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The new political geography of poverty

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THE NEW POLITICAL GEOGRAPHY OF POVERTY

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September 12, 2002

Abstract

This paper follows the 9/11 paper presented at METU in the previous year. It attempts to analyse the fundamental features of the world economy giving rise to the present military phase. It argues that globalisation is a self-limiting process.

Fundamental long-term developments, arising out of the present organisation of the world economy, are acting systematically to undermine it. This results in a crisis I call *structural*. By this I mean that it is neither transitory nor accidental. It is a permanent, ineradicable and ultimately dominant determinant of the way the world is now evolving.

This structural crisis, the paper argues, arises from an unsustainable economic relation between the US economy and the world economy. This expresses itself in a new form, evident in the events that have unfolded since 11th September 2001.

The market is literally tearing the world apart; it is beginning to render large tracts of it ungovernable. As its economic mechanisms become increasingly incapable of resolving the social contradictions that they create, the nations and societies through which it is mediated are being plunged into increasingly in openly political conflict. The endemic crises, armed conflicts and governmental instability of the Middle East, of Central Asia, of the Balkans, of Central and Northern Africa, of Central and Southern America, and of South-East Asia, each has its specificity. But the basic driving force behind all of them is same: the crushing weight of two decades of accelerating economic stagnation, accompanied by universally growing inequality.

The governments of the advanced nations, who have provoked and lived off this phase of world development, now face problems no longer solvable by purely economic means. Confronted with countries and regions in which economic conditions lay no sound basis for stable government external intervention, willing or not, becomes the only remaining option.

Whereas the conflicts of the eighties and nineties centred on the financial and commercial organisations such as the WTO, the IMF and the World Bank, and although these organisations continue to serve as an arena in which increasingly acrimonious and conflictual relations between nations and regions are fought out, open geopolitical intervention – war, the violent overturn of governments, the break-up of nations, annexation, and colonisation, and open trade conflict – is now at the top of the agenda. The state, in a word, is back.

This is the fundamental reason behind an epochal shift in US policy towards direct military and political intervention in the internal affairs of states. Accompanying this is a growing political tension between the advanced countries and a growing inability of the US to impose a political consensus, most clearly demonstrated by the enormous problems it has had in building a coalition for its war on Iraq. This signals a phase of more or less open geopolitical struggle between advanced countries for territorial dominance, driven by the need to dominate and subordinate the labour of the rest of the world to their own capitals.

This paper was presented at the 6th Annual Conference of the Middle East Technical University (erc/METU), Ankara, September 11-14, 2002. Panel Session 'Deglobalisation: The Failure of the 'New Paradigm'

Keywords: 9/11, World Economy, Kondratieff, Development, Europe, US, value, price, TSSI, temporalism, profit rate, polarisation, inequality, globalisation, deregulation, imperialism, World Systems Theory, unequal exchange, dependency, North-South

THE NEW POLITICAL GEOGRAPHY OF POVERTY

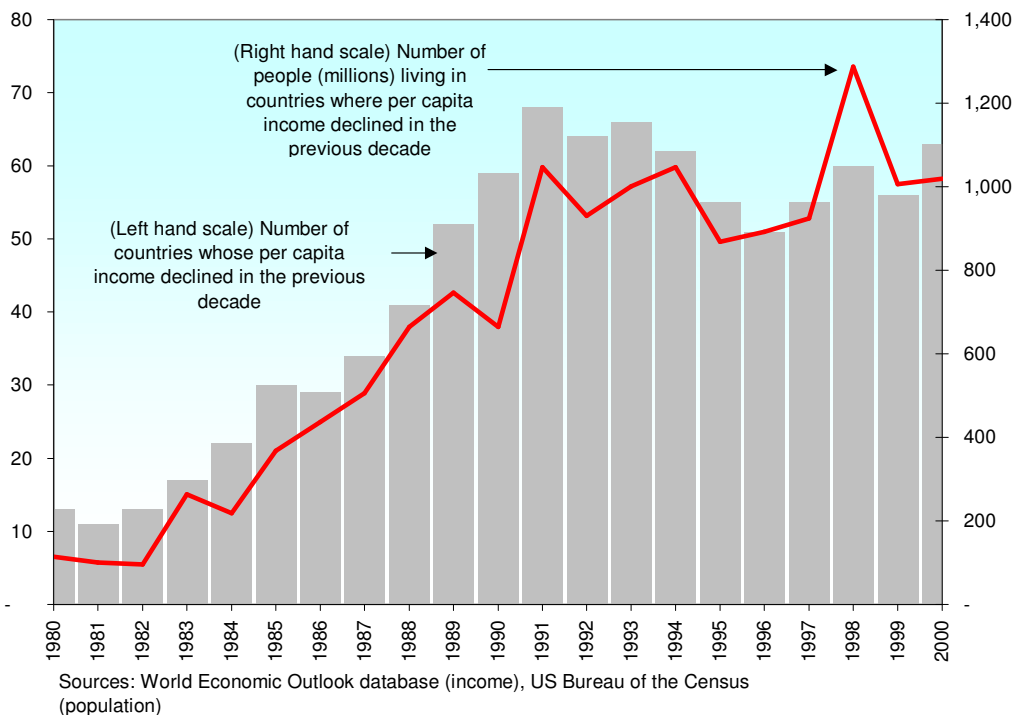
Alan Freeman Sunday, September 01, 2002

For METU conference, Sept 11-14th, Ankara

Draft: All figures in this paper are provisional and should not be cited without consulting the author

Absolute impoverishment

Chart 1: People whose income has declined in the past decade



In 1991, the GDP of the world in dollars was \$4,997. In 2000, it was \$4,909.

In 1980 118 million people lived in nine countries where GDP per head was declining.¹ In 1998, there were 60 such countries and 1.3 billion such people.

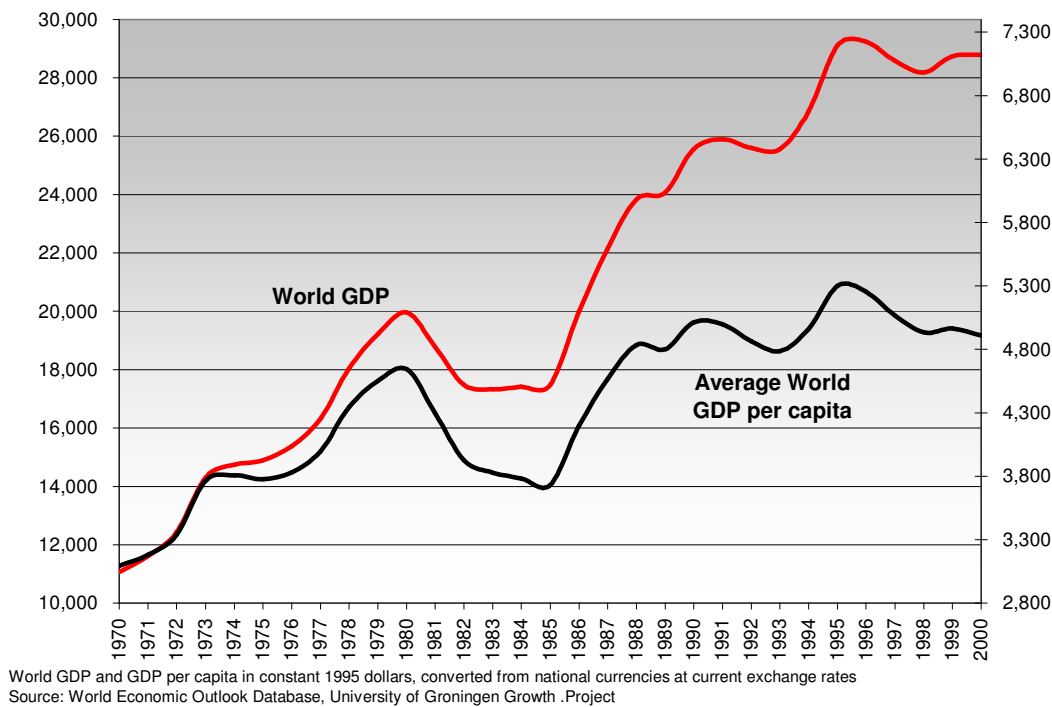
This is an altogether new social and political development. It reverses a twenty-five-year postwar trend in which, though the relative gap between the world's rich and poor grew as has more or less since the industrial revolution, nevertheless nearly everyone was in some sense getting better off. The material well-being of the whole of humanity was advancing – unequally, not as well as could have been done by other means, assisted by the moderating impact of countries outside the world market, and under circumstances which minimised the latter's extent and influence. Nevertheless, a case could be made that, in some general sense, nearly everyone was drawing some benefit from the world market, such as it was in those days.

This fact of the past world is unquestioningly accepted; it underpins the most basic intellectual heritage of the epoch. The Western enlightenment ideal of progress itself, supposes that underneath spiritual or moral development there lies at least some substratum, however deeply buried, of rising material welfare. The very idea of 'development' that presupposes

¹ Measured in constant 1995 dollars at current (period average) market exchange rates. All information in this chapter, unless otherwise notified, is extracted from GDP data published by the IMF in its World Economic Outlook database, data before 1992 on the countries in transition from the Groningen Growth and Development Centre, and population data from the US Bureau of the Census.

there is something to develop into.

Chart 2: World GDP



This has now stopped. Measured in the world market’s currency, the wealth-producing capacity of the world is no longer keeping up with its population growth, and the wealth-producing capacity of nearly a quarter of its people is literally marching backwards.

Stagnation and divergence: shaping a new political geography

The world geographical and political order arising on the basis of this new economic reality dates from the wave of market liberalisation that opened in the early 1980s. It is the outcome of two trends that have each existed in varying degrees in the past, but have now both accelerated and combined.

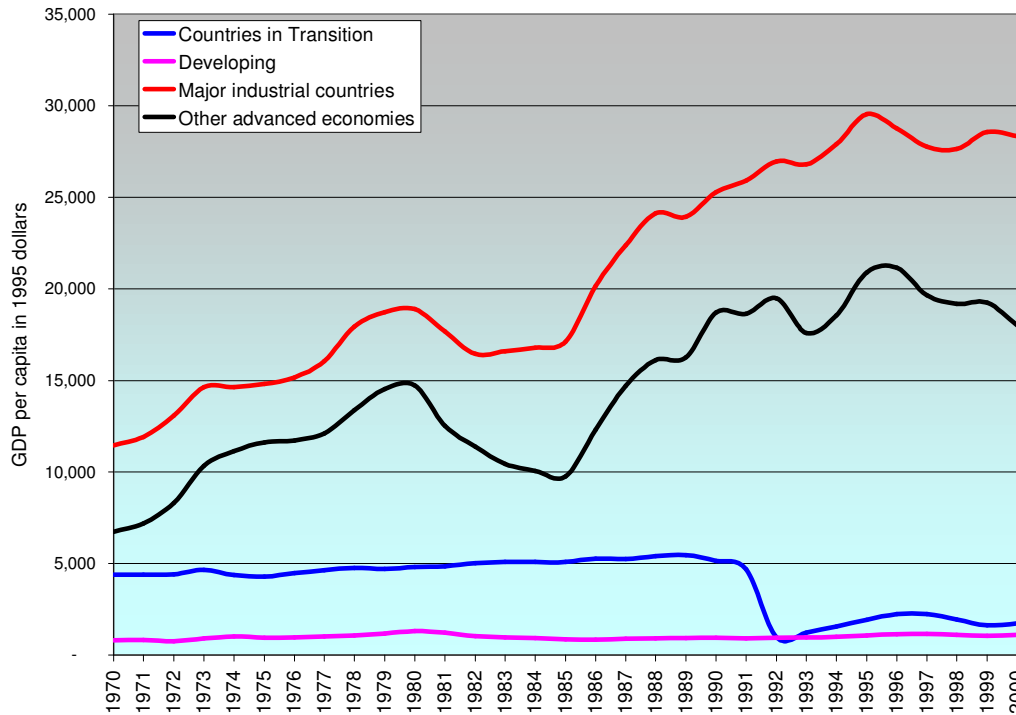
Firstly, the absolute growth rate of the world economy has been falling systematically as chart 2 has already shown. Table 1 summarises the outcome.

Table 1: world GDP per capita in constant 1995 dollars

	World GDP	World GDP per capita
70-80	5.51%	3.76%
80-90	2.27%	0.69%
90-00	1.09%	-0.19%

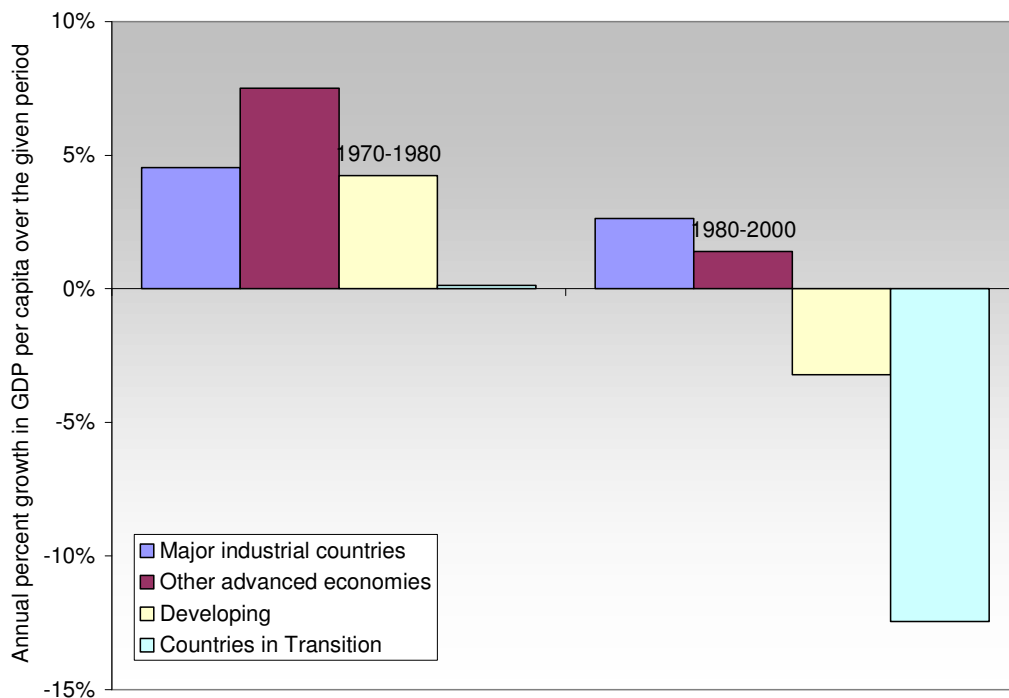
Secondly, the world is diverging. From 1984 the industrialised and ‘other advanced’ countries, comprising both newly-industrialising countries like South Korea and Taiwan, and minor European countries like Norway and Spain, pulled away from the rest of the world – comprising, it is worth reminding ourselves, 5 billion people. In the 90s per capita GDP in the countries in transition fell between 50% and 75% depending on the measure adopted, catapulting them into the ranks of the developing countries. And in a further development, during the nineties the Major Industrial Countries (the G7) pulled away from the other advanced economies.

Chart 3: Divergence, big time: GDP per capita since 1970



As chart 3 shows, this differential growth did not speed up the growth of the advanced countries relative to the rest of the world. It slowed down the growth of the rest of the world, relative to the advanced countries.

Chart 3: stagnation plus divergence



In a nutshell, the rich countries no longer grow from the lion’s share of the wealth they allowed the world to create; they grow from the vulture’s share of the wealth they take from it.

These underlying economic trends are *unsustainable*. The rate of growth of the world economy is steadily decreasing, and the wealth it produces is ever more unequally distributed. The rich countries – notably but not exclusively the USA – have ceased to serve as a motor of world

growth. To the extent that they still grow, they do so at the expense of the rest of the world, and in competition with each other. The disputes between the rich countries are therefore, *de facto*, no longer disputes over how the world is run, but over who runs it.

1 Institutionalised war

Fundamental long-term developments, arising out of the present organisation of the world economy, are thus acting systematically to undermine it. This results in a crisis I call *structural*. By this I mean that it is neither transitory nor accidental. It is a permanent, ineradicable and ultimately dominant determinant of the way the world is now evolving.

In the rest of this chapter I assess the nature, extent, and dynamic of this structural crisis which, I will argue, arise from an unsustainable economic relation between the US economy and the world economy. This expresses itself in a new form, dramatically evident in the events that have unfolded since 11th September 2001.

The market is literally tearing the world apart; it is beginning to render large tracts of it ungovernable. As its economic mechanisms become increasingly incapable of resolving the social contradictions that they create, the nations and societies through which it is mediated are being plunged into increasingly in openly political conflict. The endemic crises, armed conflicts and governmental instability of the Middle East, of Central Asia, of the Balkans, of Central and Northern Africa, of Central and Southern America, and of South-East Asia, each has its specificity. But the basic driving force behind all of them is same: the crushing weight of two decades of accelerating economic stagnation, accompanied by universally growing inequality.

The governments of the advanced nations, who have provoked and lived off this phase of world development, now face problems no longer solvable by purely economic means. Confronted with countries and regions in which economic conditions lay no sound basis for stable government external intervention, willing or not, becomes the only remaining option.

Whereas the conflicts of the eighties and nineties centred on the financial and commercial organisations such as the WTO, the IMF and the World Bank, and although these organisations continue to serve as an arena in which increasingly acrimonious and conflictual relations between nations and regions are fought out, open geopolitical intervention – war, the violent overturn of governments, the break-up of nations, annexation, and colonisation, and open trade conflict – is now at the top of the agenda. The state, in a word, is back.

This is the fundamental reason behind an epochal shift in US policy towards direct military and political intervention in the internal affairs of states. Accompanying this is a growing political tension between the advanced countries and a growing inability of the US to impose a political consensus, most clearly demonstrated by the enormous problems it has had in building a coalition for its war on Iraq. This signals a phase of more or less open geopolitical struggle between advanced countries for territorial dominance, driven by the need to dominate and subordinate the labour of the rest of the world to their own capitals.

Is there a precedent?

The process bears all the hallmarks of a new stage of world history, which obviously has its own unique and distinctive features. Nevertheless, whilst unprecedented in this century, it has happened before. Economic history has seen long periods of decline before, and at least one of them was also accompanied by a prolonged process of divergence. The 'Great Depression' which opened in the 1870s, and which went on for thirty years, was followed by a period in which the bulk of the globe was re-organised by the great powers driven by a prolonged inability to reconstruct profit and growth rates within the world market as it then existed.

They reacted at that time by extending a still underdeveloped world market in capital into the whole of the world, under their dominion, and in the process opened a phase of military conflict both between themselves and the countries which fell under their sway, and between each other – over whose sway these countries would fall. Today's advanced powers are bent not so much on a first time opening as a *re-opening* of such a world market, breaking up the old USSR, placing China in their sights, and reshaping the map of the world to facilitate the free

movement of capital.

Nevertheless, as commentators such as Hurst and Cutler (2000) have noted, the world market now probably bears more resemblance to that of the 1890s than to that of any previous period in the last century.

It is this period, I will argue, that provides the best and richest historical analogies, all proportions guarded, for understanding the present. I believe, therefore, we are more likely to understand what is happening in the world of today by realising that it is a renewed and reconstituted form of classical imperialism, than by treating it as the outcome of an ahistorical, unlimited, and universal process of globalisation.

Is there an end in sight?

Endless decline is not inevitable. The long depression of the 1870s gave way to a period of unstable rapid growth – the ‘Belle Époque’ or Third Kondratieff, which combined three main characteristics: heady but unstable growth for a small group of advanced countries, precipitate impoverishment and barbarisation of the rest of the world, and headlong descent into war.

As I will discuss later in this chapter, there is strong evidence that the conscious goal of US policy-makers has for some time been to launch a new such phase by overhauling its productive apparatus on the basis of ‘New Technology’. There has been a prolonged investment boom in the US and a prolonged bull market in the US and other advanced-country stock markets and, were this to bring about a fundamental transformation in the productivity of the US economy, it would reduce or eliminate the US deficit and stabilise its relation to the world.

Whether a new phase of world expansion will result from the past period of world contraction is an open question. At present, we simply do not know: we are in uncharted waters. It would be foolish to assume that every contraction must be followed by an expansion as it would be to assume that every contraction goes on for ever.

There is certainly no evidence whatsoever of any expansive wave going on now, and it has to be said that the present phase of contraction is probably now the longest in history. Moreover there are profound structural obstacles to reconstituting US productivity. It requires intensive investment in the US way beyond what it has so far achieved, at the precise point when US resources are being ever more mobilised to be sent overseas. This is just another intractable element in the instability of present world economic relations.

The point however is this: the last such expansive wave – in 1890-1914 – was very different from the expansion of 1947-65. Not all Kondratieffs are alike. At the last stage in history in which there was anything like an analogous phase of stagnation and divergence it gave way to a period of territorial conquest and great-nation position-building dominated by more or less open military conflict.

A renewed expansion of the advanced powers, *whether or not it happens*, is therefore an insufficient condition for an end to the unsustainable impoverishment of the great bulk of the world. *Whether or not* the current Great Depression comes to an end, the world is already in a new period in which the fate facing most of it is continued impoverishment, accompanied now by increasingly open recourse to political and military intervention – a period which I designate ‘classical imperialism’.

2 The poverty of globalisation

The basic new facts of the world economic and political order therefore have profound theoretical consequences. Whether or not the historical period, as I will suggest, is a new period of classical imperialism, the facts of stagnation and divergence analysed above are with us already.

Faced with facts on this scale, anyone who wants to change them has to understand them. The most basic problem of all is that the theories now current among both supporters and opponents of the new world order, simply do not explain them. To put this right, a profound theoretical re-assessment is required.

The most important consequence is for what I will term the 'globalisation hypothesis'. In its strong form, which mixes normative and positive judgements but nevertheless constitutes an analytical and theoretical judgement, I will define this as the view that

- (1) the most useful way to understand the transformation of the world economy, and world politics, of the last twenty years is 'globalisation', a set of analytical constructs and causal theories which allow us to understand the movement of the world economy as a process of integration in which phenomena in the world market, and the world organisation of production, are steadily coming to determine the course of world events and dominate over the actions of national political institutions.
- (2) globalisation is neither recent nor transitory. It expresses fundamental long-term trends in the world which, although they may suffer temporary setbacks, cannot be reversed or halted.
- (3) Globalisation although it brings difficulties which must be attended to is a good and progressive thing; if well-managed, it will advance the well-being and prosperity of humanity as a whole.

However although this strong view is that of the globalisers, the idea that globalisation helps explain what is happening in the world is not confined to their ranks and is almost universal. If the opponents of globalisation did not accept, in essence, the theory of globalisation, then they would not call it by that name, and they would not oppose it as such.

Theses (1) and (2) above are, in fact, the common coin of almost all discussion on the present state of the world. However, they are incompatible with the facts.

If the facts discussed above are not a consequence of globalisation but of something else, then globalisation theory fails to account for two of the most important things going on in the world and should be abandoned. There are clearly things going on about which the theory says nothing and which are in the process of wiping out much of what it predicts. It cannot be true, therefore, that the processes discussed by globalisation theory dominate world development.

If on the other hand these trends are a consequence of globalisation, then since they act to dissolve and destroy it, globalisation cannot be a long-term process and cannot continue indefinitely. It must be a definite phase of history with definite limits, generated from within itself; these limits must inevitably at some point – and the evidence is that this point has arrived – give way to a new period of history with characteristics altogether different from those so far discussed by pro-globalisers and anti-globalisers alike.

A crisis for the market, or a crisis of the market?

The long-term slowdown in world production and the acceleration of world differentiation are both results of the *operation of the market economy*; in particular of market liberalisation and the extension of the world market. They are not natural or resource-imposed.

This is not to say that present economic relations will not in future run up against absolute limits of world resources, or even that there are not serious problems with particular resources such as non-renewable fuels. The point is that these future dangers are not the cause of the present crisis. The *current* cause of world poverty and its accelerated growth is not our relation to nature but our relation to each other. Despite the slowdown in growth, as chart 2 above shows, income per world citizen at nearly \$5,000 per year is, all proportions guarded, sixty percent higher than it was thirty years ago. Indeed, this level of world income is one of the fundamental achievements of the postwar Soviet era; at the end of the war, it did not exist.

The evidence for an absolute Malthusian resource shortage is weak. Were the world's wealth distributed equally, it would at this time feed, clothe, house, and educate everyone in the world, keep them free from disease and provide them with a dignified retirement. The problem is, for now, not the creation of wealth but what is done with it.

It is, I will try to establish, equally unsound to attribute the new phase of the world's economy to exogenous, historical, institutional or malign non-market factors – antiquated culture, incompatible civilisations, bad monetary management, terrorism, communism, oil sheikhs or anticapitalist aliens. The renewed acceleration of divergence *began* precisely at the moment

when the world market was liberalised.

Stagnation, it is true, was already setting in in the sense of slowing growth and reduced profitability. But it did not translate itself into an absolute reduction in wealth-creating capacity until the current decade. Moreover the specific combination of stagnation with divergence has not been seen for such a prolonged period in this century.

Most significant of all, every time the market got more liberal, stagnation and divergence both got worse. They happened when the market was liberalised, and grew in direct proportion to its extent. It requires a great deal of explaining to justify the idea that they are caused, therefore, by something other than the market. The first great wave of impoverishment, in the 1980s, dates from the epoch of trade liberalisation, the transformation of GATT into the WTO and the introduction of multilateral free trade, the onset of large-scale deregulation and privatisation launched by Reagan and Thatcher, and the creation, as a result of the way that the IMF and World Bank managed the debt crisis, of a fully open world market in capital. The second great wave in the 1990s opened when the Eastern European economies were plunged into this newly liberalised world market.

Do institutions matter? The need for theoretical renewal

When the hidden hand shakes, a more visible one takes its place, generally shaking a big stick. Thus institutions, politics and culture are far from insignificant in history. To the contrary, it is precisely because the market is failing to organise the human race in a stable or sustainable manner that such factors are returning to stage centre – contrary to the globalisation hypothesis.

Nevertheless, the timing and extent of the new trends in the world's economy simply do not support the idea that external or non-economic factors are its prime cause. Their coincidence in both time and extent with market liberalisation are so precise that, if one seeks to explain them by any other means, one must in effect abandon the theoretical view that the market functions with any autonomy from institutional and political agency at all.

It is indeed true that the world market does not in fact function as claimed by its ardent supporters. Stiglitz has pointed out on the basis of intimate and direct knowledge, the rules of the free market are rigged. (ref) The advanced countries have ensured through their manipulative use of anti-dumping procedures, through bypassing GATT rules in Free Trade Areas which they control, and through protectionism pure and simple, that the GATT and WTO rules de facto function as a free market for advanced country products, not for the products of the poor countries (see for example Freeman 2000). And as for the market in capital, as Peter Gowan (0000) documents very effectively, the USA has been able to use its status as the world's dominant financial power, as the manager of the world currency, and through its direct and indirect control over the IMF and World Bank, to arrange the functioning of the world financial system entirely to suit its own domestic economic needs. Indeed, an attempt to suggest what the mechanisms and processes involved are the purpose of this paper.

But this does not come to the help of globalisation theory or, for that matter, neoliberal theory. If the real mechanisms of the last two decades are not the automatic processes of the market, but the more or less direct result of state intervention, then it makes no sense to argue that the role of the state has diminished, and that non-national or other autonomous forces are determining the real course of history, or indeed that the market is a particularly useful institution. All that has really happened is that one particular state has got very powerful and the others have got very weak; in short the problem facing the world is the rather old and rather traditional one of the political relation between states and peoples.

Either way, globalisation theory, essentially, is *analytically* inadequate. It provides neither a satisfactory explanation of events, nor a conceptual framework with which to construct a better one.

The underlying facts are so crucial to the argument, they must first therefore be assessed with more care and in greater detail. With this done, the next step is to examine the underlying causes. Finally, I will try to survey some of the possible explanations, past and present, which may help present an analytical framework adequate to group these causes into an adequate

theoretical explanation.

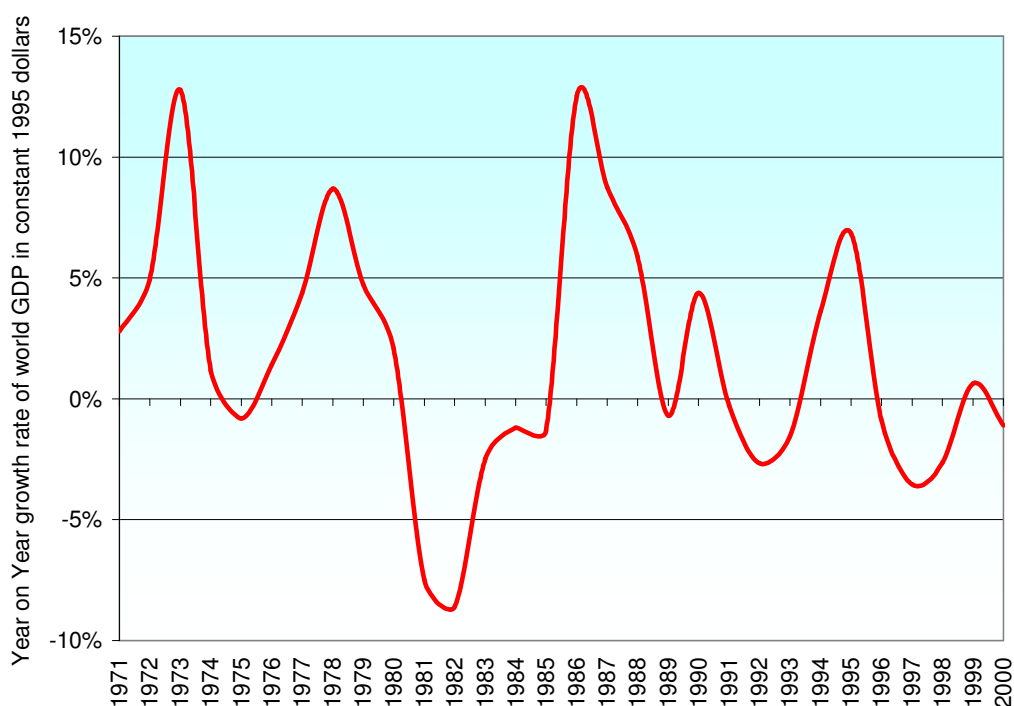
3 The globalisation of poverty

World stagnation

Chart 4 shows how annual growth rates have moved since market liberalisation began. The downward general trend is absolutely clear. Although increasingly wild cyclic swings can give rise to the appearance of strong growth depending on the period of time that is considered, the graph shows strong phenomena that are independent of cyclic variations.

Successive peaks since 1987 are all below the average growth rate of the seventies, and the peak of 1987 is itself accentuated because it is a rebound from the exceptional trough that lasted from 1979 until 1985. Moreover as Chart 5 shows, the number of years during the preceding decade in which growth was negative has risen systematically, and the point has been reached where world growth is now negative more than half the time; since 1989 it has been negative for at least five of any given ten years except the decade ending in 1995.

Chart 4: annual growth rate of world GDP in constant 1995 dollars



Judgements on growth depend on the measure adopted. World GDP, measured in dollars, rises and falls with exchange rates. In choosing the dollar as unit of measurement, are I not merely reporting its fortunes on the FOREX markets, rather than any real indicator of growth?

The interpretation of dollar data is therefore contested. The more uncomfortable the conclusions which arise from simple dollar calculations, the more attention the world financial authorities give to alternative measures such as Purchasing Power Parity (PPP) dollars, which are adjusted to reflect the local cost of living and, since costs are generally lower in poorer countries, provide higher estimates of the income of poor people.

Actually, the very fact that dollar GDP is diverging from PPP GDP signifies that something new is going on. Thirty years ago world was rising unambiguously, and now it is not; the most definite statement that can be made, by anyone who wishes to argue that world output is still rising, is that this view is supported only if one measures output in one particular way.

But as is the case with any fundamental fact, there are underlying trends so stark that they impose themselves on any measure. Even in PPPs, UNCTAD in 2002 reported that in the 39 Least-Developed Countries (LDCs) at the end of the sixties 211 million people were living on an

income of less than \$2 per day in PPPs. By the end of the nineties there were 448 million, an increase of over 100 per cent.

It is however hard to sustain the argument that dollar GDP understates long-term growth. Over the last two decades the dollar has systematically appreciated against against the main world currencies in both nominal and real terms. For this reason if, for example, growth is measured in an alternative such as the Yen, the result is an even more decisive decline in world GDP, as table 2 demonstrates.

Chart 5: years of negative growth in past decade

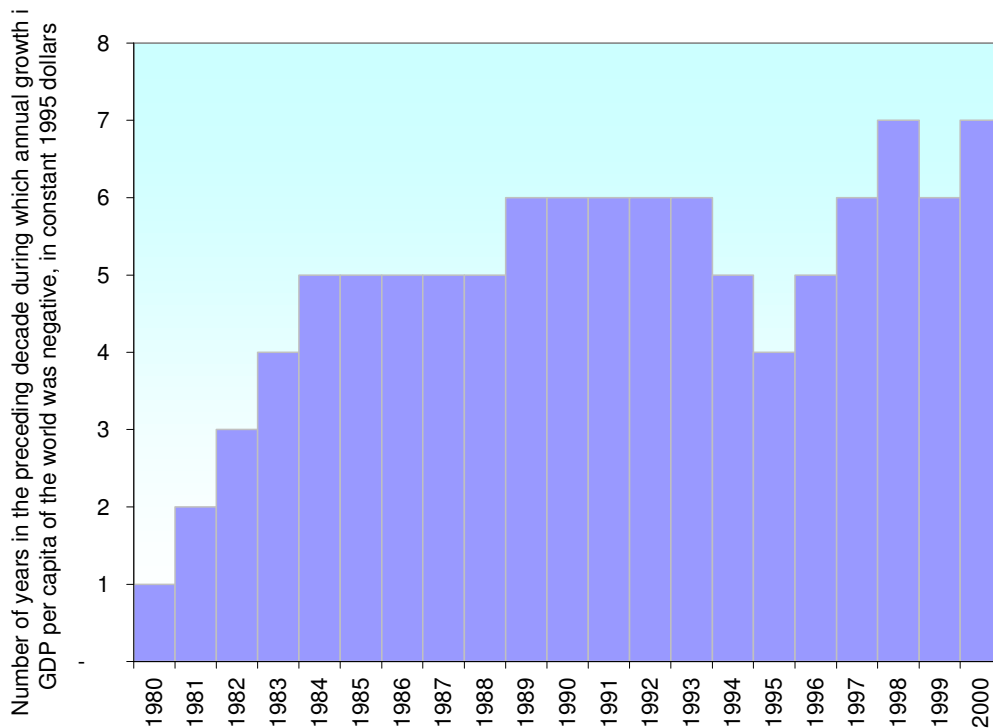


Table 2: Annual growth of world GDP per capita in Yen

	<i>GDP</i>	<i>GDP per capita</i>
70-80	47.11%	44.60%
80-90	31.54%	29.34%
90-00	-6.45%	-7.63%

To say the least, if IMF and World Bank reports were drawn up in Yen there would be some explaining to do.

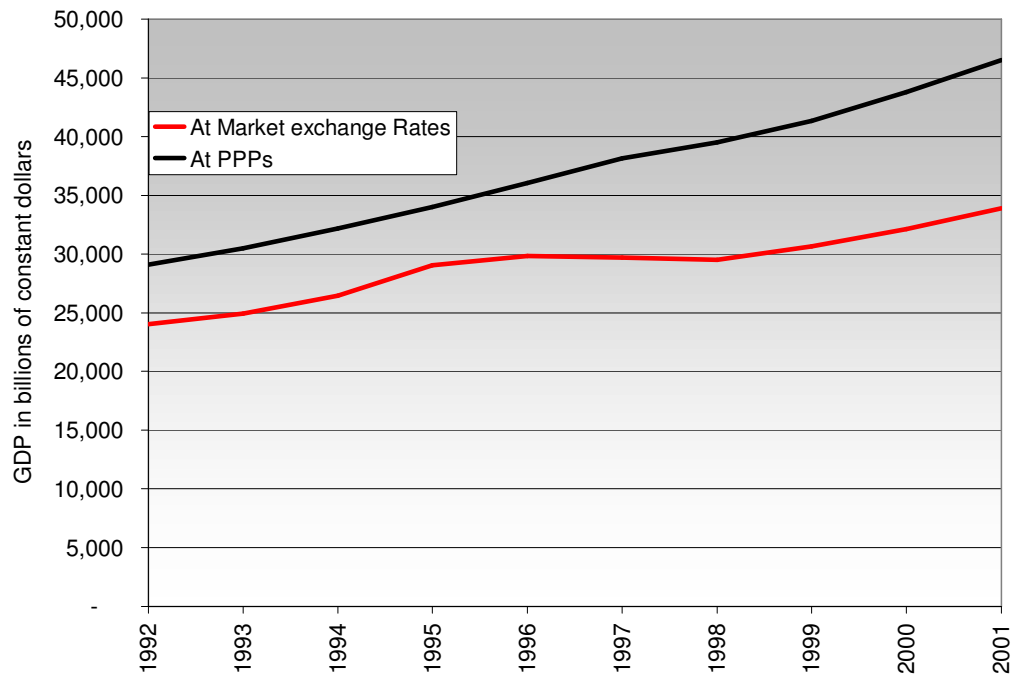
Behind this however lies a more fundamental issue. Output is always measured in a national currency – there is no world currency, in the sense of a money that is accepted as legal tender in every country in the world. However the dollar is however the nearest thing to it. The overwhelming bulk of international transactions are conducted in it. It is legal tender in a growing number of countries, with the assent and approval of world financial authorities. Where it is not legal tender, there are few who will not accept it. *De facto* it is world currency.

National currencies do exist, and dollar prices do differ from country to country, because to the extent that the cost of goods is determined by national and not global circumstances, they will be produced at local prices which differ from global ones.

PPPs compare living standards in national economies independent of currency variations. They are fictitious exchanges rates which take account of local national costs. Where these are low, the PPP exchange rate is higher than the actual market rate. Thus the GDP of India measured in 1996 PPPs was \$1,783 billion but in dollars \$441.7 billion, because a dollar in India buys, it is calculated, $1,783/441.7 = 4$ times as much as it would in the USA.

Measured in PPPs, the world economy performs substantially better than in dollars as shown in Chart 6, taken from the IMF World Economic Outlook for 2002 (table 1)

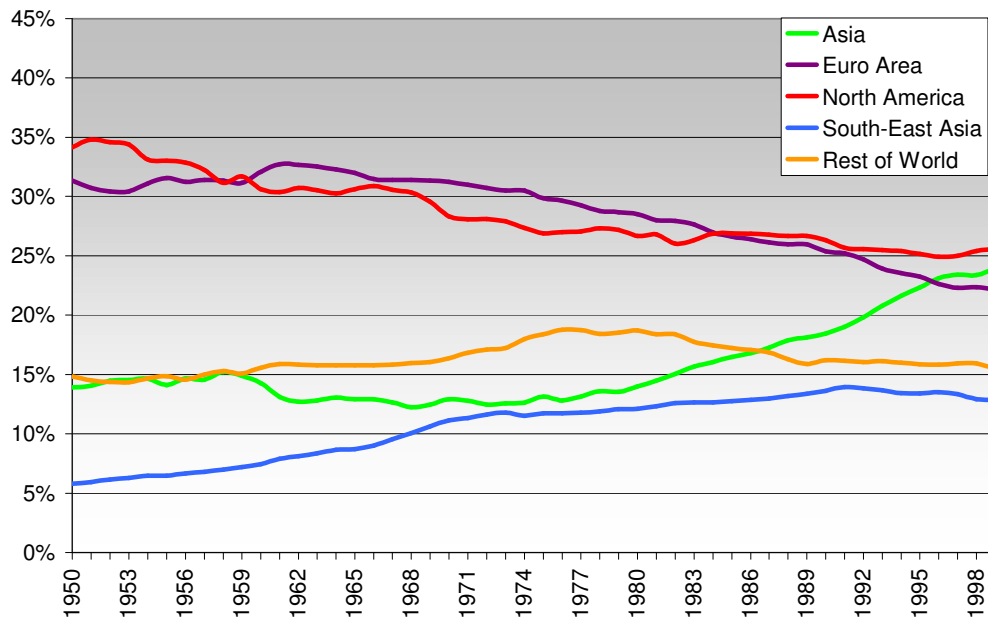
Chart 6



Source: World Economic Outlook 2002, table 1

PPP measures of GDP, whose prime purpose is to facilitate comparison between countries, have become a distorted measure of their aggregate output. They inflate the contribution to world output of countries with low prices, and diminish those with high prices. They record increased growth for countries whose prices in national currency are rising more slowly than their prices in dollars. In the late 80s and above all the 90s, this exaggerated the contribution of the poor countries and underplayed the performance of the rich ones as shown in charts 7 and 8 comparing the distribution of world income in terms of dollar GDP and in terms of the PPPs published by the International Comparison Project (ICP) which spearheads the development of PPP measures.

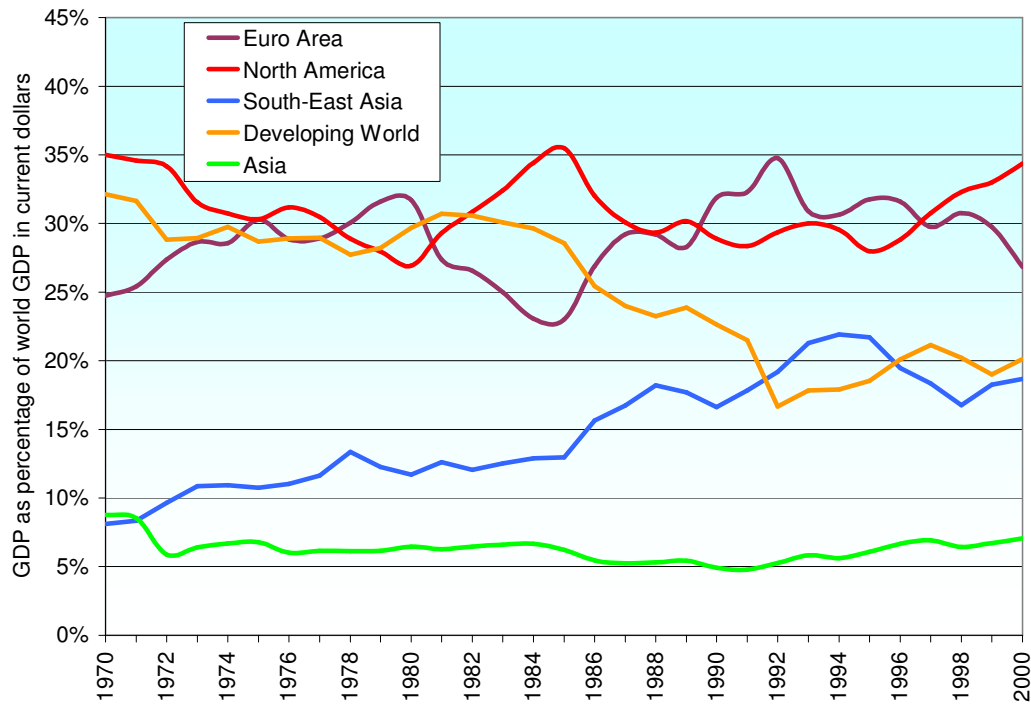
Chart 7: shares of world GDP in 1990 PPPs



Source: RuG and ICP

PPP-based GDP records an higher, and increasing share for the poorer countries than dollar GDP, most strikingly for Asia which includes India and China.²

Chart 8: shares of world GDP in dollars



This offers a key insight in relation to the increasingly strident and open argument between

² Countries in each region are listed at the end of this chapter. 'Rest of the World' groups Africa, the Middle East, Countries in Transition and the 'Western Hemisphere' – essentially South America, and contained 1,897 million people in 2000. The Euro Area contained 389 million, North America 306 million, South-East Asia 182 million and Asia 3,085 million.

world development agencies such as UNCTAD, and the international financial institutions. UNCTAD shares an analytical consensus to measure output in PPPs which stretches across world institutions and many NGOs, because at the level of the very poorest people such as the LDCs it presents incontrovertible evidence of a genocidal level of deprivation, as we will see.

Nevertheless these measures obscure the underlying dynamics above all in world output. The principal cause of divergence between the two measures of world output, aside from the general tendency of PPPs to exaggerate poor country output, are the specific effects of China and India. These two enormous Asian countries are in a special relation to the world market by sheer virtue of their size and hence the extent of their internal market.

Moreover China is a very specific case which is singled out precisely by the fact that, unlike the USSR, it did not follow IMF prescriptions, has not transformed itself into a model IMF economy, and has an entirely different ownership structure in which over two-thirds of its production remains outside the private market in capital. There is no room for doubt that China has undergone a prodigious, and in terms of world history, completely exceptional phase of growth. This can hardly, however, be attributed to globalisation; the whole point is that the role of the Chinese state has indeed dominated over market and global processes. If, therefore, one wishes to assess the impact of the market and of global processes as such, exception should be made of China.

As chart 9 shows, precisely during the last two decades, the proportions in which China and India contribute to world real GDP according to the PPP measure have more than doubled and they are now counted at four times the worth that their product fetches on the world market. Although they remain low-income countries, their huge combined population means that this has a major distorting effect on world real output usually reported by the world financial institutions.

Chart 9: ratio of nominal to PPP GDP

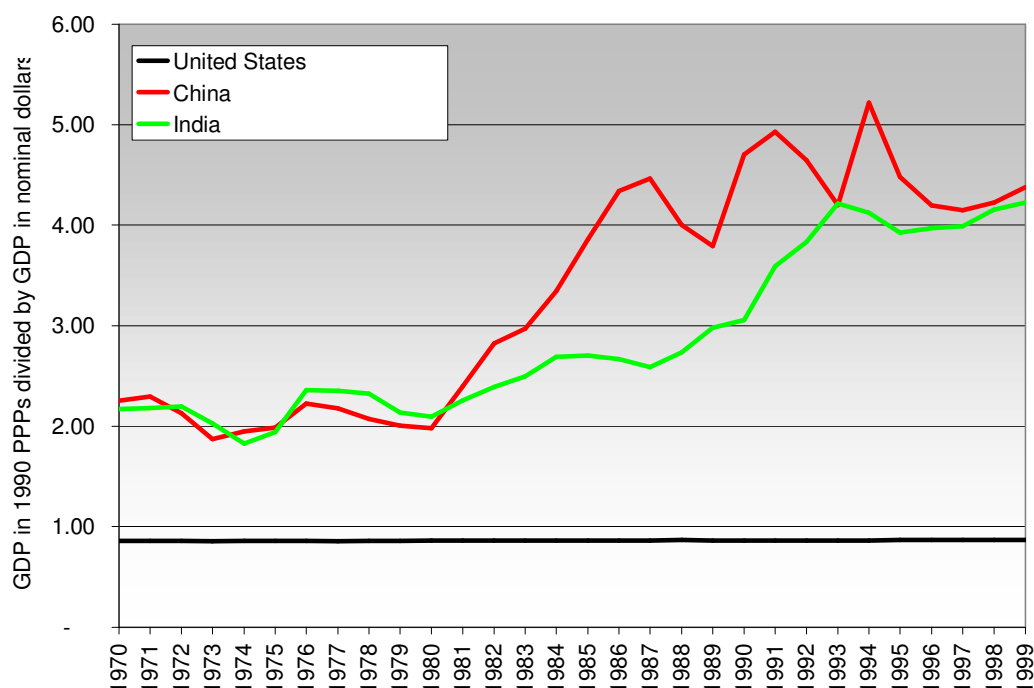
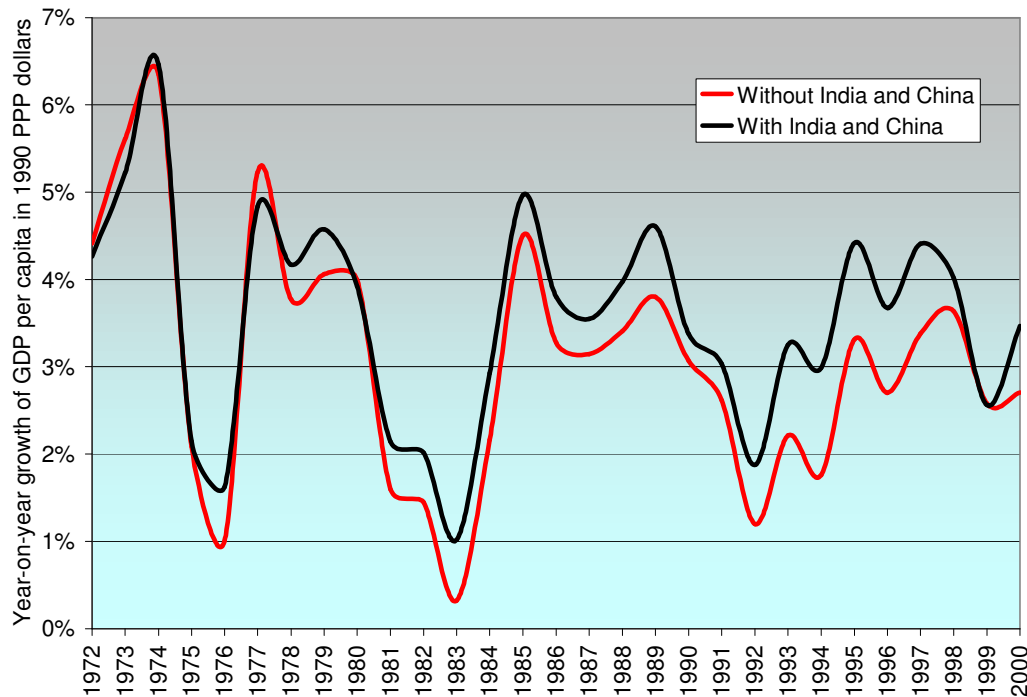


Chart 10 shows how this affects measures of world GDP. Measured peak to peak, if GDP is presented including India and China its growth rate shows no decline between 1979 and 1985 and falls by only half a percent from the 1979 to the 1996 peak. Without China and India growth nearly halves over the latter period, from 5.3 per cent to 3.3 per cent.

But this arises not because of the participation of India and particularly China in the world market but because they are differentiated from it. Indeed this has rendered China the *de facto* number one target of US military policy.

This exception proves the rule. The global decline in world GDP is understated in PPPs only because of the specific and exceptional situation of the two largest countries in the world; that is, it is the exception to globalisation and not the impact of globalisation that offsets its general impact on world poverty; second, in all those countries that do not enjoy the very particular advantages of China and India, the trend to poverty and differentiation is accelerated.

Chart 10: PPP measures of world GDP growth



More generally the departure of PPP output from dollar output is an indicator of a real process. If PPP and dollar measures of output diverge over time, it means local prices are departing from world prices; in short, national prices are becoming less economically homogeneous under the impact of market liberalisation.

There is thus an analytical choice to be made when measuring output. If over time world prices were converging (as, indeed both the globalisation hypothesis and neoliberal theory predict) then no qualitative issue would be involved as the trends in both measures would be the same. Since they are diverging, however, the two measures give different qualitative results. The issue is not necessarily that one is better or worse than the other, but that they measure different things. Used as a measure of aggregate output, PPPs capture trends of divergence in local prices and present them as if they were an increase in productive power, which they are not.

This brings us to the point which I consider most decisive. What is the purpose of measuring output? To understand the dynamics of growth, we have to deal with the source of growth, namely investment. Investment, however, is determined by access to productive resources, which for the vast majority of technologically-advanced capital goods, are acquired in dollars. If a country sells products for less dollars than their real worth, this is an event in the real world; the country then has less actual dollars to spend. No one has yet succeeded in taking a PPP dollar to market to buy machinery with and if they did, capitalism as we know it would cease to exist.

GDP faces both ways; it measures what the world consumes, and what it produces. As a measure of welfare – consumption – PPPs may permit a more accurate assessment of the actual living conditions. But as a measure of output, they avoid the very confrontation the world market imposes. It is true that it costs less to live in most African countries than in Japan, Europe or America. But an African capitalist or farmer must not just eat, but compete. Dollar GDP measures the wealth-creating capacity of nations in the global market. Above all it

measures their purchasing-power over capital goods and this is what determines whether they rise or fall in the wealth-creating stakes. Ultimately, if only with a delay, an inability to purchase and deploy capital goods translates itself into an inability to produce what a people require for life and the pursuit of happiness. World-wide, the growth rate of these quantities is falling relatively and for a rising proportion of the world, it is falling absolutely.

4 The globalisation of divergence

Even in PPPs, poverty is clearly increasing in the modern world. This is one of the principal reasons a consensus exists, from the right to the left of the spectrum of development economics, around the measurement of

This is the key to understanding table 21 from the UNCTAD report, reproduced here as table 2. This shows a rising trend of poverty in the LDCs and a falling trend in the rest of the developed world.

Table 2. Poverty trends in LDCs and other developing countries, 1965–1999

1985 PPP \$2-a-day international poverty line

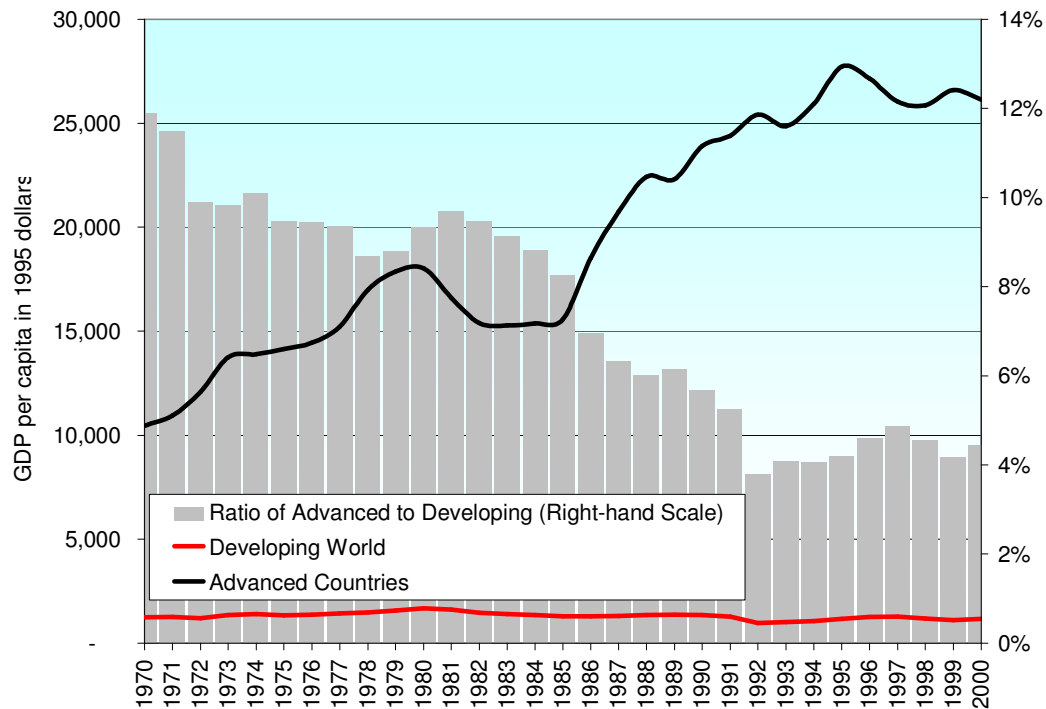
	1965– 1969	1975– 1979	1985–1989	1995– 1999
Population living on less than \$2 a day (%)				
39 LDCs	80.8	82.1	81.9	80.7
<i>Of which: African LDCs</i>	82.0	83.7	87.0	87.5
<i>Of which: Asian LDCs</i>	78.8	79.6	73.4	68.2
22 other developing countries	82.8	76.5	61.6	35.3
Number of people living on less than \$2 a day (millions)				
39 LDCs	211.1	277.5	360.5	449.3
<i>Of which: African LDCs</i>	131.7	174.4	239.5	315.1
<i>Of which: Asian LDCs</i>	79.1	102.9	120.3	133.3
22 other developing countries	1,405.0	1,639.7	1,599.0	1,084.2
Total	1,615.8	1,917	1,958.8	1,532.6
Average daily consumption of those living below \$2 a day (1985 PPP \$)				
39 LDCs	1.07	1.07	1.06	1.03
<i>African LDCs</i>	0.95	0.96	0.90	0.86
<i>Asian LDCs</i>	1.27	1.27	1.37	1.42
22 other developing countries	1.17	1.30	1.53	1.65

Source: Karshenas, UNCTAD report on LDC poverty 2002

These figures are shocking. Even so they understate the real process at work in the world, which is not confined to the impoverishment of a relative 'minority' of the world's people in the Less Developed Countries. Actually, the era of market liberalisation has seen the impoverishment of almost the entire third world relative to the advanced countries, and the absolute impoverishment of the majority of it. This was moreover accompanied by

- (1) at the end of the millenium, a significant deterioration following the 'Asian' crisis in the condition of even that small group of developing countries such as the NIACs that had been catching up with the advanced nations in the preceding thirty years
- (2) the outbreak of increasingly hostile competition even among the advanced countries, leading to significant deterioration in the Japanese and European economies, relative to the United States

Chart 11: The divergence of GDP per capita

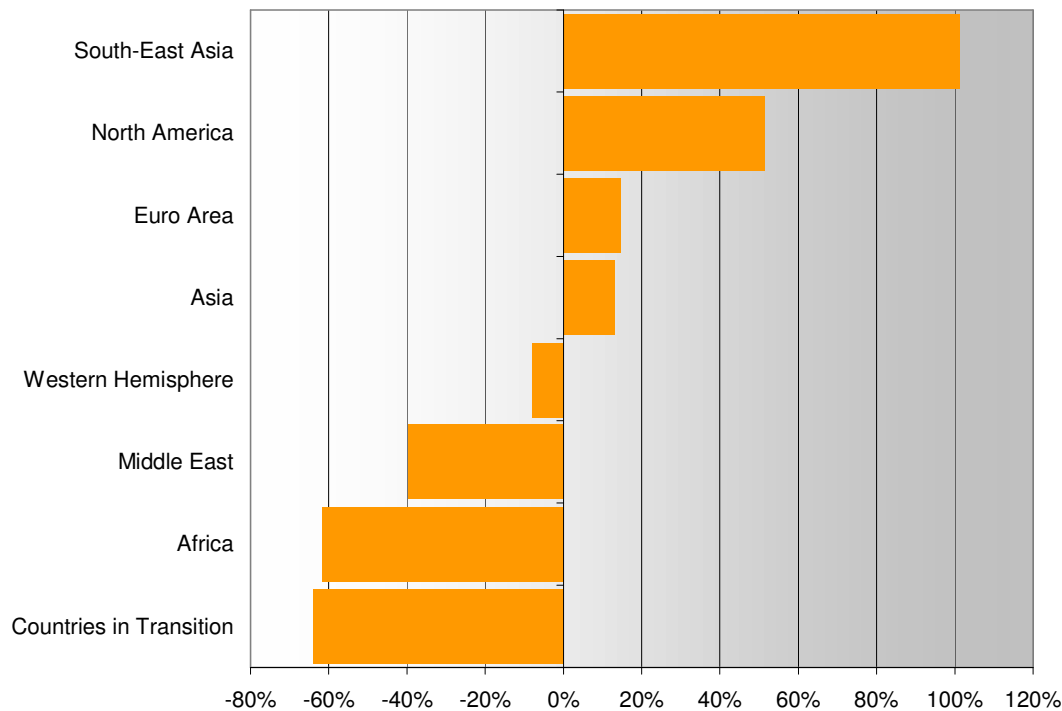


As chart 11 and Table 3 show, between 1980 and 2000 the relation between the advanced or advancing countries as a whole (comprising here North America, the Euro Zone, Japan and the advanced South-East Asian countries) and the rest of the world went through a qualitative evolution. GDP per capita of the rich nearly doubled; that of the rest of the world fell by around 30% -- more, from its 1980 peak of \$1,683 to its 1999 trough of \$1,116.

Table 3: GDP per capita in 1995 dollars

	1982	2000
Rest of the World	1,457	1,116
Advanced or Advancing Countries	15,383	26,134

This, however, is only part of the story. Differentiation has proceeded at every level of the world economy. In the first place this produced a further stratification within the major geographical regions of the developing world, most notably in its effect on Africa but also in its dramatic impact on the countries in transition and, significantly, the Middle East.

Chart 12: growth of GDP per capital 1980-2000

(Section to be added on unevenness of development within each region)

Finally and most significantly, *within* the advanced and advancing countries a wholly new development took place in the 1990s; this significance will emerge in assessing the boom and bust and the significance of the world stock market crash and the current recession.

As can be seen from chart 11, during the 80s although the Third World and subsequently the countries of the ex-USSR and Eastern Europe suffered a rapid relative (and in many cases absolute) decline in output per capita, among the advanced and advancing countries, growth rates persisted or rose.

In the 90s this situation was absolutely and decisively reversed, leading most significantly to the 1997 Asian crisis.

As chart 12 shows, the 80s were dominated by the rise of Japan and the newly-industrialising countries; Europe was still advancing and US growth remained low relative to its chief partners and rivals.

In the 90s the US took the lead in growth. It did so, however, not by *raising* its own contribution to the growth of the world's wealth but by *reducing* everyone else's. US growth became, for the rest of the world, synonymous with its own stagnation.

This type of world growth is completely the opposite of that which took place during the 'golden age' of the late 40s, 1950s and early 60s. In this phase, not only did the USA manifest qualitatively higher growth rates; it took the rest of the world with it. US hegemony in this period was based not merely on its military superiority but on a decisive economic contribution that it made, at least to its principal partners in the Cold War. The US was in surplus. It was the most productive country in the world, at one and the same time the most technologically advanced, the richest, the greatest capital exporter, and the military and financial guarantor of the rest of the advanced world.

In a nutshell, the USA's military and financial dominance was *in balance with* its productive dominance. The mutually benign relation between its political and its economic role permitted it a hegemony based on a real material benefits that it brought to most of the countries that were subordinated to it.

Chart 12: Growth rates in GDP per capita of the advanced country regions

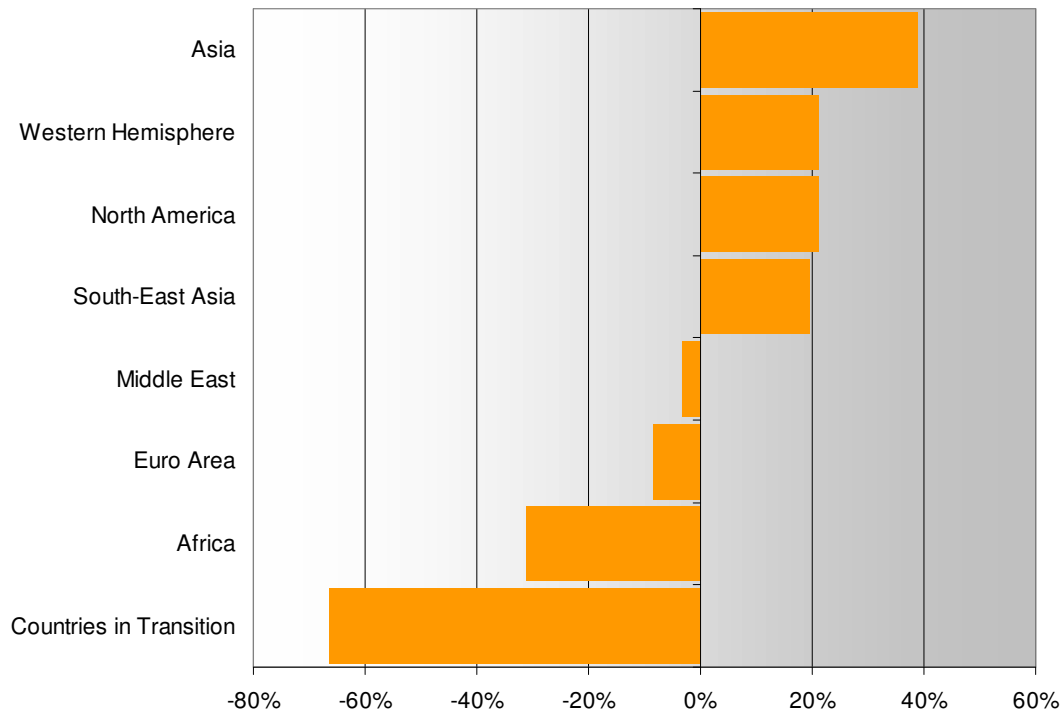
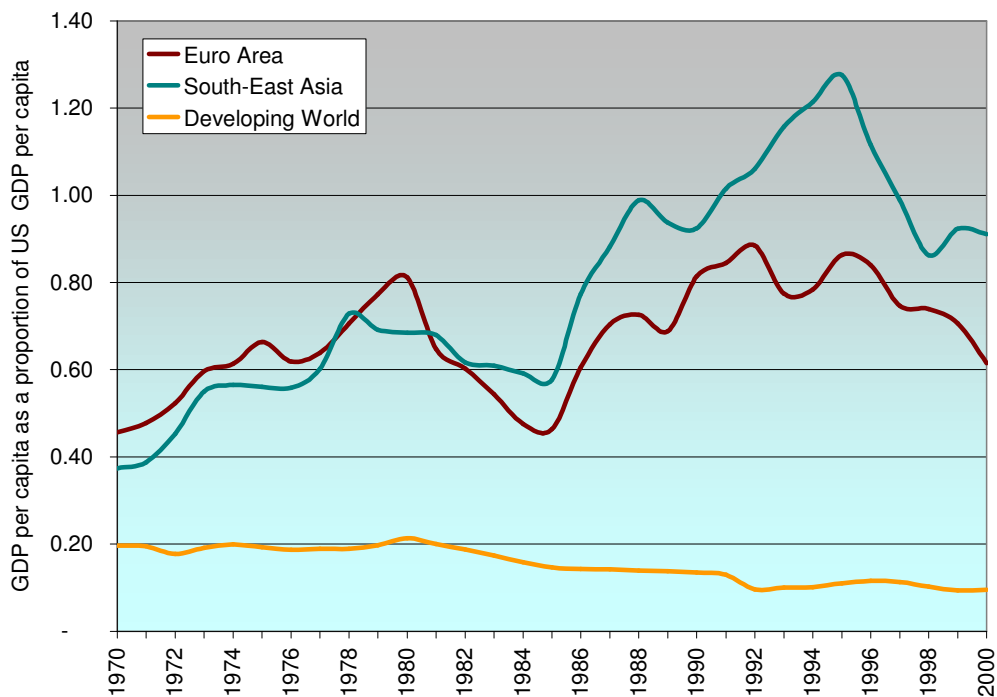


Chart 13: GDP per capita relative to that of the USA



This situation has reversed. The last quarter of the century is dominated by the relative *decline* of the USA and its inability to hegemonise the rest of the world by raising its productive capacity. Instead, the US is ever more insistently driven, by an inevitably economic logic, to use its military and financial weight to *offset* its productive weakness, manifested most starkly in its ineradicable trade deficit but also in the brutal facts of a world being torn apart by the USA's fundamental economic incapacity to bring that world forward.

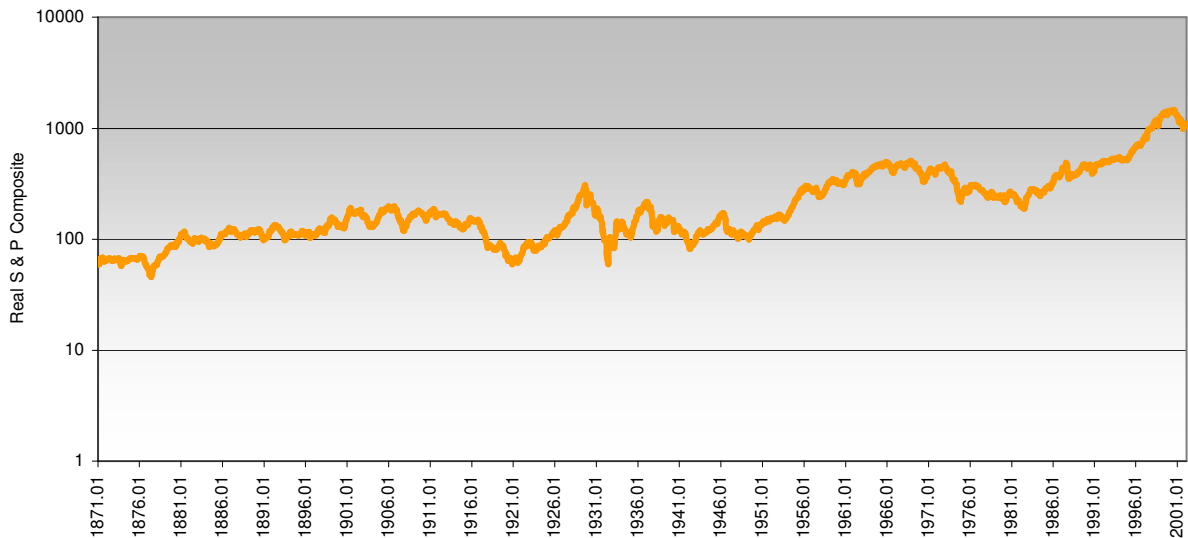
5 Greenspan's failed fifth kondratieff

The long-term process of stagnation which has accentuated, on a world scale, during the last two decades, has been accompanied by a contradictory phenomenon, on which the attention of the world has been focussed. Thus is the gigantic run-up of share prices and values – and their subsequent fall – in advanced-country financial markets.

Not only the present fall in share values, but the rise that preceded it, are as unprecedented as the two-decade-long period of stagnation and divergence we have just lived through.

Chart 00, using data taken from Shiller (0000) 'Irrational Exuberance' and provided by the author on his website, shows that there have been only three run-ups of share prices like the present in the last 130 years; the 1916-29 pre-crash bull, a prolonged but slow expansion of 1946-66, and the present run-up which is comprised of a slow run beginning in 1980 and a marked acceleration in 1986.

Chart 00: Standard and Poor's Composite Share Index 1871-2002



The difficulty in assessing the relative scale of increases or falls in stock market prices is always to compare rises at different points in time when the start point is so different.

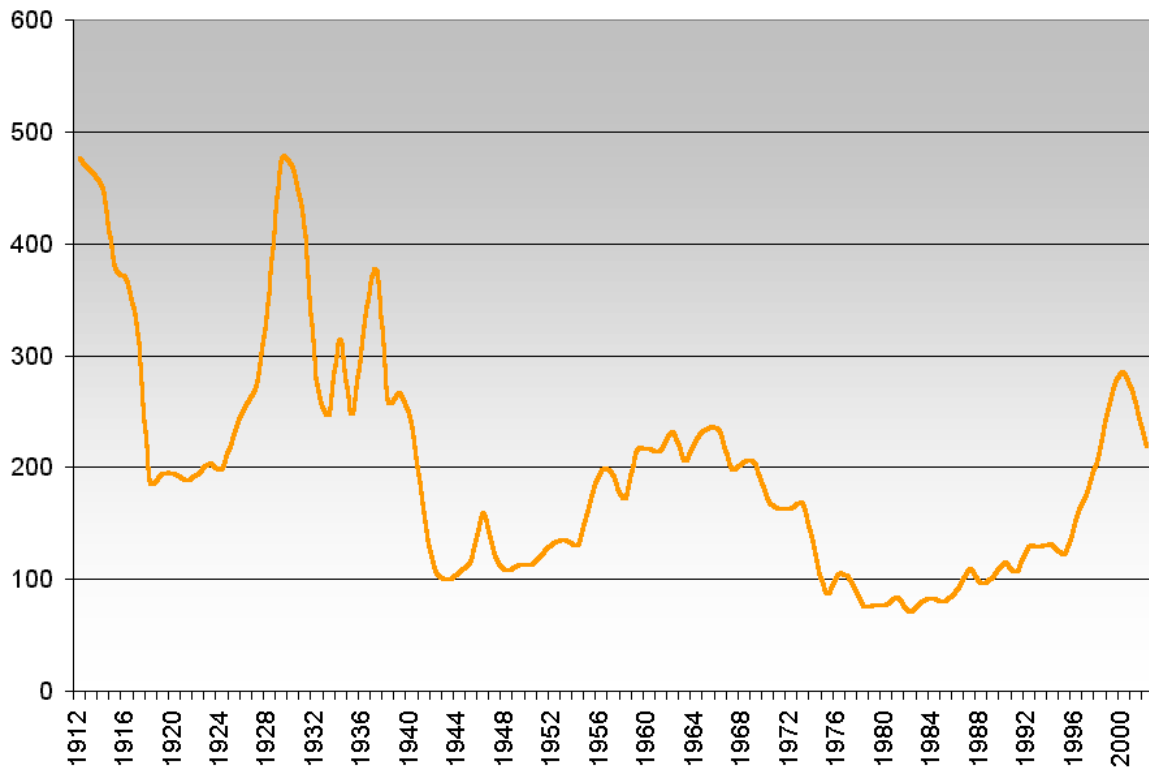
The index rose from trough to peak from 211 to 1432 between 1981 and 2002, and from 63 to 305 between 1921 and 1929. From 1951 to 1969 it rose from 108 to 473. Which was the 'largest' rise?

Table 00

Date	Low point	High point	Growth	Annualised Growth
1921 - 1929	63	305	384.13%	21.79%
1951 - 1969	108	473	337.96%	8.55%
1981 - 2002	211	1432	578.67%	10.6%

The annual growth of the 1980s was bigger than any since 1921-29. However this understates its significance. Growth rates in the 1950s were historically higher and so returns were higher. If we divide the stock market index by the GDP, and re-index it to 1943, we obtain a measure of the rise or fall of stock market prices above or below the general level of economic activity. This results in chart 00.

Chart 00: Standard and Poor divided by US Nominal GDP, 1943=100

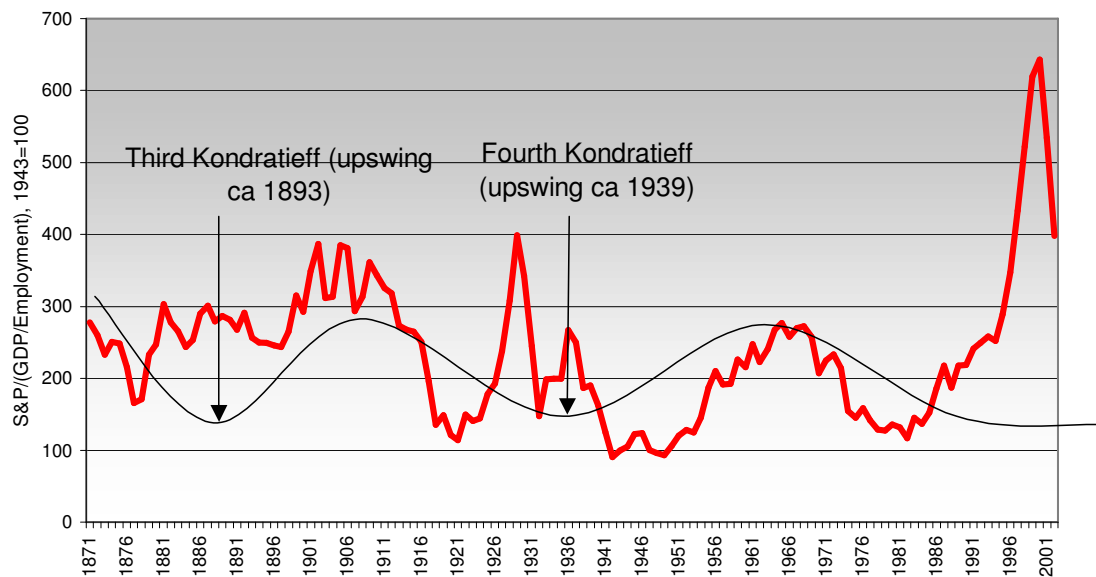


It then becomes clear that a 'spike' started in 1995 but, to render the comparison accurate it must also be noted that the real bull run of the 20s did not begin until 1924, the previous 3 years being a period of high inflation; a true comparison is obtained by comparing the run-up, therefore, between 1924-29 on the one hand, and 1995-2000 on the other, which are also the same length of time.

Table 00

Date		Low point	High point	Growth	Annualised Growth
1924	1929	194	476	145.36%	19.66%
1951	1969	112	232	107.14%	4.13%
1981	2000	83	285	243.37%	6.05%
1995	2000	123	285	131.71%	18.35%

For completeness, and in order to study this period in comparison with the 1870s we make a further correction by indexing the S&P not to the value of output but to the quantity of labour in this output. We treat a dollar as representing an aliquot share of the labour involved in producing the wealth in existence and deflate every price accordingly. We then end up with a chart in which the vertical axis gives us, effectively, the quantity of labour that the shares in the market can be exchanged for.

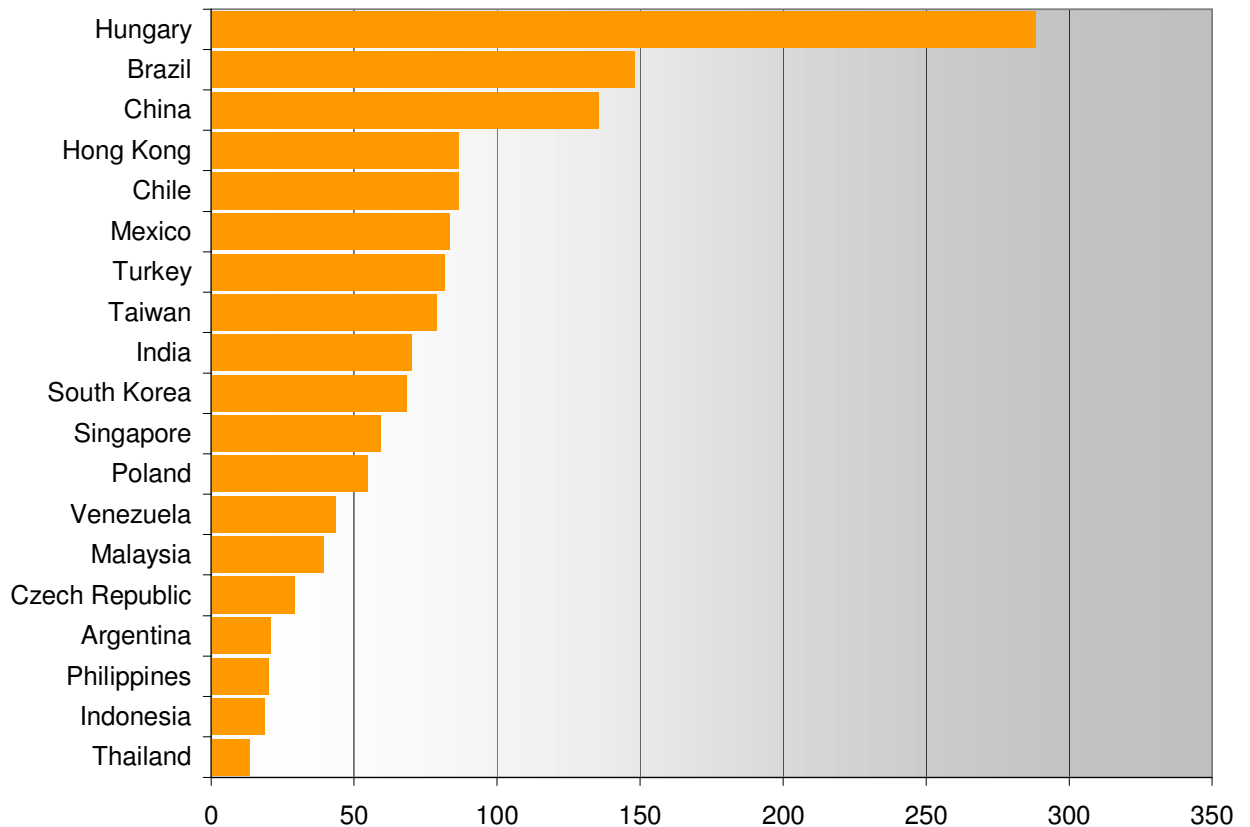
Chart 00: S&P in labour units, 1943 = 100

Th

e present run-up is not on a scale that compares with anything else since the war. It is among the largest in history. It goes without saying that over no other five-year period is there a rise of this scale. Moreover chart 00 gives an indication of the historical repetition; in each of the last three Kondratieff *downturns*, the downturn has been accompanied by a share price upswing, in the last two a spike.

Notwithstanding the enormous attention given to the idea that liberalisation in the capital markets would unleash a flood of accumulation in the third world, nothing comparable has taken place there. Chart 00 shows the 2002 Dollar value of share indexes on the world's principal emerging markets, taken from the *Economist*. In only two cases are they worth more than they were ten years ago: Brasil, which is already entering the post-Argentina crisis which has been looming for the past two years; China, which we have already discussed, and the small and exceptional case of Hungary. A dollar invested in almost any advanced country market, even after the bursting of the share bubble, would be worth somewhere between three and eight times as much as it was at the start of this decade. A dollar invested in an emerging country market has never risen above 3.5 times its initial value, and this only for a brief period in Brasil and Hungary; for the rest it has never risen above 2.5 times its initial value, and is now almost everywhere worth less than it started out at.

This tremendous disparity in the performance of capital markets reflects not only the tremendous disparity in the performance of business but the underlying force that has driven up share prices in the advanced world, well above the level corresponding to the income that they generate – namely, an enormous flux of capital *into* these markets and above all into the share markets of the USA.

Chart 00: emerging market dollar share index values at May 2002 relative to January 1993=100

6

Postwar economic dynamics

To understand this process it is necessary to turn to the driving forces behind the expansionary wave that preceded the 1980s; namely the relation between savings and investment.

The driving force of growth is investment. In the early postwar years, investment rates in South-East Asia reached historically unprecedented levels, facilitating sustained annual growth rates of 8% and over. Growth at this rate has projected economies such as Korea from relative backwardness to the standards of a modern industrial state within a generation.

Investment, the principal driver of accumulation and hence growth, is financed out of a definite, but limited quantity of capital. Capital may not be created out of nothing; like Shakespeare's spirits of the deep it may not be summoned into existence by decree. It arises out of production. It is that (accumulated) part of output that remains unconsumed and is deployed in pursuit of profit; output in turn arises from human labour, whose magnitude is set absolutely by the size of the economically active population and the hours for which it works.

This quantitative limit expresses itself as an aggregate monetary relation that is recognised in the national accounting framework; total world savings equals total world investment. Each nation, therefore, can finance its investment ultimately from only one of two sources: from its own savings, or by borrowing from other nations.

Investment as share of total GDP, G7+Korea

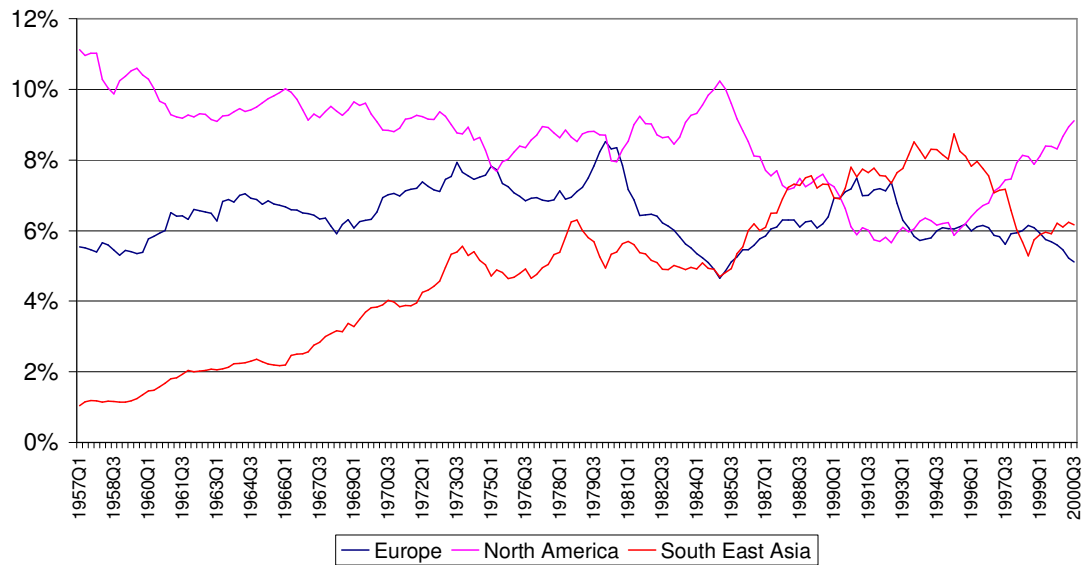


Figure 3b

Again to abstract from all effects except regional difference, figure 3a shows the investment of each region, as a share of the total GDP of all regions. Figure 3b shows the same magnitudes accumulated or 'stacked', so that the top line shows the total investment of the advanced countries, as a proportion of the GDP of the advanced countries. Figure 3a illustrates the constraint of the quantity of capital, and figure 3b exhibits its effects. The relative shares of investment have changed dramatically, but their total has remained remarkably stable, rising from 17% in 1952 to 22% in 1973 and thereafter never falling below 19% or rising above 22%. The investment share of North America in contrast fell from 11% to 5% between 1957 and 1991 while South-East Asia's rose from 1% to 9%.

Investment as share of Own GDP, G7+Korea

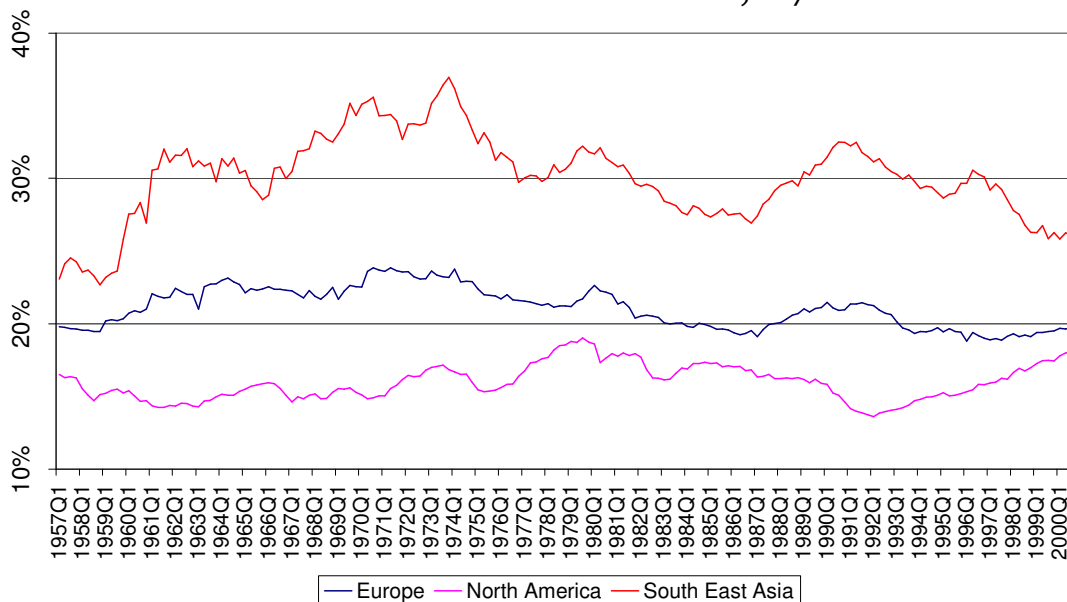


Figure 4a

Figure 4a shows a different but related quantity; the *investment rate* of each region, that is, the proportion of that region's GDP which is invested; figure 4b shows the same for the European countries. These two figures exhibit a further, and equally important point: although the USA

successfully restored its investment rate nearly to its postwar peak of 22% of GDP, and although Japan's investment rate fell to a postwar low, nevertheless throughout the period Japan's absolute investment rate remained above that of the USA. For this reason, and despite the prolonged Japanese economic crisis, there is no indication the USA has overcome the basic productivity advantage in trade which Japan established during 1950-1980. To the contrary, as we shall now see, the US's failure to overcome this productivity gap is the source of a persistent US balance of payments deficit which is, if anything, worsening.

In like manner, although the UK experienced a steady and quite prolonged investment surge paralleling that of the US, at the end of this surge the proportion of its output being invested remained below that of every other advanced industrial nation, with the result that in the present recession, the trade deficit appears to have returned to haunt it. In the next section we consider why this might be.

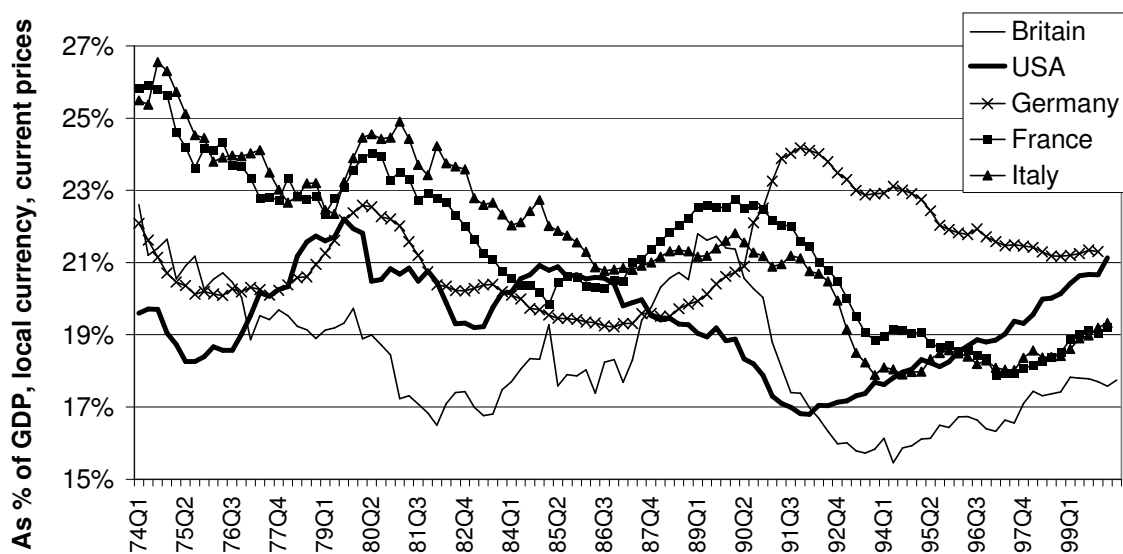
Investment as the driver of growth

Investment cuts costs, that is, raises productivity. The criterion which allocates market-driven investment is that it should yield a higher than average profit, which, if the product is sold into a single uniform market at a uniform world price, can only be achieved by reducing unit costs. But if unit costs are reduced, by definition productivity rises and hence output. It is in this way that the profit motive translates into a growth imperative. This produces three distinct but related effects.

- The investing nation grows economically; it produces more goods for the same amount of consumed capital.
- If a nation raises its productivity higher or faster than another then it achieves a consistently higher profit rate; it outperforms and outcompetes the less productive nation.
- The profit rate declines secularly as long as investment continues, since investment accumulates, that is, augments the total stock of capital representing claims on total profits. The profit rate is restored periodically by means of crisis, an abrupt suspension of accumulation.³

³ The profit rate differs depending on whether it is measured in terms of money, use-value, or hours of labour. The law of the tendential fall in the profit rate applies to hours of labour.

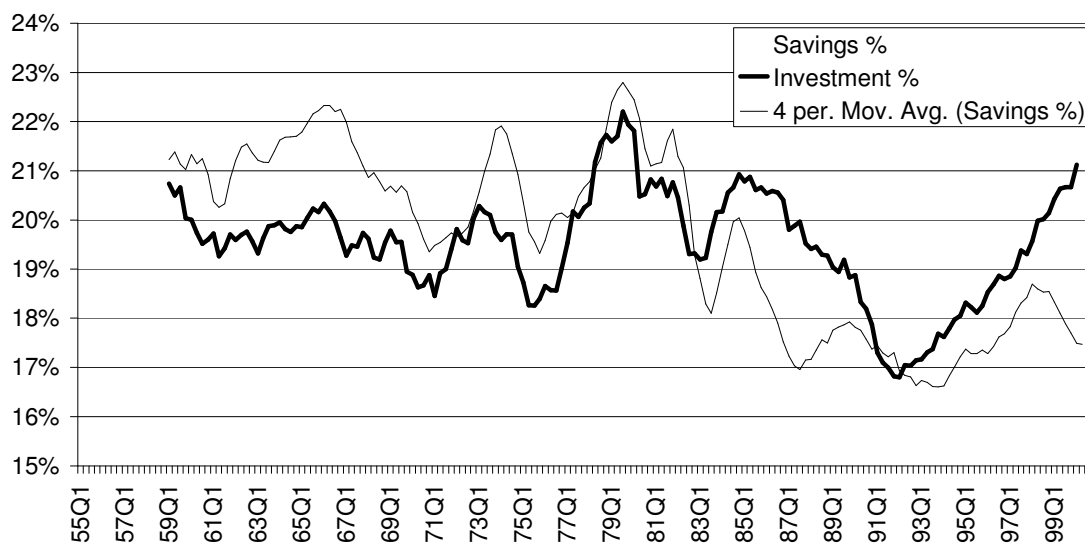
Fixed investment, US / Europe, 74-99



Source: OECD CD-ROM. Germany before 1991: West Germany, seasonally adjusted by AF

Figure 4b

US Investment and savings % of GDP



Source: OECD Quarterly National Accounts CD-ROM

Figure 5

For a given nation, the first effect may outweigh the third and thus a nation or region may escape a falling world profit rate, if it can outcompete its rivals in the race to raise productivity.

The more a nation or region invests, the more marked these effects. Nations may of course circumvent the restrictions of their purses by cunning techniques to direct investment where it is most effective and we shall see that the US investment boom of the 1990s was exceptionally, and probably consciously, directed into ICT (Information and Communication Technology).

However I know of no evidence that such techniques can overcome the fundamental quantitative relation which is, the more investment, the faster the rise in productivity. I know of no case where sustained high investment has produced sustained low growth, or vice versa.

The relative rates of investment of nations or regions therefore offer a key quantitative

indicator of the relative strengths both of the fundamental economic forces driving up their output and living standards, and the forces that tend to change their relative competitive positions.

Both figures 3a and 3b clearly identify the basis of the extraordinarily rise of South-East Asia from 3% to 30% of world GDP in 40 years from 1954 to 1994; namely, its unprecedented investment rate, never less than a quarter of its output. Second, they identify the basis of Europe's steady but less spectacular improvement relative to North America. Finally they illustrate how and why North America, and the USA in particular, have been able to rise again to the top of the GDP growth league among the advanced industrial nations, on the back of a sustained investment boom.

However, it is not so simple, on the basis of a mere ten years of relatively faster investment growth, at rates which are nevertheless lower than those nations that have invested at considerably greater rates for most of the second half of the century, to overcome the cumulative disadvantage that has resulted.

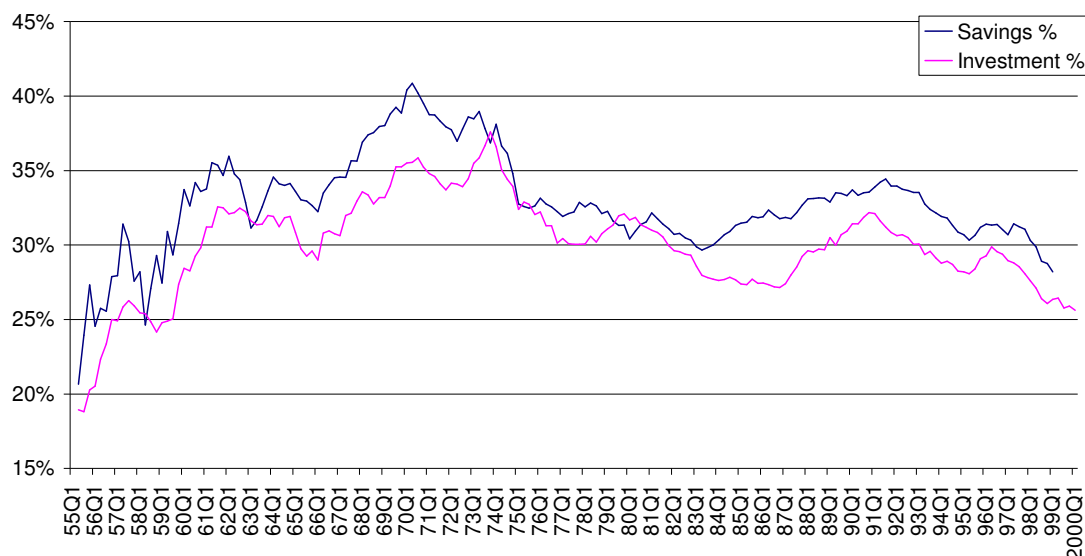
In consequence the US's expansion of the 1990s has been financed on a completely different basis to that of the world's 1950-1990 'golden age' expansion.

World instability provoked by US growth

The ten-year growth of US output is dominated by its prolonged ten-year expansion of investment. Between 1990 and 2000 GDP expanded by 8% as a proportion of the GDP of the G7 countries; investment by 4%. However, as is also indicated by GDP trends, this was not the result of a world expansion; it happened because the US grew at the expense of the other advanced industrial nations, whose investment contracted, again reversing postwar trends.

Figure 6

Japan Investment and Savings (% of GDP)



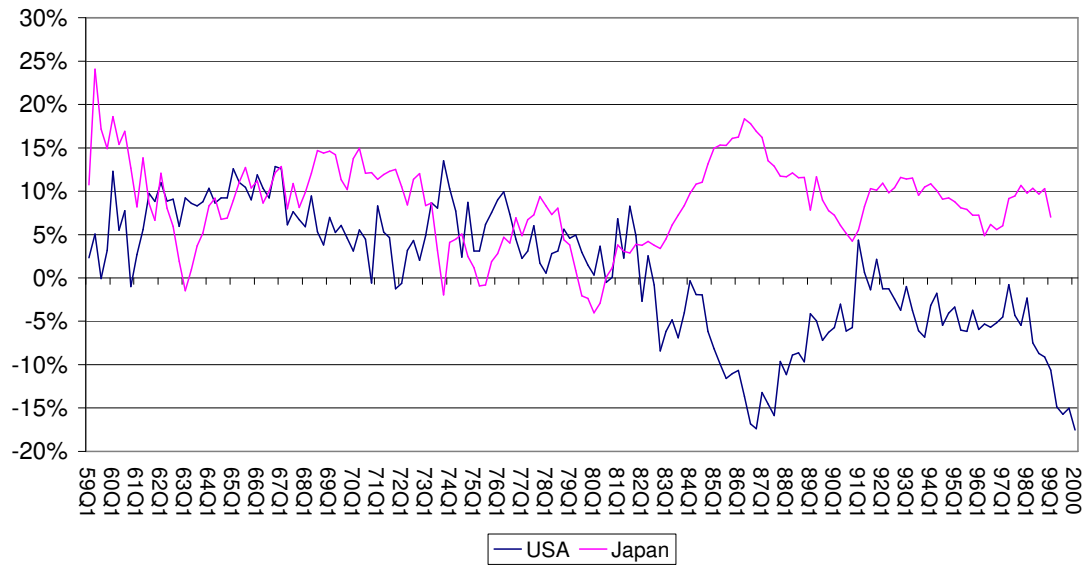
This is a fundamental source of instability of the global economy. Figure 5 exhibits a different facet of the same two periods already noted: up till 1980, US investment was financed from internal savings, which always exceeded investment. This reversed in 1980 and savings from then on fell behind investment. This was particularly marked in the 1990s expansion in which savings and investment moved in opposite directions.

As figure 6 shows, the Japanese savings-investment relation since 1980 is more or less the reverse of this. The money for US investment comes from abroad, which manifests itself in persistent US balance of payments deficits and persistent South-East Asian surpluses. However as figure 7 shows, this relation emerged out of the turning point of 1980. This graph shows how much investment is financed out of domestic sources. It exhibits net borrowing

(savings minus investment) as a proportion of investment.

Figure 7

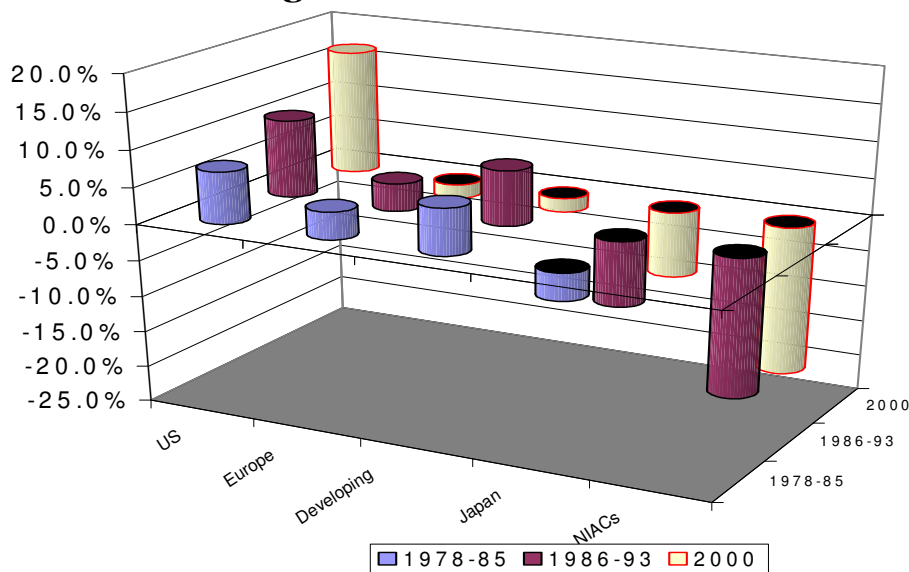
Net lending as share of investment



Essentially the world financial system acts as a vacuum cleaner to draw these trade surpluses into the financing of US investment. The basic sources of finance are South-East Asia and to a lesser extent, the Third World, as figure 8 shows.

Figure 8. Source: IMF Economic Outlook October 2000

Borrowing as share of investment



Notes: NIAC = Newly Industrialised Asian countries; Negative (top of the cylinder is black) means countries are net lenders; Net borrowing of NIACs for 1978-85 is missing

The impact of 1980s trade and financial deregulation was to mobilise world capital around US expansion. However in consequence US expansion was purchased at the expense of the expansion of the rest of the world economy.

This exhibits the significant difference between the US/North American expansion of 1990-2000, and the 'Golden Age' worldwide expansion of 1947-65. The postwar world expansion was

financed by the net *export* of capital from the major industrial powers and above all US capital. The expanding powers were therefore, in a basic sense, the motor of growth. The US expansion of the 1990s has been financed by the net *import* of capital from the rest of the world and above all from South East Asia. The mechanism is as follows:

- The US emerged from World War II with a substantial productivity advantage which translated itself into a competitive advantage in world trade, yielding a surplus profit.
- For political and economic reasons, the US did not invest this surplus profit but exported it as capital to the rest of the world, where it was absorbed in domestic investment particularly in Germany and Japan. As the defeated in the war they could not be permitted to redevelop external spheres of political or economic influence; nevertheless, they had to be shored up as a bulwark against communism. This led to a highly intensive mode of development in which they regained their strength in world markets by means of a so far unprecedented level of investment and hence technical advance.
- Meanwhile the UK, as the US's junior partner, continued to pursue an extensive model of development founded in the export of capital, but without the productivity advantage that would allow it to finance these capital exports through a stable trade surplus. In consequence it suffered the now well-known, almost classical symptoms of the 'British malaise'; the steady loss of industrial superiority, regular devaluation crises and a systemic trade deficit.
- The entire period of extended and rapid accumulation that opened in the 1950s gave rise, through the accumulation of capital stock, to a prolonged decline in the world general rate of profit (see Freeman 1999) leading to what we term a *generalised crisis*: a slowdown or suspension of accumulation in all nations, the return of synchronised trade cycle crises in 1974, 1980, 1989 and now 1999. The return of mass unemployment, and extensive political and economic turbulence.
- In this situation, the US and to a lesser extent the UK launched, in the early 1980s, a political programme aimed at restructuring the world economy: the 'neoclassical counterrevolution' as Todaro (1974) puts it which included widespread deregulation, the re-imposition through the WTO of a uniform world market for the products of the advanced countries, the creation of a world market in intellectual property through WIPO and other means, the opening up to capital of the markets of the former Soviet Union and Eastern bloc, the breakup of protectionist policies in the third world, and so on.
- The programme had twin objectives; on the one hand, to restructure relations between the advanced countries as a whole and the rest of the world, principally to create a genuine world market including a world market in capital, enabling global economies of scale which would open the door to larger-scale investment than hitherto; on the other hand, to enable the USA, through its domination of the world commercial and financial system which arose from the dollar's world role and the US's political and military pre-eminence, to secure advantages in the commercial and financial sphere which could offset its productive weakness.
- It is now clear that a third potential function of the programme, for the USA, was an attempt to restore its productive pre-eminence. A potential outcome of the ten-year rise in US investment, above all if it is maintained through the recession, is the restructuring of the US economy so as to re-establish the productive lead that it held after world war II. It is clear that this is what US policymakers hope for.

7 Appendix: Classifications used

I have modified the standard IMF regions to reflect the historical evolution and the economic and geographical insertion of the countries under study. The IMF regional classification is a mix of developmental and geographical categories. On the one hand it places Japan in the group of 'Advanced' nations and on the other, divides up the countries in Transition for geographical purposes to create a category 'Middle East and Europe'. Our category of South-East Asia places Japan with the group of NIACs and geographically proximate advanced countries whose economic evolution proceeds in parallel with it. Our category of Middle East confines itself to the Middle East properly speaking. But on the other hand I have kept all Countries in Transition together to reflect their parallel origin over the two decades under study.

Bureau of Census Name	Modified IMF Region
Algeria	Africa
Angola	Africa
Benin	Africa
Botswana	Africa
Burkina Faso	Africa
Burundi	Africa
Cameroon	Africa
Cape Verde	Africa
Central African Republic	Africa
Chad	Africa
Comoros	Africa
Congo (Brazzaville)	Africa
Congo (Kinshasa)	Africa
Cote d'Ivoire	Africa
Djibouti	Africa
Equatorial Guinea	Africa
Eritrea	Africa
Ethiopia	Africa
Gabon	Africa
Gambia, The	Africa
Ghana	Africa
Guinea	Africa
Guinea-Bissau	Africa
Kenya	Africa
Lesotho	Africa
Liberia	Africa
Madagascar	Africa
Malawi	Africa
Mali	Africa
Mauritania	Africa
Mauritius	Africa
Morocco	Africa
Mozambique	Africa
Nauru	Africa
Niger	Africa
Nigeria	Africa
Rwanda	Africa
Sao Tome and Principe	Africa
Senegal	Africa
Seychelles	Africa
Sierra Leone	Africa
Somalia	Africa
South Africa	Africa

Sudan	Africa
Swaziland	Africa
Tanzania	Africa
Togo	Africa
Tunisia	Africa
Uganda	Africa
Zambia	Africa
Zimbabwe	Africa
Myanmar	Asia
Afghanistan	Asia
Bangladesh	Asia
Bhutan	Asia
Brunei	Asia
Cambodia	Asia
China	Asia
Fiji	Asia
India	Asia
Indonesia	Asia
Kiribati	Asia
Laos	Asia
Malaysia	Asia
Maldives	Asia
Marshall Islands	Asia
Micronesia, Federated States of	Asia
Nepal	Asia
Pakistan	Asia
Papua New Guinea	Asia
Philippines	Asia
Samoa	Asia
Solomon Islands	Asia
Sri Lanka	Asia
Thailand	Asia
Tonga	Asia
Vanuatu	Asia
Vietnam	Asia
Albania	Countries in Transition
Armenia	Countries in Transition
Azerbaijan	Countries in Transition
Belarus	Countries in Transition
Bosnia and Herzegovina	Countries in Transition
Bulgaria	Countries in Transition
Croatia	Countries in Transition
Czech Republic	Countries in Transition
Estonia	Countries in Transition
Georgia	Countries in Transition
Hungary	Countries in Transition
Kazakhstan	Countries in Transition
Kyrgyzstan	Countries in Transition
Latvia	Countries in Transition
Lithuania	Countries in Transition
Macedonia, The Former Yugo. Rep. of	Countries in Transition
Moldova	Countries in Transition
Mongolia	Countries in Transition
Montenegro	Countries in Transition
Poland	Countries in Transition
Romania	Countries in Transition

Russia	Countries in Transition
Serbia	Countries in Transition
Slovakia	Countries in Transition
Slovenia	Countries in Transition
Tajikistan	Countries in Transition
Turkmenistan	Countries in Transition
Ukraine	Countries in Transition
Uzbekistan	Countries in Transition
Austria	Euro Area
Belgium	Euro Area
Denmark	Euro Area
Finland	Euro Area
France	Euro Area
Germany	Euro Area
Greece	Euro Area
Iceland	Euro Area
Ireland	Euro Area
Italy	Euro Area
Luxembourg	Euro Area
Netherlands	Euro Area
Norway	Euro Area
Portugal	Euro Area
Spain	Euro Area
Sweden	Euro Area
Switzerland	Euro Area
United Kingdom	Euro Area
Bahrain	Middle East and Europe
Cyprus	Middle East and Europe
Egypt	Middle East and Europe
Iran	Middle East and Europe
Iraq	Middle East and Europe
Israel	Middle East and Europe
Jordan	Middle East and Europe
Kuwait	Middle East and Europe
Lebanon	Middle East and Europe
Libya	Middle East and Europe
Malta	Middle East and Europe
Oman	Middle East and Europe
Qatar	Middle East and Europe
Saudi Arabia	Middle East and Europe
Syria	Middle East and Europe
Turkey	Middle East and Europe
United Arab Emirates	Middle East and Europe
Yemen	Middle East and Europe
Canada	North America
United States	North America
Australia	South-East Asia
Hong Kong S.A.R.	South-East Asia
Japan	South-East Asia
Korea, South	South-East Asia
New Zealand	South-East Asia
Singapore	South-East Asia
Taiwan	South-East Asia
Antigua and Barbuda	Western Hemisphere
Argentina	Western Hemisphere
Bahamas, The	Western Hemisphere

Barbados	Western Hemisphere
Belize	Western Hemisphere
Bolivia	Western Hemisphere
Brazil	Western Hemisphere
Chile	Western Hemisphere
Colombia	Western Hemisphere
Costa Rica	Western Hemisphere
Dominica	Western Hemisphere
Dominican Republic	Western Hemisphere
Ecuador	Western Hemisphere
El Salvador	Western Hemisphere
Grenada	Western Hemisphere
Guatemala	Western Hemisphere
Guyana	Western Hemisphere
Haiti	Western Hemisphere
Honduras	Western Hemisphere
Jamaica	Western Hemisphere
Mexico	Western Hemisphere
Netherlands Antilles	Western Hemisphere
Nicaragua	Western Hemisphere
Panama	Western Hemisphere
Paraguay	Western Hemisphere
Peru	Western Hemisphere
Saint Kitts and Nevis	Western Hemisphere
Saint Lucia	Western Hemisphere
Saint Vincent and the Grenadines	Western Hemisphere
Suriname	Western Hemisphere
Trinidad and Tobago	Western Hemisphere
Uruguay	Western Hemisphere
Venezuela	Western Hemisphere

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9 Addenda

It is not only necessary to look for new explanations and new analytical frameworks but to reconsider the whole range of *past* alternative theories which have been swept aside as outmoded, but which actually furnish better, if partial, explanations for what we actually observe.

Dependency theory, World System Theory, Marx's accounts of crisis, Hobson and Lenin's analyses of classical imperialism, etc.

Among these, of course, globalisation theory itself has a place; like any of them, elements of it explain elements of what we see in the world. What cannot be sustained is any hegemonic claim that globalisation theory is either adequate as it stands, capable of integrated development into an adequate theory, or superior to the theories which it has displaced.

Not to say any such theory is perfect or adequate. Dependency theory faced a number of theoretical difficulties that its proponents were happy to acknowledge were never adequately resolved. There is a heated debate to say the least about Marx's theory of the falling profit rate and as things stand, even the Marxists deny its validity (see eg Brenner)

But if we face a choice between a body of theory which, no matter how analytically coherent, unfortunately fails to explain the basic facts, and another group of theories that do offer an account of the most basic trends we can actually observe, the scientific choice seems clear to me; to make progress we have first to return to the abandoned theories that do in fact explain the facts, and ask ourselves how and why they achieve it, and whether their explanations and concepts can form an element of a new, and superior theory.

From this point of view, the function of the last two decades has been, in essence, to channel the world's savings into the USA in order to reconstitute its economy, in the belief that the US can then return to functioning as the motor and leader of world growth, as it did during the fifties and perhaps to a lesser extent in the twenties.

The problem is that all the evidence so far is against either another phase of Kondratieff expansion, or against a reconstitution of US productive superiority. The USA is so far embarked on a gamble that has failed. There are moreover good reasons to view the idea sceptically; during the Belle Epoque, Britain was the world leader but this period was dominated precisely by Britain's long-term historical decline, and indeed, the precondition for the stable expansion of the 1950s was the replacement of British by US capital at the helm of the world economy, from a certain standpoint the economic outcome of the two World Wars. There was good reason for this, analysed extensively by writers such as Hobson: by placing all its resources into extending the world market, by concentrating on the export of capital and on maintaining military and financial superiority, Britain starved its own industries of investment.

This is confirmed by what happened following World War II; Japan and Germany, the military losers in the war, had no empire into which to expand and instead evolved an intensive mode of accumulation, concentrating their investment on their own domestic economies for the simple reason that all the remaining investment opportunities had been denied them. The period of unquestioned US hegemony was therefore accompanied by the economic erosion of the very basis of this hegemony as Germany and Japan steadily caught up.