Globalisation against development: liberalisation, deregulation and privatisation as antithetic to growth

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Liberalisation, deregulation and the forms of "globalisation" they lead to, tend to be taken by academic economists and researchers somewhat too easily as parameters which are hard, possibly pointless to challenge. When challenge does emerge, be it quite moderate and highly respectful of most tenets of contemporary conventional "economic wisdom",[1] few people in academia see it as a signal and follow it up with further and possibly sharper critique. This note, which has a provisional status and will subsequently be expanded and revised, is written with the conviction that it is high time to develop a full critique of liberalisation, deregulation and "globalisation" on numerous theoretical grounds. The note is a contribution to this work. It sketches some of the main destructive effects of the neo-liberal agenda on the factors underlying and permitting development. The author recognises that some arguments may seem excessively cut-and-dried and that many points can and indeed should be qualified. However it seems hard to get the debate off the ground about the macro-institutional and macro-social processes at work internationally which impede and indeed destroy development without stating the case quite sharply. I am confident that members of the network will both bring evidence illustrating a number of points and all the necessary qualifications to the arguments.

1. GROWTH AND DEVELOPMENT

In this note development refers to the social and political conditions and the "institutions" which permit endogenous self-sustained growth (as measured by increase in GDP) to take place, in a given country (or possibly in a union of national economies), from one period (however defined) to the next. Development leads to, or permits growth, which in turn strengthens the material basis of development. Thus proper living and sanitary conditions for a broad section of the population, which unconsciously but very mistakenly all of us from the advanced parts of the world take for granted, are the outcome

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1 This is the case for the critique made by Stiglitz (2002) of IMF and World Bank policies and of the ways in which they are influenced by the close links of these institutions with private financial interests.

of growth mediated by given institutions but also key factors enhancing further development. Nonetheless, despite the existence of feedback relationships between growth and development the distinction between the two should be kept. The latter refers to interactive cumulative social processes and endogenous institution building which are not captured in growth indicators.

Debate has been pursued regarding the latter. Is GDP per se a proper indicator of economic growth ? Or should others indicators of the type used for instance in UNDP's composite "indicator of human development" (IHD) be resorted to as well ? By contrast, the debate about the nature and conditions of development has petered out. Only a few people still consider that the debates of the 1960s concerning the conditions leading to endogenous self-sustained growth remain relevant on many points and that their *aggiornamento* should be a part of the work to be undertaken by economists and political scientists as part of a theoretical struggle against neo-liberalism. The conditions that were stressed included the de-concentration and democratisation of certain forms of property, notably land and finance. Hence the issue of agrarian reform and the need for sources of finance other than that of banks controlled by the financial oligarchy. They included of course education in a very central way, understood as the improvement, reproduction and expansion of education systems supported by long-term financing guaranteed by Government (today we would say freed from the tyranny of low income and capital taxation and fiscal orthodoxy). Today *aggiornamento* would bear for instance, very strongly, on the organisation of Government (the State for those that use Latin languages) and its relationship to citizenship and the direct involvement of people, workers, peasants, in democratic economic decision making. Many of us in the anti-globalisation movement, are but too well aware that the forms in which Government action took place were contradictory with its very aims and contributed strongly to the ease with which the neo-liberal campaign against Government could be conducted by the very powerful interests fighting for deregulation and privatisation.

Many of the factors discussed in relation to national systems of innovation with their specific social and political underpinning[2], as well as of those underlying the notion of "structural competitiveness"[3], fall under the notion of development. Successful socially useful innovation is rooted in institutions and organisations, of which firms are only one variety. Network relationships among institutions will help to capture the cumulative dimensions of science, technology and know how. This will depend on the quality of their co-operation, but also on the stability they enjoy and the horizons they have for expanding their activity. This can often only be provided by Government funding of R&D as well as of education. The Aalborg definition of national systems of innovation stresses that they must seen as «dynamic systems, characterised both by positive feed-back and by reproduction. The elements of the system of innovation either reinforce each other in promoting processes of learning and innovation or, conversely, combine into constellations blocking such processes (...) Another important aspect of the innovation system relates to the reproduction of the knowledge of individuals or collective agents (through remembering).»[4] Many of the central issues regarding the consequences of globalisation concerns precisely their impacts on the economic as well as on the social mechanisms commanding "positive feed-back" and the lee-way still left for national systems in many countries to survive and to undergo consolidation and reproduction over time.

2 See Freeman and Soete (1997), chapter 12.

3 See OECD (1992), chapters 3 and 11.

4 See Lundvall (1992), page 3.

2. CONTEMPORARY GROWTH PERFORMANCE AND ITS POLITICAL AND INSTITUTIONAL SETTING

The performance of the world economy in the 1990s has been poor. World output growth for 1990-2000 (as measured by GDP) averaged 2,2%, with a 2,0% average for the developed economies – the US having been the sole important exception – and 3.6% for the developing world (4,3% if China today's "miracle", largely concentrated in its south-eastern parts is included)[5]. 3.6% looks a little better than 2,2%, but given the rate of population growth in the developing world it is tantamount to stagnant or slightly falling per capita average income. This in turn is transformed by highly unequal income distribution into strongly falling per capita income, for tens if not for hundred of millions of people. Not only did the decade begin and end with financial crisis in countries belonging to what use to be called the Triad (in 1990 real estate and banking crises in many countries and a major Stock market, housing and banking crash in Japan and in 2000 the start of the collapse of Nasdaq which spread to Wall Street and triggered off recession in the US in 2001). Its course was also marked by two very serious financial crises in "emerging" economies, a sharp but short one in Mexico and neighbouring South American countries in 1995 and a long and devastating one in South East Asia in 1997-98. The record is bad and it is hard to understand why so much complacency and discussion in terms of "transition to a new order" rather than frank critique.

The historical and political setting of this performance is that of the disappearance, after the collapse and breaking up of the USSR, followed a decade later by the rallying of the Chinese ruling bureaucratic élite to the "market economy", of any serious challenge to capitalism in the world economy ; certainly none that takes the form of a rival system backed by State power. The only challenge is that of the heterogeneous and still somewhat disorganised grass-roots international movement known under the name of "anti-globalisation". The setting of the poor performance is next that of the systematic enacting of the "Washington Consensus" which states that growth will follow the full liberalisation, deregulation and privatisation of economies previously protected by tariffs and controls on direct investment and experiencing some degree of State allocation of investment resources, of public property in basis infrastructures and some degree of regulation of public utilities and labour relationships. The setting is that of the deregulation and external opening of financial systems in a very short period of time, allowing the entry and ensuring exit for very large amounts of short term financial investment. Finally the setting is that of the Uruguay Round leading up to the Marrakech treaty (one pillar of which is the new very extended industrial property right protection regime) and to the setting up of the WTO. The signing of the Marrakech treaty was much more than a simple extension of earlier episodes in the dismantling of tariff barriers. It marked a new major victory of the theory of the "agenda beyond the border", namely the right, already established by the IMF in relation to "structural adjustment", for international organisations to examine and overhaul the mechanisms of Government in States possessing given institutions and/or experiencing given difficulties. In the case of WTO new legal procedures allow governments to bring other States to court and account for "barriers to trade" whenever they refuse to comply with the new norms for public policy in the economic field. In NAFTA, this prerogative is extended to corporations as Canada and Mexico have experienced at their expense.

5 See UNCTAD (2002b) table 1.1.

3. DEFINING “GLOBALISATION”

The outcome of these portentous political and institutional changes is what is referred to as “globalisation”. This term is best defined as the international economic and political regime which follows from the adoption by practically all the governments and political élite in the world, of the policies of liberalisation, deregulation and privatisation as well as of the ideology and domestic politics of *laissez faire* and *enrichissez-vous.* Globalisation has not come about as the result of a natural evolution out of earlier forms of what the Latin languages name “internationalisation”. Globalisation has of course created, among other things, a broader playing ground as well as a whole new set of very favourable “rules of the game” for “international production” (e.g. production abroad by MNEs or TNCs) [6], but it is something so much broader and all encompassing. It is not simply the intensity of international interdependencies that globalisation has changed but their quality and structure. Globalisation is the outcome of some fifteen years (1978-1993) of major and very conscious effort in “institution building” on the part of industrial lobbies in the US and in Europe, coupled with “radical” moves in the area of politics and of finance by the governments of major powers. At some point in the early 1990s it acquired a very central additional dimension, which is that of draining savings, non-invested income and financial liquidity from the whole world towards a small number of countries possessing large, secure and attractive financial markets. Such countries, principally the United States, subsequently built a novel, quite particular pattern of investment, income distribution and consumption – what the French Ecole de la Régulation names an “accumulation regime” – based on the inflow from other parts of the world of capital but also of human resources. This accumulation regime is sustainable solely on the basis of the particular international economic and political relationships of “globalisation”.

The definition of globalisation – an international economic and political regime stemming from the adoption by governments and élites of liberalisation, deregulation and privatisation as well as the ideology and politics of *laissez faire* and *enrichissez-vous* – suggests that issues cannot be reduced to the North-South divide, however important this divide is. The dividing lines are also within countries. They always were, but their configuration has changed and after a phase were they seemed to have softened, at least in some countries, they have considerably hardened again. The scale of capital flight from their home country by owning classes, notably in Latin America, is one indicator.

One of the major effects of liberalisation, deregulation and privatisation and the temporary triumph of the ideology and politics of *laissez faire* has been the new jump in the economic and social power stemming from concentration in finance and industry (this term refers both to manufacturing and to services). In the case of Triadic, notably Western countries, such power is lodged, individually and through their organisations for collective action, in large industrial groups (which deregulation and privatisation have allowed to become ever larger) and in financial institutions, notably those which centralise large masses of money on the basis of contemporary mechanisms of savings (Mutual Funds and Pension Funds in Anglo-Saxon countries and Japan, large insurance companies in Continental Europe). The process, however, is not limited to the countries at the heart of the Triad even if it is there that the driving forces are to be found. In newly industrialised countries, such as Brasil (now re-baptised “emerging economies” or better still “emerging markets”) as well as in the very large ex-

6 The proper English term for designating what we in the Latin countries called “internationalisation” when referring to the rise and extension of FDI during the 1955-1985 period is “international production” (e.g. production by MNEs following FDI). This is the term used notably by Dunning (1981) and adopted later by most Anglo-Saxon authors.

centrally planned Soviet command type economies (principally Russia and China), liberalisation, deregulation and privatisation have fostered the consolidation, restructuring, and re-emergence in new "modernised" forms, of preceding types of concentrated economic power and property[7].

As a result, the movement of outreach towards the rest of the world by TNCs, international banks and financial institutions from the Triad (but principally in the 1990s from the Transatlantic "Western" block) is one which comprises complex processes of encounter with these indigenous, endogenously created forms of concentrated financial and economic power. Situations can be observed of open clash, of attempts to absorb and/or subordinate (many successful but some not), but also of negotiations leading in some cases to uneasy alliances. As the collapse of trade negotiations in WTO at Cancun exemplifies, the process of "mutual recognition" following the entry into the world market of new oligopolies, as for instance now in agribusiness, is not an easy thing[8]. Least so when very slow growth means that the market is narrow, even extremely so, relatively to actual and even more to potential output, implying that every attempt to increase export shares encounters either strongly entrenched interests bent on conserving their positions or similar moves on the part of others new or recent entrants.

Poor or very poor growth and an ever greater polarisation of wealth began to become subjects of concern to a part of the staff at the World Bank in the second half of the 1990's. Concern developed into open criticism after the IMF's, but also partly the Bank's handling of the 1997-98 Asian financial and economic crises. Nonetheless the overwhelmingly dominant official reply is still that liberalisation, deregulation and privatisation represent the best course and that problems reflect an insufficient enacting of policies having this aim. This note will argue that these policies lie on the contrary at the heart of the difficulties faced by many parts of the world, including advanced capitalist countries. These difficulties include the new, or more exactly the seriously aggravated problems encountered by endeavours to direct science and technology towards development and the enhancement of democratic economic, social and political relationships.

4. THE RENEWED PERTINENCE OF EARLIER CRITIQUES OF "FREE TRADE"

Contemporary trade and direct investment liberalisation can and should be subjected to the characterisation made by Friedrich List in the first half of the 19th century regarding classical international trade theory, namely that the theorems demonstrating gains from trade for all countries, are very heavily ideologically biased. The theory expresses principally the interests of industrial

7 Examples of these are the very powerful Russian petroleum companies and agribusiness corporations which have modernised agricultural production and "renewed" the power of highly concentrated land-ownership in several countries. Brasil is an obvious example. Powerful Chinese industrial-financial-trading consortium have started to emerge as a result of the junction between fractions of the bureaucratic power elite in China with finance and trading corporations from Hong Kong. UNTAD World Investment Reports publish material about "emerging country" TNCs that document the process partly.

8 The economic and social forces behind the G21 group which formed at Cancun have nothing progressive about them and many NGOs should look at this more closely before claiming that the countries of this group are allies.

To take the case of Brasil, in strictly economic terms agribusiness exploiting highly concentrated land can longer be qualified as "latifundium" since it is extremely modern and productive, but in political and social terms this "modern" capitalist agribusiness is intent on maintaining traditional power relations in rural areas. The agribusiness lobby is bitterly opposed to agrarian reform and offers unfailing political support to the very numerous large absentee traditional latifundium landlords that continue to exist (which means de facto support of their gangs and murder squads in their aggressions against landless rural workers and MST leaders).

countries which have established a lead in manufacturing and in large service industries. It is only respected by these countries themselves selectively (see for instance textiles and agriculture) and with the presence of many very strong “non-trade” counter-balancing defensive mechanisms related to strongly entrenched oligopolistic and monopsonic positions.

As in List’s own day, but yet more strongly, the characterisation must be completed by Marx’s critical observation. Namely that owing to his position as a supporter of the emerging German bourgeoisie and so of capitalist relationships of property and of production, List was incapable of explaining why Britain’s domestic market should have become so quickly so “narrow” at to force British manufacturing capital to seek salvation in exports and in an outward drive towards the “world market”. Today various domestic mixes of unequal or highly unequal income distribution and high or very high levels of unemployment, now coupled with the effects of the “retreat of Government”, affect domestic effective demand so drastically that salvation must be sought yet more dramatically in different combinations of exports and foreign production. Enterprises large enough to bear the costs must turn to the “world market” and seek investment opportunities wherever they consider that the firm specific advantages they have accumulated can be profitably exploited.

The turn to foreign markets does not apply solely to advanced countries. It is even more accentuated in “emerging economies”, where the extraversion of given industries is now a further factor of economic dualism. The firms which emerge from endogenous processes of financial and economic concentration as discussed above do so in the context of domestic economies, where the monetary income purchasing power of large sectors (sometimes the majority) of the population is low or nest to nil. These firms have also survived the onslaught of competition by advanced country TNCs and so are, on the face of things at least, competitive. The domestic market is almost irrelevant to them. They have “no choice” in terms of profitability but to try export. To where ? To the places where effective monetary demand is concentrated, namely to the advanced economies, starting with the US. The note returns to this perverse pattern of global relationships latter.

The point about the very strong export bias of the “new” industrial capital which has emerged in the “South” having been made, it remains that the drive for trade and direct investment liberalisation and deregulation corresponds to imperatives in the “North”. Its quite central objective is to guarantee advanced country exports direct access, either to new markets which had not yet been opened up, or to previous ones in new much more favourable conditions, and along side this to permit TNCs to invest and subsequently to organise their operations after the dismantling of constraints regarding local sourcing, labour laws, etc. In the eyes of TNCs and financial investors all the “nonsense” about the interdependent, but autonomous economic development of “newly industrialised countries” had to be ended. Technological policies in IT or telecommunications which went as far as using, as in Brasil, the rather Listian expression “domestic market reserve” were seen as a pure provocation. The very term used to designate these countries was changed. Previously they were called NICs. Now they are named “emerging markets” : markets and fields of free investment opportunity for TNCs in the case of manufactured goods and services ; open, unprotected, deregulated Bond and Stock markets for financial investors.

5. TRADE AND DIRECT INVESTMENT LIBERALISATION

Following the containment of Great Britain’s attempt to impose free trade for its goods on countries undertaking industrialisation, the United States, France, Germany and the other industrialised

countries benefited from selective protection of their home market for over a century or more. This gave them the time to undertake the long and complex process of technological accumulation. This is true of Japan also. Even under the US military government of General Douglas McArthur after 1945, no attempt was made on Japan to oblige forgo sovereignty over its home market and to let foreign goods and capital pour in and destroy its manufacturing industry. The newly industrialised countries which began their technological accumulation in the 1960s have been treated very differently. Time has been denied to them. The experiences they undertook and their results they had led to, have been declared "failures" by the advanced counties acting as self-proclaimed judges at the IMF or in their own forum. From the start of the 1980s onwards, the major powers used their privileged position in the major international forum – the IMF and the WTO in particular – as well as the powerful leverage of foreign debt, plus bilateral arm twisting whenever necessary, to bring an end to the experience of internationally interdependent but autonomous industrialisation and technological accumulation in the NICs. Processes which are by definition long and difficult and which require time have been cut short by external decree[9].

The speed of trade and direct investment liberalisation of the late 1980s and the 1990s has been dictated by the agenda of the advanced countries at the centre of the system. Very few countries have been allowed to negotiate in any proper meaning of the term the speed at which they considered their economies should be opened up to the full blast of international competition – Korea when it joined OECD and up to the 1997 crisis, China in joining WTO, India (?), but to my knowledge no Latin American country once the Washington Consensus had been decreed, let alone an African one. In manufacturing, the outcome of trade and direct investment liberalisation has been the bankruptcy of domestic industry, followed in the best of cases by change of ownership and restructuring following foreign acquisition and merger. The term coined by Thatcherites and Reaganites about "level playing fields", which has been internalised by a surprising number of people and turned into a kind of "household truth", is in fact about a situation where First League and Second and Third clubs, but even Fourth or Fifth League ones would all be required to play in a single championship with elimination and not relegation as the penalty for defeat, and no possibility of trying again next year with any hope of success owing to the "new rules" just established (new barriers to the acquisition of technology, prohibition of Government aids, etc., etc.). Consequently in "emerging markets", we now find a range of country-specific mixes of de-industrialisation involving the quasi complete destruction of firms and of inter-firm relationships (as in Argentina) and of situations were some industry remains after radical downscaling and restructuring and major changes in the status of firms. An appearance of local manufacturing capacity subsists, but a great number of domestic firms are now affiliates of foreign TNCs. In this capacity they are relegated to commercial or assembly plant arm functions for the national market or being a piece (or rather a tiny clog) in a TNC dominated international sub-contracting arrangement. Take-overs are followed

The bankruptcy and disappearance of industries and firms, in some cases possibly in their "childhood" rather than their "infancy", but still requiring protection in the face of advanced country competitors, is not "creative destruction"[10], but the outright uprooting of key components of national

9 Laying down what is "good" for others cannot be given any other name than imperialist behaviour. The fact that it is acquiesced to by economic, political forces within recipient countries and that it receives indigenous academic and intellectual support there does not change this characterisation. The richest more powerful countries have decreed that there is one sole economic and social paradigm in economic and financial conditions which makes dissent very difficult and highly costly in individual terms (careers, funding, etc.)

10 It would be important to spell out the stringent socio-economic conditions under which Schumpeterian « creative destruction » holds.

innovation systems and the interruption, if not the demise of the process of technological accumulation. The process has hit both export-led growth model economies and countries which had attempted from the 1960s onwards growth through import substitution. The difference has been in the timing. Up to the second half of the 1990s, it seemed that TNCs would only succeed in imposing their agenda for liberalisation and privatisation on countries experiencing the specific vulnerabilities of the import substitution growth model. In such countries, typically those of Latin America, TNCs were so to speak already "inside the hen-house". They commanded a large part of manufacturing and determined the nature and level of the technology in use in the industries which they ran. It was almost automatic that they should to contribute to many aspects of the failure of the model : weak competitiveness, lagging technology, low exports, etc. After all, these were inherent to their coming to invest in protected markets with little or no competition. In import substitution countries, crisis first arrived in the 1980s as a result of Government external debt and has never really ended since. The building up of Sovereign debt in the 1970s cannot be attributed directly to foreign industrial capital[11]. Bank consortia had the initiative in approach and negotiation, TNCs only contributing indirectly to the setting of the debt trap by the euphoria they helped to create at the time about easy growth. High growth rates (with only shallow development behind the impressive figures) encouraged governments to accumulate very large amounts of sovereign debt without reading carefully the clauses specifying that these loans were pegged to US interest rates.

Countries which espoused the export-led growth model only started being affected in the 1990s and were only really badly hit by the new situation after the Asian crises go under way in 1997. Barring a few exceptions (the Philippines was one), they had not build up large Government debt in the 1970s and so did not experience the "debt-crisis" and the "lost decade" of the 1980s. Trade and investment liberalisation started taking its toll through the sharp rise in imports which led to the balance of trade, balance of payment and then the financial crises of 1997-1998. But quite as serious were the over-capacities created in some countries by private international borrowing and in others by the addition of TNC investment to local capital accumulation. Up till these crises, most South-East Asian NICs had followed Korea's example and fairly successfully resisted the pressure from the "agenda behind the border". Late 1997 however they too were subjected to the demands which Mexico and later other Latin American countries had experienced after 1982. Financial rescue plans were tabled by the IMF and the US Treasury in which it was stipulated that controls on inward foreign direct investment still applied in South East Asia would be eliminated, that laws regulating the acquisition of domestic firms be repealed and Government support of industry phased out rapidly. The outcome has not only been a severe downsizing of manufacturing, which was inevitable, but also significant changes in the ownership of firms and a major shift towards a status of sub-contractors within TNC-organised international production networks[12].

11 One exception to this was Argentina where TNCs succeeded in obtaining from the military dictatorship, a little before the war of the Malvinas the recognition of corporate debt as part of Sovereign debt.

12 This subject is broached, much too uncritically in my opinion, in UNCTAD's World Investment Report 2002. See UNCTAD (2002a), chapter V. For a critique of World Investment Report 1999, which contains a chapter of technology enhancement in developing countries by TNCs see Nadal (1999).

6. FINANCIAL LIBERALISATION AND THE DEBT TRAP : PHASE I

Trade and direct investment liberalisation could hypothetically have had less seriously destructive effects on prior processes of technological accumulation if they had been introduced over a long phase (as in the case of the European Union) and if their consequences had been offset, to some extent at least, by active Government policies enhancing the institutions representing key components of national systems of innovation. In Latin America certainly, and very likely elsewhere, the contrary occurred. External and fiscal deficits and the rapid building up of foreign debt have led to a very severe weakening or in some cases the outright devastation of those institutions and relationships necessary for technological accumulation for which Government funding is required. Arguments for funding and so monitoring nation-wide public and/or private institutions active in the area of education, R&D and investment in key infrastructures, however well founded theoretically or ideologically acceptable they may be and however extensively practised by major powers, are declared to be indefensible by the IMF once a country has fallen into it's grip.

Two phases can be identified in the history of the building of the developing countries debt trap. The first took place following the large-scale recycling around 1976 of "petrodollars" by consortia of European and US international banks offering loans at what seemed very low interest rates. The so called "Third-World debt crisis" started with the sharp rise in US interest rates in 1979, but only erupted in 1982 when Mexico announced that under the circumstances created for debt servicing under the new interest rate regime, it was about to default. Financial salvaging was organised by the Fed for Mexico which US banks had very large outstanding loans. Extremely severe conditions were imposed on the country including the commitment to start negotiations for a free trade agreement (leading to NAFTA). For other countries with large debt, re-negotiation of schedules in the so-called "Paris Club" and the concession of new loans to pay previous ones back, was later followed by the securitisation of debt claims. These were transformed into a special type of asset with low endogenous liquidity and some risk, which could nonetheless be traded in specialised markets for long term Sovereign debt. These measures not only alleviated the problems of creditors, but opened up for them a source of surprisingly regular income[13]. For debtors these moves changed the temporality of servicing and repayments while pilling up more and more commitments and basically changing the very scale of the "debt problem".

Work around the 2000 Jubilee Campaign on the cancellation of Third World debt documented the dramatic effects of the mechanisms of debt rescheduling and compound interest[14]. Suffice to take the example of Argentine. During 2001, the year leading up to the fall of the De la Rua administration, the IMF provided US$ 20 billion as bail out loans, but the servicing of previous debt plus reimbursement of outstanding premium for that year amounted to US$ 27 billion. The « loaned » money never left the United States where it served to pay creditors and bondholders (among them Argentines having organised capital flight), while the country's total debt grew by 7 billion US$. Once the mechanism is established is it self reproductive and cumulative and represents basically a method for siphoning debtor countries' economic surplus, the resources they should be able to count on for undertaking tangible and intangible investment. During the last fifteen years, it is estimated that about US$ 1.3

13 There is a large literature on this period and these aspects. See inter alia, Helleiner (1994) and Tavares and Fiori (1997).

14 See Gonçalves and Pomar (2000) on Brasil.

trillion was paid by the developing nations to creditors in form of loan repayments and interests on loans. Every month, about US$ 12 billion is remitted in debt servicing from debtor countries to financial institutions in countries were these institutions and financial markets are located.

This is a rentier and indeed an usurious relationship[15]. The fact that some of the most powerful advanced country financial institutions are Pension Funds and Mutual Funds and that the beneficiaries (other than firms in the finance related industries) are retirees does not alter this relationship[16]. It simply indicates the seriousness of the contradictions created by certain institutional choices made by the most powerful advanced countries and the type of deadlock situation to which it is leading. The draining of savings by the private pension system is the core element of finance capital's revival, opening up the way to a formidable increase in income "earned in one's sleep" by the wealthiest social groups of modern society.

7. FINANCIAL LIBERALISATION AND THE DEBT TRAP : PHASE II

In finance, the "institutional innovations" of the 1990s advocated and in many cases imposed on "emerging economies" were the deregulation and liberalisation of financial markets, the dismantling of controls on the free inflow and outflow of money capital so as to permit the floating of Government paper on deregulated domestic bond markets as opposed to negotiating loans with syndicated international banks. The price paid has been extremely high – in terms of transfer of resources abroad through capital and financial profit repatriation by foreign financial investors of course, but also on account of the macroeconomic effects of this way of borrowing. Domestic interest rates have now to be fixed at levels corresponding to those required by foreign investors (in particular advanced country Pension Funds and Mutual Funds) to hold Government paper. Such rates stifle bank credit to the economy and are strong obstacles to investment for all firms save the few oligopolies that can float corporate bonds on international financial markets. Similarly exchange rates are set by foreign financial investor evaluations of the pros and cons of holding assets in a given national currency. They reflect the financial profitability of certain assets in relation to others and opinions about the security of given national financial markets. Changes in exchange rates do not express shifts in relative competitiveness, but contrariwise they have strong backlashes on the "real" economy. A fall in the value of the Brazilian Real against the dollar means a jump in the price of imports and so a sharp increase in the trade deficit. It can trigger off a recession if firms can no longer pay for materials and components at prevailing exchange rates and no longer turn either to domestic suppliers since they have gone bankrupt or been transformed into commercial affiliates of TNCs.

The inflow of foreign capital, both short term and capital accountable as FDI, has according to the neo-liberal breviary, the further virtue of "balancing" the current external account. From the mid 1990s onward, very few countries experiencing trade and direct investment liberalisation and deregulation escaped difficulties with their import-export balance, even those with small or non-existent debt burdens dating back to the 1980s. The increase in trade deficits by countries that were

15 Joan Robinson is the last major economist to have placed the issue of the rentier at the heart of the accumulation process. See Robinson (1956), Book V, chapters 25 to 28.

16 For those reading French see Sauviat 2003 who provides a quite comprehensive review of the data concerning financial investment by these funds in « emerging economies ».

always prone to them and their emergence in countries that had never had any for many years are built-in consequences of trade and investment liberalisation. On the side of imports, TNCs start sourcing abroad materials and components while high and middle class income groups start buying all the luxury goods previously limited by tariffs and quotas. On the side of exports, bankruptcy and acquisitions take their toll. The neo-liberal reply of the 1990s was the new, highly pernicious approach to foreign exchange accounting which permits the inflow of hot short term finance capital to appear as balancing trade deficits, while it is in fact increasing the burden of debt and destroying day after day the leeway for any kind of domestic sovereign demand management.

The financial deregulation and liberalisation of the 1990s opens the second major phase of international debt building by “emerging economies”. In this phase the building up of debt has concerned private banks and corporations rather than governments. An important theatre of this new dimension of debt building has been South East Asia, where domestic banking systems in particular were allowed to fall into, if not actually drawn into debt traps through the enticement of “easy credit”. In South East Asia the deregulation and liberalisation of financial markets was not total, but enough to permit domestic banks to access foreign loan capital and expand their capacity for financing. A distinctive feature as compared with Latin American situations in the previous phase is that a large part of debt was used to build industrial capacity. Over-investment, in some cases extremely high, went hand in hand with credit expansion facilitated by foreign banks. This in particular is how Korea fell. Here the IMF and the US Treasury in parallel and closely co-ordinated missions succeeded first in forcing the government, which had never run fiscal deficits nor built up public debt to shoulder responsibility for banking and corporate debt and second to lift controls on FDI and the acquisition of firms by foreign TNCs.

Governments deficits due to the very low taxation of wealth and profits and the astronomical servicing of debt represent levers for privatisation and policies of “retreat of Government” and funding by the “market” of activities which it will only support marginally for reasons well documented by mainstream or near mainstream economic theory. A wide spectrum of situations exist, but countries which accept as is the case in Latin America demands by the IMF that they run primary (e.g. before debt servicing) budget surpluses of 3-5% are unlikely to continue to fund education, R&D and other institutions supporting national systems of innovation. India (?) and the countries in South East Asia that have suffered less than others since 1997-98 may be in a better situation, but the trends are the same. They are at work even in Europe.

8. THE SKEWED AND POLITICALLY DANGEROUS RELATIONSHIPS OF THE WORLD-WIDE MACRO-ECONOMY

We can now return to the factual observations we started from : the very poor overall performance of the world economy in the 1990s ; the polarisation of growth in a very few points of the world system ; the rapid succession of financial crises, their seriousness and their capacity to put an end to some of the growth and development experiences (as in South East Asia) which had seemed to hold out most promises, while throwing some of the most previously most “advanced” newly industrialised countries back to where they were in the 1930s.

Let us start with a few quick remarks about the under-lying causes of financial crises and their rapid repetition. The causes are structural. The most important cause is the sheer size of the amount of capital that now seeks purely financial profitable investments in bond, stock and derivative markets.

The profitability objectives of money capital investment by institutional financial investors are met less and less by the steady income flows accruing in the form of interest and dividends. Financial investors must make capital gains from speculation. The essence is the successful timing in the acquisition and discarding of assets, in entry in and exit out of given markets. Initiative is in the hands of market leaders and financial consultants and is accompanied by very strong herding processes. As the 2000-2001 collapse of Nasdaq has shown, even very strong and well organised markets cannot resist stampeding to exit on the part of financial investors trying to save their gains. In the case of "emerging countries" financial markets are so "shallow" in terms of liquidity that what could seem to be fairly small exit movements provoke their collapse. This would not be a great problem if domestic banks and financial institutions in these countries had not been allowed, even encouraged, as a part of financial liberalisation and deregulation to buy assets – one of the reasons being precisely to feed money into the markets so as to give them more liquidity. These institutions cannot exit the market. The flight of foreign investors and of indigenous private investors with no institutional, nor indeed the slightest moral commitment, leaves them alone to shoulder the collapse and face its consequences for the asset side of their balance sheets. Insolvency is often close and credit rationing to firms and households immediate.

The rapid succession of such episodes is not without bearing on the international macro-economic situation of slow growth punctuated by phases of quasi recession in key regions with world-wide effects. In turn slow growth cannot be dissociated from the cumulated effects of over a decade of rapid trade, direct investment and financial liberalisation. Stagnation, recession and outright depression (Indonesia, Argentina) in a very large part of the non-OECD world concur to the global macro-economic situation, as does the dramatic situation of all the African economies. More unexpected if the fact that two out of three of the poles of the advanced country Triad, Europe and Japan, have contributed rather than offset overall world trends. The United States enjoyed strong growth over half a decade and seemed to be a "locomotive" for the world economy, but it did so in very special conditions which no other economy can duplicate even in the advanced parts of the world and which it is finding it itself harder and harder to reproduce.

Europe has been engaged since the start of the 1990s in a twofold extension of the market which has caused strong restructuring with significant impacts on employment. First, a geographical extension eastwards, first to East Germany and now to all the East European ex-Soviet block countries plus the Baltic states. This has meant and means more than ever accommodating for some part of these economies' output in a very slowly growing market and also shouldering a little of the very high social costs of "transition". Second, Europe has experienced and is experiencing internally still a political extension of the "market" at the expense of the "State". This involves the transfer of the ownership of public enterprises in basic service industries to private finance capital and a transitory phase of competition among previous public monopolies which leads quite rapidly to concentration and the formation of new oligopolies. These are now private. They are engaged in forms of oligopolistic rivalry the effects of which are not particularly efficient or customer friendly, while also subjected to the new instability of stock market ownership and the whims of shareholders led by financial fashions. This political extension of the market has also had overall negative macroeconomic effects. Large scale restructuring has created unemployment which other components of the system have not been able to offset, thus making unemployment long term (or "structural") if not life long. This has had a strong dampening effect on demand. European capital in manufacturing and services has done little to offset this effect through investment. European industrial capital opted in favour of FDI, a small part of it going for a while to Spain and Portugal, but the bulk out of the continent. In the 1990s, it

chose to invest in the US (acquisitions but also some green-field) and it also participated strongly along side US capital in the privatisation spree in Latin America. The complete dearth of any type of Union wide public investment programme did nothing to keep capital in Europe[17].

Japan is a major industrial power in the sense of being almost as strongly as ever the home to major industrial groups, but it has proved incapable of playing a corresponding role on the global macro-economic level. Despite it's industrial strength, Japan has not been able to wrench monetary autonomy from the US, create its own monetary zone in Asia, denominate a large part of exports in its own currency and free itself from foreign exchange rate subordination vis-à-vis the US dollar. Its automobile constructors have continued to win shares inside the US home market at the expense of US manufacturers, but as a component of the world macro-economic scene Japan has proved incapable of providing demand for its own firms, let alone for those of other countries. The specific impasses of financial accumulation (accumulation of money capital which stays captive of financial markets) are at the heart of Japan's difficulties and failures[18]. Financial accumulation arose out of Japan's very success in industry and exports, coupled with the trap created by the institutional choice made after the 2nd World War in favour of financial market retirement schemes as distinct from pay-as-you-go ones. From one point from the middle 1980s onwards, profits could no longer be invested domestically, while huge export earnings were pilling up in monetary forms and very large retirement savings funds likewise. The economic authorities decided to try and push as much of this money and financial capital abroad as possible, both as FDI and as very large holdings in US T-Bonds. The latter rapidly became a permanent component of international financial flows on account of the US's falling rate of savings and unquenchable thirst for outside capital. But a part of the money and monetary capital stayed in Japan and was used by banks, financial institutions and assurance companies literally as gambling money to be played in the new casino just built as a result of the financial liberalisation and deregulation introduced by Japan at home in return for investing its financial liquidity to the United States. These institutions bought huge amounts of shares and made very large loans to real estate and building corporations. When the Stock and the real estate markets collapsed, the balance sheets of banks, financial institutions and assurance companies showed them to be on the edge of bankruptcy. A situation of endemic insolvency opened which more than a decade later has still received no solution (or a very partial one at the best). This is due both to the sheer magnitude of bank liabilities and to the refusal by Japanese citizens to bear the cost of rescue, or more generally their indifference to calls for higher household consumption in the name of "economic patriotism". A domestic economic policy of zero percent interest rates now pursued for several years has not had a better result. Domestic Japanese demand still does not support its own firms and cannot provide a significant outlet for other countries' manufacturing output.

This leaves the United States as "consumer in last resort" for a large part of world output – to use an often used easy quip (and quite a comfortable one for US egos). The real story is of course somewhat different. Financial, trade and direct investment liberalisation and deregulation have provided the setting which permitted the establishment in the United States of a novel, quite particular pattern of investment, income distribution and consumption – what the French Ecole de la Régulation names

17 See the concluding chapter in Chesnais, Ietto and Simonetti (2000).

18 For those reading Portuguese see the chapter on Japan by Ernani Texeira Torres Filho, in Fiori, org., (1999).

an "accumulation regime"[19] – making the US economy increasingly, and indeed today overwhelmingly dependent on the inflow of capital but also of high level human resources from other parts of the world. The central and most characteristic feature of what I have named the "finance dominated accumulation regime" is that the Stock market is the nodal institution around which key relationships pertaining to investment, income distribution (current income from financial assets, but much more important retirement benefits) and consumption. The United States is the only major economy where this regime has really take root[20]. The reconfiguration of the relationships between macro-economic variables occurred between 1978 and circa 1985-88. It was initially the result of conscious policy (use of the exchange and interest rates by the Fed under Paul Volcker). But from the late 1980s onwards the workings of the US economy under the new regime took on the liking of a mechanical outcome of processes of financial centralisation required by Pension and Mutual Funds and to offered by US financial markets to all money capital, rentier revenue from finance and land, non-reinvested industrial profits and accumulated savings (pensions or otherwise) accumulated anywhere in the world and seeking safe and at the same time often very lucrative returns to financial investment.

The US represents some 20-21% of world GDP, but during the 1995-2001 period (the miracle years of the short lived "New Economy") it accounted for over 40% of world GDP growth. As a small number of analysts[21] and scholars have started to argue, the yawning gap between US performance and that of the rest of the world economy has to be related to the US's share of world stock market capitalisation, over 35% of the total unto the mid-1990s, but nearly 50% at the height of the financial bubble in 2000. More clearly yet, the US's unique growth performance has to be related to the country's unique external deficits, both in the trade and capital accounts. Along side the strong inflow of inward FDI, the main factor accounting for the deficit in the US external capital account is the unique attractiveness of the US capital markets for financial investors coming from all over the world. Conversely the US external capital account deficit reflects the strong need these markets have developed, if they are to uphold the high levels of market capitalisation required to pay pensions, of being fuelled by a continual inflow of financial capital from abroad. This is all the more so given the negative rating of US domestic saving, now coupled with the new Federal deficit triggered off by tax cutting by the Bush Administration in a context of renewed high military outlay. The need to attract foreign liquidity more than ever calls for a high exchange rate of the dollar, since this is the currency in which financial assets are denominated and dividend, interest and windfall profits earnings recovered by foreign financial investors. On the other hand, the high dollar is one of the causes of the huge US commercial deficit, whence the pressures to bring it down. Lowering will be limited, forced to bottom out at a rate which still attracts money capital.

19 For a full-length presentation in English of my approach to the theory of accumulation regimes, see the chapter by Chesnais and Sauviat, in Cassiolato *et al.* (2003).

20 This point is not completely clear in the Chesnais and Sauviat paper which was finished in June 2000. It is clarified in subsequent work on the "New Economy" (Chesnais, 2001).

21 These include notably economists at Morgan Stanley led by Stephen Roach (www. morganstanley.com/GEF) ; staff at *The Economist*, whose warnings go long back (see « Shares without the other bit », 20 November, 1999 ; « America's economy : Slowing down, to what ? », 9 December 2000) and in France economists led by Pascal Blanqué at the Département des études économiques et bancaires of Credit Agricole (www.credit-agricole.fr/ca/kiosque-eco). In international organisations, only the staff producing the annual UNCTAD Trade and Development Report has been sufficiently vaccinated against the neo-liberal virus to provide useful critical analysis.

A lucid US analyst has put the situation as follows : "*This saga is not about the bubble. It is about the unwinding of a more profound asymmetry in the global economy, the necessary re-balancing of a US-centric world (...) History tells us that such asymmetries are not sustainable (...). Can a saving-short US economy continue to finance an ever widening expansion of its military superiority ? My answer is a resounding no. The confluence of history, geopolitics and economics leaves me more convinced than ever that a US-centric world is on an unsustainable path*"[22] . The US Stock markets stand at the heart of a very special type of global cumulative process, temporarily "virtuous", but potentially quite "vicious". Their buoyancy attracted financial investment from all over the world, which in turn had income and investment spill-over in the economy. Through the transfer of significant fractions of their capital to the US (both in the form of "true investment" in plant and R&D and of portfolio funds), other parts of the world, notably EC member countries, contributed, consciously or unconsciously, to make the US economy after the Asian crises, the world's only "growth zone" with the single exception of China[23] . After a lag, this is now the source of backlash mechanisms which are also affecting the US Stock exchange. With only a few exceptions, the corporations which form the backbone of the NYSE are TNC's possessing productive units and markets spread all over the world whose profits depend ultimately not only on the buoyancy of US demand, but also on the health of other economies. The bad results TNCs announced shareholders since 2001 are rooted in overall world growth performance.

No amount of credit creation and "market wizardry" by the Fed will resolve the problems born from the particular forms of domestic and international polarisation of income and demand induced by the combined interplay of trade, investment and financial liberalisation and deregulation. It is the specific type of globalisation stemming from these policies which has allowed the finance-dominated accumulation regime to become rooted in the United States and today's extremely dangerous "US-centric world" to emerge. All the more given the "unilateralist" interpretation that the Bush Administration, but also a large part of Washington institutions and political personnel, is giving on how the US is entitled to behave in a world with this configuration. A quite recent note on the US economic situation provides the following data and analysis: "*In 2002, America's current-account deficit surged to an annualized $548 billion in the fourth quarter, a record 5.2% of GDP. The financing of such a shortfall requires $2.2 billion of capital inflows each business day — hardly a trivial consideration for a low-return, post-bubble US economy. Nor is this a stable situation. As America's federal budget goes deeper into deficit, the country's net national saving rate — consumers, businesses, and the government sector, combined — could easily plunge from a record low of 1.6% hit in late 2002 toward zero.? If that occurs, the US current-account deficit could approach 7% of GDP — requiring about $3 billion of foreign financing each business day*"[24] . This a story about a hegemony built on a increasingly serious dependency on the rest of the world. It holds out immense risks. No power can act "benevolently" very long in the face of such a situation[25] .

22 Stephen Roach, "World Think, Disequilibrium and the Dollar", speech given in New York, May 12, 2002, quoted by Golub (2003).

23 This has made the US China's principal commercial partner and China the most important destination for US TNCs. A third of China's huge exports go the US, but over two-thirds of this trade is intra-firm trade created by TNC operations.

24 Note on the US economic situation by Stephen Roach, May 2003, (see the Morgan Stanley web address given in footnote 20).

25 See Golub (2003) and Serfati (2003)

9. PROVISIONAL CONCLUDING REMARKS

This note has attempted to present an overall interpretation of some of the causes of slow economic world growth punctuated by sharp, destructive financial crises. The marked geographical polarisation of growth in the context of sluggish overall growth has prompted the appearance of over-investment and excess capacity in given economies. The overall world situation however is that of under-investment and deep regression in the building of the conditions required for development as defined in section 1. The portentous implications of China's full entry now into the world economy in this context are the object of work by other members of the network[26].

There are many key issues which have not been mentioned, let alone broached even rapidly. This is the case in particular for environmental issues, which pertain in reality to the basic "natural" prerequisites for human societies to live and to reproduce their existence (hopefully improved) from one generation to the next. The brunt of the dramatic global warming ecological and economic crisis has started and will continue to fall on the South. Countries in the South have been targeted over the last decade or more as places where industries which the highest pollution rates should be moved. Payment of debt has involved a huge acceleration of deforestation and the depletion of many natural resources. All these issues are further extremely serious roadblocks to development[27].

The analysis has laid particular stress on the role of international institution building of a variety adverse to development. This includes the new international technology regime created by the TRIPS part of the Uruguay Round negotiations and institutionalised within WTO. Ever closer control of technology by TNCs would create the need for very strong national systems of innovation, but partial de-industrialisation and the retreat of Government have undermined the steps made earlier towards building them. Other members of the network are addressing these issues[28].

Economic and social development, if it is to take place again, is conditioned by an urgent critical reassessment of the tenets of financial, commercial and direct investment liberalisation, the establishment of a truly different international and domestic policy agenda for institution building of a new kind and the formation of international and domestic political alliances really determined to enact such an agenda. The unwinding of the "profound asymmetry in the global economy" and the re-balancing of the present "US-centric world" would have to be part of this agenda.

Unfortunately mere argument will not suffice. Wealth and power form the underlying structure of economics[29]. The rich and the powerful are intent in reproducing the situation which procure them these attributes. Economists cannot stay in ivory towers. They have to take sides.

26 See the paper by Andrew Tylecote.

27 For those reading French, see Chesnais and Serfati, 2003.

28 This is the case in particular for the papers announced by Richard Nelson and Birgitte Andersen.

29 Twenty-five years at OCDE gave me plenty of time to experience and understand this.

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