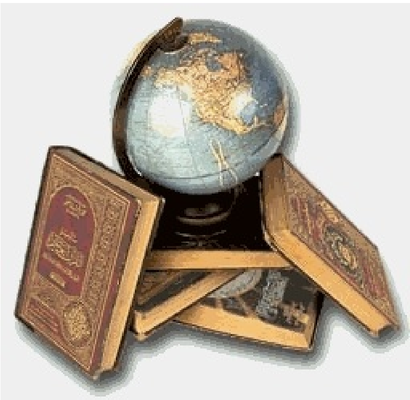
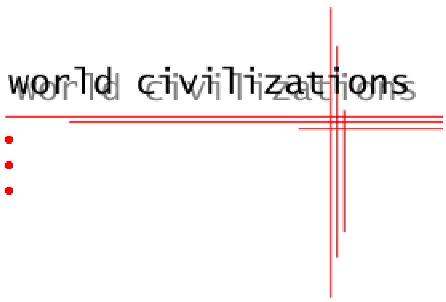
SCHUMPETER BOOK: THE THEORY OF ECONOMIC DEVELOPMENT (1912/1934)

December 5, 2007 at 1:05 pm | Posted in Books, Economics, Financial, Globalization, History, Research | Leave a comment





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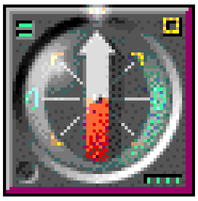

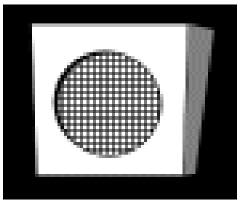

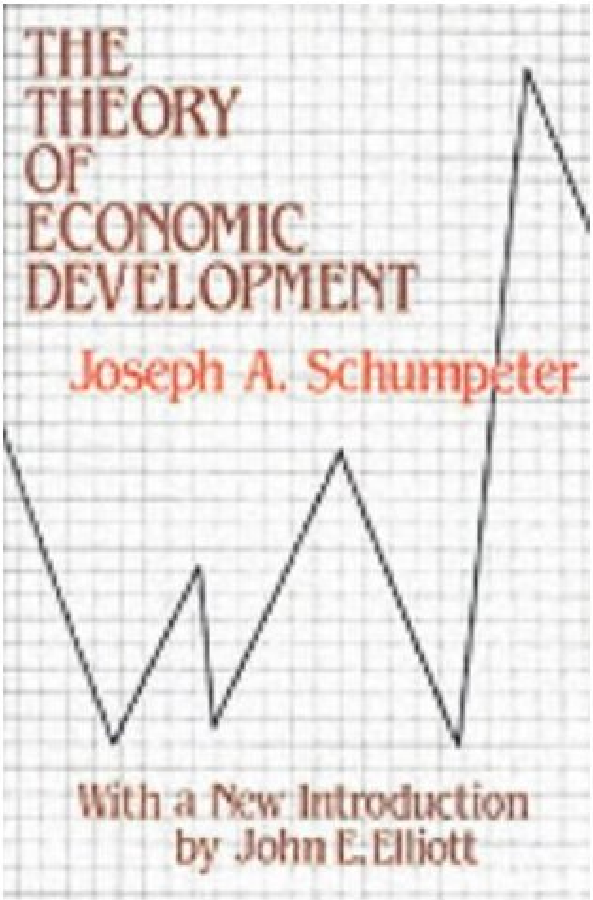

The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle (1912/1934)

Joseph A. Schumpeter (Author)

Product Details:

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Schumpeter's explanation of economic progress

This book provides a useful corrective to some of the shortcomings of the so-called Austrian theory of Capital and the Business Cycle. Schumpeter, who studied under the great Austrian economists Bohm-Bawerk, was too much of an

independent thinker to be part of an economic movement or school. *The Theory of Economic Development* is his declaration of independence from Austrian capital theory. In the book, he introduces a theory of development and the business cycle that shocked his more orthodox colleagues. Economic development, Schumpeter argues, involves transferring capital from old businesses using established methods of production to businesses using new, innovative methods. Schumpeter's special insight comes in trying to explain how the transfer of capital from the old to the new takes place. Schumpeter argued that it takes place through credit expansion. Through the fractional reserve system, banks are able to create credit, quite literally out of thin air. This money is lent to businesses specializing in new methods of production, who then bid up the price of production goods and consumer goods in their effort to pay for the production goods they require. Thus a form of inflationary spoliation takes place at the expense of established businesses and consumers. Although Schumpeter does not draw the spoliation inference from his theory, it is nonetheless there in the text for all who can see. Credit expansion is a form of spoliation, a form of robbery hardly distinguishable from counterfeiting. But what is unique about the capitalist engine of production is how it uses spoliation in the service of progress. And not merely spoliation through credit expansion, but spoliation through protectionism, stock manipulation, corporate welfare, cartels and monopolies, and outright fraud and manipulation. Schumpeter's book sheds light on just one aspect of this spoliation, and from this stems the book's vital importance to economic theory.

Dynamics and Progress

The Theory of Economic Development represents a high point in the history of economic science. Schumpeter had a clear understanding of the difference between static and dynamic issues in economics, and an appropriate appreciation of the latter. This book also shows how advanced Schumpeter's thinking was. On page 10 Schumpeter appears to anticipate the modern definition of economics- 20 years before Robbins wrote his *Nature and Significance of Economic Science* (was this in the original edition, or just in my 1934 reprint?). Chapter one sorts out *Say's Law of Markets* in detail, and explains its static nature. Chapter two explains economic development in correct dynamic terms (unlike the pseudo-dynamics of Neoclassical growth theory). Schumpeter is able to explain dynamics because he examines entrepreneurship (and vice versa). Schumpeter also leaves room for real institutions, especially financial markets.

Schumpeter was interested in matters of great consequence and thought about them deeply. There is simply no comparison between Schumpeter's insightful analysis and the tedious and purely imaginary intellectual constructs of Solow influenced math modelers. There is a clear difference between Schumpeter's analysis and the intellectual gymnastics of modern mathurbationists. Schumpeter was a true professional.

I was somewhat surprised by the extent to which Schumpeter's ideas fit with the ideas of Mises, Kirzner, and Lachmann. Schumpeter is often seen as an Austrian born Walrasian instead of as an Austrian economist in the Menger-Mises-Hayek tradition. There are clear Austrian influences on Schumpeter's thinking, though he was not a Mises clone. I was already impressed with *Capitalism, Socialism, and Democracy*. Schumpeter was a true genius, and an economist on par with Ricardo and Hayek. Read this book to learn some development economics, and a little intellectual history too.

On the Economic Causes of Business Cycles

In this important book Schumpeter explains the ECONOMIC origins of business cycles. In a convincing way Schumpeter argues that business cycles are inevitable in a developing economy.

This does not mean that there are no other causes of business fluctuations such as changes in commercial policy, wars, inflationary government finance or panics. But these constitute non-economic data and cannot be explained by economic theory.

Conventional macroeconomic theory tends to explain business cycles by some kind of error and focus on correcting this error either by active policy or by advocating a hands-off policy. In this view business cycles have no function.

In a stationary, non-developing economy (i.e. absence of innovations) there would be very little uncertainty. If you and your competitors have been selling essentially the same product in the same market year in year out and if this were to apply to all products and services would there be any economic risk (fires, epidemics and tax increases are non-economic data) left ? Were there any true economic causes, i.e. causes that economics can explain, of business cycles in the Dark Ages ?

There is still something to be said for Keynesian theory (although not for policy) in that uncertainty does influence investment decisions and that because of uncertainty in a monetary economy some hoarding of purchasing power does occur. But these are mere symptoms of underlying endogenous business cycles caused by the inflationary investment booms – "animal spirits" if you like – invoked by the swarms of innovating firms, e.g. the internet bubble, and the deflationary busts that follow when the old firms die off and yesterday's innovators become part of the stationary cycle. Schumpeter explains the origins of economic uncertainty.

What Schumpeter teaches us is that booms and recessions are necessary phenomena in developing economies, that can't be removed or corrected if we are not to thwart the creation of new wealth by innovation. Recessions are the price we pay for long term economic growth. However, recessions can lead to unnecessary panics that cause unnecessary harm to the economy. Here governments or central banks are able to, and should in my view, correct.

The Theory of Economic Development: An Inquiry into ***Profits, Capital, Credit, Interest, and the Business Cycle*** (1912/1934)

Joseph A. Schumpeter (Author)

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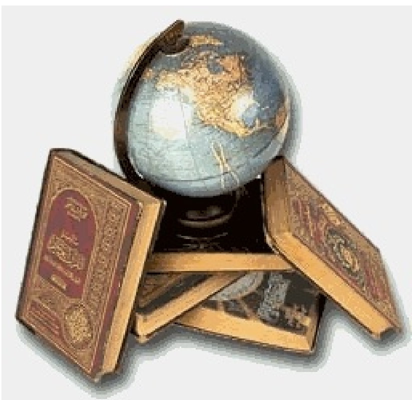
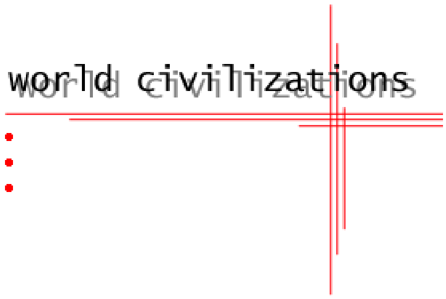
December 4, 2007 at 8:31 pm | Posted in Economics, Financial, Globalization, Research | Leave a comment





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GLOBAL CARBON MARKET

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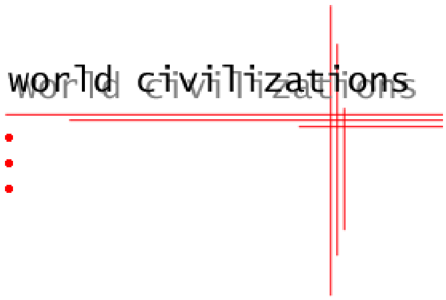

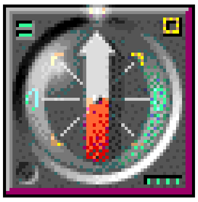

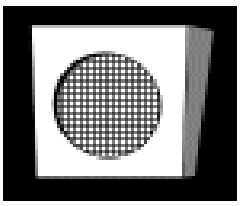

Establishing a Global Carbon Market
Geneva, 4 December 2007

Tue 12/04/07

Establishing a Global Carbon Market

Read the press release online:

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A discussion on linking various approaches to create a global market" (PDF 2.6 MB):

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Geneva, 4 December 2007 – Carbon markets are increasingly a key feature in national climate policies. Their design and implementation reflect differing imperatives between developing and developed nations, raising questions about how they are developed and what it would take to link them together into a single global carbon market. "Establishing a Global Carbon Market: A discussion on linking various approaches to create a global market," the latest thought piece by the WBCSD, explores the possibilities for linking differing national approaches. The paper supplements Policy Directions to 2050, in which the WBCSD outlines a proposal for a new post-2012 climate agreement and identifies the establishment of a global carbon market as one of its key elements. "Cap-and-trade" systems, carbon taxes, renewable energy obligations and technology standards are among the myriad emissions management approaches being proposed and used at the national level, each resulting in a different cost of carbon emissions. Linking different emissions management approaches together could create a single market and single cost for carbon emissions, and provide equal access to low-cost reduction opportunities in both developed and developing nations. The paper identifies a secure and integrated international regulatory framework post-2012 with a deliberate multilateral approach to linking as key to establishing a global carbon market. The development of a global registry and market instruments allowing international trading and an expanded role for project-based mechanisms (such as the Clean Development Mechanism under the Kyoto Protocol) would be a core element of a global carbon market. Going forward, it could be broadened to include sector-wide programs. This is all the more important, given that different countries have different carbon emissions levels. In some countries, especially newly emerging economies, emissions are on the rise, while in others they are reaching a plateau or reducing. Therefore, linking the different markets and mechanisms could offer an opportunity to capitalize on the positive synergies that exist between them and ultimately lead to the creation of a global carbon market modeled on financial markets. Additional elements such as equitable pricing measures, penalties for non-compliance, facilities for banking and borrowing, requirements for monitoring and reporting, and offset policies would also need to be addressed. A global carbon market also needs an oversight body and to be subject to stringent checks and balances, again like those that regulate global financial markets. "If done well linking national or sector based initiatives in various parts of the world and establishing a global cost of carbon could unlock enormous efficiencies, providing access to lowest cost abatement opportunities by developed and developing countries alike," suggests David Hone, WBCSD Associate and Climate Change Adviser at Shell International.

The WBCSD will profile *Establishing a Global Carbon Market* at the UNFCCC Bali COP MOP during its official side event on Tuesday 11 December 2007 at 13.00 in the Solar Room at the Grand Hyatt. For further details please contact Thorsten Arndt, Manager Communications WBCSD on +41 22 839 31 70 or email arndt@wbcsd.org.

wbcsdpressupdate@group.wbcsd.org

Margaret Flaherty (flaherty@wbcsd.org)

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Establishing a Global Carbon Market

Margaret Flaherty (**flaherty@wbcsd.org**)

wbcsdpressupdate@group.wbcsd.org

Establishing a Global Carbon Market

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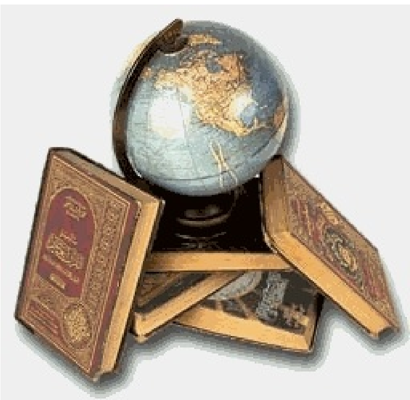
IRAN ENVIRONMENTALISM: GOZAAR

December 4, 2007 at 10:22 am | Posted in Iran, Oil & Gas, Research, Science & Technology | Leave a comment



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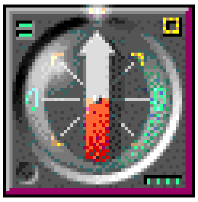

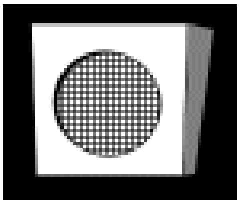

Gozaar Issue on Stewardship of Natural and Cultural Resources

Mon 12/03/07

Dear *Gozaar* Reader,

The latest issue of *Gozaar* is dedicated to the stewardship of Iran's precious natural and cultural resources, examining how a government that is not accountable to its people not only tramples Iranians' human rights but also fails to protect their environment and cultural heritage. MIT professor Dara Entekhabi and environmental NGO director Dr. A. Pezeshk examine the ignorance and indifference which characterize the attitudes of Iran's government, industries, and the public itself toward the environment. Luisa Molina and Robert Slott share lessons learned from other cities which have dealt successfully with air pollution. Writer and advocate for the preservation of Iran's cultural sites Shokouh Mirzadegi and journalist Shahram Rafizadeh describe the importance of preserving Iran's cultural past and the failure of Iran's government to do so. Behrouz Hosseinpour examines Iran's gasoline imports and consumption over several decades to demonstrate mismanaged government policies and the politicization of Iran's gasoline.

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Many thanks for your continued support of *Gozaar,*

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Gozaar Issue on Stewardship of Natural and Cultural Resources

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RUSSIAN ECONOMY: CARNEGIE MOSCOW

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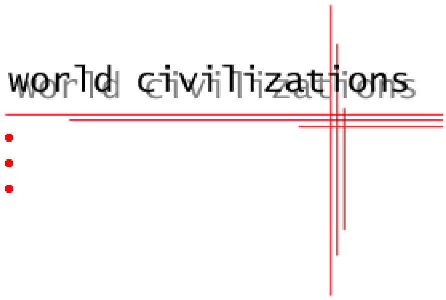

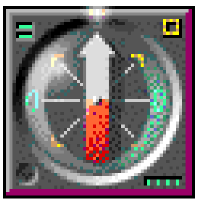

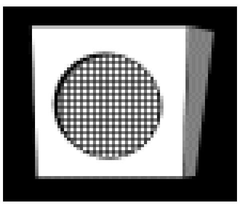

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SUCCESSOR'S BURDEN

Nikolay Petrov

Corporatism vs. regionalism

In the two terms of Vladimir Putin's presidency, the country has been transformed from a free-for-all of regions to a free-for-all of state corporations. The currently consolidating model of a corporativist oligarchy embodies the primacy of corporate bureaucratic interests over those of the state as a whole. While the previous system had legitimate, if poorly functioning, mechanisms of regional representation, the representation of corporate interests is neither formalized nor legitimated. The corporations simply reshape for their own needs existing institutions, such as the Federation Council and, with the introduction of proportional representation, the State Duma.

Kirill Rogov

The unacceptable successor

In order to prove his ability to control the elite as a distributor of resources, the new president will have to alter significantly the current distribution. Moving resources and property from one set of hands to another is the only way the 'successor' will be able to claim his full inheritance and follow Vladimir Putin's path from successor to successor maker, building his own 'loyalty vertical' in the process. And the reverse is true, too: if he resolves to maintain the current distribution of property, the new president will in effect refuse the mantle of arbiter of property rights. Such a refusal, however, would allow a return by property holders and other resource distributors into the political game, as their property rights will have been proven stronger than the president's 'right of force'.

Aleksey Makarkin

Russian elites and free radicals in the Kremlin

Vladimir Putin intends not only to remain very much in charge right up until the end of his second term, but also to maintain a significant degree of influence on state policy even after he leaves the presidency, including through the use of personnel. With a weak successor, as the founding father of the current political regime Putin will remain, if not a political demiurge, then at least the main arbiter between the 'free radicals' who currently make up his inner circle. That being the case, none of them will be able to take a dominant position.

Mikhail Krasnov

The constitution and Russia's political life

The new president has, as yet, no basis on which to transform the way power is configured in Russia, i.e. to undertake true constitutional reform. The problem is that the current ruling class (from which the successor hails, regardless of his prior place of employment) sees no causal relationship between the uncertainty of politics – from which the elites suffer alongside society at large — inefficient management, corruption, the weakness of parliamentary institutions, the legal system and so on, and the constitutional structure of power.

Boris Makarenko

Russia's 'nano-party' system

An optimistic view of the development of the political party system would see a withdrawal from today's 'nano-parties' and a gradual expansion of pluralism, the growth of party competition, and, eventually, an increased role for parties and the parliament in political life. In such a scenario, competing elite and societal interests would be able to do battle for power without risk of unbalancing the political system. A pessimistic view would see the stagnation of the current setup, maintaining the monopoly of a single 'party of power', which over the years would become increasingly artificial, coupled with the bureaucratic repression of clearly developing pluralism.

Vladimir Ryzhkov

Sloth and cowardice in the Russian parliament

While Russia's constitutional design may be unfortunate from the point of view of institutional development, it is nonetheless not an insurmountable obstacle to democratization. Even the simple, formal performance of the Federal Assembly's constitutional functions could seriously alter the political climate in Russia for the better. Moreover, the increasing complexity of Russia's social and economic structure, the growing ambitions of various sectors of the elite, and the deepening failure of the vertical bureaucracy to manage the country will also militate for an increased status for the parliament within the political system.

Aleksey Titkov

The crisis of gubernatorial appointments

For governors, the 2004 reform that did away with direct elections for regional leaders appeared to be a long-awaited respite, a true salvation from direct elections, However, the past year has shown that the current system for removing and appointing governors is becoming less and less predictable, while the position of the governors themselves is becoming less assured. Each of them can at any moment be removed from office. If things continue to develop in this direction, not only will the center be unable to manage the system of appointments, but the governors themselves will be disinclined to play the increasingly risk game of "he trusts me, he trusts me not".

Leonid Grigor'ev

Coalitions and conflicts of interest

On a rhetorical level, modernization has broad support and almost no opponents, although each has his or her own interpretation of what it means. In actuality, strategies of modernization are among the most difficult – and thus the least likely – to be achieved. Modernization presumes significant costs for many actors, while the positive effects for the country and the economy are delayed, requiring patience on the part of citizens. Modernization is impossible without strengthening civil society, without the parallel institutionalization of the market and the state, and without increasing the effectiveness of business.

Andrey Yakovlev, Timothy M. Frye

Reforms in Russia: A business-eye view

In the early 2000s, the Russian economy managed to break out of the barter trap. However, increased external competitive pressures are again creating policy choices. One could react to increased competition through new defense mechanisms, such as the informal business networks that are evidently consolidating in the regions. In that case, modernization will push ahead, but the emphasis will be on one's own resources, while all external investors will be viewed with suspicion. In the long term, however, such tactics risk setting Russia back in time.

Vladimir Milov

Bottlenecks in the Russian economy

By reserving control over infrastructure for itself and limiting the inflow of private investment, the state takes full responsibility for the development of this sector of the economy. However, there are serious doubts as to the sufficiency of the budgetary system to manage a sharp increase in infrastructure financing, leaving aside the low efficiency of the practice itself, and the lack of modern management techniques among state structures.

Evgeny Gontmaher

The social risks of political inertia

The key factor for the enactment of even minimal social reforms will be whether the incoming political elite will take upon itself responsibility for the fate of the country, rather than plunging into a new round of property redistribution, arranging for themselves a comfortable living, including in various cozy corners of the non-Russian world. Unfortunately, the 2007-2008 political campaign is unlikely to bring a responsible elite to power. And that means that Russia will be unable to avoid another round of economic, social and political upheaval.

Bottlenecks in the Russian economy

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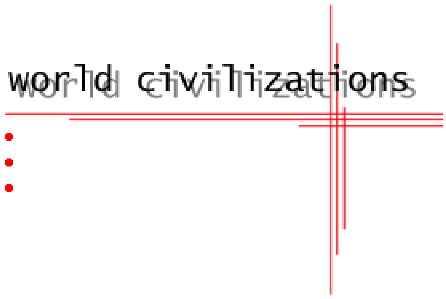
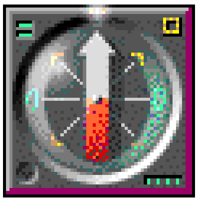
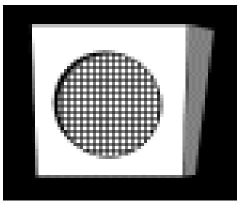
BRAZIL ECONOMY

December 3, 2007 at 12:42 pm | Posted in Brazil, Economics, Financial, Globalization, Research | Leave a comment







Brazil – Investor Relations Group

Focus – Market Readout – November 30, 2007

Mon, 03 Dec 2007

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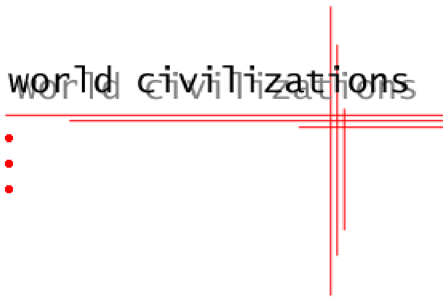

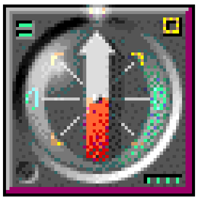

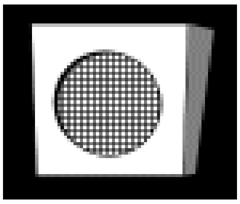

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Dear customer,

Kindly find attached our daily "Market Snapshot" from Treasury.

We hope that you will find it interesting reading and welcome your valuable feedback on the issue.

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"Market Snapshot" from Treasury

GLOBALIZATION: CAMBRIDGE FORECAST GROUP

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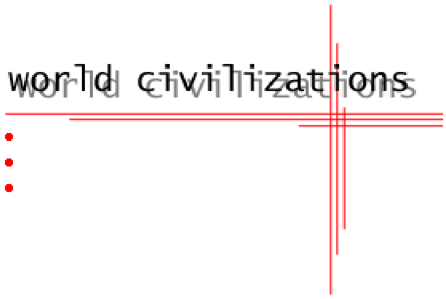

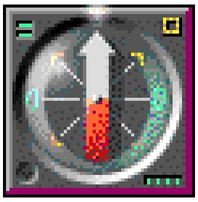

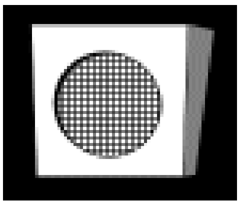

Globalization

AND THE CURRENT CRISIS

CONTENTS

GLOBALIZATION AND SUSTAINABLE ECONOMIC GROWTH

Introduction

This handbook presents a brief geographical and historical overview of the various financial/ political crises, which have been taking place in the world lately. If you've been feeling confused by them, the following material might be helpful

A Brief, Long-Term History of Globalization

"Globalization" is not an entirely new phenomenon. Defined broadly, globalization, for better or worse, is simply the recurrence (this time on a global scale) of a process of political /cultural/economic consolidation, that has occurred many times in the past, on a very large regional scale. (i.e. the sinification of the Chinese subcontinent, the Aryanization of the Indian subcontinent, and the Hellenization of the Near East and the Mediterranean world.) "Globalization" is simply the 500-year period of Europeanization (and later Americanization) of the rest of the world.

European civilization's five hundred year period of technological progress and geographical expansion has often been called unique, unparalleled in human history, completely different from anything in pre-European or non-European societies. This is not quite true however. Chinese civilization did undergo a similar process some 2000 years earlier, during its so-called "period of warring states" (500-250 B.C.). Competition between the "warring states" led to rapid technological and economic advance. It also led to massive geographical expansion via colonization (because of an outflow of refugees from the wars). Europe's period of state formation, on the other hand, occurred 2,000 years later than China's. Europe was thus heir to an additional 2,000 years of global technological and social advance. Because of advances in naval technology, and because of global linkages created by Arab and Mongol conquests, Europe's expansion took place on a global rather than on a regional scale. Thus, whereas China's "late start" (its iron age began in 500 B.C.) enabled it to develop a particularly successful and durable form of the "tributary mode"

1.

Agricultural universal empire. See Samir Amin, *Eurocentrism*, Monthly Review Press, 1989.

Europe's "late start", 2,000 years later, enabled it to transcend the "tributary mode" altogether, and progress to industrial capitalism.

In other words, "Globalization" is nothing more than the five hundred year period of "Europeanization" (and, more recently,

”Americanization.)

2

In his book *The World’s First Universal Nation*, Ben Wattenberg makes the point that (in some respects), America is the industrial world’s first “universal empire”, more akin, in some ways, to ancient Persia or imperial Rome, than to a European “nation state”. America is, in effect, a “global empire” which, it must be added, is governing the world in a more and more chaotic and capricious manner, because many of America’s politicians and their constituents don’t even want to admit that there is an outside world. (that the world has been subject to.)

The globalization process was accelerated dramatically during the industrial revolution. By the beginning of this century, it had evolved into a system of global capitalism, linking together armed, mutually hostile industrial states and moribund empires (which were themselves rapidly industrializing even as they disintegrated). The globalization process collapsed temporarily during the catastrophes of the 1914 – 1945 period. It resumed again in 1945, under American hegemony, and was again dramatically accelerated by the post-war “technological revolution” (computers, transistors, containerization, the “green revolution”, communications satellites and the integrated circuit).

Globalization Since 1945

Contemporary critics of globalization usually do not begin with a 500-year history of the West’s rise to global dominance. Wolfgang Sachs, for example, (*The Dictionary of Sustainable Development*, Zed Books, 1992) concentrates his attention on the consequences of the ideology of “developmentalism” promulgated by Truman in the 1940’s and adopted by the Third World elites
3

“Developmentalism” is the idea that the Third World equals the pre-industrial West, and, therefore, it can(and should) “catch up with the West” by the use of the science and technology discovered by the West. However,to paraphrase Samir Amin, (*Re-reading Postwar History*, Monthly Review Press, 1994) the point is not to “catch up” with the West, but to “do something different”.

David C. Korten, on the other hand, (*When Corporations Rule The World,* Kumarian Publishers, 1995) discusses the derangements brought about by the last twenty years of globalization.

4
The global economic consequences of the integrated circuit, i.e. the global financial revolution and the spread of the “global factory”.

Neoliberalism

When most people use the term “globalization”, they really mean “neoliberalism”. Neoliberalism (or “globalization” if you will) has attracted widespread criticism in recent years from such diverse sources as Pope John Paul.

“Various places are witnessing the resurgence of a certain capitalist neo-liberalism that subordinates the human person to blind market forces and conditions the development of peoples on those forces. In the international community, we thus see a small number of countries growing exceedingly rich at the cost of the increasing impoverishment of a great number of other countries; as a result the wealthy grow wealthier, with the poor grow ever poorer. For many of the political and economic systems operative today the greatest challenge is still that of combining freedom and social justice..” Pope John Paul, *NYT* 1/26/98

Ralph Nader, and (believe it or not) financier George Soros. The thrust of this criticism is that neoliberalism puts all of global society and all of global ecology onto a roulette wheel known as the "global capital markets", and spins this roulette wheel, with God knows what consequences to the human future.

However, the point here is not to criticize neoliberalism, whose failings by now should be apparent to everyone, but rather to describe what it is, how it came about, and how it is likely to change.

First of all, the "liberalism" in neoliberalism does not mean "New Deal/Great Society" liberalism. It means "19th century British liberalism"; the policy of laissez-faire economics within nations, and the free, unfettered flow of commodities and capital between nations. "Neo"-"liberalism", thus, means the late 20th century version of 19th century British liberalism; the privatization of the economies within nations, and the free, unfettered flow of commodities and capital between nations. Neoliberalism is usually portrayed as an inevitable consequence of changes in communications technology, the inevitable yielding of governments to the unstoppable "global marketplace". Neoliberalism, however, is actually a global political construct, whose purpose was to regulate the process of globalization to (short term) U.S. advantage. It has far more to do with the U.S. political process, than with some Svengali-like takeover of national governments by multinational corporations.

Here is how it came about. At the 1979 economic summit in Belgrade, an elaborate scheme of Western/OPEC financial coordination was worked out to end global inflation and refinance Third World debt, without at the same time, collapsing global economic demand. Although this scheme involved a certain loss of US financial hegemony, it was reluctantly accepted by the Carter administration in the summer of 1980.

5.

The hang up was Saudi insistence on PLO observer status at the IMF. In much of the non-Western world, however, the prospect of a Western/OPEC recycling agreement to bail out Third World debt and tame global inflation, presented "a window of opportunity" to both create a stable, commodity-based, global monetary system (based in fact on oil), and also to resolve the Israeli/Palestinian dispute, (the PLO, at that point, had a least the vestiges of a working government and also a sizable amount of cash to finance such a government).

There was much discussion of this plan in the mainstream business press. For example, a *New York Times* article (June 23, 1980) discussed how European heads of state voiced support for Western/OPEC cooperation to address world economic problems and in light of that, also for a timely resolution of the Israeli-Palestinian crisis. By the end of 1980, however, this scheme was increasingly thrown into doubt by the outbreak of the Iraq/Iran war. In 1982, it was finished off entirely by Israel's invasion of Lebanon.

After two years of blundering, the Reagan administration patched together an alternative to Western/OPEC financial coordination. Interest rates were kept very high, but were no longer increasing exponentially. A massive tax cut was accompanied by a massive increase in military spending, keeping U.S. consumer demand high. The American market was thrown open to all comers. In addition, foreign exporters were given a competitive advantage by the high dollar.

America, thus, became the world's "lender and importer of last resort". Third World debt continued to grow, but was increasingly being dwarfed by U.S. debt. In essence, Reagan "bribed" large parts of the American middle class and large parts of the Third World bourgeoisie, and did so "on tick" (by borrowing from countries with trade surpluses). In this way, he established a sort of “global consensus” for his policies.

The Reagan administration set to work on a long term approach to North/South economic relations, an approach that was later to become known as “neoliberalism”, or the “NAFTA/GATT” approach to North/South economic relations. Under neoliberalism, the rich countries agree to open their markets to labor intensive Third World manufactured exports, in return for which Third World countries agree to remove restrictions on private outside capital placements. Markets are also opened for high-tech products and services. (The winners the U.S., the losers potentially everyone else .

The factors that enabled the NIC’s to succeed, agrarian reform, protection of infant industries, massive amounts of non-private economic stimulus (through US Cold War spending in those areas), tight control of cross-border capital flows, are either prohibited or discouraged under neoliberalism. China, for example, has grown exceptionally rapidly precisely because it did not play by the rules of neoliberalism.

Neoliberalism was conceived by the Reagan administration, pushed forward by the Bush administration, and brought to completion by the Clinton administration, by the passage of NAFTA and then the Uruguay Round of GATT. Neither Reagan nor Bush were terribly anxious to talk about neoliberalism while it was still a “work in progress”. Reagan relied heavily on theatrics and distractions (i.e. blowing out of proportion issues such as abortion and church-state relations). Bush, on the other hand, relied on secrecy (the stealth presidency) and later on military triumphalism (the Gulf War and the glorification of the U.S. army). It was left to Clinton, to openly and directly adopt neoliberalism as one the leading policies of his administration.

Here is a brief discussion of the world monetary system from the 1945 to the present. Political, social and economic factors will be brought in when necessary. The Bretton Woods monetary system wasdeveloped by the U.S. and Britain during the closing years of the second world war. The international reserve currency was to be U.S. dollars, and dollars were to be convertible to gold bullion at a fixed rate. If a country (other than the U.S.) lacked the dollars necessary to support its currency, it might be forced to devalue its currency (as Britain did in the mid-1960’s). The IMF was an international lending institution that extended temporary loans to countries in order to enable them to support their currencies. . The Bretton Woods system was known as the “dollar-gold” exchange standard. It’s purpose was avoid the competitive devaluations between nations that contributed to the global depression of the 1930’s.However, in the later half of the 1960’s, the U.S. financed both the Vietnam War and a massive increase in social spending largely by means of monetary creation. The number of dollars in global circulation increased enormously. By 1969, it had become apparent that the U.S. could not possible honor the gold backing of the dollar. In 1971, Nixon acknowledged that fact by devaluing the dollar, By 1973, the dollar was no longer backed by gold and the currencies of the G7 industrial countries were “floating” that is trading openly with each other according to supply and demand. Meanwhile the industrial world had become more and more dependent on the oil exports of Third World nations. Since the war, these countries had been pumping out more and more oil (which was priced naturally in dollars) at a dollar price which did not reflect the massive post-WWII, Korean and Vietnam war dollar inflations. These countries found themselves selling more and more of a depletable resource at a lower and lower real price. At the end of 1973, these countries met to raise the oil dollar price to in order to compensate for the drop in real oil price that had occurred since 1945. At this point, the dollar rose against other currencies, since oil was priced in dollars. In short, the early 1970's were a period of extreme price and monetary instability. Many observers, in the belief that global trade and production could not possibly be carried out amid such price volatility, predicted a global depression. How, they asked, could businesses possibly make production and investment decisions amid such price uncertainty? There was a spate of popular books about the upcoming world depression and how to protect oneself against it. Most of these books advocated a return to the gold standard. And, indeed the world banking system suffered enormous foreign exchange loses, and Japan, heavily dependent on cheap oil, was thrown into a deep recession. And yet the dire predictions of these books turned out to be wrong (or at least several decades ahead of their time). Why? The reason for this was another development that had occurred in 1971, a development that attracted far less attention than the dollar devaluation, and yet an event that was to be just as significant, namely the invention of the integrated circuit, the so-called computer on a chip. This dramatic advance in computer technology allowed companies and banks to operate in the face of price and monetary instability, by vastly expanded data collection, and the use of financial hedging instruments. In fact, the climate of monetary and price instability, together with the recently developed computer technology, touched off a "financial and information revolution". An enormous global financial and speculative economy blossomed. The volume of global monetary and financial transaction began to vastly exceed that which would be needed to finance physical global trade and investment. All this spawned new financial instruments, which, in turn stimulated computer technological advance, which in turn led to more financial instability, etc. in a self-perpetuating cycle. Computer manufacture soared, with the labor intensive parts of such manufactured increasingly being farmed out to Third World countries. A whole new area of Third World exports was created.

In short, the collapse of the Bretton Woods system did not, as was predicted, lead to a "global depression", but rather it led to a long and complex period of "global stagnation", with volatile and rapid bursts of economic growth distributed very unevenly distributed across regions, sectors and times

The oil price rise of 1973 touched off a short sharp American recession in late 1974/early 1975.This recession brought dollar inflation down dramatically. Meanwhile, dollars began to pour into the oil producing countries, who then deposited these dollars into short term U.S. bank account. Under the encouragement of the Carter administration, U.S. banks began to use this money to make short-term loans to Latin Countries, which allowed these countries to keep up their imports of U.S. products. In many cases, this short term Latin debt rapidly became "flight capital" which then poured back into the U.S. economy. In other cases, this debt went into financial speculation. Borrowed dollars were converted to, say, Chilean currency which carried a higher rate of interest than the dollar, and then reconverted to dollars in order to repay the loan (the so-called "Chilean bicycle") The global supply of dollars once again began to soar, the dollar exchange rate to fall, and the real price of oil to drop. As Carter economist Lawrence Klein put "we can print dollars faster than the Arabs can raise the oil price". Japan and Europe, keeping their own currencies high to lower the real price of oil, responded by exporting to the U.S., OPEC and other Third World countries. Meanwhile dollars continued to pour into OPEC countries.The surge of dollars into the populous country of Iran, eventually caused such inflationary derangements to the local economy that people in the countryside began to suffer from hunger and malnutrition even as the Shah pocketed billions.. This combined with the Shah's ill conceived and catastrophic land reform led to the Iranian revolution in late 1978, the collapse of Iran into political chaos and a drastic reduction in its oil output. Once again, in 1979, the price of oil was sharply increased. Dollar inflation in the United States rose into the double-digits, and the amount and velocity of global dollar circulation increased astronomically. A double digit inflation in what was still the world's main reserve currency was considered by most leader in the industrial countries as intolerable, something that could lead to "global hyperinflation", a flight from all currencies into oil, gold, and commodities, something beyond the capacity of the global financial and trading system to cope with..

The U.S. faced a dilemma. If the U.S. Federal Reserve took action to reign in the world oversupply of dollars, the world economy would go into slump, dollar interest rates would soar to God knows what levels, and Third World short term debt would begin to grow exponentially as short-term loans had to be constantly refinanced at higher and higher interest rates. How could the Third World possibly export its way out of this debt with the with the world economy in recession?. Unilateral U.S. tightening would lead inevitably to a steep global slump and a severe solvency crisis in the U.S. money center banks which were heavily exposed to Third World debt. The world economy stood poised between hyperinflation and global credit collapse. The only way out of the dilemma seemed to be a deal between OPEC, the United States and the Third World debtor countries, in which OPEC would use its "petrodollar surplus" in order to refinance Third World debt into manageable, long-term Third World debt. This would "sop up" the world's excess supply of dollars and tame global hyperinflation. Third World import markets would shrink but not collapse. OPEC would be guaranteed a long-term flow of "hard currency" and would be coaxed into world finance as a diversification away from exports of depletable oil. Along with this plan (broached at the IMF meeting of 1979) various forms of official North-South capital transfer were discussed in order to keep up global demand. In short, International monetary and financial negotiations seemed to be headed towards a sort of "social democracy" on a global scale.

It certainly doesn't take a political genius to see the political obstacles to these developments The Carter administration vacillated. It flirted with OPEC/Western financial coordination, tried to pressure the Begin government toward a settlement with Palestinians, advocated a 100 billion dollar synthetic fuels program, talked about "energy shortages" (which didn't exist), and finally lost the election to a figure that was considered a "right wing" extremist by most Americans.

The incoming Reagan administration (a coalition of global business interests and right wing populists of all stripes) understood immediately that there was no "energy problem", but a monetary problem; a "flight from dollars into oil." Oil was playing the role of an "international reserve currency".The goal of the administration was not to formalize this role, but to end it. But how? A conflict about this question broke out between the various factions in the Reagan coalition, corporate budget-balances,monetarists, gold bugs, supply siders, cold war "Arabists", cold war "Zionists" (neocons), etc. The infighting became extremely chaotic. Reagan quipped that, in his administration, "the right hand often doesn't know what the far-right hand is doing". A huge "supply-tax cut", was accompanied by a huge rise in military spending. The Federal Reserve slammed on the monetary breaks to stem inflation. Social spending was cut for the lower classes, but left intact for the middle class. Federal debt began to balloon. All this financial volatility and uncertainty continued to stimulate the U.S. information and service economy. The American business press talked about the "segmented economy." A new "age of information" was proclaimed with the implication that the U.S. could be carried along by the growth of the computerized service economy, whatever happened in the rest of the world. Meanwhile liquidity was being sucked out of the world economy, as administration officials continued to bicker about approaches to this crisis. the CIA and Pentagon advocated U.S. recognition of the PLO to facilitate U.S./Saudi financial coordination, while figures in the National Security Council advocated an Israeli invasion of Lebanon to destroy the PLO. Hardline monetarists, such as Beryl Sprinkel (or, as he later came to be known, "Beryl the peril") advocated a drastically tight monetary policy, come what may.

Finally, in the summer of 1982, an Israeli invasion of Lebanon in June was followed by the outbreak of the Third World debt crisis in August. Leaving aside the question of whether this debt crisis was a "liquidity crisis" or a "solvency crisis", it clearly posed a threat to the world financial system The administration, together with the Federal Reserve, was now forced to find a solution. The solution was to use the ballooning U.S. deficit as a "Keynesian engine of growth" for the world economy. However, this time, the deficit was not to be financed by monetary creation, but rather by Federal borrowing. The collapse of the Latin economies, the intensification of the cold war, the Iraq-Iran war, and the Israeli invasion of Lebanon, left world politics in such an unsettled state, that U.S. debt became a "safe haven"for investors all over the world. Enormous amounts of U.S. debt now could be marketed without constantly raising interest rates. The "recovery of 1982″ began. A gigantic U.S. directed global financial manipulation was hailed as a "spontaneous recovery"..The official ideology of the Reagan administration was now to be "recovery-ism". "It's morning in America." "America is back." "America is number one again.," (As it had been since 1945 and will be for the foreseeable future). Reagan's popularity soared, even as administration infighting continued

In the summer and fall of 1982, an important change took place in the Reagan administration. It began to recognize the overwhelming importance of "North-South" issues. (Peter Peterson, then head of Lehman Brothers and an important Reagan business advisor, had co-authored the *Willy Brandt Report* in 1980, a report which advocated greater North/South equity). .It then set to work on a long-term approach to North/South economic issues, an approach that was later to evolve into "neoliberalism". Meanwhile, other countries in the IMF put forth various suggestions to partially internationalize the process of monetary creation. Some of these proposals involved the creation of so-called "SDR's" or "Special Drawing Rights", to provide the liquidity for Third World development. Special Drawing Rights were"baskets" of currencies of major industrial powers that would protect Third World countries from rapid fluctuation in the exchange rates of these currencies. However, the U.S. (and Germany) was very reluctant to give Third World countries any power whatsoever to influence the world monetary system. The dollar continued to remain the world's reserve currency.

In 1984, the ballooning U.S. trade deficit began to drag down U.S. economic growth. The value of the dollar continued to soar, making U.S. goods less and less competitive. Reagan's public image as an"America firster" and a "Third World basher" was beginning to fray. Why was "Ronnie", who was elected to "put the Third World in its place", allowing "our recovery" to be "stolen" by the Third World once again. Had Reagan put OPEC in its place, only to allow us to be humiliated by Asia?.

In the fall of 1985, then Treasury Secretary James Baker responded to this dilemma by pressuring Europe and Japan to stimulate their economics, and thus become "engines of growth" for the world economy, taking some of the pressure off the U.S. There was a coordinated agreement to lower the value of the dollar, the so called "Plaza agreement", probably aided by some U.S. monetary easing (although Fed Chairman Volcker denied this). The value of the dollar dropped. Japan was pressured to liberalize its monetary and financial systems in order to let the Yen supplement the dollar as a global reserve currency. In the late 1980's European economic growth increased, and Japanese growth soared (along with the Yen, the Japanese stock market and

real estate market). There were predictions that Japan would soon overtake the U.S. as the world's leading economic power. As the dollar dropped, outside capital poured into the U.S. stock and real estate markets. The "junk bond" market flourished, along with a rapid rise in real estate prices, (a rise which dramatically exacerbated the American problem of homelessness).

In 1990, along with the collapse of communism, European and Japanese economic bubbles burst. German chancellor Helmut Kohl financed German reunification by huge amounts of government borrowing in marks, even as Europe was trying to unify its various currencies. The exchange rate of the Mark soared as German borrowing jacked up demand for marks. Other European countries, trying to keep their currencies on a parity with the mark, had to bring their economies to a halt by raising interest rates. Europe is still trying to construct a united currency, the Euro, to supplement the dollar as an international reserve and invoicing currency. The liberalized Japanese financial system was simply overwhelmed by the enormous volume of financial activity that was taking place during the "Japanese bubble". There is not enough space here (or anywhere else for that matter) to describe all the differences between the Asian and American financial systems. Japanese banks, historically controlled by networks of people from large corporations, the finance ministry and organized crime, were set up to take in low interest deposits from Japanese savers (Japan has always had a high savings rate) and use these deposits to make long term low interest loans to large Japanese companies. Large Japanese companies, in turn, farmed out much of their production to small "captive suppliers" who bore the brunt of downturns in the business cycles. Large Japanese companies were thus "buffered" from economic downswings, and the stock of companies could form part of the reserves of the Japanese banks. Japanese bank reserves could also consist of the stock of other banks. Unlike American banks, Japanese banks had few "disclosure requirements". The Finance Ministry kept track of their activity. During the Japanese boom of the late80's, both the Japanese stock and real estate markets rose to unsustainable heights. It became apparent that a sharp market "correction" which could easily be tolerated in the US, or Europe could play havoc with the Japanese banking system, causing a chain reaction of disappearing bank reserves. For a while, large Japanese insurance companies tried to prop up the stock market, to "let the air out of the bubble slowly", but to no avail. Eventually a sharp drop in the stock market threw the Japanese banking systeminto a crisis from which it has yet to emerge. Nobody knew which banks were solvent and which banks weren't. Throughout the 90's, the Finance Ministry tried to sort things out, but its efforts were impeded by the swings in the dollar. This is because after the U.S. recession of 1990, the Federal Reserve was pumping out large amounts of dollars to finance Third World privatizations. Much of the Russian and Third World economies had become essentially dollarized. The large increase in the supply of dollars, together with the Mexican bailout of late 1994, and the 1994 U.S. Congress's plans for a massive tax cut, caused a "flight from the dollar into the Yen". The Yen rose sharply. The "real value" of Japan's massive Yen debt was growing each day, making Japan's financial problems more and more difficult to stabilize. In mid-1995, a plan was worked out between the U.S. and Japan to raise the dollar. The U.S. government agreed on a plan of drastic spending cuts and the tax cut was put on the back burner. The dollar rose. Japanese financial institutions could now increase their reserves by borrowing Yen at Japan's extremely low interest rates and exchanging them for dollars to be put into U.S. government debt carrying a much large interest rate. As long as the dollar/Yen exchange rate remained high this would pump profits into the Japanese financial system. However, the currencies of the Third World Asian countries were pegged to the dollar, and as the dollar rose, these countries became more and more uncompetitive. Nonetheless, dollars continued to pour into

these countries on the belief that Asia with its huge, educated and hard-working populations was bound to be a very long term source of rapid and profitable economic growth. So sure were dollar borrowers of the continued dollar inflow, that many of them failed to hedge their borrowing against a devaluation of the local currency. Since the Asian boom was neither economically nor environmentally sustainable, it had to end sometime. Because of the differences between the Asian and American financial systems, when the boom ended, it resulted in an area-wide financial and monetary crisis. When Thailand was forced to devalue its currency, global investors became nervous about all Asian currencies. There was a "flight" from Asian currencies, which were forced to devalue, one after the other. Many Asian borrowers of dollars, who had been cycling between dollars and local currency, found themselves stuck with devalued local currency, and unable to repay the dollar loans. This only intensified the crisis. To make a long story short, the very financial and monetary volatility which had stimulated the American financial and service sectors, brought the Asian financial system to a halt.

American officials are attributing Asia's problems to vestiges of (gasp) socialism in its economic structures. According to Federal Reserve Chairman Alan Greenspan:

"(Globalization) has also exposed more quickly and harshly the underlying rigidities of economic systems in which government – or governments working with large industrial groups – exercise substantial influence over resource allocation…. Such systems can produce vigorous growth when the gap between indigenous applied technology and world standards is large such as the Soviet Union in the 1960's and 1970's and Southeast Asia in the 1980's and 1990's. But as the gap narrows the ability of these systems to handle their increasingly sophisticated systems declines markedly'" Alan Greenspan as quoted in *NYT* 12/3/97.

As of this writing, Japan is being urged to undergo a "Reagan revolution" in order to stimulate its economy and become a "locomotive of growth" for Asia. (*Business Week,* 1/12/98, Prof. RudigerDornbusch of MIT). However, the Reagan revolution was financed by enormous amounts of external U.S. government borrowing, at a time when the U.S. dollar was seen as a "safe refuge" in an uncertain world. Japan, on the other hand, is still funding our national debt ($300 billion dollars worth). If it even sells this money to raise financing for its "Reagan revolution", it will slow down the American economy (the only economic "locomotive" that the world has left). Furthermore, Japan already has an enormous government budget deficit, and its banks are carrying non-performing loans comprising 15% of its GNP. It's population is concentrated in the small non-mountainous parts of its small land mass. It has few natural resources. It lacks the geographic areas for expansion and development. It falls short of America's technological and scientific research capabilities. What does its wealth consist of really? A lot of well run, efficient, world-class factories designed to manufacture high-quality products for the American economy. In fact, America's Reagan revolution was able to act as a regional and global"engine of growth" only because of America's status as the world's economic colossus, and its willingness to farm out part of its manufacturing capacity to Japan, (in order to give Japan the dollars for America to borrow) Japan's current problems are often compared to America's problems in the 1930's, a deflation caused by deficiencies in the banking system (the usual right-wing monetarist explanation). However, (leaving right-wing monetarism aside) what were America's problems in the 30's?. These problems were (1) wide-spread poverty, and (2) the lack of non-private stimulus to economic growth. These problems were remedied by World War II (or by Japan if you want to look at it that way)

We are now in a world economy. What are the world's economic problems? They are (1) wide-spread global poverty, and (2) lack of non-private global economic stimulus. In other words, without aglobal economic fiscal system, (that takes the needs of the world's poor into account), no global monetary system will work..

Was it the Reagan administration then that established the atmosphere of "free market fundamentalism", that so pervades (and obstructs)

. It has become very difficult to discuss social, environmental and human rights problems in developing countries, for fear of panicking investors and disrupting the private North-South capital flows on which Neoliberalism depends..

Close discussion of global economic and social problems? The answer is "not entirely". Part of this atmosphere was created by the collapse of the communist block in the early 90's. For example, in 1985, Grosvenor International Publishers, published a three volume set of books on North/South commercial relations called Third World Development edited by Ronald Reagan. In it, several members of the Reagan cabinet wrote articles stressing the importance of agrarian reform. In 1991, in contrast, the World Bank Development Report devoted one sentence to agrarian reform, saying that it might be helpful to economic development in some instances.

The Third World

The Third World today is a different universe from the Third World in 1950. Most of the increase in human population has occurred since 1950, and most of that in the Third World. In addition:

"From 1950 to 1985, the overall GDP of the Third World has increased some six times and per capital GDP 2.5 times..It's industrial output is now 11 times higher than in 1950…Annual real gross capital formation is now 15 times higher. …Enrollment in higher education has risen nearly 25 fold. …Infant mortality rates fell from 200 per thousand to between 30 and 70… Life expectancy rose from below 40 years to about 65…The share of agricultural output in GDP has fallen from about 1/3 to 1/6 and the share of industry has risen from about 1/6 to 1/3. …Annual rates of the growth in the Third World sustained from 1950…were 5.5. percent for GDP, 7.5 percent for industrial output, 8.4 percent for capital formation and 10 percent for third level education." (*From Technological Transformation in The Third World*, by Surendra J. Patel, Avebury Press, 1991).

In fact, the Third World is where post-1950 world history was made, the de-colonization, the demographic explosion, the violent Western crusade against "Red revolution", including death squads, napalm, cluster bombs, the mass deaths and upheavals, the military capitalist defeats and the overwhelming technological, economic and cultural capitalist triumphs (the green revolution, the spread of "neoliberal" democratization and privatizations)

What about the changes in the "first" world since 1950? Well, the advances in basic science, particularly in biology and astronomy have been spectacular, unimaginable even in the science fiction of 1950. And yet none of these advances has had the growth inducing impact of a steam engine, an internal combustion engine, electricity, etc. The really significant commercial technological advances in the post war era have been the digital computer (1944), the transistor (1948) and the integrated circuit (1971). In the financial and service sectors of the economy these technologies have indeed produced economic growth (just ask Newt Gingrich). However, their primary impact has been to facilitate the spread of industrialism from the first to the Third World by means of better communication and the use of robotization in the "de-skilling" of industrial production. They have been technologies of "globalization" rather than technologies of post-war "American dream" style economic growth.

So we are now in a position to state the basic problem afflicting the American economy. The problem, in short, is, despite the spectacular advances in basic science and digital technology, the growth inducing technologies that propelled America's "Golden Age" post-war growth have played themselves out (and have, in many cases, been too environmentally destructive). This (and not some nefarious alliance between "first" world plutocrats and "Third World elites") is the problem, a problem which began in 1965…

America's Economic Problems, What Went Wrong Since 1965

In his article, "Soviet Economic Growth: 1928 – 1985″, in *The Journal of Economic Literature*, (Vol XXV, 1987) the economist Gur Ofer made a very interesting series of observations. From 1945 to 1965, both the Western and Soviet economies grew rapidly. In fact, prior to 1965, the Soviet economy outperformed the Western countries (and was looked upon by many Third World countries as the model to follow). Clearly, 1965 was a pivotal year both for the West and the Soviet Union. It was the year in which both blocs began to experience a "crisis of stagnation". Could it be, asked Prof. Ofer, that some common factor was operating both in the West and in the Soviet Union, something that had nothing to do with capitalism, nothing to do with socialism, and nothing to do with globalization? In his article "What We Can Learn From The Soviet Collapse", in Finance and Development (IMF, November, 1995) , the economist Stanley Fischer offered a guess. He postulated that, by the mid-sixties, the growth inducing technologies that been developed prior to and during World War II (automobilization, capital intensive agriculture, petrochemicals, civilian air transport, etc.) had partially played themselves out both in the West and in the Soviet Union. Prior to 1965, the Soviet Union grew more rapidly than the West because it had a greater number of primitive areas in its economy to which it could apply the range of technologies mentioned above. After 1965, on the other hand, the West grew more rapidly,. because it had a greater range of growth inducing technologies (particularly in the areas of digitalization, computerization and communication), and also because it had more commercial links to the developing countries, which were beginning to reap the effects of the green revolution, containerization and robotization (which allowed "industrialization without infrastructure"). This growth, while environmentally destructive and detrimental to many of the world's poor, nonetheless stimulated Western economic growth, and made the Western "crisis of stagnation" much less severe than it otherwise would have been. Thus, while the West went on to slower growth (very unevenly distributed across sectors), greater income inequality, and all the headaches of globalization, the Soviet Union went on to complete economic collapse.

To explain the above in more detail, let us examine the standard theory of economic growth devised by Robert Solow in 1954. (See *Growth Theory, An Exposition*, by Robert Solow, Oxford University Press, 1969). According to this theory of growth, to oversimplify enormously:

(barring a massive population increase in the developed world), there are two sources of economic growth: (1) The spread of investment capital to areas of the world which don't have it (globalization), (2) Technological innovations which allow the same amount of capital and labor to produce more output and a rising standard of living ("the American Dream"). It is the second type of economic growth which burgeoned from 1945 to 1965, and the first type which has become more and more prevalent since then. However, and this is a very important point, (2) did not slow down because (1) speeded up. In fact, (2) slowed down less than it would have, had (1) not speeded up.

Looking toward the future, there is always the possibility, of course, that some radically new technology will materialize which could produce rapid economic growth and a rising standard of living in the West, even in the absence of a massive population growth in the West. Everybody could see, for example, how "cold fusion" in 1989 could have achieved such a result. (This is why so many Americans wanted to believe it, and why it was accepted by so many people on the flimsiest of evidence). Barring such a development, however, what is "on the agenda" for the world economy is the spread of industrialization from the developed world to the underdeveloped world. Such a spread is not the cause of America's problems. It is, if properly managed

As it has not been under neoliberalism. the only solution to them.

In other words, given that the world economy is shifting from a phase of Western-led growth to a phase of Third World-led growth . This point was proclaimed very loudly in 1993, when it was necessary to alleviate protectionism in Congress, and then toned down recently in order to calm the stock market.

The solution to America's economic problems is the promotion of environmentally friendly, sustainable growth in the Third World, which, in turn, will generate widespread, long-term growth and employment in the West, which, in turn, will provide the tax base to solve America's budget and social problems. Make no mistake about it, the growth patterns which have taken place in the Third World recently, environmentally destructive, unsustainable, inequitable and misguided as they have been, have, nonetheless, produced seven years of non-inflationary growth in the U.S., a growth which benefitted the vast majority of Americans (however unequally) Conversely, looking toward the future, if the Third World economies were to go into a deep, protracted slump, they would inevitably drag down the U.S. economy with them.

The Third World economist, Samir Amin, in his 1989 book, *Maldevelopment, A Study of A Global Failure*, Zed Press, gives the solution to this dilemma.

"For more than 15 years the world economic system has been in an enduring structural crisis. This is a world crisis marked by the collapse of growth in productive investment, a notable fall in profitability (very unequally distributed in sectors and companies) and persistent disorder in international relations…. The current crisis is therefore most apparent in the field of world relations. North/South relations and the conflicts around them constitute the central axis of the current crisis……
In..circumstances (such as the 1930's) the Keynesian policies of redistribution of income might have been a solution to the crisis. By contrast, (the present crisis) comes after a long period of full employment, the rule of the welfare state, etc. Today's deficient demand is essentially deficient demand in the periphery ……. In

other words, only a redistribution at the international level in favor of the South would permit a fresh start for the world. The obvious question is 'under whose aegis' will …this be carried out?"

The recent NAFTA and GATT agreements answer this question. Under the aegis of private capital and under the aegis of the United States and its "instruments", the IMF and the World Bank. (Wrong answer!) The NAFTA/GATT approach to global development is known as "neoliberalism".

To over simplify enormously, the rationale behind the neoliberal model of development is as follows: the scale of economic production has grown so large that it has transcended national boundaries, it has even transcended the boundaries of large countries such as the United States and Japan. To subject such an economy to national restrictions on the flow of commodities and capital is like trying to raise cattle in one's living room. There's not enough room. Therefore, countries should not restrict the flow of commodities and capital across their borders. Moreover, if nations agree to reduce interference with the flow of commodity and capital to a minimum, capital will flow from capital surplus countries to capital deficient countries in the same way that water flows from a higher level to a lower level, and economic development will spread across the globe. Samir Amin has called this approach to global development "reactionary utopianism".

This "reactionary utopianism" came into being partly as a result of the last 25 years of deliberate U.S. government policy, partly as a result as a result of the collapse of the socialist bloc, partly as a result of changes in technology, and partly as a result of the horrors of Cambodia's and North Korea's attempt to promote total economic self-sufficiency.

The Role of The Transnational Corporations.

It has become the conventional wisdom among many environmentalists that there has been some takeover of Western national governments by multinationals following the dictates of the World Trade Organization

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When the globalization process reached a certain point and when the Third World economies reached a certain level of importance to the global economy, there emerged a sort of global economic "power vacuum," owing to the fact that the economy had become global, whereas most economic regulatory agencies remained national. This"power vacuum" was naturally filled (in a very undemocratic way) by those institutions most well-positioned to fill it, namely the GATT, the World Bank, the IMF and the transnationals (which had historically dominated North/South trade).

In fact, many of the top executives of multinationals are far more progressive in their personal views than are national politicians, and far more aware of the difficulties in basing everything on free markets and private capital placements.

The 1996 cuts in U.S. social entitlements and global economics

MIT economist Paul Krugman points out that "economic globalization" (neoliberalism) does not require the U.S. to cut the social safety net, in order to remain competitive internationally. It is important to stress this point. Yet, the cutbacks in social entitlements such as Medicaid and welfare are not entirely unrelated to neoliberalism. Here is what happened. After the passage of NAFTA, in 1993, Mexico with U.S. connivance, kept the Peso artificially high to suck in U.S. exports and to enable Clinton to show how beneficial NAFTA-type agreements were to the U.S. trade deficit. After GATT was passed, Mexico attempted to lower the Peso, a policy which started a massive flight of capital from Mexico. The Clinton administration responded with an emergency bailout in early 1995. At this point, global investors became aware that much of the world's economy had become "dollarized", that many of the private capital placements were being made in dollars. There was a perception that the Federal Reserve could not possibly act to reduce the supply of dollars in global circulation (in order to raise the value of the dollar relative to the yen), without, at the same time, risking a massive capital flight from the Third World. Thus, there was a "flight from the dollar" into the Japanese yen. The dollar dropped precipitously. Such a drop did not hurt the U.S. economy, because a large part of the Fed's huge output of dollars was being used to finance Third World manufacturing capacity, which, in turn, was flooding the U.S. market with cheap products and keeping inflation in check.

Meanwhile, the low dollar was benefitting U.S. exports. Japan, on the other hand, was being pushed to the brink of a financial "meltdown". Japan had trillions of dollars in outstanding yen debt. The drop in the dollar was increasing the "real value" of Japan's debt daily and pushing Japan into a deflation. The U.S. obviously could not let the Japanese financial system go into a tailspin. The dollar had to be brought up .

The resulting rise in the dollar, contributed, in turn, to the current Asian financial crises. The Southeast Asian currencies which had been pegged to the dollar had to devalue in order to remain competitive. This, in turn, precipitated a chain of competitive devaluations, speculative attacks on currencies, and massive capital flights from Asian markets generally. Japan, which had lent billions of dollars in dollar-denominated debt to Third World Asian countries, is once again experiencing a financial crisis. The result of the U.S. government's 1995- 1996 maneuvers has, thus, been to take Japan out of and into a financial crisis, trashing the U.S. social safety net in the process..but not by monetary tightening. The only way to accomplish this was by implementing Republican-style budget cuts, but avoiding Republican style tax cuts. Clinton simply had to reach budget agreements with the Republicans in Congress, many of whom were determined to "wage class warfare from the top down", and many of whom were simply ignorant about global financial problems, and, thus, in a far better position to "play chicken". The upshot? Republicans lost their massive tax cuts, but got their welfare cuts. Clinton, whatever his feelings on entitlements and welfare, simply had no choice. A different Congress would have reached a different resolution to the budget crisis, globalization or no globalization. Thus, globalization is not an excuse for supporters of the social safety net to "throw in the towel".

Four fifths of the world's population lives in the Third World. Thus, sustainable (ecological) economic growth to address basic and mounting social needs simply cannot be avoided. It is imperative to develop a global alternative to neoliberalism. In a paper presented at the alternative summit "T.O.E.S. 1990," we outlined some elements of this alternative.

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This paper, "Thoughts for T.O.E.S. 1990," is still available from us, the Green PolicyGroup, P.O. Box 3134, New York, NY 10185 (U.S.A.), 212-606-3887.

Working alternatives at the local level are very good, but some discussion must be devoted to how well these alternatives will "scale up".

Economic growth is simply an increase in the volume and/ or size of economic transactions, as measured in monetary terms adjusted for inflation. There are billions of people in the world. Their educational and psychological problems cannot be addressed without first addressing their basic material needs (i.e. access to clean water, health care, adequate diet, shelter, etc.). Neoliberalism is only a stop-gap measure to the recent dilemmas of the world economic system — primarily Third World debt which in the 1980's threatened the world financial system, and the lack of growth in Western capitalist countries). However, many corporate leaders, World Bank officials and the U.S. administrations, from Reagan to Clinton, know that it ultimately cannot work as a long-term global development strategy..

On the other hand, the no-growth strategy:

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As no-growth advocate, David Korten, points out, "It becomes abundantly clear that if the earth's present sustainable output were shared equally among the earth's present population, theneeds of all could be met".(*When Corporations Rule The World*, Kumarian Press, 1995) However, in our view, the amount of market-mediated exchanges that would be necessary to bring about this sharing would show up as "economic growth." Thus, there is no need to frighten people with talk of "no growth" which invariably conjures up images of a depression..

...the perspective of environmentalists will onlycontinue to marginalize and isolate them from public economic debates, preventing them from addressing social issues such as "corporate downsizing" and "unemployment" — the results of economic stagnation in the U.S. and other advanced industrialized nations. Addressing the material and social needs of people North and South is inevitably going to involve an increase in the number and/ or size of economic transactions, i.e. economic growth. Thus, "steady state economics" is a term borrowed from natural systems, and doesn't, in our opinion, really apply to human historical and social development.

Economic Growth and Sustainable Development

The definition of "sustainable development", by its very nature, has to be open-ended.

Not enough is really known about the earth's ecology to accurately predict the sustainability of any development strategy whatsoever. The earth's ecology is a highly complex non-linear system, and the possibility of sudden, massive environmental surprises cannot be ruled out..

For example, no one predicted the hole in the ozone layer until it was actually observed, whereas the evidence for global warming accumulated over a long period. Also unknown is the environmental impact of radically new technologies, since obviously no one can predict the effect of technologies which have yet to be invented.

The current mode of global economic growth (neoliberalism) shows us what sustainable development is not. Neoliberalism has clearly led to the rapid growth in industrial capacity and the rapid expansions of the middle class populations in many parts of the Third World, particularly in Asia. It has led to a considerable amount of environmental investment, albeit of the "clean up after the fact' nature, in many parts of the Third World. 15The environmental clean-up business is a 400-billion dollar global business. Many defense companies are switching to environmental exports. Japan is funding some of these exports to Asia, because it is afraid of being drenched by acid rain from China.

However, it is still "economic growth for the hundreds of millions", whereas the world's population numbers in the billions. Environmentally and economically sustainable development requires a basic change in production methods and not simply "cleaning up after the fact."

Several things, in our view, can be said about sustainable development. First of all, it has to involve the material betterment of the majority of the world's population, not simply a numerically large minority. It has to involve non-market means to eliminate global poverty directly and not simply "global trickle down economics" . It has to involve production technologies which are themselves nonpolluting and not simply clean-up after the fact. It has to involve, reforestation, non-polluting solar energy, environmentally viable modernization of subsistence agriculture, rural and urban land reform, and large scale recycling of effluent and waste products. In our opinion, it will turn out to be most economically viable, precisely in those areas of the world that are now the least developed and, thus, not locked into the infrastructures of non-sustainable development. It will have to involve non-private global monetary/fiscal institutions which are accountable and globally democratic.

Anti-Third World Populist Hostility in The West

The problems of global development will not be resolved simply by having rich countries impose environmental, social and human rights conditions on the exports of poor countries. There is simply too much populist anti-Third World hostility in the rich countries. Many Americans, in particular, see the populations of the Third World as a mass of starving wretches who want to "take what we have", either by violence, such as terrorism, or by unfair, predatory trade practices. To take an example, in early 1993, the historian Paul Kennedy published a book entitled Preparing for the 21th Century. The major premise of the book was that if the West did not help the Third World achieve sustainable development, the West itself would be overwhelmed by the Third World's problems. In response to this appeal, Robert Kaplan wrote an article in the *Atlantic Monthly* entitled "The Coming Anarchy", in which he predicted the social, economic and environmental collapse of the Third World, but asserted that the West could protect itself from this collapse by adopting the "fortress strategy" suggested by the right-wing Israeli military analyst, Martin Van Creveldt. .

Unfortunately, Mr. Kaplan's scenarios of collapse and chaos in large parts of the non-Western world cannot entirely be ruled out. However, his predictions that such catastrophes will not endanger the West are, not only crazy, but actually dangerous. Why? Because there are all too many Americans who, equally threatened by Third World poverty and Third World prosperity (non-whites with money), would love to see the entire Third World collapse into Rwandan-style chaos. Mr. Kaplan (like the American isolationists in the 30's) assures them that they will not be personally endangered by such a catastrophe…

Therefore, decisions which put environmental, human and labor rights into trade agreements cannot possibly be left to the dictates of the populations of the developed world. International, democratic, and globally democratic, economic and financial institutions are an absolute necessity to any rational discussion of human rights, labor rights, social rights, environmental issues and economic justice.

Misguided Attempts to Circumvent Anti-Third World Populism

Early in 1983, Reagan's secretary of agriculture, Bill Brock, said, "There's a lot of Third World out there, and we are just beginning to discover how important it is to our own well being." The Reagan administration, while it agreed privately with this insight, was not terribly anxious to share it with the American public, (which was still in a Third World bashing mood after the oil price hikes and Iranian hostage taking of the late 70's.)

During the Reagan and Bush period, therefore, Americans were given the impression that, aside from oil, the developing world was sort of "marginal" to American wellbeing. It was assumed that the "rich man's club" (America, Europe and Japan) was the global "engine of growth", which could, in turn, "pull up" the non-Western world. The non-Western world, for its part, had to "behave itself", open its markets, privatize its economy, welcome Western capital investments, tone down its "Third World rhetoric" and make nice with Israel. And, if it didn't, well then, who cared, "we" didn't need "them" anyway.

In 1990, however (fearful of competition from a newly capitalist Eastern-bloc), the Third World began to "behave itself". At that point, the official American line on the Third World, did a complete about-face. The Third World went from being a "problem", a "mess", a "threat", a "side issue", to being "the future", to being an unstoppable locomotive of economic growth that the U.S. had to board or be left behind. Clinton "talked up" Third World growth and played down problems and barriers to Third World development.

According to the *New York Times* (12/12/97), "In some ways, the United States may even have contributed to to undermining the discipline of the international financial institutions that poured money into South Korea. Washington promoted the admission of South Korea in 1996 into the Organization for Cooperation and Economic Development, the elite club of industrial nations. Membership is largely symbolic, but it carries with it certain perks, among them an assumption, under rules developed by the Bank for International Settlements committtee, that bank loans to members carry no risk of default. —(therefore this gave) the marketplace a false sense of confidence about South Korea… Between 1994 when South Korea received its first green light for membership, and 1996 when it officially joined, foreign banks more than doubled their lending to South Korea from 52 billion to South Korea from 52 billion to 108 billion, according to the *Bank for International Settlement Reports.*"

An officially sanctioned "love affair" began between international capital and large sectors of the developing world, a love affair between the stong and the weak, fraught with anxiety and abuse. As an Argentinian director of tourism, Hector Sabato, put it. "The old theme of the invading Yankees gave way to the wonderful Yankees driving the global train that you'd better board immediately or your finished." (NYT 2/7/98). Or as William Greider (author of *One World Ready or Not*) put it, even many of the exploited in the developing world were "seduced' by the "Faustian bargain" of capitalist development through globalization.

In any case, the "child" of this love affair is the current international political and economic crisis, in which much of the world economy is turned into a giant "global distress sale", the proceeds of which go to finance America's own rapid economic growth.

A Twenty Six Year History of Global "Quick Fixes"

To review the above history in more detail, American global economic policy from 1982 to the present can be divided into three periods; (1) a period of debt-led growth from 1982 to 1985, in which the U.S. deliberately ran large trade and budget deficits in order to stabilize the world economy by becoming what David Hale of Kemper Financial Services called "a consumer and borrower of last resort"; (2) a period from 1985 to 1990, in which the U.S. pressured other industrialized countries to liberalize their financial systems and stimulate their economies in order to help the U.S. work off the trade deficit caused by the first period above. This period ended with a Japanese financial collapse and a deep European recession. (3)The period from 1991 characterized by the US promotion of the neoliberal model of growth in which the developing world underwent a rapid process of financial liberalization and economic privatization, attracting large amounts of private capital, enabling it to become a growing market for American exports even as it kept American inflation down by low-wage exports to the American economy. This period produced seven years of non-inflationary growth for the US economy which allowed it to work down its trade and budget deficits.(at everyone else's expense).

More precisely, from 1985 to the present, the US has been imposing a series of unsustainable economic and financial bubbles on various regions of the world successively (first Japan and Europe, then Asia, then Latin America, then China, etc.) in order to satisfy its insatiable demand for exports. Countries and regions have been overwhelmed by floods of outside capital, which they had neither the social nor economic institutions to deal with

A deficiency they are now being castigated for, even though it was official U.S. policy to "talk up"massive capital flows into those regions.

A more viable policy would be the promotion of economic growth in more areas of the world simultaneously, but at a slower and more sustainable pace. Africa and the Arab world should not be written off as "basket cases" to be left to the dictates of a fickle global financial market.

As of this writing, policy makers are urging Japan to become the "locomotive" for Asia. Poor people in Asia are being asked to reduce their consumption, even as rich people in Japan are being asked to increase theirs. It seems that we're back to "Western-led growth" again. However, the only real "locomotive" for global and American economic growth, the only "locomotive" that doesn't turn out to be a "bubble" is the alleviation of Third World poverty and the promotion of Third World sustainable development.

Advice to Policy Makers

Therefore, it is extremely important for progressives, such as yourself, whose "heart is in the right place", to articulate the following points loudly and clearly:

- Successful Third World development is vital not only to the economic well being, but also to the national security of America;

- Insertion of environmental, labor and human rights conditions into trade agreements has to be accompanied by direct, massive Western assistance to eliminate global poverty. A transfer of wealth from "Third World elites" to "Third World masses" (however necessary) is, by itself, not going to do the job;

- Western assistance is a necessity, but is, by no means, sufficient. It also has to be accompanied by Third World reforms at both the national and local levels. Thus, the future well being of the Western populations is not entirely in the hands of the West;

- The "right to development and subsistence" is also a basic human right, in addition to the rights of free speech, gender equality, etc.

It is the lack of recognition this right which prevents Americans from acknowledging that the economic strangulation of the Iraqi population is also a "weapon of mass destruction"

Conclusions

An American egalitarianism, which stops at the water's edge, is as meaningless as it is regressive. Statements such as "we must solve our problems, before we solve their problems", or "we must solve problems here, before solving them there" are childish nonsense. In today's world, everyone is "we", and everywhere is 'here".

The belief that "de-globalization" and return to "national economies" will solve our economic problems, and be "good for the Third World too", is pious wishful thinking.

Here are some of the arguments supporting this "pious wishful thinking": The nearer production decisions are made to local communities, the more the needs of local consumers, workers and natural environment are taken into account. Decisions taken by investors in distant capitals cannot possibly serve the needs of the people in local communities.. Local production and investment mean local accountability, "local capital is good, global capital is bad" and, so on and so forth.

The problem with these arguments is this: It would take the power of a "global government" to turn "global capital" into "local capital". Why? Because cross border flows of capital and goods would have to be continuously and minutely monitored and suppressed, and such activities could only be carried out by a global government .

Now, observe how difficult it is to do such things with illegal drugs and illegal drug capital. Imagine how difficult it would be to do them with all goods and all capital. It would take the powers of an immensely powerful world government. Peoples lives would no longer be determined by distant global corporations, but by distant global bureaucracies, and the problems of globalization would remain. And if global capital were to be abolished by a massive breakdown in the global capitalist system, as in the 1914-1945 period, well then look at what happened in the 1914 – 1945 period, and imagine what would happen now.

All too much of the debate about trade policy on the part of liberals and labor seems to reflect a desire to "make the rest of the world go away". However, the problems of the rest of the world have to be solved, if America's problems are to be solved, and this is going to require (among other things) global markets, global business, and (yes) global regulation and governance (including global fiscal stimulus and global North-South redistribution). To be sure, global solutions risk global screw-ups, markets can crash, markets can breach global environmental limits, markets are unfair. Governments, on the other hand, can oppress, they can ossify, they can make mistakes (and global governments can make them on a global scale), they can become ineffectual, they lack "feed back" mechanisms, and so on.

But the fact is that human beings, who are, after all, not social insects and thus have no instinct for collective organization, have nonetheless organized themselves into ever more complex, and ever more populous societies, at an ever increasing rate. The nature of this organization, the way it takes place, is very complicated, very convoluted, and ultimately very mysterious. It is certainly not any of that "elaborate, self-adaptive complexity arising from simple market laws" nonsense you might read about in some business magazine or other. It is, in fact, the central dilemma of human existence, a dilemma which is not about to go away now. And the world's problems, if they are solved at all, are not going to be solved by making them out to be simpler than they are.

It is imperative that progressives and labor frame global alternatives to neoliberalism, global alternatives which stress the needs of the world's poor. Otherwise, when neoliberalism really gets into trouble, as it will, the field will be left open to right wing extremists of all types; paramilitary groups, white separatists, right wing religious zealots, neo-fascists, hate-mongers like David Duke and chaos-mongers like Robert Kaplan. At that point, the stability of the United States itself might be thrown into question.

It might seem paradoxical that those Americans who are themselves struggling to make a living should be called upon to advance the cause of North-South equity, sustainable development, and global poverty alleviation. But if they don't do it, then who will? Rich business executives? Academics with cushy tenured positions? Employees of prestigious well-heeled

foundations? Such people, no matter how knowledgeable they are, are too comfortable and complacent to understand the main problem with the world economy (global poverty). People on top can rarely diagnose adequately the flaws of a system which put them on top. As economist Albert Fishlow says, "the old rules (of the global capitalist system) don't work and the new ones haven't been written yet." (*New York Times*, 1/15/98). It's up to progressives in all countries to write those rules.. .

GLOBALIZATION AND THE CURRENT

CRISIS

A Handbook for Progressive Policy Makers

(By the Green Policy Group of The Other Economic Summit)

NOTES

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