

A HELL OF A DECADE



The optimism of the turn of the century has disappeared. **Michael Cox** charts the rise of a new economic world order – and looks at why no one predicted the crisis of the West.

Memory can often play tricks on even the most intelligent of human beings, especially in an age of rapid unexpected change, when all the normal signposts have been removed or simply washed away by the tides of history. Certainly, for those who have grown up over the last ten, turbulent years, the world today is a very different looking place from what it was back at the turn of the century. Indeed, inconceivable though it

may seem now, most of us in the developed West were then in the best of moods – riding high on the back of three great revolutions in international affairs.

The first and most important of these revolutions was of course the final triumph of the market in the wake of the global collapse of the centrally planned alternative at the end of the 1980s and the beginning of the 1990s. Initially Poland and Central Europe, then Russia, and finally even “communist” China, discovered that they had no alternative but to join the only economic club in town – the one run by the West, organised on Western principles and, according to critics, largely designed to further the interests of the West. Nobody liked to say it too loudly at

the time for fear of sounding triumphalist. But for many during the heady days of the 1990s it really did seem as if the West was best and would, for this very obvious reason, remain the axis around which the world would rotate for the foreseeable future.

The second great core assumption – born of a much longer revolution in world affairs – related to the United States, that most “indispensable” of nations, which instead of doing what all other great powers had done in the past (that is, decline) did quite the opposite. In fact, the core belief after the end of the USSR was that we were now living in what Charles Krauthammer called a “unipolar moment”, one that he felt would endure for a long time: in part because the US could lay claim to the most efficient economy in the world; in part because it had constructed the greatest military ever known to man; and in part because none of the other powers in the world – China included – had any chance of ever catching up with the United States.

The third important revolution was the one that had changed the face of Europe. The end of the Cold War was undoubtedly Europe’s great chance, and its leaders back then – Jacques Delors in particular – enthusiastically grabbed the historic opportunity. What they created was impressive to say the least. Indeed, by the beginning of the new century, Europe was becoming a serious point of global reference: equipped with its own currency, the largest market in the world, many new members (inevitably not all of them perfect), and the outlines of a Common Foreign and Security Policy that would soon make it a major player on the international stage. Even some Americans bought into this new vision, including, significantly, Charles Kupchan, former director for European affairs in the Clinton administration. America would not be the dominant actor in the 21st century, he opined, nor China, nor the Islamic world. Rather the future belonged to an integrating, dynamic and increasingly prosperous Europe. The next century was its for the taking.

How and why this optimism verging on the hubristic turned into its opposite in the years between 2000 and 2010 has already been the subject of much feverish analysis and speculation. But at least three broad explanations have been advanced to help us think seriously about what *Time* magazine not long ago characterised as the “decade from hell”.

One explanation, favoured by most historians and social theorists, relates the fall from grace to the much earlier triumph of the West and the extraordinary lack of caution that this seemed to induce among most Western policymakers. Indeed, having won so much over such a long period of time, stretching right back

to the deregulating 1970s through to the hyper-globalising 1990s, nothing now appeared impossible. And even the impossible now seemed achievable. The liberation of Iraq? No problem, said the all-powerful Americans with their invincible military machine. Constant economic growth? Easily achieved on the back of cheap money and ever more complex financial instruments. Everybody a homeowner? Why not, even if it meant a pile-up of unsustainable debt? Economic crises? A thing of the past. And the future? Not perfect, of course. But at least as perfect as it was ever going to be in an imperfect world. Happy days were here again and nobody was prepared to listen to naysayers like Dr Doom (aka Nouriel Roubini) or his foreign policy counterparts, who warned that America’s unnecessary “war of choice” in Iraq would end up costing the US its international standing, a lot of blood and a vast amount of treasure (\$3 trillion so far).

A second explanation connects more directly to changes in the shape of the world economy. Here, Goldman Sachs does appear to have got it right back in 2001 when it predicted (against the then prevailing orthodoxy) that the future belonged to the emerging BRIC economies – Brazil, Russia, India and, of course, China. But what Goldman Sachs did not predict, however, was the sheer speed with which this shift was to take place and the main reasons why it did so. Goldman Sachs worked on a 25- – even a 50-year – timeline: it also assumed steady growth for all countries in the international economy. What it did not anticipate was firstly the pace of China’s rise and the impact that this had on the rest of the world economy, and secondly what happened to the international financial system in 2008 when the established Western economies suffered a series of smashing body blows. It was this “Black Swan” event more than anything else that was to be the real turning point. Before then the EU and the US could legitimately claim that they continued to represent the future. After 2008, such a claim sounded frankly spurious.

The final reason for the great shift had less to do with economic shifts and more to do with politics and a marked change in the capacity of governments to manage the world around them. As the new century wore on, it was becoming increasingly clear that the West in particular was facing a set of challenges to

which it simply did not have any easy answers. And nowhere was this becoming more apparent than in that once “steady as she goes”, rather unexciting place known as the European Union. The crisis began slowly but then accelerated rapidly after 2008, leaving a trail of failed governments in its wake (at least eight fell between 2008 and 2010). Nor was this all. As governments fell and the crisis deepened, not only did belief in the European project begin to ebb but many began to wonder about normal politics itself.

We live, in other words, not just in “interesting times” but in quite extraordinary times, where few in the West now appear to have much confidence in the notion of the West; where policy leaders on both sides of the Atlantic realise how limited their options are; where a once imperial America now talks in humbling terms of “leading from behind” and adjusting to a new multi-polar world order; and where few have any idea at all about what the seismic economic changes now taking place in the world economy will mean for either global prosperity or international stability.

The economic challenges we face are as real and as serious as anything we have seen since the 1930s. ■



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This article is an edited version of a piece which first appeared on Danny Quah’s blog, see dannyquah.wordpress.com. The themes outlined in this article are explored, examined and debated at the Executive Summer School (see page 14). The programme attracts professionals from around the world, who are looking for a challenging course relevant to both their individual and organisational needs. With subjects ranging from strategic decision making, macroeconomics, to climate change and emerging markets, the Executive Summer School offers cutting-edge thinking and research with a practical application.

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