Explaining Globalization

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

- the “Forces of Capitalist Economic Globalization,” in particular the philosophical and ideological underpinnings of the modern Western world & globalization (property/appropriation, individualism, capitalism), as presented by guest speaker Chad Kautzer (Department of Philosophy)
- how International institutions, neo-liberal free market ideologies, global financial speculation, and corporations shape our globalizing world, and in particularly, create and maintain economic dependency of “less developed countries”
- why native peasants rise up against the destruction of their land and culture by the forces of globalization at the example of the Zapatista uprising in Chiapas/Mexico

Origins of Modern Western Thought (beginning in the 13th century)

- Concepts of labor/personal property/possession (Aquinas, Locke…)
- Concepts of money representing consensual exchange value
- Concepts of the 'laws of nature' and their function to order and adjudicate conflict
- Ideology of the global civilizing mission of Western Christianity vs. non-Christian barbarism resulting in exploration, conquest, colonization….

Global Economic Institutions

- Post-WWII Reconstruction of World Economy
- New institutions (e.g., U.N. 26 June 1945, Marshall Plan 1947, NATO 1949)
- Bretton Woods Agreement (1944 Conference) to construct post-war international economic system and help reconstruct destroyed W. Europe
- Created three international organizations
- International Bank for Reconstruction and Development–IBRD (later “World Bank”) to provide loans
- International Monetary Fund—IMF to stabilize currencies
- General Agreement on Trade & Tariffs--GATT to develop a trading framework, reduce trade barriers, and cement U.S. economic hegemony

Bretton Woods System (1944-1971)

- Three organizations (IMF, World Bank, and GATT)
- Dollar-based gold standard
  - Countries pegged their currencies’ to gold (+ or -1%)
  - Could change the pegs under certain conditions
  - Only U.S. agreed to exchange its paper currency for gold
World Bank
- Initial goal: reconstruct war-torn Europe
- After 1950s: help poorer countries of the world develop economically BUT could only extend “hard loans” (capable of being repaid)
- LDCs claimed this policy was of no use to them
- WB Group: IBRD/World Bank; International Development Association: extends soft loans; International Finance Corporation: helps develop private sector; Multilateral Investment Guarantee Agency: provides political risk insurance

International Monetary Fund
- Bretton Woods Agreement also created the IMF
- goals:
  - promote international monetary cooperation
  - promote exchange rate stability

IMF Quotas
- IMF members join by paying a deposit, or quota, in gold and home currency
- Quota has triple function
  - size of voting power
  - size of borrowing power
  - serves as part of country’s international reserves

IMF Conditionality
- Each country has absolute right to power 25% of its quota (so-called gold tranche)
- If it wishes to borrow more than 25%, it must agree to conditions imposed by the IMF (cut government spending, liberalize trade, allow more inward FDI, etc.)
- IMF conditionality often causes domestic political turmoil

Collapse of the Bretton Woods System
- Aug. 15, 1971: President Nixon announced U.S. would no longer redeem gold at $35 per ounce
- exchange rates began to “float,” creating a flexible exchange rate system
- Smithsonian Conference Dec 1971: central bankers restore fixed exchange rates with new par values (gold=$38/ounce)

Deregulation, Financial Crises, and Structural Adjustment Programs
What is Deregulation?
From State to Market
- Western industrial economies – Thatcherism, Reaganism, Social Darwinism
- Developing countries = Structural Adjustment Programs (SAP)
Post-communist societies – marketization, shock therapy

Tools:
- Privatization
- Deregulation
  - smaller state
  - lower social safety nets
  - remove supports for industry
- Free Trade – removal of tariffs and quotas
- Deregulation of financial markets
  - the market knows best
- Competition and comparative advantage
  - competition - efficiency – productivity – growth

IMF & World Bank’s Structural Adjustment Programs—SAP (Anderson 2002)
- Reduction of size of state & privatization of public companies & services
  => deterioration of school quality and attendance
- Balancing gvt. Budgets => cuts on health, education, environmental protection
- Deregulating economy => eliminate trade barriers, cut corporate taxes, open foreign
  ownership of natural resources, increase exports, decrease consumption
- Weakening labor => increase flexibility, reduce labor rights, suppress unionization

Structural adjustment programs (SAPs)
- Mexico declared it was going to default on debt payments.
- IMF forced Mexico to repay debt before any other national expenditures – ‘austerity’
- Mexico diverted energies to exports - to pay creditors, the banks.
  - Austerity
    - The pain of structural adjustment on the poor is justified through the long-term
      gains to a nation's economy.
    - These gains will benefit the poor in the future.

But, in country after country neo-liberal SAP gains have failed to materialize
- Debt burden of LDCs grew 5-fold b/w 1980 and 1997. Debt relief program did not
  cancel debts but made them more palatable
- Anti-poverty programs failed and are considered public relation stunts
- Domestic protest against certain loan packages were ignored (Ecuador)
- Censorship: Critics in World Bank are silenced or pushed out
- Overall: Lack of transparency, democracy, commitment to fight poverty.
- The richest countries got richer while the poorest got left behind

Admitting failure
- 'IMF riots' over the past 15 years (see Argentina)
- Zambia, Venezuela, Jordan, the Philippines, Jamaica, etc.
- World Bank has accepted that SAPs have failed the poor, with a special burden falling
  on women and children.
- Yet together with the IMF it still demands developing countries persist with SAPs if
  they wish to have access to future loans or debt relief.
'Economically speaking, we are more dependent on the ex-colonial powers than we ever were. The World Bank and the IMF are playing the role that our ex-colonial masters used to play'