THE GLOBAL ECONOMY

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Summary

This contribution traces the major developments in the global economy over the twentieth century, its institutional structures, changing patterns of state–market relations, and the growth of the global financial market. It concentrates on the tensions between expanding human development and growing inequality gaps. It details inequalities across North/South and within individual states, and emphasizes the role of the annual United Nations Development Program (UNDP) *Human Development Report* in exposing these. Technology is identified as a key driver of both change and growth, in addition to being a prime and complex factor in defining the enduring power of North over South. The roles of transnational corporations (TNCs) are examined as central in this and other contexts of globalization. The new emphasis on "partnership" with transnational business, in the interests of a more just economy, is discussed as reflective of the breaking down of the boundaries between politics and economics. The key challenge is making an increasingly integrated economy more equal.

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1. Introduction

The growing complexity of the global economy continues to increase the challenges of analyzing it. Perceptions of it can depend very much on where the perceiver stands, or their interests, in terms of geography, culture, and social hierarchy. This summary will attempt to keep in play the sensitivities that are necessary to take account of the wide gulfs that divide different economic participants and their views of the economy. It is foundational to the very existence, survival, and relative opportunities for happiness and fulfillment of people around the world. But there are an endless number of roles that are played within it, some more active, and some much more influential, than others, and the resulting rewards or lack of them are structured on the basis of profound inequalities. Marginalization and exclusion are as much a part of the picture as participation and empowerment. Part of the purpose of the following discussion will be to examine key historical bases for economic inequalities and the nature of changes in them over time.

It is important to begin with one statement. There is an overarching tension that characterizes the global economy. While it has expanded and continued to generate increasing amounts of wealth, this wealth has become more concentrated. It is impossible to deny that growing numbers of people around the world have shared in the benefits of economic development, but they have by no means shared equally in them. The statistics reveal a scenario of the few, rather than the many, benefiting most. This is so, whether we are thinking about states, or corporations, or individuals. Therefore it is a pervasive trend that influences the experiences of people across all areas of their lives: politics, work, home, family, and friends. It could be argued that it is the inescapable logic of the global economy in which all lives are entangled. It breaches geographical and social boundaries, including the divides between the public sphere of institutions and decision-making and the private sphere of social relations and production.

The problematic of this central logic will be threaded through this assessment because of its enduring relevance to questions of sustainability. These inevitably address the whole of humanity and the sense of shared problems and challenges, of a collective fate, to some extent. The economic logic of growing inequality runs counter to such aims in testing, and sometimes, quite devastating ways. It means that all investments in the economy, whether they be of finance, labor, time, or risk, are generally unequal in the benefits or damage they may produce. This is a deeply divisive logic whose internal dynamics explain a great deal about the contrasting lives, deaths, and destinies of different individuals, communities, and groups of communities around the world.

1.1. Human Development

The United Nations Development Program (UNDP) *Human Development Report* (HDR), published annually since 1990, has provided an important benchmark in the assessment of inequality. Its evolving methodology has attempted at root to "humanize" analysis of the economy: to reveal the human consequences behind the figures, and to discover ways to calculate social as well as economic development in their broadest terms. Its human development index (HDI) measures the progress of countries in terms of their citizens' capacities for a long and healthy life, knowledge, and decent standard of living. The calculations go well beyond the standard gross domestic product (GDP) measurement of national development to include life expectancy at birth, and educational attainment—adult literacy and the combined gross primary, secondary, and tertiary enrollment ratio.

Its gender-related development index (GDI) uses the same variables as HDI but builds in assessment of the inequalities between women and men. The higher the gender disparity, the lower the country's GDI compared to its HDI. The gender empowerment measure (GEM) compares gender inequality in key areas of economic and political participation and decision-making. The human poverty index (HPI) reflects the distribution of progress and measures the continuing backlog of deprivations (differently for industrialized and developing countries owing to their contrasting circumstances).

One of the major impacts of the HDR is the demonstration of the political power of economic and statistical methodologies. It has illustrated that data and their interpretation are far from neutral. This is particularly so in the ways in which HDR methodologies have evolved to extend the comprehensive nature of the variegated development picture presented. The manner in which we can understand, both what is happening in the global economy and what might be done to bring about change, is highly dependent on the precise data we focus on, and the frameworks we use to combine different sets of data. In economic analysis data are often the window through which we see the world. Different data provide quite different views of it. If we do not

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have data on gender inequalities, then it is much easier to ignore them or to pretend that they may not be significant. If we are dependent on purely nationally aggregated statistics then we cannot have the vital sense of the differentiated benefits, or otherwise, across the social hierarchy. This detail remains locked inside those statistics. HDRs have done much to begin to unlock them.

Policy-making and advocacy are highly dependent on data, which will be called on as "proof" of the need for certain problems to be addressed, in addition to, or with a greater priority than, other sets of problems. Data are often central to demands for reform, and influence the urgency that can be claimed for such institutional or social change. HDRs have become a high profile means by which methodological challenge is kept at the forefront of analysis of the global economy. They demonstrate and argue for the importance of continuing innovation and critical reflection in this sphere, and illustrate clearly and accessibly their relevance in facilitating new forms of understanding and awareness about the linkages, positive and negative, between economic, political, and social development processes.

1.2. The Dynamics of Capitalism

The main dynamics of capitalism, as it has historically developed, can be summarized as follows:

1. Pervasive principles of expansionism with respect to production, consumption, trade, financial investment, and exchange.
2. Holistic tendencies to incorporate all aspects of life and society, making it possible to talk in terms of "capitalist culture."
3. Emphasis on wealth generation defined substantially in terms of the profit motive and capital accumulation.
4. Concentrations of capital among comparatively small numbers of individuals, states, and corporations.
5. Uneven development based in part on the pursuit of comparative advantage by the major players.
6. Divisions of interests between the minority of capital holders and the majority of workers/consumers.
7. Ideological tenets including competition, ownership, flexibility, and the prioritization of private (individual—company or person) over public (collective–societal) interests.

1.3. The Twentieth Century

The twentieth century has been characterized by processes of internationalization, and in its latter stages, globalization. Key historical moments include: the transfer of main creditor status from Britain to the US in the First World War period; international financial crises of the interwar years affirming the role of interdependence; the economic boost to the US economy of the Second World War; and its unique position in 1945 of political, economic, and military power. The post-1945 period has seen the establishment of an evolving institutional framework bringing aspects of political *and* economic order together. The UN system of organizations is the main symbol of this

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development. Its establishment was at least partly based on the lessons learned from the interwar years. Economic as well as political stability would henceforward be regarded as essential to efforts to maintain a peaceful world.

US influence was decisive in establishing the principles of this new world order, which, it has been stressed, aligned directly with its interest in an expanding world market for its thriving economy and businesses. The Bretton Woods Agreements of 1944 were aimed at an open world economy and the stimulation of multilateral trade. These established the two key economic entities that remain active today: the International Monetary Fund (IMF) and the World Bank (International Bank for Reconstruction and Development (IBRD)). The General Agreement on Tariffs and Trade (GATT) was another major element of the new structure. This was concerned with reducing tariff barriers on manufactured goods to facilitate the growth of world trade. The various GATT rounds of multilateral negotiations have addressed specific trade issues, and are calculated to have cut average import duties on manufactures from more than 40% to just 3% between 1948 and 1994.

Decolonization and subsequent membership of the UN helped to give developing countries a voice at the international level to protest in the 1960s and 1970s against the bias of the GATT regime towards the industrialized countries' trade. Through the newly established United Nations Conference on Trade and Development (UNCTAD) the Group of 77 non-industrialized countries lobbied for a New International Economic Order (NIEO) to link trade more effectively to development. This would need to include recognition of the importance of primary products and technology transfer to developing countries. There were limited successes towards stabilizing income from exports in staple goods and expanding exports between South and North, but the NIEO campaign basically failed.

The last GATT negotiations, the Uruguay Round, led to the establishment of the rules-based World Trade Organization (WTO) in 1995. This has brought a focus on the liberalization of trade in both the service sector and agriculture. In the latter area it could be argued that there have been steps back on the achievements of the NIEO lobbying period. This was signaled by the so-called "banana war" between the US and the European Union (EU) over the latter's Lomé agreements, favoring Caribbean imports over those from Latin America.

More than 90% of all world trade is estimated to be covered by the WTO framework. This new organization represents an embedding of the institutionalized principles of liberalization in trade at the global level. In its technocratic emphasis on rules, it carries forward the GATT into a new era. Like the GATT, it is firmly oriented towards the concerns of the richest economies and their trade, as its attention to trade-related intellectual property rights (TRIPS) and the area of services, for example, highlights. The importance of the WTO in helping to define a new stage of the global liberal world order was demonstrated in the drawn out struggle between the US and China to reach agreement over the latter's entry to the WTO. China is generally regarded as the jewel in the crown of future markets, both in terms of its scale and its further potential rate of growth.

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China's modernization and integration into the world market was viewed by many as the next major structural development in the global economy, which in the latter part of the century had been increasingly dominated by the triad of the US, Europe, and Japan. The triad, and, importantly, their multinational (transnational) corporations, held the concentrations of overall wealth, foreign direct investment (FDI), market and financial strength, intellectual property, research and development, production, and consumption.

Their grip over global economic power was multifaceted and firmly established in the major forces for change. Their states and multinational companies (MNCs) had been instrumental in shaping processes of globalization in all regions of the world. Their stock markets, in New York, London, Tokyo, Frankfurt, and Paris, had played major roles in steering the financial revolution, which, with the assistance of information and communication technologies (ICTs), led to 24-hour trading and an historic speeding up and expansion in financial flows (see Transformations of Information Society).

Manufacturing MNCs and banks in the triad had internationalized on a grand scale. FDI was heavily concentrated within the triad itself, with increases in mergers and acquisitions indicating a deeper integration of these powerful economies and their MNCs. The vast majority of FDI to the developing world was going to China.

1.4. Foreign Direct Investment (FDI)

These trends were at the heart of globalization, but they also explained why it was such a partial phenomenon or set of phenomena. MNCs were increasing their operations, extending them geographically, in pursuit of reduced costs, better profits, and, importantly, competitive access to markets. While industries were expanding world sales, their leading corporations, exports, and investment patterns showed concentrations within the triad, rather than beyond it.

The HDR 1999 and 2000 explained that world exports of goods and services almost tripled between the 1970s and 1997, but by that year the share of the least developed countries in exports had continued to show a steady drop to 0.4%, compared to 0.6% in 1980. By 1997 FDI had grown to seven times the level of the 1970s, but 58% of it went to industrial countries, 37% to developing countries, and just 5% to the transition economies of the former Soviet bloc (see Economies of Transition). In the 1990s China received most of the FDI flows to developing and transition economies. Overall, the top fifth of the world's people in the richest countries enjoyed 82% of the expanding export trade and 68% of FDI—the bottom fifth, barely more than 1%.

According to UNCTAD's *World Investment Report 1999* (WIR), the number of transnational corporations (TNCs) had grown to at least 60 000 at the end of the 1990s (see Multinational Corporations). Between the end of the 1960s and the end of the 1990s the number of TNCs in 15 of the most important developed home countries had grown from 7000 to 40 000. The growth rate of FDI inflows was faster than both trade and domestic production. From a worldwide level of US$56 billion at the beginning of the 1980s, these flows by 1998 had reached US$166 billion to developing countries, and US$644 billion worldwide.

Close to 90% of the top 100 TNCs were from the triad. Developed countries accounted for 92% of global outflows and 72% of inflows in 1997, with an intensification of "TNC-led links" between the US and EU, each being the largest source of FDI for the other. These TNC patterns reflect the processes of concentration of commercial development within the triad. Mergers and acquisitions continued to drive the strong FDI performance in the developed world generally. The HDR 1999 explained that between 1990 and 1997 the annual number of mergers and acquisitions more than doubled from 11 300 to 24 600.

2. Frameworks for Understanding

Frameworks for understanding the global economy in the twentieth century paid attention to the following main themes:

(a) Changing patterns in state–market relations.
(b) The growing role of multinational corporations, increasingly referred to as transnational corporations because of the scale of their wealth and influence across national boundaries.
(c) Expansion of mergers and acquisitions in the later stages of the century leading to the era of the megacorporation.
(d) Roles of financial markets and interdependencies, enhanced by the rise in financial flows and the era of high deregulation in the 1980s and 1990s.
(e) Development from Fordist to flexible forms of production.
(f) Transition from the industrial to the service economy, predominantly in the North, and the growth of symbolic consumption, for example of media, insurance, and financial services goods.
(g) Technology's diverse parts in economic change, including in relation to the power of the North and its TNCs. At the beginning of the new century the focus was on the information revolution through ICTs and the new digital economy.

2.1. States and Markets

Many dominant frameworks of analysis of the international/global economy have focused on the state. This has been due in large part to the economic and political weight of the US. In such frameworks, the world economy has been frequently interpreted in terms of the US's role within it as leader of the developed world. US hegemony is understood as fundamental to the establishment of the post Second World War political and economic order, and its relevance to the stable continuation of that order remains a central concern.

One major change at the beginning of the 1970s was the US's abandonment of the gold-dollar standard for the international financial system. This removed the US from a pivotal role as financial balancer, with the transition to a system of floating exchange rates, and contributed to the rise of a global financial market, already stimulated by the Eurodollar boom in the 1960s.

From the 1970s the "after hegemony" debate gathered momentum. In broad terms, this was concerned with the problem of order in a world where US hegemony was viewed as

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declining. Fears for the collapse of the Bretton Woods system turned out to be excessive, for many of its principles and its key institutions have endured, and advanced, as the WTO demonstrates. Some arguments stressed the growing importance of cooperation and institutions in supporting international stability. There was emphasis here on the "legacy" of US hegemony.

The US had played its active hegemonic role in steering the establishment of the Bretton Woods structure, and through such processes as postwar Marshall Plan aid towards European reconstruction, which contributed to the favorable conditions for the establishment of the European Economic Community, now the EU. The liberal principles of the system (freer trade, an open world economy, economic growth, etc.) could persist in the longer term, it was maintained, because of the level of collective agreement about them by the major players, as indicated by the continuing institutional frameworks.

Mainstream state-centric approaches moved increasingly towards modified perspectives which investigated the interaction of political and economic power in international contexts. This reflected the changing situation for the US in the post-1945 period, where the expression of its power came to be vested as much in the overseas activities of its MNCs as in its national wealth in general, and political might.

Also, by the latter decades of the century, FDI into the US, notably from within the triad, was rising dramatically. Peter Dicken has outlined that from the 1950s to mid-1970s, US firms accounted for 40–50% of the world total FDI. The period that followed showed a major acceleration in the growth of the world's FDI, with Japan playing a leading role. The US's share of world inward FDI stock increased from 11% in 1975 to 21% in 1995. Susan Strange, whose distinctive work on international political economy put forward one of the most complex assessments of US structural power, including through its MNCs, argued that it had resulted in "a shift in the balance of power from states to markets."

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Biographical Sketch

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