# Globalization: Golden Age Breakdown

Rise and Fall of the Third World

# Third World in the Golden Age

- Following Marshall Plan + "Dodge Plan" – US policy for Third World development was promote markets, democracy and free trade
- Free trade based on theory of "comparative advantage" where countries specialized in economic activity where they held "factor advantage"
- By mid-1960s – evident that development characteristic of the dominant capitalist states was not occurring in Third World
- Economic Commission for Latin America (ECLA) advocated Third World seek MNC investment to diversify their economies with import substitution industrialization (ISI) supported by state policy

# POPULATION OF THE WORLD

**THE MODERN WORLD**
Technologically advanced but ideologically ambiguous

**THE FIRST WORLD**
Technologically advanced; free of ideological impediments to utilitarian thinking, and thus the natural world

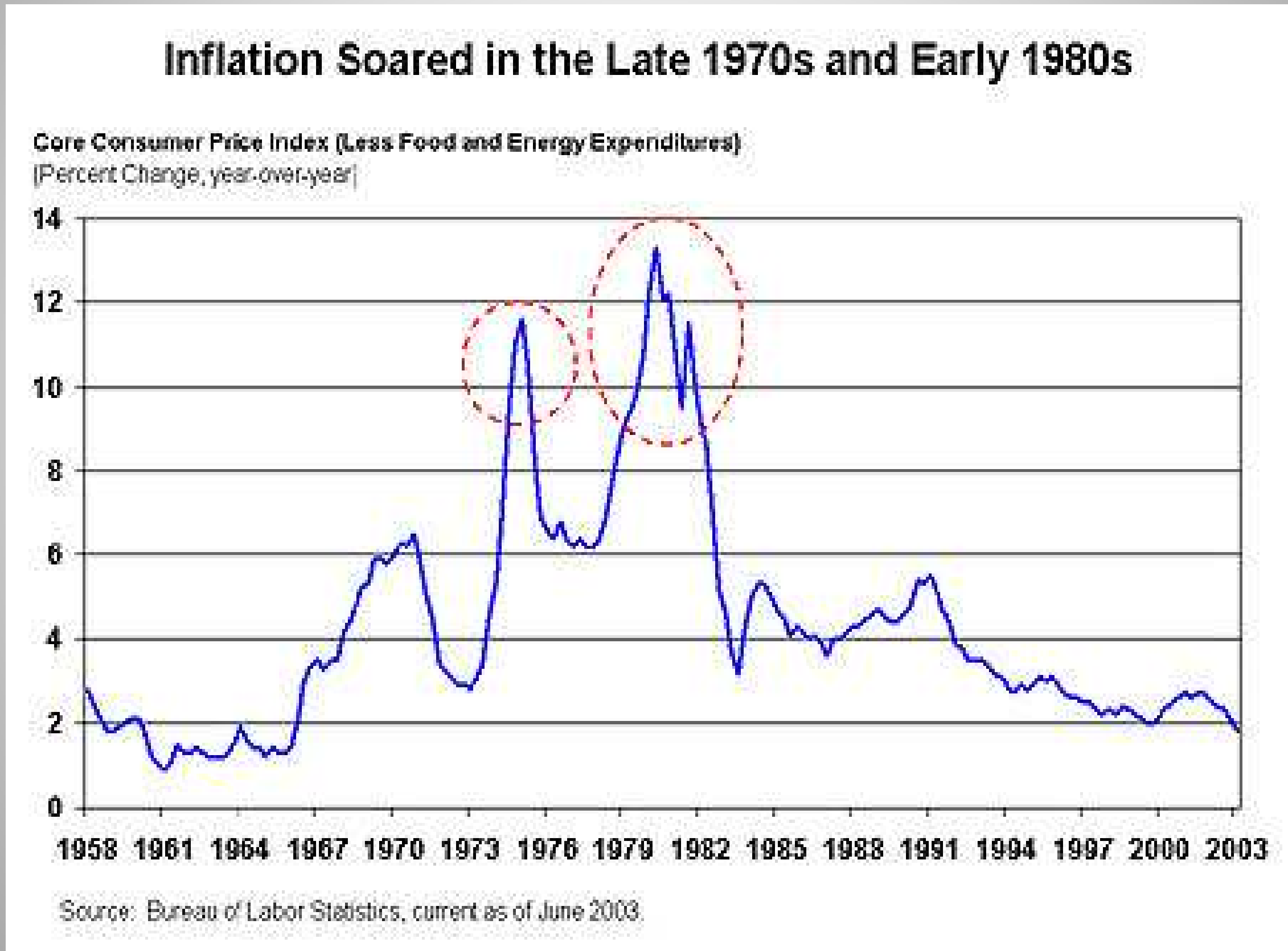
**THE SECOND WORLD**
Technologically advanced but burdened with an ideological elite blocking free access to science and utilitarian thinking

THE THIRD WORLD
Underdeveloped economically and technologically , with a traditional mentality blocking access to science and utilitarian thinking

# Demise of the Golden age

- By 1970s EU and Japan not only re-industrialized but began to gain a competitive edge over US business
- Misallocation of resources in US economy due to global military adventures of 1960s-70s along with domestic wage-price spiral fuelled vicious inflation
- With dollars as world money US inflation exported across globe

# Inflation


Inflation Soared in the Late 1970s and Early 1980s
Core Consumer Price Index (Less Food and Energy Expenditures)
[Percent Change, year-over-year]
14
12
10
8
6
4
2
0
1958 1961 1964 1967 1970 1973 1976 1979 1982 1985 1988 1991 1994 1997 2000 2003
Source: Bureau of Labor Statistics, current as of June 2003.

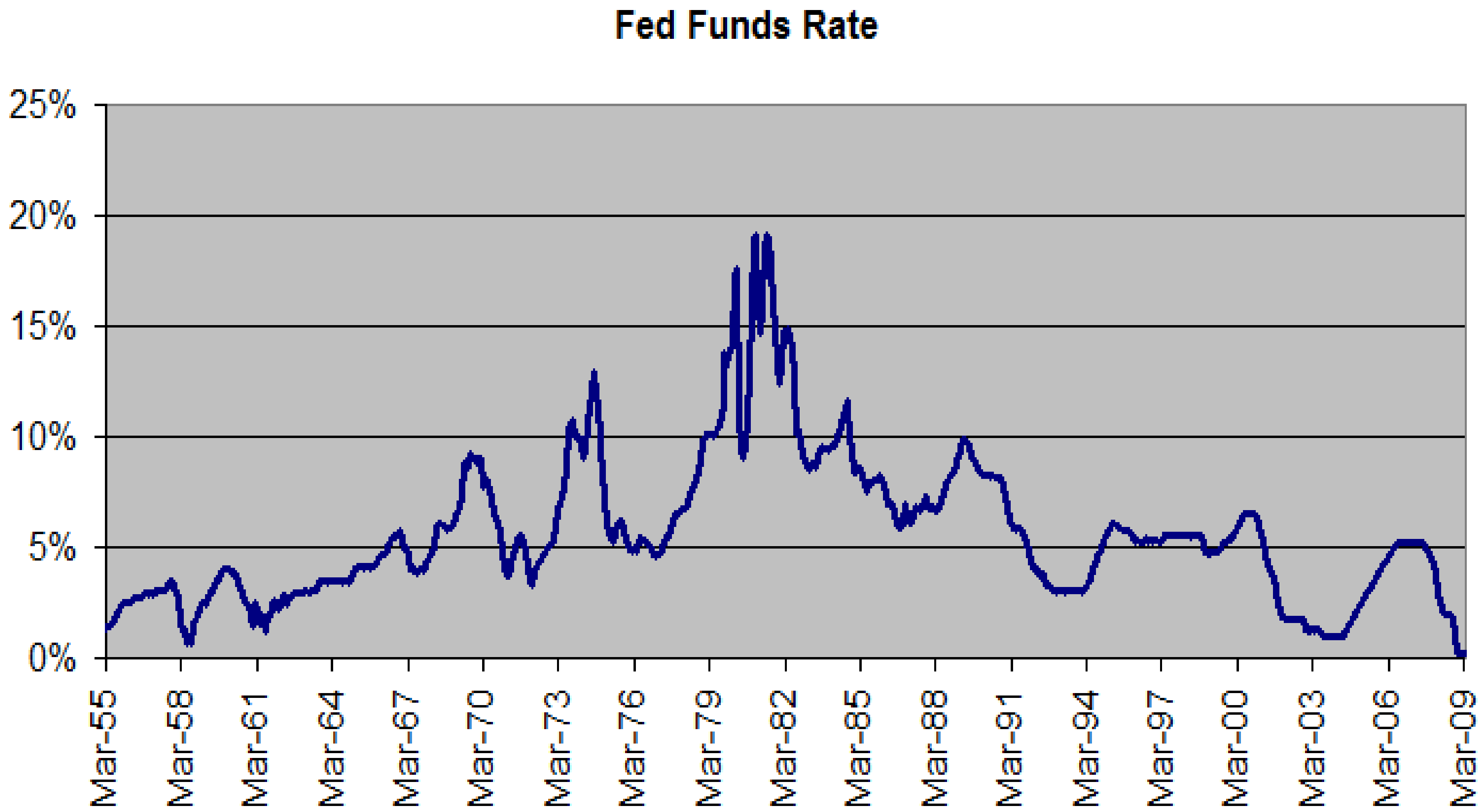
# Third World in a Borrowers Paradise

- US spurred global dollar inflation + flood of post oil price hike OPEC dollars into global banks created borrowers paradise with abundant capital offered at negative **real** interest rates
- 1970 – 1980 provided brief opportunity for Third World to fulfill ISI dream
- Third World states particularly in Latin America were being dubbed economic “miracles” in 1970s

# "Volcker Coup" + US Seeking New International Orientation

- Inflation eroded value of dollar and increased pressure to redeem dollars for gold
- 1971 Nixon unilaterally closes gold window
- New "Dirty Floating" monetary regime initiated
- But US economy continued to weaken + inflation running rampant through 1970s –
- 1980 – FED Chair Paul Volcker unilaterally raises dollar interest rates to astronomical heights
- As dollar appreciated over 50% against other major currencies global money began to stream into dollar denominated assets re-cementing dollar power backed only by T-Bill IOUs

# Interest Rates



# Global Debt Crisis

- Volcker coup fomented global debt crisis which almost destroyed US banking system and completely destroyed Third World dream of ISI development
- Mexico first to declare bankruptcy in August 1982
- By 1983, 27 other countries followed
- Mexico, Brazil, Venezuela and Argentina were the most indebted amongst the defaulters and responsible for 74 percent of third world debt

# What About the Banks?

- US banks most exposed to Third World debt
- Loans = 50 percent of their net worth in 1977 + well above their net worth in 1987
- In 1983 25 percent of the debt of the four major Latin American debtors was owed to the eight largest US banks and equaled 147 percent of their net worth

# Reconfiguring of Global Finance

- High interest rates created absurd situation in advanced capitalist world where not only were real interest rates over twice the rate of growth of respective GDP but exceeded returns on productive investment in the *real* economy
- This drove money away from long term productive investment toward short term speculative arbitrage
- Exposure of US commercial banks to Third World debt shocked global financial system into lending through *securitization* with its smorgasbord of new-fangled financial instruments
- Securitization places debt onus on the shoulders of debtors

# Washington Consensus to the Rescue

- FED, Treasury and IMF leaped in with immediate debt service + expectation Third World debtors would make painful choices necessary to fully meet obligations
- Followed by “quick disbursing” WB structural adjustment loans (SALs) that were “tranched” to pay as debtors enacted specific reforms
- IMF demanded “exchange rate realignment” which leads to currency devaluation
- This produces the initial “shock” as domestic prices explode upwards overnight.
- Subsequent spiraling inflation brings on IMFs next demand that the money supply be frozen forcing third world governments to slash spending

# Structural Adjustment Programs (SAPs)

- Third World central banks losing control over monetary policy with SAL reforms + currency devaluations pushed interest rates up
- With state development banks eliminated through privatization, and high interest rates preventing commercial banks from offering low cost credit, domestic banking sectors were effectively cut off from the real economy as credit flows to domestic industry and agriculture are curtailed

# Back to Comparative Advantage

- SAPs were supposed to benefit agriculture most as this is where the Third World purportedly maintained comparative advantage
- WB perceived state regulations as catering to economically distortive urban ISI interests
- With agriculture advancing, pulling light manufacturing in its wake, sufficient foreign exchange was supposed to be generated to pay for durable goods and industrial imports as well as debt service
- But with public funding for infrastructure cut along with health and education + withdrawal of subsidies for things like fertilizer or adoption of new technologies agricultural competitiveness necessary to service debt constrained

# SAP Effect

- SAPs pushed trade “liberalization” as in reduction or elimination of tariffs, quotas, etc. that allegedly “bias” resource flows toward the domestic market as opposed to export sectors
- Economic reorientation of agriculture away from subsistence food provisioning toward export of one or two globally traded crops increased the overall commercialization of agriculture
- Strengthened powerful landed classes and led to growing landlessness among small farmers while spawning of an ever bloating casual workforce

# Washington Consensus Outcome in Agriculture

- Total value of global agricultural exports was only 20 % higher by 2002 than it was in 1980 when WB + IMF got into the SAP business
- Yet Third World public debt increased by 81% between 1983 + 1991 showing shameless hypocrisy of the whole debt crisis enterprise
- Between 1980 + 2002 Third World remits $4.6 trillion to advanced economy banks = value of 50 Marshall Plans!
- With MNCs controlling world-wide sourcing, transport, processing and marketing of agricultural goods – fact that a lower cost source of good may be discovered does not bode well for countries specializing in one or two crops for export to meet debt obligations

# Making of MNC Paradise

- Post-WWII economy – international production largely involved FDI and "tariff jumping" by MNCs which *supplemented* their national profit-making activities
- In the 1970s and 80s MNCs began to transfer production to "export platforms" to service global markets
- Internationalized production begins to replace domestic activities and employment
- Condition of Third World following 1982 debt crisis opportune for MNC transfer – low wages, weak currencies and little government regulation
- 1990s MNCs assisted by the information & computer technology (ICT) revolution begin to **disarticulate** production through global outsourcing or off-shoring

# Not-at-all-manufacturing

- The disarticulating of production sliced, diced and dispersed manufacturing operations into global **value chains**
- Situation created where 60% of international trade is trade in sub-products or components – “intermediate goods”
- By the end of the 1990s and early 21st century MNCs begin divesting themselves of the making of things period fomenting rise of global “brands”
- ICT revolution in MNC global *logistics* empowered MNCs to exercise Stalinist-like centralized control over dispersed networks of suppliers

# US Morphs into Global Economy

- US rides wave of global change as its “branded” MNCs top of league
- With dollar as world money – impacts of industrial “hollowing out” – swelling trade deficit,  budget deficit as tax base constricts, bloating national debt, emerging capital account deficit – US not saddled by constraints faced by other “national” economies
- From early 1980s US fomented internal financial expansion by depending on foreign financial flows in a way unimaginable for other economy
- At end 2002 from a world total of over $1.75 trillion of US dollar reserves the amount held *in* the US reached over $1.13 trillion essentially constituting a “loan” to the US equivalent to 10 percent of US GDP

# Dollar Power as US de facto Economic Policy

- Flow of $ funds from savings countries to US allows US to automatically borrow enough dollars to finance its budget deficit
- Budget deficit per se does not add to aggregate spending and government sector need not compete with private sector for funds
- Domestic investment is stimulated without having to raise long term interest rates falling from 1990s and domestic savings near 0
- US can spend more than its resources without engendering price inflation

# US as a “Global” Economy

US as global debtor – trade deficit, current account deficit, budget deficit, capital account deficit + negative savings rate

US borrows $ savings at low interest rates via T-bill IOUs

States like Japan, China, South Korea and others habitually run surpluses with the US to which they export material goods

Wall Street as command center. Washington Consensus as “enforcer”

US “lends” money to the rest of the world at higher rates and when debt increases those states are forced to squeeze their real economies

IMF, WB, WTO, “structural adjustment”, “policy credibility”

# What Happened to the Jobs?

- 1980s General Motors – largest US employer boasting a 500,000 plus workforce
- 1994 – “temp” agency Manpower became the largest US employer with 650,000 plus registered in its system
- 2003 – Wal-Mart became largest US employer with workforce of 1.3 million Americans
- US employment equation as with other advanced economies increasingly dominated by **service sector**

# The end of production-centered industrial society?

| **Pre-capitalism** | **Capitalism** | **“Post-capitalism” today?** |
|---|---|---|
| Manufacture 10% | Agriculture 20% | Agriculture 10% |
| Services 10% | Services 30 % | Manufacture 10% |
| Agriculture 80% | Manufacture 50% | Services 80% |

% of labor force employed in 3 major sectors

# Rise of the Two-tier Service Sector

TOP TIER Global Elite – high salary

- Managers, lawyers, accountants, bankers, consultants, education professionals, science technicians at center of global business operations

BOTTOM TIER urban residents – low salary

- Waiters, cooks, retail workers, hotel staff, child care workers, low level health care workers, personal services (massage, manicure) municipal government workers

# Bifurcated two tier consumption

- High cost of urban life means that professionals require dual wage earners to sustain upper middle class life style
- Necessitates elite support systems – dry cleaners, elite restaurants, sushi bars, personal service salons, sports clubs

- Lower tier also requires dual income to survive therefore array of necessary services emerge to ensure family survival – fast foods (MacDonald's, KFC, etc.) budget retailers (Bi-way, Wal-Mart, K-Mart, etc.)

# Industrialization No Longer a “Stage” of Global Development

- On a world scale populations are shifting from agriculture to services reversing the historic shift from agriculture to industry that characterized the modern era
- Countries where manufacturing never exceeded 10% of employment already exhibiting signs of “premature deindustrialization”

# A New Economy With New Jobs?

- Robert Reich, US President Clinton's Secretary of Labor argued in a book – *Work of Nations* – that globalization is dividing work into 3 categories:
  1. Routine production work
  2. "in person" services
  3. "symbolic-analytic" services carried out by "symbolic analysts" (engineers, attorneys, scientists, professors, executives, journalists, consultants, etc.) who process information

# Knowledge Work?

- Knowledge work – increasingly translated into **working knowledge**
- What is in minds of employees captured and codified in digital software to be controlled by companies + deployed by “less skilled” knowledge workers
- Property rights in terms of ownership of knowledge intensive assets are less clearly defined than with things like factories and machines

# “Weightless” Services

- Production globally disarticulated over decades – knowledge services can be moved “overnight”
- “back office” functions – call centers, invoice processing, basic data entry services could be done in India or Vietnam in real time at a fraction of the price
- “middle office” work – business processing Reich’s symbolic analyst functions can be exported as secure communication networks and standardized software came on line – for 5 analysts in New York you can get 15 in India

# "Great Doubling"

- Harvard economist Richard Freeman points out that in the 1990s workers from China, India + ex-Soviet bloc joined the global labor force
- This dramatically increased the size of the global labor pool from approximately 1.46 billion workers to 2.93 billion workers
- Impact of entry - China, India, ex-Soviet bloc to the world economy was reduction in capital to labor ratio
- This has shifted the global balance of power to capital

# Educational Doubling

- Within a decade from early 1990s number of university entrants world-wide also doubled
- China now has more students in university than US
- New “knowledge wars” as competition ramped up for quality higher education
- Canada 1st country to achieve target of over 50% new entrants aged 24 to 34 in job market with college education – Followed by Japan and then South Korea
- 2007 figures for Canada, Japan and South Korea are 57%/55%/54% respectively – US – 40%, UK – 38%, Germany – 25%

# Learning Focus Shift

- Reduction in US/UK/EU in students studying science, technology, engineering and math (STEM)
- Asia – study of STEM subjects seen as key to national development and road to good career
- China – 37% of students study engineering as opposed to 27% in South Korea, 22% - Germany, 7% - UK, 5% - US

# War for Talent

- Relationship between learning + earning being reconsidered by companies world-wide
- MNCs gravitate toward global elite universities to secure top talent + next generation of high flyers
- Widens income inequality among middle-class occupations as those with similar education have dissimilar salaries

# High-Skill, Low Wage

- Confluence of several factors we have mentioned create a global auction between high- + low-cost workers – *no matter how skilled* – in different parts of the world
- Are university professors threatened by cut-priced lecturers from India?
- No, but things like global rankings enhance the position of elite academics in their field + because they contribute to “reputational capital” of their institutions they expect special privileges