The Common Defense And The World Market

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The Common Defense and the World Market

The Twentieth Century has witnessed the culmination of the tension between national security and the global economy. In the first half of the century, two world wars wonderfully concentrated the minds of governments on the primacy of national security. In the second half of the century, one government after another was persuaded to accept the primacy of the global economy. The collapse of the Warsaw Pact marked the decisive retreat of the last great power that had been resisting the spread of the global economy. As we enter the last decade of our century, it seems that the epic struggle between national security and the global economy may be coming to an end, with the decisive submission of the former to the latter.

The tension between national security and the global economy has been evident for many centuries, reflected in the Portuguese adventures in Asia and Africa and the Spanish adventures in the New World. By the seventeenth century, national monarchies had developed a broad array of instruments—navigation acts, chartered monopolies, and state arsenals, among others—by which the state drew benefits from a growing global trade. By the eighteenth century, these had been institutionalized into a systematic theory and practice, which we know as mercantilism.

Mercantilism is usually seen as a systematic policy of favoring domestic producers in the interests of national security. Yet, as the chapter by Moravcsik illustrates, national monarchies normally engaged in a lively international trade in armaments. In many cases,

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military security and international trade went together, linked by the search for economic efficiency. That link has persisted through the vast transformations brought on by the Industrial Revolution and by the globalization of the world economy.

RESPONDING TO THE INDUSTRIAL REVOLUTION

Over the centuries, national governments have framed their policies in response to their need for security and economic welfare. On the eve of the Industrial Revolution, all the great powers of the time—Britain, France, Austria, Prussia, and Russia—were under the control of monarchies and were dominated by mercantilist policies. In those circumstances, national security and economic welfare were indistinguishable, different aspects of a single objective. There were, however, great differences in degree among the five powers. The state in which the monarchy was least authoritarian and the parliament most autonomous was Britain; accordingly, Britain was also the state in which the economy was least controlled by the state, entrepreneurs were under the least restraints, and foreign trade was most prominent. As one moved eastward from Britain to France, Austria, Prussia, and Russia the monarchy became successively more absolutist and the economy successively more mercantilist.2

The Industrial Revolution reinforced the differences along the West-East continuum, according to a pattern that was first systematically articulated by Alexander Gerschenkron.3 In the first industrializing state, Great Britain, business enterprises led the transformation. Having nothing to fear from international competition in industrial products, the British soon abandoned the mercantilist approach and developed the doctrine and policy of free trade. Industrialization also brought advantages in military competition, particularly in naval development. Global trade was seen, therefore, as contributing both to security and to economic welfare, which in any case were inseparably linked.

Later industrializing states faced more formidable economic and military problems. For one thing, lacking the shielding from enemies that Britain enjoyed from the sea, they were obliged to maintain large standing armies; but that was not enough. In order to compete in foreign markets or to prevail in military conflicts, they needed to catch up with the early industrializers. One urgent need was to find
a way of mobilizing large amounts of capital in a short time for investment in modern plants. For France and Prussia, this meant a banking system closely linked to the state; and for Russia and Japan, the state itself. Meanwhile, until they achieved their goal of catch-up, these countries needed to provide protection for their infant industries. Consequently, eschewing free trade, they developed doctrines and policies for guiding the development of the national economy.

Inside Europe, therefore, the role of the state as the arbiter between national security and economic efficiency was at its lowest in Britain to the west, and at its highest in Russia to the east. Further to the west, in the United States, the role of the state was even more limited. And further to the east, in Japan, the state exercised extensive authority in bringing about economic development. In Japan, the necessity to build a strong navy reinforced the need for government support of rapid industrialization in heavy industry.

The first half of the twentieth century would be one of the most tumultuous eras in world history. During that period, national security in most countries became a dominant concern. But it was not until after the close of World War II in 1945 that the relative roles of governments changed in these countries, disturbing the West-East continuum.

With the defeat of Germany and Japan, and the exhaustion of Britain and France, four of the great powers were demoted from great power status to merely being major states. The remaining two, the United States and the Soviet Union, were elevated to the new rank of superpower. The new West Germany allowed for far less government direction of the economy for purposes of national security than had the old Germany. Conversely, the United States, now engaged in a long Cold War, tolerated somewhat more direction from the state than it had in the past. And Japan, while retaining strong government direction of its economy, developed a completely new definition of national security.

SECURING THE DEFENSE INDUSTRIAL BASE

When national policy makers have seen the global economy as a threat to the security of the national defense industrial base, they have employed a variety of policy responses. Borrowing from the analysis in the Friedberg essay, I see their responses as falling into three
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groups: providing measures of protection, such as import barriers; providing measures of promotion, such as subsidies; and developing measures of prevention, such as export controls.

Policies of protection in the narrow, traditional sense are familiar enough. It might seem that protection would be an obvious policy choice for governments to secure their defense industrial base. Yet, as the Moravcsik essay demonstrates, governments have often purchased weapons produced in other countries if these were demonstrably superior to those produced at home.

When choosing foreign weapons, the military services of course have been opposed by the domestic weapons producers. In conflicts between military and business organizations, national governments generally have supported the military. In such cases, the global economy has been seen as reinforcing national security.

But the willingness of governments to buy abroad has undergone cycles of change. In the immediate aftermath of great wars, including the Napoleonic Wars, World War I, and World War II, national governments have been more inclined to buy from national sources. In such periods, there has been an especially large defense industrial base left over from the wartime expansion. As a great war has receded into the past, however, the defense sector has tended to lose its economic importance, making it easier for the military services to return to the international market. Even in normal times, however, some governments have been more inclined than others to protect their defense industrial base. As Christopher Davis relates, the Soviet Union has represented the extreme case of government protection and promotion, even at the cost of ruining its civilian and commercial industry. But France and Japan have also been strongly disposed to protect their defense industry. These two countries, it is worth noting, are the two capitalist powers with the strongest tradition of government guidance of the economy, the “strong states” of the comparative politics literature. So it is not surprising to find that they are also the countries with the most explicit plans for developing a national structure appropriate for their national security.

Japan, as described in the Samuels essay, represents an especially remarkable case of linking national development to national security. In the first decades of Japan’s industrialization, the Japanese government actively promoted the “indigenization” of technology, along with a national defense industry. This provided the model for an industrial
policy that since World War II has promoted civilian and commercial industry. Indeed, by promoting commercial production from the 1950s to the 1980s, the government incidentally brought Japan’s industry to a state that has served especially well in the contemporary era of high-technology, electronics-based weapons systems.

The leading example of a policy of prevention has been the development and implementation of national export controls. Governments have applied such policies only infrequently in peacetime. But as the Mastanduno essay recounts, the United States pushed such policies hard after World War II, persuading its allies to join in an elaborate system of multilateral controls directed against the communist bloc. These controls, “the American style of economic warfare,” had their origins in World War II and were readily carried over into the Cold War. The intensity and duration of the Cold War institutionalized US export controls so that they persisted even into the era of economic globalization. Even before the Gulf War aborted Iraq’s systematic attempt to develop weapons of mass destruction, systems of control over the proliferation of nuclear weapons were already on the books, and proposals for the control of chemical weapons were well advanced. There is evidence that the United States will continue to promote such controls long after the Cold War has been forgotten.

These disparate national policies, however, need to be seen in their larger national contexts.

THE UNITED STATES: THE LIBERAL STATE

The 1940s were the heroic age of US foreign policy. The United States first achieved an epic triumph in World War II and then set about to create a new world order in its own image. This new order was a splendid example of enlightened self-interest, of Gramscian “hegemony,” in which a leading class or power creatively conceives of its own self-interest in terms so broad and so generous that it brings the willing assent of those that it leads. Even today, when much of this structure has fallen into ruins and its foundations have greatly eroded, the grandeur of the original architecture still inspires awe.

*International Liberalism and Extended Deterrence*

The new American order embraced two central concepts, one applying to the global economy, the other to global security. The
global economy was to be based upon the idea of international liberalism: liberal states, particularly those in North America and Western Europe, would support market forces in an open international economy. This might be termed the GATT model, after the General Agreement on Tariffs and Trade, which was established in 1948. Global security was to be based upon the idea of extended deterrence, that is, a collective undertaking to respond with nuclear weapons if necessary to any Soviet attack on the United States or on the territory of its allies. This might be termed the NATO model, after the North Atlantic Treaty Organization, which was established in 1949.

The two concepts of international liberalism and extended deterrence, the two models of GATT and NATO, thus filled out the economic and security dimensions of the new international order. For more than four decades, Americans have taken them for granted, almost as if they were "self-evident truth."

But, in fact, these two concepts together have represented no more than an Atlantic perception of a world order. The concepts of international liberalism and extended deterrence developed out of the conditions in the areas within the US-led Atlantic alliance, areas that dominated the global economy and world politics after World War II. As we have seen, both concepts had been prefigured in the earlier economic and security policies of Britain, especially during the century of "the hundred years peace" between the Napoleonic Wars and World War I. True, Britain was already abandoning such policies before World War II. But as the United States assumed the British role after the war, it also assumed some of the ideas historically identified with the Pax Britannica; ideas that came readily to nations with commercial economies, liberal polities, and strong navies.4

The economic and military advantages that the United States enjoyed in the early postwar years reinforced these historical legacies. In the late 1940s, the United States accounted for 50 percent of the world's industrial output, and was the world leader in high-technology products and high-productivity processes. In addition, in 1945 the United States had a monopoly in nuclear weapons and an overwhelming preponderance of naval forces. For a country in such a happy condition, international liberalism and extended deterrence were policies of choice. Besides, no other country was in a position to press strongly for an alternative.
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When globalization was extended from the Atlantic region to the Pacific, however, the American concepts of international liberalism and extended deterrence no longer received such willing assent. The restoration of Japan was led by a national bureaucracy that, supported by its trading complexes and banks, had retained and even strengthened its prewar position. Japan developed an alternative economic concept, one that can be termed international mercantilism, and developed an alternative security concept, one that the Japanese call “comprehensive security”—that is, security based principally on economic power and commercial competitiveness.5

From Economic Welfare to National Security

In the first few years after World War II, the United States hoped to support its new international order with its old national priorities, that is, with its prime emphasis being economic welfare and having minimal spending on national security. By 1949, US defense spending had fallen to 3 percent of GNP, and its massive defense industry had shrunk back to but a saving remnant.

Already by that time, however, the United States was taking official cognizance of the Cold War. Thereafter, the Soviet acquisition of nuclear weapons, the communist victory in China, and the Korean War elevated national defense once again to a dominant theme in US policy. For the first time in history, US military forces were permanently stationed abroad, notably in West Germany and South Korea. Military spending sprang back to high levels, ranging between 9 and 12 percent of GNP from 1954 to 1964. And the establishment of a large defense industrial base became a permanent object of US policy.

The US government also institutionalized, through CoCom, an elaborate system of controls on exports of weapons and technology to communist countries. Although export controls were a direct contradiction of international liberalism, and the CoCom model was the antithesis of the GATT model, both were to operate side by side in the four decades to follow.

From American Superiority to Global Competition

The extraordinarily competitive position of the US economy in the 1940s and the 1950s helped the country to pursue an active policy overseas. It provided a healthy base for federal taxes and federal
spending, and it financed large-scale expenditures on extended deterrence, the deployment of US military forces overseas, and extensive foreign aid programs. Prosperity was underwriting peace, providing the Eisenhower administration with its familiar slogan, "peace and prosperity."

When West European countries and Japan reentered world markets in the 1950s, however, US industry felt their presence almost at once. At first they rebuilt their old industries, including textiles, steel, shipbuilding, and chemicals. Soon, however, they moved into newer areas, including automobiles and electronics. In these initial phases, countries such as West Germany and Japan employed the advantages of latecomers in their production processes, that is, lower wages and more modern equipment than their counterparts located within the United States. Especially during the 1960s and 1970s, US industry's share of global markets underwent a severe erosion. To US planners, global trade competition, the first dimension of the globalization process, now seemed to be undermining US national security.

Adding to the US sense of slippage in the postwar period was the Soviet Union's achievements in space travel and the expansion of its own formidable industries devoted to military production. That expansion was especially pronounced in tanks and tactical aircraft, the country's winning weapons in the land battles of World War II.

The conditions of extended deterrence and international liberalism brought about the second dimension of the globalization process, the spread of the multinational enterprise. The US alliance system, especially NATO, encouraged a massive flow of American direct investment into other countries, especially into Europe. Multinational enterprises operated in larger numbers, on a greater scale, and in more countries than ever before.

In terms of national objectives, however, that development was seen by policy makers as having equivocal results. The multinationals certainly benefited greatly from their freedom to roam the noncommunist world, but there was considerable uncertainty whether US national security or economic welfare did as well.

The European subsidiaries of US-based multinationals eventually began to sell their output not only to members of NATO but also to members of the Warsaw Pact. European host governments resisted the efforts of the US government to extend its export restrictions to
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the subsidiaries of US firms established in Europe, generating such nasty quarrels as the struggle over the provisioning of the Soviet pipeline in 1982.7

Multinational enterprises helped to accelerate a third dimension of globalization, the spread of high-technology capabilities. US-based multinationals began to acquire components for US weapons systems not only from their US plants but also from subsidiaries and independent suppliers abroad. The new reality was summed up in 1987 by the commander of US military forces in the Pacific, Admiral James Lyons:

All of the critical components of our modern weapon systems, which involve our F-16s and F/A-18s, our M-1 tanks, our military computers—and I could go on and on—come from East Asian industries. I don't see change in that, during the foreseeable future. Some day, we might view that with concern, and rightly so. Certainly, the East Asian industries have really become an extension of our own military-industrial complex.8

From Military Spin-offs to Commercial Drain-offs

The institutionalization of high military spending in peacetime that took place after the Korean War helped to establish a large defense industrial base,9 and also had an important impact upon the commercial performance of the US economy as a whole. But this impact would change over time.

For the first decade or so, the impact of military spending upon economic performance seemed rather positive. First, there was the fiscal or macroeconomic effect: as long as fiscal resources were plentiful, military purchases could be sustained even in recessions, reducing their duration and severity. Besides, military spending on new weapons technologies seemed to be helping the US government to lift the national economy to higher stages of development; military innovations, for instance, were spun off to support aviation in the 1940s and 1950s, computers in the 1950s, and semiconductors in the 1960s.

By the early 1970s, however, the benefits of military spending upon economic performance had become dubious. The fiscal effect of the Vietnam War had been to drive the US economy into an era of sustained inflation. Military spending was beginning to divert innovators from products and processes most suited to commercial use to
the more exotic and expensive needs of the battlefield. The diversion was evident in semiconductors, as the Ziegler analysis points out, and was also apparent in other key industries including machine tools.

By the early 1980s, the impact of military spending upon economic performance had become largely negative. The Reagan administration undertook a new military buildup, bringing military spending from 5 or 6 percent of GNP in the 1970s to 7 percent in 1985. Although the increase was modest in relation to GNP, it was piled up on top of high fiscal deficits, giving rise to the accumulation of more federal debt in the Reagan years than in the two preceding centuries. For a time in the 1980s, interest rates and a high valuation of the dollar contributed to a further weakening of US exports in the global market.\(^\text{10}\)

One part of the Reagan administration’s military program, however, seemed to give some promise of a different result. A few advocates of the Strategic Defense Initiative hoped that it could also serve as a US version of the industrial policies of foreign competitors, particularly those of Japan, thereby repeating the role that military contracts had performed earlier in the fields of aviation, computers, and semiconductors. But any hope for a new golden age of military spin-offs to commercial competitiveness was extinguished by the drive to hold down military spending in response to the fiscal deficit.

Meanwhile, through the four decades of the postwar period, the country’s principal allies were spending far less for military purposes than the United States, exposing themselves to the charge that they were playing the role of the free rider. By the 1970s, a negative relationship became evident between the level of military expenditure and the change in industrial competitiveness: the lower the level of military expenditure, the stronger the competitive performance. The resulting array placed West Germany and Japan at the top of the growth league, and the United States and the United Kingdom at the bottom. Despite some recovery in the US performance in subsequent years, the array continued largely unchanged.

The United States, it was evident, was the linchpin in the security system on which other countries relied after World War II. Britain and France were reduced from great power status and military autonomy to merely being major powers within a US-led alliance. This condition of dependence upon a US defense was even more true of the defeated nation-states, Germany and Japan. But in all these
countries, a new conception was developing of how its national security was related to the international economy. This conception shaped the policies that each government would pursue toward its defense industrial base.

BRITAIN

At the end of World War II, Britain continued in many ways to give the appearance of a great power. It still governed the largest colonial empire in the world; was one of the big three at the Potsdam conference; was one of the four victors sharing in the occupation of Germany; and was one of the five permanent members of the United Nations Security Council. But the reality was quite different. Britain had been economically exhausted by its wartime efforts, as was revealed in July 1945, when the British government had to appeal for a large emergency loan from the United States. By 1947, economic necessity forced the British to withdraw from being the main support of the Greek government in its effort against communist insurgents. Britain's withdrawal led first to the Truman Doctrine and then the Marshall Plan.

For forty years thereafter, the essence of British security policy was an effort to sustain British interests with American power. From the British perspective, the ideal "special relationship" was one between British ends and American means, British brains and American brawn. This special relationship was bolstered by a number of different factors: a common language and culture, a liberal-capitalist economy, and a liberal-democratic polity as well as the shared experiences of resisting Germany in two world wars and the Soviet Union in a cold peace.

In 1952, Britain developed an independent nuclear deterrent and became a third nuclear power. But the independence of the deterrent was only nominal. Since 1962 the British nuclear deterrent has consisted of US-made ballistic missiles placed within British submarines.

The policies of the British government toward the British defense industry have generally conformed to the pattern suggested by the role of junior partner in a special relationship. The British defense budget percentage has been the second largest after that of the United States, running at 4 or 5 percent of GNP. But the British market has
not been large enough to sustain an efficient defense industrial base. For many years, the British defense industry found a natural market in the former members of the Empire, principally the sheikdoms of the Persian Gulf. But this was still not enough to sustain an industry on the required scale. Accordingly, as the Moran-Mowery essay recounts, by the late 1960s the British were engaged in joint production arrangements with the military aircraft industries of other countries, including France and West Germany. By the 1980s the British government was sufficiently relaxed with regard to the need for military autonomy that it allowed US firms to take over the country’s leading producer of military helicopters.12

FRANCE

At the end of World War II, the gap between the appearance of great power status and the reality of economic weakness was even greater for France than for Britain. France had also been exhausted by the war, but the reason lay in something far more demoralizing than what had happened to Britain, namely, France’s defeat and occupation by Germany. For a time, the personality of Charles de Gaulle as commander of the Free French gave the illusion of a victorious France. Besides, with the close of World War II, France still governed the second largest colonial empire in the world; was one of the four powers sharing in the occupation of Germany; and was one of the five permanent members of the United Nations Security Council. But because of the reality of its defeat, France was even weaker than Britain in the essentials of economic and military power; and much of what remained would be consumed in the long and disastrous colonial wars in Indochina from 1945 to 1954 and in Algeria from 1954 to 1962. Balking at every step, France nevertheless had to take its place within the US security system.

Out of office during most of these years, de Gaulle perceived this reality clearly, and when he returned to power in 1958, he quickly set about to reverse it. De Gaulle’s France represented a sort of Indian summer of the nation-state, a reminder of what it had been in the lost era before World War II and the ascendancy of the superpowers.

De Gaulle saw that the keystone of the nation-state was military autonomy; thus his insistence on an independent nuclear force, his
force de frappe, as well as his withdrawal from the integrated NATO structure commanded by an American general.

An independent nuclear force, in turn, required a strong defense industrial base—a French military-industrial complex. The chief components of this were a large aerospace industry and a large nuclear industry; supporting it was a French defense budget that normally has been 3 or 4 percent of GNP. But economies of scale of course meant that these industries would not be efficient unless their markets were larger than what France alone could provide. This required a major emphasis on the export of weapons systems and nuclear power plants, which often went to Third World countries, including those in the former colonial empire and Iraq. But France still could not sustain a weapons industry on the required scale. Accordingly, like Britain, France was driven to engage in joint production arrangements with the weapons industries of other countries.

Since the de Gaulle era, French governments have continued to give a higher priority than have Britain and West Germany to maintaining a domestic aerospace industry and nuclear industry. But the differences have now shrunk to a matter of degree.

WEST GERMANY

Before World War II, Germany had been the extreme example of the "military-political" state in Europe, of the state applying military power to gain economic space. After World War II, Germany was reduced first to being an occupied country and eventually to a nation with restricted sovereignty.

As a military state, Germany had been distinguished by the superb organization of its military into an effective force. After its defeat, the country redirected its national capacity for organization and discipline and instead became an exemplary "trading state."

For a number of reasons, the allies did not leave a centralized bureaucracy to lead the new West Germany as they did in Japan. In West Germany, the powers of the federal government were held in check by some basic structural changes, including an expansion of the powers of state and local governments and the development of a central bank insulated from the federal government's authority. What was left of the national leadership were the same forces that
had led German industrial development in the past, the major banks and corporations. These great organizations returned to become leading forces in the German economy, devoted to economic efficiency and commercial success.

When the West German army was reestablished in 1955, it was integrated into a NATO framework under an American commander. The West German armed forces acted as if they were part of the US army, and had no independent political purpose or strategic doctrine. With so limited a role, West German governments succeeded in holding down military spending to only 3 percent of GNP.

During its first decade, the West German military bought many of its weapons systems from the United States. Eventually, West Germany reestablished its own defense industry, but it was one that remained relatively modest in comparison with that in the United States, Britain, and France. Being too small for efficient production and not having available an ex-colonial market into which to expand, the German defense industry moved even more quickly and more completely than its British and French counterparts into joint production with the defense industries of other NATO allies.

Having made its peace with the rest of Europe, in West Germany no institution developed a concept of national identity or even of national security as they normally would be defined. The military had a NATO orientation; the banks and corporations had a Common Market or European orientation; and the bureaucracies had a number of diverse orientations—European, federal, and state. This absence of a German orientation was of course reinforced by the fact that East Germany lay outside its orbit. With the advent in 1990 of a unified German state, one condition for the development of a distinctly German orientation was again in place. A question for the future will be what institution or interest is likely to provide the leadership for a German concept of national security.

JAPAN: THE MERCANTILIST STATE

Japan offers some striking parallels to the West German experience: a state that had been defeated in its efforts to use military force to gain economic space; a nation with a high propensity for organization and discipline, turning that capacity to economic ends; and a
nation prepared to live comfortably with less than the full trappings of national sovereignty.

Even more than West Germany, Japan has been the exemplar of a trading state, spending only 1 percent of its GNP upon defense. In Japan’s transformation from military state to trading state in the postwar years, a crucial role was played by the US Occupation. The Americans dismantled some of the central institutions of the old Japan—the army, the navy, and the zaibatsu, or industrial conglomerates. Unlike in Germany, however, the occupying powers did not dismantle the centralized bureaucracy.14

The Japanese armed forces were replaced by the US armed forces, which assumed some of the roles that the Japanese military would have performed. US forces bolstered the military security of Japan in the Korean War and guaranteed safe passage for Japanese goods going to Southeast Asia, as well as Indonesian and Middle Eastern oil coming to Japan.

Without its own army and navy, Japan no longer had its own military strategy. By dismantling the industrial zaibatsu, if only in part, the occupation had also reduced a second pillar of authority. Yet another pillar remained from the earlier order, the bureaucracy. By relying on the bureaucracy for the actual administration of Japan during the occupation, the United States had further enhanced its role. With remnants of the conglomerates still in existence, an industrial structure existed that could interact effectively with the bureaucracy. At the conclusion of the occupation, the Japanese state was in an even better position than it had been before World War II to lead the Japanese society with a particular vision. That vision was a modern form of mercantilism.

The only power that could have opposed the mercantilism of Japan was the United States. But it choose not to do so. Why the United States did not, when it was promoting liberalism and opposing mercantilism so vigorously in Europe, has been the subject of considerable scholarly analysis. One reason was evident: in Asia, the United States had only one major ally to help it confront the communist regimes of China and the Soviet Union, and that was Japan. In any event, mercantilism remained intact in Japan, not showing any significant signs of change until the 1980s.

The Japanese bureaucracy has conceived of the state as guiding society toward effective competition in the global economy, for the
purpose of increasing the power and wealth of the state and society. It has also regarded this competition as taking place within the context of a dynamic comparative advantage. Responding to the changing environment, the state’s role has been seen as helping society to move progressively higher on the ladder of technology, abandoning low-wage industries for those with higher productivity.

Because Japan could no longer provide for its national security with its own military, it had to construct a functional equivalent, using US military power and a style of low-posture diplomacy in the application of its economic power. This combination provided the forces supporting the Japanese concept of “comprehensive security.”

For Japan, then, national security has required the US military umbrella; but it has also required economic efficiency in the global market, an objective to which the state has been committed. In economic terms, this has meant returning to the policies of the national monarchies of two centuries ago, that is, to mercantilism; but it has required a much greater identification with the international market than was required two centuries ago, producing what I have chosen to call international mercantilism.

THE SOVIET UNION: THE MILITARY-POLITICAL STATE

The most consistent example of a military-political state in modern times has been the Soviet Union. Before the Bolshevik Revolution, Russia had provided an extreme example of the pattern of late development, relying on state direction of the economy. After the revolution, as the Davis essay demonstrates, it became even more so. In the view of some observers, the entire Soviet Union was one gigantic defense industrial base or military-industrial complex.

However, the Soviet system represented an unstable equilibrium. Undermining the apparent stability of the structure was a steady decline in its economic performance. Each successive decade from the 1950s to the 1980s saw a decline in the rates of economic growth of the Soviet Union and its East European allies. And although the Soviet Union was a military-political state, rather than one committed to increasing trade and consumption, this economic failure undermined its political legitimacy. As it turned out, even an exemplar of the military-political state could not avoid the test of the global economy.
For the Soviet bloc, the 1950s were a decade that perfectly fit the Stalinist formula, resonating with a personality that had chosen "steel" for a pseudonym. It was a decade of forced-draft industrialization, of rapid growth in heavy industries such as steel, chemicals, electricity, shipbuilding, and, of course, weapons of all sorts. It brought into being a large class of industrial workers, which was supposedly the suitable mass base for communist rule.

Producing annual growth rates that often exceeded 6 percent, the Soviet state's impressive economic performance gave great legitimacy to the Soviet model. But the great project of steel communism was already reaching its limits, unable to deal effectively with the next demanding stage of development.

The 1960s might be called the decade of Sputnik communism, after the dramatic success of the Sputnik space program in 1957. Now the emphasis was on high-technology industrialization. There was also a vast expansion of higher education and the creation of a large class of managers and professionals. Growth rates remained high in this period, 4 to 5 percent annually, but they were lower than they had been in the earlier decade and were not much above the growth rates in Western Europe.

The 1970s might be called the decade of goulash communism, after Khrushchev's description of Kadar's Hungary, which he saw as something of a model. Now, the emphasis was on consumer-goods industrialization. In order to bring this about, the Soviet bloc opened itself to Western loans, investments, joint ventures, and licensing agreements, the first beachheads of the global economy. A prime example was the arrangement with the giant Italian enterprise, Fiat, to reorganize and expand Soviet production of the Lada automobile.

By the 1970s, the annual growth rates of the Soviet bloc had fallen to 3 or 4 percent, and the new standard of legitimacy was virtually identical to one of the central values of the West, namely, that of consumerism. On this standard, the Soviet bloc was obviously at a marked disadvantage.

Finally, the 1980s might be called the decade of yuppie communism. By then, the annual growth rates of the Soviet bloc economies had fallen to 1 or 2 percent, or even less. The communist regimes were no longer able to fulfill the promise of mass consumption, and they retreated to the promise of elite consumption, that is, consumption by the "new class" of bureaucrats, managers, and professionals.
Throughout these four decades, the Soviet government continued to spend 15 to 20 percent of its GNP on the military, or what Khrushchev called the “metal-eaters.” It maintained and expanded a massive defense industrial base at the cost of having only a feeble industrial base for producing competitive goods for the global market. But the standards of both political legitimacy and military efficiency were steadily shifting away from what the Soviets did best, building a steel economy without regard for consumer interests. The move from low-technology, mechanical, mass-produced armaments to high-technology, electronic, and precision weapons systems represented a shift from what the Soviets did best to what the Japanese and the Americans did best.

As the Davis essay recounts, these developments led to crisis in the Soviet military-political state and to Gorbachev’s unsuccessful efforts at reform. Finally, in 1989, the communist governments in Eastern Europe collapsed with a suddenness and completeness that astonished the world.

Each of the three dimensions of globalization—markets, technology, and the structure of enterprises—contributed in some way to the crisis of the Soviet state and the collapse of the Soviet bloc.

The globalization of markets increased the benefits of participating in an open economy and the costs of maintaining a closed bloc. With foreign trade, however, came a need for Western loans and investments, and a need to be attentive to Western economic advice.

The globalization of high-technology capabilities widened the margin by which Soviet technologies lagged behind those of the United States and Western Europe, a condition that was disagreeable but familiar. But it also placed Soviet technology behind that of Japan and East Asia, a condition that was unprecedented and unacceptable. If even South Korea could surpass the Soviet bloc in technological achievement, the Soviet system was obviously in deep trouble.

The globalization of enterprise structure did not mean the spread of multinational enterprises into the Soviet bloc, at least not at first. It did mean, however, the creation in capitalist countries of a class of corporate managers with international, even global values and styles, a class that the bureaucratic managers and professionals in the Soviet bloc were increasingly eager to join.

Thus it was that the greatest military-political empire that the world has ever seen was overcome in the cresting tide of globaliza-
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After the Cold War

Gorbachev’s efforts to end the Cold War appeared to mark the transition to a new stage in the tension between national security and the global economy. The globalization trend had been seen by some US planners as creating a serious problem for US national security. But with the collapse of the Warsaw Pact, the need for a US defense base also seemed greatly reduced. By undermining the Soviet military-political state along with the US national defense industrial base, globalization appeared to provide a solution to the very problem it had created.

Nevertheless, with the prosecution of the war in the Persian Gulf and the turmoil in Soviet leadership, some of the problems of globalization have returned in even greater strength. Although the Soviet capacity for conventional warfare is much impaired, Soviet nuclear capabilities cannot be ignored. Nor can the possibilities be disregarded of the appearance of new petty tyrants in the developing world. A critical question for the future is to identify what will be needed to maintain and strengthen the capabilities for dealing with such potential threats.

Part of the answer is crystal clear. A national defense base can no longer suffice to provide that capability. During the Cold War era, only the two superpowers, the United States and the Soviet Union, were able to maintain enough control within and beyond their borders to claim the existence of a national defense base. But both have been losing their coercive influence on other countries.

In the future the Soviet defense industrial base may continue to be national in important ways, but it will have to depend upon large-scale imports of technology from the global market if it is to have any acceptable degree of efficiency. The US defense base seems destined to follow the trend toward progressive international involvement.

The new era, therefore, will not be the era of the national defense industrial base, or even of the continental, European one. Rather, it will be the era of the global defense industrial pool. This pool will be fed by streams flowing in from many sources, from many nations.
And national governments will have to be satisfied with access to, rather than control of, the pool.

How will national governments respond to this new era of the global defense industrial pool? For the European governments, the new era will not be so different from the old. Centuries of experience have inured them to some measure of dependence on foreign technologies, foreign products, and foreign firms. For the US government, the new era will indeed be a new experience, to be endured with great reluctance. And for the Soviet Union, it will be a challenge of monumental proportions.

Will any nation have real powers of coercion over other governments by virtue of its contributions to the global pool? The remnants of such power will probably continue to reside in the United States for some time to come. Beyond the United States, the only other candidate is Japan. There has been some recent speculation that Japan for political purposes might try to exploit its monopoly in some components that are especially desired by the US military. But the bargaining relationship between the Japanese and US governments covers many points of vulnerability for both economies. From the perspective of planners in the US Defense Department, who concentrate on the weapons procurement relationship, the relative bargaining power between themselves and their counterparts in the Japanese government may seem troubling at times. But from the perspective of the US president, and from the perspective of most Japanese officials, many bargaining components are involved in the relationship beyond those involving weapons procurement. These include Japan’s heavy dependence on US and European markets, Japan’s heavy financial stake in the industries and capital markets of those areas, and Japan’s continued traditional vulnerabilities as a crowded island without natural resources. The capacity of either country to effectively threaten the other over vital issues continues to decline.

ENDNOTES

1 Immanuel Wallerstein, The Modern World System: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century (New York: Academic, 1974); also his The Modern World System II: Mercantilism and the Consolidation of the European World-Economy, 1600–1750 (New York: Aca-
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