2008 and the Return of the Nation-State

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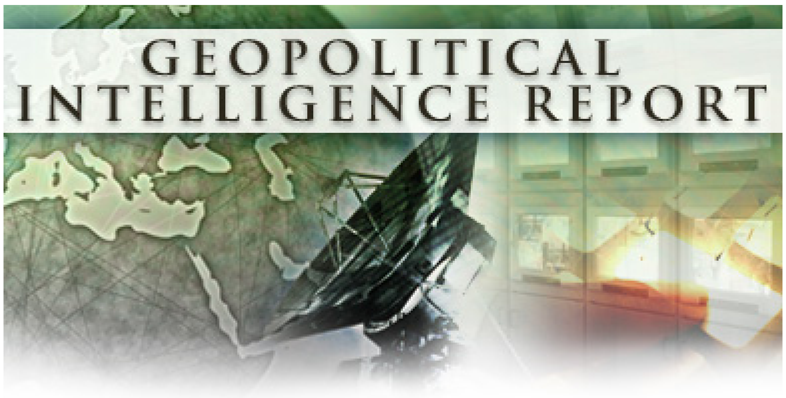

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In 1989, the global system pivoted when the Soviet Union retreated from Eastern Europe and began the process of disintegration that culminated in its collapse. In 2001, the system pivoted again when al Qaeda attacked targets in the United States on Sept. 11, triggering a conflict that defined the international system until the summer of 2008. The pivot of 2008 turned on two dates, Aug. 7 and Oct. 11.

On Aug. 7, Georgian troops attacked the country's breakaway region of South Ossetia. On Aug. 8, Russian troops responded by invading Georgia. The Western response was primarily rhetorical. On the weekend of Oct. 11, the G-7 met in Washington to plan a joint response to the global financial crisis. Rather than defining a joint plan, the decision — by default — was that each nation would act to save its own financial system with a series of broadly agreed upon guidelines.

The Aug. 7 and Oct. 11 events are connected only in their consequences. Each showed the weakness of international institutions and confirmed the primacy of the nation-state, or more precisely, the nation and the state. (A nation is a collection of people who share an ethnicity. A state is the entity that rules a piece of land. A nation-state — the foundation of the modern international order — is what is formed when the nation and state overlap.) Together, the two events posed challenges that overwhelmed the global significance of the Iraqi and Afghan wars.

The Conflict in Georgia

In and of itself, Russia's attack on Georgia was not globally significant. Georgia is a small country in the Caucasus, and its fate ultimately does not affect the world. But Georgia was aligned with the United States and with Europe, and it had been seen by some as a candidate for membership in NATO. Thus, what was important about the Russian attack was that it occurred at all, and that the West did not respond to it beyond rhetoric.

Part of the problem was that the countries that could have intervened on Georgia's behalf lacked the ability to do so. The Americans were bogged down in the Islamic world, and the Europeans had let their military forces atrophy. But even if military force had been available, it is clear that NATO, as the military expression of the Western alliance, was incapable of any unified action. There was no unified understanding of NATO's obligation and, more importantly, no collective understanding of what a unified strategy might be.

The tension was not only between the United States and Europe, but also among the European countries. This was particularly pronounced in the different view of the situation Germany took compared to that of the United States and many other countries. Very soon after the Russo-Georgian war had ended, the Germans made clear that they opposed the expansion of NATO to Georgia and Ukraine. A major reason for this is Germany's heavy dependence on Russian natural gas, which means Berlin cannot afford to alienate Moscow. But there was a deeper reason: Germany had been in the front line of the first Cold War and had no desire to participate in a second.

The range of European responses to Russia was fascinating. The British were livid. The French were livid but wanted to mediate. The Germans were cautious, and Chancellor Angela Merkel traveled to St. Petersburg to hold a joint press conference with Russian President Dmitri Medvedev, aligning Germany with Russia — for all practical purposes — on the Georgian and Ukrainian issues.

The single most important effect of Russia's attack on Georgia was that it showed clearly how deeply divided — and for that matter, how weak — NATO is in general and the Europeans are in particular. Had they been united, they would not have been able to do much. But they avoided that challenge by being utterly fragmented. NATO can only work when there is a consensus, and the war revealed how far from consensus NATO was. It can't be said that NATO collapsed after Georgia. It is still there, and NATO officials hold meetings and press conferences. But the alliance is devoid of both common purpose and resources, except in very specific and limited areas. Some Europeans are working through NATO in Afghanistan, for example, but not most, and not in a decisive fashion.

The Russo-Georgian war raised profound questions about the future of the multinational military alliance. Each member consulted its own national interest and conducted its own foreign policy. At this point, splits between the Europeans and Americans are taken for granted, but the splits among the Europeans are profound. If it was no longer possible to say that NATO functioned, it was also unclear after Aug. 8 in what sense the Europeans existed, except as individual nation-states.

The Global Financial Crisis

What was demonstrated in politico-military terms in Georgia was then demonstrated in economic terms in the financial crisis. All of the multinational systems created after World War II failed during the crisis — or more precisely, the crisis went well beyond their briefs and resources. None of the systems could cope, and many broke down. On Oct. 11, it became clear that the G-7 could cooperate, but not through unified action. On Oct. 12, when the Europeans held their eurozone summit, it became clear that they would only act as individual nations.

As with the aftermath of the Georgian war, the most significant developments after Oct. 11 happened in Europe. The European Union is first and foremost an arrangement for managing Europe's economy. Its bureaucracy in Brussels has increased its authority and effectiveness throughout the last decade. The problem with the European Union is that it was an institution designed to manage prosperity. When it confronted serious adversity, however, it froze, devolving power to the component states.

Consider the European Central Bank (ECB), an institution created for managing the euro. Its primary charge — and only real authority — is to work to limit inflation. But limiting inflation is a problem that needs to be addressed when economies are otherwise functioning well. The financial crisis is a case where the European system is malfunctioning. The ECB was not created to deal with that. It has managed, with the agreement of member governments, to expand its function beyond inflation control, but it ultimately lacks the staff or the mindset to do all the things that other central banks were doing. To be more precise, it is a central bank without a single finance ministry to work with. Unlike other central banks, whose authority coincides with the nations they serve, the ECB serves multiple nations with multiple interests and finance ministries. By its nature, its power is limited.

In the end, power did not reside with Europe, but rather with its individual countries. It wasn't Brussels that was implementing decisions made in Strasbourg; the centers of power were in Paris, London, Rome, Berlin and the other capitals of Europe and the world. Power devolved back to the states that governed nations. Or, to be more precise, the twin crises revealed that power had never left there.

Between the events in Georgia and the financial crisis, what we saw was the breakdown of multinational entities. This was particularly marked in Europe, in large part because the Europeans were the most invested in multilateralism and because they were in the crosshairs of both crises. The Russian resurgence affected them the most, and the fallout of the U.S. financial crisis hit them the hardest. They had to improvise the most, being multilateral but imperfectly developed, to say the least. In a sense, the Europeans were the laboratory of multilateralism and its intersection with crisis.

But it was not a European problem in the end. What we saw was a global phenomenon in which individual nations struggled to cope with the effects of the financial crisis and of Russia. Since the fall of the Soviet Union, there has been a tendency to view the world in terms of global institutions, from the United Nations to the World Trade Organization. In the summer of 2008, none of these functioned. The only things that did function effectively were national institutions.

Since 2001, the assumption has been that subnational groups like al Qaeda would define the politico-military environment. In U.S. Defense Department jargon, the assumption was that peer-to-peer conflict was no longer an issue and that it was all about small terrorist groups. The summer of 2008 demonstrated that while terrorism by subnational groups is not insignificant by any means, the dynamics of nation-states have hardly become archaic.

The Importance of the State

Clearly, the world has pivoted toward the nation-state as the prime actor and away from transnational and subnational groups. The financial crisis could be solved by monetizing the net assets of societies to correct financial imbalances. The only institution that could do that was the state, which could use its sovereign power and credibility, based on its ability to tax the economy, to underwrite the financial system.

Around the world, states did just that. They did it in very national ways. Many European states did it primarily by guaranteeing interbank loans, thereby essentially nationalizing the heart of the financial system. If states guarantee loans, the risk declines to near zero. In that case, the rationing of money through market mechanisms collapses. The state must take over rationing. This massively increases the power of the state — and raises questions about how the Europeans back out of this position.

The Americans took a different approach, less focused on interbank guarantees than on reshaping the balance sheets of financial institutions by investing in them. It was a more indirect approach and less efficient in the short run, but the Americans were more interested than the Europeans in trying to create mechanisms that would allow the state to back out of control of the financial system.

But what is most important is to see the manner in which state power surged in the summer and fall of 2008. The balance of power between business and the state, always dynamic, underwent a profound change, with the power of the state surging and the power of business contracting. Power was not in the hands of Lehman Brothers or Barclays. It was in the hands of Washington and London. At the same time, the power of the nation surged as the importance of multilateral organizations and subnational groups declined. The nation-state roared back to life after it had seemed to be drifting into irrelevance.

The year 1989 did not quite end the Cold War, but it created a world that bypassed it. The year 2001 did not end the post-Cold War world, but it overlaid it with an additional and overwhelming dynamic: that of the U.S.-jihadist war. The year

2008 did not end the U.S.-jihadist war, but it overlaid it with far more immediate and urgent issues. The financial crisis, of course, was one. The future of Russian power was another. We should point out that the importance of Russian power is this: As soon as Russia dominates the center of the Eurasian land mass, its force intrudes on Europe. Russia united with the rest of Europe is an overwhelming global force. Europe resisting Russia defines the global system. Russia fragmented opens the door for other geopolitical issues. Russia united and powerful usurps the global stage.

The year 2008 has therefore seen two things. First, and probably most important, it resurrected the nation-state and shifted the global balance between the state and business. Second, it redefined the global geopolitical system, opening the door to a resurgence of Russian power and revealing the underlying fragmentation of Europe and weaknesses of NATO.

The most important manifestation of this is Europe. In the face of Russian power, there is no united European position. In the face of the financial crisis, the Europeans coordinate, but they do not act as one. After the summer of 2008, it is no longer fair to talk about Europe as a single entity, about NATO as a fully functioning alliance, or about a world in which the nation-state is obsolete. The nation-state was the only institution that worked.

This is far more important than either of the immediate issues. The fate of Georgia is of minor consequence to the world. The financial crisis will pass into history, joining Brady bonds, the Resolution Trust Corp. and the bailout of New York City as a historical oddity. What will remain is a new international system in which the Russian question — followed by the German question — is once again at the center of things, and in which states act with confidence in shaping the economic and business environment for better or worse.

The world is a very different place from what it was in the spring of 2008. Or, to be more precise, it is a much more traditional place than many thought. It is a world of nations pursuing their own interests and collaborating where they choose. Those interests are economic, political and military, and they are part of a single fabric. The illusion of multilateralism was not put to rest — it will never die — but it was certainly put to bed. It is a world we can readily recognize from history.

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