GLOBALISATION AND EXTREMISM: A CALL FOR A MORE MODERATE APPROACH

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Re–naming is the mother of re–invention. To re–invent a company, a political party or an economic order, one must first invent a new image and name. Monsanto, the genetically modified foods company, has just changed its name to Pharmacia. So it is with the open economy. Globalisation is the new image and name of an old order: opening of the global economy to domination by the most powerful capitalist nations. The purpose is the same now as it has always been: to ensure «that capitalists from the strongest economies will be able to take advantage of opportunities for profit in other countries.»[2]

Since the Copenhagen Summit in 1995, world leaders of the strongest economies have called for poverty reduction on the one hand, and sped up the process of opening or «globalising» economies on the other. There are inherent contradictions in this approach, which have been explored in much of development literature, and leaders of the dominant economic nations, and their agents, the staff of the IMF, face contradictions and inconsistencies in their approach to globalisation itself. While promoting openness, they are reluctant to adhere to the rules of openness and to carry out their responsibilities to those adjusting to openness.

This «bending of the rules» and avoidance of responsibility for the project of globalisation itself, will, we argue, further de–stabilise the international financial system. We call for a more responsible and moderate approach from dominant nations. Above all, we call for the enforcement of rules and discipline in international financial relations.

THE CONTINUUM

The merits and de–merits of an open or closed economy have been at the centre of economic debate for a great part of our economic history.

With the recent crises in East Asia, Russia and Latin America, these debates have surfaced again in different form and are at the very heart of tensions within contemporary capitalism. Pitted against the free traders at the WTO meeting in Seattle were an extraordinary alliance of campaigners calling effectively for protectionism—or more closed economies.

There is no either/or in the day–to–day reality of the international economy. Instead there is a continuum between pure closedness and pure openness on which all nations can be located, as all nations use some combination of controls and market freedom. The leading protagonists of open economies (the US, Japan and the European bloc) are at the same time responsible for some of the most effective barriers to exports from the poorest countries.[3] In this respect, modern–day free traders are no different from their nineteenth century «golden age» counterparts: *they* banned Indian cotton cloth from British markets.

THE RESPONSIBILITY OF RICH NATIONS

For the open economy system to work today as in the «golden age», it is not enough for the dominant countries to play global bullies using the IMF and NATO. They must also –in the interests of the very openness they promote– uphold and defend a rules–

1 Director, Jubilee 2000 Coalition, UK.
2 This article draws on the work of Fred L Block, in his book, *The Origins of International Economic Disorder* University of California Press.
3 The British government stood out from the rest of their European colleagues at Seattle by announcing they would unilaterally remove tariffs on goods arriving from the poorest countries.

based system. The gold standard was an effective control mechanism, precisely because it operated to strict rules, overseen and enforced by the most powerful nation of the time, Britain.

Today this responsibility of the most powerful nations shows signs of weakening. Clear signs of their intention to «bend the rules» appeared in Seattle at the WTO meeting of December 1999. The US President faced two threats to the US economic and political system. The first: increased competition from other capitalist nations, particularly in East Asia, which had flooded the US market with cheaper goods and nearly doubled the US trade deficit in the previous year. The second: the threatened loss of trade union support in the forthcoming US elections, from workers who believe openness hurts their interests.

President Clinton tried to react to these threats in Seattle by moving the US across the continuum from openess to closedness. His proposals for inserting labour standards into all trade agreements, and the use of trade sanctions to enforce them, were perceived by developing countries as a new pretence for restricting imports. They were not alone. *The Wall St. Journal* agreed.[4] Mr. Clinton, the Journal argued, was evading responsibility for upholding the rules of the open or «globalised» market. «The administration and those who support free trade will have to respond more aggressively», they wrote. Instead Mr. Clinton weakened. So the Journal ran headlines denouncing Clinton as the man who had «botched the Seattle Summit».

This was not the only sign of weakness in upholding free trade rules. Another is rich country resolve to impose rules to force open capital markets, and *keep* them open in times of crisis. There are signs that this resolve is weakening. Germany's central bank, in its December 1999 Monthly Report, suggests that «the pace of liberalisation in capital transactions will have to be slowed down if the underlying economic conditions of the country in question are not yet sound enough to withstand strain.»[5] A recent report from the IMF, which best represents the interests and responsibilities of the richest nations, is yet another straw in the wind. It suggests that controls limiting and disciplining capital flows may be «useful».[6] The report, «Country Experiences with the Use and Liberalisation of Capital Controls» concedes that «in India and China, countries with long–standing and extensive controls and a cautious approach to liberalisation, (capital) controls may have helped reduce vulnerability to the Asian financial crisis».

FINANCING ADJUSTMENT

Besides upholding the rules for free trade and the free movement of capital, capitalist countries have a second major responsibility if they are to keep the international monetary order open. They must mobilise large sums of capital to aid countries facing balance–of–payments difficulties during the transition to openness. International credit provides a lubricant for the adjustment process, and helps an economy move from closedness to openess. This was the role Britain played during the «golden age» of openness.

Rich countries promote globalisation, while evading these responsibilities to the globalisation project itself. Aid flows have fallen steadily to USD 51.9 billion in 1998, USD 8 billion less than in 1994. In 1980, aid levels were at an average of 0.37% of donor GNP. With the ending of the Cold War, aid has fallen to just 0.24% of donors combined GNP, far below the UN–recommended level of 0.7% and the lowest proportion on record.

Capital flows to middle income developing countries increased significantly over the 1990s, with long–term flows increasing from USD 50 billion in 1990 to USD 290 billion in 1997. Short–term flows, however, proved to be hugely destabilising with the equivalent of 10% of East Asia's GNP flowing out as panic hit investors during the recent Asian crisis. According to the World Bank, average monthly capital market financing for all developing countries fell from USD 25.7 billion in July–Dec 1997 to USD 11.8 billion in July–Dec 1998.

Private capital from the richest countries continued to bypass large numbers of low–income developing countries, adjusting to globalisation. In 1997, South Asia and sub–Saharan Africa together received only 6% of Foreign Direct Investment and 12% of the aggregate net resource flows to all developing countries.

POOR COUNTRIES HAVE NO CHOICE

Decisions about where to place your economy on the continuum of open and closed economies face politicians in poor countries too. However, they have less choice. The superiority of G7 nations in nuclear weapons, control over capital, technology and raw materials gives them great power over the poorest nations.

So non–industrialised countries are obliged to open up their economies to western capital and imports, while facing restrictions on their own exports into western markets. Poor countries invariably suffer from a shortage of savings, and they have had to cope with significant reductions in aid. They are encouraged instead, to borrow on the international markets to finance adjustment and development. Their economies are uncompetitive in global markets, and their manufacturing markets often un–diversified; so the impact of openness undermines local markets, imports deflationary pressures, worsens trade deficits, damages the environment and hurts local communities. High levels of

4 «How Clinton Botched the Seattle Summit» *The Wall St. Journal,* December 6th 1999.
5 Deutsche Bundesbank. Monthly Report. December 1999, p. 36.
6 *The Financial Times.* January 12th 2000.

foreign borrowing to finance adjustment, combined with falling export income, leads to unsustainable levels of debt.

WHICH WAY FORWARD?

These developments represent major challenges to the future of openness, or globalisation. The outcome of these challenges is uncertain. There are signs in the dominant nations that deflationary pressures, the adverse impact of recent financial crises on the US and European balance of payments, economic degradation in the poorest countries, and the debacle at the WTO will weaken political will for the globalisation project. In the world of developing and transition economies, the situation in some cases borders on the catastrophic. Leaders in many countries, from Russia to the Congo, from Ecuador to Indonesia, face social, political and economic disintegration. In the meantime, millions of people have lost their lives or been displaced. ***In 1980, when Mrs Thatcher and President Reagan re–invigorated the project to open economies, 2.5 million people were refugees. Today 21 million are displaced by civil war, disease, famine and ecological disasters.***

These reactions to the de–stabilising impact of capital liberalisation appear to be leading to a welcome slowing down of the pace of liberalisation. A new, more stable and just international order, one less open than that of the last decade, could develop. Alternatively acceleration of globalisation could lead to a complete breakdown of the international monetary system, as happened in the 1920s and 1930s.

To avoid complete breakdown of the international monetary system and further economic and social degradation, we argue that the evolution of a new international order is preferable to further opennness and financial instability. Indeed we go further. We argue that to promote human development, it is vital and urgent that the necessary steps are taken to move the international economic order across the continuum and away from complete openness.

Assert Human Values over Money Values

In order to promote the globalisation project, leaders and opinion–formers in the dominant nations have had to assert the superiority of money values over human values. This ideological framework has allowed human development to be subordinated to the interests of capital and business development. It has provided a pretext and cover for economic policies that have led in turn to great loss of human life and catastrophic destruction of human potential in developing and transition countries.

The international Jubilee 2000 movement is a mass movement of people re–asserting the superiority of human values over those of money, while calling for an end to the control of moneylenders over the poorest countries. If real commitment to poverty reduction and human development is manifest at the forthcoming UN Summit in Geneva, then human values will have to once again be placed above those of money. The G7 will have to stop facing both ways.

Restrain Capital Flows

At the 1997 annual meeting of the IMF and World Bank in Hong Kong, the IMF was warned of the risks in speeding up the pace of capital liberalisation. These warnings were arrogantly ignored. Instead, the livelihoods of millions of people were sacrificed in the South East Asian crisis.

Joseph Stiglitz, the former Chief Economist of the World Bank, has noted that «many people were thrown out of jobs, and in some cases more than 50% of firms were put into bankruptcy (during the Asian financial crisis of 1997/8)—even though it was financial markets that were at the root of the problem».[7]

The IMF belatedly acknowledges that capital liberalisation played a part in de–stabilising economies in that Asian crisis. Poor countries should be free to learn the lessons and to control and manage flows of capital in the interests of their own people. Chile, Malaysia, China and India have shown how this can be done. The IMF's grip over developing and transition economies should be loosened so that they can follow these examples.

Introduce Discipline into Lending and Borrowing

As night follows day, so reckless international lending and borrowing follows capital liberalisation. There is great moral hazard in the absence of regulation, as the lending to economies like Mexico, Thailand and Russia revealed. The IMF's determination to encourage these flows led in turn to policies for bailing out, at taxpayers' expense, owners of capital that had lent carelessly. Losses and liabilities were nationalised, and future innocent generations burdened with the debt.

This framework encouraged market imperfections, in particular by removing risks faced by international lenders. These creditors were not subject to the discipline of market forces, nor to that of the law through formal bankruptcy. The international Jubilee 2000 movement has shown unanimity in promoting a new, more just, independent, accountable and transparent process for managing relations between sovereign debtors and their public and private creditors.

7 *International Herald Tribune.* January 27th 2000.

A fair, transparent arbitration procedure, need not be bureaucratic. It could be modelled on the process that applied to Germany and Indonesia in 1953 and 1971 respectively. Both countries were granted massive debt cancellation by an independent assessor. The eminent banker, Herman Josef Abs, oversaw negotiations that shared liabilities and losses more fairly between debtors and creditors, and gave both nations the opportunity to recover economically and enjoy a fresh start.

Jubilee 2000 campaigns in Africa and Latin America argue that such an arbitration process could put a brake on the corruption that takes place when loan agreements are signed in secret. These agreements are signed in the knowledge that neither parties to the agreement are likely to suffer losses if the debt becomes unpayable. Local borrowing elites will have moved on. And lending elites can either appeal to the international financial community to be bailed out; or can wait until economic stability returns—when debts will be repaid with compound interest. Greater transparency would restrain secretive lending by G7 government Export Credit Guarantee Departments, which use loans to promote arms and other unproductive exports to developing countries.

An independent arbitration process would thus have three goals: first to restore some justice to a system in which creditors play the role of plaintiff, judge and jury; second, to act as a brake on capital flows and introduce discipline into sovereign lending and borrowing arrangements –and thereby to prevent future crises; and third, to counter corruption in borrowing and lending by introducing accountability through a free press to civil society. Such an arbitration process would place the same disciplines on creditors as they currently submit to under domestic bankruptcy laws, and would discourage, we believe, the sort of reckless lending that led to the East Asian crisis. Lending decisions would be made more carefully, with greater consideration of capacity to repay and with a more equal share of risk between both sovereign creditors and debtors.

AGREE DEEPER DEBT CANCELLATION

Rich countries have a responsibility to help poor countries cope with the balance–of–payments crises and debts that are a necessary side effect of adjustment to globalisation. They can do this in two ways: by offering much deeper debt relief, and secondly by massively increasing balance of payments support in the form of grants.

The Highly Indebted Poor Countries (HIPC) Initiative, and the USD 100 billion of debt cancellation agreed in Cologne—while a big step forward—is nevertheless woefully inadequate. President Clinton acknowledged as much in his address to the IMF/World Bank annual meetings on the September 29th. Prime Minister Tony Blair agrees and Chancellor Schroeder of Germany in a New Year message said that «one of (Germany's) primary tasks will be to make *further* efforts to reduce the level of debt of poorer countries».

The current process is entirely dominated by creditors who are deeply reluctant to cancel debts. Furthermore it is mired in the IMF's orthodox macro–economic conditionalities and bureaucracy, and it and offers too little, too late for countries in crisis, such as Guyana, Sierra Leone, Rwanda, Nigeria and Ecuador. The relief that has already been granted means that debtor nations, including Mozambique, Mauritania and Bolivia, will continue to spend more of their budgets on debt repayments to rich western creditors than they spend on health, education and clean water.

Large debtor nations are prevented from obtaining debt relief by a method of selection that is both arbitrary and lacking in intellectual rigour. It serves only the interests of the dominant nations, who are keen to write off only those debts that would anyway not be repaid. Nigeria was defined by the World Bank and IMF as effectively bankrupt and in need of relief when the HIPC Initiative was first drawn up. She was removed from the list by creditors, however, without explanation. We can only conclude they were concerned about their own likely losses.[8] Many other countries need relief and must be freed up to request independent arbitration and debt cancellation from their creditors.

ALLOW POOR COUNTRIES TO REPAY DEBTS IN THEIR OWN CURRENCIES

With the dollar as the dominant currency, the poorest countries are expected to repay foreign debts in hard currencies, namely dollars, sterling or yen. Allowing countries to follow the example of the United States and repay their debts in their own currencies would return levels of debt to sustainability very quickly. Creditors would of course hesitate to lend under these terms, but would at the same time be more disciplined about lending. The value of poor country currencies would rise, as creditors would have an interest in maintaining their value. As things stand, creditors, through the IMF, have in the words of *The Wall St. Journal*, «a bias toward devaluation, which is supposed to 'revive' exports even as the inevitable, resulting inflation quickly diminishes the resident population's incomes and assets. Impoverishing people in this way is morally indefensible and politically unsustainable.»[9]

INCREASE THE FLOW OF AID AND CAPITAL TO POOR COUNTRIES

The declines in aid to developing countries must be reversed. One way of raising revenues for this purpose could be through

8 See *Jubilee 2000 Debt Update,* Issue 3. December 1998.
9 Editorial. *The Wall St. Journal Europe*, November 11th 1999.

the introduction of a Tobin Tax. Paul Bernard Spahn has argued that a Tobin tax rate of two basis points (0.02%) on daily turnover in foreign exchange markets of USD 1.23 trillion, could generate USD 64 billion annually. This should be administered openly and democratically through the UN and the revenues used and distributed for social development.

The Tobin Tax would have an additional benefit; it would discipline and deter speculative activity in financial markets.

CHANGE THE FOCUS OF THE IMF

Joseph Stiglitz, until recently Chief Economist at the World Bank, has made the powerful point that the most successful economies of the last decade –China, India and the United States– bent the rules of openness and rebuffed IMF macro–economic policies. «China» he has argued, «accounted for two–thirds of the entire increase in incomes among low–income countries between 1978–1995 by largely ignoring the Washington consensus.» (*Economic Journal*, Nov. 1999).

China is a powerful economy, is not crippled by debts and has nuclear weapons. Debtor nations have no choice. They have had to adopt IMF policies. In Africa, the consequences have been disastrous. According to the World Bank, the population living below USD 2 a day rose by 90 million between 1990 and 1998 – the period during which the IMF dominated economic policy making on the continent.[10] GDP per capita in sub–Saharan Africa was negative between 1989 and 1998.[11] Over this same period, the number of people in developing and transition economies (excluding China) living below USD 2 per day, rose, according to the World Bank, by 1 billion.[12]

The scale of this economic disaster is almost beyond human imagination. It has led to social, political and civil disintegration in large swathes of the developing world. The cost in human lives and human potential is probably incalculable and may well exceed the lives lost during the post 1914 period. Millions of lives have been sacrificed for an economic project that has failed to deliver economic growth in regions such as Africa and Latin America.

In this context, the call by the US Treasury Secretary for the IMF to give up the role of disbursing concessional finance to developing countries and implicitly enforcing its traditional menu of conditions, should be supported.[13] This should only be agreed, however, if such finance continues to be made available to developing countries – whether as direct bilateral grants, or via other development institutions.

LOCALISATION NOT GLOBALISATION

Finally, it is unrealistic and deeply unjust to expect the poorest countries to be able to trade and compete fairly with the richest countries. Rwanda's poor farmers will never be able to compete with the subsidised, highly–capitalised and protected grain markets of the United States, Japan or Europe.

Countries should be free to follow the western model, namely, instituting high levels of protection for domestic markets as they evolve and mature. Only once domestic markets have reached a stage of genuine competitiveness, should the choice of entering new markets be made.

Western economies, as that great African economist Abdul Rahman Babu once argued, are based on three pillars: agriculture, textiles and construction. These sectors enable any nation to feed, clothe and house people. In the west they are always protected. Under enforced opennness, developing countries are encouraged to export raw materials, undermine subsistence agriculture and local businesses, and turn these societies into markets for imported food and irrelevant consumer goods. They should concentrate instead on serving the interests of local people and their communities.

DON'T MAKE THE POOR CATCH UP

Developing countries are always urged to «catch up». With whom and with what? Japan «caught up» 150 years after the UK; Sweden 50 years after the rest of Europe. Needs are always relative. First, developing countries must escape from debt bondage. Then they need to feed, clothe and house their people. Only then should they borrow on international financial markets, trade and expand. To meet basic needs, they do not need foreign loans.

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10 World Bank. *Global Economic Prospects 2000*, p. 28.

11 *Ibid*, p. 148.

12 Estimates of poverty by the World Bank using the USD1 a day yardstick are dubious. Full country–level documentation of impoverishment would, we believe, reveal far greater numbers.

13 Larry Summers. «The IMF should focus on preventing crises». *Independent*, December 16th 1999.