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# **A World in Economic Crisis**

**Johan Galtung**

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# A World in Economic Crisis\*

Johan Galtung\*\*

## 1. An introduction to hyper-capitalism

We live in an era of hyper-capitalism so absurd, judged by how negative consequences turn into crisis, that there is only one safe prediction: this is not going to last. What comes in its place, the successor era, is another matter; interestingly, the intellectual managers of hyper-capitalism have little to say.<sup>1</sup>

By "hyper-capitalism" is meant an economic system with capital as its (almost) unique raison d'etre, as means/input, goal/output, and measure/indicator: wealth (private, corporate); GNP (for the productive national economy, probably soon Yielding<sup>2</sup> to GGP, the Gross Global Product); DJI, the Dow Jones Index and similar indexes<sup>3</sup> from other stock exchanges (for the finance economy); their averages, their growth rates.

A metaphor may be useful to fathom the depth of our crisis. Individually or collectively, as children, adolescents, adults, parents, we are concerned with the development of human beings, ourselves or others. For infants, for the starving, for some patients, it makes sense to look at humans as a body to be fed, and measure development in the material terms of food input and weight output, using output/input ratios as a measure of ability to avoid waste. The consequences of "hyper-foodism" are obvious: there is not only a floor, minimum weight, to be respected but also a ceiling, a maximum weight beyond which negative side-effects will dominate. So much for the body. But – what happened to the human mind, the human spirit, to people absorbed by weight-consciousness, oscillating between anorexia and bulimia?<sup>4</sup>

Hyper-capitalism blocks out the concerns for material floor and material ceiling and for what happens to mind and spirit. A minimum level of wealth, or purchasing power, is needed, if the basic need-objects have to be bought. Regardless of economic system, there is a minimum level for the satisfaction of basic somatic needs for clean food/water/air, clothing, housing, health care,

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below which morbidity and mortality increase rapidly. There is misery, not poverty.<sup>5</sup> And there is a maximum level of satisfaction of basic somatic needs, beyond which more food, clothing, housing, health care rapidly become counterproductive.

However, is there also a maximum level of wealth/GNP/DJI? This is a major and so far unanswered question in economics. Economic systems with some hyper-rich individuals often also have many who live in misery. If the rather rich (RR) are rich because others are pretty poor (PP, living in misery, with basic needs not met), and/or vice versa, then there is room for the argument that RR have exceeded their limit as PP have theirs. But we would probably have to show mechanisms whereby bringing RR below the maximum would bring PP above the minimum. In the Muslim world this mechanism is known as zakat, in the Christian world as samaritanism, in the Buddhist world as metta karuna.<sup>6</sup> Another form is progressive taxation, democratically decided upon or not, converting excess wealth into free or subsidized objects (food, clothes, shelter) for the most needy. Among countries the voluntary form of distribution is practiced as development assistance. The mandatory form is discussed as global taxation, like assessment to UN organizations. The big question is whether mandatory imposition of a maximum reduces the ability of the system to generate wealth distributed or not.

We do not need to take a stand on this question. Whether economic activity is measured as wealth, GNP, DJI, or by any other measure, the average and the distribution are two position coordinates for an economic system. When asked "what is the geographical position of me/my country/ my stock exchange", a geographer who only answers in terms of latitude is not useful; we expect the longitude to follow immediately. An economist who answers "what is the economic position of my economy - my country's economy/my stock exchange" only with averages or absolute values, no distribution measures or relative values, is an equally useless economist. From a meteorologist we demand not only the average amount of sunshine/rain tomorrow; we would also like to know on whom the sun shines and on whom not, where the rain falls. If not, give us another meteorologist.

A typical symptom of hyper-capitalism is exactly<sup>7</sup> the attention to capital, and absence of attention to human beings; the attention to averages and absence of attention to measures of distribution - including simple measures like the purchasing power ratio between the top and the bottom 20%, the 20/20 ratio (or 20RR/20PP ratio).<sup>8</sup> It is down at the bottom 20% (or less, usually more) that the failure of an economic system shows up as the crisis of misery. But neither that, nor the less dramatic distribution measures, are reported in today's (often) corporate media. Reported are problems of capital accumulation among the top

20% (or more, usually less), particularly in the finance economy since they have sufficient purchasing power to acquire (much) more products than needed to satisfy their basic needs, the necessities. They can buy not only "normal goods", let us call them normalities, but even luxuries.

Any fool can build an economic system where rich people buy expensive products: needed is only the infrastructure for seller and buyer to meet so that products (used for consumption) can be exchanged for financial objects (used for buying and selling, including each other, such as precious metals, currencies, stocks, bonds, options, futures, derivatives, and any future result of financial differentiation, deepening). The products have to be produced, and there has to be compensation for the production factors: natural resources (including energy), labor, capital, technology, management; but the last three translate into interest, fees and salaries for capitalists, engineers and managers, themselves RR or at least R (rich). The wages for labor can be kept below minimum (to stay out of misery) through contract work, or the labor is abroad, and modern products are less resource-intensive than before (compare communication chips with electro-mechanical machines for transportation).

This is an image of what happens in Third World I (Latin America/Caribbean, Africa, Asia/Pacific) and Third World II, the former socialist countries, particularly ex-Soviet Union. Consumer products are imported; natural resources and financial objects are exported. The cycles pass through R and RR; P and PP are excluded and M, the middle class, dwindles.

What requires talent is to build an economy with basic somatic needs met for (almost) everybody, with a good supply of normalities and luxuries on top of easily available necessities; with due consideration to the mental/spiritual needs for freedom and identity. We do not want forced feeding/clothing/housing from above. Humans want human dignity. That excludes commando socialism. And it excludes commando hyper-capitalism.<sup>9</sup>

## **2. On economic systems and economic crises in general**

The economy (the economic system) can be conceived of as having two parts: the product economy, producing products, goods and services; and the finance economy based on financial objects.

The product economy is a system of production-distribution-consumption cycles that produces products (goods and services) from factors of production (natural resources, labor; capital, technology, management), distributes them through the market in exchange for other products or financial objects, and consumes them till end consumption turns the product into waste and no further (human) consumption is possible. The products can be divided into necessities that

humans must consume to be human, normalities that most or many consume (a watch, a radio) and luxuries that are neither necessary nor normal, but consumed by the few, and demanded by them precisely for that reason.<sup>10</sup>

Along the economic cycles there may now be enrichment or depletion/pollution of human and non-human nature, basic human needs may be met or not, the structure and culture of society, and the world society of societies, may be enriched or impoverished. The process may or may not be sustainable over time depending on the net balance of all the above, noting that some (side-)effects may be terminal for the system (like massive depletion /pollution /revolution/migration).

The finance economy is a system of buying-selling cycles of financial objects, characterized by no end consumption. Along the cycles the object may appreciate or depreciate. Any product can become a financial object, like paintings, cars, bought for selling when the price is right, not for using/consuming. But we usually think of precious metals, currencies, bonds and stocks.<sup>11</sup>

Broadening expands the geographical domain of the cycles till they cover the whole globe (globalization); deepening differentiates the range of products and objects. We witness broadening and deepening of both product and finance economies; adding to the latter hedge funds, options, futures, derivatives.

The macro-economy sees the economy as a system of interlocking cycles of products and objects; in the micro-economy the individual and collective decision-making is made visible.

*At this simple level of reasoning some major, crisis-prone, problems of economic systems can easily be identified. Even if an economic system can take on a life of its own, as can also a malignant tumor, there are three common-sense guidelines:*

A: Consumption presupposes consumption of necessities.

B. The productive economy presupposes consumption.

C. The finance economy presupposes the productive economy.

The finance economy is meaningless without a productive economy, the productive economy is meaningless without consumption, and the consumption is meaningless without basic consumption to meet basic needs. This sounds trivial, but the consequences are not. Turn it around: "we meet basic needs in

order to consume more"; "we consume in order to sustain the productive economy"; "we produce in order to sustain the finance economy" and we run into a hyper-capitalist discourse which sees capital, not humans, not even the state or the nation, as the measure of all things. The media reporting on the crisis write and talk as if they have bought into that discourse at the expense of everything else. Stock exchanges, not factories and fields, are the major foci; human beings are left out completely. Easily done for those who can take necessities, normalities and even luxuries for granted.

*From (A, B) and (B, C) above follow two ways in which an economy can go wrong because of lack of balance/synchrony:*

*Imbalance/asynchrony between production and consumption:*

- underproduction relative to consumption, especially
- underproduction of necessities
- overproduction relative to consumption

*Imbalance/asynchrony between finance and productive economy:*

- finance economy under-finances productive economy, especially
- finance economy under-finances production of necessities
- finance economy over-finances productive economy

To this can be added the problems of distribution: oversupply of some products and undersupply of others at the access points, well known to any shopper in any shop in any system. What we are talking about, however, are major imbalances not due to malfunctioning of distribution systems, but to deeper causes.

*The present world economy suffers from all four crises:*

CRISIS I: undersupply of affordable necessities

CRISIS II: underfinancing of necessities production

CRISIS III: oversupply of normalities and luxuries

CRISIS IV: overfinancing of normalities and luxuries

*The general expressions of these problems are well known:*



CRISIS I: People who cannot afford necessities starve, fall ill and die; the prices go up because of undersupply (inflation).

CRISIS II: Credit underavailable for basic needs production considered non-profitable; affordable prices do not cover costs.

CRISIS III: People cannot match supply with demand, the prices go down because of the oversupply (deflation); bankruptcies.

CRISIS IV: Credit overavailable for non-basic needs production; financial objects - money/bonds/stocks - lose value (bad credits).

Along the disjunction between production and consumption people die, companies die. Along the disjunction between the finance and productive economies necessities are underfinanced. What is underdemanded is overfinanced, and financial objects lose value.

It is interesting to watch how differentially these problems have been treated by the media-. As pointed out above, most of the attention is on Crisis III and Crisis IV, the crises suffered by the owners of companies and holders of financial objects. That full employment is losing to underemployment (contract jobs) and unemployment (no job at all) is mentioned. But the implications for the satisfaction of employee basic needs, Crisis I, are rarely explored. Nor is Crisis II explored, because financing of something non-profitable is seen as even more absurd than people starving in a world of plenty. Only Providence, private providers or l'etat provident, none of them believed in by corporate media, are expected to do such a thing. Economic crisis is seen as crisis at the top, not at the bottom.

But will Crisis III/IV at the top not produce Crisis I/II at the bottom? In a globalized and privatized world economy, yes, but not in a more diverse world economy with an intact, local subsistence economy at the bottom. It all depends on the degree of coupling across state, nation, class, generation and gender borders. The higher the coupling, the higher the crisis linkage. Thus, an increasing proportion of the population with decreasing purchasing power means decreasing demand and not only for necessities, but also for normalities (for luxuries there will always be that small, closed, market described above).

So Crisis I/II also produces Crisis III/IV at the top. An obvious response at the top is fusion, joining companies together so that they can eliminate not only employees but also competition, and fix prices so as to become less vulnerable. Thus, some corruption, particularly in Japan, may be to save the company rather than the private manager/employee, the corruptor.

A more global and holistic view of the crisis is needed to avoid some elementary, and very ubiquitous, analytical mistakes. But that presupposes analysts inside and outside the media that do not reify "the economy", and do not view the economy with the eyes of those able to pay for their analytical services only.

If the economy is an iceberg then some of the stock exchange behavior is the part made visible. The value of currencies, bond and stock, and the more exotic financial objects, gain and lose relative to each other; trajectories show cycles (bullish, bearish), linear declines (crises), and sharp falls (crashes). Analysts will relate trajectories in the same economy (stock exchange), and across economies, noting imbalances/asynchronies (e.g. in the cash flow). Metaphors, like dominoes and epidemics, are used to imply causality. No doubt there are such effects within and between finance economies. But eyes trained only on the top of the iceberg will even indulge in discourses about the "Asian Crisis": it "started" in Thailand, then "it" went on to South Korea and Indonesia - maybe Malaysia - China is the next to fall, Japan has been ill for a long time. The time perspectives limited. Analysts talking like that seem to have forgotten the chronic "Russian/ex-Soviet Crisis", the "Mexican Crisis" of 1994, and that a "USA Crisis" was identified in the 1980s and beyond. This virus, the "Crisis", has at the time of writing moved to Brazil, and seems to be thriving. "It" will move on.

Of course this is a 10% analysis due to a limited viewing angle and a narrow discourse. Look at the total economy, and take globalization sufficiently seriously to see the world as one economic system (with subsystems), and we might be able to identify some of the common factors in that invisible 90% mass.

### **3. On the hyper-capitalism crisis: the independent cluster**

We are dealing with a conjunction of factors, and it would be misleading to do what many do, use "globalization" to cover the causal burden alone. But globalization certainly matters, and more particularly in its dynamic expression, as

[1] Increasing globalization: global market penetration by corporations that under the WTO regime (Uruguay Round) are truly transnational (not merely multi-national), making state borders and national origin irrelevant. Of course this has consequences.

For one thing, in spite of superb networking and real time decision-making, the world is not only big, but also complex, making global and holistic analyses

difficult. We would expect more imbalances/asynchronies in the consumption/production and the production/finance interfaces across such huge distances in space and time, not to mention in social (= structural+cultural) space. Even in a local village market there may be an excess, or a deficit of products at the end of the day, and prices may go down or up. The money-lender may have given credit insufficiently informed by heart and/or brain. How then about the nation, the state, the region, the world?

The Soviet answer was to impose balance through planning, diktat; in practice focusing on production only, disregarding consumer demand except for necessities (this was the strong point); and on the production economy only. The approach was reductionist, assuming the primacies of necessities and of production. But the hyper-capitalist way is also reductionist (therein lies its commando character): supply-side monetarism gives primacy to production/supply over consumption/demand and to the finance economy over the productive economy.

The consequences in terms of overproduction, relative to demand backed up by purchasing power, and undersupply of necessities because they are not "demanded", but only needed, are obvious, as are also short-term gains for financiers and managers. But here we have another perspective: reductionism as a response to information overload. Globalization makes the economy even more of a morass; some simple guiding principles are needed. The Soviet economy used "State interests first, then human needs", by implementing the Plan. The hyper-capitalists use "finance economy first, with stable currencies in space (no fluctuation in currency rates) and time (no inflation) over time (no fluctuation); then a productive world Market economy driven by egoistic cost-benefit." The Marxists reified the Plan and the liberals the Market, as expressions of the will of the masses/buyers-sellers, when in reality both could easily be manipulated by a handful of people (and in fact were and are).

Second, Smithian, globalizing Anglo-Saxon markets penetrate not only the borders between states (eliminating tariff and non-tariff barriers), between nations (reducing taste differences), center and periphery (reaching the most remote corner/village, spearheaded by Coca Cola), classes (only with purchasing power), the genders (reducing gender differences in economic behavior), but also the border between monetized and non-monetized markets, and between growth and subsistence economies. Local markets are destroyed with mass-produced, cheap goods, and the subsistence, non-monetized economies by buying/destroying the necessary factors of production, such as land and other natural resources. National monetized markets started this process, regional economies continued, global markets destroy what little is left.

This has an interesting implication for the position of the national elites. As national markets expanded from the national centers and the economic cycles covered the national territory, the local economic cycles contracted. Autonomous local producers, distributors and consumers became cogs in machineries fueled from the center. Local sales points were still needed, but the center could market directly. From one end of the country to the other consumers bought the same products, produced and distributed by the same national companies. But now, from one end of the world to the other consumers will buy the same products produced and distributed by the same world companies, and just as mail orders became common in the national economy, e-mail orders will take over in the global economy. That will weaken the position of the local bridgeheads in the old multi-national structures, just as nation building weakened the positions of the local economic boss. They may leave for the Center, become employees in a TNC, or join the paupers. At any rate, the theory of imperialism will have to be rewritten.<sup>12</sup>

This, incidentally also holds for national State elites: if a major function of the State is to facilitate or control (depending on whether the system is capitalist or socialist) Capital, then facilitation/control has to be done at the Center, and the Center moved from the local to the national, and then to the region (such as Frankfurt) and to the world (such as Washington DC). And this throws us back to the first point above: local and national specific competence has to yield to regional and global general principles, making the system even more exposed to imbalances/synchronies hard to foretell. There will be less local/national capacity to dampen the impact.

[2] Increasing privatization: economic cycles are reshunted so that they do not pass through the state. State enterprises with the state responsible for production and distribution of the goods and services (railroad transportation, PTT communication, health delivery, punishment delivery and schooling), are increasingly privatized. Cycles passing through the state for some managerial role, such as licensing, may also be reshunted. As borders disappear so do duties for anything passing borders. Corporations and citizens still pay taxes and receive in return the services of l'etat gendarme, but with the state giving less the arguments for the state taking less<sup>13</sup> are strong, including the arguments for a flat tax, like the sales tax. The state is increasingly deprived of utilitarian, contractual power, the power of the carrot, and left with the power of the stick and whatever moral persuasion the state may be able to mobilize.

### **The consequences of stripping the state naked are many**

First, with all its inefficiency, clumsiness, even blunt authoritarianism beyond bureaucratic arrogance, the state is the most effective mechanism for distribution known to the modern social formation based on the tripod of State, Capital and

Civil Society. Capital, in the modern form of the corporation, is well suited for economic growth measured by capital accumulation one way or the other. But left to itself it creates inequalities and inequities, and recently seems to abolish more employment than it creates, as evidenced by the generally rising rates of under- and unemployment.<sup>14</sup> Civil Society may provide solidarity and shelter, literally speaking, and has great potential if local authorities (LAs) and peoples' organizations (NGOs) could cooperate building local economies. But we are not there, yet.

The State has had two major mechanisms at its disposal:

- the welfare state, providing necessities through free health and education services and insurance against unemployment, disease and old age (and subsidized food, clothing and housing). The welfare state was financed by customs duties, taxation (more or less progressive), sales taxes, luxury taxes, etc.
- countercyclical investment, keynesianism, presupposing willingness to invest when the market was at its worst to provide the unemployed with wages that could be spent on necessities and normalities, keeping the economic wheels turning (and meeting their needs for whatever dignity the work offered).

With less state revenue available for distribution through subsidized necessities, keynesian counter-cyclical investment etc., we would expect the distribution to deteriorate and rising proportions of the lower ranges to sink into the syndrome of under/unemployment and misery, also in the MDCs (more developed countries). There are already alarming reports about low tax revenue, the prediction being that this is going to get worse.<sup>15</sup> The MDC state can no longer afford the welfare state, presenting increasingly poor citizens with increasingly agonizing choices.

One particular reason for lower revenue relates to the interface with globalization. Products, resources, (migrant) labor, capital and technology have always been mobile, including across borders,<sup>16</sup> what is new is the mobility of the whole factory, including (much of) the management. The decision is, of course, based not only on the distance to natural resources and markets, on the Q/P (quality over price) of labor, but also on taxation. Today not only low or zero taxes, but negative taxes, incentives, are demanded - and offered. Why not relocate?

[3] Increasing stock-holder power: shifting profit away from the workers and towards the stock-holders. This is "privatization within the privatization". A company rests on five pillars:

- the customers, exchanging money for company products;
- the workers, exchanging labor for money (wages)/products;
- the managers, divided into administrative and technical.
- the capital-holders (stock-holders), investing in the company;

**In the background is nature, depleted, polluted, unrepresented**

Much of the theory and practice of the company can be seen in terms of shifting alliances. Strengthen the bond between workers and management and we get the Japanese company, sharing the ups and downs of the company, fortified through life-long employment and seniority promotion. The workers take out more (as bonus) the more time and work they put in, so do managers. Rotate workers and management and we get one of the Chinese experiments during the Cultural Revolution. Abolish managers, substitute the State, and we get the Soviet model. Strengthen the tie to the customers and we get the cooperative, with the customers taking out more (as bonus) the more money they put in. Workers strike, or customers boycott, and that may spell the end

In the hyper-capitalist era capital is the major input and output, so capital-holders feel entitled to take out more money as dividends the more they put in buying stock. The ratio<sup>17</sup> earning/price should be high and increasing, the company should offer products high on Q/P, the only thing to cut are employee wages. What they want is downsizing of workers and upsizing of earnings; what they get can get as a class is under/unemployed people craving for necessities, and not for profitable luxuries and normalities. Sawing off the branch they sit on?

[4] Increasing labor productivity: substituting automation for routine work, an example being computers for secretaries. At the root of this is a simple equation, true by definition:

$$\text{Production} = \text{Productivity} \times \text{No. of employees} \times \text{No. of hours}$$

(dividing we get the definition of labor productivity). If now labor productivity increases we get the following possibilities if overproduction, relative to demand, is to be avoided:

*I. Production/output/supply can be increased, because of*

- elimination of competition (fusion, oligopoly, monopoly)
- increasing demand (increasing purchasing power, because of more consumers and/or more money available per consumer).

## *II. Production/output/supply cannot be increased, leading to*

- decreasing no. of employees, downsizing, unemployment,

- decreasing no. of hours, shorter days/weeks/months/years/lives (more study, more retirement), contract work, underemployment. Reality is, of course, a mix of all of this, depending on time, space, circumstances and branches. Given the preceding factor, more money to the capital-holders, there would be readiness to choose. [II] In order to engage in [I]: fusing companies, downsizing, farming out contract work with no social costs to pay. The net result is less purchasing power, even for necessities. What is rational for one company is irrational for the company class.

If the supply goes where the demand is, then we would expect a general shift in production away from necessities to normalities and luxuries. Ocean fishing and fish farming will switch toward the expensive varieties (salmon, lobsters, etc.), away from the common consumer's simple seafood, and the same will probably happen in agriculture (less factor input for staples, more for luxury outputs like tropical fruits.)

There is one obvious road out of the problem, the road not traveled: decrease the (labor) productivity. In principle this could open for more employment, more wages to more people, more purchasing power, more sales, more revenue. But it would obviously run against the interests of the technology-holders, whose task it is to substitute capital for labor via technology. They have more power in the average company after the staying power of employees through strikes decreased with increasing tendency to lay them off anyhow (exception: employees who are "indispensable", like flight leaders, pilots, energy operators, ambulance drivers). Moreover, technology is more in harmony with the Zeitgeist and its idea of progress; not more low-skill work, but progress defined as automation/robotization and high-skill work. The typical response of the system would be retraining of adults and encouragement to acquire higher level of education. As higher education is transformed from luxury for the leisured classes via normality to necessity, the demand for education will become increasingly inelastic, and the fees will go up for something the state cannot afford to offer free anyhow.

In the meantime increasing labor productivity will probably proceed at a higher pace than the production of high-skill labor that can be gainfully employed; in other words, more people will be defined as redundant than those who will find employment.

Behind this another factor is lurking: the "dangerous classes", meaning the working classes. By tying wages to labor productivity, offering wage increase if productivity increases, the working classes have been paid to abolish themselves. It does not take much empathy to understand how demoralizing this has been for the last generation or so. We are still there.

[5] Increasing production of mainstream economists: making the blind spots of their economic discourse private and public policy. If we have the economics we deserve, compatible with our (Western) deep culture, then we would expect the usual tendency toward abstraction of "the economic" away from other factors, generalization in time and space, and reification. We would expect a paradigm built around the key measurable variable: capital, and its equivalents.<sup>18</sup> We would expect blindness to all other spaces, defining what happens there as "externalities":<sup>19</sup> - Nature is seen as resources for humans, not as *sui generis*

- Self is seen as somatic/material pain/pleasure, not spiritual
- Society is seen as a market for egoistic cost-benefit action
- World is seen as a market for national cost-benefit interest
- Culture is seen as irrelevant, economics is space-invariant
- Time is seen as irrelevant, economics is time-invariant

What remains is a pyramidal, axiomatic paradigm with the primacy of economic growth as Axiom No. 1, to be achieved through industrialism (at the expense of Nature), individual materialism (at the expense of spiritual qualities), egoistic competition (at the expense of solidarity), comparative advantages (at the expense of freezing the division of labor), endless growth (at the expense of a finite world), mathematization (at the expense of subtleness, ambiguity) and GNP/GDP as the new God (at the expense of all the others).

The costs of giving power to economists as discourse-holders, the tremendous mistakes and lack of foresight, are compensated by the benefits: a clear, cosmic goal in a chaotic world, at the same time compatible with elite interests. "Die herrschende Ideologie ist die Ideologie der herrschenden Klasse."

[6] Increasing synergy among these factors due to the IMF, together with the World Bank and other US-steered, WDC-based Bretton Woods institutions, nominally of the United Nations.<sup>20</sup> The IMF,<sup>21</sup> like the smaller members of the family, has taken upon itself the D,P,T role of coming up with the diagnosis, prognosis and therapy for ailing economies. However, in the medicine chest



there is only one medicine (a good reason for being skeptical): removal of all constraints on capital-holders:

- globalization, the removal of tariff and non-tariff barriers, crowned by a Multilateral Agreement on Investment, possibly the last document to be signed by states before they wither away<sup>22</sup> (before revolution in capitalist countries, after in socialist):
- privatization, removing the state as an economic actor, by<sup>23</sup>
- eliminating subsidies for necessities and taxes on luxuries,
- privatizing state companies, eliminating keynesian measures,
- lowering taxes,
- repatriation of profits from investments,
- devaluation of the national currency,
- more power to stock-holders, less to trade unions,
- higher labor productivity through automation/robotization,
- primacy of economism as discourse.

No doubt there is a logic behind this scheme, the logic of hyper-capitalism. The point is that the IMF is in the same position as Gosplan<sup>24</sup> in the Soviet Union to implement their reductionist, highly ideological schemes, as public policy. They do not create synergies; they are that synergy, capable, with the World Bank, of sapping Third World countries for any promising young economists, making them parts of the synergy. They are also among the most global of organizations, but curiously intergovernmental as an instrument of privatization. There are some contradictions there that probably will mature.

#### **4. The intervening crisis variable: asymmetric purchasing power**

The basic facts are known from the latest Human Development Report published for the United Nations Development Programme,<sup>25</sup> very much focussed both on basic needs and on distribution:<sup>26</sup>

- three individuals have as much as the 48% poorest countries.
- 1.3 billion make less than \$1 per day (Indonesia 30 cents).

- the 20/20 ratio: 30 in 1960, 78 in 1991, 82 in 1994.

- especially bad in LDCs with similar tendencies in MDCs.

If we use the first two figures for the widening 20/20 gap we get a 3.13% growth rate for the gap. This is higher than the growth rate for GGP/capita: there is growth, but the top and bottom fifths pull away from each other at an even greater rate.

What we badly need would be data on world purchasing power. The total purchasing power is probably increasing in the sense that there is a growing amount of free capital available for buying consumer goods. But distribution is of the essence.

Imagine the same amount of money available in two countries A and B with the same size of the population. In country A 10% of the population has 90% of the capital, in country B the capital is evenly distributed. In A the productive economy would focus on luxuries; in B on an equal mix of necessities, normalities and luxuries. Imagine you can make 5% profit on necessities, 50% on normalities and 500% on luxuries. Does that not mean more profit in country A?

*The problem with that reasoning is seen from this equation:*

Consumption = Consumptivity x No. of consumers x No. of hours

There is an upper limit, even for the RRR, on what they can consume, even with very high consumptivity, the "propensity to consume". The task of advertising is to increase consumptivity. But the number of consumer-hours available is a limiting factor, a strong argument for a more egalitarian distribution.

5. The dependent crisis cluster: gross imbalances/asynchronies Let us go more deeply into consumption, building on Say's idea about changing propensity to consume with increasing purchasing power. We have distinguished between four levels of consumption:

Level 0: Below meeting basic needs: Misery

Level 1: Just meeting basis needs: Poverty

Level 2: Normal consumption: Normalcy

### Level 3: Luxurious consumption: Luxury

The assumption is that the point of gravity in the consumption pattern, the average level, increases with increasing purchasing power, except for fundamentalist puritans who stay at Level 1 or below, and the spend-thrift who tries a jump to level 3.

Crisis I is what we have when a high and increasing part of the population lives in misery, at Level 0. If in addition we also have Crisis II, then there is no way out through investment in modern equipment for land farming or ocean farming. If in addition the other factors for the production of necessities, like land/soil/water, and seeds, are bought, polluted/diverted, and patented, then there is no traditional way out either.<sup>27</sup>

*If we now bring in consumption at Levels 1, 2 and 3 then the vicious circles operating, churning out crises, expand:*

increasing un/underemployment leads to

decreasing purchasing power, leading to

increasing un/underemployment leading to increasing misery, and

decreasing purchasing power leading to increasing bankruptcy.

The crisis is tapped out as ailing and dead people (Crisis I) and ailing and dead companies (Crisis III). However, company managers, CEOs are much better insured than ordinary people, sometimes with golden parachutes. They do not die; they are recycled before death. Yet their minor troubles make headlines in the corporate press.

Let us then add two more levels to this Say-type analysis. What do people with much money do with their money when they have reached the limits to consumption, because there are only 24 hours available, it is difficult to make sleep that expensive,<sup>28</sup> and the consumptivity has its upper limits for most? Even caviar and champagne, and skiing at Gstaad CH or Aspen CO, combined with some cruises, will draw a yawn after some time. Answer: the money is used to make more money, meaning a transfer from the productive economy (where consumption is such a problematic part) to the finance economy. That gives us:

Level 4: Investment

Level 5: Speculation

## Level 6: Gambling

There is an increasing level of risk/recklessness at work here.

At level 4, investment, the money is earmarked for a company for which the capital-holder feels some responsibility beyond the profit motive, and some long-term commitment.

At level 5, speculation, such as short-term, foreign portfolio investment (FPI), the link to any specific company is broken. The agent/computer searches for maximum profit at minimum cost, including time costs. The more "exotic", virtual, the financial object, the higher both risk and profit. We are now very close to gambling, but not yet quite there.

At level 6, gambling, any link to the productive economy is broken. It is money for money, mediated by some chance device, loaded or not. Again, the higher the profit the higher the risk. The ultimate risk is total loss and major indebtedness, and the lonely shot at night. The crisis is tapped out as suicide and as the burden to the bereaved and the indebted left behind.

The deficit in capital for the most needy, in misery, is a problem for themselves: they starve, die from under/malnutrition (some time ago at the rate of 40,000 children per day).

The deficit in capital for the less needy is also a problem for companies producing and marketing normalities and luxuries: they overproduce relative to demand and go bust, a minor problem for the CEOs, a major problem for the employees.

The excess in capital for the super-rich, however, is less a problem for them, and more a problem for everybody else. For one thing, capital given to speculation is capital taking away from productive investment; as the family of any gambler (or of any other kind of addict) knows: capital given to gambling is capital taken from the family. In the macro-economy this means less capital for productive economy investment, including taking the risk of low return for any money invested in necessities for the needy. If they risk losing much in speculation, why not lose a little investing in necessities? The answers are obvious: the former risk comes with the possibility of great gains, the latter not. Moreover, misery is not very chic these days!

Investing in production of normalities and luxuries, when the supply already outstrips the demand in at least a dozen major branches<sup>29</sup> due to overproduction,

makes little sense even if it does not carry the stigma of investing in "needy" losers. In addition investment in the production that could help the needy, in a subsistence rather than growth economy, is labor and not capital intensive; a shadow from the traditional past.

On top of that: investment is long term, time intensive, out of touch with the quick rhythms of post-modernity. Who wants to wait thirty years for a return when thirty seconds will do!

Capital is made available for finance economy speculation to the tune of a \$1.3 trillion/day dynamism; by far outstripping another poor habit of humankind, a global military budget to the tune of \$1000 billion = 1 trillion/year. It has been proven again and again that saving capital and investing it in the productive economy, when correctly done, can spur economic growth, if not economic distribution. "Trickling down", much praised but rarely seen, seems to need some plumbing of clogged pipes by the state.

But high levels of speculation can take place unaccompanied by any productive economy dynamism. The incredible dynamism of the finance economy, with a DJI growth of 28% in 1997 as opposed to a productive economy growth of 1-2%, indicates that little or no value was created. Value is shifted upwards, assuming gains by and large to be proportionate to the risks taken, meaning that "he who has (much) more will be given".<sup>30</sup>

Instead of the neutral word-pair "productive/finance", used here, many authors use "real/virtual". This may be misleading. Anyone visiting a stock exchange witnesses a theater of the absurd, but only because it is unfamiliar to most of us. We associate the economy with means of production to produce, in return for the means of consumption; and we do not recognize these means in computer games at a level of abstraction (hedge funds, options, futures, derivatives) beyond comprehension. It looks more like a casino, place your money, win or lose.

The problem is that the finance economy is not quite real, nor is it quite virtual. The coupling to the productive economy is weak, but it is not zero. Currencies carry the names of real countries, bonds of real states, stock of real companies; as opposed to Monopoly, or roulette/baccarat/what not in a casino.

Take a stock as an example: an IOU, a redeemable credit given to a company. Those who buy it gamble on that company. The company shows a handsome profit after write-offs, dividends are paid, earning/price ratio is satisfactory. So far so good.

Then the rumor about that stock goes around and the finance economy takes off with its own logic, similar to any other economy: increased demand leads to increased value leads to increased demand. The company can get good capital issuing more, but not too much more, supply = stocks, expanding production capacity, increasing the output/supply. Again, so far so good.

Then comes the sundowner: the company has overinvested. The problem is not diminishing returns due to an imbalanced factor profile, but no return at all due to market saturation. Inventories exhaust the storage capacity. The cash flow dwindles to a trickle. Raw materials keep coming in to feed the production process. Even the usual ninety days to pay the bills prove insufficient. After some expansion of the delay comes the contraction period: COD; no cash, no delivery! What should not happen happens: the ships turn around, trying to sell their cargo elsewhere. The value of the stock suffers a steep decline. The company can no longer improve the cash flow by selling (overvalued) stock, and buying its own stock at more realistic prices is also out, given lack of cash. Others will buy, possibly with a take-over, hostile or not, in mind.

If this happens to many companies in the same country the willingness to receive payment in the national currency will decrease and the value of that financial object is also in for a decrease, slow or steep, in other words devaluation. The ground is now prepared for foreign take-over, hostile or not.

One way in which speculation differs from investment is in the neglect of concrete, real world, information. Speculation is based on how well stocks (or generally financial objects) are doing on the financial markets; investment is based on how well products are doing on product markets. Another difference is the speed of financial transactions. Checking for overproduction takes too much time. They all make the same mistakes.

And yet the coupling is there, indicated in the example above from South Korea in late 1997. The companies in trouble were also chaebol, state enterprises susceptible to dirigisme and cronyism. But they also had overproduction in common, probably much more important. The IMF used the situation to apply its standard prescription, not doubting the "wisdom/discipline of the market". How could they doubt their own God, when on a mission to exorcise Satan, the State, from the corporate realm?

We have now located Crisis IV in the interface between overfinancing and overproduction. Just like Crisis I and II belong together, so do Crises III and IV. Speculation makes a lot of money available to companies doing well, but continues doing so long after the company has ceased doing well and may in fact do very badly. Supply side economics has its limitations if people simply do

not have the purchasing power. They may buy on credit (cards), and seek refuge from creditors in bankruptcy. But somebody will suffer badly down the line, and ultimately the overvalued company. The crunch is the cash flow that is where the famous "lack of confidence" ultimately shows up: the company is not deemed creditworthy. The company goes bust; the employees are added to the ranks of unemployed (1.7 mio in Korea after the crash, in a country with agriculture in shambles).

The investor, close to the company, as opposed to distant and reckless speculators, has a clear algorithm: he would check the value of the stock against the quarterly reports and look at the branch as a whole for possible signs of saturation. The danger of overvaluation lies in the decline and fall, whether slow or quick. The former gives more time to accommodate; the latter cuts the agony short. The CEO, knowing the dangers of supply side economics, will have demanded parachute insurance. The investor has already done so in a major institution of capitalism: the limited (responsibility) company.

How about the investor in a foreign country when all of this happens not only to one company but to several, and to the country itself in the sense of currency devaluations of 50-75%? Instead of accepting the applauded punishment and discipline of the market they demand "compensation or else no more investment" so that the sources of foreign capital will "dry up". The name of that insurance company is, of course, the IMF, but only in the sense of making loans available to the failed state so that the state can redeem the foreign investors and then service the loan. Incompetence obviously is rewarded, not punished. The risk is carried by the labor-seller, not by the capital-holder!

If the company stock is "out of synch" with performance, we would expect a crash, quick or slow. If the stock exchange of a country is "out of synch" with its performance, we would also expect a crash, quickly or dampened by official optimism and spreading over time, branches and companies. The disjunction between productive economy overproduction and finance economy overvaluation is at the root of the system. It is intrinsic to hyper-capitalism, the crises showing up at its weakest points.

Thus, the early warning indicator would look at the ratios between the growth of the finance economy,  $dF/dt$  and the growth of the productive economy,  $dP/dt$ , in other words  $dF/dP$ . Another approach would be the ratio of the elasticities,  $dF/F/dP/P$ . Both could serve as indicators of imbalances; the optimistic hypothesis being that the imbalance is only an asynchrony and that the leading economy will fuel the lagging economy. The underlying hypothesis is that a healthy economy presupposes some kind of balance between the two given that the financial objects are supposed to have their productive economy

counterparts. Any such hypothesis, however, would have to allow for some margin of imbalance or asynchrony, especially given the long term tendency of stock exchanges to grow more than the productive economy (but not 10-15 times more).

Would it be better if the speculators cut the link to the productive economy, left the stock exchanges and their computer terminals, and settled in the world's casinos instead?

Yes, in the sense that they and those who depend on them would have to carry the ultimate price (suicide) themselves, assuming that they gamble with their own money. Speculators seem to believe that they have<sup>31</sup> a carte blanche to gamble with other people's money, letting them carry the burden of the losses, including landing them in misery (structural homicide).

No, in the sense that speculation is not only gambling but some kind of investment that may also finance worthy enterprises the problem is that it goes out of hand. The problem beyond that is how to rein it in again. We may disagree about how to do that. But there is hardly room for disagreement about an economic system that serves us so badly as hyper-capitalism.

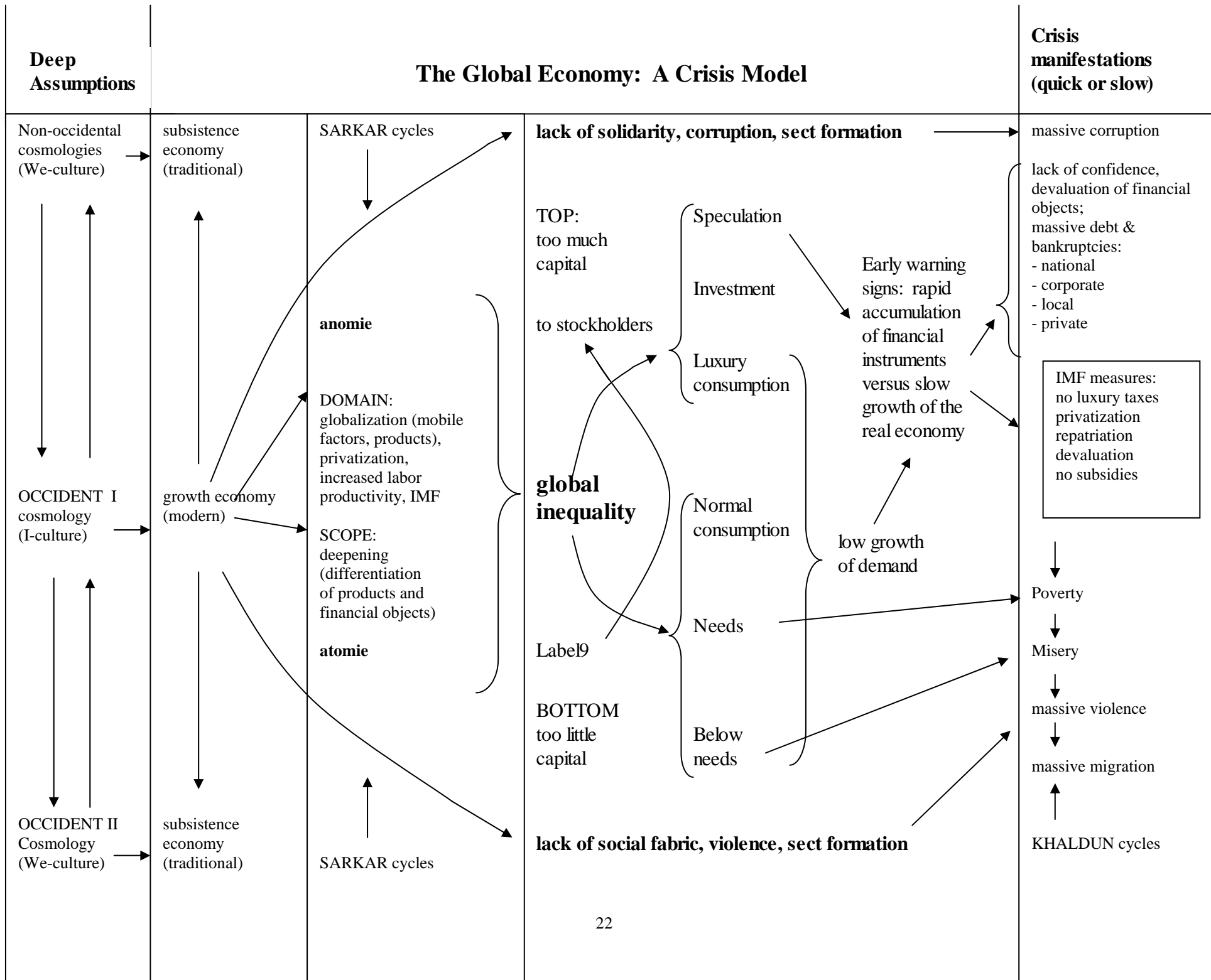
## **6. Conclusion and summary**

The reader is invited to look at the effort to summarize the argument in the charts on the next pages, adding some more context variables to this basically economic analysis. The flow of the charts is from left to right, with the underlying and the independent variables to the left, the intervening variable in the middle, and the dependent variables to the right.

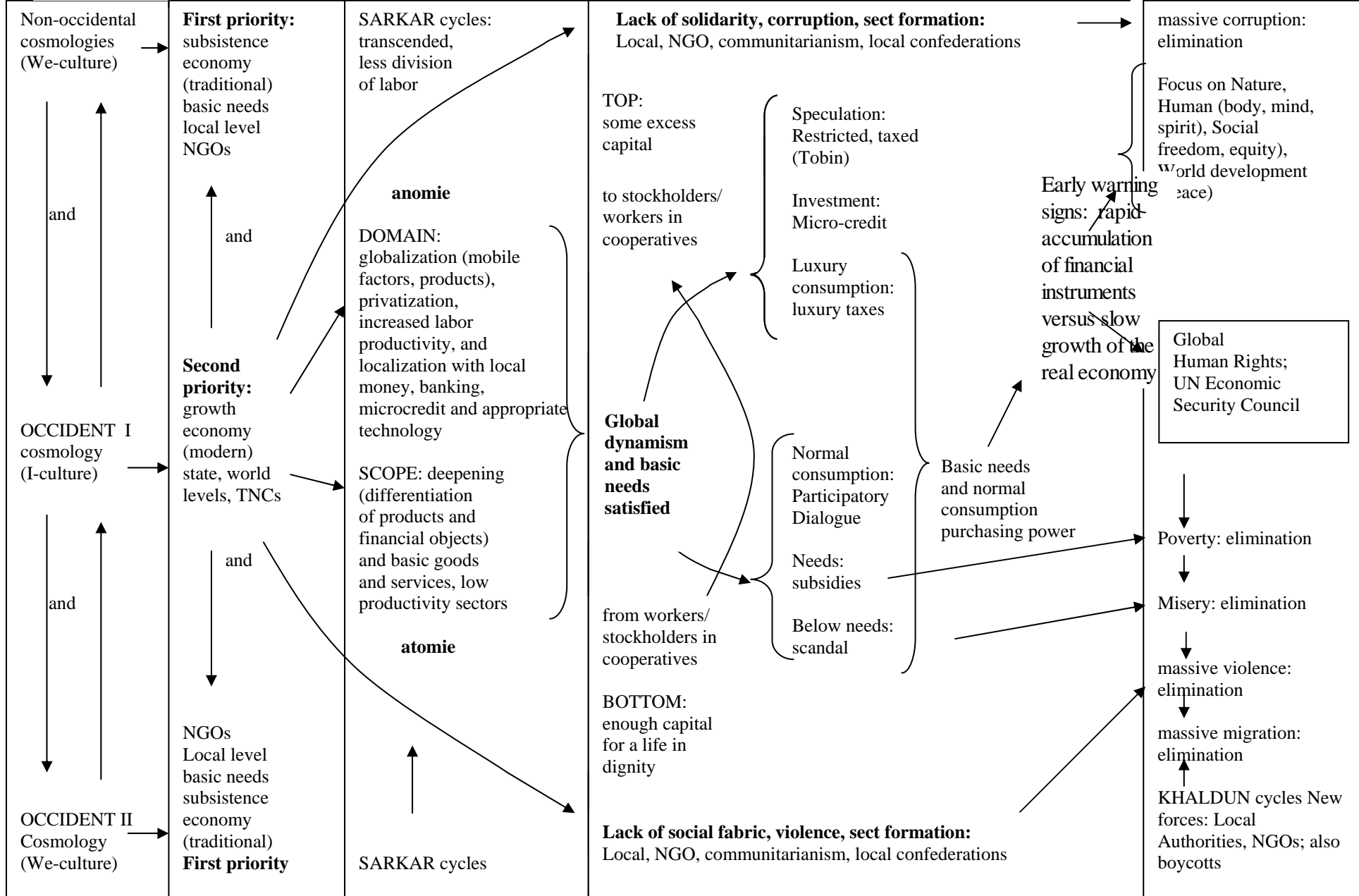
The ruling economic system in the world today is the system of the ruling region, the West, and carries, of course, the signature of the deep culture of that region, its cosmology, referred to as Occident I; the Occident in its expansion mode.<sup>32</sup>

One basic aspect of that cosmology is the conceptualization of Time; equipped not only with the Idea of Progress, but with Beginning and End, Paradise, the Fall, the Darkness, the Light, and after the Progress the Crisis with the two possibilities: Catharsis or Apocalypse. The two great prophets, Adam Smith and Karl Marx, both flashed the Light (blue light, and then red, but Light) after the Darkness of feudalism/mercantilism, and of capitalism, or of the entire past for that matter (equipped with the paradises of village markets and primitive communism, and the fall when humankind strayed away), promising the catharsis of capitalism and socialism/capitalism, equipping both with crisis.





**Deep Assumptions** **The Global Economy: A Human Model** **Wellbeing manifestations**



Smith psychologized, talking about the idiotizing effect of routine work; Marx politicized, equipping capitalism with more crises than Smith did, but then talked about counter-revolutions. Basically, however, they both promised Catharsis in the End.

But the Occident is no stranger to Crisis. The Occident loves Crisis, feeds on Crisis. There is a whole pornography of crisis, highly exciting, on display in the media at all times.

The mainstream ideology of economism guarantees crisis and will deliver provided the following four axioms are followed:<sup>33</sup>

A1: there is no floor for economic activity, no "basic needs"

A2: there is no ceiling for economic growth, no upper limit

A3: there is the market steered by cost-benefit self-interest

A4: the sum of one zillion egoisms is altruism (Invisible Hand)

That the crisis guaranteed will be delivered also follows from one simple consideration: in a finite world any infinite move in the same direction will run against some wall, ie. into crisis. Either the move stops, or undergoes some curvature (Einstein).

On the margin are alternative cosmologies within or outside the Occident, like Buddhism, substituting stability for progress and economically subsistence for growth. They are considered highly subversive by mainstream Occident, even feeble-minded.

As growth continues the domain expands from the Center, through such mechanisms as globalization, privatization (so that the growth is not impeded by State concerns), and increased productivity (technology). And the scope deepens with an incredible variety of products and financial objects.

The net result in the first run is increasing inequality at the global level, right now growing at an unparalleled speed. Assets are channeled away from labor-sellers to capital-holders, the global upper classes indulge in luxuries, some investment and much speculation; the middle classes in normal consumption (and quite a lot of it); the global lower classes live in pandemic poverty and misery, possibly hearing voices about its eradication when dying, like plague and cholera patients before the advent of modern medicine. Snake oil is distributed by the IMF, as also to the patients of the pandemics of earlier ages.

The interface between rapid accumulation of financial instruments and sluggish growth of the productive economy because of underdemand or oversupply (depending on the viewing angle) spells crisis. The crisis then hits the global upper classes as lack of confidence in their own instruments, with accumulation of massive debt and bankruptcies at the national, corporate, and private levels. And it hits the global lower classes with blunt misery and its concomitants: massive violence (like crime in order to redistribute wealth) and massive migration, like one billion on the march by, say, the 2030s.<sup>34</sup>

In the midst stands the IMF, extending more credit (debt) in return for "conditionalities" that add up to more economic freedom for the global upper classes, and more misery for the lower classes. A figure soon to fall, tragic in its absurdity.

**On the chart margins are some extra-economic contexts.**

First, it is inconceivable that two centuries of unbridled smithism, with its four axioms, in the very center of the West, geographically (Anglo-Saxon) and socially (the corporations), should not have a basic impact on the two constituents of social reality, culture and structure. If people are told that society they may end up not only doing so but even believing it.

The result is anomie, a condition feared by sociologists: the absence of compelling norms beyond sheer egoism. Solidarity and altruism are considered anachronisms; the social steering is increasingly by the pain/pleasure principle. One expression is massive corruption; another is massive sect-formation in search of new guidance. Nations can easily become such sects, hence the particularly vicious character of nationalism these days.

Second, when the individual constitutes him/herself as the atom of social reality and the society as a noble/inert gas with no molecules, then the social fabric (*el tejido social, le tissu social*) will suffer, disrupt and fragment. I refer to that state of atomization as *atomie*.<sup>35</sup> Combined with anomie we get a society of egoistic leibnizian monads, uncoordinated by any divine plan except its latter-day substitute: the "discipline of the market". The result is violence, why not eliminate people in the way, and sect-formation, to provide new social fabric; and then its mega-reflections, massive violence and migration. The latter comes more easily when the fabric has unraveled anyway.

The cycles introduced by Khaldun and Sarkar are useful in this connection, among other reasons precisely because they offer cyclical perspectives instead of Western linearity ending with the apocalyptic crash (against the wall of finiteness) or the catharsis of *Endzustand, j'y suis, j'y reste*.

Sarkar combines in his thinking the concern with the vertical social dialectic between high and low, the exploited and/or repressed, and the horizontal dialectic between the three key elites: the military, the intellectuals and the merchants (kshatriyah, brahmin, vaishya). A key question is, who suffers so much as to be the next in line when any one of them is in power? According to Sarkar the military will be followed by the intellectuals (who have to be sustained by the state) and the intellectuals by the merchants. The net result is a circulation of elites, on top of people.

That the military are intellectually uncouth, and that intellectuals struggle for freedom of expression (especially for themselves) is easily understood.

That the intellectuals supported by the state come up with all kinds of state-led economies to please the hand that feeds them, at the expense of the free initiative of the private sector, is also easily seen.

And, that the merchants are so exploitative in their search for market share and profit that the masses finally protest, with major upheavals, also rings true.

Sarkar's point is that at that the merchants now run to the military, usually also with the support of the intellectuals, demanding that they do "something". That brutish "something" is then done, and later on the military will usually be blamed as the sole responsible. They may find it unjust.

We are now living in the age of the merchant. Like at the beginning of the French revolution democracy and human rights (but civil-political more than social-economic rights) are in their interest. The synchronization of this age around the world, in widely disparate societies, has much to do with the collapse of dictatorial state planning (by intellectuals) in the socialist countries at the end of the Cold War, but also testifies to the general level of globalization of the planet (with the obvious thesis that the dialectic is artificially imposed on many societies). Of course, some intellectuals have survived the transition: those at the service of the merchants, glorifying their endeavors, helping them obtain their goals: the mainstream economists and the specialists of business administration; and, of course, the kinds of intellectuals needed for the production and distribution processes. Pure intellectuals are out, except for decorative purposes.

During the age of the merchant globalizing, privatizing economies look as normal and natural as building alliances, preparing for a major nuclear holocaust and military rule (possibly with some politicians up front) during Cold or Hot Wars. That age of the military was also globalizing, being based to a large extent on coordinated military logistic capacity in alliances and counter-alliances. The

age of the intellectual was a short, but important aspect of the last part of the Cold War, and its short aftermath. Then came the merchants. And just as the ultimo ratio, the final argument, of the military is the gun, and of the intellectual the word, the final argument of the merchant is money. To argue with the gun is also known as violence, war, massacre; to argue with the money as corruption. To argue through words is a two-way dialogue, as opposed to the one-way order of the military and the one-way advertising of the merchant. Democracy is more easily accommodated during the age of the intellectual; and global markets during the age of the merchant. They combine in buying political to fund politicians.

A basic point in Sarkar's theory is that no age is forever. They are all one-sided exaggerations, playing on one or a few human faculties instead of on the full panoply of human energies and inclinations. This also applies to the age of the merchant, which probably will be surprisingly short-lived. There will be political uprisings and individual migration all over, among other reasons because of the failure of the market system to distribute the fruits of the endeavors. Except, that is, under the assumption of a more balanced system capable of steering both the vertical and the horizontal dialectics toward some kind of harmony. The dream of good politics!

Khaldun adds to this another cycle with four phases: the New replaces the Old; the New gets settled and flourishes; the next generation lives off the fruits; and the generation after that squanders what was once so shiny, incapable of renewal.<sup>36</sup> Time has come for the new New, the Bedouins breaking the gates.

This reads like the story of the October revolution and the Soviet rise, decline and fall; about four generations. No doubt Yeltsin looked to many as that new New, capable of renewal and a rapid transition to catharsis. In a very dualist<sup>37</sup> culture Gorbachev sounded like a messenger from the past. A deeper story would be that the Yeltsinites went straight to Khaldun IV, the era of corruption. And a still better perspective might be that they were just the last part of the Khaldun IV of the Soviet system, with anomie and atomie and their concomitants – massive corruption, violence and sect formation - rampant.

Where are we now:

Given that globalization synchronizes the national dynamics, at least at the top level? Something was ushered in, and not only in the ex-Soviet/socialist countries: hyper-capitalism. No doubt brilliant, shiny in its visible manifestations, such as the buildings of banks (remembering that "bank" is the first syllable in "bankruptcy"). There is also much gold behind what glitters. But it looks as if the system is equipped with an accelerator pushing us through

Khaldunian phases at a speed defying "generation". The name of that accelerator: the computer, with real time internet global co-existence. The name of the economic manifestation: speculation.

Themes for further research:

Prognosis: It will get worse: mass violence and migration.

Therapy: Reverse all the above. But how? Building zones of subsistence?

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## Notes

<sup>1</sup> As an example of the incapacity of the high commands of the system to understand itself considers this quote from Dudley Fishburn, *The Economist* (from *The World in 1998*): "1998 will be a year of prosperity. It will see the fastest rate of economic growth in a decade, despite shudders in the global stock markets. . . it is the world's poor who will benefit most". He actually also says, "Everywhere there will be peace. . . This peace and prosperity are almost entirely the result of America's leadership". A hagiography at this level is rare even on highly ideologized circles.

Paul Krugman, in "Is Capitalism Too Productive", *Foreign Affairs*, Sept/Oct 1997, pp. 79-94, concludes (p. 94) that "those who preach the doctrine of global glut are tilting at windmills, when there are some real monsters out there that need slaying" (among the "monsters": fatalism, giving up the idea of growth, or a balanced budget, protectionism). "What seems hard for Westerners to visualize is a world in which Chinese and Indonesians earn decent wages" (p. 92). What seems hard for Krugman to visualize is how economic growth can go hand in hand with rapidly deteriorating distribution.

On the other hand, in his remarkable book *The Crisis of Global Capitalism: Open Society Endangered* (Public Affairs, 1998) George Soros goes a long way to sustain his major thesis that the market is not self-regulating, that "financial markets are inherently unstable", that "imposing market discipline means imposing instability" and that "if the global system is not torn apart by deflation or depression, it will be undone by political rebellion" (also see review by William Greider in *The Nation*, January 15 1999, pp. 25-27).

<sup>2</sup> The Gross Global Product as indicator is an obvious and welcome consequence of globalization: with the decreasing significance of the state as economic actor the GNP wanes in significance. But less disaggregation for states is no excuse for no disaggregation for class.

<sup>3</sup> Such as Standard & Poors also in New York, the Nikkei in Tokyo, the Hang Seng in Hong Kong, the Merval in Buenos Aires, etc.

<sup>4</sup> This particular concern goes beyond an affliction for young and not-so-young women to a civilizational problem: an obsession with the material/somatic as strong as the obsession with the transcendental/spiritual (am I saved, am I not) in other eras and parts of the world and the society.

<sup>5</sup> The poverty line is usually defined at an income below 50% of the average, with the obvious implication that to be poor in one country may be to be rich in another. Thus, to have another, more absolute concept, misery, is indispensable and the definition chosen here is in terms of basic needs satisfaction.

<sup>6</sup> Compassion.

<sup>7</sup> For a superb exploration of Market = God; economists = priests, see Harvey Cox, "The Market as God; Living in the New Dispensation", *Atlantic Monthly*, March 1999.

<sup>8</sup> The phenomenon of an increasing gap between rich and poor also applies to China where by now the richest 1.3% of the families control 31.5% of the assets and the poorest 44% of the families control 3%. See *Le Monde Diplomatique*, January 1999, pp. 16-17. A very bleak picture is given in the famous *China's Pitfall*, by He Qinglian (Hong Kong: Minjing Chubanshe, 1998), reviewed in *The New York Review of Books*, October 8 1998 by Liu Binyan and Perry Link as "A Great Leap Backward?" (pp. 19-23). Thus, "by 1994 the disparity between rich and poor was already greater in China than in the United States. In that year the richest 20 percent of the US population owned 44.3 percent of the country's wealth, whereas in China the richest fifth owned 50.2 percent of the wealth; the poorest fifth in the US owned 4.6 percent of the wealth, in China 4.3 percent).

<sup>9</sup> Capitalism is embodied in the market; the market is about buying and selling; buying and selling is about assets; the more assets the more impact on the market; the more skewed the distribution of the assets the more skewed the impact on the market; the more skewed the impact on the market the more justified the expression *Commando Capitalism*.

<sup>10</sup> Known as Giffin goods, or positional goods: the buyer demands not only a car for locomotion but the status as a Mercedes (BMW, Acura, Lexus) owner, which means that the seller can, indeed has to, overprice the commodity to ration the access and more so the more demand there is. In the current shift toward luxury goods this phenomenon will probably play even more of a role than before.

<sup>11</sup> Or the "Black Tulip". Lester Thurow ("Asia: The Collapse and the Cure", *The New York Review of Books*, February 5, 1998, pp. 22-26) uses the Tulip Mania in Holland in the 1600s to illustrate what happens in a crash (p. 22): "At the top of Tulip Mania one black tulip bulb bought one of the row houses along the canals in Amsterdam. That price was crazy, and everyone knew it, but prices were just as crazy when six tulips bought one house, and those who got out of the tulip market when it was 6 to missed a chance to multiply their wealth by a factor of six. Every investor (no one thinks of himself as a speculator) imagines that he will be able to see the end coming and get out in time - but few do". The end came.

<sup>12</sup> For a theory of what could be called "bridgehead imperialism", see Johan Galtung, "A Structural Theory of Imperialism", *Essays in Peace Research*, Vol. IV, Chapter 13, Copenhagen: Ejlers, 1974. The ease of communicative long distance control in real time makes the "center in the Periphery" dispensable, the local plantation overseers, the colonial rulers, the local bourgeoisie, the daughter company CEO. The "center in the Center" could base its rule on a very high level of fragmentation, very many small producers, and direct information control.

<sup>13</sup> To paraphrase the Bible: The State giveth, the State taketh, the name of the State be praised. But there has to be a balance between in and out.

<sup>14</sup> In an article summarizing the increase 1983-95 in the percentage of temporary workers (may work a full week but move from company to company) and part-time workers (less than 35 hours a week, but may be permanent employees) the conclusion is: "Temporary workers typically receive benefits and pay comparable to those of full-time workers, but they do not have the job security. Parti-time workers tend to be paid less and receive fewer benefits". The problem is that the term "job" covers all categories, giving a false picture of the situation.

<sup>15</sup> Susan George, in "Pour la reforme du systeme financier international: A la racine du mal", *Le Monde Diplomatique*, January 1999, quotes Institute for Business Research and Tax Watch for an estimate of \$12-50 billion the loss of revenue because TNCs declare income in other countries. In *Die Woche*, 2 October 1998, p. 17 we read the following: "So ist im Laufe



der vergangenen Jahre das Steueraufkommen der deutschen Grossindustrie auf den niedrigsten Stand der Nachkriegszeit gesunken".

<sup>16</sup> For a view of globalization as [1] very old and [2] not brought about by the West after the "discoveries", see Andre Gunder Frank, *ReORIENT*, Berkely/Los Angeles/London: University of California Press, 1998.

<sup>17</sup> This ratio is usually given the other way round, as the price/earning ratio but makes better sense as earning/price ratio.

<sup>18</sup> The equivalents would be anything monetized, reducing "what is" to capital in one form or the other. Physics, the model for economics as a science, has at least four: space, time, mass and an electric dimension. And yet, what happened to "this stone is so nice to look at, and, when held, gives a good feeling the hand"? Answer: to some extent recovered by the arts. Is that a good answer, or would it have been better to enrich physics? What is the corresponding answer to economic reductionism?

<sup>19</sup> Known to medical science as "side-effects" and it has taken centuries to have them recognized as part of the discourse. They are still with a few exceptions suppressed in economics.

<sup>20</sup> Nothing of any significance would happen to or in the Bretton-Woods institutions against the will of the US Congress; hence an obvious wish to have these institutions cover much of the activity of the United Nations Specialized Agencies as a whole.

<sup>21</sup> In South Korea these initials are interpreted as "I'M Fired".

<sup>22</sup> This, is of course not so obvious if we adopt a dialectic, probably more correct view of history: the reinvention and a new beginning for the State will come, if for no other reason because of its distributive roles.

<sup>23</sup> These are, with some variations, the conditions or "conditionalities" for credit.

<sup>24</sup> Gosplan = State Planning (Agency), responsible for the conception and execution of the Five Years plan (Petiletka) adopted by many countries all over the world, to the point of becoming one of the few contributions of the Soviet Union to world culture.

<sup>25</sup> Human Development Report, New York: Oxford University Press, 1998; for the United Nations Development Programme. Even a world class paper like the International Herald Tribune sacrificed only a paltry 40 column-lines on this major mirror of world reality.

<sup>26</sup> If we reduce the basic material needs to five, food-clothes-housing-health and education, then one might argue that the first three find their expression in number 4, health, and measure the health status as infant survival (100% - infant mortality) and the life expectancy. To this should then be added an indicator of education, for instance literacy, as a measure of access to symbolic interaction. Add it up and we get the kind of reasoning underlying the Human Development Indicator, HDI.

<sup>27</sup> And from this on, of course, massive starvation, massive migration and massive violence will dominate the picture.

<sup>28</sup> Well, that depends on the imagination. An expensive bedroom with many-dimensional air-conditioning and sound, light and fragrance conditioning would only be the beginning; imitating a morning in nature any place in the world, on command. The waterbed, suitable night clothing and cosmetics, and medication to regulate the sleep would follow. Then, for subliminal learning, a language course under the pillow, plugged into the brain, would follow. After some work, a sleep at \$1,000/night should be marketable.

<sup>29</sup> Many branches are mentioned in various articles as suffering from overproduction as result of overinvestment: cars, consumer durables, beer, cement ("Assessing the Downside of Foreign Direct Investment" by Philip Bowring, IHT, 30-31 January 1999); cars, datachips, steel, chemicals, computers, frigidaires, clothes, videos, washing machines ("Hva med overkapasitet?" by Diedrik Kemkers). Then, there is the case of the 80 million cars chasing 50

million buyers, see R. J. Barnett and John Cavanagh, "A Globalizing Economy: Some Implications and Consequences", in Mazlish, B. and Bultjens, R., eds, *Conceptualizing Global History* (Boulder: Westview Press, 1993).

As a special case take the economy of a rich country, Norway, now also in economic difficulties. Peder Martin Lysestol sees four major factors: [1] increasing dependency of the whole economy on oil, [2] increasing oil production in spite of overproduction on the world market, [3] investment of oil revenues in the finance economies of 31 different countries with a drop in interest from 12.3% to 2.1% from the first to the second quarter of 1998 alone; [4] an increasing focus on Southeast Asia and Eastern Europe as markets for Norwegian export in general. Evidently Norwegian decision-makers are not well informed about the world economy.

That one implication is deflation is picked up by relatively few, an exception being Gary Shilling, "the deflation guru of Wall Street" (see IHT, 30-31 January 1999). He mentions retail prices in China, Sweden, Switzerland and Japan; USA should have been added, but "the Consumer Price Index is inflated by at least one percentage point." If the deflation could "catch down" with the decrease in purchasing power lower down in society then fine for the consumer, but companies would go bust.

<sup>30</sup> Robert J. Samuelson, in "Look Out, the Great American Boom Cannot Last", IHT, December 30 1998, quotes Standard & Poor's Index of 500 stocks that went up 27% in 1998 (as of Christmas Eve), following 34% in 1995, 20% in 1996 and 31% in 1997. The second thing that cannot last, according to him is "the national shopping spree": "In 1998 - consumers spent nearly 100 percent of their current incomes". And he mentions amazon.com as an example of a highly valued stock in spite of the fact that "for the first nine months of 1998 it lost \$78 million (\$1.60 a share) on sales of \$357 million".

<sup>31</sup> As Surendra J. Patel expresses it in his "Financial Turbulence in Southeast Asia: Seeking Solutions", *World Affairs*, Jul-Sep 1998, pp. 65-78: "It is revealing that the total "rescue" package offered by the IMF under its stiff conditionalities comes to about the same sum which the foreign investors insisted on being paid by mid-1998. Obviously, the IMF package was intended to rescue foreign investors, and not the East Asian countries. Here is a re-enactment of what happened in Mexico" (p. 73). Or Brazil for that matter: "The chief beneficiaries of these procedures will be U.S. bankers, who hold much of Brazil's estimated \$140 billion of short-term debt. For their part, the U.S. banks have been unwilling to provide Brazil some breathing room by converting their short-term loans to long-term ones - perhaps because they are betting the IMF-U.S. plan will step in and absorb the risk" (*In These Times*, November 29, 1998).

<sup>32</sup> For an elaboration, see Johan Galtung, *Peace By Peaceful Means*, London/Thousand Oaks/New Delhi: SAGE, 1996, Part IV, "Civilization Theory".

<sup>33</sup> Jim Duffy, "A Fundamentally Flawed Economic Script" summarizes the economic script in three similar axioms (jcmd@hotmail.com): [1] Human needs are nonexistent. [2] Human wants are infinite and insatiable. [3] The essence of human motivation is self-interest.

<sup>34</sup> One of the very few saying the obvious is Dieter Brauer, the editor of *Development & Cooperation* (No. 5/1998, p. 3): "It is the poor who are footing the bill. In Indonesia, the current daily minimum wage is 4,400 rupiah or about 30 US cents. Reports say that even this low wage is not always paid by employees. The poor who had no hand in the making of the crisis should not be the only ones to suffer". Pious wish! Chances are they will be met by water-cannons, tear gas and bullets, not a decent economic system. Manuel Castells (*UNRISD News*, No. 19, Autumn/Winter 1998), in "Informational Capitalism and Social Exclusion", quotes the expanding 20/20 ratio and the fact that "extreme poverty, or misery - usually defined as the proportion of people who are below 50 percent of the poverty line - is

the lot of the fastest growing segment of the poor population in almost every country. And as a significant number of people are being excluded from access to regular jobs, they are moving into the shop floor of crime. It is urgently necessary to reverse the downward spiral of exclusion and to use information and communication technologies to empower humankind". Agreed. The system, however, will use exactly those technologies to control humankind.

As a third example take John Naisbitt's *Megatrends* (Warner Books 1984), the chapter "From a National Economy to a World Economy", pp. 53-79. Not one single word about the impending crisis, already highly visible at the time of publication (the USA crisis, the Mexican crisis in 1982, for instance). The conclusion is in terms of increasing global interdependence with no single word lost on the plight of the poor but with a warning: To understand the U.S. economy today we have to look at the economic health of each of the states and each of the business sectors" (p. 73). True, macro-economics has its limitations. But where are people? Had he given some attention to that he would never conclude with the naive "World Peace Through World Trade: Instead of resisting economic interdependence, we should be embracing it wholeheartedly. In my view it is our great hope for peace". Unfortunately, people not only states also enter in the equation. The current system is a massive war on common people.

<sup>35</sup> See Johan Galtung, "On the Social Costs of Modernization. Social Disintegration, Atomie/Anomie and Social Development", *Development and Change*, April 1996, Vol. 27, No. 2, pp. 397-413.

<sup>36</sup> The Japanese politician Shintaro Ishihara, in his book *The Economic War Declaration*, sees the "Asian Crisis" more as a very deliberate strategy by the USA to destroy sufficient economic capacity in Asia, including Japan, for the USA to take over collapsed companies. The now classical case would be the take-over of the brokerage firm Yamaichi by Merrill Lynch, partly brought about when the rating agencies Standard&Poor and Moody lowered the rating for Yamaichi. My point is, however, that such things will happen even when not intended, and will also hit the USA, as it did in the 1970s and 1980s when Chrysler needed a major government bailout, New York went bankrupt, the Savings and Loans system collapsed and had to be bailed out by the tax-payers, property prices were falling all over and on top of that there was a stock market crash 15 October 1987.

Is this a case of Japan unable to renew itself, easily taken over by innovative Americans and Bedouins? Or, is the problem that the Americans deep down know the shortcoming of their own economy and substitute aggression for innovation? After all, there is a handwriting on the wall, uncomfortably similar:

Contemplate the following headlines (from the archives of the Japan Times (& Mail, October 27 1929; deadline Washington, October 24 1929): "Hoover Assures American Trade is on a Sound Basis" - "Bottom is knocked off the New York Stock Exchange" - "All Prices Drop" - "President Declares Reports Show Employment Situation is Good". Thus, whenever there is a drop on the stock market the US media come out with similar statements, and with interviews with people in the street, ten out of ten declaring that they have faith in the economy. The doctrine of the self-fulfilling prophecy (Thomas-Znaniiecki) has some, but not unlimited validity. Of course, nobody will sustain the thesis that there will be an exact replay of October 1929. Thus, my thesis is that the crisis is already there and that much selective blindness is needed not to see it.

<sup>37</sup> The price paid for seeing the world in terms of only two possibilities, "either communism or capitalism" and "communism does not work", was very high indeed: Michel Chossudovsky, "Global Poverty in the Late 20<sup>th</sup> Century", (chossudovsky@sprint.ca) offers the following comparison between Nazi-Germany's attack on the Soviet Union during the Second world war and the workings of capitalism: "following the German occupation of

Byelorussia and parts of the Ukraine in 1941, and the extensive bombing of Soviet industrial infrastructure the Soviet GDP had by 1942 declined by 22 percent in relation to pre-war levels. In contrast, industrial output in the former Soviet Union plummeted by 48.8 percent and GDP by 44.0 percent between 1989 and 1995 according to official data, and output continues to fall". Of course, the mechanical impact of sustained bombing hits the material aspects of the economy; jungle capitalism hits its inner workings.

A morbid consequence of the economic catastrophe in Ukraine, as in ex-Soviet Union in general: "elderly people in eastern Ukraine who have not received pension payments for five months have been offered free coffins as an alternative" (Transition, August 1998).

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