks have had negative returns in 20 years and corporate bonds have yielded negative returns in 17 years. In comparison, the return on Treasury Bills exceeded the rate of inflation in every year but one (Rubenstein 1995). Investors must be willing to face a higher level of risk in order to achieve higher returns. While a diversified portfolio would likely achieve a better risk to return ratio, most people tend to be risk-averse with their retirement savings (Subcommittee on Social Security 1994, 27). By keeping the surplus in Treasury securities, the government provides sound insurance against market uncertainties and ensures that even if the other two legs of retirement funding collapse, the floor of social security will still be available.

Even if concerns about risk could be set aside and private investments of Social Security Trust Funds did achieve a greater rate of return, such investment might not be welcomed by the financial community.⁸ In recent testimony, Robert Reischauer, then Director of the Congressional Budget Office, noted that, absent growth in the economy, “better investment performance of the Trust Fund would reduce income earned by other investors, in precise proportion to the amount that it increased returns to the Fund” (Subcommittee on Social Security 1994, 25). Further, the government may not be able to evaluate market risks and opportunities as well as private investors, so it might choose investments which have less appealing risk-return ratios (Subcommittee on Social Security 1994, 25).

Even if a small portion of the Social Security Trust Fund is invested in the private market, the magnitude of the Trust Fund surplus could result in large scale government ownership of the private sector. For example, if just three-eighths of the social security tax were invested in mutual funds today, this market would more than double in size (Wyatt 1996). Such widespread public ownership of the private sector runs counter to the interests of many who support social security privatization and poses potential market difficulties.⁹
An additional danger of permitting the government to invest its large surpluses in vehicles other than Treasury securities is the likelihood of politicization of investments. Any attempts by legislators or the administration to direct government investments to their states, districts, or political supporters would result in the inefficient allocation of these funds. This problem can potentially be avoided by allowing private fund managers to invest the assets.

Last, concern over fiscal responsibility could be addressed by simple changes in budgeting. For example, a "firewall" could be placed between social security surpluses and the general budget for fiscal decisions. While social security surpluses could still be used to support the deficit, this modification in bookkeeping would force the true budget deficit to be revealed to the public.

Private investment of the Social Security Trust Fund does not seem to offer a viable alternative to the current system. The likelihood of a higher yield is far from assured, and a host of other factors all lead to the conclusion that such funds are best held by the Treasury. In contrast, the second option, giving taxpayers more direct control over their social security contributions, is not conducive to such a straightforward analysis.

**Giving Individuals More Control Over Their Social Security Funds**

There are a number of ways in which individuals can be given more control over their social security contributions. At one extreme, the government could eliminate the social security tax and urge workers to save enough to provide for their own retirement. A more moderate approach would preserve the government's role as the provider of a safety net, but would allow workers greater discretion as to how their taxes are invested. In 1981, Chile adopted this type of retirement system. Chile's experience is reviewed below, followed by a discussion which focuses on issues which must be considered if the United States were to adopt a similar system.

**The Chilean Experience**

In the late 1970's, Chile's pay-as-you-go social security system, similar to the present-day system in the United States, faced mounting difficulties. The support ratio had fallen from eight workers for every retiree in 1960
to two workers for every retiree by 1980. The falling support ratio coupled with inefficiencies in the system hastened the need for reform. In 1980 the government was forced to provide a subsidy of 29 percent of total social security revenues to maintain promised benefit levels. Absent changes in revenue and expenditure patterns, the required subsidy was expected to jump tenfold by 2000 (Santamaria 1992, 40).

In 1981 the Chilean government took the unprecedented step of allowing employees to divert their social security taxes to a limited number of private investment funds. Those who chose to participate in the new system were given "recognition bonds" which provided an amount roughly equal to their total previous contributions. Those who chose not to participate in the program—primarily older workers—were able to continue payments to the old system, but at a higher tax rate. In addition, employers were no longer asked to pay social security taxes, but were instead required to grant a one-time 18 percent wage increase to their employees.

Employees who chose to participate in the new system were still obligated to contribute to their retirement. However, they were now able to invest their mandatory contributions with newly formed private institutions called Administradoras de Fondos de Pensiones (AFPs). Participants' recognition bonds were transferred directly to these privately managed pension funds. This tangible income transfer provided workers with some immediate satisfaction and confidence in the new system. The government did not leave the retirement security business altogether. In addition to maintaining the pared-back social security system for those who chose not to join the privatized system, the government provided a safety net which offered a minimum pension to retirees who had not amassed pensions which would provide income equivalent to 85 percent of the minimum wage (Santamaria 1992, 41).

By most measures, Chile's privatization has been a resounding success. The national savings rate increased significantly in the decade following the implementation of the privatized social security system (Gluski 1994, 62). Approximately 90–95 percent of the formal Chilean workforce had switched to the new system by 1992 (Borden 1995). These workers have seen their retirement pensions grow to 50 percent of the country's GDP, and expect the value of the assets to surpass the Chilean GDP by 2005 (Klein 1994, 50). Seventeen AFPs compete for retirement funds on the basis of investment return and service. These investment funds have recently grown at a real average rate of nearly 13 percent, while the real annual interest rate paid on short-term deposits has been slightly above
5 percent (Chile Country Profile 1995, 35). The government maintains a strong presence in the retirement industry by mandating financial and investment requirements for the AFPs and by closely monitoring their behavior.

Marco Santamaria studied the Chilean case and found that the privatization reduced inefficiencies, enhanced equitability, and provided larger benefits relative to the previous system. In addition, the private social security system increased net wages while lowering labor costs and decreasing long-term government expenditures. He further concluded that the effects on overall saving were uncertain; the increase in private saving has been offset by dissaving by the government due to a gap between receipts and obligations (1992, 41-47).

Before attempting to duplicate Chile's success elsewhere, it is important to examine the mechanics of the transition period and flaws in the present day system. Chile's government, under the dictatorship of Augusto Pinochet, operated under a budget surplus in the years prior to privatization. These surplus funds, in addition to revenue earned from the large scale privatization of state-owned industries, provided the necessary capital to fund the expensive transition.

It is unlikely that the high rates of return enjoyed by the present-day system will be sustained. Indeed, critics of the Chilean model expect a 3 percent real rate of return in the medium- to long-term while supporters contend that a 5.5 percent long-term rate of return can be achieved (Subcommittee on Social Security 1994, 117). Further, administrative costs have been notoriously high. These costs have fallen in recent years, but remain at nearly 25 percent of total contributions (Subcommittee on Social Security 1994, 117). In addition, the government relies largely on general revenues to continue its support of the old social security system as well as the safety net (Roberts 1995, 25).

Nonetheless, a number of countries hope to emulate Chile's success. Other South American countries—including Argentina, Brazil, Bolivia, Columbia and Peru— are considering similar plans, and Australia, Mexico and the United Kingdom have expressed interest in partial privatization of their social security systems (Feldstein 1995, 2; Social Security: U.S. Should Copy Mexico's Tentative Reform 1995; and Gokhale 1995). As discussed above, this same idea has recently attracted a great deal of interest in the United States. The balance of the paper will examine the prospects for such a system in the United States and conclude with a plan for reform.
Problems and Potential of Giving Individuals More Control Over Their Social Security Funds in the United States

Transition Challenges

Perhaps the most challenging aspect of switching from the current system to a privatized one is how to shoulder the burden of the transition costs. The existing social security system is in financial distress and is expected to become insolvent by 2029. Any plan which decreases the quantity of contributions being paid to the Social Security Trust Fund would exacerbate the already dismal situation.

The transition could be modeled after Chile’s. Special government bonds could be issued to each worker which would be equal to previous contributions plus accrued interest. Chile overcame transitional difficulties by relying on government surpluses and the privatization of government-owned industries. However, these funds alone were not sufficient. The government continues to rely on general funds to supplement contributions in order to provide benefits for those who did not choose to enter into the privatized system and provide a safety net for those whose investments are not successful. The United States, which is unlikely to run a budget surplus at any point in the near future and has few resources which could be readily privatized, would probably face severe financial difficulties in funding the transition.

The magnitude of the potential shortfall would cause even the most zealous advocates of privatization to wince. Last year, the Social Security Trust Fund paid out nearly $350 billion in benefits. The real value of benefits will rise as baby boomers begin to retire and people continue to enjoy longer lives. If the social security system were completely privatized, the Social Security Administration estimates that the federal government would have to provide a staggering $8 trillion in new revenues to fund the transition between the present day system and one which relies on personal retirement accounts (Hage 1995).

Martin Feldstein recently offered an economic justification for incurring the transition costs. His research has shown that the deadweight loss associated with distortions of labor supply and the form of compensation due to the payroll tax amount to roughly one percent of the U.S. GDP. He contends that privatization reduces deadweight loss in perpetuity and provides opportunities for individuals to earn a higher rate of return on their retirement savings. Given these mutually reinforcing effects, a
program could be designed that spreads the cost of transition over several generations and makes each successive generation slightly better off (Feldstein 1996, 27).

However, in his analysis Feldstein appears to neglect the portion of the deadweight loss that would be maintained if the transition is financed through taxes. Even if the plan worked in theory, the practical implementation could be extremely difficult. As Feldstein himself acknowledges, "although debt financed privatization of social security implies very large gains in the present value of consumption, a majority of the adult population (i.e., employees and retirees) alive at the time of the privatization might be made worse off. If so, their opposition could make privatization politically impossible" (Feldstein 1995, 23).

A related avenue of research explores the likelihood "that some individuals, because of their age, financial circumstances, and preferences, would be willing to forego their current claims on social security benefits without explicit compensation and to increase their total saving in exchange for not having to contribute to the pay-as-you-go program in the future" (Feldstein 1996, 28). Feldstein's preliminary research in this area suggests that it might be possible to shift workers from the current unfunded system "to a privatized funded system without raising taxes or reducing national saving" (Feldstein 1996, 28). While this sounds suspiciously like a "free lunch," future research may provide more concrete details concerning how to tackle this difficult issue.

Greater Riskiness

Today, the Social Security Trust Fund is invested entirely in Treasury securities which are backed by the "full faith and credit of the federal government." The risk-free nature of government securities protects the safety net which social security provides. Any deviation from the current system would introduce several types of risk.

One type of risk, that inherent in investments which yield higher returns, has been discussed above. While stocks and bonds have historically performed better than Treasury securities, high variability in returns could pose significant threats to the security of retirement investments. Further, the high historical returns of stocks and bonds have been observed over an extended time period, one substantially longer than the time frames of most investors. Indeed, a market crash or severe downturn in the economy could leave an entire generation without the means of retiring at a reasonable standard of living. Efforts could be made
to minimize this risk. For example, investments of retirement savings could be restricted to broad index funds. However, as Reischauer notes, "such rules would also reduce the possibility of high returns and would give individuals little latitude in managing their retirement assets, thus undermining one of the goals of [a privatized system]" (Subcommittee on Social Security 1994, 29).

Several additional risks are associated with the ability of investors to convert their retirement savings into an annuity. As investors prepare for retirement, they will want to convert their investments into a stream of payments. Poor market performance at the time of this conversion could significantly reduce funds available for investment (Subcommittee on Social Security 1994, 29). Even if the markets are strong when investors convert their funds, it may be difficult for them to purchase an annuity which is priced at an actuarially fair level because of adverse selection problems faced by those offering annuities. If some workers decide not to purchase an annuity and instead rely on accumulated savings, uncertainty concerning the number of years which the savings must last may cause the retirees to live on an overly tight budget or deplete their savings too quickly. Last, the administrative burden of maintaining a large number of small accounts could be severe (Subcommittee on Social Security 1994, 29). The burden of these risks and uncertainties is currently borne by the social security system, which provides a subsistence income regardless of the state of the market and the length of the recipient's life, at an extremely low administrative cost (Subcommittee on Social Security 1994, 29).

Even if people were given the opportunity to privately invest their social security contributions, it is unclear whether these investments would yield markedly higher returns. The vehicles available for retirement investment today (401(k) plans and self-directed retirement funds for federal workers, teachers and professors) tend to be heavily invested in low-risk securities which generate fixed incomes (Subcommittee on Social Security 1994, 27). Only one-third to one-half of these retirement funds is invested in equities or stock mutual funds, which tend to yield higher returns but also face greater risks. If this preference for less risky but lower-yielding investments applies equally to individuals' decisions concerning retirement investments, resources available for future retirees are unlikely to increase (Subcommittee on Social Security 1994, 27).
Decreased Progressivity

The progressive nature of today's social security system assures that equity and adequacy considerations will be satisfied. The system is equitable in that it provides those who contributed more over their working lives with greater benefits in absolute terms, but relatively less in proportional terms. At the same time, it ensures adequacy since the distribution of benefits is progressive rather than proportionate. However, as larger percentages of contributions are invested in private retirement accounts, the system becomes less progressive. In the extreme case, in which all contributions are invested in private retirement accounts, the progressive nature of the system would be eliminated. Further, low-wage workers, who may be more risk-averse in their investments, will likely achieve lower than average yields (Subcommittee on Social Security 1994, 30). This form of privatization would therefore deviate strongly from the progressive goals of social security. Solutions are available to maintain the progressivity of retirement benefits as long as the system is not entirely privatized, but these would entail large scale government involvement and would likely be quite complicated.

Adverse Selection During the Transition

If those people currently funding the pay-as-you-go system are given the option of switching to a privatized system, as they were in Chile, adverse selection problems are likely to be severe. Those who are most likely to opt out of the current system would be young, high wage earners who contribute the maximum tax to the trust fund. This group pays high taxes but receives proportionately less benefits when they retire under the current progressive system. "Those most likely to remain would include a disproportionate number of low-wage, low-tax workers, who rarely have jobs that come with good pensions" and who would have difficulties saving money for retirement (Church 1995). This could place a severe strain on an already overburdened system. Further, any additional taxes would place an onerous burden on poorer individuals, most of whom already pay more social security tax than federal income tax (Church 1995). The classic solution to the adverse selection problem is mandatory participation. However, unless the government requires enrollment in the new program, this problem will be difficult to avoid during the transition period.
Moral Hazard and the Government’s Safety Net

Assuming that the government maintains its commitment to provide a safety net for the elderly which prevents them from falling into poverty, a privatized system could present moral hazard problems. If individuals know that the government will always rescue them with a safety net program, they have a diminished incentive to save and a greater incentive to invest in risky assets. The degree to which investors pursue this strategy depends largely on the generosity of the government in its benefits. Since it is unlikely that the government would be able to provide anything more than the most basic benefits, this probably would not pose a major problem.

Inefficiencies in Private Administration

The present social security system is efficient, with a total administrative expense as a percent of all social security benefits of 0.9 percent. This is due in large part to mandatory participation in the program and the use of relatively simple investment instruments. In contrast, 25 percent of contributions in the Chilean system are used to cover administrative expenses. Private pension funds in the United States, which put 10 percent of every pension fund dollar toward administrative expenses, are more efficient than the Chilean system but are still inferior to the existing social security system (Subcommittee on Social Security 1994, 116). The feasibility of any large scale private retirement program would depend in part on lowering these high administrative costs.

Where Does This Leave Us?

Chile’s success with privatization of their social security system offers an excellent case to examine, but does not provide a plan which could be duplicated successfully in the United States. By allowing private investment of funds designated for retirement, incomes would be shifted in unpredictable ways. Some people would be made better off and others worse off. Barring an increase in savings rates, these shifting funds would simply cancel each other out, yielding no net improvement in social welfare (Subcommittee on Social Security 1994, 27). Further, short-term trends in markets could distort retirement decisions and leave some individuals with far fewer resources than they anticipated.

Chile was able to bear the enormous transition costs associated with a shift from the pay-as-you-go system to a privatized retirement system
largely because of its consistent budget surpluses and income earned from privatization of major industries. Transition would be considerably more difficult for the United States. Future research may reveal opportunities to implement a transition in a way such that the long run benefits of switching outweigh the costs, but no concrete mechanism is available at this point.

Problems with adverse selection and moral hazard could plague a system similar to Chile's unless participation is mandatory and the safety net provided by the government is minimal. Further, inefficiencies in the administration of private savings relative to the existing system make privatization less attractive. While giving workers greater control over their retirement income may be effective in developing countries with economies similar to that of Chile, full privatization of the social security system in the United States would likely be problematic.

The Potential of a Partial Privatization Plan

Before examining details of how the U.S. social security system can be improved, one should examine what underlying changes in the American economy are needed to provide long-term prosperity for workers and retirees. The key lies in bolstering the low savings rate in the United States. As Reischauer explained, "If we don't increase total national saving, which means private saving as well as reduced government dissaving, we will not have a larger pie in the future out of which to provide benefits for the retired population and wages and income for the working population" (Subcommittee on Social Security 1994, 32). Increasing the savings rate is not an unreasonable goal. The savings rate in the United States, which surpassed 8 percent of disposable personal income in the 1970s, has hovered below 5 percent since the late 1980s. This rate is substantially lower than that of most developed countries. For example, in 1993, savings as a share of disposable personal income was over 14 percent in France, Italy and Japan and over 10 percent in Canada, Germany and the United Kingdom (1994 Handbook of Economic Statistics 1994, Table 25).

The following Savings and Social Security Reinvigoration Plan (SRP) would address the need to enhance savings rates and revive social security. The success of the SRP would depend on the implementation of a comprehensive package. Basic changes to the current social security system would include the following:
• A more rapid increase in the retirement age than currently planned, with a higher (age 70) target age. Life expectancy has increased greatly since the social security system was put in place in 1935, yet the retirement age has only been altered slightly.

• A 2 percent Personal Retirement Contribution (PRC) would be added to the existing tax burden, split 75/25 between the employee and the employer. The PRC would be levied on the entire income earned by workers.13

• Workers would be able to invest the savings amassed by the PRC in a range of investment vehicles that the government will loosely supervise. Funds, similar to those in Chile, would be encouraged to compete for the taxpayers’ PRCs.

• The level of benefits given to recipients of social security would be slowly lowered based on the number of years taxpayers are employed and the amount of funds in their PRC accounts. These reductions would be small, but would give additional inducement to save for retirement.

• Money in the Social Security Trust Fund, while still held in government securities, would be partitioned from the federal budget for all budgetary decisions. These funds could still be used to support the budget, but politicians would be forced to meet budgetary requirements without the potentially misleading benefit of the social security surplus.

The first step in implementing the SRP will involve a large-scale public education campaign. Since the basic details of social security are straightforward, discussion of demographic shifts and the earnest efforts by Congress to provide for the aging population can provide essential background information which will make the public more receptive to changes in the current law. If the facts are presented clearly and in a non-partisan manner, it would become clear that the system will soon collapse, and that action must be taken.14

Democrats and Republicans alike must appreciate the gravity of this issue and drop their partisan rivalries to bring about meaningful reform. The prospects for such an outcome are not strong. Unlike the circumstances in 1983, when Congress was forced to act to avoid shortfalls in the immediate future, the Trust Fund today is flush with funds. Legislators seeking radical change can afford to wait a few years to get the changes they seek while those who prefer to patch the current system must
immediately agree to small changes to avoid big ones in the future (Passell 1996). The SRP, with its commitment to maintain a safety net for the elderly while simultaneously incorporating aspects of a partially privatized system, may offer broad enough appeal to make the reform successful.

Bipartisan support would not ensure passage of the SRP. The package, which includes both tax increases and benefit reductions, would face stiff political challenges. However, several aspects of the plan are aimed at making the plan politically feasible. The public education campaign would play the important role of convincing the American electorate that real change is needed in the social security system. While the concept of additional taxes surely would be met by resistance, the PRC would be more politically acceptable than most taxes because taxpayers would have direct control over their tax dollars. The benefit cuts, gradually increasing the retirement age and reducing benefits for those who have accumulated resources through their PRC investments, would also meet with resistance. Nonetheless, ample support for the cuts can be generated if they are portrayed as essential to preserve the integrity of the social security system and are distributed in a progressive manner.

The SRP would accomplish a number of goals. First, it would likely boost our country's low savings rate. While those who are better off and have the opportunity to contribute to private pensions may shift some saving to the PRC (thus crowding out private saving), the majority of Americans who do not have access to pensions would be given the opportunity to have a direct stake in their own well being upon retirement. This tighter link between contributions and benefits would also help restore confidence in the social security system.

Second, by increasing the retirement age and decreasing benefits over time, the SRP would help maintain the solvency of the Social Security Trust Fund. The social security system must continue to provide a floor of benefits for all Americans to avoid a resurgence of poverty among the elderly. In addition, the social welfare aspect of the system, resting in its progressive distribution of benefits, would be retained.

Third, the SRP would help renew America's faith in the social security system and in the government. By annexing the social security surplus from the budget, more honest budget decisions can be made. Further, the large scale public education program would give the American people a better understanding of the issues and greater confidence in the actions taken by the government.
In sum, the Savings and Social Security Reinvigoration Plan, by boosting national savings levels and sustaining crucial elements of the social security system, would contribute to America's continued economic growth and provide security to the retired people in our aging population.

Notes

1 Worker productivity is a more accurate measure of the burden placed on wage earners. Productivity increases over this period have lessened the impact of the steep drop in the support ratio.

2 This estimate may be biased upward since it does not take into account likely changes in behavior if the social security system did not exist.

3 The system is regressive in that individuals with higher incomes pay a lower proportion of their incomes in taxes. Efforts have been made in recent years to make the system at least marginally more progressive. In 1991, the tax rate was lowered and the maximum amount of income taxed was raised.

4 President Roosevelt made an effort to shield his program from political attack by spreading the benefits broadly. "He funded [the program] through a separate payroll tax to keep it closely identified in the minds of voters as a payback for their working years. That way, he once said, 'no damn politician can ever scrap my social security program'" (Church 1995).

5 Barry Goldwater found this to be the case in 1964 when his off-hand remark, "make it voluntary," undermined his campaign (Gollin 1995).

6 Representative Porter first introduced a form of his plan in 1990, but it did not receive much attention.

7 The insolvency date would be extended if the government controlled investment of the assets or if privatization plans included reductions in benefits.

8 Some parts of the financial community would welcome private investment of the Trust Fund. The Wall Street Journal recently suggested that such privatization "could be the biggest bonanza in the history of the mutual fund industry" (Schultz 1996).

9 The concept of such widespread government ownership has been termed "economic socialism" by the Cato Institute. If the government owned a substantial part of the debt or equity of a corporation, the corporation may choose to make riskier investments, knowing that if it failed, the government would not shut it down. (Subcommittee on Social Security 1994, 136).
The value of the recognition bonds was based on a complex formula which reflected past payments to the social security system as well as interest on these payments, which included adjustments for inflation.

This mandatory wage increase approximately offset new tax burdens placed on employees.

If the availability of personal retirement accounts boosts the national savings rate, retirees may be made better off.

Edward Gramlich, the Chairman of the Clinton Administration's Advisory Council on Social Security, recently endorsed the concept of mandatory investment accounts which individuals would control. Funds for these accounts would be generated by a small increase in the current tax. He suggested that "individual accounts would give people an enhanced sense of ownership in social security, increasing confidence in the program" (Pear 1996, A10).

This is exactly what Senators Kerrey and Danforth attempted to achieve with their Bipartisan Commission on Entitlement and Tax Reform. While their work demonstrates these points, it was not effectively presented to the public.

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Chinese Development and PLA Enterprises: Security Prospects and Implications

Kevin F. Roth

In the past decade the erupting economic development in Asia has raised both hopes for peace through increased interdependence and fears of increased competition and conflict. The premiere focus of these hopes and fears has been the development of the People's Republic of China (PRC). Most hope that growing trade with the PRC and a policy of "constructive engagement" will encourage a liberalization of Chinese domestic policy, and eventually, democracy. But a closer look at the patterns of Chinese economic liberalization and development and those Chinese firms engaged in production and trade call into question the prospects for peaceful developments. In particular, the People's Liberation Army (PLA), China's military arm, has been a driving force behind China's burgeoning domestic markets and foreign trade. The importance of the PLA is vital to the future outlook of China's domestic situation, regional stability, international cooperation, and arms proliferation. Furthermore, the latter issues warrant careful reviews of current export control policy and procedures.

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Recent Developments

Controversy rages over the domestic effects of economic reform in China. Since the early 1980's, drastic changes have occurred in the formulation of economic policy, and the pace of growth in the PRC has exploded. With the world's largest population and the fastest growth rate in the region, China is quickly emerging not only as a military, but also an economic, juggernaut. China is now the world's fourth largest economy behind only the United States, Japan, and Germany. Since initiating economic reforms over 15 years ago, China's real GNP has achieved approximately 9 percent annual growth, an average annual growth rate 6.5 percent faster than that of the United States. The World Bank projects China to be the largest economy in the world by 2002 (Kristof 1993, 61–2). The numbers may be staggering, but the story is not as simple or optimistic as one might surmise.

Upon closer examination of Chinese development, some disturbing patterns emerge. First, PLA economic enterprises have grown as a means of offsetting shrinking central allocations of funds, technology and/or manpower. Although the end of the Cold War signified a downsizing of PLA forces, with concomitant cost savings, the impact of inflation and pensions for 'retirees' has drastically cut into centrally allocated resources. As Pollack notes, "the introduction of a retirement system has sharply increased near-term personnel and pension costs, effectively denying the PLA the surplus funds it hoped to generate by reducing the size of the armed forces" (1992, 170). Also, with such a large number of troops, most of the budget funds allocated in Beijing are set aside for personnel costs rather than for the modernization of forces. Even the monies allocated to salaries have proven inadequate. Bickford contends that "pay in the PLA has been so low that by 1989 enlisted men had no disposable income and were financially dependent upon others" (1994, 463). Thus, the Chinese Communist Party had to confront the diminished stature of the PLA, as the armed forces are no longer seen as "a promising channel for upward mobility" (Pollack 1992, 151). The PLA has also suffered reduced allocations for capital construction, medical services, and housing; furthermore, since many major arms and technology procurement decisions have been deferred, its modernization program has stalled. Cheung indicates that PLA "dissatisfaction at being squeezed grew with each year as their budgetary outlays have failed to keep up with inflation" (1994c, 89). In the face of growing dissatisfaction among officers and soldiers of
the PLA, and in the wake of the Tianenmen crisis and the questions it raised regarding PLA loyalty to the center, the leadership has made concessions to the PLA and has altered its policy on PLA economic activities.

Following the crackdown in Tianenmen Square, the PLA's budget enjoyed an increase of 15 percent in 1990 construed by many as a "down payment for services rendered" (Pollack 1992, 178) with more rewards to follow. Following the incident, much concern existed over the loyalty of the PLA forces, because they were seen as essential in putting down any future rebellion. If anything, the crisis highlighted the fact that the PLA remains a major faction "buttressing the power of the Chinese state" (Pollack 1992, 151). Given the recent PLA assumption of control over the paramilitary People's Armed Police (PAP), the Beijing leadership was under heightened pressure to keep the troops loyal and content in terms of subsistence and modernization needs. The increased importance of the PLA to Beijing constituted a blessing for the armed forces. Pollack argues that "the upheavals . . . of 1989 . . . thrust the leadership of the armed forces into a pivotal position in Chinese political life. This has presented the PLA with a newfound opportunity to advance its corporate interests" (1992, 152). With a greater role in legitimizing the regime and providing domestic stability, the PLA has received only marginal budget increases, but has acquired greater autonomy and opportunities in its economic enterprises. With chronic budgetary shortfalls, the diminishing stature of the PLA and slashed allocations for the modernization program deemed essential to China's future, Beijing has emphasized a shift to PLA "extra-budgetary" income. The Chinese leadership has ordered the PLA to engage in economic activities, both civilian and military in nature, to make up for the growing differences between budgetary allocations and the military's real needs. In essence, the PLA now must "scramble" for funds by whatever means necessary. Beijing, realizing the importance of the PLA in the future, has acquiesced vis-à-vis greater autonomy and flexibility for the PLA in its activities. Beijing has granted the PLA enterprises either tax reductions or exemptions, and has increased the PLA's freedom to make management, production, and investment decisions.

Traditionally, the PLA has played a role in economic enterprises, particularly with regard to agriculture. However, a major shift has occurred in the thrust and focus of its recent activities. The PLA no longer solely focuses on subsistence and self-sufficiency, but on profit margins and market share as well. It now participates in money-making ventures
and is even establishing its own development zones. The military economic sector is the fastest growing segment of the Chinese economy. Some estimates count over 10,000 military enterprises with 750,000 employees, and other surveys double those figures (Pollack 1992, 152). Importantly, many of these enterprises have absorbed recently demobilized troops, a concern for Beijing in light of recent trends in inflation and unemployment. These enterprises are the 'formal' PLA enterprises run mainly by the General Logistics Department (GLD), the General Political Department (GPD) and the General Staff Department (GSD), and do not include "collective" or "military-associated" enterprises run by PLA family members or the growing number of joint ventures with foreign investors. Additionally, many of these enterprises have a number of subsidiaries of their own. PLA officials have complained about calculating up-to-date figures because so many open and close without notifying officials (Pollack 1992, 152).

Officially, the revenue generated by these enterprises grew by 700 percent from 1985 to 1990, with even higher estimates for current revenue growth (Cheung 1993b, 64–68). PLA enterprises include discos, hotels, hospitals, transportation, banking, food production, mining, automobile, bicycle, TV, and karaoke machine manufacturing, arms exporting and importing, CD and software piracy, and even dealing in currency futures. Additionally, although the PLA has no direct control over the defense industrial complex, Beijing has offered greater control to the enterprises themselves, most of which carry PLA connections. With over 50 percent of PLA enterprise revenues domestically generated, its foreign trade has grown, opening up new sources for income, foreign exchange and technology to pursue its modernization. Importantly, "given the current state of China's economic development, the government cannot supply the PLA with all the funds that it either wants or needs, so the PLA cannot give up its economic activities" (Cheung 1993b, 90). These economic activities have taken on increased importance for both Beijing and the military. "Although it is no longer business as usual for the armed forces, it is very much a time of business" (Pollack 1992, 171).

Even with recent military budget boosts, inflation has absorbed these increases. The standard of living of the PLA must remain level, if not enhanced, in the face of rising economic expectations and inflation to help maintain the stature and loyalty of the PLA. Bickford argues that "profit is now considered the most important internal goal of PLA enterprises" (1994, 471). Here is where the controversy and concern lies. Concern has
arisen both within China and regionally, over the effects of such activities on the unity of the PRC, the disposition of the PLA and, consequently, the security of the region.

An Impetus for Disintegration?

Looking back at the history of China, in particular the warlord period from 1916 to 1928, concern arises that the shift of some economic control from Beijing to its regional military groups and enterprises will prefigure a loss of centralized political and military control. These developments may lead to a situation of regional military separatism, warlordism, the disintegration of the Chinese state, and/or civil war. These concerns stem from the decentralization of economic and political power and Beijing's current trend of "playing to the provinces" (Shirk 1993). Womack describes a situation where the center eventually "... loses its dominance of military power, and geographically based, political-military forces contend among themselves" and cites China's past where "personal and resource security and their aggrandizement was the major motivating force of ... behavior" and loyalty was suspect (1994, 21–3). One can extrapolate many possible problems from this pattern of Chinese economic development. With the PLA as "the ultimate enforcer of central policies" (Joffe 1993, 45), the natural fear develops that the combination of independent PLA economic activity, a weakening of the institutions through which central control is exercised, and the fact that current leaders hold less influence and prestige with the PLA will result in a decline in loyalty to the regime, and possible outright defiance of centrally dictated policy.

Worries are already mounting over corruption, illicit activity and greater independent initiative on the part of PLA forces. The reduced lack of oversight of PLA activities has resulted in outcomes such as smuggling and unapproved business dealings, which might tarnish the image of the PLA in the eyes of the leadership and the people. Furthermore, disputes have arisen between regional military factions and provinces over preferential treatment and economic disparities. For example, provincial leaders allegedly have cooperated with local PLA forces in establishing illegal barriers to the flow of goods from other provinces. Local governments have increased their support of local military units, for example, through tax breaks, since PLA corporations can bring in income. As a result, cooperation has grown between local officials and the military units and their enterprises. Thus, the PLA may be more inclined to act on behalf
of provincial interests, thereby affecting the loyalty of the troops to the center. Cheung argues that PLA economic activities "... undoubtedly will have an adverse impact upon ... the Chinese military system" and "economically, the lines of authority between military units are becoming blurred ..." (1993c, 86). Additionally, directives regarding profits which should be submitted to the GLD for redistribution are widely being ignored or avoided.

Many in Beijing also fear that the increased amount of time devoted to economic ventures has cut into the training and readiness of PLA forces. For example, a naval officer reportedly failed to detect a foreign spy vessel in Chinese waters because, instead of being on duty, he was working at the family (collective) business (Cheung 1993b, 101). Thus, the morale, readiness, discipline, and effectiveness of the PLA have all declined, as the PLA's loyalty and focus shifts from the regime to business profits (Cheung 1994c; Bickford 1994; Li 1993). If these developments would spur the disintegration of the PRC and a return to 'warlordism', such a result would constitute a major threat, not only to the Chinese people, but to the region as a whole. Yet, while logical, such arguments regarding the centrifugal forces of Chinese economic development have not accounted for the internal dynamics and centripetal forces of the growth in the PLA's economic activity nor the actions the Beijing leadership has taken to hedge against such developments.

Arguments that China will return to a period of warlordism do not hold up to a rigorous analysis. First, the warlordism and regionalism earlier in this century was rife, and most volatile, in regions which were far less developed in terms of economies, military command and control, and infrastructure (particularly transportation). Today's China has achieved great advances in these fields. Second, "warlordism" is a national "myth". Womack reminds us that such a national myth "can function as a 'teacher by negative example'" and that such a negative myth "can be expected to influence Chinese politics to the extent that disunity appears to be a real threat." Additionally, because warlordism is seen as a low point in the history of China, "it could serve as a historical icon for the dangers of chaos and the political immorality of geographical sectarianism" (1994, 36). Third, the previous era of provincial conflict was one in which economic prosperity and the standard of living were low if not declining. Again, today's China is different. The standard of living and the hope for prosperity is on the rise in the PRC. Importantly, today's PLA forces now
share a vested interest in economic development and wealth creation. Such a situation raises the risk of conflict because the PLA, and all of China, have more to lose in a reversion to provincial infighting. Indeed, the level of destruction involved with today's weaponry would inflict massive damage on both the infrastructure needed for development and the means of production.

A major precondition for realizing the aspirations of the PLA is a stable, strong and unified China which can attract investment and trade. Harlan Jencks argues that "any relapse into the instability and violence of the... past would constitute a major disincentive to the flow of foreign capital and technology needed to sustain and foster the economic modernization that [is] China's first priority" and in which the PLA now has a vested interest (Gregor 1991, 8). Over 50 percent of PLA enterprise income derives from the domestic market. PLA involvement in the domestic economy acts as an integrating force owing to its increasing reliance on domestic resources, markets, infrastructure and overall stability for its growth. The PLA's reach in society is broad in terms of employment, resources, housing, food production and the delivery of goods and services.

The success of PLA economic ventures has also increased the standard of living, economic opportunities, and the influence of military personnel, which have heightened the attractiveness of a military career. This development has also increased the level of Chinese nationalism and loyalty to Beijing within the PLA. One cannot discount the importance of nationalism within the PLA. Such nationalism appears, rhetorically, to be on the rise, whether because of increased interdependence and the perception of outside intrusion, or because of a perceived need for a unified China for successful economic development (Chanda 1995). Joffe also raises another reason for the importance of nationalism. He sees nationalism as the remaining core component of elite ideology. He states that

The communist view of a permanent struggle between socialism and capitalism... [has] been relegated to the dustbin of history. However, this has only strengthened the nationalistic component because it has shifted the emphasis entirely away from China's global revolutionary mission to an exclusive concern with China and its place in the world... The pursuit of [China's] aims requires a modern and formi-
dable military establishment . . . Here lies the basic rationale for China's military modernization. And here also lies the practical link between nationalism and military support for national unity (1994, 54).

Thus, the PLA maintains an interest in nationalism, rhetorical or otherwise, because its modernization effort and the economic activities needed to support such modernization depend upon this stance. Also, the modernization push acts as a purpose unto itself for the PLA and can decrease the potential of the PLA becoming involved in regionalism or warlordism. Kien-hong Yu points out that besides giving the PLA a "revived spirit", as the modernization program continues, "... the technological, managerial, and tactical sophistication of the [PLA] rises. In turn, its complexity increases and it tends to rely upon a greater geographic base of support to accomplish its goals" and from which it receives necessary resources (1994, 147).

The actions and policies of the Beijing leadership have also reduced the possibilities of regionalism and disintegration. Beijing has realized that it needs to "balance the military's need for autonomous . . . development against the continuing imperative of accountability and subordination . . . " (Pollack 1992, 152). For example, the government has consolidated control over PLA economic activities by merging companies into 'enterprise groups' in order to unify management and establish concrete oversight. Examples of such conglomerates are the China Xinxing Corporation, which acts as the trading arm of the GLD, with more than 100 factories and overseas trade offices under its control; the Shenzhen 999 Group, a grouping of over 35 companies ranging from real-estate and import/export firms to electronics producers and securities and stock investment firms; Changcheng Industrial Conglomerate under the 42nd Group Army; and, Poly Group Corp. (formerly Poly Technologies Ltd. under the GSD equipment sub-department), which is the PLA's main arms exporter but is also seeking to diversify into property development (Cheung 1993b and 1993c). Cheung states that "these . . . groups are part of an effort by the military authorities to try and centralize management over the proliferation of army-run enterprises" (Cheung 1993b, 98) and to make them more "efficient."

Many PLA enterprises employ or are run by the children or other relatives of central leaders. For example, Poly Group's president is the son-in-law of Deng Xiaoping, and one of its directors is the son-in-law of
former president Yang Shangkun (Cheung 1993b, 68). While such connections may lead to corrupt activities, they also help to ensure a degree of loyalty to the leadership. Another important aspect in directly promoting economic development through the PLA is that, with a larger degree of control over PLA enterprises than over other ventures, the central leadership can achieve a greater degree of control and management over the direction of development. Additionally, whereas in the past PLA control of the infrastructure was a hindrance to development, it now has the opportunity and motivation to enhance it and develop it further. This is yet another incentive for Beijing to involve the PLA in economic reforms and another disincentive for regionalism.

The central leadership has taken other steps to try to ensure against regionalist tendencies in the PLA. First, the government has continued to maintain tight surveillance through the party’s political organs to keep itself informed of attitudes, trends and moods among the forces. Second, the central authorities have used their power to remove, reassign, and replace military commanders when suspicious of their activities or as preemptive actions to limit PLA-provincial ties from becoming a threat. Gregor indicates that “without the loyalty that arises from long association, dissident officers would find it difficult to establish the secure political bases from which they might launch resistance to central authorities” (Gregor 1991, 21). The turnover of regional commanders following the Tianenmen incident apparently was such an effort to “assure loyalty and responsiveness to orders from the top, and to avoid manifestations of localism”; such loyalty to Beijing is still the basis for career advancement and carte blanche for pursuing economic opportunity (Pollack 1992, 180). Finally, one need only remember June 1989 to understand that the leadership can always rely upon force to quell dissension whether it be civilian or military in nature.

This final point raises an important issue. Namely, the PLA has been granted a greater degree of freedom primarily because it is a powerful domestic actor and because its support is essential for regime stability and security and the success of reforms. The PLA played an important catalyzing and supporting role following Deng’s highly touted ‘southern tour’ which promoted and set into motion the economic liberalization and explosion of the economy. One can make the case that the PLA’s backing of Deng and the reform movement prompted an increase in its representation in the Central Committee, the selection of the first military representative to serve on the Politburo Standing Committee in over 15
years, and the attendance of a greater number of PLA officials in Politburo meetings following the 1992 14th Party Congress (Lin 1994, 33). Another important development regarding the increasing influence of the PLA was the return of the People's Armed Police (PAP) to PLA control and command. The PLA's position of power within the leadership is enhanced both by its utility as a coercive force and by its newfound importance as an economic actor that can attract much needed income, technology and foreign exchange from abroad. Because the PLA holds such critical responsibilities, its political influence is growing. With continued economic growth necessary for regime stability and legitimacy, and with the PLA's growing role in domestic development, the armed forces are gaining greater influence in Beijing. Since the PLA has a vested interest in the state of the economy, "it has connections with economic issues and decision-making at the national level, at the local level, and at the international level through trade and joint ventures" (Bickford 1994, 472) and is becoming a major player in the policy environment. The PLA is also no longer a peasant army as military personnel are becoming more economically sophisticated and educated.

Thus, its commercial involvement has provided the PLA a wider scope of responsibilities and vested interests in stability, continued unification, economic development, and domestic politics and security, which act as centripetal forces to counter the centrifugal ones. PLA economic involvement is not inherently benign or even wise. But such activities hedge against the disintegration that may accompany economic and social change. Examining the current trends with regard to PLA domestic influence, the future may bring an increased militancy and nationalistic flavor to domestic politics. As economic development brings about greater change in the future, and with it the possibility of further unrest, the PLA's increasing influence and responsibility may rear its head in the form of armed reprisals and a more militant stance as the PLA moves to preserve both the regime that has brought it prosperity and the means of this prosperity. China's neighbors have not overlooked these developments, as the growing military influence within the PRC is causing a stir without.

**Regional Implications**

Some analysts have criticized regional fears of an assertive China in the near future (Balikrishnan and Nagara 1994). They contend that economic development and the resultant interdependence breeds security. In-
creased economic interaction between states, and in particular between the PLA and international firms and investors, will lead to greater integration of policy and interests, and will generally promote stability. Economic development has spurred greater exports region-wide, and such intra-regional trade combined with the market mechanism have heightened economic linkages and integration. Some have argued that increased activity of regional economic fora, such as APEC and ASEAN, is increasing cooperation in the security realm and will spur the development of more formal patterns of security cooperation and coordination and an "Asianization of security" (Balakrishnan and Nagara 1994, 61). One may argue that China's, and the PLA's, increasing need for trade, foreign currency, investment and technology, and the "fear of damaging its economic relations with its neighbors constrains its use of force" (Valencia 1995, 18). These hopes, however, are insufficient to stem the tides of assertiveness, nationalism and increasing PLA interest in the region. Evidence of this aggressive temperament in China's foreign relations appears in its hardened stance with regard to Taiwanese elections. The PRC heightened its rhetoric and warnings to independent-minded factions on the island as Taiwan's presidential elections neared. The PLA also flexed its muscles in a show of force with ominous missile tests, significant troop buildups, and overt military exercises in Fujian province, which is situated directly across the strait from Taiwan (East Asia's Wobbles 1995).

PLA economic involvement and its corollaries will have an adverse impact on the stability of the region, especially the South China Sea, for a number of reasons. One effect of increased PLA involvement in economic endeavors has been the greater incidence of smuggling and piracy in the South China Sea. While Beijing has stepped up its oversight of PLA enterprises on the mainland, it has either been ineffective or has turned a blind eye to developments on the high seas and in coastal regions. There have been an increasing number of attacks on shipping in the South China Sea carried out by PLA Navy personnel. Some of the incidents have been in international waters and some have been in Hong Kong waters. For example, on March 20th, 1994, a Honduran ship reportedly loaded with a shipment of cars and anchored on Hong Kong waters was high-jacked and was observed to "disappear off the radar screen among a group of islands patrolled by the Chinese navy" (China Clippers 1994, 34). Additionally, Chinese-flagged ships have harassed and recently fired upon Taiwanese merchant vessels. In January of this year,
such incidents occurred off the coasts of the Philippines and off the southern coast of Taiwan, perhaps in an attempt to intimidate the Taiwanese government and public (Chanda 1995, 20–1). There have also been reports of PLA naval vessels aiding and abetting smugglers of both legal and illicit goods. Finally there have been reports of thefts of luxury yachts from Hong Kong ports, which subsequently turned up in Chinese ones. Ironically, so-called “anti-smuggling” units carry out much of this piracy and smuggling. Apparently, the government, in an attempt to clamp down on smuggling, has offered the PLA a share of any booty seized, and, as a result, the PLA is using its prerogative liberally. With the new incentive, “China’s gunboats have swarmed to where they can get the richest pickings (Chanda 1995, 15). Essentially, the PLA has turned the seizure and resale of cargoes and ships into a thriving business.

While these security concerns might matter deeply to China’s closest neighbors and out-of-region trading companies who do not have the capability of defending their ships, more dire consequences are looming on the horizon concerning the PLA’s increasing economic and its consequential political importance, and simmering nationalistic assertiveness over the Spratly archipelago. The expansion of China’s economy may strain national resources. In the coming years, to sustain its economy, China will be demanding greater amounts of natural resources including energy supplies such as oil and gas, and food, in the form of fishing grounds. PLA economic and political involvement is important in that the PLA’s “proprietary access to resources remains very great” and has possibly been enhanced. Additionally, Pollack points out that the PLA has remained an “emperor of a vast realm of its own”, both in terms of resources and territorial claims in the South China Sea (1992, 153). PLA influence over the developments in the South China Sea is significant because the PLA’s role as regime stabilizer has grown and its political influence has expanded. At the same time, the military economic base is increasingly dependent upon a shrinking resource base and resource allocation is still based upon much bargaining and interpersonal relationships in the decision-making hierarchy.

China’s increasing dependence upon oil imports and the corresponding growth of vulnerability, combined with the PLA’s emerging interests in the economic realm may prove to be the driving factors in the ‘resolution’ of the Spratly dispute. Although Chinese oil production has seen marginal rises, the increases in the demand for oil continue to outstrip increases in supply. Beijing’s concern over the oil crisis appar-
ently is taking on a new urgency, with PLA rhetoric on the rise concerning the regional exploitation of Chinese resources and "... militarily weaker states ... taking advantage of China's tolerance and restraint by ... plundering China's oil" (Valencia 1995, 16). Valencia declares that "China's military planners have used this argument—in addition to the economic importance of its coastal provinces—as one justification for the modernization of the military in general and for larger [allocations] for the navy in particular" (1995, 16). An important development in the South China Sea has been the PRC's declaration of its Law on Territorial Waters and their Contiguous Areas. This law strongly asserts China's sovereign claim over the Spratlys and claims its right to use force to settle the dispute. The PLA apparently helped push this law through the People's Congress. While the Foreign Ministry has been advocating joint development of the region "the PLA advocates taking territory now for exploitation later" (Valencia 1995, 19).

Another major development has been the discovery (apparently by accident) of a 'banned' book entitled "Can China's Armed Forces Win the Next War?" believed to have been written by PLA Navy personnel. This book highlights the PLA's expected future confrontations and the necessary types of modernization needed to win these battles. This work significantly calls upon the PLA to prepare to "start a war for total control of the South China Sea before the end of this decade" (Munro 1994, 356). The PLA must win the conflict quickly and in a limited manner to avoid U.S. or Japanese involvement. Significantly, the authors argue that "China must move by the year 2000. Otherwise the South China Sea and the Spratly Archipelago may be 'internationalized' along the lines of the Antarctica model, which freezes the sovereignty issue and provides for a sharing of natural resources (Munro 1994, 359). Because of the perceived urgency of the situation, with ASEAN states moving towards the implementation of an "Antarctic model," the PLA advocates an accelerated modernization of forces in favor of a quick strike capability, with a particular eye towards the development of an aircraft carrier. Gregor notes that "such small wars, undertaken at discrete intervals, would not only bring economic benefit in their train, providing real and potential resources, but they would gradually afford Beijing [and the PLA] potential control over the major sea lanes of communication" (Gregor 1991, 23). Just as the PLA apparently acquired economic concessions for its involvement in the Tiananmen massacre, a successful Spratlys campaign may prove economically fortuitous for the armed forces and their enterprises. Such
gains may occur in terms of petroleum production and distribution, shipping and fishing, and the emergence of very profitable piracy and smuggling in some areas. Such economic power would surely bring a greater level of PLA political power, offering the PLA greater incentive for support of such a campaign.

Not surprisingly, then, China and the PLA have more assertively expressed claims in the Spratly and Paracel Islands. For example, most recently, China took over a part of the Spratlys aptly named Mischief Reef off the coast of the Philippines and the PLA is developing staging grounds on Hainan and the Paracel Islands. Additionally, Beijing has made a declaration concerning territorial disputes in the South China Sea and has “... explicitly reserved the right to use military force to affirm its claims” (Shambaugh 1992, 96). As the PLA becomes more of a “player” in Beijing, especially with respect to economic development and regime stability, the leadership is more willing to offer concessions to appease the PLA to secure support. These concessions include greater leeway in making the necessary moves to modernize the armed forces for future endeavors.

The explosion in PLA economic activities has provided it with the hard currency, resources and technology to modernize its forces and develop the industrial base required for ‘great power’ status. Although exact figures and allocations of the funds raised by PLA enterprises are either unavailable or unreliable, funds generated for modernization are estimated in the billions of dollars (Cheung 1993b; Lin 1994; Bickford 1994). The display of effective U.S. force in the Persian Gulf and Chinese visions of a dominating role in the region and the world have spurred the modernization effort. Linking the importance of the economic development of the PRC to modernization of the PLA, Deng once said, “quadrupling [the] gross industrial and agricultural product means that by the end of this century, improving our military equipment will be an easy job (Lin 1994, 31). With the PLA itself earning the funds necessary for the upgrade of the forces, modernization is now even easier, in turn unsettling China’s neighbors.

Among the PLA’s focuses of future involvement in the region include small-scale conflicts in border territories and conflict over territorial islands and seas. The emphasis lies in short and intense conflict that utilizes power projection and high-technology capabilities. The PLA is transforming itself from a manpower-intensive force with outdated equipment to a more streamlined force with more advanced equipment,
combined forces and power projection capabilities in the form of mid-air refueling capabilities and the development of a carrier force. Beijing is calling for the expansion of naval capabilities through the construction of three naval bases by 1998. These bases will provide logistical support for naval operations in both the South China Sea and the Indian Ocean. In the hopes of extending its reach to the Indian Ocean, the PLA has been using its resources to develop infrastructure in Myanmar, including the construction of ports, naval bases and surveillance posts in the Bay of Bengal in return for military access to such facilities, as well as for the purpose of exporting arms (Kristof 1993; Ritcheson 1994).

A significant development in providing the opportunity for the PLA to spend some of its new-found wealth in a modernization program has been the demise of the Soviet Union. Russia desperately needs hard currency, in exchange for which the PLA has acquired a sizable and growing cache of weapons, technology, and intelligence systems. The PLA has exploited this dire economic situation in Russia by buying available arms, production capabilities, and technology at sale prices. "Among the items mentioned in recent reports of Chinese bargain hunting are MiG-31 interceptors, Tu-22 bombers, . . . A-50 airborne warning and control planes, and S-300 ground-based anti-ballistic missiles" (Klare 1993, 141). These acquisitions significantly increase the PLA's power-projection capabilities in the region, especially in the South China Sea. The MiG-31s (equipped with advanced radar and countermeasures systems) and the Tu-22 bombers (fitted with anti-ship missiles) would give PLA naval forces added firepower and defensive measures while the A-50 AWACs would expand PLA command, control, communication and intelligence support. These heightened capabilities are essential to the execution of the longer-range missions which China may wish to carry out in the South China Sea. Some analysts have argued that the PLA not only wishes to acquire weapons systems but also develop an industrial complex which is self-sufficient, dual-use in nature, and capable of producing high-technology products. "Not only technology but brainpower has been imported, with as many as 1,000 ex-Soviet research scientists reported to be on the Chinese payroll" (Oliver 1994, 230). The acquisitions cited above could help in that, given the Chinese ability of reverse-engineering, Russian technology will significantly contribute to Chinese plans for indigenous high-tech weapons production. Apparently, the PRC goal of producing an advanced fighter plane has succeeded as China recently revealed the FC-
1 fighter, jointly developed with Russia and Pakistan, at the 1995 Paris air show (China Reveals FC-1 Fighter 1995, 77).

With this large demand for technology, the PLA, through its enterprises and their front companies, has also acquired aerospace machinery and entire production lines in the United States. China National Aero-Technology Import and Export Company (CATIC) has purchased gas turbine engines which could serve non-military uses but also can improve Chinese cruise missiles. CATIC also aggressively pursued technology and production capabilities from McDonnell Douglas. CATIC officials, following visits and inspections of McDonnell Douglas sites, "submitted an eight-page, single-spaced list of equipment it wanted to buy. It included thirty-one large computerized machine-tools that the [U.S. Joint Chiefs of Staff]...consider to be 'military-critical' and that normally can only be exported to U.S. allies, if at all" (Timmerman 1995, 34). While the production of civilian airliners was cited as the end use of such technology, China does produce military aircraft and civilian aircraft at the same plants. Other companies, such as Brilliance Chinese Auto and Yuchai America, are purchasing everything from turbine engines to foundry equipment and are essentially front companies for the Commission of Science, Technology and Industry for National Defense (COSTIND), the Central Military Commission's technology research and development arm. COSTIND also oversees, coordinates, and administers everything from electronics imports to the nuclear industry to shipbuilding. COSTIND also coordinates research, development and production of new weapons (Bickford 1994; Timmerman 1995). Thus, seemingly benign technology and production transfers to civilian companies often contribute to either the production capabilities in the PLA's money-making enterprises or the direct modernization and development of PLA forces. PLA enterprises not only earn foreign currency for the purchase of off-the-shelf weapons, but their front companies also acquire the skills and technology necessary for indigenous production of more advanced products (civilian and military). Shambaugh reports that the PLA Navy has initiated the development and testing of an indigenous aircraft carrier, helicopter carriers and flight take-off and landing simulation (1994, 19). As the PLA's wish list is being fulfilled, it may only be a matter of time before the PLA puts its toys to use.

Such developments have worried the rest of the region and provoked arms buildups by China's neighbors. With the area's prosperous technology industries, Asia is concentrating on developing and producing
indigenous high-tech weaponry. Economic growth in the region and the growing tension over China's future disposition have stimulated increased military spending. Japan, Taiwan, Singapore, Malaysia, Thailand and Indonesia, all highly dependent upon maritime commerce and activity, have expanded their naval and air capabilities. For example, Japan has increased production of destroyers, frigates and submarines; Taiwan ordered six frigates from France, is building eight more, and is purchasing F-16s from the United States, and Mirage 2000 fighters from France; Singapore is building a number of operationally flexible Corvette-class warships; Malaysia has bought two missile frigates from Britain, F/A-18s from the United States and MiG-29s from Russia, and is seeking submarine capabilities; Thailand is sporting a new aircraft carrier with Harrier jump-jets and has expanded its force of frigates; Indonesia purchased 39 former East German naval vessels (including 12 guided missile corvette-class warships); and South Korea has announced a doubling of its defense spending over the next five years. As GDPs across the region grow along with mounting uncertainty vis-à-vis China, so do defense budgets and armed forces, with high-tech "F-16 or F/A-18 jets [becoming] de rigueur for any respectable East Asian Air Force" (Asia's Arms Racing 1996, 29). These military developments, combined with a growing insecurity and mistrust vis-à-vis China, make the future security scene ominous, especially as the PLA emerges as an economic and political force within China.

The PLA and the Arms Trade

Linked to the PLA enterprises' aggressive acquisition of technology and arms is the PLA's growing involvement in the arms trade. Although over 50 percent of the PLA's trade is domestic and civilian in nature, a significant share of funds earned by the PLA derives from its arms exporting activities. While foreign trade has accrued income and technology, it is also enhancing the PLA's ability to engage in weapons trafficking. Foreign exchange earned from the export of arms furthers the acquisition of new equipment, technology and raw materials needed for the PLA's modernization. The PLA involvement in arms trading is extensive and dozens of companies and their subsidiaries have been cited for taking part in such trade. The China Xinxing Corporation is the GLD's main arms exporting firm, the GSD's Poly Group is cited as one of the largest weapons export companies which deals in PLA stockpiled military wares, and the PLA and COSTIND have a working relationship through Xinshidai (or New Era) Group, which coordinates the import and export activities of numerous
high-tech subsidiaries, including firms in the electronics, nuclear technology and aerospace sectors (Bickford 1994). The PLA actively obscures its arms exporting activities through constantly changing the names of its multitude of corporations and subsidiaries which also manufacture and export non-military products. Also, these companies have been sly in exporting their wares. For example, China North Industries and Poly Group have a working relationship with North Korea. These companies are reportedly working with North Korean weapons scientists in the development of long-range missile technology in return for permitting PLA companies to export missiles and other arms to the Middle East via North Korean ports. Indeed, "this may also explain China's reluctance to support United Nations sanctions against North Korea for Pyongyang's unwillingness to allow inspection of its nuclear facilities" (Dreyer 1994, 266). PLA enterprises have also been increasing arms sales to Myanmar, including tanks, armored personnel carriers, attack aircraft, and multiple rocket launchers. The PLA has also established joint-venture arms factories in Myanmar. In return, it is gaining greater access to the Bay of Bengal and the Malacca Straits. The PLA has also actively participated in arms deals and technology transfers with Iran in return for oil concessions. Chinese companies have been cited for sending missile guidance systems and technology and computerized machine tools to Iran which contribute to the greater accuracy of Iran's available Scud missiles and give Tehran the capacity to build indigenous missile systems. Additionally, Chinese front companies reportedly assisted in Iran's development of chemical weapons by providing poison gas ingredients and assistance in building chemical plants. Recent reports indicate that Iran had successfully tested a sea-based cruise missile acquired from China (Sciolino 1995). China's dealings with Pakistan have also been significant. In addition to the co-development of an advanced fighter jet, Chinese companies have assisted in the development of Pakistan's nuclear capability. PLA-backed companies have sold M-11 missiles to Pakistan and have given Pakistan tested bomb designs. China has also sold Islamabad tritium, which can significantly increase the yield of nuclear weapons; most recently, China sold a shipment of magnets used for the refining of bomb-grade uranium to a state-run nuclear weapons laboratory in Pakistan (Weiner 1996).

Because many of the PLA enterprises, run by family members of the leadership, hold much personal influence in policy and power circles, the authorities may be more prone to look the other way. As Pollack points
out, “informal, personal relationships remain the glue to numerous commercial transactions within the military system” (1992, 175). For example, COSTIND which carries oversight of exporting activities, and Poly Group, the principal PLA arms exporter, employ relatives of Central Military Commission members and other aging leaders. Another factor facilitating an expanded PLA role in military-related exports has been the partial loss of oversight. While the central leadership has focused on consolidating control over domestic economic activities and corruption, it has often overlooked the foreign trade and export activities of the PLA, since these activities provide a large source of foreign currency needed for continued development and modernization. Bickford adds that “it is very difficult for the ministry and even the military leadership to keep track of all the activities of China’s arms traders... Of course there are probably occasions in which the Chinese government finds these trading companies a convenient way of circumventing international agreements while providing deniability” (1994, 473–74) and continued foreign exchange earnings.

Conclusions and Prospects

Thus, economic development has and will continue to affect regional and international security. Most importantly, PLA economic activity, a significant factor in Chinese reforms and development, varies in effects domestically, regionally and internationally. Although many have argued that PLA economic involvement is an ingredient for disintegration or a return to warlordism, much evidence to the contrary exists. PLA involvement in the domestic economy can act as a stabilizing centripetal force. Its involvement and importance in economic development has enhanced its power and influence within the central leadership, while the leadership has essentially co-opted the PLA to maintain regime stability through economic concessions. Although this situation may lead to more militant rule, the potential disintegration of the Chinese state appears less likely for the time being.

In the post-Cold War era, the effects of greater interdependence on international security constitute perhaps the wave of the future. But, while intra regional trade has grown in Asia, PLA involvement in money-making enterprises does not bode well for regional stability. As development continues in Asia, states will increasingly compete for resources. With a more and more assertive PLA owning a vested economic interest in such
resources, the chances for conflict are higher in the South China Sea. Additionally, the PLA's growing influence within the decision-making hierarchy adds fuel to the fires of Chinese nationalism and territorial claims such as those in the South China Sea and Taiwan; indeed, the recent activity regarding these issues does not indicate a cooperative atmosphere in the near future. Importantly, as trade between the industrialized states and China (and, necessarily, the PLA) grows, technology transfers will have increasing security implications for the region. When engaging in trade with Chinese firms, it is important to make a determination of the "parents" of the companies. This point is especially true with the trade in dual-use technologies. U.S. high-tech companies, including aircraft manufacturers and communications firms, are increasing exports and are involved in a growing number of joint ventures with Chinese companies with PLA ties. The extent of PLA involvement and the nature of its intentions in these economic activities with U.S. firms are dubious. For example, an American joint venture with a PLA firm called Galaxy New Technology deals with the transfer of advanced telecommunications whose availability on the world market is questionable. A director of COSTIND conceived this venture, which will soon provide the advanced communications systems to the GLD (the PLA's General Logistics Department). This technology is significant because it includes "crucial items which the Chinese military has been seeking in order to upgrade its battlefield communications systems . . ." (Gilley 1996b, 15). Although officials from the groups involved in the venture argue that the technology is for civilian purposes only, it will probably wind up in PLA hands (Gilley 1996a; Gilley 1996b). In another case, McDonnell Douglas assisted the export of militarily sensitive machine tools to China. CATIC was the buyer of the technology, which is dual-use in nature, but had been used in the United States for the production of parts for C-17 transport planes, components for F-16 fighters, B-1 bombers, and ballistic missiles. While CATIC assured McDonnell Douglas that the machine tools would be used for the production of civilian aircraft, some of the equipment wound up in a factory that produces A-5 strike aircraft and Silkworm missiles (Holloway 1996a). These cases are not an exception. As economic pressures mount in states that are pursuing "defense conversion," and as the Chinese market grows, Western firms are rushing in headlong to take advantage of the situation. Chinese firms, particularly PLA-run enterprises, realize this opportunity and are taking full advantage of it to pursue their
modernization strategy. The world must be wary of contributing to the modernization of PLA capabilities and consequentially regional instability in the race toward profits.

Globally, PLA involvement in the arms race has had a destabilizing effect. Again, states must increase oversight of companies dealing with Chinese firms in high-tech and military wares. A policy of “constructive engagement” through trade, technical assistance, and other exchanges could turn into “destructive engagement” if states are too trusting with China and the PLA. In the commercial haste to get a piece of the action in the Chinese market, it is important to remember that the post-Cold War environment in Asia and within China could be volatile in the future; hence, governments should guard against the pressures of high-tech firms wishing to sell their goods and technology abroad. As the PLA and its enterprises continue to engage in commercial activities, one cannot conclude that a liberal evolution is taking place within the Chinese armed forces. At the moment, peace and democracy are not on the PLA’s corporate agenda, while profits, influence, and power are. In light of these developments, industrialized countries must review and revise their export control policy and administration. Additionally, it is similarly important to reestablish a robust multilateral export control regime to replace the defunct Coordinating Committee for Multilateral Export Controls (COCOM). By taking careful measures now, the world can contribute to the restriction of arms proliferation and the stable and peaceful development of Asia.

Notes

1 See Military Control Points to Political Posturing and Echoes of Tiananmen 1995 for more details.

References

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The ability of Mexico's leaders to coopt those political and social actors who would otherwise collectively resist state policy initiatives has been well documented (see, e.g., Camp 1993; Centeno 1994; Cornelius and Craig 1988; Davis 1990; Lustig 1992a). Recent free market policy initiatives, however, have met significant collective resistance at elite and mass levels. What accounts for this anomaly? This paper argues that neoliberal policies have swept aside a nexus of patronage relationships that maintained allegiance to the state. This nexus of political, economic, and social relationships comprised a bargain between the state and society that facilitated social order and political control for almost 50 years. The paper hypothesizes that this bargain—rooted ideologically in the Revolution of 1910 and the Constitution of 1917—created a mutual obligation between state and society after it was institutionalized by President Cardenas in the late 1930s and represented a moral economy writ large. As Mexico's leaders have implemented free market policies, however,
this moral economy has been dismantled. Still, the paper argues that the old bargain is not so easily swept aside, as social and political actors resist free market policy initiatives because of the "stickiness" of the old bargain.

Why have top policy making officials in Mexico’s government, members of the long dominant Institutional Revolutionary Party (PRI), openly fought over recent neoliberal reforms? Why have national, state, and local PRI public officials systematically undermined the market mechanisms that are linked to the long term fortunes of their party and the Mexican economy? Why have long quiescent peasants organized armed groups and battled the government over changes in land tenure, forcing the government to backtrack on some of its own reforms? In short, why has Mexico’s political system lost its historical stability? Some have attributed these pathologies to a lack of democracy (Cornelius 1994b). However, this paper argues that these troubles, anomalous in the modern Mexican experience, originate in the institutional changes initiated through neo-liberal reform.

**Looking at Resistance by Beginning with Reform**

Neoliberal reform entails a redefinition of the state’s role in economic development. As Grindle and Thomas have noted:

> In these new visions of economic development, the state was no longer to be the principal force for achieving economic growth and welfare. Such a change was significant for many developing countries because it implied a shift of power away from central government to the market (1991, 2).

The move from state-driven economic development policies to a free market model lies at the heart of Mexico’s present difficulties. The old order was composed of a bargain between state and society and within the state itself and grounded in the longstanding institutions which enmeshed the state in the economy. This bargain consisted of a complex web of continually negotiated political, social, and economic patronage relationships—a culture that ensured political stability, social order, and secure subsis-
The redefinition of the state's role in the economy has stripped these relationships of the patronage resources which formed their foundation. Without this foundation, political stability and social order have been weakened.

Neoliberal reforms began as a response to the huge economic crisis that gripped a debt-burdened Mexico in mid 1982. The price of oil, Mexico's leading export, began to plummet and a crushing debt burden arose, which caused rapid inflation, capital flight, and chaos in the financial and foreign exchange markets. These conditions soon led commercial banks to halt loans to Mexico. The demands of international lending agencies impelled Mexico's leaders to enact neoliberal reforms in exchange for further loans and a restructured debt burden. The first neoliberal policies were established between 1983 and 1987 and included fiscal reform—primarily austerity measures that cut government spending and controlled wages and prices. Social spending received most of the cuts and fell by 33 percent during these years (Lustig 1992a, 79).

President Carlos Salinas de Gortari deepened reform during his six year term from 1988–1994, reaching previously untouchable areas of the economy with textbook neoliberal policies: divestiture of state-owned enterprise, deregulation, trade liberalization, and loosening of foreign investment restrictions (Lustig 1992a, 96–140). The institutions of state-led development were dismantled:

Mexico has become an open economy in which the state's intervention is limited by a new legal and institutional framework. . . . The tendency is for the market to replace regulation, private ownership to replace public ownership, and competition, including that from foreign goods and investors, to replace protection. Nothing illustrates this change . . . more vividly than the pursuit of a free trade agreement with the United States (Lustig 1992a, 1).

Each aspect of neoliberal reform represents an abandonment of the state intervention that had facilitated the bargain. Breaking this bargain has thereby led to the turmoil and resistance following the onset of market reforms.
Resistance From Above: National Administrative Elites

Broadly speaking, there are two groups within the PRI’s national administrative elite. On one hand, the technocrats favor a strong private sector, free markets, and export-led growth encouraged by neoliberal policies. On the other hand, the old guard “dinosaurs” favor the dominant state and large social spending programs swept away by neoliberalism. Many of these old guard elites resent the neoliberal reforms that “have saddled them with a set of highly unpopular and antipopular” policies (Cornelius 1988, 26). Reforms have eliminated a large share of the resources that helped them maintain personal power, wealth, and the PRI’s predominance (Robberson 1994b). Without these patronage powers, the old guard elites have found it difficult to secure the way of life to which they were accustomed under the bargain.

Given the rapid pace of neoliberal reforms, it might appear that the technocrats have won, but recent events demonstrate otherwise. Old guard party officials have resisted the programs of technocratic presidents Salinas and newly elected Ernesto Zedillo. The murder of José Ruiz-Massieu, the PRI Secretary General charged with enacting many reforms, represented a blow to neoliberalism delivered by the old guard. Officials in the national peasant organization, PRI Congressman Manuel Muñoz Rocha, former PRI President Ignacio Pichardo, and former PRI Secretary General María de los Angeles have been implicated in the assassination plot (Robberson 1994c; Mexico’s Top Investigator Quits 1994). Raúl Salinas, brother of former president Salinas, has been linked to the old guard and implicated in the murders of both Ruiz-Massieu and PRI presidential candidate Luis Donaldo Colosio (Castañeda 1995). In an unprecedented move, 255 of 298 PRI deputies from the lower house of Mexico’s national legislature recently presented party leaders with a document calling for the end of neoliberal reforms and a return to policies directed at the most disadvantaged sectors of society (Mexico Ruling Party Deputies Attack Economic Policy 1996).

Still, the technocrats have fought such resistance. Joaquin Hernández Galicia, leader of the huge oil workers union, opposed privatization of the state-owned oil company PEMEX. To stem assaults on his patronage powers and thus preserve union jobs, Galicia opposed candidate Salinas in the 1988 election; many workers voted for other candidates. Hernández was arrested the next year on charges of corruption, a move largely seen
as retribution for his opposition to Salinas and his reforms (Harvey 1993, 20). More recently, federal judge Abraham Polo Uscanga complained of political pressure to illegally order the arrests of union leaders from Ruta 100, a bus drivers' union fighting impending privatization of a state-owned bus company. Uscanga's refusal to order the arrests hindered efforts to break Ruta 100, and his subsequent murder is linked to groups aligned with the technocrats (Golden 1995).

**Resistance from the Middle: Public Officials and Social Control**

Regional bureaucracies and technical agencies permeate the most local levels of Mexican society (Bartra 1989, 67), but this structure has only made officials at these levels more intransigent toward neoliberal policies. Facing a choice between short term survival and long term reforms, PRI officials, politicians, and bureaucrats have resisted reforms in order to please their established clients. As they reconfigure aspects of the old bargain, local officials raise the specter of instability as a rationale for their actions (Harvey 1993, 5–9).

Countering the intent of trade liberalization, local and regional officials have found ways to slow the tide of cheaper corn, potato, wheat, sorghum, oilseed, and meat imports from the United States, thereby protecting powerful local producers from foreign competition (US Senator Wants Access to Mexican Potato Market 1994; NAFTA, GATT and Agricultural Export Issues 1994b; Mexico's Top Investigator Quits 1994; Mexico Tightens Rules on Booming US Grain Imports 1995). Large dairy farmers, with the help of state and local officials, have used violence and vandalism to slow the business of competitors who import cheaper milk from the United States (Robberson 1994a). Bureaucrats have stepped up border inspections and denied permits, making United Parcel Service's foray into the Mexican market so unprofitable that the company canceled many services as a result (Preston 1995). New registration and inspection procedures have prevented the import of less expensive and higher quality U.S. medical supplies (NAFTA Trade Notes 1994). Massive state intervention has also protected private telecommunications monopolies (Robberson 1994a; Miltman 1994). In each of these cases, the interests receiving protection are those of businessmen or producers whose economic viability is threatened by the foreign competition encouraged in the neoliberal reforms. Public officials have undermined neoliberal reforms to protect
their old clients. The pull of the old bargain, which provided stability and a secure subsistence for these actors, looms large in these actions.

Resistance from Below: The Zapatistas and the State’s Response

The Zapatista rebellion in the state of Chiapas is an exceptional instance of collective peasant resistance in that it has forced the government to backtrack on its reforms. Though the terms of the bargain were never great in economic terms for these peasants, access to land—or at least the hope for access—provided a measure of security (Collier 1994, 37–51). Resisting changes in land tenure laws grounded in Article 27 of the 1917 Constitution—changes that will leave an estimated 143,000 subsistence producers without employment (Gaceta 1990, 17–20)—this organized group has waged armed warfare against the government for over two years, though a cease-fire has been in place most of that time. The rebels view the institutions of the old bargain as a guarantor of their land and livelihood: “As long as a new Constitution is not created, the one from 1917 is the true one for us” (Letter from Marcos to Zedillo 1994). Referring to the new policies, the chief Zapatista spokesman notes that “it was the reform of Article 27 that most radicalized the compañeros” (Interview with Subcommander Marcos 1994). In response to the state’s actions, the rebels have propounded the Revolutionary Agrarian Law that demands the restoration of Article 27 and the redistribution of land to landless campesinos and laborers (Declaration of War 1993). Through these demands, the Zapatistas call for the restoration of the bargain that once ensured their security.6

The military activities of the rebels, coupled with popular support for their rebellion, has caused the government to turn over 13,350 acres of land to peasants in the insurrection area, with more giveaways promised in the future (Mexican Government to Shift Land 1994). Furthermore, the government has paid local landowners for an additional 600,000 acres seized and occupied by landless Chiapans (AMDH 1995; Battle Brews for Mexican Ranchers 1995). The peasant resistance motivated by the violation of the state-society bargain has thus forced the state to transform its initial reforms by once again redistributing land in order to maintain stability.

Resistance: So What?

Why is such resistance anomalous? Some scholars have argued that a
unified and determined group of elites in an authoritarian system can successfully implement policies with little resistance (Hough 1990; Olson 1990). Others contend that the authoritarian Mexican regime has allowed presidents to make policy almost unfettered by institutional or ideological constraints and then impose the policies using the immense, highly centralized power of the office (Centeno 1994, 47; Lustig 1992a). As Pastor has noted, Mexico's powerful technocratic leaders "share a consensus concerning past excesses of statism and protection and seem unequivocal in their commitment to free trade" (1994, 469). Moreover, even when it is within an actor's self-interest to resist or transform reform, the requisite collective action will not occur absent "coercion or some other special device" (Olson 1965, 2). In the past, Mexico's presidents have effectively moved resistance out of the realm of self-interest by coopting leaders, providing material benefits, and in some cases using repression (Camp 1993, 126; Cornelius 1988, 45; Davis 1990, 345). Further, since the late 1920s, PRI officials have settled policy disagreements privately; accepting defeat and playing by the rules has usually paid off in advancement and access to the fruits of higher office (González Graf 1986; Knight 1992). Because of this loyalty and stability, PRI has been "a party without militants" (Garrido 1987). Given this high degree of unity in the past, collective resistance by elites to neoliberalism is puzzling.

Against this background, the seemingly anomalous elite splits and collective resistance in Mexico can be explained by identifying the "special device" that makes people angry enough to resist. As Scott observes, insecurity can move people to militancy (1976, 34). In this case, insecurity is fostered by the shattering of the state-society bargain. What once ensured relatively compliant behavior now serves as the "special device" that sparks militancy.

This argument about resistance in Mexico has important implications for current thinking about the role of the state in economic development. The market mechanisms sought by neoliberalism, designed to affect the incentives and efficiency necessary for sustained economic growth, push for minimal state involvement in the economy (Kaufman 1990; Nelson 1990). The 1994 World Bank Development Report is typical of this approach in that it holds out free market provision of goods and services as the solution to underdevelopment. Paradoxically, it is the state that must diminish the role of politics in the economy, balancing the interaction between economic and political power (Callaghy 1989; Kahler 1989).
The bargain brings up an interesting point of analysis to compare reforms that have taken place in different contexts. Both Turkey and South Korea implemented market mechanisms in a determined manner, successfully reducing the state's role in the economy. But, both of these developing nations lacked longstanding and deeply-rooted institutional orders and had suffered recent changes in regime type, changes in constitution, and/or crippling warfare. The introduction of neoliberal reform in such an unstable environment is bound to have different consequences than in an environment like Mexico's, where a great measure of social and political stability existed for almost 50 years.

When state involvement in the economy has been crucial to social control and political stability for such a long period, the free market hoped for under neoliberal reforms is probably not as free as its crafters would intend. In Mexico, public officials have subverted the market and injected the state back into the economy in a myriad of ways to re-establish the social control and political stability once secured by the bargain.

**Mexico's State-Society Bargain**

Mexico's old order consisted of a bargain between the state and society and within the state itself. The bargain was bounded by the longstanding institutions of the state-driven economy, institutions that originated in a popular revolution. From this bargain stemmed a web of continually negotiated political, social, and economic patronage relationships driven by state resources that ensured political stability and social order. Essentially, the popular origins of Mexico's bargain, together with the material inducements that flowed from it—albeit only initially or at best periodically for many—secured enough consent and conformity to legitimate and maintain the institutions of the state. As Hall points out, the rules and routines that are a part of any collectivity socialize people, shaping their interests and behaviors (1992, 91). People became accustomed to the rules and routines of the bargain, as these rules and routines lend predictability, security, and mutuality to political, economic, and social interaction.

Replacing this order from above through neoliberal policies effectively severed the complex web of patronage relationships that provided certainty to everyday life. This is exactly what made people angry enough and provided the "special device" that generates resistance by elites and masses in Mexico today. The bargain thus possesses a certain "stickiness" that
undermines and transforms market reforms.

**Origin and Elements of the State-Society Bargain**

The Revolution was a genuinely popular movement and thus an example of those relatively rare episodes in history when the mass of people profoundly influenced events (Knight 1986, xi).

Mexico's revolution, which lasted from 1910 to 1920, is the principal event that set the ideological constraints faced by Mexico's leaders up to the present. A "war of just about everyone against the ultraprivileged few" (Hellman 1994a, 47), the revolution created a national identity and a sense of natural mission. Class struggle, foreign economic penetration, land ownership patterns, and issues of local autonomy each played a part in the revolution. Most sectors of Mexican society had some stake in the tenets of the 1917 Constitution as the revolution "brought together the residents of villages and cities to a degree never achieved before or since" (Camp 1993, 37). Integral to the constitution was a project supported by elites who otherwise could agree upon little else: state-led economic and social development to mold Mexican citizens from a diverse population (Knight 1994b, 394–99). It was this project that set the basis for the state-society bargain institutionalized by President Lázaro Cárdenas between 1934 and 1940.⁹

In his inaugural address, President Cárdenas outlined his vision of the state's role in the economy: "The intervention of the state must be more substantial, more frequent, and more profound" (1978, 139). As such, Cárdenas renewed the Porfirian goals of economic development and political stability by centralizing political power in the presidency. He ended the disruptive infighting between political elites, nationalized natural resources, used the state to stimulate industrialization, and redoubled efforts to shape Mexican citizens through revolutionary economic nationalism (Knight 1994b). This great rise of state intervention under Cárdenas was no top-down measure, however; it emerged from a dialectic between state policies and public pressure for change (Knight 1993, 51–52). ¹⁰

Mexico in the early 1930s faced a huge budget deficit, falling living standards for the middle and lower classes, and high unemployment among labor and peasants (Ruiz 1992, 386–96). Cárdenas stepped into this predicament and mobilized support by implementing popular reforms.

Cárdenas vigorously enacted the egalitarian land and labor reforms
outlined in the 1917 Constitution. He seized 49 million acres of privately owned agricultural land and redistributed it to ejidos, increasing arable land held by ejidos from 14 percent in 1930 to 47 percent by 1940 (Hansen 1971, 32; Ramírez 1989, 34). Newly created state banks funneled capital to the ejidos to bolster production (Ramírez 34–35, 1989). Cárdenas also enforced constitutional provisions governing labor and vigorously supported both the organization of labor and labor grievances against foreign or domestic ownership (Hansen 1971, 30). The nationalization of foreign oil interests symbolizes the depth of state commitment to labor during the Cárdenas era, as a government-supported strike by oil workers was the pretext for nationalization (Ramírez 1989, 35–36). Through these egalitarian measures, including creation of large-scale social welfare programs, Cárdenas created popular institutions that underpinned the patronage relationships central to the bargain.

Economic nationalism, grounded in a fear of economic dependence on the United States (Bartra 1989, 63), also fueled state-driven development and meant that Mexico came first, so natural resources and business were to be controlled by Mexicans rather than by foreigners. At least 51 percent of any enterprise, with few exceptions, had to be owned by Mexicans (Camp 1993, 39). Indeed, the nationalization of foreign oil interests in 1938 was meant to end foreign exploitation and dependency within this industry (Gentleman 1984). For Cárdenas, economic nationalism spawned broad intervention in industry, finance, and business to maximize state revenue, thereby promoting social and economic improvement as a means to ending economic dependence.

Another reason for state-supported development lies in Mexico’s status as a late industrializer. It was thought that nascent industry could not withstand foreign competition without state assistance. The state possessed both the capital and the will to make investments in normally unprofitable short term investments (Lindau 1992, 231). Between 1940 and 1967, the state provided 30 percent of fixed capital investment, keeping production costs artificially low by providing cheap credit and large tax breaks as well as by subsidizing modern infrastructure for industry (Hansen 1971, 43–44, 49; Ramírez 1989, 43–45, 49). With tariffs and licenses on up to 70 percent of imports (Lustig 1992a, 14), foreign competition was nearly barred by the prohibitive expense of imports. When these measures failed to keep an ailing industry afloat, the state often took over. A fourth of the leading fifty Mexican firms in the 1980s, except banks, were state-owned.
All of this intervention played a crucial role in the bargain by enabling relationships of economic security for multiple sectors of society.

**Who Benefited from the State-Society Bargain?**

The patronage networks that grew within the institutional framework supporting state-led development served as the glue for social, economic, and political stability. Even though the benefits of the new order were often distributed in a distorted manner, they nevertheless helped secure broad support for the interventionist state and PRI (Hansen 1971, 173–81). Economic growth also caused mass support: "Legitimacy in both city and countryside rested on the widespread belief that life could be improved by working within the system" (Fox 1993, 3). Overall, the Mexican economy grew at an average annual rate exceeding six percent from the mid 1930s through the mid 1970s (Hansen 1971, 1–3). Accordingly, business fared well under the interventionist state. Regional and local PRI officials, politicians, and bureaucrats also had a huge stake in the bargain since this order provided immense opportunity for political and financial advancement either in PRI or in the bureaucracy (González 1987).

Using market intervention for capital, social spending, and jobs in the government and state-owned industries for the masses as both a carrot and stick, elites developed the dense networks of patronage relationships that secured social control (Morris 1991; Teichman 1988). Legal, financial, and political inducements linked unions with PRI, further expanding patronage relationships (Middlebrook 1995). By the 1970s, only the shape of government economic intervention, not intervention itself, remained an issue of contestation for elites. In interviews from this period, Camp determined that while pragmatic, elites still desired a large role for the state in the economy as either owner or coordinator (1984, 130–33).

State intervention therefore brought predictability to the lives of many. Wilkie (1990, 44) summarizes the benefits gained by various social sectors from the interventionist state in Table 1. These benefits and their institutional manifestations led to the social, economic, and political relationships that gave the bargain a moral force—maintaining and reproducing support for the state.

Yet material benefits alone did not account for political stability, for they tended to ebb and flow (Hansen 1971, 71–96; Lustig 1992a, 61–95). The moral force of the bargain's institutions, owing to their origins in the
revolutionsary tradition, also aided stability. Indeed, the institutions’ emergence from a society-wide dialectic was crucial to their appeal (Knight 1994a, 90–98; Hamilton 1982, 128–37). The belief that Mexico was making progress towards the goals of the revolution also helped maintain pride in the system (Hansen 1971, 187–92; Levy 1990, 156). In other words, the state was legitimate, if legitimacy is defined as the widespread belief in the “substance and rules of the [state],’ and trust in the ability of the political process to meet and resolve social, economic, and political crises” (von Sauer 1992, 261). In the 1980s, however, neoliberal reforms reconfigured Mexico’s economic institutions, completely disrupting relationships established under the historical bargain.

Breaking the State-Society Bargain: Neoliberal Reform

Elements of Reform

Removing the state from the economy has dealt a severe blow to the bargain by eliminating many of the patronage resources that sustained it.

Table 1. Who Got What from the Mexican Bargain?

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<tr>
<th>Group</th>
<th>Benefits</th>
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<tr>
<td>Ejiditarios</td>
<td>Land, credit and stable commodity prices</td>
</tr>
<tr>
<td>Small farmers</td>
<td>Protection from land seizure and subsidized inputs</td>
</tr>
<tr>
<td>Commercial farmers and ranchers</td>
<td>Credit, protection from land seizure and tacit permission to expand holdings</td>
</tr>
<tr>
<td>Organized labor</td>
<td>Social security insurance, minimum wages, and access to housing and health care</td>
</tr>
<tr>
<td>Organized urban residents</td>
<td>Access to piped water, phones, electricity, building materials, and subsidized food, clothing and medicine</td>
</tr>
<tr>
<td>Middle sectors</td>
<td>Subsidized food</td>
</tr>
<tr>
<td>Financial groups</td>
<td>Stable currency and protection from foreign ownership</td>
</tr>
<tr>
<td>Manufacturers</td>
<td>Government subsidies and credit, protective tariffs</td>
</tr>
<tr>
<td>PRI and public sector officials</td>
<td>Ability to profit from office via patronage relationships, selective enforcement of laws and administration of government funds</td>
</tr>
<tr>
<td>Bureaucrats</td>
<td>Jobs with access to patronage relationships, social security insurance, subsidized housing and consumer goods</td>
</tr>
<tr>
<td>Contractors</td>
<td>Public works construction projects</td>
</tr>
</tbody>
</table>
Deregulation, trade liberalization, and the elimination of foreign ownership restrictions have increasingly extracted the state from the economy, whittling away the patronage resources crucial to the bargain. Deregulation eliminated price controls on goods and services that once provided industry with low-cost inputs (Lustig 1992a, 111). Serious trade liberalization began with Mexico’s entry into GATT in 1986, a remarkable move since Mexican leaders had long “maintained that the country should not be bound by agreements of international organizations lest national sovereignty be placed in jeopardy” (Cypher 1990, 181). GATT membership led to a decrease in maximum tariffs from 100 percent to 20 percent, the elimination of official import rices, and the removal of import licenses from 95 percent of all products (Dombusch 1990, 316; Grayson 1993, 11; Lustig 1992a, 53; Morici 1993, 49). Under NAFTA, 99 percent of tariffs will disappear by 2004, with the remainder phased out by 2009 (Morici 1993, 50). Foreign ownership restrictions for most sectors of the economy have been repealed; foreign stakes of 51 percent to 100 percent are now allowed in most cases, even in previously untouchable sectors (Cypher 1990, 182). Economic nationalism has fallen by the wayside as technocrats abandon the protective policies that had once secured the allegiance of business and labor to the state.

Divestiture has occurred as private buyers have purchased many state-owned enterprises. Of the 1155 firms owned by the state in 1987, only 232 remained state-owned as of 1992 (Pastor 1993, 18). Many of these inefficient firms drained state resources, but solvent enterprises and enterprises that occupied strategic economic positions were also sold (Gilly 1990, 273). Currently, plans are in the works to allow private and foreign investment in natural gas and petrochemical facilities, railways, ports, airports, and telecommunication firms (Mexico Gets First $1 Billion from Selloff Plan 1995; Mexico Plan Worries Investors 1995). The loss of jobs and patronage in state-owned industries alone has significantly damaged the bargain.

To advance deregulation and trade liberalization, the New Agrarian Legislation of 1992 officially halted land redistribution. Also, by eliminating ejidal village-held land titles and giving title to those who farm the land, this legislation has allowed marketization of ejido land and permitted commercial ownership (Lustig 1992a, 145). These changes have facilitated both the consolidation of small plots and leasing deals with foreigners; a lack of credit and subsidized inputs, together with foreign competition, has forced many peasant farmers to sell the land to commercial buyers (Harvey 1995,
25–26; Morici 1993, 49–50). In the end, the state has renounced almost every commitment to peasants.

**Effects of Reform**

Neoliberal structural reforms brought some improvement to the Mexican economy. Foreign investment flooded Mexico during the early 1990s, doubling from $17.1 billion in 1986 to $34 billion in 1991, while manufacturing exports rose rapidly (Pastor 1993, 19). By 1992 inflation was low and the budget was at a surplus (Pastor 1993, 19). GDP growth, which had averaged −0.48 percent from 1982 to 1986 climbed to an average of 3.39 percent from 1988 to 1994 (NAFTA Report 1995). As Table 2 shows, government expenditures have also shifted significantly. The shift away from economic and social spending required by neoliberal reform has certainly occurred. But at what cost? As more spending has shifted to debt service, the bargain’s patronage networks that depended upon state economic intervention have suffered irreparable damage. Subsistence can no longer be assured by these old networks. Very few enjoy security and certainty under the new institutional order. Export-oriented industrialists and farmers have benefited moderately from the reforms, but the lion’s share of benefits have flowed only to foreign investors (Wilkie 1990, 43).

<table>
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<th>Table 2: Budget Outlays by Category</th>
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<tr>
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<tr>
<td>Social spending</td>
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<td>Administrative spending</td>
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<td>Defense spending</td>
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*Note:* Economic spending includes all funds allotted for regulation and support of business, economic development, employment creation, and industrial support. Social spending covers health care, housing, social security, and welfare programs. Administrative spending is comprised of debt payments and general public services. Columns may not sum to 100 percent due to rounding.

Living standards and employment prospects for the working classes and the rural poor have fallen drastically as 500,000 jobs were lost between 1988 and 1993, far short of the one million jobs per year needed to keep pace with population growth (Cornelius 1994a, xiii; Castañeda 1993, 65). The cost of basic necessities has skyrocketed with reductions in subsidies. Indeed, the loosening of price and wage controls has caused a 30 percent drop in the purchasing power of the peso from 1988 to 1994 (Golden 1994).
Trade liberalization led to the failure of nearly 9,000 small and medium-sized businesses between 1990 and 1992; 40 percent of those that remain are at risk of failure (Morici 1993, 52).

Owing to changes in the ejidal land policy, up to three million peasant families who depend on their land for subsistence will lose their plots (Gaceta 1990, 17–20). Lacking credit and cheap inputs, peasant and ejidal farmers have sold commercially viable land, leaving the countryside for insecure wage labor in the city (Grindle 1995). Public officials and bureaucrats have seen their job advancement prospects dimmed and their patronage mechanisms threatened or destroyed by technocratic reforms (Davis 1994, 388–91). Overall, insecurity is pervasive since reforms have produced far more losers than winners. Given all of this economic dislocation, nostalgia for the bargain is understandable.

Theoretical Premise: The Bargain as a Moral Economy Writ Large

Only a shared ideology, as opposed to coercion or material rewards, can maintain support for political organizations in the long run (Bratton 1994, 235–36). By ideology, I mean a personal, normative perception that incorporates moral and ethical judgments about “the fairness of the world” and the so-called system (North 1981, 49). A widespread ideological judgment of fairness, therefore, is needed to legitimate successful, stable political and economic institutions (North 1981, 205). Defined in this way, ideology is a glue that binds institutions. If state institutions are perceived as fair, then actors obey the rules out of a sense of moral obligation (North 1981, 53–54). Thus, fair institutions correlate with political stability and social order.

When are state institutions fair? This is where the moral economy plays a role. Some scholars apply the notion of moral economy to the quiescence and/or resistance of Mexican peasants (Knight 1986, 1994c; Tutino 1986), but a moral economy can also apply to all members of a developing society who are facing uncertainty. A moral economy involves social, economic, and political relationships that provide a stable and reliable means of subsistence under given circumstances. People feel that they have a moral right to these relationships. Profit maximization is not necessarily, or even usually, a function of the moral economy; a moral economy simply preserves a secure way of life for a social niche (Scott 1976, 4–5, 10). Different niches have different economic, political, and social needs; but
all face insecurity of some sort and, therefore, claim a moral right to have these needs met (Scott 1976, 179).¹⁵ Mexico’s state-society bargain—a web of political, economic, and social relationships that secure subsistence through patronage—is simply a moral economy writ large. Often, these are personal relationships between actors of unequal wealth, status or influence, where loyalty stems from mutually beneficial transactions (Lemarchand 1972, 151–52). Yet, as long as survival is certain and life is predictable, the state institutions that underpin the bargain are deemed fair. Some may receive a bad bargain, but they go along as long as subsistence is reliable (Scott 1976, 13–34).

Hardin has observed that institutions develop a moral force of their own that serves as a barrier to change, as the behaviors and relationships that they routinize become ingrained and deeply-rooted (1990, 374–75). This is why a longstanding bargain can be “sticky” and act as an impediment to structural change. The bargain socializes routines and relationships that provide security in the face of uncertainty. As Kollock has found, actors show great commitment to pre-existing relationships that provide security, even in the face of potentially better relationships, when uncertainty is pervasive (1994). The institutions implicated in a longstanding bargain become part of the meaning of everyday life, then, as they lend certainty to otherwise uncertain political, social, and economic exchanges. The moral force that these institutions develop over time can spark militancy if they are altered, especially when alteration engenders insecurity.

Transformation of the institutions that underpin a strongly-rooted bargain jeopardize the moral economy by altering the relationships and routines long necessary for economic and/or political security. Collective resistance tends to follow such an extreme challenge to a group’s economic, political, social, or cultural existence (Warman 1976, 89). With a bargain broken, individuals of all stripes may simply feel that they are not getting their due. The moral force of the old bargain serves as the special device motivating collective action to resist and transform reforms that have destroyed a secure, certain existence. Knight is correct when he insists that resistance of this kind is both materially and morally motivated (1994c, 46–47).

Facing resistance to bargain-breaking structural reforms, politicians confront a sharp dilemma: long term reform versus short term survival and social control. They can continue implementation, attempting to ride out or crush resistance; or they can transform the policies in a manner that preserves the old patronage networks. Since most politicians are interested
in maintaining short term power and social control during periods of instability, they generally choose survival rather than long term policies (Ames 1987; Geddes 1994). Survival generally entails granting preferential treatment to large power centers, namely capital, and allowing local and regional politicians, bureaucrats, and party functionaries to accommodate local power centers (Migdal 1988, 247). By using preferential treatment and accommodation, officials can restore the old moral economy, hopefully quelling resistance. To the extent that they succeed, however, the stickiness of the broken bargain has undermined reform. For these reasons, the longstanding bargain leaves its imprint even on the most carefully crafted reforms.16

Conclusions

State intervention in the economy and the existence of a 'welfare state' that is arbiter of social conflicts lies at the very foundations of the constitutional pact established in 1917. . . . The 'revolutionary' legitimacy . . . [of] PRI rests on these guarantees (Gilly 1990, 274).

What is fascinating about the present conjuncture in Mexican politics is not only the gap between revolutionary precepts and actual practice . . but also—perhaps more so—the overt abandonment of many of the precepts themselves (Knight 1994c, 64).

Ending the state's role as the central player in the economy has devastated the melange of social, political, and economic relationships that comprised the bargain. The moral economy of many has thus been violated; individuals from many different social niches have lost a sense of security. Pervasive fear of free trade and U.S. economic domination exists (Grayson 1993, 15), despite regime efforts to move away from economic nationalism. Privatization is an "ideologically and politically sensitive issue—with many sectors of society . . . opposing it" (Lustig, 1992, 105). The moral force of the bargain looms large, and has motivated political and social actors to resist and transform neoliberal reforms.

To understand why elites and masses now resist is to understand that neoliberalism and the old order of the bargain "represent two entirely different, openly antithetical . . . cultures" (Bartra 1989, 66). Cárdenas' institutions, grounded in the revolutionary tradition, had served as a basis for state legitimacy. As economic benefits flowed from these institutions
initially relationships developed within the state and between the state and society that produced political, social, and economic security. This moral economy sustained political stability and social order. Breaking the state-society bargain with the antithetical culture of neoliberalism has sparked collective resistance because the secure relationships have vanished. To understand why the officials charged with implementing reforms have undermined them, we need only understand the object of resistance: reconfiguring the secure relationships of the bargain. Reform transformation is the only avenue to short term political survival for these officials.

This is not to say that neoliberal policies will be reversed. They will not. But, the new policies will certainly be transformed to approximate aspects of the old order. The pull of the old, longstanding moral economy will not disappear. For example, with the decline of the bargain creating a vacuum of social control, new social movements have not sought democracy (as some might expect). These movements have generally sought access to government funds (Hellman 1994b; Zermeno 1990). This shows a commitment to recreating their old moral economy. Further, faced with the choice between stability and political control or the long term administrative rationality of neoliberal reforms, many PRI officials have chosen the former; old patronage relationships have continued under a variety of new guises (Varley 1993). As one businesswoman has presciently observed, free trade and NAFTA will never end the centrality of patronage networks to the economies of even the most "modernized" states such as Nuevo León (Hellman 1994a, 157).

**What Can We Learn from This?**

To adequately manage economic reforms, Waterbury (1989, 281) has suggested that an elite-led coalition as small and unified as possible allows more resources to be directed towards reform rather than the maintenance of political and social stability. In Mexico, however, the maintenance of any coalition may be nearly impossible when reform sweeps away a longstanding bargain that provided security in some way to nearly every sector of society. The diffuse benefits provided by neoliberalism—the elimination of excess industrial capacity, increasing industrial efficiency, lower prices, and higher quality goods (Haggard 1990, 11-14)—seem small in comparison to the patronage relationships that are disrupted. Thus, a great deal of resistance exists in Mexico. This would suggest a need for more incremental change to ameliorate the dislocation caused by
reform.

Waterbury also argues for an incremental reform process to minimize social instability and economic dislocation, with fiscal reform policies coming first, followed by deregulation and trade liberalization (1992). Mexico fits this pattern, but there has still been resistance. Similarly, Nelson (1989) calls for gradual reforms over severe, wholesale change; this may explain the source of Mexico’s problems. The institutional basis for Mexico’s bargain was in place for nearly fifty years. As it was dismantled, even over a ten year period, the effect was still wholesale change since the social, political, and economic relationships that people had depended upon for their entire lives were disrupted. Given this, resistance is understandable. Perhaps the state must target some resources for the maintenance of these relationships to ensure smoother implementation.

In a recent study of targeted social spending in Mexico, Bruhn found that the material benefits often did little to prevent resistance or to shore up support for PRI (1995). What can we then learn from Mexico where needed economic reforms collide with deeply-rooted social, political, and economic relationships? At the very least, development scholars should have more realistic expectations about the success of neoliberalism. An awareness that the free market which results from neoliberalism cannot be entirely free may help policy makers craft more manageable policies. Since neither incremental implementation nor targeted benefits have been successful in Mexico, it may well be that only popular participation in the policy making process can secure a stable reform coalition.

Notes

1 Implicitly, this paper attempts to heed Laitin’s (1986) call for cultural variables embedded in social and political realities—i.e., the bargain—to flesh out economic explanations for behavior.

2 The International Monetary Fund was paramount in setting the terms of reform needed for further credit (Reding 1988, 618).

3 The North American Free Trade Agreement (NAFTA), implemented in January 1 of 1994 will eventually create entirely free trade between the United States, Mexico, and Canada. While the intricacies of NAFTA as well as the economic crisis stemming from the peso devaluation are relevant to understanding the implications of neoliberalism in Mexico, they are not crucial to my analysis of the bargain and resistance. I am interested in the broad institutional changes that occurred well before NAFTA and the current crisis. Indeed, free trade represents “only a formal recognition of changes that had
already taken place” (Lustig 1992b, 1). It is the changes that had already taken place—and the economic figures that illustrate these changes—that are my object of study, for they initially broke the state-society bargain. See Lustig (1992b).

4 These splits may be even more extensive, with four identifiable groups within the PRI leadership. See Rodriguez and Ward (1994).

5 Rod Camp suggested in comments on an earlier draft of this article that much of the current public infighting is due to the fact that members of presidential circles previous to Carlos Salinas are not getting the access to patronage resources that they had expected.

6 Unlike the other two categories of resistance, Zapatista resistance is not merely restorative. The rebels do value the protections contained in the 1917 Constitution, however, they clearly seek a new set of social, political, and economic relationships—modeled partly on the old, but more sensitive to their indigenous traditions.

7 Also see Camacho (1980), and the chapters by John and Susan Purcell and by Evelyn Stevens in Malloy (1977).

8 For a detailed explanation of how states create and support markets see chapters five and six of Polanyi (1957) and Chaudhry (1993). Polanyi makes clear that states must regulate the pace of economic change to make it more “bearable” and less “destructive” (76).

9 Anne Norton writes that the American “Constitution is at once text and nation. It is the act that founds the nation and the sign that marks it. It is the expression and the annunciation of a collective identity” (123). This assertion resonates for the case of Mexico, as the identity of the Mexican citizen, in many ways, did not precede the 1917 Constitution. The bargain created in its image expressed and annunciated an identity that does not readily cohere with the ideology of neoliberal reform, adding to the “stickiness” of the old bargain. See chapter four of Norton (1993).

10 Porfirio Díaz ruled Mexico from 1877 to 1880 and again from 1884–1911. As a liberal-positivist, Díaz sought peace and progress by using the state to end political instability and lead economic development.

11 Ejidal lands were farmed collectively by indigenous and peasant communities, allowing subsistence through small plot cultivation with limited surpluses. Initially, communities did not have actual title to the land, so they could not sell it.

12 See Cardoso (1979) for an explanation of this rationale.

13 Scott writes that contestation never disappears within a given moral
economy [bargain] (1985, 307-11). Yet, as long as the “minimal cultural decencies that define full citizenship” within the bargain are met, and this requires a certain level of material resources, those who receive the worst of the bargain will go along (Scott 1985, 236-38). The existence of the longstanding institutions bounding Mexico’s bargain attested to the state’s commitment to meeting minimum cultural decencies for many.

GATT is the General Agreement on Trade and Tariffs, an international agreement negotiated to reduce trade barriers.

Michael Taylor supports the contention that one’s moral economy is a product of one’s location in the social structure (1989, 135).

Ken Jowitt makes a similar argument about the “stickiness” of the old Leninist bargain in the former Soviet Union and Eastern Europe. See Jowitt (1992).

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*The author would like to thank Rod Camp, Tony Gill, Steve Hanson, Joel Migdal, Jane Radke, and Jonathon Rosenberg for their comments on an earlier draft of this paper. Responsibility for inaccuracies, however, is entirely the author's.*