

# Political and Economic Forces Shaping the Business World

*Ernest R. May*

Historians and social scientists do better looking backward than looking forward. Economists, for example, have predicted seven of the last two recessions. Once something has happened, however, we can usually explain why it was inevitable.

The world is obviously at a turning point. In some sense, we stand where Europeans stood in the 16th century, after the early voyages of discovery. We may have better devices for navigating the seas, but we have no clearer sense of terrain. We could find cities of gold, or – like most of the conquistadores – we could find mostly mirages.

I cannot predict what we will have seen when this decade ends. I can, however, sketch some alternatives. Then I can tell you how I might explain those futures, if they were history. The object is to identify landscape features worth watching for as we move toward the actual future.

## Alternative Futures

A particular concern today is Eastern Europe and the extent to which it offers new opportunities for investment and trade. Looking just at Eastern Europe, the Soviet Union, and Germany, one can imagine several different histories that might unfold between now and the year 2000.

**Eastern Europe.** Eastern Europe could fester as in the 19th century. Passions could tear the region apart. It could even breed war, as before 1914. Alternatively, it could become a backwater – just another of the world's slums. Or it could prosper. Poland, Hungary, and Czechoslovakia, at least, could become contributors to a European community and to European prosperity.

**The Soviet Union.** As for the Soviet Union, it could disintegrate. On maps printed in the year 2000 there could be many states east of the Dniester. Even if the U.S.S.R. remains as a shell, it could deserve a comment like the one Voltaire coined with respect to the old Holy Roman Empire: neither a union nor Soviet nor socialist.

Alternatively, the Soviet Union could stagnate. It could stay as it is – the largest of the less-developed countries, a sort of Upper Volta with nuclear weapons.

Or the Soviet Union could turn ugly again. Though the Afghan war and recent internal troubles have exposed shortcomings, the Soviet Army remains powerful. Under the INF Treaty, the United States and the U.S.S.R. are doing away with a number of missiles. The missiles can be sawed into pieces or they can be launched and blown up in flight. We Americans usually saw up our missiles. We don't have complete confidence in our mechanisms for in-flight destruction. The Soviets prefer the second method. The last time I heard a report, American inspectors said that the Soviets thus far had not had a single failure. The Soviet Strategic Rocket Forces and the Moscow subway seem almost the only parts of the Soviet system that work. It is not out of the question that some successor to Gorbachev would see some use of Soviet military forces as a means of escaping otherwise insoluble dilemmas.

**Germany.** Germany, reunited, will be much stronger. The addition of 18 million to 20 million East Germans will be costly in the short run, but after a few years, these Germans should provide the manpower for a new economic surge. Germans who came west before the Berlin Wall went up accounted in part for the earlier German economic miracle.

In addition, unification means a new start for Germany politically. The open question now is not whether Germany will be the dominant nation in Europe, but how it will exercise its dominance.

Germany can be a benign hegemon, as the United States has been in the Atlantic region during much of the postwar era. Alternatively, Germany can be a patronizing master. Like the United States in the Western Hemisphere, it can profit from its neighbors and clients, ignore their needs, but, on the whole, do them no harm.

Or Germany can act the bully, as the Hapsburg and Bourbon monarchies did during their periods of ascendancy. There is no possibility of Germany's behaving again as in the 1930s. Talk of a Fourth Reich is ridiculous if it calls up nightmares of another Third Reich. But another Second Reich may not be so far-fetched.

The position of Germany in Europe in the 1990s will, after all, resemble in many respects the position of Prussia in Germany after the middle of the 19th century. Chancellor Kohl and his successors will face many questions similar to those faced by Bismarck and, later, William II. It is not out of the question that they, too, will be overbearing toward their partners. In the end, they, too, could make their country an object of concern – and even of fear – to the outside world.

Delineating possible futures is hard because so many possibilities are interdependent. What happens in Eastern Europe will depend on what happens in the Soviet Union and in Germany, and vice versa. What happens in

Washington and New York and Tokyo and other political and economic centers will affect all three areas. So will events in other areas, such as the Middle East, for example.

Let us imagine, however, a worst case and a best case. Then let us step back and ask how, if looking back, we would try to explain what had developed.

### **The Worst-Case Scenario**

The worst case would combine a turbulent Eastern Europe, a militarily menacing Soviet Union, and a bullying Germany. Eastern Europe would look like a second Middle East. Crises involving the Soviet Union and Germany would be occurring with the frequency of crises before 1914. Dread of war would dominate decision-making in banks, corporate offices, and government offices the world over.

If this were the year 2000 and this worst case were the actual state of affairs, our diagnosis might run as follows.

**Europe.** In Europe as a whole, atavistic forces proved too strong. Ethnic and religious groups were so possessed by inherited pride and hatred that they could not cooperate.

Eastern Europe lacked foundations on which to build stable governments. Poles and Hungarians had known only mock parliamentary systems, Rumanians and Bulgarians not even that. While Czechs, Moldavians, and Slovaks had once had a democracy, only men and women in their sixties remembered its reality. Civic Forum and its successors built dream castles.

Eastern Europe proved also not to have the foundations for free enterprise economies. Forty years of communism had sapped the entrepreneurial spirit. In any case, there was too much to be done. Moving economically into the last part of the 20th century required more than just rebuilding road and rail lines and modernizing factories. It called also for computers and high-speed communications. These, in turn, needed armies of technically trained men and women.

Modern capitalism also needed complex legal codes. These codes called for legions of lawyers, accountants, and other specialists. No Eastern European country started the 1990s with even a legal system suited for capitalism, let alone the technicians needed to make it work.

**The Soviet Union.** In the Soviet Union, Gorbachev might have failed on his own. Once Eastern Europe began to fall apart, he had no chance of survival. His successors found, in the end, that 80 years of communism had left them even worse off than their former satellites. Nothing worked except parts of the military establishment. So, wherever they could, they used tanks and guns and threats of missiles. This yielded a few spoils. On television, it distracted the Soviet public.

**Germany.** Germany was affected both by the turmoil in Eastern Europe and by the Soviet reaction. The German government had forced its Western European partners to enlarge the European Community. When the Soviets began to menace Eastern Europe, Germany had to take the lead in providing security. She had no choice but hurriedly to rearm. From the Rhine to the Urals, Europe began to look alarmingly like Europe before 1914.

### **The Best-Case Scenario**

Instead of this grim scene, imagine a best case. Again it is the year 2000, and we are reviewing the past decade. But what we see is a vibrant, prospering Eastern Europe, a Soviet Union slowly struggling out of economic backwardness, and a Germany benignly guiding political and economic cooperation across the whole area from North Africa to Siberia.

To explain this alternative best case, we would probably resort to analogies. We would say that we saw Eastern Europe looking surprisingly like the Iberian peninsula in the late 1970s and early 1980s. We would say that the Soviet Union in the 1990s seemed to behave much as Russia had in the 1860s. We would liken Germany less to any of its earlier selves than to the post-World War II United States.

These comparisons would imply explanations for the best case just the opposite of explanations for the worst case.

**Eastern Europe.** As of 1990, Eastern Europe had seemed so different from the Iberian peninsula that their „velvet revolutions“ were seldom compared. Portugal and Spain had been corporatist, not communist. Their governments had not taken ownership of the means of production. They had simply regulated their use, down to the most minute detail. The nominal survival of private property kept in being communities of lawyers, accountants, and other specialists, ready to work the levers of a capitalist economy. And Portugal and Spain had remained relatively open, ever since the 1950s, to movements of people and ideas from Western Europe and the Americas.

An Eastern Europe making a go of democracy and capitalism will more often call to mind the Iberian precedents. We will remember that Portugal and Spain were also poor and backward. In gross domestic product per capita,

in comparison with the German Federal Republic, Portugal and Spain stood in 1975 approximately where Poland and Hungary stood in 1985.

Like Eastern Europeans, Portuguese and Spaniards looked back on lost glories. They, too, had histories scarred by religious and civil wars. They, too, came to democracy with little previous experience of it. No one under the age of 50 had known any form of government except dictatorship. Neither Salazar's regime nor Franco's had been even Erich Honecker's, let alone Joseph Stalin's. But neither had been a school for self-government.

In the late 1970s, when Portugal and Spain began their transitions, foreign observers generally predicted failure. In the *Neue Zürcher Zeitung*, *Le Monde*, *The Economist*, and *The Wall Street Journal*, one can find articles of the 1970s and early 1980s about Portugal and Spain that, with a few changes in wording, could be about Poland, Czechoslovakia, or Hungary in 1990.

In retrospect, it is evident that the people of Portugal and Spain proved skeptics wrong because they succeeded in working together. In Spain, old Republicans fresh out of jail joined peaceably with ex-Falangists. Atheists and members of Opus Dei might debate at night in coffee shops. During the day, they buried their differences.

Those newly in power recognized that many men and women of talent and ambition had associated themselves with the dictatorships. That had been the way to get ahead. The new governments purged genuine criminals. They did not inflict punishment just because of past affiliations.

This, then, was an omen for how they would treat foreigners. Portuguese and Spaniards subordinated not only creed and ideology but also national pride. In some instances, as in the Spanish automobile, tire, and chemical industries, the new regimes proved willing to accept predominantly foreign ownership. They also accepted relatively high levels of profit extraction, seeming collectively to understand that the residue – in plant, in trained personnel, and in general economic stimulation – would more than make up for the drain.

In the best-case scenario, Eastern Europe will show similar characteristics. Dissidents released from jails will work alongside former members of Communist Central Committees. Debates about religious and philosophic issues will be kept within bounds – and outside working hours. Potential foreign investors will find Eastern Europe, like the Iberian peninsula, pragmatically accepting the need for some degree of foreign management and for returns on capital that reward the taking of risks.

**The Soviet Union.** As of 1990, one rarely thought of the Soviet Union in terms of Russia of the 1860s. Gorbachev was compared with Peter the Great or Nikita Khrushchev or occasionally Lenin or Bukharin, but rarely with Tsar Alexander II.

As of the year 2000, if the Soviet Union is still a single state, making modest domestic progress, and not menacing any of its neighbors, the analogy with the period of Alexander II will seem more powerful.

In Russia of the 1860s, leaders acted on comparatively cautious and realistic estimates of national resources and national potential. The Crimean War had just exposed the empire's weakness. Until then, Russia had been regarded as the greatest power in Europe. It had, after all, defeated Napoleon. The Crimean War had shown it to be a backward country, scarcely capable of moving its own armies across its own territories. The war cost Russia both status and territory.

Tsar Alexander II and his advisers concluded sensibly that much needed doing before Russia tried again to be a controlling force in European affairs. They began a program of economic and social improvement. They meanwhile kept both adventurous imperialists and radical reformers firmly in hand. By 1914, as a result, Russia was approaching Western European levels of gross domestic product; it has never done so well since.

A Soviet Union that fits the best case will have had a comparable history. Gorbachev or his successors will have been cautious and pragmatic. They will have settled for essentially modest improvements. They will not have given up dreams of again being on stage as a superpower. But later – later. Meanwhile, they will have successfully kept in check extremists on both wings – *pamyat* on the right and radical reformers on the left.

**Germany.** For Germany, analogies with the United States were coming to mind in 1990. Leaders in all three of the Federal Republic's major political parties spoke of Germany's launching a Marshall Plan for Eastern Europe. In the best-case scenario, Germany will have played the role in Eastern Europe that the United States played in the decade after World War II in Western Europe. It will have assisted political and economic development. It will have done so while leaving Eastern Europe both apparent and real independence.

### A Historian's Best Guess

Which of these outcomes do I think most likely – the worst case or the best case? The answer is:

neither. If betting what the Swiss call „serious money,“ I would have to pick an outcome somewhere between the extremes.

**Eastern Europe.** I envision an Eastern Europe developing unevenly, with Poland, Hungary, and possibly Czechoslovakia evolving stable governments and free-enterprise economies. Poland has begun to make the hard decisions likely to reassure potential foreign investors. Hungary already has rudiments of a market economy. Well before 1989, Hungarians were saying, „Communism is the long hard road from capitalism to capitalism.“ Czechoslovakia is on a doubtful list because philosopher-kings are likely to be philosophers more than kings. Rumania and Bulgaria will overcome immense odds if they achieve even the lowest levels of political and economic Westernization.

**The Soviet Union.** For the Soviet Union, the most likely future seems to me progressive disintegration and decay. More Soviet republics will try to solve their problems independently – and fail. If the Soviet Army takes to the road, it is more likely to be against Soviet citizens than foreigners.

**Germany.** Germany will not look warlike unless some worst case actually develops in the East. But Germany, I fear, will not prove able to play a role like that of the United States in the 1950s.

To underwrite Eastern Europe as the United States earlier underwrote Western Europe, Germany would have to work out some formula for aid totally unlike the original Marshall Plan.

The conditions that made the Marshall Plan a success are absent. Eastern Europe has no war-damaged plants needing only repair. It has no large pools of skilled workers and experienced managers. It does not have the capacity to allocate aid from outside efficiently.

Marshall Plan aid could take the form of grants and loans because Western Europeans knew what capitalist economies required. Americans could let Western Europeans state their wishes, then say merely *yes* or *no*. The Marshall Plan involved minimal intrusion on the sovereignty of aid recipients.

In Eastern Europe as of 1990, capitalist economies have to be built from the ground up – and by men and women with experience only of command economies. Germans need to discover some means of transferring funds and capital that achieves the effects of the Marshall Plan and at the same time does no injury to Eastern European self-respect. I doubt that a workable formula can be found.

Germany also needs to establish in the eyes of all other nations a reputation for extraordinary self-denial. The United States in the era of the Marshall Plan needed to demonstrate steadfastness as a leader. Europeans and Americans remembered past American isolationism. Europeans had to be convinced – and Americans had to convince themselves – that this pattern would not repeat itself.

Germany starts in an exactly opposite position. Germans have to convince the world – and themselves – that they can be one country and the foremost power in Europe without becoming oppressors or exploiters of weaker states. In the 1950s, Europeans were always apprehensive that, under the table, Americans had luggage packed, ready for quick departure. Germans have to assume that their negotiating partners, at least through the 1990s, will continually be looking under the table, expecting to see jackboots.

The German position is much harder than was the American position. To be sure, the Americans had domestic problems. The Marshall Plan era was also the era of „McCarthyism.“ In few instances, however, did the American government pursue policies perceived at home as against the interests of Americans. Attacks on the Marshall Plan as a „giveaway“ were hollow. Knowledgeable Americans understood that Marshall aid was the equivalent of an extension of credit to a good customer who had suffered temporary adversity. Future business would pay it back with ample interest.

To carry out the best-case scenario, German officials would be continuously and conspicuously subordinating the interests of Germans to those of a larger European community.

Consider the problem posed by the city that German geography texts still label Königsberg. In non-German geography texts, it is Kaliningrad. It is the capital of an *oblast* of the Russian Soviet Federated Republic. The city sits on the Baltic coast, cut off from the rest of the Russian Republic. It is accessible only through the Lithuanian Republic or through Poland.

Königsberg/Kaliningrad is not only a historic part of Germany, but part of the German soul. Königsberg was where Immanuel Kant taught. It was there that Kant wrote, among other things, „Perpetual Peace,“ the essay that has inspired liberal internationalism for two centuries.

At the moment, German politicians say that all territorial arrangements in Europe are inviolate. They are intent on world-approved unification. During the 1990s, with unification a fact, this will be much more difficult. Circumstances may well develop in which liberation for Königsberg becomes a cause arousing both Right and Left in the Bundestag of a united Germany. Elsewhere in East Prussia or Silesia, „lost“ territories or discriminated-against German communities could become focuses of German domestic politics.

I doubt that Chancellor Kohl or his successors can sustainably resist appeals to use German economic supremacy in the service of German, not European, political interests.

But I offer these guesses only because I cannot dodge doing so. I will be more surprised if proved right than if proved wrong. As I said in the beginning, the forte of historians and social scientists is to look backward, not forward.

### **Signposts Along the Way**

Though the worst case and best case sketched earlier may be less plausible than something in between, they do suggest questions worth keeping in mind as one tries to make out the exact character of the landscape unfolding before us.

In Eastern Europe: How much do trends begin to call to mind those in Portugal and Spain? How much instead do they make one think of Lebanon? The questions have to be asked of each country. As the economist Francis Bator observes, generalizing about Eastern Europe is like taking the average temperature of a person who has his head in an oven and his feet in a refrigerator.

Possibly, one should use as an index the numbers of accountants newly trained in each country, or trends in the volume of commercial litigation. Numbers of accountants probably gives a surrogate measure of the seriousness of profit/loss calculation. Active commercial litigation shows reliance on aboveboard legal codes as opposed to custom or corruption.

In the Soviet Union, do the actions of political leaders bear comparison with those of Alexander II? Or do they bring to mind the theatrics of Khrushchev or, worse yet, the bellicosity of the late Stalin era?

Watching Germany, is one reminded of the United States of Marshall Plan days? Or does one think instead of the Prussia and Germany of Bismarck? These are not, of course, the only important questions. Others should be asked about other EC countries, the United States, and Japan. Those questions, too, can be framed like the ones I have posed. What is the segment of the past that the present seems most nearly to be repeating? In what respects are trends alike? In what respects are they different?

The future may be unlike anything ever seen before, but usually this has not been true. As Mark Twain said, history may not repeat itself, but it often rhymes.

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