

**HANSJÖRG HERR / RAINER STACHULETZ:**  
**Deregulation, Financial Market Breakdown, and Rational Reform Options:**  
**Hope Is the Last Thing to Die**

The current financial market crisis, triggered by the US mortgage crisis in 2007, is the latest and deepest of a whole series of financial market crises dating back to the beginning of national and international financial market deregulation in the 1970s. It shows clearly that deregulated financial markets do nothing to improve prosperity overall. There is every reason to suppose that deregulated financial markets harbor instability and constantly generate crises: Both property prices and lending are largely driven by expectations. In itself the market mechanism cannot provide a stable anchor for expectations. As a result of speculative fervor and deflationary phases financial markets tend to have negative consequences for growth, employment, the distribution of assets and income, and poverty.

Five tendencies may be discerned since the 1970s. First, the increasing securitization of more and more credit relations led to the emergence of secondary markets. Not only was global liquidity increased, but an undesirable market structure was established: On the one hand, the lending bank was less careful than previously concerning the quality of the borrower, and on the other hand, as the debt was passed on to ever more remote investors information concerning the quality of the borrower was completely lost. Second, speculation plays a much more significant role in property markets than before. Third, an »impatient capitalism« has imposed itself on property markets, interested in realizing short-term profits. Fourth, intense property market inflation has been succeeded by property market deflation. Finally, ever larger parts of the financial system have managed to elude significant regulation.

The reform priority must be to eliminate the mistakes of recent decades. A stable financial system must be created that promotes development of the real economy and that does not, in contrast to recent decades, stumble from one crisis to another. There is no magic wand that could stabilize a by now unbearably volatile financial system, just like that. Instead, a number of individual measures are needed, including regulation of the banking system, regulation of the financial institutions apart from the banks, reform of the tax system, the drying up of

offshore centers, the restriction of speculation on property markets, and the containment of property market inflation.

**MARC SAXER:**

### **Security Governance in a Post-sovereign World**

The Westphalian world order is increasingly under stress. In a growing number of failing states, the monopoly of force has eroded. Taking the potentially devastating impact of climate change on fragile states into account, worries arise over a vast zone of instability in the South. On a systemic level, the validity of an international order based on sovereign states comes into question if a growing number of these states are merely fictional. Efforts by the international community to restore order and stop mass atrocities have created new forms of »soft« sovereignty, ranging from all-out international protectorates to forms of »supervised sovereignty« and »subsidiary transitional sovereignty.« While the extent of the limitation of local decision-making varies, in all these cases some sort of international supervisory administration has been established. On the global level, the debate on how to legitimize international interventions, embedded in such concepts as »Humanitarian Intervention,« »Human Security,« and the »Responsibility to Protect,« is slowly but surely redefining sovereignty. Overall, these concepts aim at circumventing the »shield of sovereignty« and at providing stability in transitional processes in territories where statehood is more fiction than fact. This trend, urged primarily by Western powers, is meeting significant resistance from the Global South. Strengthened by the growing influence of emerging powers, the debate over sovereignty is giving rise to ideological blockades in global decision-making in cases where swift action is most needed. With imperial dreams shattered, there is a growing understanding that a broad consensus is needed over who can address zones of violence and instability, as well as when and how. This debate will shape the world order of the twenty-first century.

**MARTIN SENN:**

### **Rogue No More**

In the eyes of US foreign-policy decision-makers the Islamic Republic of Iran is still, somewhat anachronistically, a rogue state, largely, if not entirely, due to a lack of – or defective – knowledge concerning the hostile regime in Teheran.

The rogue state bogeyman came into being in the course of the 1980s, and since the 1990s has played an important role in US foreign and security policy. Such states are considered to be aggressive and undemocratic, seeking to disturb – or destroy – regional or even international structures, and ideologically

and/or pathologically blinkered in their decision-making. Against this background sensitive technologies such as weapons of mass destruction and missiles appear to be likely means of aggression. The bogeyman of the rogue state has a second, instrumental dimension, however. References to such states have always served to mobilize electorates or to justify measures such as the termination of the ABM Treaty in 2001.

The US perception of Iran as a rogue state goes back to Iran's actions in the early stages of the Islamic revolution that were characterized by aggressive export of the revolution and attempts to destabilize the region. Although with the armistice with Iraq and the death of Khomeini Iran's foreign policy experienced a reorientation, which continues despite the revolutionary rhetoric, the image of Iran as an aggressive and unpredictable rogue state remains unchanged. On this basis the prospect of the Islamic Republic acquiring a nuclear arsenal is interpreted in terms of aggression against other states both in and outside the region, while the possibility of defensive aims for the sake of protecting the regime is sidelined.

This static perception can be explained on the one hand by Washington's superficial analysis of its enemy, which must be understood in historical context. The war of attrition against Iraq and Saddam Hussein's containment meant that there was no need for a detailed examination of Iranian motives, actors, and structures, and in any case secret service penetration was and remains extremely difficult, not least due to the lack of diplomatic representation. Iran was viewed as a contained, ailing trouble maker at regional level, whose ruling elite would sooner or later be toppled. Due to Iran's increasing regional weight, the evolutionary regime change that has so far failed to materialize, and the Islamic Republic's nuclear program, however, Washington now appears to realize that it has a lot of ground to make up. Alongside the setting up of an Iran Desk in the State Department the Iran Desk at the CIA has been stepped up and a diplomatic mission opened in Dubai for the purpose of gathering information on Iran. Because of the lack of diplomatic contacts and the impenetrability of the Islamic Republic's political system these efforts are running into difficulties, however. Finally, the image of a risk-prone rogue state is likewise cultivated by the leadership in Teheran. The idea is to deter opponents from intervention through the threat of escalation and annihilation.

### **MICHAEL BRÖNING: Don't Fear the Shiites**

A specter haunts the Middle East: the specter of a Shiite threat controlled from Teheran. Although this thesis appears plausible at first sight, on closer examination it proves to be largely politically motivated.

The main witness of an alleged Shiite threat is developments in Iraq, where in Washington's view Teheran has become the new power holder. Current tensions in Lebanon serve as an example of the destabilizing influence of a Teheran-controlled global Shia, and in Saudi Arabia, too, the Wahhabi elite fears a democratically effected Shiite rise by the grace of Teheran. For advocates of the Shia rise theory a similar situation holds in Yemen: There have been rebellions in the predominantly Shiite populated North since 2004 sponsored by the government in Teheran. The dangerous Shiite crescent ends in Syria, which is perceived as the closest ally of Hezbollah and Iran.

A more detailed examination shows that this thesis is unconvincing, however. The core of the argument relates to Teheran itself. It is simply unwarranted to label Iran a brutal hegemon. It is true that Iran is seeking to flex its muscles in the region, but this cannot be regarded automatically as an attempt to use the Shiites to dominate the region by force.

Key to such erroneous views is a disregard of public opinion in Arab states. A broad majority does not consider Teheran a threat at the moment, not least because Iran presents itself as the sole remaining voice of an uncompromising – originally pan-Arab – resistance to Western policy towards the Middle East.

With reference to Iran's foreign policy there is considerable evidence that Teheran, despite gross provocation, is following a largely pragmatic line. For example, in recent years relations with the Gulf Cooperation Council have improved and even in Iraq Teheran is pursuing essentially reactive-defensive interests.

The confessional dimension of the ongoing conflicts is frequently ignored to the detriment of intraconfessional tensions. But it is precisely the latter that have increased recently and contradict the interpretation of a uniform Shiite bloc.

Generalizations lead to misinterpretation not only in Iraq, however, but also in Lebanon. Here too »the Shia« is characterized by internal tensions. Even the allocation of Syria to the Shiite crescent is far from convincing. For example, it could be argued that the Syrian-Iranian entente is rather a forced marriage persisted in due to the lack of feasible alternatives. Similarly in Yemen: The alleged Sunni-Shia divide loses credibility when one considers that a Shiite has been in power in Sana'a for 30 years without his religious confession ever playing a role.

Alarmist reports to the contrary there is no insurmountable cleft between Sunnis and Shiites in the region, the special case of Iraq notwithstanding.

Voices warning of a Shiite crescent are to be found exclusively in Jordan, Egypt, Saudi Arabia, and Israel; that is, in states that traditionally receive extensive ODA from the USA. Reference to the Shiite crescent therefore can ultimately be understood as a plea for continuing US support. However, as a self-fulfilling prophecy it could further undermine the stability of the whole region in the medium term.

## **BERNHARD STAHL:**

### **Serbia: Driving Blindly towards Europe**

At the Serbian elections on May 11 it was the parties that remain skeptical of EU integration that won a majority. Serbia's distrust of the European Union is still considerable, in particular due to the support for Kosovo's independence among the majority of member states. In Brussels, in turn, the election results have given rise to some helplessness, since the EU's efforts to bring Serbia onto the European path through tactical electoral incentives have failed. According to the thesis, this mutual misunderstanding may be explained in terms of different identities. While the EU understands itself as a »civilization,« which is performance and behavior oriented, integrative, and open to new members, Serbia defines itself predominantly as a status oriented and exclusive »culture.« This explains why Serbia has such problems with the integration of other cultures – such as the Kosovo Albanians – and the extradition of suspected war criminals. Conditionality as a civilization oriented core element of the EU accession process is therefore interpreted as an instrument of humiliation and submission. A transformation of EU policy towards Serbia would therefore appear to be urgent: away from instrumentalization of the accession process to the benefit of individual Serbian parties in elections, and towards a long-term engagement with identity policy, working continually towards a convergence of European and Serbian identities. Elements of such an – admittedly entirely new – approach would include education, history, and media policy, cultural exchange, freedom of travel for students, as well as sponsorship of film making and the arts.

## **ROBERT CHR. VAN OUYEN:**

### **War, Peace, and Parliamentary Authority over Foreign Policy**

From its first »out-of-area ruling« (1994) to the current ruling on AWACS deployment in Turkey (2008) the Federal Constitutional Court has given the government »carte blanche«, as far as possible, concerning the deployment abroad of the German army. It has done this by making the Constitution more flexible, a little at a time: from the constitutional consensus on refusal to the basic permissibility of »out-of-area deployments«; from the narrow classic »collective security« within the framework of the UN to the broad notion of security, particularly with the inclusion of NATO; from NATO's simple mission of collective self-defense to the »extended security concept« of NATO's new strategic concept; and finally from the territorially limited Euro-Atlantic security relationship to globalized security. In this way foreign deployment of the German army is possible by a simple parliamentary majority, almost without restriction in terms of both territory and content. The Constitutional Court is hereby operating on the supposedly »realistic«

assumption that, following John Locke's »federative power,« international relations constitute a Hobbesian state of nature between states (= governments). Only against this theoretical background of a »liberal conservative statism« can it be understood why it can simply postulate a foreign policy »government domain« and release foreign policy from parliamentary control as far as possible. Although the Constitutional Court regularly refers to its ruling on the »NATO twin track policy« (1984), even there there are only very general references and assumptions in this respect. Moreover, the line taken by the Court is not in keeping with the structure of the Constitution and German law: Not only is the Basic Law – in contrast, for example, to the US Constitution – not a »flexible,« but rather a »rigid« Constitution, with the frequent need to go to the trouble of making constitutional amendments, but in relation to German legal culture, which is characterized by a profusion of detailed regulation, it is astonishing that foreign policy in particular should simply be left to a »creative« reason of state in the tradition of the nineteenth-century authoritarian state. No argument justifying why parliamentary approval in a constitutional democracy should not also apply to foreign policy has yet been forthcoming.

### **HERIBERT KOHL:**

#### **Where Do Trade Unions Stand in Eastern Europe Today?**

The transformation of formerly socialist countries in Central and Eastern Europe presented trade unions with an enormous challenge. Their status as mass organizations with a clearly defined mandate from the state suddenly disappeared in 1989/90. The first restructuring phase in the 1990s was characterized by introduction of the market economy, competition, privatization, start-up companies, and job cuts, and, in association with this, the unions were compelled to engage in social dialogue with governments and employers in order to renegotiate working conditions and pay. In addition, countries in the region were required to transpose Community law (*acquis communautaire*) and to integrate into transnational contexts in the run-up to EU accession. This two-pronged pressure to modernize stretched labor organizations' ability to adapt and innovate in the extreme. They had to build up new structures of industrial relations in a short period of time – something that had taken Western Europe decades to develop. This led to differences in union structures and capacity-building, and to different outcomes of their distributional and representational policies.