

THE UNITED STATES AND THE EMERGING GLOBAL SYSTEM: NEOLIBERALISM, INEQUALITY AND THE UNCHARTED FUTURE

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The entire globe is being compelled by the power of international capital into capitulating to demands for privatization and the opening of national economies to the global market. Practically every nation is being forced to submit to the dictates Washington and other western capitals or risk being left behind in the race for a share of investment capital and a piece of the global market. No nation can afford to take the risk that jobs for their people will be lost to another country. It is increasingly difficult for nations to pursue public policies in the interests of those who toil. At the same time, it is abundantly clear that one of the most predictable consequences of neoliberal agendas is increasing and massive inequality wherever they are pursued. Inequality in America just about doubled during the Reagan-Bush era while corporate profits remain at record highs. Global inequality is also clearly on the increase.

Every vision of human equality, dignity, right, worth, emancipation, and the betterment of society that has been pursued on the humanistic faith in human endeavor to lift society out of misery has been tossed overboard. Forget the poor. Forget Africa. Forget mass slaughter in Rwanda. Forget ethnic and religious communalism. Forget ethnic cleansing in Bosnia and Kosovo. This is the age of postmodernism. Forget all the 'metanarratives', all positive views of human nature that suggested people could build a better future, a better world. Forget all this nonsense about 'progress', forget every notion of a better world. Or rather, the only path to a better world for 'everybody' is the pursuit of 'free markets' in trade, labor, capital. At least trade and capital. At the so-called 'end of ideology', free market ideologues never tire of harping on this dogma. But the economic collapse in East Asia

seems to have opened up cracks in what verges on the neoliberal ideological totalitarianism of 'free markets'.

The rush to put the global economy on autopilot with the opening up of East Asia to massive financial capital inflows has now suffered a setback. Among the business community in the West, caution prevails, along with a continued blind faith that everything will right itself in the near future. There was near glee in the business press, after the Asian collapse, that the statist and protectionist path of development in these countries seemed to have finally been shown to be empty, a fluke, a failure, similar to Soviet Communism, and now the West would move in to buy up cheap Asian assets left behind in the wake of the disaster. As it turns out, the salvation was premature. To the frustration of Western governments, corporations and the business press, Japan and South Korea want to protect failing banks and companies. There are noisy cries of 'foul', protests about the 'moral hazards' of 'throwing good money after bad', and so on. These economies have refused to roll over and play dead, even though in the West, the prognosis is that nothing less than massive scuttling of huge banks and conglomerates can succeed. And to make sure they go right in future, a massive lobotomy is to be carried out on these economies as well. But clearly the Western economic culture of expansion and shake-out has run up against a different economic culture in Asia, where governments and corporate conglomerates protect themselves from this aspect of globalization by getting bigger, not smaller. There is no end to the frustration that this has brought about which is clear in the pronouncements of Western governments and the business press.

Perhaps, no one really has much of a clue to what is going on in the global economy, in the larger sense. Noam Chomsky has been arguing this for some years, but now even the acceptable 'politically correct' political economists and establishment gurus are beginning to admit this. No one knows when and where the next economic crisis will strike. After East Asia and Russia, Latin America seems to teeter on the brink. There are no global institutions that are large and powerful enough to ensure the stability of the global economy today. Some argue that it must remain that way. It appears that increasingly the ideology of neoliberalism, in practice, has led to a global economy on very shaky foundations indeed. There are great issues that the world must face. Even the leadership for the short-term stabilization of the global economy seems in question with a weakened US President. But whether a new 'financial architecture' is really needed is questioned and often disputed. There is fear in the West that Asia may move to solve its own problems with a regional IMF. Again the West cries foul. But to those who want a new powerful international regime and a 'lender of last resort' the voices are again divided, saying it would lead to lack of discipline and be a 'moral hazard'. It is recognized that there are greater risks to 'globalization' but efforts by countries to take the 'politically appealing' path of protecting their economies are pronounced misguided souls. Being 'jittery' about

markets and 'acting on emotions in a trice' are clearly the province of 'global investors'. 'Developing nations', on the other hand, 'should not hesitate to participate more fully in financial markets'. This is forcefully argued although 'even as trade grows, financial crises are likely to keep erupting'.¹ A broad chorus of voices denounce the sinners, such as Mahatir Mohamad in Malaysia and Chile for moving to currency controls. 'As more countries flirt with exchange controls, they hurt themselves- as well as U.S. investors'. This discloses a fear that more states will begin to intervene in financial markets.² Some economists, such as Robert Kuttner argue that lack of financial controls was what sank Asia.³ Much of what is seen as 'failed politics' in Asia, actually seems to be the inability of American businessmen to tolerate an Asian economic culture that protects its own interests and that of society, rather than permits a 'shake out' that opens up opportunities for the West to buy into Asian wealth.⁴ As global uncertainty and inequality increases, the future is uncharted.

¹K. Pennar, 'Two Steps Forward, One Step Back', *Business Week*, August 31, 1998, pp. 64-67.

²J. Greenwald, 'Sticky Currency', *Time*, September 28, 1998, pp. 88-89. M. L. Clifford and P. Engardio, 'Renegade Economy', *Business Week*, September 21, 1998, pp. 30-32.

³R. Kuttner, 'What Sank Asia? Money Sloshing Around The World', *Business Week*, July 27, 1998, p. 14. P. Krugman, 'Saving Asia: Its Time To Get Radical', *Fortune*, September 7, 1998, pp. 75-80. In his famous article, G. Soros even wrote of a 'capitalist threat' as 'the main enemy of the open society'. G. Soros, 'The Capitalist Threat', *The Atlantic Monthly*, February 1997, pp. 45-58. For another view, L. Thurow, 'Asia: The Collapse and the Cure', *The New York Review*, February 5, 1998, pp. 22-26. Thurow speaks of a 'broad consensus about what has to be done quickly to restore normalcy and bring economic systems back into operation'. He points out that the solutions have already been invented. These are some combination of the techniques used to save New York City and the bailout of the US Savings and Loan Industry. 'Structural changes' must be made. He does wonder if governments in Asia are 'willing to do what is necessary'. As it turns out, as pointed out by Kuttner, 'American architects of Asian rescue can't decide whether they trust speculative markets to govern flows of currency and capital'. He points to a 'policy muddle' which reflects an 'intellectual muddle'. Economists call for both 'free markets' and for something to be done through the IMF or new financial architecture. Thurow, like most other economists, seems to believe that Asians will be constrained to coming around to conforming to Western economic culture of shake out to get over the crisis. This is becoming increasingly doubtful as Western governments and corporations launch the possibilities that these economies will pull back from "globalization" and seek their own solutions.

⁴I. Barnathan and M. L. Clifford, 'Asia's Failed Politics', *Business Week*, October 5, 1998, pp. 28-30.

The post Cold War global economy is simply not unfolding as planned, as seen in the recent economic crisis. The recent euphoria has quickly worn thin. As recently as January 1997, *Newsweek* ran a special cover story on globalization. The editors were effusive about the promise held out to the world by the end of the cold war: 'International affairs, though speckled with trouble spots, have settled for the moment into what might be called a Pax Economica, as rich and poor nations alike work together on the liberation movement - the business of creating wealth...The world deserves to throw itself a party...and to be of good cheer'.⁵ In the same issue, economist Robert J. Samuelson, asserts that 'the new global economy has more equality, and with that comes more tension'.⁶ The following piece, written by Henry Kissinger, features a picture of a McDonald's restaurant in China. The manager is in blue, surrounded by workers, all women, in red and white pin stripes. Below the caption reads: 'China: This vast market is now tied to the world economy. America must establish a genuine strategic dialogue with those in Beijing'.⁷ A dialogue, presumably, for the purpose of selling more hamburgers. For Kissinger, the US role in the world is essentially what it was after WW II: fashioning the world it would have. 'To make a long-term difference, the re-elected Clinton Administration must envision the world it seeks to achieve'.⁸ This includes containing those states, such as Iran and Iraq that 'possess the capacity to cause nearly infinite international damage'.⁹

Some conservatives focus upon the maintenance of the US role as the global hegemon. Samuel Huntington worries that the US no longer has a common enemy which unites the US population as 'Americans'. The forces of multiculturalism are seen as so disruptive that 'the United States could join the Soviet Union on the ash heap of history' and warranting government counteraction.¹⁰ While the US foreign policy establishment 'searches frantically for new purposes that would justify a continuing US role in world affairs comparable to that in the cold war',¹¹ US involvement in the world

⁵*Newsweek*, January 27, 1997, p. 19.

⁶R. J. Samuelson, 'Cornucopia or Crisis' *Newsweek*, January 27, 1997, p. 22.

⁷*Newsweek*, January 27, 1997, p. 23.

⁸H. A. Kissinger, 'A World We Have Not Known', *Newsweek*, January 27, 1997, p. 23. The gap between this vision and the reality is more clear. The Bretton Woods institutions, the IMF/World Bank simply are no longer capable of stabilizing the global economy. R. Chote, 'A Gruesome Twosome', *Financial Times*, September 30, 1998, p. 13.

⁹*Newsweek*, January 27, 1997, pp. 24-25.

¹⁰S. P. Huntington, 'The Erosion of American National Interests', *Foreign Affairs*, Vol. 76 (5), 1997, p. 35.

¹¹*Ibid.*, p. 36.

is now directed at 'commercial and ethnic interests rather than national interests'.¹² Another thing that worries conservatives is that those in the ranks no longer obey orders. 'Countries...seem able to resist the blandishments and threats of American policy makers'.¹³ Anthony Lake seeks to 'neutralize, contain' and 'transform' those 'recalcitrant and outlaw states' that 'assault' the 'basic values' of the 'international community'. These are Cuba, North Korea, Iran, Iraq and Libya.¹⁴ These states are 'aggressive and defiant', 'pursue policies hostile to our interests' and 'remain on the wrong side of history'.¹⁵ That side, it is made clear, is that which militates against 'American strategic interests', 'free markets', and 'democracy'.¹⁶ But not just any variety of democracy. Majoritarian democracies, which fail to 'tame the passions of the public', have always been unacceptable to Washington and are 'dangerous'. Such democracies, unlike the US, fail to put adequate constraints on electoral majorities.¹⁷

The National Endowment for Democracy, and US Agency for International Development are busy promoting US style 'constitutional liberalism' in developing countries and containing the 'restless masses'. This is actually a cover for the Americanization of elections whereby the US Government channeled an estimated 100 million dollars, in 1989, through private nongovernmental agencies such as the National Endowment for Democracy, the International Department of the AFL-CIO, the 'Human Rights and Democratic Initiatives Program', and 'Democracy Program' for Latin America administered by the Agency for International Development. These funds can be used to hire campaign consultants for operations in target countries. Political consultants can actually be flown in to help conduct campaigns.¹⁸ American election technicians were used in Russia to get Boris Yeltsin reelected in the last Russian Presidential Election. It would seem that one lesson officials in such countries would most certainly learn is that American 'democracy' primarily runs on money and lots of it.

Graham Fuller and Ian Lesser warn that '...liberalization can also open the door to social and ethnic fragmentation and other disorders of the

¹²*Ibid.*, p. 37.

¹³*Ibid.*, p. 42.

¹⁴A. Lake, 'Confronting Backlash States', *Foreign Affairs*, Vol. 73 (2), 1994, pp. 45-46.

¹⁵*Ibid.*, pp. 45, 48, 55.

¹⁶*Ibid.*, p. 55.

¹⁷F. Zakaria, 'The Rise of Illiberal Democracy', *Foreign Affairs*, Vol. 76 (6), 1997, pp. 41-42.

¹⁸*Ibid.*, p. 40. D. M. Farrell, 'Political Consultancy Overseas: The Internationalization of Campaign Consultancy', *PS: Political Science and Politics*, Vol. 31 (2), 1998, pp. 171-176.

democratization process...¹⁹ The concern of some US strategists is to 'prevent the rise of any regional hegemonic power anywhere, especially one capable of threatening global stability through the use of force'.²⁰ Today, '...almost any assertion of greater regional influence by any actor appears a direct challenge to Washington, requiring some kind of response'.²¹ For Zbigniew Brzezinski, Brent Scowcroft and Richard Murphy, US policy in the Persian Gulf 'should continue to be a commitment to ensuring the security of its allies and protecting the flow of oil'.²² The Clinton Administration 'made it clear that it had no intention of dealing with Saddam's regime...'.²³ More bellicose than many in the US military and US Government, these analysts assert that '... if and when Saddam's regime crosses clearly drawn lines of appropriate behavior, particularly with regard to weapons of mass destruction programs and its threats to other countries, the United States should punish it severely and effectively'.²⁴ For Jahangir Amuzegar, sanctions against Iran 'matter ...because they may handicap it in the race to rapid economic growth'.²⁵ For Josef Joffe, '...a power like the United States faces only one choice: Keep everybody else from uniting against it'.²⁶ The US gets others to do what it wants through the attraction of its culture and ideas and 'holding out big prizes for cooperation...all win and lose together'.²⁷ US Ambassador to Austria, Swance Hunt, while at pains to avoid saying anything positive about gains made by women during the Communist era, chronicles the worsening conditions for women and their return 'to hearth and home' under structural adjustment programs in Eastern Europe.²⁸ It would appear, then, that not all US activity in the post cold war world is directed at 'creating wealth', at least not for the rich and poor alike. As Baldev Raj Nayer points out, '...liberalism is the economic policy of the strong and is at base the mercantilism of the more advanced economic powers'.²⁹ Indeed, Stephen

¹⁹G. E. Fuller and I. O. Lesser, 'Persian Gulf Myths', *Foreign Affairs*, Vol. 76 (3), 1997, p. 46.

²⁰*Ibid.*, p. 44.

²¹*Ibid.*

²²Z. Brzezinski, B. Scowcroft, and R. Murphy, 'Differentiated Containment', *Foreign Affairs*, Vol. 76 (3), 1997, p. 30.

²³*Ibid.*, p. 23.

²⁴*Ibid.*, p. 26.

²⁵J. Amuzegar, 'Adjusting to Sanctions', *Foreign Affairs*, Vol. 76 (3), 1997, p. 37.

²⁶J. Joffe, 'How America Does It', *Foreign Affairs*, Vol. 76 (5), 1997, p. 16.

²⁷*Ibid.*, pp. 24-25.

²⁸S. Hunt, 'Women's Vital Voices: The Costs of Exclusion in Eastern Europe', *Foreign Affairs*, Vol. 76 (4), 1997, pp. 3.

Krasner has argued that structural conflict between the North and the South is likely to continue.³⁰

In the American hinterland, the common folk fail to see potential regional hegemony as enemies, and have seemed more sober about the future than the editors of *Newsweek* all along. An early 1997 survey showed that 74 percent thought that in future the gap between rich and poor in the U.S. would widen, 73 percent thought the gap between rich and poor in the world would widen, 64 percent said they would have less leisure time, 69 percent thought scientists would not be able to end world hunger and 54 percent thought global warming would turn out to be a serious problem.³¹ It would seem that these perceptions are related to the experience of most Americans in the last couple of decades as real wages have dropped for most and inequality has increased.³²

The present age is certainly one of uncertainty and transition. Some speak of a 'world without alternatives'³³ in which neoliberal economic doctrines are to be enforced on a global scale. Some believe this new prevailing ideology tends to be totalitarian in the sense that any opposition is

²⁹B. Raj Nayar, 'Globalization, Nationalism and Economic Policy Reform', *Economic and Political Weekly* (hereafter EPW), 32 (30), July 26-August 1, 1997, p. PE 97.

³⁰S. D. Krasner, *Structural Conflict: The Third World Against Global Liberalism*, Berkeley, 1985, Chapter 10.

³¹'Living in the 21st Century', *Newsweek*, January 27, 1997, p. 33.

³²A. Hacker, 'Unjust Desserts?', *The New York Review*, March 3, 1994, pp. 20-24; J. Madrick, 'In the Shadows of Prosperity', *The New York Review*, August 14, 1997, pp. 40-44; B. M. Friedman, 'The Morning After', *The New York Review*, August 13, 1992, pp. 11-16; N. Lemann, 'Mysteries of the Middle Class', *The New York Review*, February 3, 1994, pp. 9-13. The business press saw the economy as the best economy ever. 'Times are good for thousands of families like the Moores of Belmont, California'. Who could deny it? Ted Moore is the general manager of a Jeep/Eagle dealership in San Francisco, with a 'prosperous family'. He knows times are better because he was 24 the first time he went to Disneyland, but his 'kids have gone there every year'. This, of course, says nothing about growing inequality, lack of security, and increased tension in the workplace for the majority of the workforce. E. Clark, 'These Are the Good Old Days', *Fortune*, June 9, 1997, pp. 26-34. Another 'boosteristic' special article about the American economy recently appeared hyping the 'New Economy' with 'a 70 % increase in real profits since 1990, inflation below 2 %, 4.5 % unemployment, plus rising real wages, even for the lowest-paid workers'. 'The 21st Century Economy', *Business Week*, August 31, 1998, pp. 24-67.

³³R. Kothari, 'The Yawning Vacuum: A World Without Alternatives', *EPW*, May 29, 1993, pp. 1100-07.

not taken seriously. Indeed, one sees even Marxist West Bengal Chief Minister Jyoti Basu soliciting foreign capital for investment in Calcutta.³⁴ Nevertheless, many thinkers, economists, and social scientists have doubts about the present course of the emerging global system. Indeed, there is much disagreement even as to its nature.

This paper will explore the political economy of global change as seen in the growing power of private capital underwritten by public institutions in the global system. It will then look at some aspects of the political and economic crises and growing inequality under the present dispensation from Washington, the IMF and the World Bank. The paper will suggest that the world is moving into an uncharted future, with a high degree of uncertainty as to what the future holds. It will also explore how all this is both stripping people of democratic input but also opening up opportunities for democratic action at the grass roots level where people may organize and resist from below. It seems that the American model of capitalism, writ large, with a low degree of social and economic security for individuals, has become the universal model for the global political economy as practically every country is pulled into the vortex of the neoliberal agenda. The social ills of increasing inequality, including increasing levels of violence and political alienation, seem to be the order on a global scale as the new political economy of single superpower dominance takes hold. But pressures to resist are also emerging as seen in grass roots movements from below and moves by states, such as Malaysia, to reassert national sovereignty and retake control of their own economies.

1. Globalization, Development and Neoliberalism

An extensive literature on 'globalization' in the post cold war period has poured forth from practically every quarter.³⁵ While some have

³⁴R. Mukherjee, 'The Land of Promise', *India Today*, August 31, 1998, p. 37-38.

³⁵For example, see *Current History*, November 1997, entire issue. *Foreign Policy*, No. 107, Summer 1997, entire issue. Numerous articles have appeared in *Monthly Review* in the 1990s on globalization. R. Falk, 'State of Siege: Will Globalization Win Out?', *International Affairs*, Vol. 73 (1), 1997, pp. 123-136. For Falk, globalization has already won out over the state centric system, but 'a global social contract for basic human needs' might emerge as a 'backlash'. V. Janardhan, 'Globalisation of Capital, Multinational Corporations and Labour', *EPW*, August 30, 1997, pp. L2-L9. R. Kothari, 'Globalisation and Revival of Tradition: Dual Attack on Model of Democratic Nation Building', *EPW*, March 25, 1995, pp. 625-633. Kothari points out that new cultural assertions of groups at the bottom of nations may enable people to 'face the new capitalist order'. P. Evans, 'The Eclipse of The State: Reflections on Stateness in an Era of Globalization', *World Politics*, Vol. 50 (1),

perceptively identified the concept as a 'shibboleth', signifying the interests of global capital, the term can, nevertheless, be seen to signify important changes in the global political economy. Baldev Raj Nayer has noted four aspects of globalization which he sees as a deepening of international economic integration. First, there has been an accelerated growth in international trade both absolutely and as a proportion of economic production. International trade has increased between 10 and 20 percent between 1960 and 1990. Secondly, economic production is increasingly organized on a global basis. Some 40 percent of world trade is managed within MNCs. Third, has been the rapid internationalization of money markets, with the daily volume more than 50 times as large as that of commodity markets. Trade in money in the global capital market increased some 6 times in the 1980s. Fourth, there is an emerging global culture of consumerism, with the same brand products dominating markets around the world.³⁶ For Sumit Roy, 'Globalization is centered on the integration of international markets for goods, services, technology, finance, and labour. It is underpinned by the opening up of national economies to global market forces and a corresponding reduction in the scope of the state to shape national macro-economic policies'.³⁷

The literature both favorable and against the current trends tend to project the future course of the global political economy, based on their own ideological perspective, but as Noam Chomsky has noted, honest economists admit that what is going on, in the 1990s, is not very well understood.³⁸ Indeed, US Federal Reserve Chairman, Alan Greenspan said during early May 1998, that what is happening in the financial markets and their impact on the global economy is not yet understood. Since that time, this uncertainty has become even more clear. A good deal of the literature seems to be based on

1997, pp. 62-87. M. Tanzer, 'Globalizing the Economy', *Monthly Review*, Vol. 47 (4), 1995, pp. 1-15. For Tanzer, a complete overhaul of the international economic system would 'replace the primacy of capital with the primacy of human beings' (p. 14). There doesn't seem to be much hope of this. *Time*, in covering even the pro-business 'New Left' in Europe practically guffaws about talk of 'free but compassionate markets' and 'capitalism with a human face'. 'What does it all mean?', Ja. Geary wonders. For 'critics', these phrases are 'just too vague to make much sense'. See J. Geary, 'Now For The Hard Part', *Time*, October 12, 1998, p. 25. For D. Broad, 'a specter is haunting the workers of the world—the specter of Globalization', 'Globalization Verses Labor', *Monthly Review*, December 1995, pp. 20-31.

36. B. R. Nayer, 'Globalisation, Nationalism and Economic Policy Reform', *EPW*, July 26 - August 1, 1997, p. PE 94.

37. S. Roy, 'Globalization, Structural Change and Poverty: Some Conceptual and Policy Issues', *EPW*, August 16-29, 1997.

38. D. D. D. D., 'Chomsky in India: An Interview', *EPW*, March 30, 1996, p. 104.

ideological assumptions, rather than on empirical data that would help one get a grip on the complexity of the global economy and domestic economies. This paper will explore some contemporary evidence of emerging trends. What the future trends will be, of course, is very difficult for professional economists to predict with any degree of certainty. The enormous shift in power and momentum to the forces of global capitalization and neoliberal ideological hegemony may be challenged in the near future by counter forces of one form or another. Whether they will take a reactionary or progressive form may well depend upon the extent to which progressive forces continue to be excluded, albeit in the name of 'democracy'.

Many analysts have attempted to come to grips with the situation in East Asia. These views more often than not are grounded in ideological assumptions. The promarket analysts argue that these economies were too statist and too secretive, while others argue that they faltered as a result of the liberalization of their financial markets leading to overexposure of banks to bad debt.³⁹ One thing certain is that the amount of unregulated speculative

³⁹This is indeed an interesting debate. When the Asian currencies came under attack and began to weaken, my first reaction was that here was evidence that even these Asian Tigers could be vulnerable to the opening to the global market and globalization. Then I realized that 'free marketers' were seizing upon this to argue that the tiger economies were in trouble not because they were opening to the market, but because they were not open enough. The role of the state was never seriously acknowledged, just 'free markets' and export oriented policies, in the explanation of their success. Could the producers of the PBS video series 'The Pacific Century' have gotten it so wrong? The producers of this series possibly over-hyped East Asian success, without seeing some of the weaknesses. But the series did show that the economies had come a long way in a short time and were indeed successful. The attempt to ignore the role of the state in the emergence of the East Asian economies and see statist development at the root of the problems was a nice try but it is not likely to hold a lot of water in the long run. Clearly the statist model has largely been successful in East Asia and the economic bases of the economies remain sound, as argued by Gary Becker, Robert Kuttner, Lester Thurow and others. Of course Becker stresses such factors as 'hard work', a 'well educated and trained labor force, and a vigorous entrepreneurial class that invests in efficient plants and equipment.' Becker, as one would expect, ignores the role of the state in this success, arguing that 'government support of troubled companies has made the present crisis much more severe.' He sees IMF efforts to rescue countries as further 'distorting incentives' and argues they will recover faster if private companies are made to 'bear the consequences of their mistakes' rather than being bailed out by taxpayers' money. G. S. Becker, 'Asia May Be Shaken But It's No House Of Cards', *Business Week*, February 2, 1998, p. 9. Krugman and also Noam Chomsky, on the other hand, had been arguing before the collapse that there were major weaknesses in the Asian economies. S. Radelet and J. Sachs, 'Asia's

capital has greatly increased in the international economy. John Eatwell, an economist at Cambridge University, estimates that in 1970, some 90 percent of international capital was used for trade and long term investment, while about 10 percent was speculative. In 1990, the figures were reversed. Jeffrey Sachs wrote recently that 'Washington's dream of a quick move to global financial liberalisation is in ruins'.⁴⁰ This probably has a good deal to do with the financial crisis in East Asia as Paul Krugman and Robert Kuttner have argued.

An example of how development issues are being approached under neoliberal agendas is seen in the perspective of Paul Kennedy. As noted, most liberal analysts do not acknowledge the positive role of the state in East Asian development. Neoliberals hold that it is primarily overregulation that is the cause of the present problems, while the left and third world analysts generally believe that the financial crisis in East Asia was brought on by lack of regulation in the financial markets. The acknowledgement that something should be done about the 'financial architecture', however, has become broader as the reverberations have spread across the world. The trend to minimize the role of the state is seen in Kennedy's view of global development, basically a liberal view.

Kennedy noted that in 1960, South Korea had a GNP per capita of \$230, the same as Ghana. In the 1990s, it was ten to twelve times as rich. In his analysis, Kennedy tends to ignore the structure of the international global system. He noted that the East Asian states, four tigers and Thailand, Malaysia, and Indonesia, have been the most successful in catching up with the West. What accounted for this? In his view, an emphasis on education, discipline, social capital in higher education, high national savings, constrained personal consumption, statist control, the blocking of trade unions, and constraints on democracy. There was a commitment to exports. Is this model still viable for other countries after the East Asian collapse? Most scholars point out that the fundamentalists of East Asian economies are still strong and the envy of many other parts of the 'developing world'. But free marketers want to lay the blame on 'excessive state regulation' while

Reemergence', *Foreign Affairs*, Vol. 76 (6), 1997, pp. 44-59. Back in 1994, Chomsky had noted, 'My own suspicion has always been that the strength of the Japanese economy has been overestimated, that its much flimsier than is alleged'. While hyping free trade, the US has actually followed a 'state-managed trade system' that continuously attempted to force Japan into accepting managed trade'. N. Chomsky, *Keeping the Rabble in Line*, Monroe, Maine, 1994, pp. 17-18. The rich insist upon using government to help the rich. The poor have to sink or swim on their own.

⁴⁰N. Chomsky, *Secrets, Lies and Democracy*, Tucson, Ariz., 1994, p. 11; J. Sachs, 'Making it Work', *The Economist*, September 12, 1998, p. 11.

others point out that with deregulation of financial markets, too much capital flowed into these countries, then was sucked out when the currencies were targeted in the market. The IMF came in and imposed tight money policies precisely when greater capital liquidity was called for. Indeed, it is ironic that the East Asian economies threaten to go it alone and heal themselves, to the frustration of the West that wants to force markets open further. The crisis seems to have done much more to discredit unregulated financial markets than state-led development.

In terms of Latin America, Kennedy noted that there has been a lot of diversity, from Argentina to Honduras. He saw the era of the 1980s as a real disaster, with real GDP per capita falling annually by 0.9 percent and in some countries, real income dropped by 25 percent. Kennedy attributed this to policies of import substitution. But there was an annual \$25 billion capital outflow from Latin America. Another 50 million people dropped into poverty due to 'profligacy'. There was over reliance on borrowing petrodollars. There was high inflation and capital flight. Kennedy says that 'the region's own people have to bear responsibility for recovery'. It would have been hard to imagine such a statement being made about the Soviet Union and Eastern Europe at the time of the article. Are some parts of the globe like Africa and parts of Latin American being written off in terms of development?

With Russia's economy increasingly dominated by a handful of wealthy oligarchs with little productive investment and production, some have begun to have similar thoughts about Russia. But most still seem to assume at some point Russians will start acting like Western capitalists. Stephen Kotkin has usefully pointed out that what is needed with the present scenario is the need and probably necessity for the state to take the lead.⁴¹

⁴¹S. Kotkin, 'Russians Have a Giant Rust Belt to Modern', *International Herald Tribune*, October 6, 1988, p. 8. The point about Washington tending to see the world as operating within the same economic culture as the US is seen in P. Engardio, 'Where Capitalism Isn't Capitalism', *Business Week*, September 28, 1998, p. 50. The point is made that a part of Asian economic culture is doing business on the basis of personal relationships, and this includes propping up businesses on the basis of political relationships. Corporate assets are often seen as family and national assets and not just for sale to anybody. So the South Korean banks let the *chaebols* reshuffle assets among themselves instead of putting them on the market. They simply operate in a different, and somewhat 'feudal' cultural atmosphere. It could be said that the view that investor capitalism would take off soon in Russia, was equally naive. Russians who had access to money wanted to get rich quick and that was not through investment, hard work and slow growth. Even the US seems to have trouble fathoming the European business culture that is 'kinder and gentler' in many ways in terms of less emphasis on high profits. The

This seems to border on the obvious, but not a hint of it is breathed in the business press. After all, the Communists have been brought back under Yevgeny Primakov to print inflatable rubles to pay the workers some of their back-pay.

When it comes to Islamic countries, on the other hand, the malaise in development is largely attributed to 'cultural attitudes'. More accurately feudal attitudes, it might be added, which the U.S. has sought to preserve to contain political development that would threaten Western control of oil. Kennedy does not mention Turkey and the considerable successful state-led development there. He does not mention that the one country in the region, other than Turkey, that has experienced considerable development, Iraq, has been destroyed deliberately by massive bombing as a policy of the United States. As we see above, it is the policy of the United States to prevent both Iran and Iraq from developing under the concept of 'dual containment.' In Kennedy's view, there is a need for pluralism and a secular culture. They need 'education'. But it would appear to have to be a certain type of pro-Western education to allow these countries to enjoy the benefits of global development.⁴²

Obviously there are contradictions in his analysis. Where genuine pluralism has threatened to erupt, it has often been troublesome for American interests, as in Turkey or Iraq. The US, as seen above, fears genuine democratization in the client states of the Middle East, as this will tend to erode and bring down the brittle local monarchies. Saudi Arabia has tried to keep politically liberal ideas out, only recently agreeing to allow the Internet into the country, although attempts will be made to censor it. Kennedy does not discuss Turkey. Here is a state that has experienced a good deal of development, but in a statist manner, up to and even after the 1950s. It could be argued that it was to a considerable extent a result of resisting colonial inroads on its territory and having a strong state that promoted development and established broad social benefits in a number of sectors. Large industrial holding companies like the Koc and Sabanci empires profited from state protection but provided a basis for today's modernizing economy. Sabanci's move into producing Japanese autos is still afforded protection vis-a-vis East Asian competition.

French refuse to sell off its wine industry to foreigners, seeing it as a cultural asset. Americans might even understand something of this from a closer look at home. Go down the Delta of Mississippi and one will still see quite a number of cultural constraints on capitalism at the end of the twentieth century. Race in the American South, particularly in the Delta, is still a long way from being dead. See J. C. Cobb, *The Most Southern Place on Earth*, New York, 1992.

⁴² J. Kennedy, 'Preparing for the 21st Century: Winners and Losers', *The New York Review*, February 11, 1993, pp. 32-44.

When it comes to Africa, Kennedy sees the continent as largely a basket case. He projects increasing poverty through the year 2000. There needs to be a 'change in attitude'. This means that these countries must allow the MNCs to largely take control of their resources and manage them. This is the gist of his approach. This seems to be quite similar to the recolonization thesis that has been put forward seriously by some analysts. He seeks to analyze what went wrong in these countries after Independence '[n]ow that Africans had control of their destinies.' It seems that they were victims of their own success. Due to medical advances, the population mushroomed. In this view, AIDS may be the last best hope. 'The worst news is that the increase is unlikely to diminish in the near future.' They must get rid of their ideas about fecundity.

Apparently the answer to this has been found; more good news. According to a recent *Washington Post* story about the drop in number of children being born in Nigeria, 'economic pressures are as important as health issues in persuading Africans to have fewer children' People have cut back on having children because they simply cannot afford them in Kenya, Senegal, Zimbabwe, Ghana and Nigeria. This dovetails nicely with the neoliberal agenda. Where previously it was thought that economic aid and development were necessary to reduce fertility, now it is being said that if people get poor enough, they will cut back on child bearing. In Nigeria, the ills of the poor are blamed on corruption and government mismanagement, but one sees how structural adjustment programs are very much a part of this. In Nigeria, in a chronic economic crisis, per capita income dropped \$370 to \$270 a year. People had to pay to send their children to government run secondary schools as school fees tripled. Staple food prices also more than doubled.⁴³

Again in terms of environmental destruction in Africa, this is also laid at the door of the poor, even though their per capita use of global resources is at the very lowest level in the world. They barely manage to live on the few resources they have. It is not observed that their struggle to survive 'damages the environment' because of the extreme position of marginalization into which they have been forced by national and international political economies.

⁴³ S. Buckley, 'New Ways Drive Down African Birth Rates', <http://www.Washingtonpost.com>, April 27, 1998. The title of the article seems to imply that there is a deliberate policy of impoverishing people for the purpose of forcing down the birth rate. The article appeared under a flashing red ad that read 'London's Wild'. The *Washington Post*, on the other hand, presumably is not.

In the light of all this, 'Some observers suggest that parts of the continent may be taken over and administered from the outside'.⁴⁴ There is inadequate investment in human resources. Some states are getting new loans that come with SAPs, 'at considerable social cost'. But some leaders are 'intransigent'. That is, they attempt to control their own development, rather than turning it over to multinational corporations. There is inadequate investment in human resources. But it is not noted that this is often as a result of SAPs that require such austerity. On the other hand, the states have 'enormous agricultural and mineral resources provided they can be sensibly exploited'. This seems to mean letting the Western MNCs do the exploiting. These countries, in this vision, will continue to serve the colonial role of suppliers of raw materials to the developed countries. These countries have missed the development boat and now must face up to the consequences. Kennedy sees no international coordinated effort that will give them a helping hand. They must sink or swim on their own. Some may now wish that these same rules had been applied to Boris Yeltsin, now that so much of the Western loan money has disappeared.

What is not analyzed by Kennedy is the collapse of the states and the state structures. Michel Chossudovsky explores how structural adjustment programs have led to the impoverishment of hundreds of millions of people across a range of countries. He ties the collapse of state institutions, such as in Yugoslavia, Somalia and Rwanda to macro-economic reforms imposed by international creditors. The empirical evidence he presents is convincing, shocking, and tragic.⁴⁵ The fact is also noted by Kennedy, however, that some \$45 billion a year of capital was being drained out of the 'developing' countries under the neoliberal regimes imposed on them by the fund-bank in the early 1990s. In September 1998, during the fear that Latin American economies were about to collapse, capital flight from Brazil was running at one billion US dollars a day. At least 11 billion dollars fled Brazil during the month of August.⁴⁶ The hope, then, is seen in technological solutions, in technocentrism, biotechnology, pesticides, and fertilizers. All of these new technologies are, of course heavily licensed to western multinational

⁴⁴ Kennedy, 'Preparing for the 21st Century'. 'Many argue that Asia's ex-tiger economies collapsed because they were too open to international finance. It would be more accurate to say that they were not open enough.' *Two Kinds of Openness*, *The Economist*, September 12, 1998, p. 93. These arguments seem largely based on ideological presumptions and can be argued either way. The state may have been both responsible for high growth and successful development and later bad and irresponsible debts of leading banks. These are empirical questions.

⁴⁵ M. Chossudovsky, 'Economic Reforms and Social Unrest in Developing Countries', *EPW*, July 19-25, 1997, pp. 1786-88.

⁴⁶ L. Katz, 'Latin America: More Where That Came From', *Business Week*, September 14, 1998, pp. 62-64.

corporations and profitable. It is now illegal in some cases to save and plant seed licensed to Western MNCs.

The struggle of these countries against the market has weakened them and the market backed by the developed countries has proved too strong. But it is a selective market, as noted by Chomsky, where the rules of market discipline apply only to the weak and not to the strong. So the solution for most of the world seems to be to give up their resources to the management of the MNCs. So we see all the elements of the neoliberal agenda played out here, but Kennedy as an economic historian might have noticed that historically countries have developed largely under a mercantilist agenda rather than through the free market. The emerging global economy is simply not raising all life boats and quite a number seem to be sinking.

2. Globalization, Neoliberalism, and Fragmentation

In the late 1990s, the turmoil and uncertainty in the global political economy, particularly the East Asian financial crisis, has led to calls for a new Bretton Woods conference to design new institutions capable of dealing with global economic and financial regulation. Various schemes have been suggested in this direction.⁴⁷ It is not clear what shape such institutions would take, but they would perhaps seek to usher in a more totalitarian economic and political order under the global domination of the major powers. That the West should make the rules, fashion the system and the 'solution', seems to be a major concern in the business press. There is alarm that states and regions may act on their own, fashioning their own solutions. Any assertion of sovereignty is seen as 'pulling back from the market'.

One possible way forward has recently been suggested by Harvard economist Jeffrey Sachs. The recent collapse in financial markets is no less than 'the end of an era', he argues. There must a sounder basis for 'globalisation'. The American agenda for global development lies in ruins and nations need to face the global economic reality. This, for Sachs, might begin with a 'G16 summit', a meeting of the G8 plus eight large players from the developing world. The charade of the 'Washington Consensus' must be ended and the 'developing world' given a piece of that action. The difficulties of development in many countries must be acknowledged, old debts cancelled, and structural reform put into place. Sachs points that Washington badly miscalculated the results of global financial liberalization. There must be international financial reform. What does Sachs suggest? Let exchange rates float, he says. Developing countries must put protections in place to forestall panics in international lending. Ways must be found to enable creditors and debtors to get out of debt. Productive capacity in East

⁴⁷D. Khatkhate, 'East Asian Financial Crisis and the IMF: Chasing Shadows', *EPW*, April 25, 1998, pp. 968-69.

Asia may be smothered under bad debts for the coming decade. It is not clear if the result would work better or be more of the same.

The second proposal made by Sachs involves reform in the operations of the IMF. End the attempt by the IMF and World Bank to micro-manage economic reform in 80 countries of the world, he writes. Funnel aid through regional organizations, such as ASEAN, similar to what was done with the Marshall Plan. Cancel the bad debt owed by the poorest countries. The Highly Indebted Poor Country (HIPC) process is too slow and doesn't get these countries out of debt. Big project aid from the World Bank should be turned over to the private sector. Only those public goods that the market does not respond to should be financed. Put money into health programs to control disease. The World Bank should shift to dispersing development knowledge, rather than being 'stuck in the banking business'. Sachs acknowledges major structural problems in the system that need to be dealt with. Even if they could be agreed upon and implemented, however, no one can predict how successful they would be. Again essentially band aids and tinkering would likely be the result once attempts at reforms worked their way through the system of competing vested interests.⁴⁸

The truth is, there is a good deal of ambivalence among economists and policy makers about what should be done and indeed, whether anything should be done at all. What does seem to be agreed upon in the West is that if anything is to be done, they must do it and not the individual countries and not on a regional basis. There is a real fear that other countries will follow Malaysia and 'pull back from reform'. Reform, of course, is a code term for the further opening of markets to the west. As the argument goes, 'there simply is no painless way out for Korea Inc. except for asset sales to foreigners...Should Ford of General Motors prevail in an international auction to buy bankrupt Kia Motors, they will impose Western styles of management on the work force. It may be a blow to national pride, but South Korea can't afford to do otherwise.'⁴⁹ And then there is the 'nasty backlash' from workers as nine percent of the workforce will soon see their primary source of income wiped out. The suicide rate in South Korea was running at 25 people a day. There was a great shame felt among the people of accepting unemployment benefits. Given these conditions, is it surprising that South Korea would resist the ultimatum from the West that they simply must succumb to letting the economy be taken over and put under Western management?

⁴⁸J. Sachs, 'Making it Work', *The Economist*, September 12, 1998, pp. 21-25.

⁴⁹B. Brenner and M. Ihlwan, 'Backlash', *Business Week*, August 17, 1998, pp. 23-26.

Business Week worries that '[t]he American model is under attack everywhere as the free market system is rolled back'. The IMF must back off from its tight money policy in Asian economies. The big private banks must be made to pay the penalties for their bad loans in Japan and Russia. Tax cuts are in order. Hot money would be 'tamed' not by capital controls but by better financial disclosure and bank supervision. The editor has lashed out at those economists advocating curbs on capital and currency controls. *Business Week* believes just the opposite is true. It is the incomplete integration of these closed economies into the free market system that has caused the trouble...We think the solution is more integration, not less; more political reform within each emerging market, not more regulation of the global capitalist system'.⁵⁰ It is an article of faith.

The West fears that Tokyo will avoid a rapid sell off of assets and use taxpayer money to refloat the system under the 'Total Plan'. But it seems that taxpayer money, hundreds of billions of it, was tapped to rescue the Savings and Loans in the United States.⁵¹ The *Economist* worries about Krugman and other American economists arguing the virtues of capital controls and that Asian countries will have less incentive to pursue essential economic 'reform'.⁵² Even while Asia is being asked to keep markets open and Clinton lobbies for the additional 18 Billion dollars for the IMF, US steel, computer chip, and machine tool makers are crying for protection from 'dumping' from competitors in Brazil, Japan and Russia.⁵³

The ambivalence even in the business community about what needs to be done about 'global risk' is seen in a recent article in the business press.⁵⁴ It seems to be a case of those touting open markets wanting to have their cake and eat it too. There is simply no way to open up countries to huge capital flows and speculation without increasing risk. That the situation is too risky for everybody seems clearly to be recognized. It is acknowledged that even those countries that were considered models of development for the rest of the world, like South Korea, Thailand, Malaysia, and Indonesia were collapsed by financial speculation. The resulting IMF bailout that imposed tight money policies in these countries has not only increased the pain in these countries but tended to allow the crisis to spread across the world.

⁵⁰B. Nussbaum, 'Time to Act', *Business Week*, September 14, 1998, pp. 24-27.

⁵¹B. Brener and M. Clifford, 'The Walls Go Up', *Business Week*, September 14, 1998, pp. 34-35.

⁵²'On the Edge', *The Economist*, September 5, 1998, pp. 17-19.

⁵³G. Hitt, 'Gingrich Flexes Muscle on IMF Issue', *The Wall Street Journal Europe*, October 7, 1998, p. 2.

⁵⁴M. J. Mandel and D. Faust, 'Global Risk: How to Reshape the World Financial System', *Business Week*, October 12, 1998, pp. 47-50.

Growth will be slowed five percent or more in these countries, the Russian ruble collapsed, The US stock market sank, the Brazilian stock market dropped by 40 percent, and so on. As in the past with SAPs for very poor countries, the imposed pain spreads to hurt the makers of the rules too. The authors speak of a global financial system that 'spins out of control' and which should be 'rebuilt'. They recognize the 'anarchic nature' of global financial markets. They call for 'rules' and 'heightened regulation'. It seems to be a recognition that financial markets this open are dangerous for all.⁵⁵

The analysis focuses on three possible alternatives. The first is to beef up the IMF with more money. But this approach is quickly rejected due to the 'moral hazard' problem. Access to too much easy finance and bail outs, however, seems mainly to pose a 'moral hazard' for others and not for the makers of the rules. The second alternative is capital controls as tried by Chile and Malaysia. Clearly traders don't want this 'step back from open capital markets'. But clearly an element here is that it allows others to make the rules that protect themselves. This is also quickly rejected out of hand. The third alternative is some global Chapter 11-type provision for bankruptcy. This has been suggested by Jeffrey Sachs. It would allow countries to tap new capital and let companies get the money they need to keep operating. This seems to something roughly equivalent to what Japan and South Korea are now doing on their own, to the great disapproval and warnings of dire consequences by the West. A chapter 11 system seems to be in more favor, but it is recognized that no one knows how it could be implemented in nations in practice. The problem of a 'moral hazard', curiously, or perhaps not so curiously, is not mentioned in relation to this sort of bail out. The authors just mention that some people say its a 'bad idea', but clearly, again because of the 'moral hazard' problem. The issue of how difficult it would be to make the entire world conform to a Western economic culture, which would seem to be necessary, is not dealt with. Presumably there is no 'moral hazard' in forcing people to go without jobs and suffer under SAPs and collapsed economies around the world, while the West further enriches itself and picks up the pieces. The point is made then that the purpose of bankruptcy laws is to recognize that 'the money's not there' and get companies off the hook. This is clearly also not what the business community wants...for others. In the case of South Korea and Japan, they clearly want to teach these statist and family-oriented operators a lesson and force them to behave like capitalists in the West.⁵⁶

In the light of the neoliberal banner so gallantly held aloft in this quarter, the conclusion of the article is quite amusing, namely that '[B]oth capital controls and a Chapter 11-type system have pluses and minuses. In

⁵⁵ Ibid., p. 47.

⁵⁶ Ibid., pp. 48-49.

the short run, capital controls are clearly an easier policy to adopt. Countries can implement them unilaterally, and they do not require new financing. By contrast, a formal debt-rescheduling scheme would be much harder to actually put into practice'. And 'those who came to scoff remained to pray'. But in the end, after listing their advantages, sobriety returns and capital controls are soundly rejected because they 'do not solve the underlying problems of the world financial system'. What is sought is something that transcends all these alternatives; 'a system that prices risks appropriately and keeps capital markets open is the right thing to do'.⁵⁷ Even at the risk of not solving all the underlying problems, presumably.

It seems that the obvious simply cannot be stated. In this sort of speculation, there are going to be huge gains and huge losses by different groups and countries. The financial turbulence created has the potential to wreck the economy of whole regions and even the entire globe. Like the idea of classical laissez-faire capitalism, it is a system that is simply too risky for everybody. IMF solutions of tight money also slow the whole world economy. Creating institutions for a global bankruptcy system are so problematical that it is not taken very seriously, and no one knows what shape it would take.⁵⁸ Capital controls seem to be the only logical, simple and workable approach. It seems pretty clear that these are rejected out of hand because they return some economic and political sovereignty to individual countries and regions, and would likely restrict the freedom and profits of MNCs.

After World War II, the Bretton Woods System which was established gave the United States, and eventually, a handful of powers effective economic and political hegemony over the entire globe.⁵⁹ The socialist world was partially outside of this system. Some parts of the Third World sought to achieve a degree of autonomy, but ultimately, all have been sucked into the maelstrom. The original design of the system broke down at the end of the Vietnam War in the early 1970s. Nevertheless, the Western powers were able to continue to control the global economy. With the United States at the helm, enormous resources were devoted to the destruction of bureaucratic authoritarian state capitalism in Eastern Europe and the former Soviet Union and ensuring that no forms of people's mass democracies or socialism could be established in any country of the world.

⁵⁷ *Ibid.*, p. 50.

⁵⁸ 'A Talk With Treasury Chief Rubin...', *Business Week*, October 12, 1998, pp. 53-56.

⁵⁹ F. C. Clairmont, 'The Grand Malediction: Bretton Woods in Retrospect', *EPW*, October 15, 1994, pp. 2727-30.

The US economy, itself, was grounded in massive military Keynesianism, which contained the seeds of its own destruction, but ensured that those countries calling themselves socialist would be forced to deprive the people of consumer goods in order to attempt to keep up, however nominally, in the arms race. The arms race was massively destructive, not only in Communist countries, but also in the West. It ensured the global hegemony of a handful of powers at the expense of most of the world's population. It was a program of massive poverty creation and ecological destruction on a global scale.

The existence of countries with a commitment to development and improving the lives and existence of the people on a nationalist collective basis meant that such a direction had to be tolerated in the Third World. Capital had to find a place in this scheme. Keynesianism was not yet dead in the United States and Great Britain. There was a problem in this for the US and the West. There was an alternative model of development, for emerging countries. While the US went about systematically destroying democracy in the Third World wherever it threatened to emerge,⁶⁰ it took somewhat longer to ensure the demise of the countries of Eastern Europe and the Soviet Union. Whether from within or without, or a combination of the two, the attempt to develop an alternative to capitalism was to be overcome at all cost.

The neoliberal agenda was forwarded as a Mecca for the entire world. Margaret Thatcher and Ronald Reagan began to take social welfare systems apart in their respective countries in the 1980s. The result was massive domestic creation of poverty. Not only did neoliberals get the upper hand in the Anglo-Saxon world, the IMF could successfully force the neoliberal agenda onto 'developing' economies around the world. Perhaps the dependency thesis was misguided. Perhaps some countries could and should have entered the global market on its own, sooner, protecting their economies as in East Asia. But under neoliberalism, every economy was to be penetrated massively by transnational capital.

In the countries of bureaucratic state-socialism, the then-existing system failed the test of being able to supply consumer goods at even a minimum level. It is not completely clear to what extent the system collapsed or was systematically taken apart. It may be that every program of economic liberalization constitutes large-scale theft from the people. In the waning to an end of the Soviet Union, there was theft from the state on a massive scale under the name of 'reform'. The opportunity to grab resources owned by the state and get rich overnight was irresistible. The wealth of the country was there, waiting to be snatched from the people. In Turkey in particular that sprang up along the Black Sea, in Trabzon and Samsun, one

⁶⁰ Chomsky, *Deterring Democracy*, New York, 1992.

saw almost the entire contents of state institutions, medical facilities and industries that had been stripped clean and hauled across the Georgian border with Turkey. A people in the direst straits, bringing across anything they could get their hands on to sell for a farthing for consumer goods to take back across the border in dilapidated rusted vans and autos. A sickening and sordid spectacle that is still playing itself out in the miserable poverty of the people. Regardless of how wretched the people, the world is supposed to rejoice that 'actually existing socialism' is dead in the former Soviet Union. Perhaps the United States thought that capitalist entrepreneurs would spring up overnight but it has not yet happened. Perhaps there is too much money to be made running a mafia.⁶¹

The agenda of the globalizing countries and their institutions became that of Americanizing the entire surface of the globe. In order to do this, a good deal of cultural baggage and traditions, and simply humanity just necessarily be destroyed. The neoliberal agenda seems to be, in essence, sort of a 'Third-Worldization' of the entire globe, ensuring the universal existence of poverty and inequality. A World Wide Web of neoliberal propaganda, in the face of poverty, inequality. The universality of cable TV, CNN and Cyberspace. One need no longer bother about the real world. We will flee to the virtual worlds provided by Big Brother, the Big World Wide Web. Things there are a beautiful colorful flash and sexy utopia. A flight from reality.

In the United States, the political economy forwarded on the agenda of the major corporations seems to be systematically taking the economy apart and destroying opportunities for people at home while capital surfs the global web for more exciting sites. The American system at the same time has been

⁶¹ A recent view of Georgia is G. S. Becker, 'A Free-Market Winner Vs. A Soviet-Style Loser', *Business Week*, August 3, 1998, p. 12. It is not clear how much the Georgian economy has been helped by a large cross border trade with Turkey. This is not mentioned in Becker's analysis. Certainly more is going on in the former USSR than the technical points of privatization. The *Economist* coverage is more empirical and realistic about Russia in acknowledging 'banks run by thieves', the 'looting of the country' by oligarchs, who took advantage of the country's sudden collapse, and that 'much of the lending...has been squandered, or perhaps stolen'. The American business press is careful not to discredit Yeltsin by being so honest. 'Behind the Throne', *The Economist*, September 12, 1998, p. 83; 'Russia devalued', and 'Russia's nightmare,' *The Economist*, August 22, 1998, pp. 13-14 and 21-22; 'End of a road for Russia?' *The Economist*, September 5, 1998, pp. 23-25. But *Time* acknowledged that Yeltsin's legacy will include tens of thousands of dead in Chechnya and over 140 corpses in the ruins of the Parliament building in 1993. P. Quinn-Judge, 'The Lion in a Russian Winter', *Time*, October 5, 1998, p. 29. He is now essentially powerless, but, like Bill Clinton would like to be President in 2000.

leeching off of statist systems around the world, buying up their raw materials, industries, and getting their state-trained elites at bargain rates. Academics in the social sciences from Eastern Europe, medical doctors, and so on from statist countries can often get jobs more easily in the US than native citizens, partly as a result of their rabid anti-communism, their political correctness for the new age. They were trained, however, with funds from the state, not through the private economy.

The ideological hegemony which has triumphed, at least temporarily, has taken hold and provides a formidable task to those who would challenge the orthodoxy. It is a faith, plain and simple, for many of the practitioners. It would certainly not seem to be grounded in empirical reality, for the most part. But those who would challenge it labor under a heavy burden. They are not considered worthy of refutation, as their voices need not be drowned out. They are simply not heard. They are seen as hoary, beyond the pale.

The ideological basis for neoliberalism and the global system of Americanization of economies under SAPS has been explored by a number of political economists. The theoretical foundations of neoliberalism go back to the New Right School of Frederick Von Hayek and his book, *The Road To Serfdom* in 1944. Hayek saw any attempt at social welfare liberalism as tending toward 'totalitarianism', including the programs in the U.K. and the United States.⁶² Others in this perspective include Milton Friedman, James Buchanan and Gordon Tullock. The New Right School can be divided into the neoliberals and neoconservatives. The neoliberals emphasized freedom, choice, the free market, minimal state intervention, and the primacy of individuals. There are four schools of thought among the neoliberals: the Austrian school of Hayek, the Chicago School of Milton Friedman, the Virginia School of public choice led by Buchanan and Tullock, and the Anarcho-capitalist school of thought of Robert Nozick and David Friedman. While each of these schools emphasize the free market, individual freedom, and a minimal role for the state, they are somewhat distinct.⁶³

The Austrian School seeks to identify and preserve the conditions conducive to the maximum amount of individual liberty and personal choice. The Chicago School emphasizes the role of the market to provide goods and services needed by society through the policy of monetarism. The Virginia School stresses a 'free market' and situation where politicians and bureaucrats follow utility maximizing behavior caring for their own interests and not those of the society. In this way, they create an expensive state overload

⁶² A. Gamble, *Hayek: The Iron Cage of Liberty*, Cambridge, 1996, Chapter 1.

⁶³ Na. Edadan, 'Privatisation Strategies in Developing Countries', *EPW*, July 5, 1997, pp. 1611-12; A. K. Bagchi, 'Rent Seeking, New Political Economy and Negation of Politics', *EPW*, August 21, 1993, p. 1729.

requiring a return to the market. The Anarcho-Capitalist School argues for unrestrained freedom and a total absence of the state. For these thinkers, the free market and capitalism provides the greatest level of individual freedom.⁶⁴

The views of Anthony Downs, that neoclassical economic thinking can be applied to every institution in society, has also been influential. According to Mancur Olson, the theory of self interest can be applied to groups. Interest group activity results in distributional coalitions. These groups work through lobbying, coalitions, and other legal and illegal actions. These groups act to maximize their own benefits, but this does not guarantee the best outcome for society. Rather, such politics and competition generally leads to a negative outcome for society. These groups generally engage in 'rent seeking' through government protection, which is irrational for the society as a whole.⁶⁵

The neoconservatives, on the other hand, emphasize authority, tradition, stability, order and morality. For these thinkers, the threat comes from too much freedom, the breakdown of the moral fabric, the breakdown of law and order, and the general decline in moral values, with the solution in ensuring the duties of individuals to the collectivity. They want family-oriented government policies. As one can see, it is possible to combine neoconservative and neoliberal ideas as in the case of Thatcherism.⁶⁶

Classical theories clearly made assumptions that usually do not hold up in the real world.⁶⁷ Some of these were constant returns to scale, that the same technology is available to all, and that there are no external economics. Given the departures from competition in international trade, the free trade argument does not hold today. There are essentially three streams of reasoning to justify economic reforms. First are the classical economic theories based on rational-deductive thinking. These are merely 'to bluff the ignorant'. Second is the argument that reforms which open up markets in third world countries are necessary for the survival and growth of MNCs and to relieve the prolonged recessions in developed countries. Third is the argument that if reforms are done correctly, they can benefit both countries, the advanced and the poor.⁶⁸

⁶⁴Edadan, *ibid.*, pp. 1611-12.

⁶⁵B. Dasgupta, 'The New Political Economy: A Critical Analysis', *EPW*, January 25, 1997, pp. PE 13-26.

⁶⁶Edadan, *Privatisation Strategies*, p. 1612.

⁶⁷T. K. Kumar, 'Silent Consensus Against the Washington Consensus', *EPW*, March 29, 1997, p. 658.

⁶⁸*Ibid.*

J.E. Stiglitz has argued 'that much of the rationale for liberalizing financial markets is based neither on a sound understanding of how these markets work nor on the potential scope for government intervention'. 'Often too, it lacks an understanding of the historical and political forces that have led governments to assume their present role. Instead it is based on an ideological commitment to a conception of markets that is grounded neither in fact nor in economic theory'.⁶⁹

3. The Neoliberal Mecca

Political economists have devised schemes and theories about how structural adjustment programs could be applied for optimal results. Privatization can be carried out through voucher schemes, the direct sale of state owned enterprises (SOEs), public offers, concessions, joint ventures, management buy outs, liquidation, and by lease.⁷⁰ Common methods used have been direct sales to foreign investors, public equity offerings, operational and maintenance agreements, and management contracts.

There are four distinct strategies which may be used for privatization. The dimensions of choice are along a continuum from a go-slow approach with low political commitment to the big bang approach, with high political commitment. On the other dimension, is economic efficiency, from high economic efficiency to low. The strategy could be applied at once or in phases. The goal of the program would be to reach a phase of private ownership and high economic efficiency in the most optimal way.

Phase one involves the go-slow approach, the deregulation of state owned Enterprises (SOEs), allowing private entry, contracting out, and concessions. Phase two involves divestiture only of SOEs. Phase three is a go-slow approach but aimed at high economic efficiency. It involves unbundling of SOEs, demonopolisation and divestiture. Phase four involves both unbundling of SOEs and privatization. Countries can look at the options and decide upon an approach.⁷¹ A detailed examination of these is beyond the scope of this paper. It would be wrong to say that these have no benefits, but in general, there are too many factors to predict whether the schemes will work in a particular case, or lead to economic disaster. In every case there will be winners and losers within the economy and it is difficult to predict whether the particular political economy will benefit or be thrown into a state of collapse.

⁶⁹ Ibid., p. 659.

⁷⁰ Ibid., Privitisation Strategies, pp. 1608-9.

⁷¹ Ibid., pp. 1613-15.

More than 15,000 enterprises were privatized world wide between 1980 and 1992. The process began in the late 1970s. The proceeds from these sales were some \$40 billion in 1988 and \$271 billion in 1993. Privatization can be defined as 'the complete or partial transfer of control over public assets to the private sector or in exchange for a payment'. This may involve a complete or partial divestiture. Different areas or regions have proceeded in different ways. A big-bang approach was followed in Latin America. Asian countries have generally taken a go-slow approach. In Eastern Europe, Russia, and Central Asia, the shock therapy used was designed with the political purpose of affecting an early transition, before political opposition could effectively consolidate. Some 28 countries, the major privatizers in the developing world, have contributed some 95 percent of the total privatization proceeds. About 85 percent of privatizations have been carried out in developing countries.

The empirical evidence bears out that the most common effect of SAPS around the globe is to create poverty, while preparing the way for profits for the local elites and the MNCs. There are more than 100 countries under the SAPs. It has been called a 'globalization of poverty' and a 'worldwide compression of wages'. It allows MNCs to feed on cheap labor and the continued destruction of the natural environment.⁷²

In fact, it is not really a liberal order that is aimed for. The state is left to the task of law and order and subsidizing the infrastructure in order to grease the wheels for profits in these countries. The state must leave the work of making profits to the multinational corporations. They must break up indigenous wealth sharing and communitarianism of whatever order exists or remains as part of the agenda. What will happen in future in these countries is extremely uncertain, as is seen at the present time in the cases of Indonesia and Russia.

The US has been able to co-opt the World Bank and other institutions into being the spokesmen for doing this sort of agenda around the world. Whatever it does, it generally precludes democracy, both at home and around the world. Indeed, this is recognized as a necessary part of the implementation of SAPs. It takes strong states to contain the popular resistance that arises against the austerity of SAPs. It seems 'SAPs for saps' might be a good slogan, but few are big enough saps to accept the rules of the 'market' willingly.⁷³ It is recognized that a 'liberal' economic order in the developing world often precludes a 'liberal political order'.

⁷²M. Chossudovsky, *Economic Reforms*, p. 1786.

⁷³E. J. Girdner, 'Mad Madeleine, All is Calm, All is Bright, Of Masters, Sappy Slaves, and Bad, Bad Boys', *Turkish Daily News*, February 9, 1998, p. A 5.

The impact of SAPS in various countries is complex and needs to be looked at empirically. Some results have been noted in various parts of the world. There is only room for a few sketches here. Noam Chomsky notes the decline of the Global South, particularly in Africa and Latin America under neoliberal economic doctrines. The UN economic commission for Africa, for example, reported that IMF structural adjustment programs resulted in lower growth rates than those states relying more heavily on the public sector. In Latin America, the results were 'disastrous'. Chomsky reported that free market policies resulted in a reduction in national income by 5 percent a year by the end of the 1980s.⁷⁴ Other trends included the decline of real wages and increasing foreign control of national resources. Parts of Eastern Europe were pushed back to Third World status.⁷⁵ Chomsky noted the effects on Russia and Poland, with capital flight and decline in production. Michael Hanes provides extensive data on the decline of these economies. Chomsky too gives many other examples of the negative effects of SAPs. He also discusses the impact of US policies on Grenada, Panama, Mexico, Nicaragua, and the drugs based economies of these countries.⁷⁶

In the case of Chile, the US set out to undermine the regime of Allende using the 'soft line', that is 'to do all within our power to condemn Chile and the Chilean people to utmost deprivation and poverty'.⁷⁷ The US threatened to destroy the economy, which it could-and did-do'.⁷⁸ The US was afraid Allende's policies would affect southern Europe. The pattern was similar in Vietnam, Greece, Cuba, and Guatemala. The thrust was to 'make sure that policy is insulated from politics'. Chile was essentially depoliticized through the terror of the state.⁷⁹ We can see these trends are accelerating in the 1990s. Similar views are expressed in other places.⁸⁰ One extreme, perhaps, is Turkey where the state and center-right political coalitions pride themselves on insulating economic policy from politics, but also continue to use death squads, as was exposed in the Susurluk scandal in 1996. Not surprisingly, most of the details of the story and investigation are yet being

⁷⁴ Chomsky, *Year 501: The Conquest Continues*, Boston, 1993, p. 55.

⁷⁵ *Ibid.*, p. 58.

⁷⁶ *Ibid.*, Chapter 3; M. Haynes, 'Eastern Europe Transition: Some Practical and Theoretical Problems', *EPW*, February 24, 1996, pp. 467-82.

⁷⁷ Chomsky, *Secrets, Lies and Democracy*, pp. 92-93.

⁷⁸ *Ibid.*, p. 92.

⁷⁹ *Ibid.*, pp. 93-95.

⁸⁰ Chomsky, *Keeping the Rabble in Line*, Monroe, Maine, 1994, pp. 5-32 and 203-240.

kept under close wrap.⁸¹ In 1998 details continued to leak out from expatriates and secret operatives in Paris.

Chomsky notes that neoliberalism is a process that is being applied to the rich societies as well as the poor around the world. This a reflection of the increasing power of 'private tyrannies' that has emerged over the last 25 years. There is a sort of 'Third Worldization' going on in the first world, and this goes along with the trend. One indicator is the increasing incidence of TB, essentially a disease of poverty that was rampant in the US in the 1930s, and is now coming back. There is a design in this, as a crucial factor in development has always been protection from market discipline.⁸² Today, we see how many third world elites have 'internalized' the US propaganda. This, in Turkey, can be seen to have happened massively under Turgut Ozal in the 1980s. Neither the center-right nor the center left, 'social democrats' can challenge the reform agenda. This maclstrom must pull in everybody and is, in fact, a price that anyone must be willing to pay to even be found credible in the electoral arena of most countries today. It seems that the development of domestic private TV in Turkey has accelerated and consolidated this process. It is true that the private media has exposed more corruption in politics and made it more difficult for the state to pull the wool over people's eyes on some matters. But there is little progressive programming and a massive amount of commercialization that gives the appearance of rising affluence. It is not clear what the long term trend will be on this score. The left has been crushed. The state has stepped up persecution of the religious right and shored up the official 'secular' doctrine.

Chomsky points out that market discipline is imposed only upon those who cannot resist it. Going for the long view, the First and Third worlds were much more similar in the 18th century.⁸³ Chossudovsky ties the collapse of state institutions, leading to situations like those in Yugoslavia, Somalia and Rwanda in the 1990s, to micro-economic reforms imposed by international creditors in these countries. He argues that SAPs 'have led to the impoverishment of hundreds of millions of people'. The role of the Bretton Woods institutions, which were set up for the purpose of economic reconstruction, have come to play an exact opposite role, that is, destabilizing national currencies, and ruining the economies of developing countries.⁸⁴

⁸¹E. J. Girdner, 'The Twilight of Refah: Turkey and the Islamist Welfare Party', EPW, forthcoming.

⁸²Dreze, Chomsky in India, p. 814.

⁸³Ibid.

⁸⁴Chossudovsky, Economic Reforms, p. 1786.

The specific effects are the collapse of the internal purchasing power of currencies, the eruption of famines, the closure of health clinics and schools, the denial of the right to primary education for hundreds of millions of children, the scourge of infectious diseases, tuberculosis, malaria, and cholera. Chomsky cites a figure of a half million children a year dying from the debt burden of these programs. Countries are in fact denied the ability to develop national economies and their economies become colonial, returned to colonial status, as 'reserves of cheap labor and natural resources'. Joseph E. Stiglitz of the World Bank, notes that '2 million children die each year, and another 900 million are made sick, by the dehydrating effects of diarrhea'. The cure for this, in each case, of course, costs pennies.⁸⁵ The role of providing cheap labor and natural resources is the role outlined by Paul Kennedy for Africa, for example. These programs often serve to weaken the state in significant ways and production for the internal market is undermined. Many enterprises are pushed to bankruptcy and get taken over by foreign MNCs.

Much of this process is obscured by the Western media and its domination of the global media. The 1980s 'lost decade' exacerbated a host of ills in different parts of the world, including urban riots and civil war in Central America, caste violence in India, Islamic fundamentalism in a number of countries, such as Algeria, Tunisia, Egypt, and Turkey, and the mass rioting and the death of some 500 in Indonesia in May 1998. Criminalization of politics and the economy in the Soviet Union flourished as the state collapsed and Boris Yeltsin drank. In all this destructive activity that goes on in these countries, including criminalization that proceeds apace in many countries, the UN keeps a profile as a 'peace keeper' and the Western countries speak of 'human rights', but human rights are not seen to include the right to any sort of material welfare and freedom from dying. East Asian countries and Russia can be seen as the latest examples of how countries can collapse under Fund-Bank tutelage at massive cost to the lives of the people. In Indonesia, this came after more than 32 years of repression under the US-imposed Suharto regime. Possible outcomes include the disintegration of the state and outbreak of civil war under pressure of debt servicing and austerity of SAPs. Poverty, unemployment and social unrest are often the result. Increasing communalization, often associated with fundamentalist religious fervor, is seen in India, Turkey, Indonesia, and a number of other countries. A general collapse in the standard of living for a large section of the population, which increases tensions, is a common trend. This is dealt with

⁸⁵*Ibid.*; J. E. Stiglitz, 'Development Is About Getting Knowledge to the Poor', *International Herald Tribune*, October 6, 1998, p. 8. One interesting thing about this approach, however, is that many grass roots groups, made up of the poor, who are acting on their 'knowledge' run up squarely against the interests of MNCs supported by the World Bank. This is particularly true of grass roots environmental groups such as those in India.

under neoliberalism by further attempts to separate policies for the masses from politics. The objective is to essentially isolate the masses from politics under structural adjustment and technocratization. Domestic markets that have functioned locally and indigenously are taken apart by big capital and the agenda of the MNCs, which serves to centralize and concentrate capital depleting local areas of development funds.

A good example of this sort of struggle can be seen in Turkey. The agenda, traditionally has been the concentration of capital in the cities. The beneficiaries were the big capitalist business houses. Now the struggle involves petty bourgeois capital, with a religious fundamentalist twist. It is actually a resistance against the agenda of big capital, but takes the distorted form of a fundamentalist struggle, basically due to the crushing of the ability of the left to engage in political activity. This seems to leave only two possible alternatives at the present time. Kemalist establishment authoritarianism on the Right, underwritten by the agenda of statist elites including the military, and a petty-bourgeois Islamic fundamentalist agenda on the other hand. It has been easier to crush the progressive left opposition than the religious fundamentalist sentiments, which the political classes have found useful to exploit for votes.

This agenda will go on in scores of countries. After the initial damage is done, then a 'liberal' soft glove approach or face can be put on the situation, as with Blaironomics in the UK, which is a variation of Clintonomics in the US. A soft fairy edge that conceals the clearing of the way for the totalitarian neoliberal agenda is seen in all these countries as part of the attempt at consolidation of the totalitarian New World Order that is emerging. The neoliberal right doesn't have everything it wants, but almost. One sees that the current Wall Street Journal attack on Clinton is a win-win situation. If Clinton stays in office, fine. His policies are largely what transnational capital has ordered, with a few quibbles here and there, like his attempt to regulate the most deadly drug in America, tobacco. If Clinton goes, they win again. Both Clinton and Gore are essentially southern fiscal conservatives. It is not clear if Al Gore will be a winner at the polls or be tarnished by Clinton. The business community has done very well, indeed, under the Clinton-Gore Administration with profits running 70 percent ahead of 1990.

4. The World Wide Web of Increasing Inequality

If anything appears certain, it is that growing inequality is associated with the growing liberalization in the global economy. The level of inequality globally has increased quite dramatically since the 1950s. This seems likely to continue under the emerging global system. Again it is possible to give only a few sketches of the trends here.

It is instructive to look at the argument of Chossudovsky, concerning recent economic collapses. In Yugoslavia, the economy was subjected to structural adjustment at the end of the 1970s, just before the death of Marshal Tito in 1980. The effects, according to Chossudovsky, was slower growth, accumulation of foreign debt and debt servicing, a currency devaluation and a fall in the standard of living. These economic changes led to precarious political stability and increasing ethnic tensions. The political situation became more fractured. Economic reforms, including the closure of state enterprises, currency devaluation, and the cutting of government expenditures, were required for IMF-WB support. Under budget cuts and increased debt servicing, the Belgrade Government cut back funds to the states and autonomous regimes. This tended to exacerbate forces for balkanization and secession. A second phase of privatization began in June 1990.

The freeze on transfers to the republics during 1989-90 led to the collapse of the federal fiscal structure and 'de facto sovereignty'. 'The austerity measures had laid the basis for the recolonization of the Balkans'.⁸⁶ In 1990, Croatia was separated with the assent of the German Foreign Minister, Hans Dietrich Genscher. Western allies came under pressure to recognize Slovenia and Croatia. This was the background that led to the subsequent war in Bosnia.

Somalia is another case where structural adjustment had much to do with the collapse of state institutions and the economy, according to Chossudovsky. Analyses of the famine situation has focused on drought, desertification, and civil war. But the background to these changes need to be explored. The Somalian economy was pastoral, based on the interaction of nomadic herdsmen and small farmers. Some 58 percent of the population was made up of such nomadic peoples. Increasing commercialization of the pastoral activities took hold in the 1970s. Until 1983, 80 percent of export earnings were from livestock. While there were droughts, the country remained 'virtually self sufficient' up to 1970.⁸⁷

IMF and World Bank intervention began in the 1980s. According to Chossudovsky, the agricultural crisis worsened because the fragile exchange relationship between pastoralists and small farmers was destroyed. A good deal of this trade had been on the basis of barter. Under the Fund-Bank program, austerity was imposed in order to release funds for debt servicing. At the same time, the SAP increased Somalia's dependency on imported grain. In ten years (1975-85) food aid increased some 15 fold, or by 31 percent per year. Domestic producers could not survive the influx of cheap wheat and

⁸⁶Chossudovsky, *Economic Reforms*, p. 1786.

⁸⁷*Ibid.*, p. 1787.

rice grains. This also led to a shift in food consumption patterns. So the production of traditional crops suffered under these changes.

Economic change involved currency devaluation and increases in prices of fuel, fertilizer, other farm inputs, and drugs for livestock. As privatization took hold, prices of drugs and fees for veterinary services increased. Finally, veterinary services collapsed, and Saudi Arabia turned to the EU for their beef imports due to the rinder pest epidemic. Health and educational programs in the country collapsed, with health expenditure falling by some 78 percent at the end of the 1980s, compared to 1975. Education expenditures collapsed from \$82 per student in 1982 to only \$4 per student in 1989, while school enrollments were down by 41 percent during the 1980s. Educational infrastructure and supplies, such as textbooks, materials, buildings, and salaries for teachers, collapsed with half of the primary schools being closing down.

Chossudovsky argues that the IMF-WB contributed much to the whole process of the unraveling of the economy. With the rural economy decimated, the urban population was also impoverished with the falling consumption of food. Civil administration also collapsed, with the average wage in the public sector down to \$3 a month. The World Bank suggested the dismissal of 40 percent of public sector employees, and a pay cut, to bring the number of civil servants down to 25,000 to serve the 6 million population. In 1991, there were more cuts in public spending. Most public sector enterprises were privatized. In 1989, debt servicing amounted to some 195 percent of export earnings. At this point, the IMF cancelled the loan pending payment of creditors.⁸⁸

In Rwanda, there were social and economic causes of the crisis, with the imposed SAP contributing significantly to the situation which emerged. The restructuring of the agricultural system reduced much of the population to a state of poverty. Around 1987, the price of coffee collapsed. The IMF-WB began applying macroeconomic reforms. The worsening conditions tended to exacerbate ethnic tensions and threatened political collapse. At this time also, the International Coffee Agreement (ICA) lost its ability to control coffee quotas. This organization, by 1989, was under great pressure from the US, acting on behalf of large US coffee traders. After large coffee producers met, coffee prices dropped further by five percent. These developments tended to wreak havoc on the economy, as coffee was the main source of export earnings, bringing in some 50 percent from 1987-91. Following the economic collapse, state institutions also collapsed. In the countryside, famine conditions came on with GDP per capita declining from 0.4 percent (1981-86) to negative 5.5 percent from 1987-91.

⁸⁸Ibid.

In 1988, a World Bank team decided that a SAP was appropriate and would result in increasing levels of consumption and an improvement in the balance of trade. The program required trade liberalization, devaluation of the currency, the end of all subsidies to agriculture, the phasing out of coffee purchases from farmers, privatization of state enterprises, and dismissal of many civil servants. In 1990, the Rwandan Franc was devalued by 50 percent. But this devaluation did not boost coffee exports as predicted. Instead, inflation increased and there was a collapse of real earnings.

With the administrative machinery unable to function, state enterprises fell into bankruptcy. Public services were in a state of collapse, including health and education. This was seen in the increase of child malnutrition and the 21 percent increase in malaria, partly due to lack of drugs in public health centers. School fees were imposed as enrollments continued to decline. The collapse of the coffee economy led Rwandan farmers to destroy coffee trees due to the SAP program requirement that the Government freeze prices. As in the case of Somalia, cheap food imports hurt producers of cassava, beans and sorghum. Under these 'free market' conditions, both coffee and food crops could not survive the market. Clearly the collapse of the economy and subsequent war and slaughter owed much to the conditions imposed by the SAP. No doubt, '...macro-economic reforms in all three countries, played a crucial role in fostering the collapse of state institutions and creating a situation of social and political divisiveness'.⁸⁹

The dramatic decline of the Eastern European economies has been studied by Michael Haynes.⁹⁰ The author provides a wealth of statistical information and data on the transition in many economic and social indicators. Haynes shows that in these economies there has often been a good deal of continuity of power, even in those countries with the greatest reforms, with the old Communist parties able to reemerge in new clothes, in many cases.

In these economies, it was assumed that new economic structures could be easily transported and implanted in Eastern European countries. It was assumed that the market elements were the key components of the better economic performance in Western countries. The West was seen as doing so well that it could be offered as a model for these countries. But there was a dramatic collapse in output, what Haynes says is not Schumpeterian 'creative destruction', but 'destructive destruction'. There occurred a 'perverse restructuring' with the decline in industry, decline in human capital, a brain drain, a state paralysis, a rise in criminality, drug trafficking, illegal trade, and increasing levels of criminality.

⁸⁹Ibid., p. 1788.

⁹⁰Haynes, *Eastern Europe Transition*, pp. 467-82.

Haynes documents the economic decline in these economies after 1989. Looking at growth in GDP, the Eastern European economies dropped from 2.2 percent growth in the period 1981-88 to negative 11.6 percent in 1990, negative 11.2 percent in 1990, and recovered to a positive 2 percent in 1994. For the Soviet Union and successor states, as a group, the region went from a GDP growth of 3.5 percent in the 1981-88 period, to negative 4 percent in 1990, negative 8 percent in 1991, negative 18.3 percent in 1992 and recovered to negative 9.5 percent growth in 1994. GDP fell sharply in all of the Eastern European economies from 1989 onwards. Most of the economies bottomed out around 1992, with Albania at 59 percent of its 1989 GDP, Bulgaria at 73 percent, and Rumania at 71 percent. In 1994, Russia was at just 57 percent of its 1989 GDP.

Looking at the gross industrial output, the drop was even sharper, with Albania at just 29 percent of its 1989 output in 1993, Bulgaria at 53 percent, and Russia at 63 percent. Unemployment in Bulgaria increased from 1.6 percent in 1990 to 12 percent officially in 1995; in Poland, unemployment was 15.5 percent in 1995, up from 6 percent in 1990. Employment declined by 24 percent in Bulgaria, 11.5 percent in the Czech Republic, 12.4 percent in the Slovak Republic, and 12.6 percent in Hungary and Poland.⁹¹

Haynes did not find a clear shift to a competitive market economy.⁹² Times were indeed very bad for the great majority of people. Inequality has increased by leaps and bounds. Health and working conditions have worsened. Haynes projects that the winners under the new system will be the same elites who won under the old system. Continuity of power is seen in the continued exclusion of workers and peasants from any control, the continuation in power of the same political and bureaucratic class. Any movement toward democracy will be toward an elite form that excludes the masses. These trends are similar to developments in other countries where SAPs have been implemented.⁹³

⁹¹Ibid., pp. 469-71.

⁹²The West is hopeful that the most recent collapse in Russia will 'speed up efforts at reform' in Poland, Hungary, and the Czech Republic. So far these countries have not been greatly affected by the Russian crisis, but then, they are still not completely 'reformed'. Importantly, we are informed, 'all three of these countries' ... 'are solidly committed to carrying out tough economic reforms, including austerity measures'. Poland is about to go ahead with the privatization of 25 percent of Telekomunikacja Polska. J. Drake, et.al., 'The Russian Bear Hasn't Mauled Central Europe', *Business Week*, September 21, 1998, p. 28.

⁹³Haynes, *Eastern Europe Transition*, 469-71.

Ramnath Narayanswamy argues that bureaucratic socialism in Eastern Europe and the former Soviet Union did not fail. It was viable in the early phases of industrialization, but could not adapt itself to the demands of post industrial society. It could transform a backward society to a modern industrialized one but could not move on to a consumer oriented economy. Kotz and Wier argue that 'the Soviet economy did not fall apart by its own momentum. It was intentionally destroyed by members of its own elite who became increasingly anti-Communist and procapitalist'.⁹⁴ The author makes it clear that in Russia, there are millions of teachers, doctors, university professors, engineers, scientists, and scholars who never supported capitalism and have been thrown into poverty by Yeltsin's reforms.⁹⁵

Another interesting perspective on the transformation in Russia is seen in Nikita Pokrovsky.⁹⁶ The author casts doubt about the theses being put forward about 'globalization' and 'post-modernism'. Globalization has mostly been based on what is going on in East Asia. In Russia and rest of the former Soviet Union, one sees that it is actually a matter of 'going back to feudalism'. The legal system has broken down and everything is taken care of through personal contacts. The psychology in the country, the new orthodox thinking, is 'a new religion'. Everyone is supposed to forget that anything ever happened in the past and the present is 'an immediate cleaning up of everything'.⁹⁷ In Russia, what one sees is 'atomization', not globalization. There is a 'mass intoxication of commerce', and everybody is supposed to try to get rich, in order to be anybody. The new mantra says that the more rich people there are in Russia, the better off society will be. Pokrovsky stresses that all of this is very alien to Russia, which helps to understand why there has been so little actual productive investment in the country. At the same time, science, art, and schools are perishing and one is not supposed to ask any serious questions. There is no such thing as globalization in Russia. Workers are actually like vassals who are reduced to using personal connections and so on just to keep a job.⁹⁸ This, it might be added, smacks of some of the elements one sees among the emerging elite classes in Turkey. The values are similar to those portrayed on some programs on private TVs and in the print media. The flouting of playboy wealth in the face of the majority who are struggling is seen.

⁹⁴S. Menshikov, Review of David Kotz and Fred Wier, 'Revolution from Above: The Demise of the Soviet System', *Monthly Review*, October 1997, pp. 49-57; Z. Medvedev, 'What Caused the Collapse of the USSR', *International Affairs*, Vol. 44 (2), 1998, pp. 84-91.

⁹⁵*Ibid.*, pp. 54-55.

⁹⁶N. Pokrovsky, 'The Great Renunciation: Back to Feudalism With a Post-modernist Look', *EPW*, February 10, 1996, pp. 330-36.

⁹⁷*Ibid.*, p. 331.

⁹⁸*Ibid.*, p. 332.

Chossudovsky has also addressed the conditions that have resulted from the transition in Russia. For Chossudovsky, the objective of the IMF program is to weaken Russia and prevent the emergence of a rival capitalist power. 'For the West, the enemy is not "socialism" but capitalism', he writes. The West is concerned with 'how to tame and subdue the polar bear, how to take over the talent, the science, the technology, how to buy out the human capital, how to acquire the intellectual property rights'.⁹⁹ It certainly seems to be working this way.

The shock treatment imposed was a program of impoverishment of large segments of the population and designed to kill the national economy. The IMF -Yeltsin reforms are an instrument in 'third-worldization'. The state enterprises were pushed into bankruptcy and market forces used to determine which parts of the economy would be allowed to survive. The actual collapse in 1992, was around 50 percent of industrial production. The program applied was an exact copy of those used in Latin America and sub Saharan Africa. Jeffrey Sachs, a consultant to the Russian Government, used the same economic recipe as for Bolivia.

When the program began to take hold, by 1992, consumer prices increased by more than 100 times. (9900 percent) This was as a result of the 'anti-inflationary program'.¹⁰⁰ As the national currency collapsed, domestic prices became dollarized. In December 1991, bread was 13-18 kopecks. By October 1992, it was 20 rubles. A TV set went from 800 rubles to 85,000 rubles. At the same time, wages increased by only 10 times. Real earnings declined by more than 80 percent, while life savings disappeared practically over night. The rationale for this was to 'sop up excess liquidity' as 'purchasing power was too high.' Household money holdings were to be eliminated. According to the World bank, these savings 'were not real'.¹⁰¹ One wonders about the lives and value that the common people had put into these savings. They can be appropriated at a stroke of a pen by economic technicians.

Again, as in other such programs, social services collapsed. Under the IMF-WB reforms, social programs have to generate their own revenue, including schools, hospitals, and sports. Only the rich could afford surgery under these conditions. Chossudovsky argues that the state is still 'totalitarian', a blend of Stalinism and the free market. One brand of Stalinism has been replaced with another. Huge profits were made buying

⁹⁹M. Chossudovsky, 'Russia Under IMF Rule', *EPW*, April 10, 1993, pp. 623-26.

¹⁰⁰*Ibid.*

¹⁰¹*Ibid.*

from the state and selling on the private market in the 1988-93 period. There was often a 10 fold profit for personal enrichment. The other side was private accumulation through stealing from the state. It was a 'pillage of Russia's natural resources.' Money laundering operations sprang up and money was moved out of the country. New profits could be recycled by buying up more state property for practically nothing. A hotel in Moscow could be had for the price of an apartment in Paris.

With this going on Western companies moved in and took over many production facilities, such as cigarette industries. British Airways was able to take over some of the air routes. In the field of science and technology, there was much loss to the national economy. Lockheed Missile and Space Corp., Boeing, and Rockwell International want to take over aerospace and aircraft industries. AT&T and Bell Laboratories acquired, through a joint venture, the services of an entire research laboratory at the General Physics institute in Moscow. McDonnell Douglas has a similar agreement with the Mechanical Research Institute. In this way, these western companies get the services of scientists for only \$50 a month. There are some one and a half million scientists and engineers in Russia.¹⁰² If only a similar penetration could happen in East Asia, the West could reap another bonanza there, but there is resistance.

It is useful to note here that in the US avionics is a protected sector of the economy, off limits to foreign companies. The upshot of the SAP for Russia, then, is that the country is effectively blocked from participating in the global economy in its own right, due to the imposed macroeconomic policies. The banking sector is also open to foreign penetration. There is an economic balkanization going on too, as the IMF wants an end to the ruble zone and wants each republic to have its own currency. This is just opposite of the European Union establishment of the Euro which will go into circulation in 1999. All this seems to be a divide and rule policy that serves the interests of certain elites, but which has brought down the economy and destroyed the level of welfare for the vast majority. It is economic fragmentation, as the civil society disintegrates. None of these policies have been determined through a democratic procedure, of course.¹⁰³

Another result is the enlargement of Russia's national debt, further crippling the national economy, now in collapse.¹⁰⁴ Under these conditions, the country is pushed back to the status of a colony for the extraction of raw materials. A Mafia has arisen that is a powerful lobby behind the Yeltsin

¹⁰² Ibid., p. 625.

¹⁰³ Ibid.

¹⁰⁴ Chossudovsky, 'Russia: Towards Economic Collapse', EPW, January 1994, pp. 91-93.

reforms. By 1994, half of Russia's commercial banks were said to be under the control of the local mafias, and half of the commercial real estate in central Moscow is said to be in the hands of organized crime.¹⁰⁵ So the criminalization, looting, money laundering and capital flight continues, with August 1998 bringing the worst crisis yet. The promised glorious era of capitalism, has yet to get off the ground.

Yeltsin even resorted to an attack on Parliament, with some 140 corpses in the rubble, to get rid of those opposing his IMF-WB reforms. Yeltsin was reportedly under the threat of Michel Camdessus, the managing director of the IMF, who had announced the withholding of the second track of the IMF loan of 1.5 billion dollars if the conditions were not met. Yeltsin's decree abolishing both houses of Parliament was endorsed by the G-7 countries. The G-7 spoke of 'their very strong hope that the latest developments will help Russia achieve a decisive breakthrough on the path of market reforms',¹⁰⁶ This could only be achieved by crushing the Parliament. Yeltsin proceeded to sign decrees to speed up the pace of economic reforms and meet the IMF demands. The Russian people lost some 86 percent of their purchasing power. As in former Yugoslavia, the SAP package required fiscal autonomy for the republics and local governments. Central Government funds were to go to the IMF creditors. This has contributed to weakening the control of the central state.

There were forces in the country that favored the development of national capital and the continued presence of a strong state, such as The Civic Union and the Union of Industrialists. Things are going in the opposite direction, with the ensuing military and industrial demolition carried out by the West. Military hardware and factories are to be reduced to scrap and sold on the global commodity markets to cover the debt burden of privatization. The military industrial complex will be dismantled through integration into Nato. The terms of trade for food staples and raw materials deteriorates, even while a new rich class consumes expensive luxury imports from the West. All this leads to a massive outflow of real wealth and progressive "third worldization" of the economy. In fact, most Western 'aid' is fictitious, coming in the form of loans which increase debt or credit for food purchases from the US or export credits and guarantees to Western companies. Much of the wealth of the country, in short, is being turned over to the West at low prices.¹⁰⁷

In September 1998, Yeltsin backed down to a Parliament that rejected the appointment of his former Prime Minister Viktor Chernomyrdin, twice

¹⁰⁵Ibid.

¹⁰⁶Ibid.

¹⁰⁷Ibid., pp. 92-93.

and forced him to appoint Yevgeny Primakov, a former apparatchik as Prime Minister. The Japanese economy seemed to be in for a long slump. The crisis in the South Korean economy also seemed slated for a slow pace with sluggish exports. The West is not so fond of IMF austerity in putting the brakes on these economies when it redounds to hurt their own profits. IMF austerity is supposed to be directed to the weak and not the strong, so that one notices the business press calling for an end to IMF austerity in the recently prosperous East Asian economies. It seems that the hope of Washington of putting the global economy on free market status has run into quite heavy turbulence indeed.

On a global scale, one economist concludes '...instead of any catching up, the gap in the standard of living between the poor and the rich countries increased in the post-Second World War period...'¹⁰⁸ Noam Chomsky has noted that the SAPs are a way to keep the majority of countries in a weak and poverty situation, with a few cases that are able to pull up at least in macroeconomic terms, probably linked to US capital and probably in client state status. These can then be seen as examples of success stories but every economy seems more vulnerable today.

In the global arena, figures show that inequality has clearly increased. The US with some five percent of the world's population, consumes about 40 percent of global resources. The first and third worlds were more similar in the 18th century.¹⁰⁹ Nearly one-fifth of the world's population now lives in absolute poverty. 'Every year, 13 to 18 million people die of hunger and hunger-related diseases'.¹¹⁰ Some 11 million children are said to die of simple diseases, easy and cheap to cure, every year. Some 500 million people are perpetually hungry. In 1996, 89 of 174 countries were worse off than 10 years before. Between 1961 and 1991, the ratio of the income of the richest 20 percent to the poorest 20 percent of the population increased from 30 to one to 61 to one.¹¹¹ The richest 20 percent saw their share of the wealth increase from 70.2 percent to 85 percent. The poorest 20 percent saw their share of global income decline from 2.3 percent to 1.4 percent.¹¹² The world's top 200 corporations control over 25 percent of the world's assets. The aggregate

¹⁰⁸ P. Sarkar, 'Are Poor Countries Coming Closer to the Rich', *EPW*, August 2-8, 1997, pp. 1979-84.

¹⁰⁹ Dreeze, *Chomsky in India*, p. 814.

¹¹⁰ G. Omvedt, 'Dependency Theory: Peasants and Third World Food Crisis', *EPW*, January 22, 1994, p. 169.

¹¹¹ P. Montague, 'Major Causes of Ill Health', *Rachel's Environment and Health Weekly*, No. 584, February 5, 1998, erf@rachel.clark.net.
On trends in the American economy, S. Head, 'The New, Ruthless Economy,' *The New York Review*, February 29, 1996, pp. 47-52.

¹¹² U. Kalpagam, 'Debunking Malthusianism', *EPW*, March 21, 1998, p. 643.

sales of the top 200 private firms was over 30 percent of the global GNP in 1988, up from 17 percent in 1960. For the entire world, the Gini coefficient of income inequality increased from 0.67 in 1960 to 0.87 in 1989.¹¹³ Of the \$39 trillion in global economic output in 1995, \$16 trillion consisted of invisible, unpaid, or underpaid work. Some \$11 trillion of the "invisible" work is done by women. Russia's reforms since 1989 have been responsible for the death of some one-half million per year. Some one-half million children a year die in Africa due to debt service. Such statistics run and on. And it is said that "the world should throw a party for itself to celebrate."

5. Conclusion: The Uncharted Future

The United States is supposed to be the model for the world. But since the Reagan Administration, corporate driven policies have been taking the domestic political economy apart. Traditional secure jobs have been replaced with new jobs created which carry few or no benefits and long hours, and often turn out to be temporary or part-time. We noted above how Americans for the most part expect that they will be worse off in the future. These expectations are not surprising and are clearly grounded in empirical reality.¹¹⁴

Let us look at some figures. These show that inequality is increasing in the United States. The official poverty rate, at 22.4 percent in 1959, decreased to 11.1 percent in the 1970s, climbing back to 14.5 percent in the 1990s. To look at wealth, the wealthiest five percent of the population had 16.8 percent of the income in 1977, 18.9 percent in 1989 and 21 percent in 1996 under Clinton Administration policies. In the 1980s, the wealthiest five percent increased their share of the wealth from 56 percent in 1983 to 62 percent in 1989.

Corporate incomes continue to climb into heavenly obscenities of wealth. Working class incomes continue to decline and trap individuals into more rigid class settings. We need to look at the working class statistics here. Clearly this has contributed to the declining 'quality' of the population in the US, in which the US has the highest incarceration rate of industrialized nations, and is the only such country with the death penalty, enforced with a vengeance in Texas that puts the US somewhere near the bottom of the world when it comes to this particular category of human rights. The state of California, the most populous state, and traditionally a trend-setter, now spends more on prisons than on higher education.

¹¹³Ibid.

¹¹⁴H. Epstein, 'Life and Death on the Social Ladder', *The New York Review*, July 16, 1998, pp. 26-30.

Women and children tend to be the poorest sectors of the population. The system of higher education in the United States that was expanded during the 1950s and 60s to greatly expand opportunities for at least a portion of the underclasses has been damaged and the systematic dismantling of educational departments and programs and philosophy of 'you can go if you have the dough', proceeds. This has proceeded to the point that Ph.D's are frequently out of work and become essentially migrant workers, not being able to secure a tenure track permanent job. One is better off to prove one's anti-communist and docile-leaning qualities by hailing from a former Eastern European country, or tying into a conservative jargon-ridden discipline to prove one's 'political correctness' if one wishes to teach the next generation for the emerging globalized world. This trashing of human capital in the interests of the corporate agenda, is the game, regardless of how destructive and short sighted it may be. More and more the corporate agenda has taken over as the dominant paradigm. One sees a similar process now in the UK with the 'New Labor' Government of Tony Blair.¹¹⁵

The contemporary international political economy is indeed complex. It seems clear, however, that the game the West is playing, at root, is closer to mercantilism than the liberal globalizing agenda that is touted under the rubric of 'globalization'. This is a shibboleth for a totalitarian neoliberal world directed from the Western powers and under their hegemony. Under this ideological vision, this contemporary 'metanarrative', disguised as the 'end of ideology', the entire globe is to be forced to conform to an American economic culture, that in the end is a set of rules of economic discipline applied to the rest of the world, and not to itself. Rather than allow a world of plural economic cultures and a degree of national sovereignty in protecting national economies, the goods and resources of the whole world must be put on the market block. This agenda, and particularly the move to total freedom in the global financial markets, is at the root of the global economic crisis at the end of the twentieth century. This global cowboy capitalism has now been rebranded back to America and Western Europe. It has wreaked untold misery in most of the world within countries and greatly increased inequality between nations. The real 'moral hazard' surfing the world is this sort of neoliberal capitalism itself. Reading the business press, one sees that the consensus in corporate headquarters is that it is good enough for the 'lesser people's' but the rules need not apply to the masters. Countries and people's around the world need to wise up and take control of their future and their own destiny. What looks good on paper to IMF and government economic technocrats may clearly be 'hazardous to your health' and the health of the whole world. Yes, Virginia, there will still be politics. This is an agenda that is likely to be addressed and probably must be addressed by the people from now on in the near future.

¹¹⁵ A. Applebaum, 'Tony Blair and the New Left', *Foreign Affairs*, Vol. 76 (2), 1997, pp. 45-60.