Reforming and Redesigning the Global Economy

At the end of this session, you should be able to understand

- Sources, outcomes & challenges of economic globalization (poverty, environment, democracy)
- Globalization Debates and Solutions
- Reform proposal for the global economy
- Increasing citizen participation by reforming the IMF
- Establishing a global financial authority-Intl.Clearing Bank
- “Honoring the Earth” within WTO treaties, include sanctions
- Tobin Tax on international speculative financial transactions
- Controlling capital for the public good (list of rights & responsibilities)

Sources of Economic Globalization
Since WWII: New technologies create unprecedented speed and density of global interactions
1944: “Bretton Woods System:” International Monetary Fund (IMF), World Bank Development Loans, General Agreement on Tariffs and Trade (1947 GATT then 1994 WTO)
1973: End of U.S. Dollar (backed up by U.S. gold reserves) as central stabilizing currency of capitalist nations
1980s: Neo-Liberalism (Privatization, Open Markets, Structural Adjustment Policies, Foreign Investment) becomes order of the day implemented by Bretton Woods System
1990: End of Cold War & collapse of the Soviet Union extends free market capitalism globally

IMF Governance
- Governments fund IMF
- Votes are based on a “one dollar, one vote” principle, NOT “one country, one vote” system
- Industrialized countries account for > 60% of the voting strength in IMF & World Bank, compared to 17% in UN
- US has largest voting block in IMF and enjoys an effective veto against major IMF decisions

Original tasks of IMF (1944-1973)
- Guarantee global economic stability
- Facilitate expansion and balanced growth of international trade
- Contribute to the promotion and maintenance of high levels of employment and real income
- Oversee a system of fixed exchange rates to stop currency devaluation for competitive reasons (as in 1930s)
- Promote currency convertibility
- Act as a “lender of last resort,” i.e. emergency financing of economies running into short-term cash-flow problems
- Failures to stop crises, such as the 1997/9 Asia crash

Post-1973 tasks of the IMF
- “Age of insecurity” began after Dollar was pulled out as central stabilizing world currency and IMF stopped policing exchange rates. Results were
  - Wildly fluctuating exchange rates
  - Growing volumes of uncontrolled capital flows
  - Endemic financial instability
  - IMF focused on “conditional” Third World loans to expand the role of market forces in developing nations
  - Promotion of neo-liberal “free market” principles (Privatization, Open Markets, SAP, Foreign Investment)
  - Concern about low inflation instead of people’s issues, i.e. full employment, poverty reduction, reduction of social and economic inequality, democratic accountability

IMF Reform Proposals (Ellwood 2002, p. 112ff)
- Restructure power sharing and voting
- Make it more accountable to its members and nations affected by its decisions
- Publish documents and become more transparent, pluralist & open-minded. Listen, not lecture. Learn from mistakes
- Consult with social and environmental ministries, parliaments, civil society orgs, unions, farmers, NGO’s in affected countries
- Regular external evaluation of programs and policies
- End policy of neo-liberal conditionality and coercion without accountability
- New objectives: improving people’s lives not that of investors/corporations or abstract goals like “inflation control”
- Better training of staff outside of offices in the “local fields”, link pay to success in poverty reduction, etc

Outcomes of Economic Globalization
- Increased international trade & exports (growing faster than output)
- Significant expansion of global industrial capacity (“Second Industrial Revolution)
- Growth of knowledge industries, technology, financial markets, and services. (more capital movement than trade)
- Growth of TNCs (1/3 of all internt. Trade within TNCS, Uhttp://www.globalfactory.comU)
- Rising importance of private capital flows + Increased power of international institutions who regulate trade (IMF, WTO, World Bank) and the (l)only superpower U.S.A.
- Lack of democratic accountability of decisions with global reach made by corporations/banks, speculators, governments, international organizations (IMF, WTO)
- Increase of global inequality between and within countries
Threatening the social fabric and social relations, stripping age-old cultures of their self-identity
Increase of environmental pollution
Increase of conflict and resistance. Search for alternative “sustainable” forms of growth & development by consumers, environmentalists, trade unionists, women, religious activists, farmers, human rights advocates, ordinary citizens

Challenges of Economic Globalization
“Globalization has ended the nation-state’s monopoly over internal sovereignty, which was formerly guaranteed by territory” (Wolfgang H. Reinicke)

- Are nation-states sovereign in their economic and political decisions?
- Who rules & makes decisions the global economy? (Multinational corporations, International Banks, Speculators, Internatl.Orgs….)
- Who benefits? (U.S., developed countries, corporate and political elites, G7, ¼ world’s population below $1 a day & ½ below $2 a day…)
- Is “free market” mantra (liberalize, privatize, foreign trade, transnational corporate activity, SAP austerity reforms) the “only” and “best” solution?
- Is it sustainable? (environmental pollution, gap between poor and rich, exhausting resources, health and working conditions, exploitation, resistance, side effects like terrorism…)
- How can we put back humans in control of economic activities?

The Poverty Challenge
- Out of 4.4 billion people in developing countries 1.3 billion subsist on less than $1/day
- 3 billion on less than $2
- 15 million people die of poverty related causes annually
- 1.2 billion lack access to safe water
- 3 billion lack access to basic sanitation
- 2 billion lack access to power

The Environmental Challenge
- Per capita waste generated has trebled over past twenty years in developed countries
- Carbon emissions have quadrupled over past fifty years
- A sixth of land area has been degraded
- Fish stocks down by one quarter
- 350m people live in areas prone to environmental hazards
- Deforestation @ 1 acre/second
- Wild species extinct at a rate 50 times higher than naturally

Globalization Debates
- Is Globalization an unavoidable quasi automatic “Process” vs. a man-made and therefore changeable “Project”?
- If Globalization is malleable, who can and will change it? Do we want to change it?
- Are we in a “New Global Era” or is nothing new?
- Is Globalization of today Good or Bad, are the Benefits larger than the Disadvantages?
Is the Globalization of today sustainable in the long run?
Is Globalization the Beginning of the End or a Revival of Nation States?
Does Globalization lead to Cultural Sameness or Difference?

Solutions to Economic Globalization (Ellwood 2002)
- Increasing citizen participation by revamping the IMF
- Establishing a global financial authority
- Honoring the Earth
- Tobin Tax on international financial transactions
- Controlling capital for the public good

Questions about the reading
- What do you think about the solutions offered in the reading? Are they realistic and feasible? Who needs to be involved to make it happen? Is there sufficient political will in the U.S. and elsewhere?
- What alternative solutions are possible in addition?
- What can we--the affected people--do?
- What could happen if we continue with “business as usual”? 