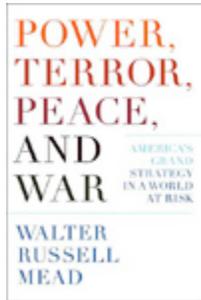




Power, Terror, Peace, and War

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Power, Terror, Peace,
and War: America's
Grand Strategy in a
World at Risk

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Introduction

JOANNE MYERS: Good morning. I am Joanne Myers, and on behalf of the Carnegie Council I'd like to welcome our members and guests to our Books for Breakfast program. This morning Walter Russell Mead will be discussing his book [Power, Terror, Peace, and War: America's Grand Strategy in a World at Risk](#).

One could argue that from the time that the Berlin Wall fell until the terror attacks of September 11th there was a period of optimism, innocence, and perhaps even naiveté among foreign policy analysts. However, with hindsight it is apparent that significant changes were taking place, not only in the former Soviet Union, but more importantly in central Asia and in the Middle East, and it would be these events that would soon present formidable challenges to global security and put our universe at risk. However, it was not until the terrorist attacks in September 2001, and our subsequent responses to them, that the political and strategic realities of the world we once knew changed.

In this concise new book, our guest makes a major contribution to the debate on America's future role in the world. Believing as he does that there is an American project that encompasses a vision of what the United States wishes to impart to the world, he explains why he believes things have gone so terribly wrong and suggests what needs to be done in order to get American foreign policy back on track.

Walter Russell Mead is a Henry Kissinger Senior Fellow for U.S. Foreign Policy at the Council on Foreign Relations and is known to be an engaging writer. His first book, [Mortal Splendor](#), was a finalist for a Los Angeles Book Prize. His second book, [Special Providence](#), which he discussed here, was mentioned as a notable book in the *New York Times* and *Los Angeles Times* book review and won the Lionel Gelber Award for best book on international affairs in English for the year 2002. With the publication of *Power, Terror, Peace, and War*, he makes us realize in times such as these how pressing is the need for clear and original thinking to shape the future of America's foreign policy. With this in mind, we welcome his strategic vision and his desire to take on this new American project.

Please join me in giving a very warm welcome to our guest this morning, Walter Russell Mead.

Remarks

WALTER RUSSELL MEAD: Thank you very much. This is an interesting time in world history, and you don't have to be a [Metternich](#) to see that all is not well in the world of American foreign policy. In *Power, Terror, Peace, and War*, I try to understand why things have gone the way they have, and also to understand some of the forces that are changing, not only manifesting themselves in the Bush Administration, but forces that are very present in American society and in the international order, and

that, for better or for worse, will shape the reality that all of us will have to live in and cope with for some time to come.

One of the starting points of my analysis is that there is a dual nature to the American presence in the world. On the one hand, the United States, as the world's greatest military power, is a status quo hegemonic power—that is to say, as the strongest power around and the power which is most responsible for the international order that has been created since World War II. The U.S. would like the status to stay as quo as possible on the whole, and it doesn't want to see a lot of revisions of boundaries, revolution in alliances, or massive ideological changes sweeping through the world.

And yet, on the other hand, the United States is something of a revolutionary power. The U.S., as we have seen vividly in the last three years, sometimes seems to be trying to overturn the order which it itself was largely responsible for building.

What's going on here? Part of it is that many of us had unconsciously adopted a view of world history and of the U.S. from the history of earlier hegemonic powers. That is to say in human history there has been a certain pattern by which balances of power aren't the normal condition in the world; rather, one country comes to dominate what one might call one cultural basin or relatively self-contained geopolitical region, so that China attains a certain supremacy in its area and then more or less maintains it unless and as external forces impinge on it. Rome, Egypt, Babylon—human history can be seen as a long story of struggles for domination within an area that then yields to a period of stability.

If we think critically about the concept of the end of history, which was being advanced in the 1990s to explain where we were, that was to some degree an argument that the U.S. was a sort of China, that technological progress had brought the world into one cultural area, and that the U.S. had established a durable power. This was often read as "history is over and we won."

But we can see now that that is certainly not true. The key reason for this is that American power doesn't rest on stable social, political, and economic order in the way that Pharaonic Egypt did. Rather, American power and society embraced the logic and the power of capitalism, and capitalism is a dynamic, evolving, revolutionary social system that does not stand pat, is constantly moving forward, changing, seeking new efficiencies, new technologies, and these often require new forms of social and cultural organization.

In particular, if we can look back to the 1950s and 1960s, we can all remember a time when there was one phone company, three networks, where banks could only compete by offering toasters because the products that they could offer you and the interest they could charge or pay you were all regulated by law, where the price of an airplane ticket between a given city pair was the same no matter what airline, where generally speaking life for much of us was much more like that of university professors today, which is lifetime tenure, not necessarily for a lot of money, but there was stability, and defined-benefits pensions [i.e. pensions that are both government insured and provide a guaranteed monthly pension payment]. For most people this meant that by the time you were thirty you would generally have a good idea of how life was going to work itself out. There was tremendous stability in the system.

These oligopolies or monopolies that controlled major industries had stable business patterns, they were often unionized, and the rents of monopoly tended to be distributed among shareholders, management, and organized labor in an orderly way.

It was a stable social system and popular. But it changed in the United States, and increasingly around the rest of the world.

The implications of this kind of economic change for foreign policy are enormous. For example, if we think about the key goal of capitalism, in some ways it is to enhance technology, enhance productivity. We are always seeking better and more efficient ways of doing things, we are developing new scientific understanding, and we are applying it to the various technological and economic purposes of life. Productivity goes up, we all get richer. In theory, this should make us all more stable and cosmopolitan. That at least is the end-of-history logic.

And yet if we think about it, technological progress creates new challenges as well. If the strongest military force on the planet on September 11, 1901, had steamed into New York Harbor-I'm referring to the British Navy-and decided to spend the morning doing all the damage it could to New York, the British Navy in 1901 probably would have done as much damage as al-Qaeda, an NGO, was able to accomplish on September 11, 2001.

But look ahead to 2101 on September 11th and ask yourselves: at that time, when by then high school students working on homework assignments in their biology labs at school will be doing things on a routine basis that today Nobel Prize-winning scientists cannot do, even with the help of massive university research labs, what would a group of terrorists or an individual terrorist be able to do on September 11, 2101?

And yet, this increase of productivity and technological ability that lies behind that danger isn't an avoidable byproduct of capitalism; it's in the nature of what capitalism is constantly doing. We are creating new and ever more dangerous problems for ourselves simply by doing what it is that we like to do. And the idea that more capitalism necessarily creates more stability in the world is an illusion.

I would not take the opposite deterministic view and say it inevitably makes things worse, because in 2101 we'll be able to do much more to stop nut jobs who want to wage biological war on the rest of the world. Progress doesn't just help the bad guys, it doesn't just help the good guys; it raises the level of the competition. But it would be a mistake to think that technological progress will lead to a more orderly world.

That weapons of mass destruction are already a lot easier to make than they used to be. The fact that a country like Pakistan could not only make nuclear weapons undetected by and large by both international and national means of detection, but also that a nuclear bazaar could be erected in shadows and the world not know for a significant period of time that this is happening, these things are also a function of progress. In 1945, when the first atomic bombs were built, it was much harder to do and much easier to figure out if somebody was trying to do it than it is today.

So we will see, as biology and chemistry become more destructive and as nuclear technology becomes ever easier to deal with, it will be much harder to know what is happening on such a vital subject as weapons of mass destruction. This is inevitably destabilizing because it means that both national powers, like the U.S. and others, and international organizations will be less possessed of the information they need for the decisions that they must make. Technological progress is destabilizing in the international arena.

But let's go back to this transformation of the economy in a broader sense and its implications for the world that we live in.

I call the old 1950s/1960s economy "[Fordism](#)." It's a term of art that was developed mostly by Italian Marxists in the mid-20th century to describe the high-production/high-consumption/high-regulation consumer economies that characterized life in the world's most developed countries in the middle of the 20th century. They take it from Henry Ford, who both pioneered mass production and the assembly line and the work discipline that's involved with that, but also pioneered the concept of paying the workers what was then a very high wage of \$5.00 a day on the theory that the mass market that could be created by these very productive workers, who would purchase the products of the mass consumption that the new techniques were developing.

Fordism was the basis of the American system after the Second World War. That is to say that it was the economic model we encouraged and helped others to adopt, and in addition to these regulated, stable elements and high-consumption elements, it was a collection of national economies. The United States had one set of major international actors, Canada another, Britain another, France and Germany yet another. Every country developed more or less autonomously. [The Bretton Woods system](#) acted to limit, and certainly make controllable, the role of international capital flows. So governments were able to shape and guide their national economies.

In Europe, people used this ability to settle a hundred years of class conflict. The workers gave up the aspiration for revolutionary overthrow of the existing system and a workers' paradise, a workers' state. It was easy to give that up because the more they looked at Stalin's Russia, the less anybody would want that.

Capitalists accepted regulation and high taxation, but got stable markets, stable profits, and social stability. It seemed to be working well, and it probably worked best of all for the class that Marx hated the most, the petty bourgeoisie, which was his own class, folks like us, intellectuals, writers, thinkers, the people who in the old days used to spend all their time sitting in shabby cafes planning to overthrow the existing order because it was so intolerable and unjust.

But in Fordism these shabby intellectuals found a new role in life: they were experts. They studied the objective truths of social science and they arbitrated social and political conflicts among interest groups in the regulatory framework of the Fordist state. It was a golden age of the petty bourgeoisie, of the intellectual segment of society. Today we call them bureaucrats, but in those days we called them experts.

So you had a system in which everybody was happy. For countries, states, this was a terrific social system, because not only in the European case were you able to buy off the working classes that used to drive you so crazy as a ruling elite and throw enough bones to the intelligentsia so that they were chewing them contentedly rather than trying to chew yours, but also it was good for the consolidation of state power.

The autonomy of the national economy and the role of the state, of experts, in allocating credit and shaping development was key to the state-building and power-building activities of most of the developing world. So if you were in Malaysia, the autonomy that you had in the global economic system meant that you could arrange economic development so that you could stream a bit of investment towards those troublesome provinces in some part of the country; you softened the social conflict between the Chinese minority and the Malay majority by how you arranged matters.

If you were just any developing country, you were able to use your state power over the economy to consolidate your own political authority, but also to quite consciously build your national socio-economic organization in a way that was durable and relatively stable. And so the linkage between politics and economics grew tighter and tighter in much of the world.

During the Cold War the U.S. was defending and promoting an economic system that favored state power in all the states of the free world, and also protecting them from the most bitter and dangerous challenge to their power, the Bolsheviks. That the United States was a predominant power in the international system was resented by many, but on the other hand that resentment was offset by the ways in which American power was strategically supportive of the power of other states in the system.

In the U.S., as Fordism began to change, we have been moving to what I call "millennial capitalism," which is a bit of jargon, but we need a new name for a new stage. Millennial capitalism is not the same as the 19th century [laissez-faire capitalism](#), which some people accuse it of being. In 1900 the United States government budget as a percentage of GDP was about 3 percent. We're not going back to that.

We had no central bank in the U.S. The Bank of Morgan, a private institution, functioned as our de facto central bank. We're not going back to that.

The government didn't even set the price of money. There was a natural gold standard. We're not going back to that.

We are changing the way regulation works, but we are not deregulating the economy. International trade agreements are creating new types of multinational and international forms of trade regulation. So we are changing the way regulation works.

In the Fordist era the market was seen as a dangerous force that had to be held at bay. You had to have

some of it so that your economy would work, but you didn't want too much because it was so unpredictable, ruthless and dynamic. So people had to be protected from the market.

In millennial capitalism, more people must be given access to the market and the purpose of regulation is to allow the market to be as free and dynamic as possible because you are looking to market dynamism as the solution to your problems. But this is quite different from the Victorian era of capitalism, when the markets ripped and the government hardly even had enough money to keep statistics on what the market was doing, much less to try to shape the environment of markets.

This new economy that we began to develop in the United States and other countries—certainly under Margaret Thatcher, the British were doing this, and other countries have been adopting bits and pieces of it—is much more dynamic. All of us who live and work in the U.S. have seen our personal careers and life patterns change: life employment is gone, defined-benefits pension programs are by and large gone. You need a computer to help you figure out what airline you should fly; banks are completely unpredictable and incomprehensible; and instead of one phone company, many of us are getting five phone bills a month from different companies and don't understand it, and yet somehow the telecom does seem to be working better than before. We now have a very different economy.

And more than all of this, we no longer have a national economy; more and more we have an international economy. These companies that have developed incredible ways of managing risk, of measuring risk, of competing in this extraordinarily tough environment, want to go out and do likewise in other parts of the world.

The practices of millennial capitalism that develop in the U.S. and other cutting-edge countries export themselves, so French, German, Italian, Malaysian, and other companies, like it or not, find that they have to match the efficiencies of these newly re-engineered corporations in order to survive. All over the world people are feeling the pressure to adopt millennial capitalism in their own countries to some degree.

There are many issues with this. Some of them are political and cultural. That is to say, that while we have a lot of resistance to the new system and many of us wish we could go back to the old system, the U.S. has moved at a pace driven by internal forces and processes to adopt this system.

We have elections and we'll vote in liberals when we want to slow it down and conservatives when we want to speed it up. This is a completely useless political terminology when the liberals are conservatives and the conservatives are liberals.

And so, difficult as these adjustments are, and bitter as the pain is that they have caused some people, on the whole American society stays more or less at the rate of change that American politics finds palatable. This is not true in much of the world, where the pace of change is felt as an alien imposition from outside, and that one is in a sense reforming with a gun at one's head. So that as French society based on French politics would like to be going from a thirty-five-hour work week to a thirty-two-hour work week and six weeks of paid vacation to eight weeks of paid vacation, it is encountering enormous external pressure to behave in different ways. Ditto Germany, Italy, China, Malaysia, Australia, and Mexico. Globalization is seen, by and large, as an imposition of millennial capital at a pace and in a fashion that is unwelcome and resisted around the world.

More than this, millennial capitalism as an international phenomenon challenges the basis and the structure of state power in much of the world. For example, in Malaysia, it is much more difficult to juggle your economy around this need to reconcile the interests of two important ethnic groups because millennial capitalism wants to take power out of governments to allocate credit and resources, and put it in the hands of markets. It wants to destroy or sharply limit the autonomy of every state in the system.

And so, to the extent that American power and system are seen as advancing this agenda, the U.S. is now to a real degree a threat to the state power, the power of states. And the states are the people who, when you are conducting foreign policy, are your partners on state-to-state discussions.

And more than that, the intellectuals under Fordism, who were the experts, are now being derided as bureaucrats, and the opinion-making and journalistic classes that are grouped around national capital, national institutions, and states around the world, their positions too are on the chopping block. When every civil servant in Brazil is reading stories in the newspaper about how globalization is forcing Brazil to try a constitutional amendment that will sharply cut the pensions of Brazilian civil servants, this has an impact. Journalists, academics, political leaders—all have state interests and personal interests that are affected in a negative way by the agenda of the American economy, of the American polity.

The Americans want to keep going further and faster into this system. We sometimes have our moments of hesitation and doubt, but let's never forget that airline deregulation was introduced by Senator Ted Kennedy in the 1970s, and that while liberals may want to slow down the pace some, by and large American society remains committed to exploring and developing the potentials of new and dynamic forms of capitalism.

So if we add then the facts that American capitalism and the American economy are now undermining the interests of states and elites around the world, opinion-makers as well as others; the external threat, the Soviet Union, from which the Americans in the past were seen as defending other states and other elites, has now disappeared and is no longer a danger; and that, thanks in part to the economic and technological revolutions in the U.S. which have put our military power on a much higher plane, the qualitative differences are becoming more important than the quantitative differences in military power; then it is logical that many people around the world would now see the United States as a far more threatening and dangerous presence in the world, and that the concept of looking for ways to limit American influence and limit American power would start making more sense to more people in more states and governments around the world. We can look around and see that this perception does seem to be taking hold.

If we now add to that some of the specific policies of the Bush Administration, placing greater demands on the international system by asking more people to follow it down uglier roads, so that politically as well as economically American leadership is asking people to go where they fundamentally don't want to go, it is not surprising that some of the ties between the U.S. and its long-term allies are turning into ropes of sand that just give when you tug on them.

There was a belief in the Administration that if you lead they will follow, that American power is such in the world that if you set a direction others will have to go there whether they like it or not, because you have the power to determine reality. We have seen that this is largely not so.

But we are still facing a situation in which not only the economic direction of American society but also the cultural direction of American society is moving away from a global consensus. That is, in the Fordist era in America, American society was much more "club-able" than it was historically or than it is again now. American society has traditionally been very individualistic, very much oriented towards the grassroots, with a lot of suspicion of institutions of any kind.

In the United States, historically your town government has been seen as more legitimate and less corrupt than your state government; your state government as more legitimate and less corrupt than your national government; and your national government as far more legitimate and less corrupt than international institutions.

In the Fordist era, American society was unusually institutional. That is to say, Fordist politics was a politics of blocs and interest groups, so that workers listened to and normally voted with their labor union leaders. People accepted the role of experts in institutions—the doctor in the white coat would tell you what to do and you would believe it. There was a time when Americans listened to their doctors. These days they instantly go home and check out Internet web sites and find nine forms of treatment that their doctor didn't tell them about and they want to go in with a lawyer next time and talk to the doctor again. It's a very different attitude.

That attitude is also showing up in terms of religion, where the individualism of American evangelical

revival takes place. Many of you may have seen in *The Wall Street Journal* that American evangelicals now account for 43 percent of the population. That's people who say they're born again. George Bush will not say for the record whether he is born again, but he thinks of himself as born again, so that's 43 percent not including George Bush.

Generally speaking, the sectarian Protestantism that evangelicals tend to come from is a Protestantism that is deeply suspicious of international institutions and involvements, that tends to think that secular inter-religious organizations have a corrupt false conscience. They believe that these secular organizations will talk about their high moral values, but then they will ignore genocide in Rwanda, or they will steal money in [an Oil for Food program](#) with Saddam Hussein. There's a deep suspicion of the moral bona fides of the world community expressed in institutions like the UN.

So American society will continue to move in ways that make it harder to bridge the gap between American culture and cultural preferences, and other parts of the world. Managing these things will be the very difficult task of those of us who are involved in American relations, and on the other side those of you from outside the U.S. who have to try to somehow manage your country's affairs vis-à-vis us. It will take a lot of hard work. And, at least on the American side, we'll be doing this in an environment where diplomats and foreign policy experts will be seen as suspect by American public opinion, which thinks we're all a bunch of elite and effete Europhiles anyway.

The outlook is a little bit gloomy, but shouldn't be surprising considering where we've been going in the last three years.

JOANNE MYERS: Thank you. I would like to open the floor to questions.

Questions and Answers

QUESTION: I feel as if [Professor Toynbee](#) has been reborn and joined us for breakfast. I look forward very much to reading the book, which is obviously immense in its dimensions.

You see millennial capitalism as an inevitable force in American foreign policy and its impact on the world. You talk about the impact of specific American actions, but you are focused much more on the broader forces of history here. The conventional wisdom is that sympathy for the U.S. globally was enormous after September 11th, that the Administration has frittered away an opportunity to build on widespread support for our goals, particularly in the war on terrorism.

Do I understand you to be saying that even if they hadn't made what some would describe as the mistakes they made after September 11th, that wouldn't have had any effect, that such are the forces of history, such as the impact of millennial capitalism in the United States' relations with the rest of the world, that even if they had done it better it wouldn't have made any difference?

WALTER RUSSELL MEAD: The question is why were people likely to make such mistakes in such high office in the U.S. at the time. The rise of the neo-conservatives, who were a quite marginal element in American public life thirty years ago, to a position of great influence is part of this cultural process.

Let me make absolutely clear that better management could have made American foreign policy much more successful in the last three years. But in some ways, the conditions that much of the world would have liked to have seen on American foreign policy in order to be more supportive are unlikely to be met even under a Kerry Administration.

For example, the notion that the U.S. can accept the status quo in the Middle East, in failed Fordist regimes that have all of the bad features of Fordism in terms of regulation, lack of dynamism, corrupt linkages between political and economic elites, but, alas, none of the mass prosperity, and where you have the intelligentsia and the decision-making classes attached to increasingly fragile state structures, that American policy needed to always respect the legitimacy of every state structure in the Middle East, or everywhere, is increasingly difficult to sustain politically on the American side.

And then that the U.S. and the U.K. were wrong in their assessment of the Iraqi WMD program doesn't

remove the problem that many of the international and multilateral institutions trying to deal with issues like proliferation are equally unable to deal with the latest technological progress. To a certain degree, the U.S. finds itself faced with a situation where either it tries to hash these things out in a unilateral or coalition-of-the-willing way, or does nothing at all; that the multilateral option is seen as of little or no value against those determined to cheat or to work around it.

Those dilemmas in foreign policy would probably force the U.S. from time to time to do things in a rather unilateral or small-group way. Again, that means that your diplomacy should be extra-good and extra-nice. If you're going to be doing rude things, you should try to be saying nice ones. Unfortunately, some people in our government think that the ruder you are going to behave, the nastier you need to speak. We have exacerbated some problems.

But some of the structural problems require a much deeper thought process, as to how do you begin to reconcile and work with interests and world views that are more different than superficially we may have supposed.

QUESTION: Could you deal with some of the attempts at strengthening countervailing institutions, for example, the enlarged EU? You gave as examples the French, the Germans, and the Italians not being happy with the American way.

And on the other hand, extend what you've been saying about the Middle Eastern area-and not only the Middle East, but al-Qaeda and militant Islamism - as a reaction in part to what you're describing as millennial capitalism.

WALTER RUSSELL MEAD: Those are two very big questions. I'd have to give another talk to even try to fully answer them both.

For Europe the dilemma is this, that pure national Fordism has clearly been impossible in Europe for some time. The French realized this in the early 1980s with Mitterand, had the rush for growth, and it led to capital flight and stagnation. And so the Europeans are divided among themselves over what they're trying to do with unification and EU expansion.

There is some hope that you could have Fordism regionally, that if Europe groups itself all together it will be able to resist millennial capital more effectively and run Europe as a closed shop. This is probably in the class interest of the Eurocrats and it's those who are instinctively anti-American and anti-millennial capitalism in Europe who are moving to this. Again, Marx would have some beautifully vindictive things to talk about. "The infantile left-wingism of the petty bourgeoisie" would probably be the way he would begin to analyze this process.

Millennial capital gets a higher return for capital than Fordism does, and capital will continue to migrate to where the returns are highest. Water seeks its own level. Capital seeks the best returns. Europe will continue, whether it expands or not, to face a bitter choice between stagnation and the wrenching reform that most Europeans still don't want.

In some ways European expansion will not be successful at creating a genuine counterweight to the U.S. in the world, because Europe will continue to have to face the choice of either being more like the U.S., giving up what it is fighting to protect, or seeing its weight in the world continue to diminish. The divisions in the Europeans over these two courses and their merits also have a tendency to paralyze European policy.

In terms of the al-Qaeda and Islamism as a response-I used the word I don't like to use, "Islamism." That suggests that what Osama bin Laden is about is a form of Islam. I tend to agree with [Paul Berman](#), who has written a very interesting analysis that argues that the cult of Osama bin Laden-the death cult-side of all of this isn't Islam at all, but is historically a new form of European fascism. He draws some interesting lines of intellectual influence.

I talk about two kinds of Arabian-not Arabic-fascism, one of them the secular-Saddam Hussein looking

back to the imagined or re-imagined glories of a past that he wanted to restore-and then the religious fascism, "white fascism," of Osama bin Laden.

Yes, fascism is a protest against capitalism and modernism, and anti-Semitism as part of capitalism, as part of fascism, is a natural element, that Jews are seen as peculiarly suited to rootless cosmopolitan capitalism. Osama bin Laden, or the fascists in the Muslim world today, hate Jews not only because of Israel, physically and geographically, but because they hate the idea of capitalism that is upsetting and destroying traditional societies and values, and Jews seem to them to be very well planted in that. I see an old and very tragic history of where it began.

QUESTION: You touched on something that has concerned me for a long time in the political analysis, the lack of emphasis on the world economy, or the millennial capitalism.

But you have perhaps neglected to examine the role of the millennial capitalist. You see the system as a straight market economy that is causing computerized efficiency to take over events in the world economy. It seems more like the picture of the 1901 economy, of the [Morgans](#), where there is a large group of capitalists who have accumulated enormous power, partly because of their ability to figure out retail electioneering so that money now controls the political process, and they provide the money.

If you look at the growing inequality in our tax system, the growing inequality in the economic size of the wealthiest class versus the rest of society, what is happening is a very clear picture of a group of people who have a global view and primarily an American base, who are in effect running our government, as opposed to the system itself running itself.

WALTER RUSSELL MEAD: "System" is just a word we always use for the actions of large numbers of individuals. I would argue that an individual capitalist today has somewhat less autonomy and power than, say, a J.P. Morgan did in 1901.

In 1901, you could have organized a group in this city of ten or twelve business leaders, financial leaders, and they could have stopped about anything they wanted to stop or start anything they wanted to start. There was a consensus among a handful of private investment bankers that nobody but WASPs and a few lucky Jews who had access to German banking houses could be investment bankers in the U.S., and that Italians could not get financing for big business. So they were able to establish an ethnic hegemony. There were also industries that they could either support or not support.

Today the capital markets are so open and flexible and institutionalized, with so many more participants, that if the house of Morgan doesn't like your idea, you don't care, because there will be a [Michael Milken](#), or there will be junk bond financing, to provide another option.

We are dealing much more today with a system than we were a hundred years ago, where there aren't individual wills. A hundred years ago, once a company went public, the original owners could still control it. You didn't have shareholders' revolts at U.S. Steel. Today, once again, institutions play such a role in public shareholding, whether it's a [CalPERS \[California Public Employees' Retirement System\]](#) or other institutional funds, that once a company has gone public, the management loses a lot of discretion, and if it tries to exert an individual power over where the firm is going, profits will drop, the stock market will go down, and sooner or later, under our very open hostile takeover laws, somebody else will come in and run it.

Yes, we have a lot of rich people today with a lot of power, but the system itself is more institutionalized and less responsive to individual wills than it was a hundred years ago.

QUESTION: As always, your analysis is helpful, and we can all recognize the difference between the Fordism and the millennial capitalism. You've only got to look at some of [Gerhard] [Schroeder's](#) recent announcements to see the difference. And you can look at the performance of those who have embraced millennial capitalism over the last recession, like the Australians, the Singaporeans, the Irish, the British, and compare that with the economic performance of those who have not.

The distinction between millennial and Fordism capitalism was helpful up to a point. What made America different through this transition period, particularly the 1970s-1980s, was that the U.S. economy had an almost uniquely low proportion of GDP exposed to international competition. That has been changing rapidly over the last decade.

But when you look at the U.S. reaction to international competition, to globalization, at the current refusal to allow European airlines to operate in the domestic U.S. market, at the reaction to the idea of eliminating cotton subsidies, at the debate over outsourcing and "[Benedict Arnold](#)," I would argue that, even though the U.S. is a very dynamic capitalist society, when it comes to its reactions to globalization and its ability to fend off international competition, the opinion polls show that support for free trade has been falling steadily as you are exposed to international competition. I would thus suggest that American society is not so very different from the Germans and the French.

WALTER RUSSELL MEAD: I wasn't sure when you started whether you were going to attack our economic performance on grounds that our trade deficit was so large, but it was the other end.

We are having this bitter debate at a 5 percent of GDP trade deficit. Other countries have it a 1 percent of GDP trade deficit. There are even countries that have it with a surplus. So this is not a switch that's either on or off, but it rather reflects how far the social consensus will permit disruptive changes to take place before it puts on the brakes, and my argument is perfectly consistent with the idea that from time to time the U.S. puts on the brakes on its own exposure and progressive liberalization.

But the question would be the relative balance of when do you do that and on what grounds. I don't know when we last had a trade surplus, that we've been able to sustain this. Many people thought that at the end of the Cold War, the U.S. would go back to a much more mercantilist trade policy because historically the arguments for free trade with Japan and Germany had been about building prosperity in key allies against the Soviets, and so there was a thought when there was no longer a legitimate strong security justification for this we would pull the plug.

We didn't pull the plug, which is the best measure of openness, because what it does suggest is that the producers' cartels in our society are less powerful than elsewhere.

The interesting thing in the U.S. is that here we have one industry where foreigners are prevented both from competing effectively and from control. Now, it's a loss-making industry. Traditionally, at this point in the cycle Americans would welcome foreign investment into the airline industry, and perhaps we should. But that stands out because it's anomalous, that so many other industries are open to hostile foreign takeovers.

If you were to try to do a hostile American takeover of a key firm in just about any industry in the EU, you would have a much more difficult time. Perhaps not in Britain, but in continental Europe or in Asia, you would have a much harder time.

So again, we're talking about relative openness. The movement forward of capitalism is a historical process by which a certain logic is working itself out in human affairs. We all resist change that we deem too radical. But my suggestion would be that over time-and not just five years or ten years, but over a rather long time-the American tolerance for this change, and to a large degree also the British tolerance for this change, is significantly greater than in most other societies around the world, and that is not without its implications for world history.

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