Globalisation: economic stagnation and divergence

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Globalization: the end of an era

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Abstract

This is a prepublication version of an analysis of stagnation and divergence in the world economy which appeared in Pettifor, A (2003) *Real World Economic Outlook*, pp152-159. Basingstoke: Palgrave MacMillan, pp152-164. A fuller version of this same paper was presented to the British International Studies Association conference in September 2002.

It uses data published by the IMF's *World Economic Outlook* team to establish that world GDP per head, calculated in constant 1995 dollars at current market exchange, remained static between 1980 and 2002 and declined absolutely between 1988 and 2002.

Over the same period – 'globalisation', understood as the period of intense financial deregulation and the creation of a world market in capital – this article uses the same figures to prove that the income gap between the North and the South has doubled.

Inequality is measured as the ratio between GDP per capita in the IMF's 'Advanced countries' and all remaining countries, in current dollars at market exchange rates.

At the beginning of globalisation this ratio was approximately 10 to 1. By 2002 it was nearly 23 to 1. Over this period the real average GDP per capita of the 'non-advanced countries' comprising four-fifths of the world's population, has fallen absolutely, from $1400 to $1100 per year.

This economic failure, the article argues, is the underlying cause of the political instability that characterises the current period. The most basic problem of the world economy has not been solved – the imbalance between the declining relative productivity of the USA and its commercial and military dominance.

The result is predicted to be a unstable period of history as these contradictions work their way through into the political sphere.

'Globalisation: the end of an era', in Pettifor, A (2003) *Real World Economic Outlook*, pp152-159. Basingstoke: Palgrave MacMillan, pp152-164.

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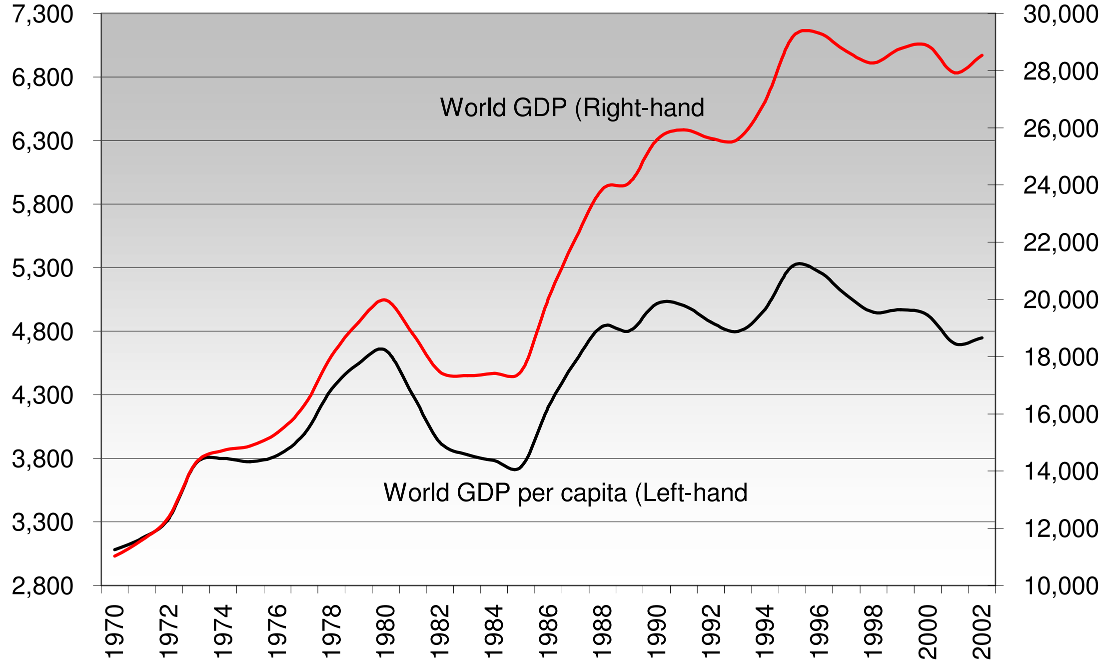
Absolute impoverishment



World GDP and GDP per capita in constant 1995 dollars, converted from national currencies at current exchange rates.

Source: World Economic Outlook April 2003 database, University of Groningen Growth Project

Figure 1.1

In 1988, the GDP of the world in dollars was $4,839. In 2002, it was $4,748. These figures, like all others in this article, were extracted from GDP data published by the IMF in its World Economic Outlook database, with 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. These rates are in constant 1995 dollars at current (period average) market exchange rates.They thus measure the income of the world in terms of its power to purchase global products – specifically those of the USA – unlike published figures which are generally expressed in terms such as Purchasing Power Parity (PPP) dollars, which reflect purchasing power in local markets.

This measure provides a great deal more insight into the underlying processes which led both to the Iraq war, and to the increasingly protectionist rhetoric and practice of the advanced powers.

Conventional economic wisdom holds that globalization was an economic success, and that its main problems arise from political opposition. It would be closer to the mark to say that globalization was a political triumph but an economic catastrophe.

The years 1980-2000 were the closest to a world free market that the twentieth century saw, under a single world economic policy, which has regulated world trade – above all trade in capital – with few dissenters and even fewer exceptions. Critics of this policy are widely mythologized as idealistic, utopian, and standing in the way of progress. A closer examination suggests the critics were perhaps more realistic than the policy-makers.

It suggests also that the new world politics have their origin not in an irrational overturn of previously sound policies but in the very same economic failure. The economic consequences of globalization go beyond mere regression. It has rendered large tracts of the world ungovernable, thrown many advanced nations into chronic slow growth and divided them between themselves, leading to the conflicts that finally surfaced in the profound divisions surrounding the war on Iraq.

The process has thus run into political obstacles that include not just a dismissible army of protestors but less surmountable, and more endemic difficulties: war, a new bipolarity, a return to protectionism and a colonial agenda. The roots of this political process lie, not in some recidivist reaction against globalisation, but deep within the process itself and above all, from its economic failures.

Stagnation and divergence: shaping a new political geography

The absolute growth rate of the world economy has been falling systematically as chart 2 has already shown. Table 1.1 summarizes the outcome.

	World GDP	World GDP per capita
1970-80	5.51%	3.76%
1980-90	2.27%	0.69%
1990-00	1.09%	-0.19%

Table 1.1 World GDP per capita in constant 1995 dollars

But in parallel with this, the world is diverging as Figure 1.3 shows. From 1984 the industrialised and ‘other advanced’ countries pulled away from the rest of the world. In the 1990s per capita GDP in the countries in transition fell between 50 per cent and 75 per cent depending on the measure adopted, catapulting them into the ranks of the developing countries. In a further development, during the 1990s the Major Industrial Countries (the G7) pulled away from the other advanced economies, comprising basically the South-East Asian Newly-Industrialised Countries (NICs)

As Figure1.2 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.

In terms of world political geography this has decisive consequences and marks a sharp change compared with the ‘Golden Age’ and even the 1970s. In periods when world output as a whole was rising, the continued relative divergence of rich from poor countries did not produce mass impoverishment on the scale now being seen. Divergence appeared largely as ‘differential rates of growth’ and thus, in some sense, the great majority of the world was getting better off. Divergence combined with stagnation has a completely opposite effect; the countries at the bottom of the pile suffer the combined effect of getting poorer relative to the average, at the same time that the average is declining. Absolute impoverishment is back.

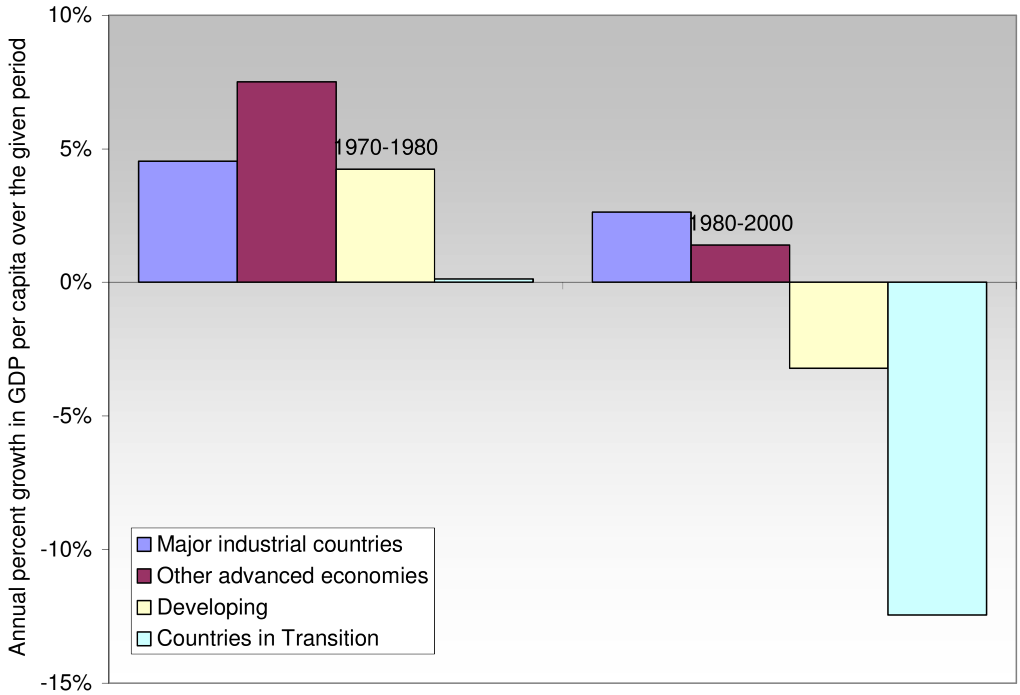


Figure 1.2 Stagnation plus divergence

Thus in 1980, 118 million people lived in nine countries where GDP per head declined absolutely over the previous decade. In 1998, there were 60 such countries and 1.3 billion such people. Impoverishment on such a scale is politically unsustainable; it is the basic driver behind the collapse of the world bloc which drove through the financial policies of the 1980s.

The measure of growth

These judgements depend on the measure adopted. World GDP, measured in dollars, rises and falls with exchange rates. Does the dollar, as unit of measurement, not merely report its fortunes on the FOREX markets, rather than offering a real indicator of growth?

Measures such as PPP dollars, in which the world financial institutions report world output, are adjusted to reflect the local cost of living. Since costs are generally lower in poorer countries, these provide higher estimates of the income of poor people.

The problem is that in order to grow and prosper, a country requires not cheap local produce but access to technologically-advanced products and services, whose use and production are concentrated in the rich countries. By assessing output in real dollars, we obtain a more accurate measure of the true cost of development, namely the cost of obtaining advanced country products. It should not be forgotten, moreover, that securing access to world products was one of the main arguments advanced to persuade the political elites of the poor countries to open their doors to world markets.

Actually, the very fact that exchange rate GDP is diverging from PPP GDP signifies that something new is going on. Thirty years ago world output 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.

It is hard to sustain the argument that real dollar GDP understates long-term growth, or that the fall in output reported above is a consequence of foreign exchange effects alone. It is true that when the dollar appreciates against other currencies, then the output of other countries measured in dollars will *ceteris paribus* fall. But over the whole of the period in which world output has fallen, the dollar has not appreciated against any major currency by more than 18 per cent – little more than 1 per cent per year – and it has by no means appreciated against all leading currencies. If, for example, growth is measured in Yen, the result is an even more decisive decline in world GDP, as Table 1.3 demonstrates.

	World GDP	**World GDP per capita**
1970-80	47.11%	44.60%
1980-90	31.54%	29.34%
1990-00	-6.45%	-7.63%

Table 1.3 Annual growth of world GDP per capita in Yen

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

No matter how rosy the picture displayed in a succession of World Bank reports in terms of PPP dollars, there has been no suggestion that countries might settle their debts in PPP dollars – a step that would reduce debt payments for many third world countries by 75 per cent and more. If PPP dollars really do measure wealth, why not use them as means of payment or at least settlement?

PPPs compare living standards in national economies independent of currency variations. They are fictitious exchanges rates that 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 in India a dollar buys, it is calculated, 1,783/441.7 = 4 times as much as in the USA.

This offers a key insight in relation to the increasingly strident and open argument between 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. The point is thus that *even in PPPs* a genocidal decline in purchasing power of the poorest third of the world's population is incontrovertible. The underlying trends are so stark that they impose themselves on any measure. In PPPs, UNCTAD in 2002 reported that in the 39 Least-Developed Countries (LDCs) at the end of the 1960s 211 million people were living on an income of less than $2 per day in PPPs. By the end of the 1990s there were 448 million, an increase of over 100 per cent.

This is the key to Table 21 from the UNCTAD report on LDC poverty, reproduced here as Table 1.2

	1965–69	1975–79	1985–189	1995–99
Population living on less than $2 a day (%)				
39 LDCs	80.8	82.1	81.9	80.7
Of which: African LDCs	*82.0*	*83.7*	*87.0*	*87.5*
Of which: Asian LDCs	*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
Of which: African LDCs	*131.7*	*174.4*	*239.5*	*315.1*
Of which: Asian LDCs	*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
African LDCs	*0.95*	*0.96*	*0.90*	*0.86*
Asian LDCs	*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

Table 1.2 Poverty trends in LDCs and other developing countries, 1965–1999 1985 PPP $2-a-day international poverty line

Nevertheless these measures obscure the underlying dynamics, above all in world output, which are probably a great deal worse. 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, highly exceptional phase of growth. This can hardly, however, be attributed to globalization; 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.

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. 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 0.5 per cent 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.

This exception proves the rule. The global decline in world GDP is understated in PPPs only because of the specific 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.

The globalization of divergence

Impoverishment is only one aspect of a more extended process of *differentiation* which is not confined to the impoverishment of a relative 'minority' of the world's people in the LDCs. It is this differentiation, rendering the globalised world less and less homogenous, which is dissolving the globalisation bloc, literally tearing it apart. The impoverishment of the third world was accompanied by

(1) at the end of the millennium, a significant deterioration following the 'Asian' crisis in the condition of even that small group of developing countries such as the NICs 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

Between 1980 and 2000 the relation between the advanced or advancing countries as a whole (comprising here North America, the EuroZone, 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 per cent -- more, from its 1980 peak of $1,683 to its 1999 trough of $1,116.

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

Table 1.4 GDP per capita in 1995 dollars

It should further be noted that this divergence is less affected by currency fluctuations in that it would be the same whether measured in dollars, Yen, pounds or Euros. Only if the output of each region is measured in a *different* unit, masking their differentiation, does the divergence appear to be reduced.

Differentiation has proceeded at every level of the world economy. Most significantly, *within* the advanced and advancing countries a wholly new development took place in the 1990s. The US took the lead in growth, 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.

	Growth 1980-90	Growth 1990-2000
Southeast Asia	68.4%	19.5%
EuroZone	25.2%	-8.4%
North America	24.8%	21.2%

Table 1.5 Growth rates in the advanced countries

This type of world growth is the opposite of that which took place during the ‘golden age’ of the late 1940s, 1950s and early 1960s. In this phase, not only did the United States manifest qualitatively higher growth rates; it took the rest of the world with it. The United States 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. Its military and financial dominance was in balance with its productive dominance.

This situation has reversed. The last quarter of the century is dominated by the relative decline of the United States and its inability to hegemonize the rest of the world by raising its productive capacity. Instead, the United States 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 United States’ fundamental economic incapacity to bring that world forward.