thought at the London School of Economics. What is different—and dangerous—today, Gray maintains, is "the new weakness of states."

Francis Fukuyama's famous 1992 prediction that liberal democracies will eventually prevail everywhere is unlikely ever to come true, Gray argues. He offers one simple reason: it is not whether a government is a liberal democracy that determines its legitimacy, but whether it meets the most fundamental needs of its citizens, namely, protection from "the worst evils: war and civil disorder, criminal violence, and lack of the means of decent subsistence."

And contrary to Samuel Huntington's 1993 "clash of civilizations" thesis, wars are still "commonly waged between (and within) nationalities and ethnicities, not between different civilizations," Gray observes. "[The] old, familiar logic of territories and alliances often impels members of the same 'civilization' into enmity and members of different 'civilizations' into making common cause." After armed conflict broke out between Armenia and Azerbaijan in 1988, for instance, such logic drove Iran to side with Christian Armenia, not Islamic Azerbaijan.

Fukuyama's and Huntington's "apocalyptic beliefs" only encourage the disabling illusion "that the difficult choices and unpleasant trade-offs that have always been necessary in the relations of states will someday be redundant," Gray says. But they are unavoidable, he declares. "Advancing democracy does not always foster political stability. Preserving peace does not always coincide with the promotion of human rights."

In a variety of ways, Gray argues, the end of the Cold War rivalry has dangerously undermined the legitimacy of states. Some states, deprived of their strategic value, must make do without the outside support that previously sustained them. In other nations, such as Italy and Japan, the disappearance of Cold War imperatives has led to the disintegration of long-established political arrangements.

Economic globalization, encouraged by the collapse of the Soviet Union, has made it harder for governments of all kinds to limit the economic risks to their citizens that come with free markets, creating "a new politics of economic insecurity." Thanks in part to the unregulated trade in arms in the global economy, Gray notes, many modern states are unable to maintain a monopoly on organized violence. "Today wars are often not fought by agents of sovereign states but waged by political organizations, irregular armies, ethnic or tribal militias and other bodies."

"We have inherited from the totalitarian era a reflex of suspicion of government," Gray concludes. "Yet no political doctrine could be less suited to the needs of our time than that which is embodied in the cult of the minimum state."

ECONOMICS, LABOR & BUSINESS

The Perils of Europe's Promised Union

A Survey of Recent Articles

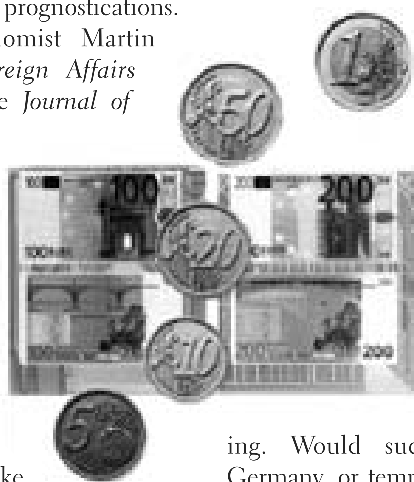
"European union—not just a common market but a common currency, a common defense, and a common diplomacy—has been talked about for decades," Ronald Steel, author of *Walter Lippmann and the American Century* (1980), notes in the *New Republic* (June 1, 1998). "In fact, the talk lasted so long that union came to resemble the kingdom of heaven: something to be devoutly desired but deferred into the indefinitely receding future. Many, myself included, doubted that European countries would ever scrap that essential attribute of sovereignty—their currencies—as the price of unity." But now, 11 European nations are doing just that.

Mere months from now, on January 1, 1999, if all goes according to plan, France, Germany, and the other nine countries in the European Monetary Union (EMU) will freeze their exchange rates, establishing, in effect, a single currency. People and companies will be able to write checks, use credit cards, and keep bank accounts in euros. Responsibility for monetary policy will shift from Germany's Bundesbank and the other

national central banks to the new European Central Bank. On January 1, 2002, euro-denominated notes and coins will be introduced, and six months later, the deutsche mark, the franc, and the lira will be history.

While Washington is upbeat about all this in public, Steel says it "fears that a Europe moving toward real economic integration may be a less reliable and less predictable partner for the United States—or perhaps not even a partner at all."

After World War II, American liberal internationalists were all for European unification. But now that the long-cherished dream is moving dramatically closer to reality, it is not just liberal neo-isolationists such as Steel who are making gloomy prognostications. Harvard University economist Martin Feldstein, writing in *Foreign Affairs* (Nov.–Dec. 1997) and the *Journal of Economic Perspectives* (Fall 1997), warns that monetary union "will change the political character of Europe in ways that could lead to conflicts in Europe and confrontations with the United States."



The one-size-fits-all monetary policy, Feldstein argues, is likely to provoke great discord among the European nations, especially when some of them experience severe unemployment and find the new central bank unwilling to cut interest rates. He predicts that the adverse effects of a single currency on unemployment and inflation will outweigh any gains that it will produce by facilitating trade and the flow of capital among the EMU members.

Economist Milton Friedman, now with the Hoover Institution, at Stanford University, agrees. In the United States, where there is a common language, a strong national government, and free movement of goods, capital, and people from one part of the country to another, a common currency makes sense, he points out in *New Perspectives Quarterly* (Fall 1997). But in Europe, where those conditions do not obtain to the same extent, it doesn't, he contends. There, flexible exchange rates have provided a better way for individual nations to adjust to the ups and downs of the business cycle. "If one country is affected by negative shocks that call for, say, lower wages relative to other countries, that can be achieved by a change in one price, the exchange rate, rather than by requiring changes in thousands on thousands of separate wage rates or the emigration of labor." Come January, however, that will no longer be possible for the 11 EMU nations.

The "real rationale" for monetary union is not economic, Feldstein writes, but political: the formation of a political union, "a European federal state with responsibility for a Europe-wide foreign and security policy as well as for what are now domestic economic and social policies." But once the countries are in EMU, and unable to get out, he argues, "conflicts over economic policies and interference with national sovereignty could reinforce longstanding animosities based on history, nationality, and religion." Even another European war is possible, he maintains. "Germany's assertion that it needs to be contained in a larger European political entity is itself a warning. Would such a structure contain Germany, or tempt it to exercise hegemonic leadership?"

"Could Feldstein be right?" wonders Isabel Hilton, a columnist for the *Guardian* in London, writing in the *New Yorker* (Apr. 27 & May 4, 1998). "Is it possible that the euro could bring the whole edifice of Europe—with its new grand buildings, its thousands of bureaucrats, and its volumes of law—crashing down upon our heads? The idea is one that some European voters—who haven't yet bought their leaders' party line—seem to share. Most, in fact, have responded to the idea of a single currency with suspicion." Hilton visited finance ministers in France, Italy, and Britain (which has elected to stay out of the EMU for the time being), and she found that none of them "believed in Feldstein's prophecy of doom, but each of them knew that monetary union was a leap into the unknown."

That is because Europe is reversing the usual process of creating a state, argues Michael Portillo, who served in British prime minister John Major's Conservative cabinet

during 1992–97. “Normally, a new state establishes its institutions of government first, and then goes on to create its policies and its currency. In this case, the common European policies and the currency are being created first,” he observes in the *National Interest* (Spring 1998).

What is missing, Portillo says, is “a single European people. . . . The peoples of Europe are too different from one another, their histories, cultures, languages, and values are too diverse, for them to be brought together into one state.” Forcing individual nation-states, which are democratic, into the European Union, which in itself is not, is a grave mistake, he believes. “The traditional danger in Europe has come from extremist nationalism,” Portillo contends. “Political union seems likely to rekindle it, as national interests are ignored by policymakers who are both remote and irremovable.”

The “forced march to unity” is endangering what has already been achieved in much of western and southern Europe, namely, “a new model of liberal order,” argues Timothy Garton Ash, a Fellow at Oxford University, writing in *Foreign Affairs* (Mar.–Apr. 1998). “What we should be doing now is rather to consolidate this liberal order and to spread it across the continent. Liberal order, not unity, is the right strategic goal for European policy in our time.” In Europe, “enlargement” is the theme of many critics of rapid unification.

But unity is the goal that most European nations are now pursuing. “It is difficult to see how the European Monetary Union can succeed,” writes former secretary of state Henry Kissinger on the op-ed page of the *Washington Post* (May 12, 1998). “It is even more difficult to imagine that it will be permitted to fail.”

Taming the Corporation

“The New Meaning of Corporate Social Responsibility” by Robert B. Reich, in *California Management Review* (Winter 1998), Univ. of California, 5549 Haas School of Business #1900, Berkeley, Calif. 94720–1900.

Back in the 1950s, it was a commonplace to say that major corporations ought to treat employees like family members and to function as good citizens in their communities. But times have changed, notes Reich, a professor of economic and social policy at Brandeis University and former U.S. secretary of labor. Today, he argues, government needs to step in and define corporations’ social obligations.

The current conventional wisdom, Reich observes, is that publicly held corporations have only one responsibility: to maximize the value of investors’ shares. And if doing that means laying off large numbers of workers, or getting 13-year-olds in Latin America to work 12-hour days for a pittance, so be it. After all, by helping to see that society’s productive assets are arrayed most efficiently, corporations not only benefit investors but promote economic growth and the creation of jobs. True, says Reich, but society still may want the artificial creatures of law known as corporations to take into account other considerations, such as the welfare of workers and communities.

Once, in the era after World War II, the top executives of America’s major corporations envisioned management’s job, as Frank Abrams, then chairman of Standard Oil of New Jersey, did in a 1951 address: “to maintain an equitable and working balance among the claims of the various directly interested groups . . . stockholders, employees, customers, and the public at large.” With investors quiescent and boards often docile, Reich writes, managers then could refrain from laying off employees, even though that might run counter to the best interest of the shareholders. But even in that era, he notes, corporations could take a minimalist view of their social responsibilities, as textile manufacturers did, for instance, when they abandoned the Northeast in search of cheap labor elsewhere.

Government does already “impose, by law, procedures by which stakeholders other than investors can participate directly in corporate decisions,” Reich observes. Collective bargaining, as spelled out in the National Labor Relations Act, is an example. But further expanding participation in this way, he points out, would only “prolong and complicate” corporate decision making, and promote inefficiency.

Reich believes that Washington must