



Hemispheres

The Tufts University Journal of International Affairs

ESSAYS

The Missing Links? Democracy and
Development In Enduring Rivalries

Sarah Croco

Greek Irredentist Claims to Asia Minor

Seth Blacksbury

The Market Transition of East Germany:
Model or Mezzogiorno?

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Going North, Looking South?
Mexican Americans, Mexico, and
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Claudia Asch

The Marshall Plan and its Implications
for Development Assistance Today

Jason Sanjana

INTERVIEW

Dani Rodrik on Economic Development and Globalization

Vol. XXIV

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Sarah Croco

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Editors' Note

In this edition of *Hemispheres* we have selected papers covering a wide variety of issues in international affairs. These papers have been chosen, not only because they represent fine undergraduate scholarship, but also because they all deal with traditional issues in a changing world.

The winner of this year's *Hemispheres Award* for the best paper in the journal is Sarah Croco's *The Missing Link?*. Ms. Croco has made a meaningful inquiry into the causes of war among nations, and her research and diligence went far beyond what is typically seen at the undergraduate level. *The Missing Link?* truly adds to the scholarly literature by looking for answers beyond the conventional wisdom.

The interview with professor Dani Rodrik of Harvard University offers clarity to the often nebulous issue of globalization. Professor Rodrik has a unique ability to sift through layers of hype and meaningfully discuss the prospects for globalization and economic integration.

The Editorial Board would like to thank Dr. John Jenke of the Tufts University Program of International Relations for support and guidance, as well as his assistant Omar Roca for his superb technical advice. We would also like to express our gratitude to Dr. Dani Rodrik for his time and insight. Finally, we would like to thank all those who submitted their work for their pursuit of academic excellence as the selection process was surely the hardest part of this project.

Sincerely,

Co-Editors-in-Chief
William M. Silverman
Jiri Krol

The Missing Links?

Democracy and Development in Enduring Rivalries

By Sarah Croco

Introduction

When trying to explain the origin of conflict between states, enduring rivalries can be particularly fruitful ground for political scientists. In addition to the fact that enduring rivalries constitute a large percentage of the conflicts that take place between states, the makeup of the states involved in enduring rivalries highlights several interesting phenomena. Most notably, why is it that the majority of the dyads are contiguous minor powers? The general consensus on the issue seems to be that the underlying reason for this trend is the fact that minor power states lack the necessary capabilities to project power outside of their immediate region. Given this fact, and the fact that states have a higher frequency of contact with their neighbors (and thus more chances for conflict), it follows that most of the rivalries that exist between minor powers will be between contiguous states. This simple logic is illustrated in Figure 1.



Figure 1: The Standard Argument

While both of these suggestions are certainly relevant to any discussion of rivalry behavior, perhaps a deeper rationale exists. An alternative route of explanation might include a closer investigation as to how the internal characteristics of the

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state, such as level of development and regime type, might determine its external behavior. In other words, what is it about minor powers, besides low capabilities, that make them more likely to engage in enduring rivalries with their neighbors? As this essay will argue, the fact that most are underdeveloped, unstable, non-democracies may carry a greater significance than previously thought. Including regime type/stability in the analysis will also allow for an opportunity to draw on other theories from the discipline. By looking at other ideas, such as theories as to why states employ diversionary tactics, ideas that draw links between development and stability, and the ever-popular democratic peace theory, perhaps an alternative hypothesis can be constructed as Figure 2 demonstrates.



Figure 2: An Alternative Hypothesis

This paper does not intend to dispute the validity of the idea that contiguity is somehow involved; rather, it questions the logic behind employing it as the only tool to attack the problem. Basing one's argument solely on contiguity excludes several other important variables that could provide deeper insight as to why the rivalry partners fall the way they do. In other words, while there is certainly a connection between minor power rivals and contiguity, any kind of direct causal relationship may be somewhat illusory, as Figure 3 illustrates.

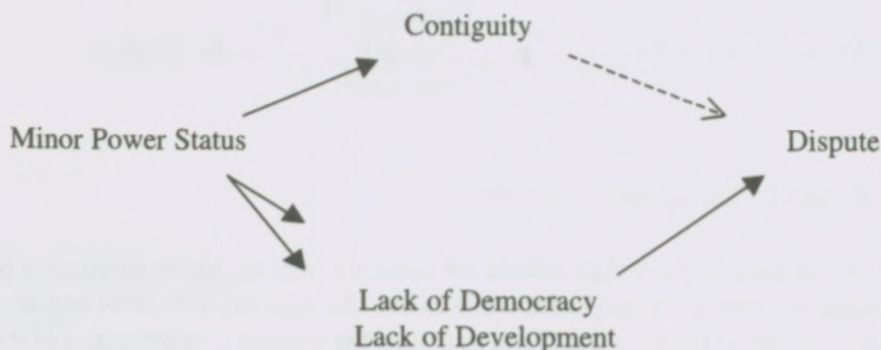


Figure 3: Combined Hypotheses

Important state characteristics like the level of democracy and development must

be incorporated for an analysis to be considered complete. Rivalries form for reasons far less superficial than contiguity, and examining the levels of democracy and development in the rival states may help uncover these explanations.

A Brief Discussion of Enduring Rivalries

A dyad earns the title of ‘enduring rivalry’ once the competition between the two states involves, “six or more militarized disputes over a period of 20 years.”¹ Existing literature on enduring rivalries, though the work of only a handful of scholars, has produced a wide array of interesting insights and discussions regarding the origins, driving motivations, and reasons for termination of rivalries. As mentioned earlier, enduring rivalries are attractive to scholars not only because of their diverse make-up, but because of the aforementioned theoretical questions they pose as well. By refining the scope from one that included the entire international system to one that focuses on a pair of states, the researcher can introduce individual and dyadic-level factors that are often slighted in a traditional “billiard ball” approach to international relations.

Arguments Supporting Theories of Frequency of Interaction and Contiguity

Much of the literature that addresses the question as to why so many of the minor-minor rivalries are between neighbors rests on two main ideas. One, since states naturally interact, or have more opportunities to interact, with contiguous states, rivalries are more likely to be initiated between neighboring states. Two, the relatively low capabilities of the two minor powers combined with the lack of the ability of either of the states to project their power will dictate who their rivalry partner will be. This two-pronged theory has been employed by many scholars to help account for the fact that a large number of major-major power rivalries are with noncontiguous states, while the vast majority of the minor-minor rivalries are between neighbors, as Table 1 illustrates.

		Rivalry Type		
		Maj.-Maj.	Maj.-Min.	Min. - Min.
Contiguous?	Yes	3	6	30
	No	6	15	3

Maj. = Major Power, Min. = Minor Power

Table 1: Contiguity and Power Status of Rivalry Partners

Contiguity and Frequency of Interaction

The basic idea behind the contiguity/interaction hypothesis is that "the farther away nations are, the less they interact either cooperatively or conflictfully [sic]." ² The idea is certainly valid and demonstrated in many regions of the world. The logic behind it is also rather self-explanatory: short of building a massive wall, there is little a state can do to avoid interacting with its neighbors. While in some cases there may be a natural "wall" like a mountain range or desert, some states share at least one border that is simply a product of a line drawn on a map. Just as no man is an island, very few states have the luxury of being able to withdraw completely from regional affairs. Many times, issues that are specific to the region are also the most salient to a state as they have the most profound impact on their immediate security. The oil reserves in the Middle East and the refugee populations in Eastern Europe are examples of such issues.

While sharing a region, and therefore being subjected to the same issues and pressures, may sometimes inspire a sort of camaraderie among the states, proximity and contiguity, more often than not, lead to friction and, in some cases, war. "At the level of the dyad, the distance between states is negatively related to warfare. Proximate states are more likely to engage in war than are non-proximate states, and war within dyads having a land or narrow water border is much more probable than between noncontiguous states." ³

Capabilities and Power Projection

The second part of the line of reasoning as to why so many minor-minor rivalries are neighbors is based on the ability, or lack thereof, of one member of the dyad to project power outside of its region. As Gochman notes, "conflicts of interest are more likely to arise among states that have opportunities to interact than among states that rarely interact, and states (especially those that are not major or former colonial powers) interact far more frequently with neighboring than with distant states."⁴ Proponents of this idea assert that since the scope of the minor powers is limited by a lack of capabilities, so too is their choice of rivalry partners. This hypothesis not only accounts for the high rate of contiguity among minor-minor rivals, but also explains why so many major-major rivals are not neighbors.

By definition, major powers have the necessary capabilities to project power into other regions. This ability to widen their scope not only keeps them from becoming restricted to their own region, but also allows them to become major players in other parts of the system. In fact, "some international actors appear to be 'un-regional' in their behavior. [Because] their concerns and interests are global...they extend to every part of the world."⁵

Two mutually reinforcing ideas can explain this concept of a "global actor". One is that, based on their ability to project their influence, major powers will naturally be inclined to do so. Two, having extended themselves beyond their region,

major powers become system-level players and thus inherit system-level interests and problems. The first part of the argument, which implies that an increase in capabilities will produce an increase in power projection, serves as an excellent explanation as to why a great deal of major powers become engaged in rivalries with states halfway around the world. Given their inherent capabilities, major powers are the only states that have the *option* to extend into other regions, and therefore, interact with states that are far away.

With this in mind, when compared to their minor power counterparts, major powers will have a much wider array of rivalry partners to choose from. Bueno de Mesquita demonstrated this idea in his much cited work, The War Trap, where he explained that "the expectation that a principal difference between long-distance and neighborhood wars is the power of the initiator. In particular, great powers are expected to initiate a disproportionate share of long-distance wars."⁶ Thus, it is the *ability* to project influence outside their region that allows major powers to have rival partners that are oceans away. Furthermore, seeing as how "a nation's power must decline monotonically with distance...[and] the rate at which that power decline occurs must be greater, the weaker the nation is at home,"⁷ it logically follows that major powers will have non-contiguous rivalry partners more often than minor powers.

The second part of the "global actor" logic has more to do with the interests and consequential situations assumed by the state as a result of the capabilities. Having separated themselves from their individual regions, the major powers now constitute the entire cast of actors at the system level. In doing this, they take on "global concerns and interests, and local or regional conditions may be less important factors in their competitions."⁸ This is not to say that major powers are immune to the goings on of their region. In fact, Japan and China prove the contrary to be true in Asia, where the two superpowers routinely find themselves embroiled in region-specific issues. The idea suggests, rather, that while minor powers concern themselves primarily with regional issues as dictated in large part by their relative lack of capabilities, major power are concerned with both their region *and* the entire system. Since the major powers serve as the primary actors in the international system, it follows that events and interests at the systemic level will be of greater significance to them than would be most regional issues. A major power acts like a person engaged in two simultaneous games of chess, with one board representing the state's particular region and the other representing the international system. While the regional game may generate a tricky situation for the person every once in a while that requires his or her immediate attention, for the most part he or she will concentrate more on the second game since each move "counts" for more.

Summary

As has been demonstrated, much of the work that attempts to explain the rationale behind rivalry partners accounts for the disproportionate amount of contiguous dyads with arguments that are based on capabilities and probability of interaction. Both of these lines of reasoning are rational and are consistent with the statistical evidence. To base a theory regarding rivalry partners on a characteristic like capabilities makes sense, as they certainly play a role in determining a state's potential rivalry partners.

However, where this approach excels in generating logical hypotheses to explain patterns in the data, it fails when it comes to making deeper inferences as to what other, less obvious, characteristics could account for the arrangements of the given dyads. In particular, it demonstrates that states can more easily attack some states than others, but offers no guidance as to why they would do so.

Alternative Hypothesis

Instead of simply focusing on state attributes like capabilities, it would also be beneficial to take theories that incorporate level of development achieved, regime type and stability into consideration. Each of these ideas has been examined independently and has led to the formulation of many interesting theories, with the most prominent one being related to the concept of the democratic peace. However, within the context of the question regarding rivalry partners, the theories have yet to be applied to their fullest potential. Indeed, such theories have enormous possibility to serve as effective tools in deconstructing the deeper rationale behind rival dyad formation.

Most of the involved minor power states are non-democratic and exist in regions of relatively low development. In fact, of the thirty-eight minor-minor rivalries, only eight are from areas outside South and Central America, South Asia, the Middle East and Africa. While the contiguity and interaction frequency arguments mildly support some of the patterns, they offer nothing in the way of explanation that would account for the higher amount of autocracy or how the regime type and development variables interact with one another. An alternate, more inclusive theory might be that the lack of democracy together with the low levels of development produces these regions of instability, which in turn generates aggressive external state behaviors and rivalry formations.

A Brief Discussion of Democratic Peace Theory

Quite possibly one of the most well-known theories to emerge from recent international relations scholarship, the democratic peace theory has enjoyed a particularly high level of interest in the post-Cold War world for several reasons. It explains an important trend in the international system, and does so in a clear and logical way. The ideas that it is based on, while relatively simplistic, generate a

pattern of behavior for democracies that can be extended beyond the state-level of analysis to help explain state behavior at the dyadic, regional, or system level. The theory asserts “constraint engendered by the domestic political structures of democratic states [and] the impact of the liberal norms associated with democracies [are] sources of peace.”⁹ Another idea implicit in the theory is that given the democratic norms and structures within the state, democracies are less likely to engage in wars with other democracies.¹⁰

Democratic peace theory is helpful in an analysis of patterns of rivalry partners because of the interesting correlation between the power status of the state and the level of democracy it employs, as minor powers, especially those that engage in rivalries, are often more autocratic, as Table 2 illustrates.

		Power Status	
		Major	Minor
Regime	Dem.	15	25
	Aut.	20	54

Dem. = Democratic Regime, Aut. = Autocratic Regime

Table 2: Regime Type and Power Status of Involved States

Another common theme in the literature is that democracy is somehow linked with wealth (level of development). This is another useful correlation that is applicable to the rivalry partner analysis as minor powers are, for the most part, relatively under-developed when compared to major powers.

Given this, it follows that certain elements of democratic peace theory, especially those dealing with how crises are managed by political elites, will be of great use in a comparison of democratic and autocratic rivalry partners. If democratic peace theory is correct in that democracy at home is indicative of certain types of behavior abroad, a strong relationship between the relevant variables (regime type, level of development, and power status) could explain more of the observed relationship between minor power contiguity and conflict.

Autocracy vs. Democracy in Rivalry Formation

When rivalries are categorized by regime type, two definite patterns are evident. One, the vast majority of the rivalries are made up of pairs of autocracies, and two, rival dyads comprised of two democracies are very rare. Both of these trends are predicted by democratic peace theory in that “democracies are less likely to use lethal violence toward other democracies than toward autocratically governed states or than autocratically governed states are toward each other...[and]

democratically organized political systems in general operate under restraints that make them more peaceful in their relations with other democracies.”¹¹

Knowing this, what is it about autocratic states that make them more prone to rivalry formation? When contrasted with democracies, two characteristics that are unique to autocracies stand out: one, many of them are underdeveloped, and, two, most suffer from a lack of legitimacy, a fact that often pushes leaders to pursue scapegoating and/or expansionist behaviors. Both of these qualities are linked with stability, in that low levels of legitimacy within a government and development within a state tend to produce volatile political situations. Given this, it follows that “the primary determinant of international stability and peace was internal stability and the resulting security of political elites, whereas domestic turmoil and elite insecurity were associated with war.”¹² From this, it should be expected that states that have either a low level of development, a government that lacks legitimacy, or both, should be more likely to engage in external activity during times of crises in order to distract the masses at home.

Level of Development and the Lack of Democracy

As a general rule, democracies are often wealthier and more developed than their autocratic counterparts. If stability comes with wealth, it follows that those states that are relatively underdeveloped will be more prone to instability. This trend has been very prevalent in several regions, most notably, Africa and the Middle East, and is so reflected in the composition of enduring rivalries.

What is it about an autocracy that makes it so vulnerable to instability, and why do so many of them have such difficulty with development? Olson argues that the inclination of autocratic regimes to focus on the short-run rather than the long-run feeds the tendency to sacrifice future security for present stability. “We have seen that whenever a dictator has a sufficiently short time horizon...it is in his interest to ignore the long term economic consequences of his choices...not surprisingly, then, capital often flees from countries with continuing or episodic dictatorships...to the stable democracies.”¹³

This theory does an excellent job of tying in the lack of legitimacy factor with difficulty in development. An autocrat may be able to seize power and maintain it for some time, but there is no guarantee as to his tenure. In fact, by the very same logic that he is able to assume a position of such central authority, he is also denied the security of his time in office. For example, while an American president is promised a full term once elected, as dictated by the Constitution, an autocrat has not been given a similar mandate granting him the authority to govern. Indeed, “the absence of any independent power to assume an orderly legal succession means that there is always substantial uncertainty about what will happen when the current autocrat is gone.”¹⁴ As a result, the autocrat often has very little incentive to plan

ahead. Given that development is very much a long-term project, it is unlikely that a state with an insecure, and therefore shortsighted ruler will be able to make any kind of significant progress. Indeed, "it is no accident that the countries that have reached the highest level of economic development and have enjoyed good economic performance across generations are all stable democracies."¹⁵

Another theory, which makes an explicit link between wealth and peace, argues that "many democracies have experienced fairly consistent rapid economic growth during the past half-century. Rapidly growing states may generally be less inclined to initiate conflict."¹⁶ Given that the vast majority of the world's wealth has been concentrated in the pockets of Western countries for much of modern history, it follows that most of them are stable democracies, and therefore less prone to conflict. While much of this inequality of development across regions can be attributed to the fact that the Industrial Revolution was born in Europe, it is also important to consider the impact of colonialism. While the Imperial powers were able to extract the necessary resources to feed their booming economies from their empires, the colonized areas were left behind. Even after WWII, when many states became independent, the gap between the two groups of states was wide and showed no signs of narrowing.

Other arguments that are related to the wealth-leads-to-peace line of reasoning examine the timing of the state's development relative to other states. In his book *Myths of Empire*, Jack Snyder examines the relationship between development, democracy, and likelihood of an expansionist foreign policy with the intent to divert the public's attention. "Late industrialization produces a cartelized political structure [which] favors the development of expansionist strategic myths... In contrast, early industrialization produces a democratic political structure, which empowers diffuse interests opposing overexpansion, [and] promotes learning when strategic myths are proved false."¹⁷ This argument is connected with the concept of scapegoating, in that the ideas of propagating myths about outsiders and promoting expansionist policies are common tactics employed by elites during times of crisis and instability.

Lack of Legitimacy and the Lack of Democracy

As mentioned above, the lack of legitimacy within autocracies is central to the instability that plagues autocratic states. Indeed, ruling by might rather than right definitely holds disadvantages for political elites, for while an autocrat may not have to cater to an electorate to win an office, he still has to worry about maintaining one. In fact, due to the aforementioned lack of independent institutions, the incentive to keep the public content is high for authoritarian as well as democratic regimes. For while a democratic leader may face a loss of office should he blunder, an autocratic leader may face a firing squad. Thus while the probability of losing office as a result of public discontent is higher for a democratic leader, the expected utility of losing

office for an autocrat is decisively lower than that of a democrat. From this, it is reasonable to argue that incentives exist for autocrats to employ diversionary tactics. As Gelpi notes, public "uprisings represent at least a potential threat to any coalition's hold on power. Thus, even though authoritarian leaders are not accountable to mass publics, popular unrest will still represent a threat to their tenure in office."¹⁸ This lack of legitimacy, coupled with the instability brought on by difficulties with development, can wreak havoc on regimes and often forces leaders to resort to using diversionary tactics in order to stay in power.¹⁹

Scapegoating

Diversionary tactics, which often consist of scapegoating behavior, are an attempt made by political elites to solidify their power at home by externalizing the conflict and creating a new target for the civil unrest. Given the high levels of instability present in many authoritarian states because of low levels of development and regime legitimacy, it is logical to assume that civil unrest would be more common in those states than in more democratic ones. There is also another element to consider: while citizens of a democratic society have an array of outlets to express displeasure with the government (e.g. voting), people that live under the rule of an autocrat are limited in their avenues of expression. Having no "legal" way to show dissent, people in such societies are often left with little choice other than rioting or rebelling against the leader. Seeing how it is in the leader's best interest to minimize rebellion, it is safe to assume that some form of a diversionary tactic will be employed.²⁰

Lack of legitimacy is also a factor that must be considered. Since autocrats do not derive their authority to rule from the people, in most authoritarian states (with the possible exception of monarchies) it is possible that other would-be leaders will contest their position. In such a situation, employing a diversionary tactic would help to distract the masses and ensure the autocrat's position, for the time being, against any challengers. "Civil strife is often the manifestation of a struggle for political power, and external interventions may be designed primarily to influence the internal political processes and struggle for power in the strife-torn state. For this reason, civil strife in weaker states rather than stronger states may be most likely to trigger external military intervention."²¹ Because democratic societies have the necessary channels for their people to express discontent, and systems for choosing leaders are established, diversionary tactics are less likely to be employed in similar circumstances: democratic states rarely have massive, violent uprisings of their populations, and leadership succession is clear and usually adheres to predetermined selection procedures. With this in mind, it follows that "states with stable and durable political systems will lack incentives to externalize domestic discontent into conflict with foreign countries."²²

Types of Diversionary Tactics

Within the framework of scapegoating, there are several methods a ruler can utilize. All of them, however, stem from the same idea that the key to internal stability is to unite the masses behind a single issue. Indeed, "the best way of preserving a state, and guaranteeing it against sedition, rebellion, and civil war is to...find an enemy against whom [the people] can make a common cause"²³ Two popular means for creating these united fronts that often go hand in hand include the leader tapping into the state's sense of nationalism and initiating battles over disputed territory.

Nationalism and war have always had a symbiotic relationship. War inspires unity among a population, which increases a sense of nationalism. A high level of nationalism, in turn, regularly encourages hostility between the members of the nation and outside groups, often leading to an initiation or escalation of war. Nationalism can be a dangerous weapon in the hands of a leader with a goal, as it mobilizes a population quickly (especially in societies under stress) and is easily exploited. A leader will often work to create a sense of nationalism within the population by convincing the people that by their living in the state, they share both a past and future. Leaders will insist that this common bond is unique to the particular state's (sub-) population, and that the group should maintain cohesion against outside groups. Neighboring states are often used as "other-groups" since the people have a great deal of interaction with them over a long period of time, and thus have many opportunities to disagree and build grudges. Once the "us-versus-them" mentality has been established, a leader can use it to channel public energy. In the case of an unstable state or an autocrat who is under attack, nationalism is used to shift the public's attention from the internal problems to the new external one.

A common issue used to ignite nationalist sentiment is conflict over a piece of disputed territory with another state. Territory is an excellent cause for leaders to pursue for many reasons. If the territory in question is, for some reason, indivisible, the conflict becomes a source of nationalism that the leader can rally his people around should the need arise. In fact, as Fearon suggests, "issues may often be effectively indivisible, but the cause of this indivisibility lies in domestic political and other mechanisms rather than the nature of the issues themselves."²⁴ The high number of conflicts between Israel and many surrounding Arab states over the city of Jerusalem makes for a perfect example of such an indivisible issue. In many cases, territorial disputes extend back for centuries, which is another reason why the question over who has claim to the area is one that is not easily dropped. Disputes over territory can become highly nationalized and politically charged issues, making them perfect objects for political elites to use during times of domestic crisis. In fact, "domestic politics would often lead foreign policy leaders to maintain adversarial relations and to consider the option of domestic and military escalation..."²⁵ Because of their political salience, territorial issues are often factors in

enduring rivalries — especially, but not limited to, those rivalries that involve two states with volatile domestic political situations.

Summary

As has been demonstrated, the type of regime that characterizes a particular state accounts for a great deal of the state's behavior abroad. Democratic states tend to enjoy long periods of stability, while more autocratic regimes find their states plagued with insecurity. This occurs for two main reasons: one, people who live under a democratic regime have many outlets of expression available to them, and therefore are less likely to engage in violent rebellion if they are displeased with their leader; two, democratic regimes are inherently more stable and legitimate than the vast majority of autocracies as they are given a mandate to govern by the public.

Regime type and stability also have a great deal to do with the level of development the state is able to achieve. Unstable autocratic regimes, having a strong tendency to be more concerned with the present rather than the distant future, often have great difficulty adopting policies that require long-term planning. Underdevelopment feeds instability, which in turn creates more problems for the political elites. In order to control the discontent public, autocratic leaders tend to externalize conflict in order to divert the public's attention. Issues that inspire nationalistic sentiment, like territorial disputes, are often used by political elites for such diversionary tactics. This link to territorial disputes also helps to explain why so many minor power rivalries are between contiguous states.

Data Analysis

Research Design

In order to test the hypothesis that power status, regime type, and level of development matter when determining rivalry partners, it is necessary to look at the attributes of the states involved when the rivalry began. For the purposes of this paper, Goertz and Diehl's²⁶ most recent list of enduring rivalries will provide the list of test cases. Ted Robert Gurr's Polity '98 Dataset²⁷ will be used to determine the type of regime employed by the state at the initiation of the rivalry. The level of development achieved by the state at the beginning of the rivalry will be established by consulting the Correlates of War Project (COW) dataset.²⁸ Whether or not the state was classified as a major power in the year when the rivalry began will also be determined by COW. With regards to coding a state as democratic or autocratic, any state receiving a score²⁹ of three or above will be considered democratic, while states earning a score of three or below will be classified as autocratic.³⁰ All data will be taken, both for polity and level of development, from the year in which the rivalry began for the particular state. For example, for the rivalry between Honduras and Nicaragua, data will be taken for the year 1907. Level of development will be determined by looking at the energy consumption (thousands of coal-ton equivalent)

lents) per capita for the state at the start of the rivalry. States will be coded as developed or non-developed by comparing them to other states that year, so as to avoid as much bias as possible. (See Appendix A for ranges of development).

Testing the Hypotheses

In order to determine and test the relationship between the known variables (major/minor power status, level of development, and level of democracy) the χ^2 test will be used. The significance level chosen for determining the acceptance or rejection of the null hypotheses is 0.05. The variables will be cross-tabulated with others to see if some sort of relationship between the two exists. Each of the links in the standard and alternative hypotheses approach will be examined to ascertain if a significant relationship exists, as Figure 4 illustrates.

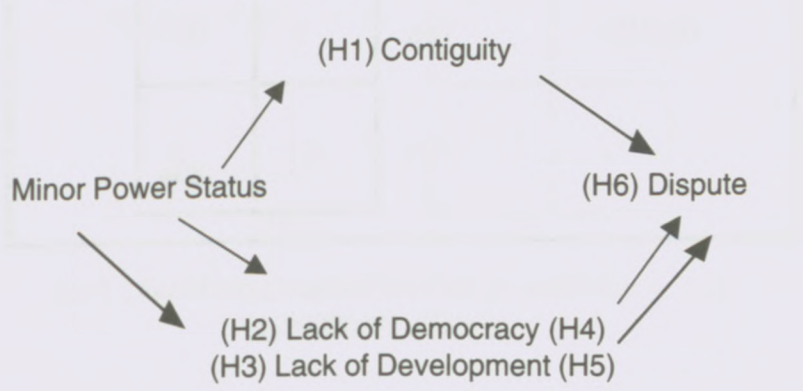


Figure 4: Combined Hypotheses With Numbers

When looking at how the given factors relate to dispute initiation, the existing enduring rivalries will be combined with a set of random, non-conflictive dyads. Like the existing dataset, the random set of dyads has a time span of 1816-1967 for initiation dates, includes both major and minor powers, and covers every geographic region. (See Appendix B for the procedure for generating the random data set and related comments, and Appendix C and Appendix D for the existing and randomly generated groups of dyads, respectively.)

H1: There is a link between a state having minor power status and having a contiguous rivalry partner. See Table 3 for χ^2 test.

OBSERVED		Rivalry Type	
		Maj.-Maj. or	
		Maj.-Min.	Min-Min.
Rivalry?	Yes	9	30
	No	21	3

Table 3: χ^2 Test of Contiguity and Rivalry Type
 $\chi^2=27.1$, $P=.0000002$

According to these results, a relationship exists between the two variables and the χ^2 test indicates the result is significant. Therefore, for this particular test, the null hypothesis (that power status and contiguity are not related) fails to be accepted. Rivalries that have at least one major power involved are observed as being non-contiguous almost two times more often than would be expected. These results support the idea previously discussed in this and in other papers: contiguity between rivalry partners appears to have some sort of connection to rivalries that are between two minor powers.

H2: A relationship exists between a state having minor power status and having an authoritarian regime. See Table 4 for χ^2 test.

OBSERVED			
Regime Type		Power	
		Major	Minor
A = Authoritarian D = Democracy	D	15	25
	A	20	54

Table 4: χ^2 test of Power Status and Regime Type
 $\chi^2= 2.7, P=.100799$

Although some relationship exists between the two variables, the χ^2 test indicates that the result is not significant. Therefore, the null hypothesis that power status is not related to regime type cannot be rejected.

H3: There is a relationship between states having minor status and a low level of development. See Table 5 for χ^2 test.

OBSERVED		Power	
		Major	Minor
Rivalry?	Yes	19	7
	No	11	65

Table 5: χ^2 test of Level of Development and Power Status
 $\chi^2=31.23$, $P=.0000000534$

According to these results, a relationship exists between the two variables and the χ^2 test indicates that it is significant. Minor power states are observed as being under developed at twice the rate that would be expected. Therefore the null hypothesis that power status and level of development are not related is rejected.

H4: There is a relationship between the lack of democracy in a given dyad and the likelihood of rivalry initiation. See Table 6 for χ^2 test.

OBSERVED		Regime	
		Dem/Dem	Other
Rivalry?	Yes	5	46
	No	7	38
Dem = Democracy			

Table 6: χ^2 test of Type of Regime and Dispute Initiation
 $\chi^2 = .36$, $P = .53$

In this case, the null hypothesis that no relationship exists between the regime employed by the state and the initiation of a rivalry cannot be rejected. This result is rather curious because it does not coincide with the predictions of democratic peace theory. While the author is aware that democratic peace theory does not assert that democracies are necessarily more peaceful than autocracies, the lack of a relationship between regime and rivalry initiation is somewhat surprising.

H5: There is a relationship between the lack of development in a given dyad and the likelihood of rivalry initiation. See Table 7 for χ^2 test.

OBSERVED		Developed	
		Yes/Yes	Other
Rivalry?	Yes	5	41
	No	3	42
Yes = Developed State			

Table 7: χ^2 test of Level of Development and Initiation of Dispute
 $\chi^2 = .54, P = .459054$

In this case, the null hypothesis that no relationship exists between the level of development employed by the state and the initiation of a rivalry cannot be rejected.

H6: There is a relationship between contiguity in a given dyad and the likelihood of rivalry initiation. See Table 8 for χ^2 test.

OBSERVED		Contiguous?	
		Yes	No
Rivalry?	Yes	39	24
	No	12	33

Table 8: χ^2 test of Level of Contiguity and Initiation of Dispute
 $\chi^2 = 20.2$ $P = .000007$

According to these results, a relationship exists between the two variables and the χ^2 test indicates that it is significant. Therefore, in this case the null hypothesis that contiguity and rivalry initiation are not related fails to be accepted .

Conclusion:

After an in-depth discussion of the possible alternative explanations as to why so many minor-minor rivalries are between contiguous states and an examination of the related data, the alternative hypothesis, which asserts that attributes like the type of the regime of the state and the level of development it has achieved, cannot be entirely ignored. While a strong link did not exist between power status and regime type, significant connections between power status and contiguity, and regime type and level of development were found.

While these results lend support to earlier hypotheses regarding rivalry partners, especially the link between contiguity and power status, they do not undermine the hypothesis suggested in this paper. The fact that most of the minor-minor rivalries are between states that share a border cannot be disputed, however, the rationale as to why this occurs, is not as clear-cut. Arguments that reflect the capabilities and interaction frequency hypothesis are by no means disproved by the data; the author's sole critique is that they fall short of seeing the entire picture. An analysis that includes more attributes from the state level, like regime type and level of development, help to provide more suggestions as to why so many rivalries exist between contiguous dyads. This approach also tackles the level-of-analysis problem as it incorporates qualities from the individual, dyadic, and systemic level. In regards to the results generated by the χ^2 tests for the alternative hypotheses, a strong connection between the regime type and rivalry initiation, and the level of development and initiation did not exist, however, an interesting result was still produced. If existing theories related to scapegoating, regime stability and the democratic peace are correct, H4 (autocratic states are more likely to initiate rivalries) and H5 (underdeveloped states are more likely to initiate rivalries) should have held true. This result alone is significant and surely warrants further investigation.

Overall, as most minor powers are autocracies, they are more prone to instability due to the leader's lack of legitimacy and the limited means the people have to express discontent with their government.³¹ Autocracies often coincide with states that have low levels of development, a factor that only compounds the already present instability. Given this instability, leaders of autocratic states are more likely to employ diversionary tactics to solidify their shaky support at home. Diversionary tactics often center around disputes over territory with a neighboring states. Such conflicts have the potential to be powerful catalysts in a population as they are often linked with the public's sense of nationalism and collective pride. Therefore, while it may seem that the answer to the puzzle as to why certain types of rival dyads form lies in capabilities and frequency of interaction, looking at other internal aspects of the state offers a deeper, and possibly more accurate analysis.

Appendix A : Levels of Development

For a state to be considered developed it must meet or exceed the following energy consumption per capita for the given year.

<u>Year</u>	<u>Energy Consumption/Capita</u>
1810-1829	.00003
1830-1849	.0001
1850-1869	.0003
1870-1889	.0008
1890-1909	.002
1910-1919	.002
1920-1939	.002
1940-1959	.003
1960-1979	.004

Appendix B: Random Data Generating Procedure

Procedure for Generating Random Data:

1. Select a randomly generated year between 1830 and 1967.
2. Generate a random list of states, drawing from the entire set of states.
3. Once a state has been selected, confirm that it existed in the selected year. If it does not exist in the given year, return to step 2
4. If it does exist, check it against the COW and Polity datasets. If data exists in both sets, keep the state..
5. If the state is a major power, select any other state at random. If the state is a minor power, proceed to step 7.
6. Do steps 3 and 4 for the second state. If this returns a non-conflictual dyad, keep the pair. If it doesn't, return to step 5.
7. If the state is a minor power, randomly select another state from its region. (Note: the "region" lists must be reshuffled every time.)
8. Do steps 3 and 4. If this returns a non-conflictual dyad, keep the pair.
9. Repeat as many times as needed.

Author's Note: After generating this random data set, the author noticed that there is a chance that a disproportionate number of major powers and other "well-known" states were selected. This may have occurred because in order to generate a "complete" random dyad, data must be available for both data sets for the given year. Although the Polity Index and COW data sets are both wonderful research tools, development and/or polity information was not always available for states that were not "well-known". The author realizes that this is a potential problem and welcomes any suggestions as to how it might be corrected.

When constructing the χ^2 tables where data was taken from the existing rivalry data set (see Appendix C), dyads were dropped from the final count if information regarding polity or level of development was not available.

Appendix C

State A	State B	Start	Regime Type		Developed?		Power		Contig?
			State A	State B	State A	State B	State A	State B	
China	Japan	1873	A	A	N/A	N/A	Minor	Minor	Y
USSR	Japan	1895	A	A	N	N	Major	Minor	Y
USSR	China	1862	A	A	N	N/A	Major	Minor	Y
USSR	Turkey/OE	1876	A	A	N	N/A	Major	Minor	Y
China	S. Korea	1950	A	A	N	N	Major	Minor	Y
China	India	1950	A	D	N	N	Minor	Minor	Y
Afghan	Pakistan	1949	A	A	N	N	Minor	Minor	Y
Cyprus	Turkey/OE	1965	N/A	D	N	Y	Minor	Minor	Y
Egypt	Israel	1948	A	D	N	N/A	Minor	Minor	Y
Ethiopia	Sudan	1967	A	D	N	N	Minor	Minor	Y
India	Pakistan	1947	D	A	N	N	Minor	Minor	Y
Morocco	Algeria	1962	A	A	N	N	Minor	Minor	Y
N. Korea	S. Korea	1949	A	A	N	N	Minor	Minor	Y
S. Korea	Japan	1953	A	D	N	N	Minor	Minor	Y
Thailand	Cambodia	1953	A	N/A	N	N/A	Minor	Minor	Y
Thailand	Laos	1960	A	A	N	N	Minor	Minor	Y
Thailand	N. Vietnam	1961	A	A	N	N	Minor	Minor	N
Honduras	Nicaragua	1907	N/A	A	N/A	N/A	Minor	Minor	Y
France	Germany	1830	A	A	Y	Y	Major	Major	Y
UK	Germany	1887	D	A	Y	Y	Major	Minor	N
France	Germany	1911	D	A	Y	Y	Major	Major	Y
Belgium	Germany	1914	N/A	A	Y	Y	Minor	Major	Y
Italy	Yugosl.	1923	N/A	A	N	N	Minor	Minor	Y
Greece	Bulgaria	1914	D	N/A	N	N	Minor	Minor	Y
Greece	Turkey/OE	1866	D	A	N/A	N/A	Minor	Minor	Y
Greece	Turkey/OE	1958	D	D	N	N	Minor	Minor	Y
Yugosl.	Bulgaria	1913	D	N/A	N	N	Minor	Minor	Y
Congo	Zaire	1963	A	N/A	N	N	Minor	Minor	Y
Somalia	Ethiopia	1960	D	A	N	N	Minor	Minor	Y
Spain	Morocco	1957	A	A	N	N	Minor	Minor	Y
Uganda	Kenya	1965	D	A	N	N	Minor	Minor	Y
Iran	Iraq	1953	N/A	A	N	N	Minor	Minor	Y
Iraq	Israel	1967	A	A	N	N	Minor	Minor	N
Iraq	Kuwait	1961	A	A	N	Y	Minor	Minor	Y
Israel	S.Arabia	1957	D	A	N	N	Minor	Minor	N
Jordan	Israel	1948	A	D	N	N/A	Minor	Minor	Y
S.Arabia	YAR	1962	A	A	N	N	Minor	Minor	Y
Syria	Israel	1948	D	D	N	N/A	Minor	Minor	Y
Syria	Jordan	1949	A	A	N	N	Minor	Minor	Y
US	Mexico	1836	D	A	Y	N/A	Minor	Minor	Y

Appendix C (Continued)

		Regime Type			Developed?		Power		
State A	State B	Start	State A	State B	State A	State B	State A	State B	Contig?
Chile	Argentina	1873	A	A	N/A	N/A	Minor	Minor	Y
Chile	Argentina	1952	A	A	N	N	Minor	Minor	Y
Ecuador	Peru	1891	A	A	N/A	N	Minor	Minor	Y
UK	USSR	1876	D	A	Y	N	Major	Minor	N
US	China	1949	D	A	Y	N	Major	Major	N
UK	USSR	1939	D	A	Y	N	Major	Major	N
US	USSR	1946	D	A	Y	N	Major	Major	N
Germany	Italy	1914	A	A	Y	N	Major	Major	N
France	China	1870	N/A	A	Y	N/A	Major	Minor	N
US	UK	1837	D	D	Y	N/A	Minor	Major	N
Brazil	UK	1838	A	D	N/A	N/A	Minor	Major	N
US	Spain	1850	D	A	Y	N	Minor	Minor	N
UK	Turkey/OE	1895	D	A	Y	N	Major	Minor	N
France	Turkey/OE	1897	D	A	Y	N	Minor	Minor	N
US	Ecuador	1952	D	A	Y	N	Major	Minor	N
US	N. Korea	1950	D	D	Y	N	Major	Minor	N
USSR	Iran	1908	A	N/A	N	N/A	Major	Minor	N
USSR	Norway	1956	A	D	Y	N	Major	Minor	N
US	Cuba	1959	D	D	Y	N	Major	Minor	N
US	Peru	1955	D	D	Y	N	Major	Minor	N
UK	Iraq	1958	D	A	Y	Y	Major	Minor	N
Italy	Turkey/OE	1880	A	A	N	N	Major	Minor	N
Italy	Ethiopia	1923	N/A	D	N	N/A	Major	Minor	N

Appendix D

Year	State A	State B	Regime		Developed?		Power		Contig?
			State A	State B	State A	State B	State A	State B	
1840	UK	Sweden	d	a	Y	N	major	minor	N
1843	Sweden	Germany	a	a	Y	Y	minor	minor	Y
1882	Sweden	Belgium	a	a	N	Y	minor	minor	N
1883	Greece	Italy	d	a	N	Y	minor	major	N
1886	Denmark	Germany	a	a	N	Y	minor	minor	Y
1890	Greece	Germany	d	a	N	N	minor	major	N
1897	Russia	Germany	a	a	N	N	minor	minor	N
1899	Italy	Argentina	a	a	N	N	major	minor	N
1903	Greece	Germany	d	a	N	Y	minor	minor	N
1903	US	Brazil	d	a	Y	N	major	minor	N
1905	Belgium	Denmark	d	a	Y	N	minor	minor	N
1907	Japan	Italy	a	a	N	N	major	minor	N
1908	Brazil	Chile	a	d	N	N	minor	minor	N

Appendix D (Continued)

Year	State A	State B	Regime		Developed?		Power		Contig?
			State A	State B	State A	State B	State A	State B	
1908	UK	Peru	d	a	Y	N	major	minor	N
1910	Belgium	France	d	d	Y	N	minor	major	Y
1911	Peru	Chile	a	d	N	N	minor	minor	Y
1912	Yugoslav.	Rumania	d	a	N	N	minor	minor	Y
1915	Yugoslav.	UK	d	d	N	Y	minor	major	N
1917	Turkey	Iran	a	a	N	N	minor	minor	Y
1918	USSR	Estonia	a	d	N	N	minor	minor	Y
1919	US	Belgium	d	d	Y	Y	major	minor	N
1920	N. Zea	Austra.	d	d	N	N	minor	minor	Y
1922	Spain	Greece	d	a	N	N	minor	minor	N
1922	France	Australia	d	d	N	Y	major	minor	N
1924	Belgium	Bulgaria	d	a	Y	N	minor	minor	N
1925	Spain	Finland	a	d	N	N	minor	minor	N
1925	Cuba	Brazil	d	a	N	N	minor	minor	N
1926	Honduras	Mexico	d	a	N	N	minor	minor	N
1929	S. Arabia	Iran	a	a	N	N	minor	minor	N
1930	Denmark	Lithuania	d	a	N	N	minor	minor	N
1930	US	S. Africa	d	d	Y	N	major	minor	N
1932	Nicaragua	Argentina	a	a	N	N	minor	minor	N
1936	USSR	Iraq	a	a	N	N	major	minor	N
1936	S. Africa	Liberia	d	a	N	N	minor	minor	N
1943	Peru	Mexico	a	a	N	N	minor	minor	N
1944	France	Findland	a	d	N	N	minor	minor	N
1950	Italy	Sweeden	d	d	N	Y	minor	minor	N
1953	R. of Korea	Philippines	a	d	N	N	minor	minor	N
1955	Yugoslav.	Greece	a	d	N	N	minor	minor	Y
1956	UK	Beligum	d	d	Y	Y	major	minor	Y
1958	Burba	China	d	a	N	N	minor	major	Y
1958	Libya	Lebanon	a	a	Y	N	minor	minor	N
1959	R. of Korea	Sri Lanka	a	d	N	N	minor	minor	N
1964	Germany	Spain	d	a	Y	N	minor	minor	N
1967	Zambia	Burundi	a	a	N	N	minor	minor	Y

Notes:

¹ Goertz, and Diehl, 33.

² Rummel, 93.

³ Geller, 95.

⁴ Gochman, 181.

⁵ Sullivan, 124.

⁶ Bueno de Mesquita, 166.

⁷ Ibid, 103-4.

⁸ Goertz and Diehl, 39.

⁹ Braumoeller, 377.

¹⁰ Russett, 11.

¹¹ Ibid.

¹² Levy, 265.

¹³ Olson, 572.

¹⁴ Ibid.

¹⁵ Ibid, 572-3.

¹⁶ Russett, 28.

¹⁷ Snyder, 58.

¹⁸ Gelpi, 260.

¹⁹ While this essay asserts the position that an authoritarian regime will use diversionary tactics to increase its security it times of domestic unrest, Gelpi argues that *democratic* regimes are more likely to employ such tactics when presented with public dissent. By his logic, due to the restraints put on political elites in a democratic system "leaders will find it more difficult to suppress dissent with violence than will authoritarian leaders." Ibid, 260. While this argument is sound, it should not be carried so far as to dismiss the possibility that an authoritarian regime will *always* choose to suppress the dissent directly instead of employing a diversionary tactic.

²⁰ Gelpi disagrees with this idea and instead asserts that since authoritarian leaders have fewer legal restraints to deal with, they are "free to choose either suppression or diversion in the face of domestic turmoil," and that democratic leaders will not be able to directly suppress their populations because "they are subject to electoral recall...[and] tend to have legal or constitutional restraints on the executive's authority to use force domestically." Ibid., 260-261.

²¹ Levy, 270.

²² Russett, 29.

²³ Levy, Ibid 259.

²⁴ Fearon, 382.

²⁵ Huth, 183.

²⁶ Goertz, 145-146.

²⁷ The most recent polity indexes are at: <http://garnet.acns.fsu.edu/~whmoore/polity/polity.html>

²⁸ Information regarding the Correlates of War Project: <http://www.umich.edu/~cowproj/index.html>

²⁹ The democratic "score" for each state will be calculated by subtracting the level of autocracy observed in the state from the level of observed democracy (AUTOC-DEMOC) for the year in which the rivalry was initiated. (See Polity Index.)

³⁰ Setting the dividing line at 3 was established by Gleditsch and Hegre in their work that examined the relationship between peace and democracy; for their piece, the same polity data indexes were used. Gleditsch, 285.

³¹ This statement is not intended to be absolute. Indeed, in recent research an interesting counter-argument has emerged which asserts that *democratizing* states are more war-prone than autocracies. Mansfield, 5.

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Greek Irredentist Claims to Asia Minor

By Seth Blacksburg

This story Carrie[s] us back to classic times. It is a true Greek tragedy with Chance as the ever-ready handmaid of Fate. However the Greek race might have altered in blood and quality, their characteristics were found unchanged since the days of Alcibiades. As of old, they preferred faction above all other interests, and as of old in their crisis they had at their head one of the greatest of men. The interplay between the Greek love of party politics and the influence exercised over them by Venizelos constitutes the action of the piece. The scene and the lighting are the Great War, and the theme, 'How Greece gained the Empire of her dreams in spite of herself, and threw it away when she awoke.'

— Winston Churchill, *The World Crisis: The Aftermath*

In understanding contemporary Greek history, one must first grant the visage of a land, populated, since ancient times, by a group of individuals whose lineage claimed for themselves vast geographical and cultural boundaries in Asia Minor, being witnesses to the mace of Alexander the Great and inheritors of Eastern Rome. "Classical Greece had no frontiers, for it was not a state but a collection of city

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states sharing certain things in common."¹ One of the first areas which "the Greeks penetrated as colonizers, explorers, and exploiters was the Ionian coast of Asia Minor."² Found deep within the collective memory of the Greek peoples is the splendor of great empires and the striving for days past.

Applied in its simplest connotation, the *Megali Idea* is the goal of reestablishing a Greek state as a homeland for all the Greeks of the Mediterranean and the Balkan world. When Constantinople fell to the Ottoman Turks in 1453, the Byzantine Empire tasted its demise. It is a pervading sentiment of nationalism, manifest in the expression, "the Great Idea," which echoes in its ardor, "...an amalgamation of Greece's ancient glories and the grandeur of Byzantium..."³ The Ottomans, through the millet system, ensured that Greek influence would remain strong through the agency of the Greek Orthodox Church; in addition, the Patriarchy, given power alike the *viziers*, kept alive visions of a revived Greek state. Both from within and from outside of the Ottoman yoke, Greeks reclaimed their antiquity, stimulating Western European interest in ancient Greece and, with it, Phil-Hellenic sentiments.

Indeed, the *Megali Idea* is married to Great Power support, relegating a people to the entrustment of powerful European countries. It can be stated that since her independence in 1829, Greece "has been dominated by a clearly identifiable theme, her almost complete dependence on one or more of the Great Powers... her domestic development was consistently subordinated to a foreign policy growing out of the exigencies"⁴ of international situations. Greek history carries with it the faint cry of the Ottoman invasion; it is a history which reverberates hope, an aegis of faith, to return to Constantinople, the great city.

The history of Greek *irredentia* is, essentially, the history of the Great Idea. It was the recovery of Constantinople and the establishment, once more, of a universal Christian Byzantium that remained of paramount importance for Greeks. In October 1797, Rigas Veleshtinlis ('Fereos'), from the printing-house of Markidis-Poulios, issued copies of a revolutionary manifesto, calling for Christian Balkans to free themselves of Ottoman captivity. Rigas' declaration of nationalism carried profound implications and placed, on paper, what many Greeks had already felt. While the *Megali Idea* carried, with it, a nationalist flavor, it was not merely a sentimental outgrowth of nationalist tendencies; "it was, in one of its aspects, centuries old and deeply rooted in the Greeks' national and religious consciousness."⁵

Consequently, while capturing the romantic sentiments of a revival of the Byzantine-Greek Empire centered on Constantinople, the *Megali Idea* took other shapes, as well. Less strictly, "it was the aspiration for Greek cultural and economic dominance within the Ottoman Empire, leading to its gradual subversion from within by a natural process which need not entail a violent clash between the rival Greek and Turkish nations."⁶ The Phanariots, a merchant class of Greeks educated at Constantinople, acquired great political and economic power "within the administra-

tive structure of the Ottoman Empire.⁷ Thus, through their ascendancy Greek nationalism intensified. The economic and cultural strength of Hellenism in Western Anatolia was lead by the Greek merchant-bourgeoisie; it was both “assisted and accelerated,” however, “by the growing interest of western capital in the possibilities of exploitation of Anatolia.”⁸

It was precisely this sentiment which came to be the inspiration of the *Philike Hetairia*, the secret society formed by Greek merchants in Odessa, organized in 1814, planning for the long-awaited Greek Revolution. It was an idea, ultimately, that was infectious. “By 1821, the society [*Philike Hetairia*]... had branches among Greeks throughout the Ottoman Empire and had used its extensive organizational apparatus to propagate the Great Idea.”⁹ The intractable connection of the Great Idea’s precepts to the Greek populace, in fact, could be observed early on in the Greek nation-state. While political parties reflected the differences, both cultural and in world views, “parties tended not to argue over ultimate objectives.”¹⁰ Thus, the parties, espousing goals that, at various times, might prove to be incompatible, “formally ... shared a common set of values, such as espousal of the Great Idea,” the “ultimate goal” that bridged, “with unanimity” the national sentiment in early nineteenth century Greece.¹¹ The parties disagreed *how* the realization of the Great Idea was to reach procurement; peaceful resolves with the Ottomans and critiques of Greek “administrative inefficiency and economic nonviability” were ideas that circulated.¹²

The psychological impetus this belief in a “Great Idea” afforded was evidenced in Greece’s mercurial political motives during the later half of the nineteenth century; its expansionist goals “...constituted...the salient characteristics, but for a few brief lapses, of Greek Policy.”¹³ The *Megali Idea* essentially led to the subordination of domestic political and socioeconomic development to foreign policy, and the *raison d’être* of the nation-state became not so much the welfare of its citizens, as the liberation of the unredeemed Greeks still under Turkey’s yoke.”¹⁴ Such a suffusing emotion was not limited to the political leadership but in the countless tendrils of the nation’s citizenry. As noted, Greece, as a smaller state, conducted itself in the court of a European arena, whose actions were dictated by the Great Powers. Metternich’s balance of European power had remained, for the powers, a pivotal axis from which foreign relations were procured. Indeed, the *Megali Idea* was a uniquely Greek attitude and even amidst times of Greek sympathy, it often conflicted with the interests of the European Concert as well as with Greece’s Balkan neighbors.

Such can be seen in the rebellion which ousted King Otho due to his incompetence in realizing Greek aspirations. The Greek rebels, aware that Greek Republicanism would be equated in the European community, with French Jacobinism, shrewdly chose the services of monarchical government. After choosing Prince

Alfred of Great Britain, there was a rearrangement of dealings with Great Britain that lead to the selection of Prince William, son of Prince Christian, heir to the Danish throne.¹⁵ "The Greece of the mid-nineteenth century was stirred by an awakening conviction of the historic inevitability of the expansion of the kingdom to embrace the unredeemed portion of the Greek nation."¹⁶ As a dowry of sorts, the young king brought with him the British-held Ionian Islands. When King George I, member of the House of Schleswig-Holstein, acceded the throne in 1863, he was given the title "King of the Hellenes," not "King of Greece." The implication was rich in the symbolic idea that Greece was "...not just the kingdom but the whole area inhabited by the Greek nation."¹⁷

King George I maintained his desire to augment the size of Greek territory, while skillfully easing Great Power fears by establishing himself as a stabilizing element in the Eastern Mediterranean. Nevertheless, when Alexander of Battenberg's Bulgaria took over Eastern Rumelia, the desire for Greek expansion flared once more. Greek ministers pressed for the invasion of Epiros and the engineering of revolution in Crete, to which the great powers warned against. Privately, the Russians and the French pressured the Greek minister, Theodoros Deliyannis, to refuse demobilization of the Greek army. The Great Powers, with French abstention, imposed a blockade of the Greek coasts, accentuated with the irony that the officer commanding the British squadron was none other than Alfred, the Duke of Edinburgh who twenty three years earlier, as Prince Alfred, had been elected king of Greece to succeed Otho. A Greek state bankruptcy led to Great Power control of the Greek national budget, further humiliating Greece. However, Greece's commitment to the pursuit of the *Megali Idea* remained strong.

On August 2, 1868, a son was born to King George I and his Russian wife Olga. Crowds in Athens shouted the name *Constantine*, an appellative rich in nationalist aspirations, and the King and Queen obliged. It was a Constantine who had founded Constantinople, "the great city which symbolized the illusory golden age and summoned up the inextinguishable nostalgia of the Greek race," and, similarly, a Constantine "who died defending the Byzantine city against the invading Ottoman Turks... a heroic and unavailing defense of Christendom against what the Greeks believed to be the encroaching tide of barbarism."¹⁸ The heir to the Schleswig-Holstein-Sonderburg-Glücksburg throne, the first Greek-born king in centuries, was born amidst the awakening of nationalist dreams.¹⁹ The implications of these dreams ultimately led to their own martyrdom; Constantine's great popularity among the people would one day remain amidst Great Power aversion.

In 1896, nationalism swelled in the Greek State, and the Olympic games, forsaken in 393, were revived. The games manifested the nationalist outburst of pride in the Greek ethnic heritage. Sponsors, to underscore the identification between ancient feats and modern sports, invented a 40 kilometer "Marathon" race,

based on legends of the Athenian victory at Marathon in 490 BC. The games, which opened on Greek Independence Day, April 6, 1896, was provided a boost when the first marathon race was won by a Greek. The momentous feeling that was intensifying, however, spilled over into foreign relations. In 1897, insurgents in Crete appealed to Greece to help eliminate the Ottoman accouterment. On February 6, 1897, King George I sent his son George along with Greek warships to Crete. Greek claims, backed by Great Britain, escalated as the *Ethniki Etairia*, the National Society, goaded the Greek government to send troops to attack the Ottomans from Thessaly. The conflagration erupted into full-scale fighting, and the Greeks lost a crushing defeat to the Ottoman Turks. Nevertheless, in the treaty signed in December of 1897, the Ottomans were forced to recognize the autonomy of a Crete that, eventually, was lead by Prince George as High Commissioner of the Four Powers. At the last minute, the question of the Cretan flag arose; chosen was the Greek flag with the Ottoman star, implying an autonomous Greek people under Ottoman sovereign rights. While Greece did not formally annex Crete, Cretan autonomy, ironically, found its nativity in Greek defeat. The Ottomans had routed the Greeks yet received only a slight rectification of her boundaries and the quizzical judgment that Crete was to be autonomous. That Greece was wholly dependent on Great Power discernment was unequivocally verified; it was only the fiction of Ottoman territorial integrity that now merely remained. The territorial pyres of Southeast Europe remained aglow, once more, as two Balkan wars suffused bloodshed across the Balkan landscape. Yet the cessation of fighting brought Greek gains. On February 19, 1914, the European Powers recognized Greek sovereignty over all the Aegean islands with the exception of Imbros, Tenedos, and the Italian-held Dodekánesos.

During the twentieth century, the *Megali Idea* ultimately found its applications around the concept of the nation-state. It served, chiefly, as the aspiration for the "progressive redemption of the Greek *irridentia* by their incorporation in the Greek kingdom."²⁰ Such cravings necessitated conflict in political, but chiefly in military, arenas against the Ottoman Turks. The argument can be made that the Greeks, in Southeastern Europe, were the first people to find their natural character roused and renewed through the memory of their great culture.

On June 28, 1914, on St. Vitas Day, Gavrillo Princip, a student, assassinated the Archduke Franz Ferdinand, kindling the Great War whose flare would sear the lives of untold millions. It was "a war to end all wars" though, in the end, it only lead to more fighting for the Turks and the Greeks. During the Great War, both the *Entente* and the Central Powers were acute in using the nationalist ambitions of the Balkan states to their advantage in various diplomatic discussions. While the argument can be advanced that "[t]he Allies failed to understand and place in its proper perspective the ethnocentrism of these small states whose aspirations did not corre-

spond to their power,"²¹ both the British and the French were, in fact, aware that each nation-state would act only in its best interest and it was precisely this fact that allowed the *Entente* to bargain so effectively with the smaller states. The Great War infused a vortex of pandemonium which spiraled Balkan countries towards its core whether or not they aligned themselves, ideologically, with their "protector" states; it was, rather, an opportunity to see the realization of their goals, the impetus (perhaps with the exception of Rumania²²) to expand their possessions. The Allies did, however mistakenly, feel that they could assemble a solidified Balkan coalition against the Central Powers; such proved to be an unrealistic policy, accentuating their inability to "reconcile the irreconcilable interests"²³ of the Balkan states. Nevertheless, as the Kaiser, Wilhelm II, had proclaimed, "God has called us to civilize the world... we are missionaries of progress,"²⁴ the Great War composed a litany of tears. Diplomatic discussions immediately took place between the British and the Greeks, with Lloyd George ardently trying to find favor from Venizelos in joining the Allies' Dardanelles operation. However, at the time, Greece was wholly consumed by the fears of a Bulgarian attack. Venizelos had maintained that Greece's entrance in the war was contingent upon Rumania's guarantee against a Bulgarian assault. The Allies' precarious situation in the Eastern Theatre hinged, it appeared, on Rumania's active participation in conjunction with Greek aid. In terms of diplomacy, Great Britain did not have time to spare. News of the British naval attack on the Straits reached Athens and left "a deep impression on the Balkan peoples,"²⁵ As for the Greeks, they were thoroughly engaged, "...dreaming of the Byzantine eagle... their hearts burning with great expectations."²⁶ Thus, Greece had held onto the *Megali Idea*, which inundated her early twentieth-century convictions. Venizelos remained convinced that Allied operations were not simply the destruction of the Ottoman Empire; implicit in the Allied attack was the great fear of Russia's domination of the East. Venizelos shrewdly reasoned that a British foothold in Anatolia could, pragmatically, remain secured through the promotion of a Greek expansion in Asia Minor. Lloyd George told the Greek Minister to Great Britain, John Gennadius, "England was not seeking any advantages in the East;" her "only desire," Lloyd George affirmed, "was to maintain the independence of the Balkan States, and, above all, to see Greece... established on the other side of [the] Aegean in Smyrna."²⁷ This was characteristic of British fear of Russian predominance in the East. Nevertheless, Great Britain's enticement exhibited attentiveness to Greek interests centered on the Great idea.²⁸

Queen Sophia nervously telegraphed her brother, Kaiser Wilhelm II, on the day of the attack on the Dardanelles, that public opinion had been worked up so much that it was difficult for King Constantine to remain neutral. Though Constantine did remain decidedly neutral, Venizelos' impacts on the King's mentality can be seen in the way Sophia documented her husband's disposition: "[Constantine] is

completely possessed by the specter of Byzantium.”²⁹ Constantine’s dream of “marching into the great city of St. Sophia at the head of the Greek army” was still “in his heart” and it appeared as if the King was ready to enter the war against Turkey. The conditions, however, were clear; the occupation of Constantinople had to be feasible without great dangers to Greeks. Constantine “went along with Venizelos’ plan of discussing the matter with the Allies on the conditions that Greece not spontaneously offer her cooperation to the *Entente* Powers...”³⁰ Constantine was placed in the most precarious position of deciding the fate of his country at a time of *European* war. Being the nephew of the “Dowager Queen Alexandra of England,”³¹ the British had hoped, that Constantine’s sympathies might be persuaded to the Allied cause. In addition, ever since the fall of Constantinople in 1453 “the recovery of St. Sophia and the city had been handed down from generation to generation as the destiny and aspiration of the Greek Orthodox.”³² Constantine was a Greek in aspiration; his sentiments, however, lay with Germany.

Constantine, though he showed signs of his intention to join the *Entente* and, indeed, gave a tentative promise to that effect, made no subsequent steps. “His promise was equal to refusal,”³³ and tensions flared; on September 1, 1916, two of Venizelos’ most prominent supporters, Argyropoulos and Colonel Zymbrakakes, established a Committee of National Defense in Salonika in a revolt against the Crown. Indeed, there were those who felt that the king appeared to be “leaning toward Germany.”³⁴ King Constantine’s affiliation with Germany was profound; he had studied at the Prussian Army Staff College in Berlin, acquiring, while at the Military Academy, “a lifelong admiration for the German military tradition and way of life.”³⁵ In addition, his link to Germany was strengthened by his marriage to Kaiser Wilhelm II’s sister, Sophia in 1889.³⁶ The incident of Ft. Rupel, his marriage to the sister of the Kaiser, and his self-proclaimed admiration of Germany exacerbated the delicate situation and, ultimately, undermined his position of authority.

In June of 1917 the Allies dispatched Zonnart, a French senator, to Greece as Commissioner of the Protecting Powers; Zonnart delivered a note to the Greek Government demanding the abdication of King Constantine. French troops, stationed at Corinth, were prepared to back the demands while Constantine, choosing his second son, Prince Alexander as successor, left for Switzerland. Struggling to keep Greece neutral, King Constantine had been outmaneuvered by his pro-*Entente* Prime Minister, Eleutherios Venizelos, who brought Greece into the war on the side of the Allies. Constantine was forced to abdicate himself and also for his eldest son, George.³⁷ On June 26, “amidst scenes of unprecedented enthusiasm, from which even his erstwhile opponents to his regime did not dare abstain,”³⁸ Venizelos made his return to Athens. Both as the new Minister of War and of Foreign Affairs, Venizelos was aptly prepared to aid the Allies and the Greek cause. Following on

the heels of King Alexander's installation, Greece took her oath of allegiance to the *Entente* and, two days later, entered the war.

Venizelos now employed the role of international diplomat without the restrictions of the Constantine Government. He impressed upon the Allies the importance the newly forming Greek divisions would have, pressing both for munitions and equipment. Furthermore, "he enlisted moral and to an extent material support for Greece," explicating "the decisive part the Greek army had to play in the Eastern campaign."³⁹ While Greek soldiers, "in spite of the campaigns of 1912-1913, were considered by military strategists to be of poor quality,"⁴⁰ the Greek force soon won the acclaim of the Allies for their courage and steady advances, favorably impressing foreign military attachés. Venizelos' planning was conducive to Greek acclamation; Venizelos stubbornly coerced General Franchet d'Esperey, commander of the Allied forces in Macedonia, to place the Greek army in five different points on the line of attack, allowing them to play a more important part in the Macedonian offensive. In the final offensive, "which made the first breach in the iron ring of the Germanic coalition," the Greek troops did, in fact, play a decisive role; "wherever a big break was effected there was a Greek division (placed there by Venizelos' foresight) to march forward with the Allies into the liberated territories."⁴¹

Joining the Allied side was a gamble that Venizelos was eager to take; Venizelos, least of all, would "shun the grave risks for the realization of Hellenism's great dream," the *Megali Idea*.⁴² However, with the decision came a great price. "The diplomatic machinations that accompanied the entrance of the smaller nations into World War"⁴³ had now nearly destroyed the Greek royal family. The people's loyalty to their monarch was an affirmation of their belief in the *Megali Idea*; when Venizelos' visions seemed to offer its fruition, Greece braced itself as the Byzantine eagle soared overhead.

At the end of World War I, the Great Powers remained committed to carving up the three fallen empires of 1918: Germany, Austria-Hungary, and the Ottoman lands. Self-determination had been championed as one of the principles of peacemaking and alongside this ideology came the various promises, by treaty or declaration, to subject peoples and to each other. While the Americans, the British, the French, and the Italians all had interests in the conquered areas, "Greece was the only one who could advance the additional claim that in the regions she coveted there was a large population which was Greek Orthodox; within that population a large proportion existed which spoke the Greek language, living in communities that had their own schools and a Greek way of life."⁴⁴ In addition, Greece, Venizelos could argue, was "contiguous to the regions in which she hoped to expand."⁴⁵

Venizelos secured for Greece a good position at the Paris Peace Conference as a result of bringing the Greeks to fight on the Macedonian front. Thus, his case was based on the services rendered to the Allies by the Greek army; it was

also grounded in one of President Woodrow Wilson's fourteen points that minorities of the Ottoman empire should "be assured an undoubted security of life and an absolutely unmolested opportunity of autonomous development..."⁴⁶ While Venizelos went to the Great Power bargaining table there were some in Greece who pointed out the difficulties inherent in maintaining a Greek empire.⁴⁷

In Paris, before the Supreme Council of the Allies, Venizelos and the Greek delegation argued the country's claims for the internalization of Constantinople and the Greek annexation of Thrace and Smyrna, with a substantial part of its hinterland. Venizelos was shrewd enough not to request Constantinople and the Straits; a Greek mandate, "owing to Italian opposition ... was entirely out of the question..."⁴⁸ However, Venizelos demanded the *vilayet* of Aidin, including a corridor reaching to the south coast of the Marmara River, but not including the sanjak of Denizli. Such an assertion was not out of the question; the substantial Christian populations before and during the war had been mistreated. In addition, Greece was in possession of the offshore islands and, should necessity dictate she would be able to defend the region. In his determination to realize the *Megali Idea*, Venizelos presented bold Greek claims. Such requests, however, "were not any more fantastic than those of Poles, Romanians, Czechs, Yugoslavs, and Italians."⁴⁹ In addition, the international situation was decidedly propitious for Hellenic aspirations. Eleutherios Venizelos left the table confident in the Greek objective; he remarked, "[a]t the conclusion of today's sitting, Orlando expressed himself sympathetically about 'the noble nation represented by Venizelos,' believing, he said, that the nation 'will receive satisfaction of its righteous claims.'" Venizelos continued, "...differences between ourselves and Italy would be [according to Orlando's statement] composed in a friendly spirit."⁵⁰ One month later, Venizelos noted the change of atmosphere, particularly from the Italian delegation.

The Italian diplomats asserted that at the conference of Saint Jean-de-Maurienne, in April of 1917, Italian interest in Smyrna was safeguarded by Great Britain. At the Paris Conference, however, Lloyd George argued that such an argument was dependent upon Russian agreement, which was never forthcoming, and "a considerable Italian military effort against the Turks."⁵¹ Italy's challenge of her rights to Smyrna embodied a diplomatic hostility that threatened the Anglo-Greek agreement.⁵² Furthermore, Italian interests clashed, once more, regarding the fate of Northern Epiros. Italy, that wanted an independent Albania, now had ample persuasion over the area upon the disintegration of the Austro-Hungarian Empire.

Before the Treaty of Sèvres was officially drawn-up, Italian forces moved towards Smyrna after occupying Adalia. Lloyd George, greatly alarmed, called for the Supreme Council to take action. President Wilson strongly backed Lloyd George's proposition that Greek troops land at Smyrna in order to protect the Christians who,

Lloyd George contended, Italians had provoked the Turks to attack. Clemenceau concurred and the Greeks, covered by allied warships, readied themselves. Venizelos landed Greek troops at Smyrna, on May 14, 1919, to oppose the Kemalists and to take formal occupation of the city. "The die was cast" and the issues were now clear; "peace for Greece had brought war and a Greek war for the destruction of Turkey."⁵³ While the loss of life on both sides was considerable, it can be argued that the diplomatic arena provided the greatest obstruction.

Prior to the signing of the Treaty of Sèvres, Mustapha Kemal (who would later become Atatürk), placed himself as the head of a national movement centered at Angora, becoming the "*defacto* ruler of Asia Minor, while Mohammed VI, who had succeeded the feeble Mohammed V in 1918, retained the shadow of power at Constantinople."⁵⁴ The Allied occupation of Constantinople, in March of 1920, and the subsequent Greek seizure of **Eastern Thrace and Western Anatolia** further divided the schism between Turkish nationalists and those loyal to the sultan. The Greeks, whose goal "was no less than the rejuvenation of Hellenism in Asia Minor,"⁵⁵ threatened to permanently alter the demographic character of the peninsula. However, Greek's directive for the destruction of Turkey "was the only thing that would weld together and invigorate Turkey."⁵⁶ The armistice with Turkey had made very incomplete provisions for Turkish disarmament and if the Greeks planned to push beyond Smyrna into the Anatolian interior, a considerable number of Turkish regulars remained prepared.

On August 10, 1920, the Treaty of Sèvres was signed, ceding to Greece Thrace, up to the Chatalja lines. More importantly for the Greek Kingdom, however, Turkey, in accordance with the Treaty, renounced to Greece all rights over Imbros and Tenedos, retaining the small territories of Constantinople, the islands of Marmara, and "a tiny strip of European territory."⁵⁷ Turkey was furthermore subjected to the indignity of transferring to Greece "the exercise of her rights of sovereignty" over Smyrna in addition to "a considerable Hinterland, merely retaining a 'flag over an outer fort.'"⁵⁸ Though Greece administered the Smyrna enclave, its sovereignty remained, nominally, with the Sultan. According to the stipulations of the Treaty, Smyrna was to maintain a local parliament and, if within five years time she asked to be incorporated within the Kingdom of Greece, the provision was made that the League of Nations would hold a *plébiscite* to decide on such matters.

The Treaty of Sèvres had debilitated the Turkish Empire, forcing the absolvment of any claims that it was a European Power. The Straits were placed under an International Commission, as they were now open to all. The disintegration of the Turkish empire continued further in Asia with the sovereignty of the Armenian Republic of Erivan, the Kingdom of the Hedjaz, an autonomous Kurdistan, and the custodianship by the Great Powers over Syria, Mesopotamia, and Palestine.⁵⁹ The Treaty legalized the British hold over Cyprus and Egypt, allowing Great

Britain to consolidate its primacy in the Arabian Peninsula. Turkey officially retained less territory than had the Byzantine Empire on its deathbed. On the same day as the Treaty of Sèvres, a Tripartite Agreement on Anatolia between the British, French, and Italians was signed, recognizing Cilicia as a French interest and granting southwestern Anatolia as a sphere of Italian interest. Greece signed a separate agreement with Italy in which the Dodekánesos islands, minus Rhodes, were renounced by Italy in favor of Greece. The transfer was not to occur until fifteen years after the signing of the agreement with the British handing over of Cyprus.⁶⁰ Essentially, the Treaty of Sèvres, with an avidity devoid of encumbrance, had retrenched the Ottoman Empire into “a rump of an inland state.”⁶¹ Venizelos, through the territorial acquisition implicit in Sèvres, had created “a Great Greece of 171,163 square kilometers and 6,539,903 inhabitants.”⁶² It was, for all intents and purposes, a crowning of years of diligent diplomatic exertion; Greece had emerged not as a trivial Balkan state but as a Mediterranean Power.

The Greek occupation of Smyrna witnessed skirmishes between Turks and Greeks followed by lurid stories, disseminated by Turkish propaganda, of Greek brutality. Rather than allowing the stories to suggest the incapacity of the Greeks to rule over mixed populations, Venizelos expeditiously invited proceedings to begin at once. An inter-Allied Commission was sent to investigate the purported savagery at Smyrna. But the report was never published. Though recommended, the Supreme Council did not include any Greek officers in the commission. On March 22, 1920, Lloyd George remarked in the House of Commons that it was imprudent “to allow the Report of the Commission in question to be published owing to the conditions under which the, enquiry was conducted... the Commission ... decided not to allow any Greek representatives to be present on the grounds that Turkish witnesses might be afraid of giving evidence.” He continued, “[t]he Supreme Council were of opinion that M. Venizelos’ protest was justified” and the “enquiry was completed.” The British Government, he concluded, “thinks it inadvisable and unfair to publish the Report itself.”⁶³

For the British Conservative pro-Turkish elements, the suppression of the report became a vital issue. If it disclosed patterns of Greek administrative incompetence “it would enable them to rebuff Venizelos and throw out Lloyd George.”⁶⁴ Such a desire remained farfetched. Becoming more outspoken, the pro-Turkish sentiments in Great Britain began to be heard more. Venizelos himself noted the damage the investigation had incurred for Greece; now, amidst Conservatives and even “well-meaning intellectuals,” Greek ascendancy came under a barrage of attack. Professor A. J. Toynbee sardonically remarked, “[w]hat had happened to Mr. Venizelos? Before the formal presentation of his claims to the Council of Ten, he expressed unlimited optimism about the practicability of carrying them out. He refused to admit that in opening the Anatolian question he was implicitly reopening

the question of the islands; he maintained that the Greek army could hold his projected Anatolian frontier on a peace footing..."⁶⁵ It is doubtful whether, in writing his scathing critique, Toynbee was considering the fate of the million and a half Greeks living under Turkish rule. "Turkish policy was bent on the extermination of that unfortunate multitude."⁶⁶

In many ways, Greece witnessed a backlash in the pro-Greek sympathies that, during and immediately following the Great War, had been lavished against the Greek palate. Lloyd George remained indubitably supportive to Venizelos and the Greek claims; seeing Greece as a conduit through which Great Britain would exercise greater influence and prestige. In addition, "by assisting Greece he would have a strong friend in the Levant against both France and Turkey."⁶⁷ The British Statesman faced the opposition of the Allies, his Cabinet, and the Conservative Party- not too long ago Disraeli's pro-Turkish lionizing orations were heard on the House floor.

Greek aspirations were further wounded when King Alexander, the country's young sovereign, died unexpectedly from a poisonous infection incurred by a monkey bite he received on October 25. The Greek government was now in a delicate situation. Even if the idea of establishing a republic had been entertained, such an objective died quickly. Great Britain was wildly opposed to the idea of Greece becoming a republic and rather than alienate her only ally, Greece established a regency. The Queen-Mother, Olga, became Regent and, shortly thereafter, a *plébiscite* voted, through a vast majority, for the restoration of the ex-King, Constantine I. Constantine's accession to the Greek Throne tilled the seeds of Greek's Great Power abandonment. A hostile France and a disgusted Great Britain were the hallmarks of Royalist Greece's great unpopularity in the European community. During the first World War, King Constantine I had been branded a Germanophile. Was this not the same Monarch who, during the Great War refused to affirm Greek allegiance to the *Entente*, but, instead, provided a joint Bulgarian-German force occupation of Ft. Rupel?

The Greek government finally lost the support of France, and even its own constituents when Venizelos was deposed at the elections of November 14, 1920. While Venizelos' political savvy had won Greece triumphs at the European "Council-board,"⁶⁸ the Greek people had grown tired of prolonged mobilization, which was associated with his long tenure in office. Perhaps the greatest determinant was that Venizelos was away at Paris for a good deal of his time; in his absence, and in his *name*, unpopular subordinates governed, fashioning the growth of political enemies. During the last four years, Greece had amassed both great stress and great strains. Venizelos, away in Paris, did not realize "how far factional strife had eaten into the vitals of the nation." His opposition "consisted of sixteen distinct groups united only by their common hostility to the Cretan."⁶⁹ Whether or not the vote was, indeed, *against* Venizelos, there can be no doubt that it deeply affirmed a vote

for peace. Distressed in his self-imposed exile, Venizelos was forced to watch the foundation of his diplomacy crumble due to the restoration of King Constantine I.

The recall of Constantine to the throne crippled the effectiveness of Greek military forces as a function of Greece's weakened international position. In the Paris meeting of the Supreme Council, "it was decided to warn the Greek people that if, at their ... *plébiscite*, they voted for the return of Constantine they must expect thereafter no further support from their late Allies."⁷⁰ This was dictated by French and Italian diplomats with great alacrity. Yet though Constantine was bitterly detested in the Allied community since the Great War, the French and Italians saw his election as "a heaven sent opportunity of ridding themselves of that irksome moral obligation which they had incurred in regard to Greece."⁷¹ There is an expression, "the friend of my enemy is my enemy;" before Venizelos was defeated at the November 1920 elections, the French were esuriently awaiting the end of their "contract." With Constantine as king, the British, short of breaking all diplomatic negotiations with Greece, embargoed all financial support and war supplies to Greece. The monarch whom Britain and, indeed, all the Allies, branded as Germanophile had sired an anomalous relationship to the British Crown. In the end, the Greeks were left with an inimical hand that history and, indeed, a war-wearied populace had dealt. Now, "a small weak state, facing tremendous undertakings, was to have the additional handicap of being divided against itself."⁷²

Perhaps not quite moribund, the "Sick man of Europe" was desperate to secure foreign aid and to sharpen Turkish diplomacy. If the Turks could fracture the fragile Allied solidarity, they could isolate Greece from her Allies, rendering her virtually ineffective against a concentrated attack. For Kemal, the timing proved to be ripe. The Bolsheviks publicized that "the secret treaties of the deposed Tsar as to the annexation of Constantinople, confirmed by the Kerensky Government,"⁷³ were to be null and void. In September 1920, the Soviets met with Turkish representatives at the Congress of the Peoples of the East, denouncing Western powers, colonial activities and promising the Turks Soviet aid. Russia grew tired of Allied intervention through the Straits. A Russo-Turkish entente developed as the two governments settled disputes regarding the Armenians. The first diplomat of nationalist Turkey, Ali Fuad, was posted in Moscow. On March 16, 1921, Russia and Turkey signed the Treaty of Friendship. Russia recognized the territorial integrity of Turkey and relinquished various northeastern Anatolian territories. The Turkish nationalist forces, in turn, were invigorated by Russian military and economic aid. Lenin ominously warned that the Soviet Government would "group around all the awakening people of the East and fight together with them against international imperialism."⁷⁴

In conjunction with the Russian treaties, Turkey was strengthened by the splintering of Allied unity. Greek ambitions prompted pro-Turkish elements in Brit-

ain and in France to come out of the woodwork once again. In addition, France and Italy, suspicious of Britain's already powerful position in the Near East, reacted unfavorably to a greater Greece spanning across the Aegean Sea. Italy, specifically, felt that Greece's territorial appetite threatened the Balkan power arrangement. The Greek territorial ambitions conflicted with those of Italy. It is in remembering that Italy, during the Balkan Wars, was hostile to Greeks in Northern Epirus and the Aegean islands, that Italian-Greek antagonism does not seem peculiar. "In Italy, Mr. Lloyd George was bitterly denounced as having selected Greece to be the vessel and instrument of British policy in the Levant in order to put an obstacle in the way of Italian expansion, and Mr. Venizelos was execrated for offering himself as a political mercenary and a tool of British hegemony."⁷⁵ While Venizelos, indeed, was a tool of British hegemony, there was a symbiotic relationship that existed between Britain and Greece; in securing British interests, Greece was also securing its own.

In London on February 21, 1921, the Supreme Council, amid increased agitation in the Near East, called for an Allied Conference. While the meeting did not significantly alter the Sèvres Treaty or mollify Turkish antagonism, France and Italy privately engaged the Turks in independent negotiations. The treaties, though rendered defunct, still succeeded in attaining the cessation of hostilities of Italy and France as well as the withdrawal of their troops from Anatolia. On October 20, 1921, the French signed the Franklin-Bouillon Agreement, evacuating Cilicia and Syria in favor of capitalist concessions within Turkey.⁷⁶ "French capitalists would have an opportunity to extend their activities in Turkish banks, ports, waterways, and railways."⁷⁷ The British, upon hearing of the treaty, became incensed; the treaty, which was the first between the Turkish provisional government and a Western power, "...marked a definite line of cleavage in the politics of the two countries in the Levant."⁷⁸

The Greeks were left significantly weakened by the French and Italian alienation at the hands of British exploitative interests. The Greeks resumed their offensive against the Turks in June 1921. By August, the Supreme Council dictated a policy of "strict neutrality" regarding the Greek-Turkish conflict. French and Italian neutrality, however, proved to be a farce as both governments remained eager to reach friendly understandings with the Turks. The Italians supplied Mustapha Kemal arms to fight the Greeks, paid for with the money supplied by Moscow. France, negotiating a secret treaty, without Great Britain's knowledge, enabled Kemal "to withdraw all his forces from the Armenian and Syrian front and fling them against the Greeks."⁷⁹ The Italian and French objective was to defeat Great Britain by helping Kemal defeat the Greeks. Most disturbingly, however, France, with blatant disregard, ignored both her signature on the peace treaty and her declarations of good faith. In doing so, France put her bondholders and her concessionaires

above all else, including, tragically, the lives of both Greek and Armenian Christians. Turkish diplomacy had made strange bedfellows. After securing a large flow of munitions and money from the Soviets, French, and Italians, and after isolating Greece from a unified Allied support, the invigorated Turkish national force met with the Greek army.

Venizelos, upon signing the Treaty of Sèvres, "worked on the assumption that the principal frontiers of his Greek Empire of 'two continents and five seas' would run along the disarmed Bulgaria and the European-controlled Turkey."⁸⁰ In addition, "it was not envisaged that Greece would be called upon to fight, and fight alone, to hold the gains that the Treaty gave her."⁸¹ In considering Venizelos' action towards Smyrna, one must wonder if, choosing this tragic step, he truly felt that Britain and France, while urging him on, would stick with the Greek troops in times of adversity. In 1911, as Premier, Venizelos remarked, "international morality does not exist;"⁸² indeed, if you were not strong enough to secure both your rights and your victories you could scantily count on the gentility of anybody else. Perhaps Venizelos did place too much confidence in his allies. While the opportunity afforded him coincided with his plans, he lacked the guarantee of committed agency. For Greece, the taking of Smyrna was "an inevitable stage towards the destruction of the Ottoman Empire and the liberation of Greece" while, to the Allies, Smyrna was merely "a square in the military-political chessboard of the Conference."⁸³

Greek sway had tasted the astringent fate of changing prisms; while it seemed that Venizelos had, indeed, secured victory of the *Megali Idea*, King Alexander's untimely death⁸⁴ and French and Italian apostasy rendered the Greek soldiers ill fated.

The carnage in Asia Minor reached vast proportion. Nevertheless, the Great Idea goaded hope. In Athens, Greek Royalists affirmed intentions to magnify Greek forces in Asia Minor. The public was lead to believe that, almost one hundred years after Greek Independence, the fulfillment of the *Megali Idea* was within reach. "Patriotic broadsheets pictured the king as a modern St. George riding over the corpse of a Turkish dragon and through the fabled Golden Gate of Constantinople, with his namesake the last Byzantine emperor at his side."⁸⁵

The Battle of the Sakkaria River, started on August 23, 1921, became the bloodiest engagement between Greek and Turkish troops since the taking of Smyrna. It also was the turning point in the Greco-Turkish War as the final effort of Greece for victory "melted away into a feeling of unrelievable gloom."⁸⁶ On August 26, 1922, the Battle of Afion Kara-Hissar witnessed a thunderous artillery barrage from 325 Turkish guns shattering the predawn stillness in the air. "By the fourth day of the battle of Afion Kara-Hissar, nearly half the Greek army of occupation in Anatolia had either been slaughtered or taken prisoner."⁸⁷ The Greeks were soon pushed to the coast of Smyrna. Winston Churchill observed, "the Greeks had in-

volved themselves in a politico-strategic situation where anything short of decisive victory was defeat."⁸⁸ At this point in the war, however, decisive victory was no longer an option.

The Greek Coalition Cabinet of Protopapadákes, Goúnares, and Strátos informed the Great Powers that peace for the Greek Kingdom could be found only through the acquisition of Constantinople. Such a request had fallen on hostile ears and the Powers replied that they would simply use force to prevent it. Greek succor lay parched. Greece was undermined by Great Britain's lack of support, the abandonment of the pro-Turkish French, and the defeatist propaganda simmering within its home front. Removed from all support, the Greeks faced a strong Turkish attack. On September 10, 1922, the Turks, incensed with retribution, entered Smyrna. "The burning of the Greek quarter and the murder of the Metropolitan recalled the massacre of Chios exactly a century earlier, with the difference that they aroused no indignation in a war-weary world."⁸⁹ In flames lay Greek hegemony and the hope for the annihilation of the Turks. Turkey had "suffered but not subdued."⁹⁰ The press fed the public a mortuary diet rich with lurid discovery. Newspaper headlines flashed international horror and reporters, aghast, wrote, "bands of Turks are killing the helpless Christians and the whole city is in the throes of terror."⁹¹ Aside from the great many deaths tolled, it was noted that "several thousand disarmed Greek soldiers still remain on the peninsula west of Smyrna."⁹² Panic, like death, was rampant.

A representative of the Near East Relief at Smyrna wrote the *New York Times*, "[m]y estimate of the financial loss to the Greeks in devastation in the Hinterland and the configuration of Smyrna is above \$200,000,000... I walked through a large area of the burned section and noted the complete destruction."⁹³ The French Foreign Office defended the Turks, issuing an official report that the Turks did not set fire to the buildings and that there was "no evidence that the Turks were in any way responsible for the damage [at Smyrna]."⁹⁴ Conspicuously, however, the damage incurred was all Greek; "[t]he Turkish residential district is undamaged."⁹⁵ Lloyd George, representing the Great Powers, wrote a note to Kemal, promising Eastern Thrace to Turkey through the invitation of a peace conference. In addition, the Treaty of Sèvres was now officially annulled. The letter noted that "the allied Governments are convinced that their appeal will be listened to and that they will be able to collaborate with the Turkish Government and their allies to establish peace, for which the whole civilized world is longing."⁹⁶ This, above all, was true for greater Europe. Weary of the Balkan Wars, and especially of the Great War, the Great Powers were tired of fighting. The terror at Smyrna was an abhorrence to all of Europe— an ancient city that was purported to be "the cradle of Greek legends"⁹⁷ now, tragically, was destroyed. Perhaps equally as frightful was the return of Turkey. "The Crescent comes back to Europe,"⁹⁸ a reporter noted.

The Coalition Cabinet resigned and Constantine, amid rumors of civil war, abdicated the Greek throne in favor of his son, George II. As refugees, alongside troops, flooded Greece with stories of the atrocities of Smyrna, a "vengeance was demanded upon the authors of the catastrophe." To this task, the services of General Pángalos, a harsh individual, were rendered. Pángalos, as president of the committee, was given the task of determining culpability. He sentenced the Commander-in-Chief, General Hajjianéstes, as well as the five ex-Ministers, Protopapadákes, Goúnares, Strátos, Baltatzês, and Nicholas Theotókes to death. William Miller notes, "[t]he execution of 'the Six' was both a crime and a blunder. One of 'the Six' was scarcely responsible for his actions, another was dragged from a sick-bed to execution, a third was an amiable linguist unlikely to initiate a policy."⁹⁹ Furthermore, Greek alienation in the European arena was deepened, the executions providing another reason for diminishment of foreign sympathies. The British Government withdrawing its Minister from Greece evidenced this.¹⁰⁰ For the next four years, Greek public opinion remained divided.

It was a time of agitation for the Greek community; Prince Andrew, banished for life, was transported away from Greece via a British vessel. Briefly, Greece had tasted the near fulfillment of the *Megali Idea*; her arms had swept across Anatolian lands, once emblazoned by the crest of Byzantium, now by Turkish fire. The Treaty of Lausanne, on July 24, 1923, fixed the Maritza River as the frontier between Greece and Turkey. While the island at Maritza's mouth eventually came under Greek dominion, Turkey had regained all of Greece's postwar possessions in Asia Minor and Europe. Greece remained impotent as Italy acquired from Turkey rights to the Dodekánesos islands. Agreed upon was the compulsory exchange of the Greek population of Turkey with the Moslem population of Greece. The stipulation excepted those Greeks "established" in Constantinople before October 30, 1918, the Moslems of Western Thrace and those of Albanian race. "No recent event is likely to have a greater effect upon the future of Greece," it was believed by some, "than this wholesale emigration and immigration,"¹⁰¹ consisting of at least 1,400,000 refugees.

David Lloyd George had failed "to understand the war-weary mood of his countrymen" and remained ignorant to the fact that "his personal views ran counter to a growing isolationist trend in postwar Britain."¹⁰² The damage had occurred. Greece had been stunningly defeated by the Turks against the backdrop of international isolation. Greece's loss of Anatolia, through staggering defeat, poisoned the politics of the land. The war, directed by Venizelos, took place in 1922-1923 under a Royalist administration. Greece grieved for the *Megali Idea* during the 1920's and 1920's, amid a destructive current of political rivalries and dictatorships.

Two and a half years before Sevres, the British Foreign Minister, Sir Edward Grey, suggested to Venizelos, "the most important territorial concessions for

Greece on the coast of Asia Minor,"¹⁰³ around Izmir (Smyrna), as a possible reward for Greek involvement in the Great War. "Unfortunately for Greece, the Cretan statesman [Venizelos] would remember only too well this Allied appeal to Hellenic irredentist sentiment."¹⁰⁴ Lloyd George had come to see Hellenism as loyal to British interests and pushed for the purposeful Sèvres accord. Ultimately, however, the 'Draconian Treaty'¹⁰⁵ imposed on the Ottoman government was not to be ratified. Three years later at Lausanne the Allies negotiated a fresh settlement.

Through an analytical discussion of the *Megali Idea*, it becomes evident that since the demise of the Byzantine empire the desire for a return to "greatness" burned within the Greek minds. Greece, locked in a position of dependence on the Great Powers, was tangled in the great paradox of a hyper-nationalist ideology dependent on external support. Indeed, such backing did come and with it nearly the ultimate attainment of the pre-modern lore. Eleutherios Venizelos, at the height of his diplomatic accomplishment, crowned Greek Irredentist claims to Asia Minor with the tiara of Great Power support. However the Treaty of Sèvres was the beginning of the end for an ancient dream. The Greco-Turkish war was an internecine tragedy. Waged against humanity amidst spirits of national hegemony and ideological opposition, it buried the lives of many, blanketing an ancient dream and hope.

Notes:

¹ Smith, 2 1.

² Ibid., 2 1.

³ Leon, 1.

⁴ Ibid., 1.

⁵ Smith, 3.

⁶ Ibid., 4.

⁷ Ibid., 3.

⁸ Ibid., 24.

⁹ Petropoulos, 23.

¹⁰ Ibid., 506.

¹¹ Ibid., 507.

¹² Ibid., 508.

¹³ Leon, 2.

¹⁴ Ibid., 2.

¹⁵ Great Britain, in can be noted, was more interested in keeping Russia off the Greek throne than putting an Englishman on it.

¹⁶ Smith, 2.

¹⁷ Ibid., 3.

¹⁸ Ibid., 1-2.

¹⁹ This fact is further evidenced in the urging, by some, for Constantine to have the Roman Number XII after his name. Finefrock, D1049.

²⁰ Smith, 4.

²¹ Leon, preface.

²² King Carol I, of Rumania, was placed in the inauspicious position of choosing a path for his country that was not in-keeping with his country's wishes. A devout loyalty to the Hohenzollerns and a deep conviction that Germany was headed for an immediate and total victory encouraged the king to, nervously, proclaim Rumanian allegiance to the Central powers. Carol's declaration was met by his countrymen, "with disapproving silence;" allegiance to the Hungarians was antithetic to incorporating her Transylvanian brethren into the Rumanian state. The king, his health ailing and his spirits rankled, was urged by Queen Elisabeth to abdicate and "shake the dust of his ungrateful country from his feet." Pakula, 177.

²³ Leon, preface.

²⁴ Pakula, 173.

²⁵ Ibid., 122.

²⁶ Ibid., 122.

²⁷ Ibid., 122.

²⁸ The unwavering Greek desire for Constantinople, however, was widely known. When the British began the naval battle of Gallipoli, it was Russia who denied Venizelos' offer to help; Russia, aware of Greek ambitions, feared that Greek participation in the Gallipoli endeavor would result in Greek possession of the largely-contested city.

²⁹ Leon, 128.

³⁰ Ibid., 126.

³¹ Pakula, 304.

³² Smith, 3.

³³ Alastos, 170.

³⁴ Pakula, 192.

³⁵ Smith, 5.

³⁶ Though Constantine's association to Germany proved egregiously injurious for Greece's relations with the *Entente*, it is interesting to note that many in Greece took Constantine's marriage to Sophia as a good omen for the future since the great church of Constantinople was that of St. Sophia.

³⁷ Pakula, 304.

³⁸ Alastos, 177.

³⁹ Ibid., 184.

⁴⁰ Ibid., 184.

⁴¹ Ibid., 185.

⁴² Leon, 122.

⁴³ Pakula, 304.

⁴⁴ Dakin, 221.

⁴⁵ Ibid., 222.

⁴⁶ Ibid., 221.

⁴⁷ Ibid., 221.

The author contends, "...most of Venizelos' critics were wise only after the event."

⁴⁸ Ibid., 223.

⁴⁹ Ibid., 233.

⁵⁰ Alastos, 188.

⁵¹ Dakin, 222.

⁵² "...though the Italians had no such racial and historic claim [to Smyrna] as the Greeks, they were naturally irritated at the loss of a valuable port and its hinterland, as well as fearful that British economic interests would swallow up all Anatolia if the British-Greek combination retained its military supremacy." "The Issue in Turkey," editorial, The New York Times 24 September 1922.

⁵³ Alastos, 192.

⁵⁴ Miller, 542.

⁵⁵ Psomiades, 31.

⁵⁶ Alastos, 192.

⁵⁷ Ibid., 541.

⁵⁸ Ibid., 541.

⁵⁹ Ibid., 541.

The San Remo Conference in April of 1920 assigned Mesopotamia and Palestine to Great Britain and Syria to France.

⁶⁰ Psomiades, 29.

⁶¹ Ibid., 30.

⁶² Miller, 542.

⁶³ Alastos, 193.

⁶⁴ Ibid., 194.

⁶⁵ Ibid., 194.

⁶⁶ Ibid., 196.

⁶⁷ Ibid., 196.

⁶⁸ Miller, 543.

⁶⁹ Alastos, 204.

⁷⁰ Psomiades, 34.

⁷¹ Ibid., 34.

⁷² Alastos, 170.

⁷³ Psomiades, 32.

⁷⁴ Ibid., 33.

⁷⁵ Ibid., 33.

⁷⁶ "The Issue in Turkey," editorial, The New York Times 24 September 1922.

⁷⁷ Psomiades, 35.

⁷⁸ Ibid., 33.

⁷⁹ Ibid., 35.

⁸⁰ Dakin, 227.

⁸¹ Ibid., 227-228.

⁸² Alastos, 191.

⁸³ Alastos, 191.

⁸⁴ Indeed, the morning of September 30, 1920 proved to be most unfortuitous for Greece; the King, while trying to free a Spanish monkey from the teeth of his wolfhound, Fritz, was bitten on the calf by the monkey's mate. King Alexander died of blood poisoning on the 25th of October, his grandmother, Queen Olga, arriving just too late.

Smith, 138.

⁸⁵ Finefrock, D1053.

⁸⁶ Alastos, 215.

⁸⁷ Finefrock, D1047.

⁸⁸ Ibid., D1054.

⁸⁹ Miller, 546.

⁹⁰ Alastos, 215.

⁹¹ "Britain Prepares to Fight For Straits; Calls On Dominions To Send Troops; Smyrna Wiped Out, Killings Continue," The New York Times 17 September 1922.

⁹² "Russia Demands Straits Go To Turks," The New York Times 14 September, 1922.

⁹³ Mark O. Prentiss, "20,000 Greek Refugees in Smyrna Camps: Evidence Destroyed as American Gets Permission to Investigate Massacre Reports," The New York Times 24 September 1922.

⁹⁴ "Responsibility at Smyrna," editorial, The New York Times 30 September 1922.

⁹⁵ Mark O. Prentiss, "20,000 Greek Refugees in Smyrna Camps: Evidence Destroyed as American Gets Permission to Investigate Massacre Reports," The New York Times 24 September 1922.

⁹⁶ "Text of the Note of Allies to Kemal Pasha, Stating Their Conditional Offer to Turks," The New York Times 24 September 1922.

⁹⁷ Dobkin, 21.

Marjorie Housepian Dobkin laments, "she [Smyrna] was known as the Crown of Ionia, the first City of the East, the Ornament of Asia," p.22

⁹⁸ Edwin L. James, "Joint Note Sent to Kemal: Paris Conferees Present Formal Invitation to Conference," The New York Times 24 September 1922, 1.

⁹⁹ Miller, 547.

¹⁰⁰ Ibid., 547.

Miller adds that, with the removal of the British Minister, the British Government left "the Legation in

the hands of a *chargé d'affaires* for fifteen months."

¹⁰¹ Miller, 548.

¹⁰² Finefrock, D1048.

¹⁰³ Ibid., D1050.

¹⁰⁴ Ibid., D1050.

¹⁰⁵ Psomiades, 30.

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The Market Transition of East Germany: Model of Mezzogiorno?

By Daniel Ho

In the study of market transitions, East Germany is a peculiar case. Substantial economic changes occurred concurrently with the institutional and political unification of East and West Germany. Upon the fall of the Berlin Wall in November 1989, the future of the East German Democratic Republic (GDR) was unsure. Gorbachev's communiqué at the end of his visit to Germany in June 1989 supported the principle of self-determination, suggesting the path to unification of the two Germanys¹ but not until the Unification Treaty in October 1990 was this realized. While the literature on East European transitional politics is deeply divided on the issue of sequencing of political and economic reforms, East Germany's unification with West Germany (FRG) promptly transposed a tested political system to the eastern states (Länder), with the primary problem lying in the privatization and restructuring elements of these regions. Should the market transition of East Germany be seen as a model to developing countries, or is it a reminder of Italy's Mezzogiorno, a region with dwindling economic growth and underdevelopment?

The traditional view of the East German transition as a model type should be questioned. Generally, the reforms in East Germany can be seen as a uniquely clear case that undermines the concept of a single-handed application of "proven" economic and political models in order to improve the well-being of a nation's populace. In this essay, I argue that despite the large monetary, political and institutional backing of the West German regime, East Germany's difficulties in unemployment and competitive production demonstrate how political pressures of integration have given rise to East Germany as a regional problem. The "successful" transition should not be taken at face value, as Europeans, including East and West Germans, continue to pay the price of unification. Ignoring the region-specific historical circumstances of the East, the imposed "western" administrative, political, and economic model was expected to function without serious problems, but the regional

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transitional quandaries of unemployment and low investment remain. While the concessions to quell short-term existential threats to economic policies have safeguarded long-term prospects of transition, the overly western formulaic approach to transition has disregarded other key alternatives to improving eastern development. Hence, the transition of the GDR demonstrates the difficulty of a market transition even when both the political will and financing are strong.

First, I will evaluate the unification process and the resulting stabilization and liberalization of markets. Second, I will analyze the roles of the Treuhandanstalt (trust agency) in the restructuring and privatization of state owned enterprises, which comprise the main element of East German transition. Third, I examine the challenges and criticisms faced by unified Germany, arguing that the East German economy faces notable prospects of long-term recovery. It will be demonstrated that the policies of externalizing the transition burden account for its long adjustment period. I also introduce a model of analyzing concurrent political and economic transition, arguing that political legitimacy and support is gained by concessionary policies at the outset of transition, though these appeasement tactics may hinder long term development (see appendix). Lastly, I examine the debate on the 'success' of the East German transition.

Unification, the Liberalization Shock and External "Financing"

The main policy choices in the East German transition were those of institutional political integration, monetary integration, privatization, wage adjustment, unemployment, restructuring existing firms and closing the budget deficit². The "State Treaty on Economic, Monetary and Social Union", that came into force July 1, 1990, addressed the first of these two issues, by the adoption of the West German (FRG) constitution with political unification and the extension of the Deutsche Mark (DM) currency area to the east. If the choice had not been made of joining the FRG under article 23 of that country's constitution, the process of debating integration of the two constitutions under article 146 would have resulted in a lengthy dialectic that could have endangered the "functional" nationalism and enthusiasm over unification. Rather than using the exchange rate as shock absorber, the DM currency area was extended and the monetary authority of the new Länder came under German Bundesbank authority. The unification provided for quick political and monetary integration of eastern Germany, freeing prices and cutting state subsidies immediately after the treaty came into effect. From the beginning, East Germany had the assurance of macroeconomic stability and credibility, while liberalized prices led to instantaneous competition in goods and factor markets. This overnight subjection of the GDR to global market forces led to a grim adjustment shock. East Germany's GDP dropped by 34.3 percent in 1991 alone, unemployment skyrocketed to an uncompensated loss of 37 percent of all jobs by 1993³, and personnel turnover in high

political and management positions was high. Much of the economic reasoning behind the transition was based in the assumption of a J-curve behavior of output, whereby the initial adjustment shock would be compensated in the long-run by an increase in growth. This Schumpeterian process of "creative destruction" created severe social and political strains on the East German Länder with pervasive discontent ("post-unification-dissatisfaction" as Wiesenthal calls it), youth violence and low political affiliation.

The positive outlooks of a stable exchange currency with the proven conservative monetary policy of the Bundesbank and the political union distinguish the East German transition from other East European transitions. West Germany had committed itself to financing the unification project, spending about 4% of the GDP per year since 1991. This annual sum, slightly smaller than the Marshall plan, went into the reconstruction of the five eastern Länder, focusing on the reconstruction and modernization of infrastructure and industry. Moreover, these transfer payments were primarily debt financed, as opposed to being financed from domestic savings, driving interest rates sharply up to obtain the necessary capital inflows. As a result, on a macroeconomic level Germany shifted from having large balance of trade and payments surpluses to being a net capital importer. In turn, this increased interest rates in other countries that needed to attract capital, slowing down their investment as well as that of Germany's⁴. So while Germany's neighbors benefited during the first phase of unification from the added demand of the east, they were now paying through higher interest rates and slower growth.

Thus the GDR transition cannot be viewed in isolation of the international economy. Germany's reluctance at the French demands of commitment to a monetary union was swayed by the necessity to obtain a permissive consensus to German unification. As Tsoukalis points out, "what... tipped the balance was the perceived need to reaffirm the country's commitment to European integration in the wake of German unification."⁵ Other international "exogenous" factors challenged the East German transition. During the first few years, it had posted growth rates higher than the west. However, with rising unemployment, the structural economic challenges of the United States and East Asia and the slow recovery of the Soviet economy (to which the East German economy had been intricately linked), East Germany stopped outperforming the west in 1997. Initially, the western models of systems replication in East Germany (promising a second "economic miracle") ignored such external contingencies, expecting rapid economic recovery from the transitional shock.

Property Rights & Treuhhandanstalt Privatization Process (THA)

Two of the essential macroeconomic elements to a successful transition had been bestowed upon East Germany by the process of unification: a stable legal

system and financial support from the west. The neo-liberal J-curve argument depended fundamentally on privatization policy as a way of recovering from the initial adjustment shock by institutionalizing the profit motive and investment into the German economy. In order to establish the concept of property rights it was decided to restitute property to expropriated owners with the exception of expropriations by the Russian military between 1945 to 1949, a condition for USSR agreement to unification. Though it was hoped that this principle of 'restitution before compensation' would encourage private investment in the east it has come under significant criticism. Eberhard Diepgen, the former governing mayor of Berlin, called it "the greatest single mistake in the unification legislation"⁶. It is specifically argued that restitution hampered East German investment, because it did not adequately create a functioning real estate market, an essential factor for investment prospects. Compensation was the second option for cases when pieces of land have been combined into inseparable units. The "Act Regulating Open Property Issues Act Relating to Special Investments in the German Democratic Republic" passed in September 1990, created a long bottle-neck procedure towards obtaining the entitlement of property. The main problems were that first, a competing claim on a piece of property prevented investment by the current owner. Second, it was also extremely difficult to distinguish between the ownership of a firm and the ownership of land, which fell under different entitlement procedures. Third the title records of firms had been ignored during the GDR regime and last, many claimants went to court when the market value of a piece of land and the compensation rate differed, making the process even more drawn-out⁷. The lengthy procedures significantly slowed investment in East Germany until the Investment Priority Law of 1992 established a more streamlined procedure. The investment priority mandated that even with competing claims on a piece of land, the current holder can keep investing until the decisions is made by the local administration. It is argued that the restitution principle handed financial benefits to West Germans who were able to invest in the east while East Germans were threatened with the loss of their homes⁸ due to changes of entitlements. The western approach towards the establishment of property rights hence constituted a significant obstacle to eastern convergence.

Corporate governance in the financial and the non-financial sectors was restructured as follows. First, the banking sector was reformed with the Bundesbank taking control of East German banking system and the Deutsche and Dresdner Banks taking over the branch networks of the former GDR state bank. This allowed enterprise restructuring to occur without the overhang of bad debt to indebted state enterprises⁹. The privatized banks could focus on modernizing the financial system. The Treuhandanstalt (THA) was charged with holding of all assets of all former state enterprises in their subsequent privatization. Its task consisted of "organizing the organizational restructuring (corporatization) and transformation of

the state enterprises into market actors (commercialization)."¹⁰ The mode of privatization was that of negotiated contracts between potential buyers and the THA, though some auctions occurred as well. The negotiations included commitments on employment levels, volumes of investment, and obligations to secondary tasks such as environmental reconstruction. The THA also engaged in pre-privatization, i.e. in breaking down the large state firms (Kombinate). After 1992 the focus on social and developmental effect was added to the THA criteria for privatization. Prützel-Thomas states the THA faced an inherent contradiction: "a market economy was to be created, basically through state planning and interventionist measures, in a country with enormous structural deficits, too few managers and entrepreneurs, and no functioning organization of interests."¹¹ The THA is the primary target of eastern intellectuals who charged the FRG with 'colonization' motives. This was due largely to the overwhelming representation by West German bankers and financiers in the THA. The THA procedures were established, benefited and carried through on western terms. Instances of fraud and unaccountable contract negotiations, in combination with the lack of knowledge of the industrial culture of state socialism and the lack of input of GDR political elites led to widespread discontent with the THA. Within four years, the THA privatized over 11,000 SOEs and after four years of restructuring, it closed on December 31, 1994. Nevertheless, because ownership was concentrated in the west, allegations on the THA's policies long-term negative implications on East German growth remain.

On the microeconomic level, East Germany's privatization policy had several advantages compared to those other east European economies. First in management skills and adaptation to the Western economic model, and second in accountability and understanding of accurate financial information.¹² The long entrepreneurial tradition in the east, with industrialists in Dresden and Leipzig being among the strongest before WWII, and the retention of managerial staff at companies led to the quick adaptation to a western system of accountability. The THA Eröffnungsbilanz (opening balance sheet) financial statements, required of companies, served not only as the valuation of individual firms but of the entire East German economy as well. Lastly, German federal laws required detailed audit reports including the cost of environmental cleanup, personnel reduction plans and the costs of restructuring, which helped significantly in lowering the barriers to investment.

Transitional Criticisms and Challenges

The fact that economic criticisms of East Germany's transition focus overwhelmingly on procedural improvements in the privatization process can be viewed as a testament to its success. After discussing the major criticisms of the transition process, I will frame these policies in a larger conceptual paradigm of concurrent transitional politics (see appendix). Both empirical and normative disagreements

about East Germany's transition confound the analysis. Some argue that Germany's transition "is by no means an example of shock therapy."¹³ Additionally, transitional problems are a result of the lack of political will to a quick transformation, whereas others argue that "a planned, slow monetary unification - retaining the two monetary systems for a while - and the application of some sort of 'transformation logic' would have produced a much better outcome."¹⁴ Part of this confusion comes from the conflation of political and economic reform, and the conflation of speed with holism.

One of the main criticisms of eastern Germany's transition has been that the restitution principle severely impeded investment by the impossibility of investing in land that had a claim filed to it, and the injustice of the exception of Soviet confiscation. The subsequent laws that circumscribed the restitution principle attempted to strike a balance between the current owners and the claimants. Prützel-Thomas even argues that restitution represented more of a scapegoat than a substantive problem, claiming that the number of people affected by the Soviet confiscation exemption is not that large. A workable compromise with the GDR, especially the Soviet government, had to be found, and with all major political groups of the west agreeing, it was unlikely that the fiscal burden of compensation would be imposed upon the unified Germany.

As touched upon before, much disagreement exists over whether the type of privatization procedure, the negotiated contract, constituted a corporate buy-out of the East German economy. The high concentration of capital in the hands of the west Germans is subject to a criticism of the redistributive objectives of the THA. There is also significant evidence of clientelism taking place, usually with the THA recapitalizing of enterprises in benefit of the buyers, often writing off significant amounts of the debts. Furthermore, the mass selling of enterprises would have a supply pull effect on the price, favoring lower prices and more benefits to potential buyers. The stock-flow constraint¹⁵ (meaning that in a closed economy the most the government can get is a flow of savings) also led to the overwhelming number of foreign buyers being favored, particularly from West Germany. To balance the redistribution motive with the efficiency motive the privatization procedure could possibly use non-cash bids instead of bilateral negotiations¹⁶. Non-cash bids, such as the government right to future revenues, would lead to greater competition where not just the ability to pay but the willingness to pay matters, which could result in more efficient management teams.¹⁷ This is similar to Aven's argument that some of the firms' equity should be granted to managers to give them the right incentives for restructuring¹⁸. Furthermore, the lack of a THA employment subsidy made it more favorable for the THA to cut employment in order to control its own deficit. These THA directed critiques do not take into account that the strategy of negotiated contracts served the purpose of gaining access to western markets through the

western owners. It could be argued that with the disengagement from Eastern Europe, this western orientation was necessary. Nevertheless, the fact that West German bankers and financiers overwhelmingly represented the THA, led to the many allegations of fraud and unaccountable inconsistent company negotiations. The lack of knowledge of industrial culture of state socialism (the region-specific exceptionalities) and lack of input of GDR political elite have impeded the transition, with social factors generally being viewed as impediments to transition, rather than peculiarities to which the economic model must adapt. Many claim that the elite "all too readily embraced unfettered Neo-Liberalism and forgot all about the relative advantages of long-term political planning."¹⁹ The possible social manifestations lie in the so-called syndromes of post-unification-dissatisfaction²⁰ and high political disaffiliation of the east.

Another major criticism is that wage and social security policies impeded the wage from acting to correct an inappropriate initial exchange rate²¹. The harmonization of wages across the east and west was in the interest of western labor unions, which, fearing migrant competition from the east, used their strong positions against weak eastern employers' organizations to argue for wage and social security equalization in East Germany. While this does decrease the chances of mass migration in the short-run, eastern firms become unproductive and low levels of investment result. This competitiveness problem of high per capita wages remains a major obstacle as investment is necessary to increase per capita output. Nevertheless, the extension of the social safety net from the west has prevented a major political backlash from the east. This has been mostly achieved through active labor market politics (ALMP's) which are used to contain fast rising unemployment in East by subsidizing the retraining of workers. But "given the excessive level of wages relative to productivity in the new Länder, growth is still biased towards capital/labor substitution, so that the prospects for rapid convergence are less bright."²² The unit labor cost disadvantage fell by only one percentage point to 23 percent in 1997,²³ and has also tested the political will of the western Länder in financing of the unification. The OECD country report counted the resulting necessary transfer funds as a major obstacle in the future:

*"The system of inter-governmental transfers aimed at equalizing revenue levels leaves little return to a state's efforts to improve its finances and two of the German Länder have threatened to appeal to the Constitutional Court if a political agreement on reform is not reached on the grounds that the high degree of redistribution of taxes is unconstitutional."*²⁴

While the FRG has so far been able to finance the unification, continuing dwindling prospects of investment recovery constitute a significant regional problem. The defection of the two western Länder and social separation of the east and west possibly signifies a problem similar to Italy's Mezzogiorno.

Model or Mezzogiorno?

The two possibilities of a Mezzogiorno or a New Frontier²⁵ of Germany represent the divergence of evaluations of the East German market transition. Significant deviation from the liberal economic transition model was necessary in order for the German unification model to work, most obviously the wage equalization that disregarded unit labor cost in the east and the restitution principle exemptions. The primary reason for these impediments to eastern development lies in the representational asymmetry in the policy-making process that was strongly biased in favor of West German traditions and interests²⁶. Unions and employer organizations from the east were not allowed significant input in the debate over wage adjustment, and during the restitution debate, the historical legacy of socialism and its associated problems of restitution was underestimated. While the institutional transfer from the west served to fill a vacuum of corporate tradition and the profit motive, the lack of sensitivity to the specific context of the eastern states perpetuated the adjustment shock even more.

As the Bonn Republic becomes the Berlin Republic a substantive reorientation (not just a symbolic move) to the East is imminent. Former chancellor Helmut Kohl's inability to fulfill his promise of "blooming landscapes" and of a second economic miracle should lead us to reevaluate the western paradigm of economic transition. Referred to as "the chancellor who managed to unite Germany but not the Germans", Kohl left behind a legacy of lingering unemployment and investment problems in the east.

Significant social welfare policies extended to the East, active labor market policies, the rise of the standard of living, rising expectations, and the option of migration have served to prevent a political backlash of eastern Germany. Nevertheless, threats of eastern political or social reaction could be severe. The extreme right German People's Union (DVU) gained 12.9 percent in Saxony-Anhalt's 1998 state election while the former-communists (PDS) gained 19 percent of eastern vote in national election. The resentment and post-unification dissatisfaction (PUD) is a legacy of the dissatisfaction from unification, as Lothar Bisky, chairman of the PDS states: "eastern Germany is now 80 percent owned by the west, 15 percent by foreigners and only 5 percent by ourselves." Given the long history of economic state building of Germany, as argued by List's German School of historical analysis, it remains of paramount importance to democracy to support the eastern regions. Aside from economic arguments one must consider that the social element of tran-

sition takes the longest to develop, which is precisely the element that represents the greatest safeguard to democracy. Putnam's notion of social capital should serve as a paradigm to build the transition bottom-up and not just top-down²⁷. Given the parallel regional problems on democracy that Putnam assesses in Italy, it is imperative to keep in mind that the economic formulas alone cannot solve social, historical and political contingencies. The importance of a civic culture remains paramount in increasing the absorptive capacity of market transition reforms.

The East German economy is slowing, but that may actually be a positive indicator. The great construction efforts of the early integration years have slowed down, and this has allowed the Berlin government to focus on the manufacturing and service sectors as keys towards self-sustaining consumption and investment.²⁸ The fears of a belligerent reunified Germany have been invalidated by the necessity of a more inward-oriented focus on long-term economic problems, forcing both the east and the west to reevaluate their initial expectations. In its efforts to prevent the development of its own Mezzogiorno, Germany may be classified as normal after all.

Appendix

IV. A Model for Analyzing Concurrent Political and Economic Transition

While the normative substantive policy critiques of the East German transition provide insights into the dynamics of transition, particularly into the complexities of privatization, empirical disagreements on how to characterize the market transition exist as well. While Germany's transition is generally viewed as a rapid, 'big bang' approach, the political unification has often been conflated with the policy of economic 'shock therapy'. The traditional heuristics of gradualism and shock therapy must be further explored in order to characterize the different transition economies. While the German political transition was achieved rapidly through the Unification Treaty, the economic transition, as has been argued by Helmut Wieselth, is much more characteristic of a gradualist approach. He argues, "East Germans were cushioned from the full force of the transformation to a market economy by government policy which opted for gradualist rather than radical measures."²⁹ If the general criticism of the German policy is the general lack of sensitivity to the regional specific situation of East Germany, due to the representational asymmetry in the THA and other policy-making bodies, then it is necessary to specify under what conditions transitional regimes result in different types of policies. How can we explain the concessions given to unions in terms of wage bargaining by the economic political paradigm?

The key towards successful transitional regimes does not lie in the speed of reform. Indeed the implicit assumption of terms such as 'shock therapy' and 'big bang' is that speed is equal to the degree of reform. This may be true in cases where rapid reforms can protect the regime from political pressures, or in the case of Germany where unification was a decision without a turn-around option. The reduction of reform packages into the speed, however, confounds the underlying principal determinant of what type of a transitional regime will result, and its ultimate success: that is, whether reform is holistically approached and the degree of learning between political and economic factors.

I use Ernst Haas conception of organizational learning³⁰ to further explore the regime types of transitional politics, with organizational learning implying "the process by which consensual knowledge is used to specify causal relationships so that the result affects the content of public policy."³¹ Hence, learning includes reassessing underlying assumptions about the public policy area, economic transition in this case, and changing the policies as a result. I attempt in this model to specify cases of learning between the political economic policy choices faced by a transition regime, not in isolated terms but in relation to one another.

In terms of political reform, the reform can be holistic (as it has been in East Germany) or it can be piecemeal with slow democratic reforms. This is not to be confused with speed of reform, as rapid reform can reflect a piecemeal mentality whereas a slow approach may reflect a carefully deliberated policy. Holistic political liberalization is substantiated by substantive linkages between issues, such as the interconnected reforms of free elections and freedom of speech. Whereas tactical linkages are those between issues that can be broken, substantive linkages, where the realization of the underlying causal connection of two issues is made, cannot be broken. If policy-makers see these issues as deeply intertwined, that free elections carry the prerequisite of freedom of speech, then the issues are substantively linked. On the other hand, if policy-makers see these as separate issues, then reform tends to be piecemeal. In terms of economic liberalization, piecemeal reform implies

adaptive sequential steps towards a free market system with medium steps of some state subsidies, control of foreign trade, and the like, whereas holism implies a reform package where issues are seen as interconnected in substantive linkages. In the 2x2 matrix, I characterize the regime types, which are, of course, Weberian types.

A Model of Concurrent Political and Economic Transition

	Piecemeal Tactical linkages	Holistic Substantive linkages
Piecemeal Tactical Linkages	4 Bargaining Regime	1 Concessionary Regime
Holistic Substantive Linkages	3 Unaccountable Regime	2 Learning Regime

Regime Type 1: Concessionary

In this first regime type political reform takes place holistically whereas economic reform reflects piecemeal adaptation, in which economic reform is more reactionary without foresight or rationalization in relation to other reforms. This particularly characterizes a regime where the need for political legitimacy is high, so particular constituencies must be satisfied. Often policies of concession are even necessary in exchange for political support of transition politics. Such was the case in Germany where union opposition from the west led to wage equalization. Though this reflects a less coherent set of economic reforms, it may represent a political prerequisite for popular support and legitimacy for future policies. The necessity to appease specific constituents leads political elite to pursue a policy of appeasement, willing to pursue a slower less "clean" path to economic liberalization. State subsidies and welfare policies are examples of the types of conciliatory policies of concessionary regimes will allow so as to allay the threat of losing political power. Germany's transition can be characterized as lying between regime types one and two, reflecting both a set of coherent economic reform, but some tactical linkages allowing deviance from market models by significant unemployment benefits, and wage equalization.

This is where a lot of the critiques fall, namely that the market transition occurred for arguments of speed but no concern for rationalized transitional policies:

- 'Managed transition' would have implied some elements of a structural industrial policy. It would have meant to link sales to certain conditions and requirements, to insist on some sort of development concept especially with regard to the 84 huge industrial conglomerates of the former GDR (the 'Kombinate), who determined the fate of whole regions.

· 'Managed transition' would have implied cooperative arrangements with those agencies and institutions of the Federal Republic responsible for labor policy and unemployment benefits, the Federal Agency for Labor Matters (Bundesanstalt fuer Arbeit), the Federal Ministry for Labor and Social Matters, the Federal Monopoly Agency (Bundeskartellamt), etc.³²

Regime Type 2: Learning

Germany's transition also exhibits characteristics of a learning regime, that is a regime whose economic and political policies are substantively connected. When liberalization takes place in holistic policy packages, policy makers have the ability to challenge their underlying assumptions and create new consensual knowledge. While adaptation simply implies changing policies to suit changing demands of the environment, learning means that new causal linkages between economic and political policy-making are made. An example of learning would be the German government's response to the problems of restitution in passing the Investment Priority Law of 1992. This effectively turned around the original 'restitution before compensation' principle by extending the investment priority, therefore allowing investment in the land while a claim was being processed, and necessity of claimants to speedily submit their investment plans. Acting on the case-specific knowledge that investment was being impeded by restitution conflicts, this investment priority procedure represents a substantive linkage between investment and restitution, reexamining the causal assumption that restitution does not necessarily help investment.

Regime Type 3: Unaccountable

When the political reform is tactically linked and economic reform is substantively linked, the regime is not politically accountable through democratic input to the economic policies it is initiating. Hence, the possibility of economic clientelism is large.

Regime Type 4: Bargaining

When neither political nor economic reform suggests coherence of reform, the regime type is bargaining, where issues are tactically linked according to temporal priorities.

So does the speed of reform matter? Of course. The correlation between holistic reform and speed generally holds true, but this is a function of the absorptive capacity of reform of the population. If the absorptive capacity is high, meaning that the endurance of the initial adjustment shock is relatively flexible, the speed of the reform could hypothetically be faster, such as in Germany. However, the crucial factor in transitional politics is not speed, but the ability of the policy-makers to reassess assumptions in the relation between political and economic reform, and to apply this consensual knowledge to the specific situation. This allows the flexibility of response to situational specific conditions as opposed to the formulaic approach that is too often practiced. If German policy-makers, for example, had made the causal connection of including East German labor and employers' representation in the wage adjustment negotiations and long term unemployment levels in East Germany, some other agreement may have been reached. Instead, the tripartite, corporatist, traditions of west

European representation dominated, thus significantly reducing investment prospects in the east.

Notes:

¹ Kaiser, p. 34

² Siebert, p. 291

³ Wiesenthal, p. 50

⁴ Mann

⁵ Tsoukalis, p. 293

⁶ Prützel-Thomas, p. 112

⁷ Siebert, p. 297-8

⁸ Ibid

⁹ Carlin, p. 16

¹⁰ Wiesenthal, p. 58

¹¹ Prützel-Thomas, p. 123

¹² Thomas

¹³ Wiesenthal, p. 51

¹⁴ Krysmanski

¹⁵ Bolton et. al, p. 288

¹⁶ Bolton et. al, p. 296

¹⁷ For more information about the merits of non-cash bids Bolton and Roland's work provides a good microeconomic analysis in the context of east European transitions.

¹⁸ Siebert, p. 334

¹⁹ Krysmanski

²⁰ Wiesenthal (1998)

²¹ Carlin, p. 22

²² OECD, p. 4

²³ KoreaTimes, 9/15/98

²⁴ OECD, p. 70

²⁵ Siebert, p. 328

²⁶ Wiesenthal, p. 64

²⁷ Putnam, Robert D. *Making Democracy Work*. New Jersey: Princeton University Press, 1993.

²⁸ Carlin, p. 28

²⁹ Wiesenthal, p. 49

³⁰ Haas (1990)

³¹ Haas, p. 23

³² Krysmanski

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Going North, Looking South Mexican Americans, Mexico, and Multiculturalism in America

By Claudia Asch

"Multiculturalism", the seeking of equal rights and recognition for ethnic, racial, religious, or sexually defined groups, is one of the most pervasive and controversial intellectual and political movements in contemporary Western democracies... the world of multiculturalism is populated not by individuals with a multitude of overlapping, and often conflicting, group affiliations and interests, but by groups or "communities" that are inert, homogeneous and mutually exclusive... This subordination of the individual to one exclusive group runs counter to the modern principles of inclusion and functional differentiation, and makes multiculturalism vulnerable to fundamentalist and anti-modernist extremes.

Christian Joppke, The Immigration Reader¹

As we enter the 21st century, America's demographic makeup will continue to change, and the continuous immigration of Mexican Americans represents an important factor in these population shifts. Mexican Americans are "projected to become the largest ethnic minority... within the next decade."² This paper will explore current themes in multiculturalism, the position of Mexican Americans in present day American society, their influence on Mexico and Mexican politics or vice versa, and finally, what their overall impact on Mexican society has been. It will come to the conclusion that Yossi Shain's argument that diasporic communities promote democracy in their home countries is weak in the case of Mexican Americans, mainly because the majority has not been in America long enough to reach their political potential.

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Multiculturalism

In lieu of the Civil Rights Movement of the 1960s and America's unresolved race problem, multiculturalism has come to be one of the greatest challenges to the nation-state and the concept of citizenship. Multiculturalism has made decisions about ethnic identification, which has been private, into a public matter of great importance: employers and institutes of higher education ask individuals to identify as part of one or multiple groups to ensure that they provide "equal opportunities." This has been done to benefit those who have been historically disadvantaged by American racial prejudices, compensating minorities with affirmative action programs. As it calls for the emancipation of all minorities to establish its own space in American society, multiculturalism simultaneously perpetuates special interests and exclusivity on the part of homogeneous communities. Thus, it prefers specialized identity politics, certain group rights, to all-inclusive politics. Consequently, the liberal democratic effort to invest and secure the rights of the nation's citizens, is challenged by multiculturalism, which does not promote citizenship as other social movements have. The liberal position finds itself in a difficult dilemma: in supporting multicultural efforts, it jeopardizes the rights of individuals and consequently threatens its own ideals as well as the unity of all people.

The events of the 1960s clearly showed that assimilation and the "melting pot" vision of the United States had failed, and multiculturalism has come to replace these alternatives, although it clearly has the potential to stifle the societal integration of recent immigrants. Newcomers are thus constantly encouraged "to look back," a paradoxical situation for them and their efforts to adjust to American society. The exclusivity of multicultural exists but may not be immediately visible on a cultural level: groups usually allow and encourage others to participate in cultural celebrations, but tend to exclude them on all other levels to preserve that culture. Since the individual is superseded by the whole group and membership in multiple groups is becoming increasingly difficult, mutual understanding is certainly not guaranteed in a multicultural society. Members are therefore forced to choose one part of their identity or to alienate themselves from these communities.

Multiculturalism has become especially controversial in education, where cultures compete for representation in the curriculum. Revision and broadening of school canon's is legitimate and timely, but the trend to replace entire curricula and exclude the "Eurocentric" point of view seems to be too radical, in light of Europe's continued relevance within America's life. The idea of multiculturalism has penetrated virtually every area of American life, becoming an accepted and celebrated aspect of American society. The underlying issues of race, class and the nation, however, seem to be lost amidst the celebration of diversity and political correctness.

On the political level, multiculturalism has also left its mark on the American system of governance. Lobbying groups such as AIPAC have been very successful at making their opinions heard in Washington, thus influencing American foreign policy according to their goals and ideals. The ease with which anyone and any organization can access and influence in Washington demonstrates the inherent conflict of the American government. Citizens have easy, albeit unequal access to the government, but influence is too often dependent on financial resources. As with any other interest group, money talks and Washington listens in the case of ethnic groups. This problem needs to be resolved as soon as possible, while campaign finance reform would end the current system and replace it with publicly funded electoral campaigns, this reform is unlikely to happen.

Ethnic group activism in foreign politics is, like most things, a double-edged sword: On the one hand, it has heightened the American public's awareness of international conflicts, such as in Haiti, but it also has raised the expectations for American involvement in all types of situations. If African Americans had not mobilized, it seems unlikely that even the then new democratic White House would have tried to restore democracy to Haiti, despite US hopes of spreading the values of democracy and human rights throughout the world. On the other hand, where should the line on ethnic lobbying be drawn? Is it acceptable that AIPAC can actually write the law that concerns US trade relations with Iran? It should not be acceptable. While the American government as well as the American public needs to be aware of ethnic groups concerns with regards to their ancestral homelands, it cannot allow them to dominate its policies. American foreign policy is not the sum of all ethnic concerns put together and it should not be.

According to authors Yossi Shain and Alexander DeConde, however, the involvement of ethnic groups in Washington is nothing but positive and Shain contends that "these groups [are] not only marketers of the democratic-pluralist creed abroad, but America's own moral compass... [that] keep a somewhat confused US foreign policy true to its ideals"³. In contrast, Tony Smith and Arthur Schlesinger, Jr. have a more differentiated and to some extent critical opinion of ethnic demands on foreign policy. Smith argues that:

"American power in world affairs is not a thing to be divided up among ethnic constituencies to be used as they will; in fashioning foreign policy, the greater community should be consulted and its interests protected, while the nation's representatives determine policy based on some idea of the common good"⁴.

The end of the Cold War has forced the US to adjust its foreign policy as the only remaining super power and has opened a Pandora's box of ethnic conflicts in Eu-

rope, Africa, and Asia. The lack of a certain enemy has left a void in American foreign policy and makes it more difficult to define "the national interest" and to present it convincingly to an overall very uninformed American public. It has also facilitated the visibility of ethnic group demands on the government, thus making it absolutely imperative for the United States to define its foreign policy goals. The widespread belief among Americans that Washington is run by special interest groups, be it on the behalf of business or ethnic concerns, needs to be combated by clearly defining the country's foreign policy. In the words of Scott Roehm: The US was founded upon a set of liberal democratic ideals shared by its citizens. It is these principles, along with basic security and economic concerns, that should now define the US' national interest, and govern the formation of US foreign policy⁵.

Mexican Americans in the context of America

Making up "two-thirds of the booming Latino population nationwide" and totaling, "31 million strong,"⁶ Mexican Americans are the fastest growing minority group in the United States. They account for approximately 65 percent or 18 million of Latinos. Since the Immigration Reform and Control Act (IRCA) passed in 1986, the number of legal and illegal Mexican immigrants entering the country has risen from about 100,000 to 240,000 yearly. Thanks to the IRCA, 2.5 million Mexican immigrants have become naturalized citizens. Not surprisingly, their experience as immigrants has been very difficult, especially in comparison with other recent immigrants. Mexican immigrants are overwhelmingly poor. Mexican immigrants, unlike South Asians, do not have a solid educational basis or a middle class background to build upon. Many are forced to work two, perhaps three low wage jobs to make ends meet. According to Fox News, 22 percent of Latino families are currently living in poverty, even within a US economy that is prospering, expanding, and experiencing the biggest growth during times of peace ever. Drop out rates among Mexican high school students are the highest among minorities and only 62% actually complete their secondary school education. This can be attributed to the fact that most Mexican immigrants move to the inner cities where they can afford housing, so that their children have to attend the low funded inner city schools.

The promise of economic upward mobility is the primary motivation for Mexican immigrants to cross the borders to the north and their cheap labor is very welcome in the ever expanding US economy. Despite the proximity of Mexico, "these newcomers are more determined than ever to set down roots."⁷ Nevertheless, the high poverty and drop out rates are troublesome, since economic stability and the socializing power of schools should help to facilitate integration. Facing these and other obstacles, Mexican Americans have not become as integrated or accepted as other minorities. "The discovery that their ethnocultural heritage inhibited their integration into American society helped cultivate Mexican-American eth-

nic pride and reinforced home country sympathy”⁸ could further stunt their efforts to integrate.

Through multiculturalism however, the concept of integration has changed. While assimilation was the historical goal for immigrants, multiculturalism has paved the way for acculturation instead of assimilation. Acculturation calls for adapting to a new culture, while simultaneously emphasizing native languages and other traditions. For example, bilingual education in schools simplifies the maintenance of Spanish, but does not seem to stress the importance and benefits of acquiring very good English skills. While it is indisputable that some bilingual education is necessary for a transitional period, the crossover to an English classroom is imperative to ensure that these students have the means to enter the next level of the American mainstream: institutions of higher learning.

Models of immigration suggest three stages: Typically, first generation immigrants have not participated in their new countries’ politics. Their main concerns are very basic. Because they are in the active process of establishing themselves in the new society, they worry more about “bread and butter” issues. They have to secure jobs, find adequate housing and become accustomed to their new surroundings in order to be able to function in it. Naturally, they will also have much stronger ties to the country of origin than the following generations. The second generation, the first to be raised in America, becomes involved in local politics, and finally, the third generation enters the national political scene.

In the case of many Mexican Americans this pattern does not seem to hold. A great impediment to Mexican Americans participating in American politics is the fact that in the past they have been the most reluctant minority group to naturalize and become citizens, mainly due to economic concerns such as inheritance and property in Mexico. This reluctance is expected to dwindle in lieu of the March 1998 Mexican Nationality Law, as Mexican Americans can now retain their Mexican citizenship when they become Americans. Voting rights in Mexico however, were not given to citizens abroad and in 1999, Mexican senators denied the passage of election, campaign finance, and coalition reforms that would have given the vote to the approximately 10 million eligible Mexican Americans. Thus, Mexican Americans cannot vote in the July 2000 presidential elections, “which will be the most competitive ever held in Mexico.”⁹

In the US, Mexican Americans are being courted by both parties, especially since “they are expected to make up 7 percent of the voting bloc in 2000, up from 5.2 percent in 1998.”¹⁰ Mexican Americans are making inroads into American politics, especially in California and Texas. But what exactly are the concerns of Mexican Americans? The Lieutenant Governor of California Cruz Bustamante, a Mexican American, is convinced that “there is a Latino agenda. It’s good schools, a decent job to take care of your family- it’s the same as everybody else’s agenda.

You have to be mainstream."¹¹ Conversely, Rodney F. Hero writes of Latino politics that "it is a politics that to a considerable degree seeks to part of the mainstream but has not succeeded in its efforts and therefore often functions at the margins of US society and politics."¹² The fact that it is taking Mexican Americans considerably longer to achieve economic integration than any other immigrant group seems to be the greatest factor in keeping them from growing more politically integrated in the United States. The lack of integration simultaneously raises ethnic consciousness and offers a retreat into the native culture to avoid alienation. However, it is important to note the distinction made between 'culture' and the 'state'. "Many Mexican Americans have looked to their mother country for emotional and cultural solace while at the same time harboring great animosity towards the Mexican state that failed them."¹³

Like other minorities, Mexican Americans have formed their own interest groups and organizations to represent their demands in the American context. The most prominent ones have been the Mexican American Legal Defense and Education Fund MALDEF, the National Council La Raza NCLR, and the League of United Latin American Citizens LULAC. The greatest problems these and other more specialized organizations face are due to not only the diversifying difficulties of their members, but also to their dependence on outside funding rather than membership dues. Since the 1960s the numbers of specialized Mexican American groups has continuously grown, and an end to that trend seems unlikely. Therefore, more group wide concerned organizations such as LULAC find it difficult to compete or even agree with special interest groups such as the "Comisión Feminil Mexicana", or the Latin American Manufacturers Association. As all types of differences among Mexican Americans increase, "a program that can encompass the social and economic interests of all Mexican Americans is becoming more and more difficult to define, much less implement."¹⁴

With regard to the proliferation of special interest groups, Mexican Americans are certainly becoming more and more like other minorities in America. The American experience has diversified Mexican American concerns to the degree that developing a common agenda seems to be impossible, especially while other goals are being pursued, such as the creation of alliances with other Latino groups in the US. Cuban Americans, for example, have had a much different experience in America than Mexican Americans, as most Cubans that arrived had a middle class background and were white. Further subdivisions through specialized concerns make Mexican Americans interests seem less visible than those of other ethnic minorities, except in states with large Mexican American communities.

Considering the multiplicity of Mexican American interest groups, it is important to note that most authors addressing the topic of Mexican Americans refer to this population as a "diaspora." By definition, a people in diaspora have sought

refuge in a foreign country to avoid persecution in their home country, intending to return as soon as they can after positive changes occur in the country of origin. Thus, authors like Shain and de la Garza are questioning the Mexican American community's long term intentions to remain in the US (the "host" country), and their commitment to becoming active citizens. Due to Mexico's proximity, it might be easier for these immigrants to return than for other immigrants, but in this age of easy and relatively affordable long distance travel, this argument is not very convincing. The "myth of return" holds to true for most immigrants, including Mexican Americans. If Mexican Americans truly were in diaspora, many would have already left the US to resettle in Mexico. Why would they need so many different organizations to promote their interests in the United States if they were planning to leave the country after bettering themselves economically? Why would they even bother to insist on family reunification if they were so certain to return to Mexico? Finally, does it not seem counterintuitive that a people "harboring great animosity toward the Mexican state that failed them"¹⁵ emigrated without the intention of staying in their adopted country?

"Marketers of the democratic-pluralist creed abroad?"

Examining the case of Mexican Americans with Shain's opinion in mind, the expectation is that Mexican Americans would be very involved in the democratization process that Mexico has slowly and reluctantly begun to embrace since the late 1980s. The democratization process has been slow, especially compared to the economic transformations initiated by President Carlos Salinas de Gortari (1988-1994). "A 1989-90 survey found that 85.1 percent of Mexican Americans saw Mexican corruption as the major cause of problems in Mexico, as opposed to US policy toward Mexico."¹⁶ Corruption has been a problem in the Mexican bureaucracy for as long as the Institutional Revolutionary Party, PRI, has held on to its ruling party position. Rodney F. Hero cites a 1985 study by Yinger that there was "no strong pull or interest toward political and economic developments in Mexico among Mexican Americans."¹⁷ In 1997, Rodolfo O. de la Garza found that of Mexican Americans "less than 15 percent say they follow Mexican politics, and almost 90 percent indicated that Mexico's economic crisis was the result of governmental corruption."¹⁸ Nevertheless, since NAFTA created the largest free trading zone besides the European Union, "integration is such that traditionally self-enclosed societies now share common problems and opportunities. Even domestic politics have become international."¹⁹ The Mexican government cannot afford to ignore Mexican Americans in the US, since they are now a very important economic driving force for the Mexican economy: remittances total "between \$ 5 billion and \$ 7 billion a year."²⁰

Overall, opinions of Mexican Americans and the Mexican government dif-

fer greatly on various issues of equal concern. "... in 1990, Mexican Americans favored a reduction in the number of legal immigrants entering the United States,"²¹ while the government encourages more legal immigration (O. de la Garza, 1997, p. 82). Additionally, Mexican Americans want to prevent illegal immigration, because they feel they will be the most likely targets of a US backlash against immigrants. The government "opposes crackdowns on illegal immigration."²² The only overlap of opinion between government and immigrants occurs with respect to the rights to social services, which explains the high turnout of Mexican American protest against Proposition 187. The bill was designed to affect the entire Mexican American community, regardless of when they had actually entered the country. Hence, it was rather coincidental that Mexico and Mexican Americans were equally opposed to Proposition 187, because Mexican Americans would have opposed it regardless of Mexico's position. Finally, a substantial number of Mexican Americans respect and support the US's right to protect its borders by all means, even with fences and walls, while the Mexican government takes great offense at these types of measures. A 1995 survey indicated that "over 40 percent of Mexican Americans support building walls and fences along the border to prevent illegal immigration."²³

The most significant change has been the Mexican government's attitude towards relations with Mexican Americans. In 1990, under the government of Carlos Salinas de Gotari, the Mexican Secretariat of Foreign Affairs (SRE) established the Program for Mexican Communities Living in Foreign Communities (PMCLFC). For the first time the Mexican government had become active in promoting good relations with its immigrants, and one of the PMCLFC's goals is to improve the perception of Mexican Americans in Mexico. Historically, Mexican immigrants were looked down upon in Mexico and regarded as traitors. Through the PMCLFC's efforts, Mexicans are supposed to learn more about the struggle and achievements of Mexican Americans and gain knowledge about their distinctive culture. Additionally, the program's purpose is to be a link between Mexico and it is "structured into eight project areas, community organization, education, culture, sports, health, business contacts, information, and fund raising."²⁴

Recent immigrants particularly benefit from the PMCLFC because of the services it provides. The program actively supports bilingual education and has joined forces with American educational institutions. Since the PMCLFC was created by the PRI, it is fair to suggest that to a certain extent, the PRI is trying to improve its image with this program. It demonstrates that the PRI is actively supporting its immigrant community and shows interest and concern for its well-being. It insists that its "efforts in fund raising focus on supporting our activities with resources from state governments and private enterprises in Mexico as well as United States companies with operations in Mexico."²⁵ One project benefits the Mexican National Fund for Culture and the Arts. It remains uncertain whether or not other types of

fundraising are also conducted by the program.

While the jury is still out on the actual effects of the PMCLFC on the Mexican American community, Mexican politicians have realized the importance of that community since the 1988 presidential elections, which were the most competitive elections for the PRI in the party's history. Mexican lobbying groups from the government and the opposition began to target the Mexican American business community, labor leaders, and political activists, as well as US businesses. Salinas had to work hard to dispel the rumors that he only won the presidency due to electoral fraud. His efforts failed, although he launched a big media campaign and established Mexican press officers in all major US cities with large Mexican American communities. "Mexican consuls in the consulates in the US have become major lobbying machines, and [they] are responsible for conveying a better understanding of Mexico."²⁶

Throughout the 1990s, nevertheless, the PRI has failed to convince the public that they are actively trying to eliminate party corruption and to further Mexico's efforts to democratize. Former President Salinas had to leave Mexico due to corruption charges. The 1994 presidential campaign was marred by the assassination of the PRI's presidential candidate Colosio; his death has been blamed on inner party rivalry. The government's response to the Zapatista movement in Chiapas also resulted in harsh criticism by many Mexican Americans. Protests and demonstrations took place, as Mexican Americans demanded that the Mexican state cease its human rights violations. Suddenly, human rights in Mexico became a focal point of Mexican American concern. In the 1997 midterm elections, the PRI lost its control over the lower house of Congress, in its first defeat in seventy years. Cárdenas became the first elected mayor of Mexico City. This was "the biggest blow yet to a party [PRI] whose autocratic ways and elaborate network of corruption are an outright embarrassment to Mexicans who like to think of themselves as part of the advanced world."²⁷ Additionally, the collapse of the Mexican economy mobilized Mexican Americans to lobby for the American support of the peso, despite their disappointment with Mexico. While NAFTA was intended to change and strengthen the country economically, political reforms have not been in synch with these rapid economic developments. The fact that NAFTA has not been as beneficial to Mexico as was anticipated has not helped to shed a more favorable light on the PRI government.

The Party of the Democratic Revolution PRD has also intensified its transnational campaign efforts, particularly in California. The PRD candidate, Cuauhtémoc Cárdenas, was very effective in gathering the votes of the poor, underprivileged, and disaffected. The concern shown by the PRD for Mexican Americans in California is politically wise, especially since the Mexican population with relatives in the United States continues to grow. As the government tries to promote

Mexico in a different light, the PRD strives to intensify the debate on Mexico's political future. Los Angeles became particularly important for Cárdenas, as "Mexicans and Mexican American activists engaged in fund raising and public relations campaigns and even incorporated a controversial resolution into the platform of the California Democratic party urging US intervention,"²⁸ to ensure that the elections would be fair and honest. After the Salinas victory was announced, protesters in support of Cárdenas demonstrated outside the Mexican consulate, questioning the legitimacy of the results.

While Cárdenas is no longer in the forefront of the party, the PRD benefited from his candidacy, because it was able to establish the PRD of California due to his supporters there. Originally, small independent groups formed and they eventually led to base committees in many California cities. In May 1991, the State Executive Council of the party was formed in accordance with the Mexican PRD. Naturally, one of the goals of the PRD is to increase its membership in California, to establish a media presence there, and most importantly to "engage in massive fund raising through the creation of a statewide PRD Political Action Committee."²⁹ Thus, it can be concluded that the means for successful fund raising have been implemented, yet one can only speculate as to how effective it is in raising money for the PRD's campaign efforts.

The nature of these transnational politics seems to be one of mutual stimulation, or ebb-and-flow. As elections near, Mexican parties and their candidates cross the border frequently, hoping to gain the support of Mexican Americans and to encourage them to become more politically active. Thus, it is not surprising that pressure on the Mexican government intensifies come election time. Helping to finance electoral campaigns is probably the most effective and influential way for Mexican Americans to influence Mexico City, but if their goal is plural democracy in Mexico, they are still far from achieving it. While Mexican American voters cannot participate in the 2000 elections, the campaign to incorporate them in the Mexican electoral system in time for the 2006 is already underway. Not surprisingly, the PRD has been a staunch supporter of this campaign, clearly in the hopes of gaining "voters potentially disenchanted with the governing party."³⁰ It seems as though these reforms are just a matter of time and naturally, the parties want to be ready for their new constituencies.

The findings presented here indicate that Mexican Americans have to be seen as only one piece of a large puzzle trying to advance democracy in Mexico. The majority of the Mexican community in the US is very young. Recent arrivals are not going to become active on behalf Mexican democracy; they have to provide for their families and establish themselves in their new community. Their priorities lie not in what they left behind, but in what they need to accomplish to succeed in the American economy and American society. It is first with the second and third gen-

erations of Mexican Americans, that society can expect to become active citizens. Mexican Americans who run for public office in the United States are perhaps the best example of crossover into the American mainstream. These political candidates are most concerned about their prospective constituency's problems and not Mexico's. They do not run on a Mexican platform. To the contrary, they want to appeal to other minorities and especially to Caucasians, who are more likely to participate in elections. Empirical data suggests that "across all measures of home-country political activities, Mexican immigrants were the least likely to be politically active"³¹ among Latinos.

The reality of most Mexican Americans is that they are the working poor. Many rely on welfare programs and social security. The American education system is failing them because it is often too accommodating to the immigrant experience and does not provide adequate English language instruction. The fact that Mexican Americans have not integrated as well as other minorities is partially due to the fact that they often lack the tools to be successful in America. Thus, ethnicity becomes "a refuge to its adherents against the very system that produces stratification."³² While their culture provides a support system and safety, it does not subsequently mean they have any desire to try to change things in Mexico. The greatest contribution Mexican Americans make to Mexico is financial. Not only do they send money back to relatives, but they finance the improvement of their hometowns and cities. Mexican streets and churches are paved and restored with the money provided by Mexican Americans. There are no statistics as to how much of the \$5 to \$7 billion in yearly remittances go to non-governmental organizations, human rights groups and opposition parties.

American interest in Mexico has grown throughout this decade. Nevertheless, the American interest has shied away from directly and publicly encouraging the democratization process in Mexico. The Clinton administration has focused and centered its efforts to improve US-Mexican relations primarily on economics, and on efforts to fight drug trafficking. Unfortunately, NAFTA has not had the desired effect on the Mexican economy, and the Clinton administration has been remarkably silent on the issues of human rights and democracy in Mexico. National security has superseded the Clinton administration's typical foreign relations agenda of demanding more human rights and democracy. It is almost as if we avoid criticizing our closest neighbor in an effort to avoid controversy and allegations of manipulation. Unexpectedly, greater economic integration has not lead to greater political integration, or more democracy. Ultimately, it seems that Mexico strives to be like the US economically, but not politically.

The majority of Mexican Americans acknowledge Mexican politics as corrupt, but there is no highly visible Mexican American movement in Washington demanding immediate changes in Mexico or US governmental support. Rather, the

plethora of existing Mexican American interest groups is more concerned with the problems that their constituents face in the United States, which demonstrates that Mexican Americans are becoming more integrated in American society. The Mexican government has changed its policy towards them because Mexican American remittances are very important to the Mexican economy and to Washington's impression of Mexico City. The government's newly discovered concern for its immigrant community helps improve the PRI's profile in the US not only among Mexican Americans, but also in the eyes of the US government as programs sponsored by the PMCLFC help the newcomers' transition into American society. Mexican Americans are more important to Mexico than Mexico is to Mexican Americans. Cultural and linguistic ties might remain strong, but the differentiation between culture and state by Mexican Americans also explains their disinterest in Mexican affairs.

The research suggests that in fact Mexican Americans are being actively pursued by Mexican parties to become involved in Mexican politics. Mexican American influence on Mexico might exist, but its lack of mention in the literature suggests that it is negligible. Therefore, Shain's argument that diasporic communities promote democracy in the home country seems weak in the case of Mexican Americans. They have yet to reach their political potential in local and national politics. If the US economy continues to prosper, Mexican Americans will be able to enter the American mainstream with greater ease and gain the means to express more political muscle. Simultaneously, however, the US will continue to attract more Mexican immigrants- and immigration will have to be addressed more effectively to ensure that Mexican Americans will not be made the scapegoats during an economic downturn. To truly become more influential, Mexican Americans might also have to join forces with other Latino groups to be more effective and successful. However, a Latino coalition will most likely have foreign policy platform aimed toward Latin America in general and not at a Mexico-specific agenda.

The Mexican American case also shows that while there are many different groups pursuing Mexican American interests in Washington, their efforts have not attracted much publicity or notoriety. Therefore, it is difficult to gauge whether or not they are very successful. They seem to pursue their own specialized agendas rather than form coalitions to voice their support for Mexican democratization or other issues that they could potentially agree upon. These diverse interests underscore the divisive effects multiculturalism can have. While also indicating that Mexican Americans are like other Americans, because they make use of the penetrable American system. For now, it seems that Mexican democratization is not a priority for these groups, and it may only become so if Mexico becomes greatly destabilized. Electoral fraud in the July 2000 elections is one factor that could have the potential to unite Mexican Americans interest groups.

The existing literature on Mexican Americans does not corroborate Shain's argument; it contradicts it. Mexican parties try to mobilize supporters in United States, and additionally, the Mexican government tries to promote a more positive view of Mexican Americans in Mexico, as well as help Mexican immigrants new to the United States. For now, it seems as though Mexican Americans are more concerned with their position in the context of America, than with Mexico's need to become more democratic. As more Mexican Americans become part of America's middle class, however, post materialist concerns could also grow in their community and rekindle their interest in Mexican affairs.

Notes:

¹ Jacobson, 285.

² Shain, 6.

³ Ibid., 199.

⁴ Smith, 16.

⁵ Roehm, 35.

⁶ A Force of Change, The Dallas Morning News, 9/19/99.

⁷ Ibid.

⁸ Shain, 175.

⁹ Mexico's Senate Blocks Election Reforms, The New York Times, 7/3/99.

¹⁰ A Force of Change, The Dallas Morning News, 9/19/99.

¹¹ The Face of Change, The Dallas Morning News, 9/19/99.

¹² Hero, 9.

¹³ Shain, 175.

¹⁴ Márquez, 110.

¹⁵ Shain, 175.

¹⁶ Ibid., 176.

¹⁷ Hero, 50.

¹⁸ O. de la Garza, and Velasco, 83.

¹⁹ Dresser, 82.

²⁰ Mexico's ruling party draws the wrath of Mexican Americans, The Associated Press, 7/1/99.

²¹ O. de la Garza, DeSipio, García, García, and Falcón, 100-102.

²² O. de la Garza, and Velasco, 82.

²³ The Tomás Rivera Center, 10.

²⁴ Figueroa-Aramoni, 539.

²⁵ Ibid., 543.

²⁶ Mexican Politicians Look North of Border, New York Times, 8/12/89.

²⁷ Phillips, 35.

²⁸ Dresser, p. 99.

²⁹ Ibid., 100.

³⁰ Mexico's Senate Blocks Election Reforms, The New York Times, 7/3/99.

³¹ Pachon, and DeSipio, 85.

³² Suro, 70.

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The Marshall Plan and its Implications For Development Assistance Today

By Jason Sanjana

While most policy initiatives do not stand well against the test of time, a glaring exception to this pattern is the Marshall Plan. The “folk wisdom” of International Relations seems to credit the Marshall Plan with nothing short of saving the free world. I will argue that as the largest and most successful aid package in world history, the Marshall Plan has important lessons for development assistance today. The following paper has three distinct parts. The first outlines why the United States’ donation of over 13 billion dollars to Europe following World War Two was so successful. The second discusses aid since the Marshall Plan and what can be learned from its analysis. Part three combines the historical information and looks for ways that lessons from the Marshall Plan can augment current thinking about development aid, with a special emphasis on conditionality. The Marshall Plan “worked” because it pushed for structural changes in the post-war European economy. Structural adjustment was only possible because the Marshall Plan provided the correct incentives for change across different levels of the economy, from government planners down to local consumers. Development aid today could be more successful by following the Marshall Plan’s example in considering the concerns of domestic interest groups who lose out in the adjustment process while acknowledging the need for policy reform and macroeconomic stability.

The Marshall Plan

The most commonly cited date for the beginning of the Marshall plan is June 5, 1947, when Secretary of State George C. Marshall gave his celebrated commencement address at Harvard University. In the speech Marshall highlighted how piece-meal aid had yet to achieve real change in Europe. He then stressed the need for a U.S. led aid program that would guarantee substantial, long-term funds for war-torn European nations. The idea had been debated in Washington since the early days of 1947, at the height of a bitter winter that was destroying agriculture

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stores on the continent. Marshall's speech received substantial press coverage, and from that point on, aid to Europe was a major public issue. A variety of interest groups, including unions and industry groups, came together to support what was soon dubbed the "Marshall Plan." Support for the plan was surprisingly strong in the Congress and the bill, designated the Economic Recovery Program (ERP), passed in the spring of 1948¹.

The Marshall Plan was, by no means, simply an outright donation of money without guidelines indicating how the money was supposed to be used. The bill Congress passed created the Economic Cooperation Administration (ECA), a group that oversaw the use of Marshall Plan funds. The goal of the ECA was nothing short of a transformation of the way Europe "did business". ECA Administrator Paul Hoffman noted at the outset that reconstruction could not be "brought about by old ways of doing business, by old concepts of how a nation's interests are best served, or by old separatist lines of economic activity [it would require] new patterns of intra-European trade and exchange"².

Fundamental goals of the ECA were: moving Europe away from war-time planning and toward a market economy, including Germany in any and all European programs, and overseeing efficient solutions to financial problems using counterpart funds from European governments. Included in the ERP was an agreement that "for every dollar of Marshall Plan aid received, the recipient country was required to place a matching amount of domestic currency in a counterpart fund to be used only for purposes approved by the United States government"³. Marshall plan dollars were used to buy American imports, while Marshall Plan counterpart funds were used by the ECA to stabilize internal financial problems. Another explicit part of the ERP was that European governments had to agree to "sign a bilateral pact with the United States [in which] they agreed to balance government budgets, restore internal financial stability, and stabilize exchange rates at realistic levels"⁴.

Dollar flows to Europe were used primarily for procurements of basic commodities in order to ease shortages. Direct dollar flows were about 85% aid grants and 15% interest-bearing loans. They were used to buy a wide variety of products from around the world. The vast majority of goods, however, were procured in the United States by Marshall Plan officials operating in the business market. Raw Materials and Semi-Finished Products represented 33% of total purchases; Food, Feed, and Fertilizer were 29%; 17% of the total were Machinery and Vehicles; Fuel was 16%; and 5% were classified as "other commodities"⁵. As this data suggests, the vast majority of Marshall Aid funding went directly to buying goods that were in short supply in Europe. The first year of the plan was largely successful in easing shortages on the continent.

The other major economic problem facing Europe was financial chaos. Governments had been spending well beyond their means for the entire period of

1945-1947. By the end of 1947, foreign exchange reserves were critically low and inflation was growing out of control. Counterpart funds, which were domestic currency "payments" made by domestic governments to "pay" for all of the commodities coming on to the market, went a long way to stabilize macroeconomic conditions. Five percent of counterpart funds were used to pay for the administrative budget of the ECA and for educational and technical assistance. The rest was to be used domestically, but at the discretion of the ECA. Counterpart funds represented a large chunk of European governments' budgets. The ECA used control over this money to influence a wide variety of policy choices made by national governments. The intention was to prevent the money from being redistributed into the economy in a way that would increase inflation. If inflation was under control, the new goal became deep structural changes in the market. The ECA used control over counterpart funds to force European governments to ease capital account controls, lower tariffs, and free trade. Special emphasis was given to intra-European trade, even if that meant sacrificing trade with the U.S. and the rest of the world. The basic model that guided Marshall Plan reforms was hardly "Laissez Faire". The ECA administrators believed in an idea of a planned market, and saw to it that they were the ones doing the planning in Europe.

Was the Marshall Plan the sole cause of long-term growth in Europe? Eichengreen and De Long (1993) looked at how Marshall Plan funds might have directly caused post-war European super-growth. Their conclusions are quite revealing. The Marshall Plan was not large enough to create growth through investment, nor could it help reconstruct infrastructure, which was already largely rebuilt by 1948. Through the commodity imports mentioned above, the Marshall Plan was successful in alleviating resource shortages, but this did not affect long-term growth. "Rather, the Marshall Plan significantly sped Western European growth by altering the environment in which economic policy was made"⁶.

The logic behind this conclusion is straightforward. The Marshall Plan represented only 2% of total European GDP. Comparing this to the fact that many LDCs today receive aid in excess of 7% of GDP shows how remarkably small the Marshall Plan actually was. The true implications of an aid grant of this size can be seen by tracing possible economic effects of the aid. Marshall Plan aid, if put entirely to investment purposes, amounted to less than 10% of the Gross Domestic Capital Formation in Europe. This was simply not enough money to cause significant investment spin-offs. Nor was there enough money to boost growth through commodity imports. Goods that came into Europe were used to ease consumption shortages; in the rare event that they were put toward production (coal) they still wouldn't have been enough to spur growth⁷. Even though coal was widely cited as a production bottleneck, the reality was that Marshall Plan coal imports represented only 7% of total coal use⁸. This, again, is not enough to spur growth, but merely to

augment it. Along similar lines, the Marshall Plan did help ease foreign exchange restraints, but not in a way that directly helped production or growth. By providing for the import of consumption commodities, the Marshall Plan freed up what little foreign exchange the continent had, and that was used to purchase industrial inputs. Without the Marshall Plan, countries would probably have still targeted foreign exchange for industrial inputs and looked toward domestic substitutes for consumer goods. While this would have put consumers worse off, it would not have significantly slowed growth. The Marshall Plan, by itself, did little to promote long-term economic growth in Europe.

During the post-war recovery GDP growth occurred at a much higher rate than it had been before the war. This increased rate of growth however, began in 1945 immediately following the war⁹. On its own, the commodity transfers and investment plans of the Marshall Plan relieved shortages and supported the growth that was taking place. The real contribution of the Marshall Plan to long-term growth in Europe was in making the rapid rate of growth established in Europe immediately after the war politically and economically sustainable.

By 1948, the continent was reaching a dangerous equilibrium of non-cooperation by members of the economy: relief expenditure by European governments put budgets deep into deficit, increased spending and over-extension of credit were leading to high inflation, and governments responded to inflation by retaining war-time price controls. Farmers refused to sell to the market at these low prices, and fears of inflation or high taxation prompted them to hoard inventories. Manufacturers also began to hoard their inventories. The macroscopic effect of these individual attempts to maximize profit was the deterioration of the interlinked nature of the economy. The solution was obvious, but politically infeasible. In order to remove inflationary pressures and bring producers and consumers back to the table, budgets had to be balanced and prices had to be restored to market equilibrium.

“For budgets to be balanced and inflation to be halted, however, political compromise was required. Consumers had to accept higher posted prices for foodstuffs and necessities. Workers had to moderate their demands for higher wages. Owners had to moderate demands for profits. Taxpayers had to shoulder additional liabilities. Recipients of social services had to accept limits on safety nets. Rentiers had to accept that the war had destroyed their wealth. There had to be broad agreement on a “fair” distribution of income, or at least on a distribution of the burdens that was not so unfair and to be intolerable”¹⁰.

This is where the Marshall Plan might have had its most lasting effects. While it did

not eliminate the need for sacrifice, by increasing the size of the pie available to different interest groups, it may have substantially helped the stabilization process. Casella and Eichengreen (1991) argue that in France and Italy, aggregate demand outweighed aggregate supply by 5 to 7.5 percent. Marshall Plan aid to France and Italy represented 2.5 percent of GDP. By targeting shortages and investing in industry, this 2.5% might have gone a long way to reducing the sacrifices required by competing interest groups.

At the same time that Marshall Plan dollars went to solve microeconomic disputes that were affecting macro performances, the ECA used counterpart funds and bilateral agreements to force governments to stabilize both their monetary and fiscal policies. The temptation to continue running budget deficits and to keep controls on the economy was tremendous. Price controls were gaining institutional momentum and with every passing year—they were becoming a part of the structure of the economy. The French were outraged when the ECA would not let them draw upon counterpart funds for investment until they had “a workable stabilization program.” Eventually, however, they raised taxes and cut spending in line with ECA recommendations¹¹. By relieving shortages to consumers, providing capital inputs to producers, and forcing governments to push for financial stability the Marshall Plan forced Europe toward a new equilibrium of free prices and capital mobility that would very likely not have been possible without compensation to different interest groups.

While today’s European governments may somewhat resemble social-welfare states, they are based upon a reliance on the market’s allocation of goods and factors of production. This basic faith in the market was absolutely critical for post-war European development, and was by no means guaranteed in the disastrous economic environment that followed the war. The Marshall Plan and the conditions placed by ECA administrators on European governments made this redefinition of society toward the market possible. This is how the Marshall Plan forged European “supergrowth” during the post war era.

Development Assistance Aid

The success of European recovery and Marshall Plan contributions to European growth led policy makers, by and large, to see aid as both a productive and necessary aspect of the international economic system. This policy mindset combined with international conditions to pave the way for a rapid increase in development aid flows from the North to the South. In the two decades following WWII, much of Africa and Asia achieved political independence. By 1965, 85 out of 118 members of the UN were developing countries, and, as a whole, the developing world used its sheer weight of numbers to begin placing demands on the developed world¹². In a policy environment dominated by the ideal of mutually beneficial free-

trade and interdependence, giving aid to poor, newly-independent developing nations seemed both appropriate and necessary. Development assistance became more significant when the Soviet Union began placing emphasis on winning support in the Third World. As the Third World slowly became the battleground of the Cold War, development aid became an essential element of the foreign policy of the developed world.

Economic theory of the time tended to support development aid. During the 50s and 60s, prominent economists and political scientists devised linear models of economic and political development which they believed were essentially common to all economies. Their models, based upon projected stages of growth, stressed the lack of capital in the developing world as the main barrier to growth. From an economic point of view, especially during this age of "deterministic" models, aid had a significant role in development policy. The vast majority of aid, however, was donated for non-economic reasons. The link between foreign policy and aid was strongest during the early years of the Cold War, when it was hoped that aid would shore up allies in the Third World. Most bilateral aid was donated for strictly geopolitical reasons, without consideration of the economic climate in to which the aid was flowing. The results would haunt development policy for almost 50 years. Indiscriminate dumping of aid money into the developing world proved to be ineffective in terms of both economics and foreign policy. Although multi-country analysis did show some vague positive correlation between growth and aid, economists would later learn that the policy environment into which aid was deployed was much more important than the sheer amount of aid¹³.

Beginning in the late sixties aid flows began to stagnate and then declined considerably as private flows to the developing world began to substantially outweigh public aid. In the U.S., as the failures of aid began to come to light, there was growing disillusionment with the link between aid and foreign policy. Earlier aid had been targeted for specific foreign policy purposes and U.S. leaders were disappointed when "aid did not fulfill predictions of leading to economic development, democratic government, and political stability...growth was uneven, instability seemed to increase with development, and aid did not necessarily win friends and influence people"¹⁴. The Vietnam War placed great strain on U.S. budgets, and aid programs were among the first to get the axe. In addition, the Third World's role as the battleground of the Cold War was slowly shrinking. Similar concerns caused France and Great Britain to decrease their aid programs.

On a systemic level, private flows to the developing world were growing from nonexistence to substantial levels, rendering aid's original role as a source of capital almost irrelevant in some parts of the developing world. Following the oil crises of the 70s, capital markets were fueled by large inflows of petrodollars from the OPEC countries. In search for higher rates of return, the lending institutions

provided large amounts of capital to the developing countries. With rapid growth and rising exports, many developing countries appeared capable of servicing increased debt. As a result, banks were willing to expand from short-term trade finance to longer-term project lending. In the face of huge flows of private capital, aid took a back seat in the development finance. The growth in private "petrodollar" flows to the developing world (from around \$25 billion in 1970 to \$75 billion in 1980) was nothing compared to the dramatic growth in private capital flows to the Third World in the 1990s. Though private flows had decreased to \$25 billion following the debt crisis of the 1980s, they rose again to almost \$300 billion just before the Asian Financial Crisis of 1997.

The increase in private capital flows is just one of many challenges facing aid in the post-Cold War era. In recent years developed countries have been struggling to control fiscal deficits and contain growth in government spending. Though aid comprises a small fraction of budget spending, it has been one of the first items to get cut. The end of the Cold War takes away strategic motivations for aid. Combined with fiscal austerity, this makes aid even less appealing to donors. The result has been a sharp decline in aid, both in real terms and as a proportion of developed countries' budgets. As the World Bank reports, "Aid is down everywhere"¹⁵. Also, the percentage of donor states' income devoted to aid fell to its lowest levels since ODA numbers have been recorded, less than .25% of GNP¹⁶.

Yet, theoretically, the time is ripe for an expansion of aid. The end of the Cold War opened up new possibilities for development assistance: as aid was no longer constrained by strategic objectives in donor countries, it was hoped that the use of aid could become more effective in encouraging long-term growth and poverty reduction. The biased nature of private capital flows toward middle-income NICs and large developing countries like China and India makes aid to LDCs all the more important. Development strategies are also changing. A pragmatic "third way" has emerged in development theory, a view that stresses failures and successes of both governments and markets. "The development strategy emerging from this view is two-pronged: put in place growth enhancing, market-oriented policies (stable macroeconomic environment, effective law and order, trade liberalization, and so on) and ensure the provision of important public services that cannot be well and equitably supplied by private markets (infrastructure services and education for instance)"¹⁷.

The end of the Cold War, new trends in development thinking, and the mixed and inconclusive evidence regarding aid's influence has led researchers to conduct broad cross-country studies of aid's effectiveness in helping development and growth. The conclusion of the World Bank runs as follows:

"Development assistance is more about supporting good institutions than providing capital. Money is important, of course, but effective aid should be a package of finance and ideas- and one of the keys is finding the right combination of the two to address different situations and problems"¹⁸.

Included in this new approach to aid are much broader goals for development than had previously been put forth. Originally, development aid was designed to overcome barriers to capital formation in developing countries. It was hoped that public flows of capital would thus boost income levels in the developing world. "According to these limited objectives, aid worked: it raised incomes in both the developing and developed world"¹⁹. Today's development policy makers focus on a much broader range of objectives; these include increases in living standards (health and education), equitable and environmentally sustainable Development, and an expansion of democracy. Of course, aid cannot bring about these changes in and of itself, but it can help.

A key conclusion of the new thinking about development assistance is that aid is much more effective in a good policy environment. In countries with "a stable macroeconomic environment, open trade regimes, and protected property rights as well as efficient public bureaucracies that can deliver education, health, and other public services"²⁰ the World Bank finds a high correlation between aid and economic growth. As mentioned earlier, most cross-country studies of aid have found only weak support for the idea that aid positively affects growth. When looking at aid strictly in good policy environments, the link is much clearer: 1 percent of GDP in assistance translates to a sustained increase in growth of .5% of GDP. What is even more convincing is that among countries with sound management, those that received "high" amounts of aid grew at an average rate of 3.7% per capita; those that received "low" amounts of aid grew more slowly, at 2.2% per capita. Furthermore, in a good policy environment aid can "crowd in" private investment. The evidence suggests that (in a good policy environment) 1% of GDP in aid can lead to 1.9% of GDP inflow in private capital²¹.

The rationale behind this evidence is not hard to understand. The policy environment into which aid packages are implemented clearly has a significant impact on the effectiveness of that aid. In disastrous policy environments (like Russia today or Zaire in the 70s and 80s) aid never reaches its intended targets because there is too much corruption and elite rent-seeking along the way. Within a properly functioning bureaucracy, aid can be dispersed to those sectors and people who need it, creating infrastructure and human capital that will bring in private investment. The policy prescription for aid donors is to target donations to environments where they will be most effective. According to one study, "an across-the-board \$10 billion

increase in aid would lift 7 million people out of poverty, while a targeted increased of the same amount could lift 25 million out of poverty"²².

Reassessing Aid in light of the Marshall Plan:

These conclusions about aid's effectiveness are based on careful study of Aid to the developing world. At this point it might be valuable to add insights from the Marshall Plan into the discussion. One conclusion that is broadly consistent with the experiences of the Marshall Plan and aid to the developing world is that aid is rarely economically substantial enough to bring about changes on its own. In today's world private investment is almost always going to overshadow even the largest aid flows. Larger structural changes are much more important for long-term growth than aid can ever be. Where lessons from development aid and the Marshall Plan diverge is in the timing of aid and structural reform. The history of the Marshall Plan seems to suggest that aid can serve as an incentive and as a cushion to make reform possible. Experience in LDCs seems to tell us that conditionality is unlikely to bring about lasting structural reform if there is no strong domestic movement for change²³. A common ground can be reached by looking at how the Marshall Plan mobilized domestic forces toward reform.

First, it is important to look at how concepts of conditionality have changed since the Marshall Plan years. The emergence (or reemergence) of conditionality and policy dialogue between aid donors and recipients is the direct result of recent shifts in the way aid works. Much of the aid donated before the late 1970s can be broadly divided into two categories: foreign policy/security directed aid and project lending. Both had considerable weaknesses. Aid donated for security reasons often did little to help forge alliances or spur growth. Many LDCs feigned neutrality and managed to get aid from both the Soviet Union and the United States. Policy recommendations or security requests that accompanied these loans varied dramatically from one source of aid to the other, so LDCs simply ignored them. Neither of the superpowers wanted to withdraw support and risk "losing" the LDC to the other side, so aid continued to flow.

Observers who witnessed the failures of security-driven aid to promote poverty reduction pressed for "project lending" to the Third World. Project lending usually came from multilateral institutions like the World Bank, and was characterized by the provision of limited, but badly needed "projects" (like a dam, new power grid, or irrigation system). By the late 1970s, a basic problem was coming to light: projects provided no framework for policy dialogue, and were low-yielding (or complete failures) often because of broad failures in the policy and institutional environment²⁴. Aid was stuck between a rock and hard place security aid was ineffective in addressing real problems preventing growth, and poverty reduction efforts failed because they were not large enough to reform LDCs political economy.

The ceasing of Cold War pressures is slowly eliminating this dilemma. While aid was traditionally seen as a transfer of resources from rich countries to poor ones, and as a way to undertake individual construction projects and other specific tasks, it is now increasingly seen as a means to improve the use of domestic resources in the host countries and to expand the overall volume of those resources. This shift has been described as a change from "project lending" to "program lending," and has brought the issue of aid conditionality to the center of development assistance debates²⁵. The debate is a contentious one, and cuts to the heart of development economics. The central issue revolves around the implementation of universal prescriptions by multilateral lenders in the form of conditional loans. The main concern is that some universal blueprints will be imposed on different countries by international governing bodies remote from individual circumstances. This has led to much distrust in the applicability of conditionality to real-world situations.

These fears may be justified. Conditionality usually arises in one of three donor sources: the IMF, the World Bank, or Bilateral donors. The first two have developed fairly rigid policy prescriptions and the third usually follows the general patterns established by the multilateral lenders. "The IMF has been identified with the "three Ds" (devaluation, deflation, and decontrol), and with a short-term, demand-reducing approach to balance of payments adjustments"²⁶. The World Bank wields conditionality through its structural adjustment loans (SALs) which usually involve four elements: "first, the restructuring of incentives (pricing, tariffs, taxation, subsidies, interest rates); second, the revision of public investment priorities; third, improvement in budget and debt management; fourth, the strengthening of institutions, especially public enterprises"²⁷. When bilateral lenders have insisted on conditionality (outside of narrow national interests) it usually followed some elements of the Bretton Woods institutions' prescriptions. Conditionality is usually tied to broad balance of payment support loans.

It is worth highlighting the prescriptions of the so-called "Washington Consensus" vary substantially from policy goals sought with Marshall Plan conditionality. Beneath the thin veneer of market-oriented approaches lies a substantial variation between the two plans that has much to do with changes in development thinking. The ECA sought to form an actively planned economy that relied on market forces at the local level, but retained some protection at the international level. The creators of the Marshall Plan implemented tariffs that promoted intra-European trade at the direct expense of world trade; in no way did they push for the absolute free flow of capital now sought by the IMF. The great irony is that the people implementing and planning European recovery were the same people who wrote the Bretton Woods charters that the IMF and the World Bank now use to support unlimited free trade. Of course, the demise of the dollar-gold standard had a lot to do with this shift. On a deeper level, economists and policy makers are moving away

from planning and toward the market. Although it makes a provocative argument, it is probably inaccurate to try to link the success of the Marshall Plan and the relative failure (highlighted below) of modern conditionality to one development paradigm or the other; this is because the problems with conditionality are not linked to the requested reforms, but with the process of conditionality itself.

As emphasis on conditionality increased, the effectiveness of that approach was increasingly called into doubt. One problem is enforceability. While compliance with some conditions, such as the stabilization of inflation or the devaluation of the exchange rate, is easily measurable, others, such as progress in reforming the tax system or in improving civil service performance, are much more difficult to evaluate and therefore to enforce. Another problem is that of fungibility. With project aid it is difficult to divert fund to other purposes. Yet the general balance of payments support provided by program aid can be used by governments in a variety of different ways, many of which run counter to the objectives of growth-oriented reform²⁸.

Backing up these theoretical problems with aid conditionality, recent empirical studies (many conducted by the Bank or the IMF) found little positive relationship between conditioned financial aid flows and economic growth. Indeed the majority even found this relationship to be negative, particularly in low-income countries and especially in Africa. Yet, the same studies conclude that the broad package of policy goals suggested by the Bank and the IMF, when actually implemented, is producing strong results worldwide²⁹. Clearly, conditionality as we know it is failing in some fundamental way.

The explanation is remarkable and disturbing. By providing relief to high budget deficits, dwindling foreign exchange reserves, or high inflation, conditional aid flows might "ease the pressure to change failed policies and thereby impede the formation of domestic consensus on the need for difficult economic adjustments"³⁰. The evidence seems to suggest that the best way to galvanize all groups in a country toward difficult reform is severe crisis. One study by the World Bank found that those countries with consistently moderate levels of inflation grew more slowly than those experiencing serious inflation crises at some point³¹. To this effect, conditional aid merely placates the forces that are eventually needed to facilitate substantial change. Even if the effects are largely positive in the long run, allowing countries to enter deep crises before undertaking reform is not an acceptable policy choice. The major social costs of deep crises force us to look beyond this draconian assessment of the way policy reform works. A good starting point is a conditional loan program that brought about positive policy change, the Marshall Plan.

As concluded above, the success of the Marshall Plan came largely from its ability to induce structural changes in the European economy. The ECA accomplished this by targeting aid to both the macro and micro levels of the European economy. Flows of commodities and manufacturing inputs that were pumped into

local economies eased costs to consumers and producers during the transition away from war-time control and toward a market economy. Control over counterpart funds ensured that the government was committed to both monetary and fiscal reform. In this way, the ECA simultaneously compensated interest groups that would suffer during the transition and pushed governments toward reform.

This does not happen with current structural adjustment loans, which do not compensate losers in the reform process. The vast amount of multilateral structural adjustment money going to an LDC today is used for balance of payments support and eventually ends up as foreign exchange reserves or flows out as payments on debts. The fungible nature of aid flows tells us that money given *carte blanche* to LDC governments will not, and cannot, be used as effectively as directly targeted aid. The current system of dumping money into the laps of governments needs to be backed up by equal and opposite flows to other actors in the economy. If the IMF wants budgets to be balanced at the expense of social programs, then part of IMF loan money should be targeted at helping people who no longer have the same social services that they had before.

Not only is this the right thing to do, it is the only feasible option in a democracy. Democratic governments respond to interest group pressures. Structural reform will never work if the individual interests of different groups are not accounted for during the planning stages of the reform. There are winners and losers to every structural adjustment scheme on record, this is a basic economic fact. At the same time, everyone can benefit from reform in the long run. Where aid can help bring about structural change is by compensating the losers initially so that reform becomes a politically viable policy choice.

One possible problem with using the Marshall Plan as a model for development aid is that there are many factors which may be considered unique about the post-WWII environment. As we have seen in the example of the Marshall plan, successful aid might require a high degree of planning by foreign institutions in LDC economies. Today's LDC governments may not be as willing as post-war European states were to sacrifice sovereignty for economic planning. Second, aid requires substantial financial commitments by developed countries, maybe not on the order of the Marshall Plan (2% of GDP) but still substantially more than the 0.25% that OECD countries have been willing to donate in the post-Cold War years. Third, we may not easily discount the effects of a post-war crisis mentality on the people of Europe. While the evidence clearly shows that the Marshall Plan was central in facilitating the jump to market organization, one cannot rule out the possibility that it was not enough on its own. Clearly the disastrous experiences with protection and control during the inter-war period focused more efforts toward market solutions. War-time willingness of people to sacrifice individually for the greater good of the nation also points toward the less tangible and harder to replicate forces that might

have substantially helped the Marshall Plan.

This said, none of the above conditions imply that keeping in mind the lessons of the Marshall Plan today would not be useful. While multilateral lending institutions might not be able to institute the type of pervasive and thorough reforms and aid allocation that the ECA could, there is no reason why they cannot learn from the Marshall Plan. The lesson is clear: effective aid brings about policy reform by augmenting macroeconomic stabilization with compensation schemes which take into account the concerns of those domestic interest groups that may be adversely affected.

Notes:

¹ Hogan, 3.

² Ibid, 4.

³ De Long and Eichengreen, 216.

⁴ Ibid, 217.

⁵ Price, 89.

⁶ De Long and Eichengreen, 190.

⁷ Ibid, 209.

⁸ ECA, 264.

⁹ De Long and Eichengreen, 193.

¹⁰ Ibid, 215.

¹¹ Reichlin, 47.

¹² Spero, 161.

¹³ Stiglitz, 3.

¹⁴ Spero, 163.

¹⁵ World Bank, 9.

¹⁶ Hook, 1.

¹⁷ World Bank, 11.

¹⁸ Ibid, 13.

¹⁹ Stiglitz, 3.

²⁰ World Bank, 14.

²¹ Ibid, 14.

²² Collier and Dollar, online.

²³ World Bank, 18.

²⁴ Cassen, 78.

²⁵ O'Hanlan and Graham, 45.

²⁶ Cassen, 60.

²⁷ Ibid, 70.

²⁸ O'Hanlan and Graham, 46.

²⁹ Ibid, 46.

³⁰ Ibid, 48.

³¹ Ibid, 48.

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Interview with Dr. Dani Rodrik

Conducted by Jiri Krol

Dani Rodrik is professor of international political economy at the John F. Kennedy School of Government, Harvard University. He is also the research coordinator for the Group of 24 (G-24), a research associate of the National Bureau of Economic Research, and a research fellow of the Centre for Economic Policy Research (London). He serves as an advisory committee member of the Institute for International Economics, senior advisor of the Overseas Development Council, and advisory committee member of the Economic Research Forum for the Arab Countries, Iran & Turkey. He has been the recipient of an NBER Olin Fellowship, a Hoover Institution National Fellowship, and a World Bank McNamara Fellowship. He has given the Alfred Marshall Lecture of the European Economic Association in August 1996 and the Raul Prebisch Lecture of UNCTAD in October 1997. He holds a Ph.D. in economics and an MPA from Princeton University, and an A.B. (summa cum laude) from Harvard College.

Professor Rodrik's research covers international economics, economic development, and political economy. He has published widely on issues related to trade policy and economic reform in developing economies. He is the author of "Democracies Pay Higher Wages," *Quarterly Journal of Economics*, August 1999, "Why Do More Open Economies Have Bigger Governments?" *Journal of Political Economy*, October 1998, "Distributive Politics and Economic Growth" (with A. Alesina), *Quarterly Journal of Economics*, 1994, and "Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty" (with R. Fernandez), *American Economic Review*, 1991, among other publications. His 1997 book Has Globalization Gone Too Far? was called "one of the most important economics books of the decade" in *Business Week*. His most recent book is The New

Global Economy and Developing Countries: Making Openness Work (Overseas Development Council, Washington DC, 1999). He is joint editor of the *Journal of Policy Reform*, and an associate editor of *Journal of Economic Perspectives*, *Journal of Development Economics*, *European Economic Review*, and *Review of Economics & Statistics*. His recent research is concerned with the consequences of international economic integration, the role of conflict-management institutions in determining economic performance, and the political economy of policy reform.

How would you define economic development and what do you think are its goals?

The goal of economic development is to improve the lives of the poor people, which constitute the majority of the world population. Development itself is a multi-faceted phenomenon. It obviously has a strictly economic dimension, concerned with increasing the income and purchasing power of the world's poor, but it also has much broader social and political dimensions. I think of development not just in terms of increasing consumption but also as creating greater freedom, not simply from destitution but freedom to control one's life, to have access to political power and thereby lead to a more meaningful life within a richer social context.

What role do you think the International Monetary Fund (IMF) can play in the process of development and how do you think it could improve its policies?

There are two specific issues about which my opinion from that of the IMF. The first concerns a policy that the IMF has now all but discarded, namely the push for the convertibility of capital accounts. This means removing restrictions on capital account transactions. Up until about a year ago, this was an important aspect of the IMF agenda. Now it has clearly taken a back seat, especially in light of the understanding that international capital markets are seriously problematic. One has to be quite cautious in how quickly one removes border restrictions on the flows of capital. The other disagreement has been in the context of IMF programs in East Asia and in other regions, where the IMF has prescribed a long laundry list of structural reforms that deal in a detailed fashion with financial markets, corporate governance, industrial organizations, labor markets, trade regimes, etc. It is usually not clear that these reforms are crucial to the establishment of macroeconomic balances and to the regaining of macroeconomic and financial stability. The IMF is often delving into areas where its competence is in fact quite limited.

If the prescriptions were not material to the crisis at hand, why does the IMF push for these reforms? Are not, for example, clear accounting practices or prudent financial supervision desirable?

The two aspects you mentioned are obviously important. The debate is over the particular ways of implementing these reforms. The type of a financial system different countries need, or would ideally have, depending on their preferences or the level of development, varies from country to country. I think that there has been a tendency to encourage the imposition of a model of financial markets based on the anglo-american system. To a certain extent, one cannot seriously oppose transparency and clear accounting practices, but these can be implemented in various different types of financial systems. Some financial systems, such as those in much of East Asia, are more development oriented. This allows the government to have greater authority over the allocation of credit. The banking system is therefore geared toward developmental priorities rather than the purely anglo-american model of finance. There are stages of development where some of these models make little sense. The particular model of finance and corporate governance designed to essentially keep firms and banks at arms length from each other and decrease the government's role may be fine for a highly developed economy. But there are some where more intrusive government and closer cooperation between financial actors may also work. Therefore as policy advisers considering the development standpoint, we have to be more sensitive to the needs of different countries to do things in a variety of different manners.

If I am not mistaken, this argues for a degree of diversity among development models.

Yes, to a certain extent. There is a tremendous amount of diversity in the existing set of capitalist institutions within successful economic models. When you extend these models to include the poorer countries where there are more reasons why markets fail, the need for diversity becomes in some sense even greater. I want to put all this in the context that I don't believe is sufficiently appreciated. Our understanding of what kind of rules and policies are actually conducive to long term sustainable development is rather limited. Thus, we have to be quite suspicious of exporting ideas, models, institutions, and policies which we claim are solutions when in fact the evidence supporting this is quite weak. This is another reason to be cautious in pushing wholesale models or wholesale structural solutions to developing countries' problems.

Would you then say that diversity of political arrangements is also desirable for development?

I view democratic and participatory political institutions as being a key component of successful development. If there is one respect in which the world community should not compromise, this is with regard to human rights and political freedom. I think those are basic ideals. Countries that do not satisfy the minimal levels of freedom with regard to civil liberties and political rights, that do not allow their citizenry freedom of expression and political participation, should not be allowed to take advantage of the same kind of international arrangements as other nations do. Now, beyond this, once again the same principle applies: there is not a single best form of democratic government. Depending on the context, presidential or parliamentary systems might be useful. The degree to which you provide quotas in a parliament for specific regions or ethnic groups might differ from country to country, etc. So the specific operation that encompasses a broad participatory system does differ from country to country and in this sense diversity is desirable.

In one of your articles you wrote that if you had to speculate about the future of the world economy, you would predict that the nation-state would wither away. Many have made this sort of prediction before. Why do you think one hundred years from now this would be the case?

The prediction you are referring to is just wishful thinking, it was made tongue in cheek. I was asked in the article to speculate about the state of the economy a hundred years in the future. Of all the possibilities I could envision, that was the only one that I liked. I think that nation-states are going to be with us for a long time, and I think that in the cant of the world economy their demise is greatly exaggerated. What I meant to suggest is that there is a certain dilemma arising regarding economies that push out beyond the nation states, and that this phenomenon is very difficult to avoid. There is a tendency toward integration within the economic sphere, yet the nation-state remains the building block of this system. Political jurisdictions remain national and local while the economy is becoming global. The dilemma arises from the inherent tension between these two. It is not likely that we will reap the benefits of further international economic integration while the political sphere is organized around the nation-state. On the other hand, politics organized at the local or the national level can no longer be fully responsive to the needs of domestic electorates, especially internationally mobile electorates. That and other facts led me to consider a range of possibilities, of which only one, in my opinion, is really desirable. The first possibility is essentially to reduce, to shrink your politics; to make the nation-state less sensitive to domestic political pressure. In

a sense, however, that would go against the democratization we have experienced in the last century. Another possibility is that you reverse the process of economic integration and return to a more restrictive mode of international economic exchange. The third possibility, which is where my idea of world federalism come in to play, is that rather than restricting the domain of either politics or economics we essentially allow them to push outward to the global level. This would mean extending politics beyond the nation-state in a similar way in which the economy is extending beyond it. It would be a model of global federalism. The kind of model analogous to that the United States followed during its own historical evolution – moving from a confederacy to a federal state. Europe may also be viewed as currently establishing such a model. It is a process of economic integration embedded in a social and political set of institutions.

Some recent developments have suggested, however, that the shrinking of politics within the nation-state or a backlash against economic integration might be occurring.

This backlash is symptomatic of the gap between economics, which belongs to a global sphere, politics which remain within nations. It may be reflective of some groups feeling excluded, feeling that they do not have access to the global nodes of power. They may also be realizing that the institutions designed to be responsive to them, i.e. national political institutions, are not. Indeed these political institutions are saying, 'look we have to abide by the rules of the WTO or the IMF' or if there aren't any explicit rules, they say they cannot do anything against international capital because they might then lose this. Tension then arises because large segments of the domestic population feel that they are no longer in control of what is going on in the economic sphere. This is an unsustainable situation but it can be improved, and there has been some progress. The civil society and the NGO's have successfully asserted their right to make contributions to the construction of the rules of the international economic system. In some areas, such as bio-safety, this has led to a set of rules which is more sensitive both to the needs of the nation-states that are exporters of agricultural products, and to the concerns of some environmental groups in the traditional areas of trade liberalization under the aegis of the WTO.

Do you think then, that the entities currently excluded from the process of economic integration can successfully be included and will then participate in it?

I think that would be the best scenario, but I would not say there is zero probability of an increasing backlash. Actually I am quite encouraged by some developments. Let me come back to the example of bio-safety. The bio-safety trade protocol negotiated at the end of January represents, to me, the kind of model that is possible to achieve when all parties behave sensibly. The debate involved trade rules regarding genetically modified foods. NGO's and environmental groups were allowed to take a very active role, and the negotiation was therefore a very transparent process. The issues were resolved through creative use of the labeling principle, which means that foods or other exports that contain genetically modified organisms will be specifically labeled so that other countries can know exactly what they are importing. The agreement incorporates the so-called "precautionary principles", which suggest that importing countries can, under certain circumstances, block imports of genetically modified organisms, even when there is little solid scientific evidence that such foods can be harmful to the environment. The principle was that some countries may want to err of the side of excessive safety. I think this is an application of a set of principles that, in the end, everybody can live with. One question that remains is how this new agreement will interface with the rules and dispute procedures of the WTO. To some extent there is a clash with the principles of the WTO and the results remain to be seen. Still, this has been a good example of how people can look at issues constructively and use the input of NGO's to reach practical solutions.

How would one need to redesign the rules and dispute procedures of the WTO to accommodate such arrangements?

I think that both in rule setting and in the day to day dispute procedures, the WTO could use a certain amount of reform. As far as the negotiation of the new rules, something that the Seattle ministerial meeting was supposed to launch, we now understand that the existing institutional setting for negotiating these arrangements is quite inadequate. It does not reflect the widening range of interests. While there are the newly mobilized civil society actors in the advanced developed countries, the voice of the developing countries themselves is under represented. In the past both of these groups had been excluded, to a large extent, in the past from the process of rule setting. We need to find new institutional mechanisms that will bring these

formerly excluded groups into the negotiating procedures.

With regard to the dispute settlement, there are many things that could be done, such as improving transparency and opening the procedures to observers, including NGO's. We could also insure that the developing countries have greater resources, including legal aid so that they can take advantage of these procedures.

Why could not the issues of the environment, and labor practices be debated on a separate platform?

I don't believe that these issues can be kept separate from the WTO, because I don't think it is feasible to say that we should keep trade insulated from these issues; I think that is an unsustainable position. This will have to be debated, the context of the WTO can create an appropriate forum for this debate. How we actually go about treating these questions in the light of our new understanding of trade and other problems is an open question. One has to realize that we cannot have a common set of labor standards for all countries regardless of their level of development or their needs. Earlier we discussed exporting a particular anglo-american model of financial capitalism to the developing world. We simply cannot enforce the same kind of rules about minimum wages that prevail in Europe or in the United States in developing countries. Even with an issue such as child labor, one has to be quite careful about the institutional arrangements one wants the developing countries to adopt. I think the first step is to have a conversation and a dialogue on such matters. There is a lot of misunderstanding, hostility, and distrust on the part of the different groups and we are not going to get over this until there is a forum to foster discussion.

Do you think cultural differences can erect barriers to economic integration?

I do not view it as such. We can see from the experience of the United States that differences in culture, ethnic background and language can become enriching rather than disintegrating parts of a broader political union. The United States certainly owes a lot of its own dynamism to having been very open to people of diverse cultures and backgrounds. Therefore, I do not see differences in culture, religion, or ethnicity as causes of conflict, economic separation or political differentiation. At the same time there is a tremendous need to ensure that political institutions are well designed so that culture does not become an easy instrument for separatist groups to manipulate. I think culture and religion become a problem when opportunistic politicians latch onto these differences for their own particular, often economic, agendas. We have seen that in the former Yugoslavia. I think it might be misleading to believe that the conflict has been driven solely by differences in religious or ethnic

backgrounds. These differences may provide a convenient way for ambitious and self interested politicians to carve out their own empires, but they are not at the root of the problem. Because religious and cultural differences provide an opportunity for exploitation in this way, they increase the premium for having higher quality political institutions, particularly with regard to conflict management. Still, the evidence, as I read it, suggests that if these institutions are well defined, cultural and ethnic dissimilarity can become an enriching part of political and economic integration.



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