

The Dynamics of the Global Political Economy

The Role of Europe

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Abstract

This paper sets out to interpret the current global economic and political dynamics. It does so with the specific aim to provide insights that could guide action in the immediate future; action on an international political level, but also action on a more narrow continental economic level. The special focus will be on Europe's current evolution, how far and in which sense can and will it be an important player in world politics and economics.

To start, part 1 of the paper will provide a brief '*synopsis of the after war period*', in particular the period after the political collapse of the Soviet Union. The changing modi operandi of US hegemony will be interpreted; reactions from the other continents will be evaluated. Since the rest of the paper builds on this interpretation it has to be very concise – despite its dense form.

The second part of the paper, called "*Europe's Second Renaissance*", will take a closer look at European developments. With the astonishing drive towards political and economic unification, even managing several steps of enlargement, the European Union has emerged as the largest continental unit of effective demand in the world. But its peculiar structure of distinct and historically loaded cultures has provoked a series of political crisis too. In the meantime even for conservative economists it is evident that the USA is not an appropriate blueprint for Europe to become an 'USB'. Indeed quite the opposite seems to happen – Europe's diversity, including its labour movements, in a global perspective becomes an advantage over an US model whose strength more and more reduces to pure brutal military intervention.

Finally the last part of the paper returns to the more pro-active economic (and political) realms which will have to be further developed in the immediate future. The title of this chapter is '*Progressive Global Alliances*'. Of course, this agenda has many aspects and only an eclectic choice of them can be touched upon in a single research paper. One idea builds on the observation that in Europe (contrary to the USA) finance capital, e.g. banks, dominates industrial capital, alliances thus might be accommodated by the influence of the European labour movement on international finance. An innovative choice of selected ideas like this will conclude the chapter.

In the conclusion some action lines for enhanced cooperation between political economists of the Marxian variety all over the world will be proposed.

Part 1: What happened after World War II – a Synopsis

To take a long-run look into the future of the global political economy it is necessary to take a long-run look back into the history of this system. An appropriate starting point seems to be the world as it re-emerged after the end of World War II. With this war a new constellation of economic and military powers was established itself, the rules of international relations were re-written, and a whole range of international institutions was installed aiming at re-distributing – sometimes also balancing – economic power between parts of the world. The overall characteristic was that of a bi-polar world, divided into two hemispheres dominated by the USA and the USSR. For all of these fundamentally new developments it seems to be justified to take 1945 as a possible starting point for an era.

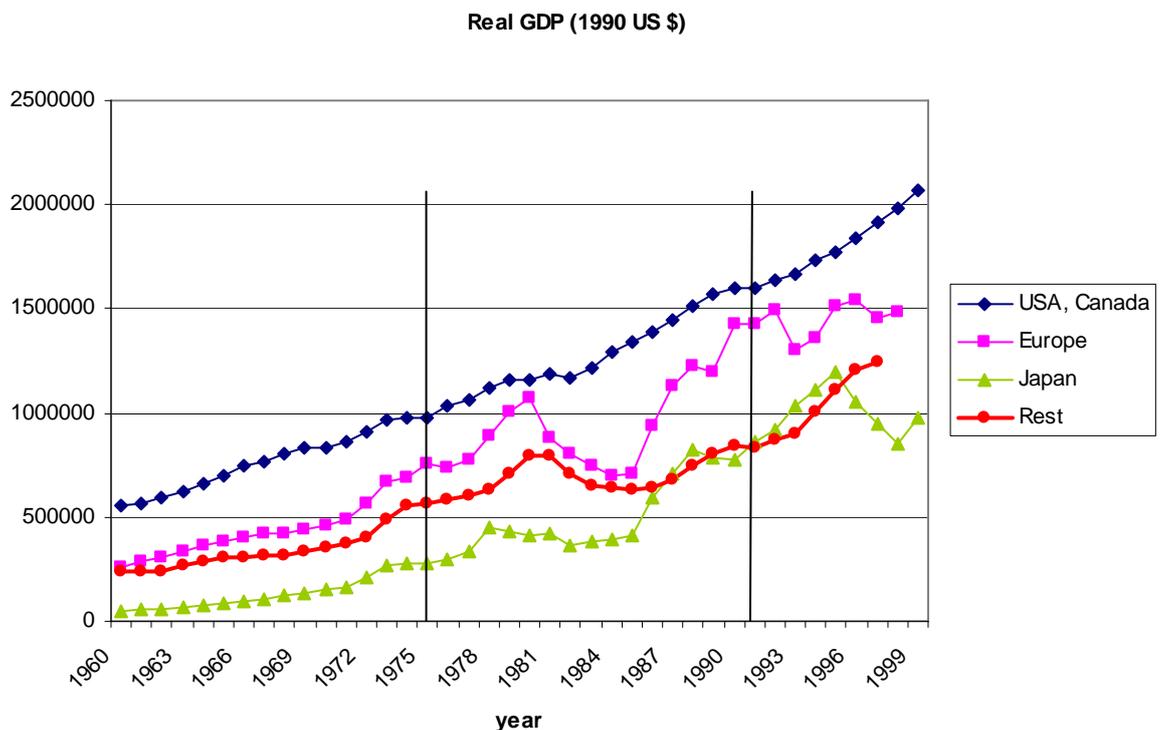


Diagramm 1: Real GDP

Two breaks in the development of the last 62 years are rather obvious too.

The first one appeared around the mid-seventies and signalled the end of an unchallenged hegemony of the USA in the western hemisphere. The world-wide cultural youth revolt, the break-down of the Bretton Woods exchange-rate system, the upswing of progressive movements in the third world (e.g. Vietnam's victory in 1974), OPEC's policy

stance in the first oil crisis, revolution and counter-revolution in Chile and many other seemingly singular events can be interpreted as different aspects of a general crisis, a break, in the working mode of global capitalism.

The second, at least as dramatic break occurred around the year 1990 when one of the two superpowers, the USSR, rather abruptly lost most of its influence in Eastern Europe. The reasons for this second turning point are even less clearly understood than those for the first one – though hypothesis and interpretations abound. What is evident is that again a remarkable landslide in the tectonics of global political economy has transformed the positions of powers as well as the dynamics of the mechanics that govern their relationships (compare diagramm 1; source: Worldbank; the category ‘rest’ is the selection of countries for which data was available).

The history of modern integrated capitalism (see [Hanappi, 1986] for a more precise definition of the concept) since 1945 thus should distinguish three stages divided by the just mentioned break points. In the first stage global dynamics of political economy were dominated by the broad spectrum of conflicts between the USA and the USSR. Indeed this period can be characterized as a period of overwhelming importance of this single contradiction between political superpowers for almost every political question in every corner of the world. Both powers could point at their glorious role as savior of the world, having defeated the Nazis, both powers had a rather closed view of what type of political system they proposed for world-wide adoption. Of course, the blueprints offered differed radically in content: The USA envisaged the adoption of integrated capitalism in every nation state of the world, transforming existing ruling classes into local managers of US capitalist intentions (compare Walt Rostow’s euphoric book [Rostow, 1960] used to propagate that vision). The USSR on the other hand chose a rather less spectacular approach, trying to support local anti-capitalist movements, and – in case of success – to install close links between new local elites and the USSR. In retrospect the SU approach was rather defensive and despite Nikita Khrushchev’s speech at the 20th Congress of the CPSU in 1956 it still owed a lot to Stalin’s famous concept of ‘Socialism in one Country’.

But what proved to be more important than these streamlining tendencies in world politics were the inner contradictions that endogenously developed in each of both blocks. In the capitalist hemisphere the destruction of the capital stock in Japan and Europe during the war in the mid-run turned out to be advantageous at least in one important aspect: With tremendously accelerating technical progress these countries were faster in installing up-to-

date new capital stock than the USA, where low depreciation rates slowed down this process. As a consequence the losers of WW II soon re-emerged as serious competitors of the USA in world markets. And contrary to the illusions of a US controlled managed global capitalism these competitors – exactly via the propagated ‘free’ foreign exchange markets that could not be controlled – became rather fierce, economic enemies¹. Also within the societies of developed capitalism contradictions popped up. New technologies like TV amplified the aspirations of the young generation, the demand for a new, more co-operative and egalitarian life style resulted in the so-called generation gap that manifested itself as a deep crisis of education systems².

Inner contradictions played an important role for the Soviet Union and its allies too. As a matter of fact economic planning mechanisms as applied by central planning offices were typically tailored to satisfy the needs for basic infrastructure of a less developed country. As such they could be reasonably used to advance heavy industry, large agricultural projects, transport and the like. They also enabled the USSR to provide help for other less developed parts of the world, including of course the management techniques to handle these industries. But in all these cases the range of the needs of the concerned population was rather basic and well-known. When in some of the core countries of the Eastern hemisphere most basic needs were met, the other important ingredient of innovation³, namely the development of new areas of utility, became more important for the population. Again this development was enormously amplified by new technologies which allowed the new aspirations to cross borders of countries and of political blocks. The existing Stalinist production systems⁴ were not equipped to deal with this challenge at all. What was even more severe was that the political elites sometimes used their privileges to adopt Western style consumption modes – and thus initiated a deeply rooted alienation process between party elite and the rest of the population. Indeed the cultural youth rebellion of the late sixties appeared in Hungary, Czechoslovakia and Poland as well as in the West. Institutionalised change of political

¹ This indeed was the reason for the breakdown of the Bretton Woods system of fixed exchange rates in 1971. With an US dollar so expensive compared to competing currencies the new competitors were quickly conquering world markets. The sudden fall of the dollar was the core of a new, aggressive export initiative of the USA. It was also the hidden cause of the enormous crude oil price rise in October 1973, since crude oil was denominated in US dollars and the highly oligopolised petroleum producing industry, the ‘seven sisters’, in concert with OPEC’s national elites wanted to prevent a loss in purchasing power of their revenues.

² May 68 in Paris and pupils’ revolt 69 in Italy are just the tip of the iceberg. The success of social-democratic parties in Europe in the early 70-ties in many cases can be traced back to the capacity of these parties to collect the votes of this generation.

³ The first welfare enhancing ingredient of capitalism analysed already by Marx is the systematic increase of labour productivity, which in principle means that humans have to work less hours every year to produce the same amount of output, i.e. more leisure time. It comes about by innovation. The second ingredient is the systematic discovery of new dimensions of needs – and again it can already be found in Marx’ early writings.

⁴ See [Hanappi, 1994, pp. 103] for a thorough discussion of Stalinist production systems.

institutions according to the needs of the population, i.e. social innovation, still had been forbidden or at least a terra incognita this hemisphere. And the only remedy for the social crisis that seemed to be at hand was stricter direct control of the alignment of deviations – a disastrous strategy as history showed.

From the mid-seventies onwards the Western hemisphere was characterized by a severe conservative roll-back. This process coincides with a second upsurge of the USA. Starting with the presidency of Ronald Reagan the USA managed to increase their domination of the world economy in a kind of second coming that took most political scientists by surprise. Unlike the hegemony in the first stage its power now – in the second stage - was mainly built on a heavy increase in military investment. This process had important economic consequences: Reagan's 'Star Defence Initiative' needed substantial financial resources which did drive up US interest rates by more than 3 percentage points in 1981. Such a sudden jump in interest rates resulted in an enormous flow of capital into the USA, the sure haven for capital in a dangerous world. On the other hand, decreased supply of capital in the rest of the Western world induced an increase of interest rates there⁵; and in the sequel this increase had disastrous consequences for investment demand and employment in these countries. In the USA the effect of higher interest rate was more than compensated by the additional government expenditure (for military expenses) and capital inflow, the overall impact was a substantial growth stimulus. So in the end, this policy strengthened the relative position of the USA compared to its Western competitors tremendously. It can be doubted that this astonishingly successful conservative policy was designed in advance by the think tanks surrounding Reagan. It might well be the case, that they also were surprised by the sequence of favourable events that followed their initial steps.

It is much less clear what happened in the Eastern hemisphere in this second stage. Economic data shows slow but continuous developments in almost all important indicators, there is no sign of the approaching collapse in this data. It is evident that the political crisis, the alienation between population and party elite became worse – despite some attempts of parties in some countries to break this vicious circle. But still it is remarkable that no significant political rebellion of 'the masses' from below can be observed in this stage. What is not well documented, but can be assumed with high probability, is an exploding range of activities of secret services – in the West as well as in the East – in this time. Towards the end of this stage the impression is that the organization of the political leaders in the Eastern hemisphere seems to implode. With the loss of authority of political leaders comes a

⁵ Capital markets are the only markets where supply and demand are substantial in explaining price, i.e. the interest rate, as again Karl Marx already stated in volume 3 of 'Das Kapital'.

strengthening of the executive cadres, and of organized crime. In particular the Eastern European countries were expected to become easy prey for Western style capitalism by protagonists of this system – who believed in their own illusion that capitalism is a kind of natural state of human society, which it always quickly returns to as soon as an external shock is ironed out. The third stage of the after war period proved them wrong.

For the developing world this second stage was a particularly disappointing period. Not only did the fight for friends between the two superpowers lead to less subsidies and aid; the policy recipes demanded in particular from the west were increasingly unfavourable not only for domestic workers, but also for the local ruling classes. In the distorting mirror of Western academic topics this issue turned up as the crisis of the World bank. This institution had entered the international political stage after WW II with the goal to narrow the gap between rich and poor countries in the world and clearly had failed so far. Of course, below the surface substantial differences between developing countries already became visible. Stronger than before certain continental characteristics that distinguished Asia from Africa and Latin America started to become more accentuated. They were fully visible only in the third stage.

The third stage, from 1990 till now, is characterized by three main dynamics: (i) the actual military intervention policy of the USA, which now seems to be a necessary complement to its economic hegemony; (ii) the renaissance of Europe as an important player in the global political economy; (iii) the emancipation of certain areas of the previous ‘third world’ (in Asia and Latin America) as major economic and political forces.

The return to more aggressive military intervention of the USA starting in the late nineties is a significant policy stance that re-shaped the global political economy profoundly. As figures 2 and 3 show this turn is not only visible in absolute real values of military expenditure but also measured as percentage of total gross domestic product. Even with respect to the relative importance of military expenditure in overall production the USA acts on a different level than the rest of the world – and even widens this gap quickly since 1999.

In other words exploitation on a global scale – at least with respect to the USA – is returning to the use of non-market mechanisms, i.e. crude coercive power. This development is not surprising: Exploitation via labour markets only works if there exists an overarching large political unit, e.g. a capitalist nation state, with a monopoly of power that simultaneously guarantees well-behaved market exploitation via property rights. On a global

level such a global capitalist political unit does not exist yet – and on its way to conquer this role the USA necessarily returns to pre-capitalist measures.

Military Expenditure

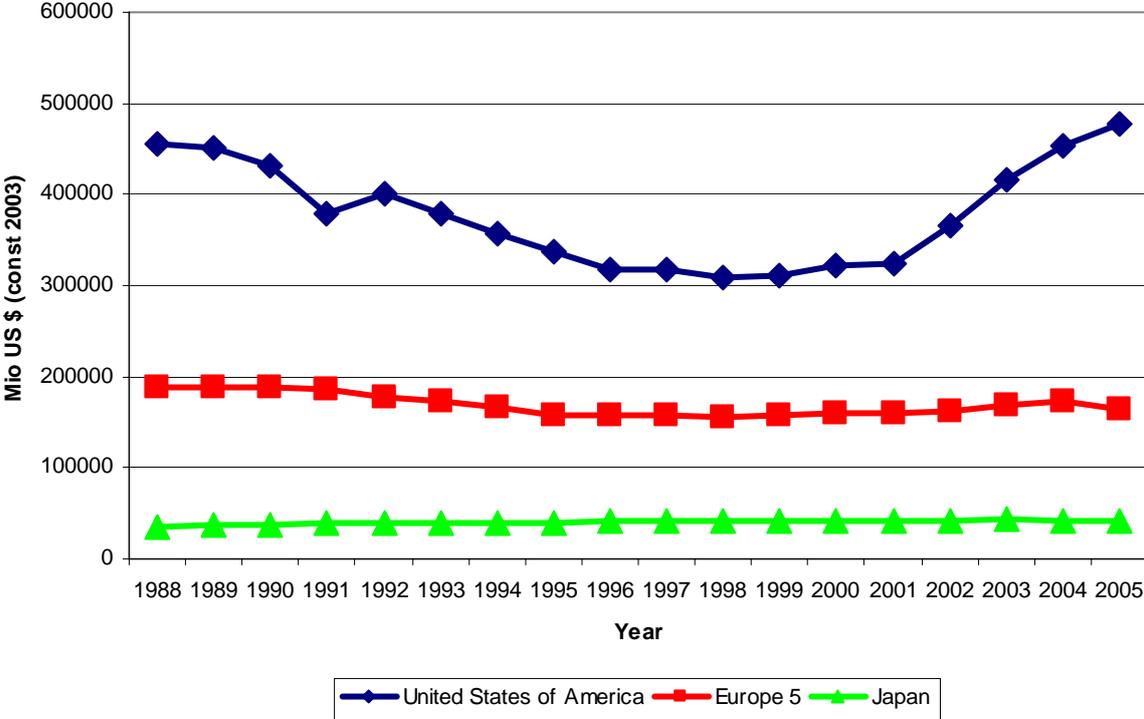


Diagram 2: Military expenditure in absolute terms

Military Expenditure as % of GDP

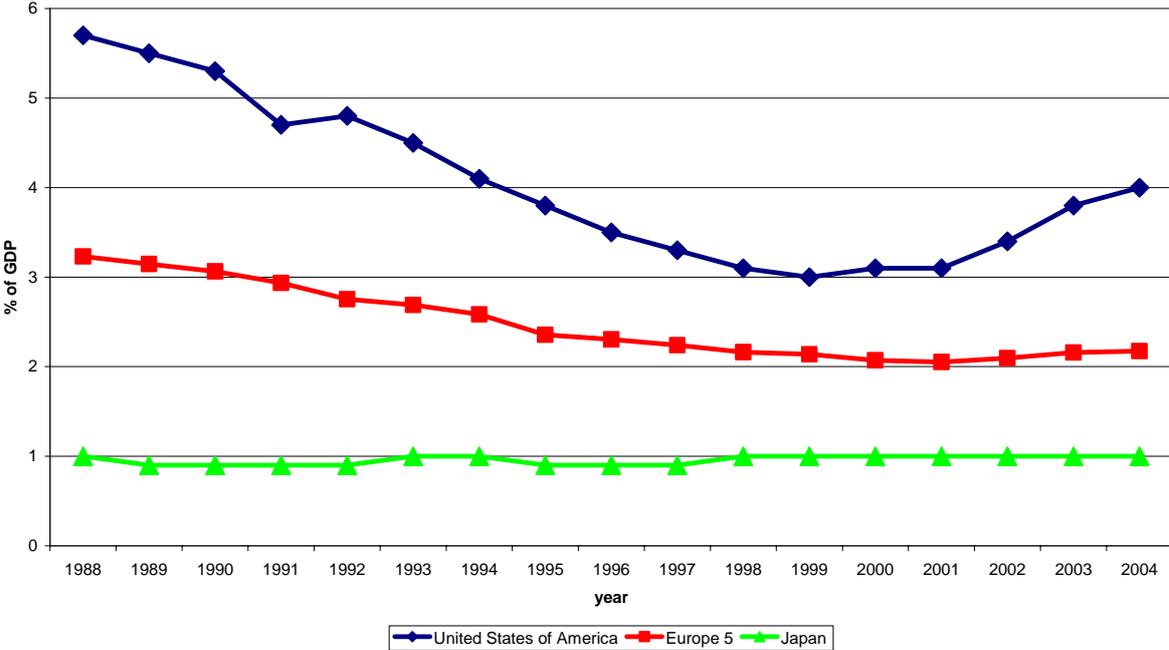


Diagram 3: Military expenditure in as percent of GDP

The second development, Europe's evolution, will be the focus of the next chapter.

Finally the third group of issues concerning the developing economies can briefly be characterized as follows.

As a first remarkable tendency it is evident that the gap between GDP developments in OECD countries and developing countries since the end of World War 2 has been widening. This is a clear sign that the the World Bank has failed to achieve its original overall goal. This development is even aggravated if one takes into account that an increasing part of economic activity has been included in GDP in developing countries.

Second, it is important to recognize that the development of different regions in the developing world shows indeed very different trajectories: While Asia, in particular China and the Tiger countries, surely transformed themselves into regions exhibiting a special form of capitalist growth, the whole continent of Africa deteriorated and is characterized at best as stagnating. Latin America as a whole has entered a stage of initial domestic capital accumulation, of course with sharp differences in the different countries. This delayed industrialisation also implies an upswing of traditional labour movement organizations, which can build on old anti-imperialist roots. It is clear that this well-structured picture of the dynamics of the third world calls for a well-structured theoretical analysis, which takes care of the respective specifica.

Finally, and most intriguing, the structure of the economies in the different developing countries exhibits very different, but regionally typical dynamics⁶. This hints at issues formulated very early in economic theory, namely at Adam Smith's notions of 'division of labour' and sources of the 'wealth of nations'. As Karl Marx, building in this respect on Smith, saw very clearly, the (necessary) historical mission of capitalism is to increase labour productivity to a level that permits the human species to transcend its pre-historic stage. On a global level this implies that the 'wealth of each nation' is built on its place in this global division on labour – thus implying some overall superstructure of the diversity of economic structures in different regions of the world. Evidently this superstructure does not emerge simply as a result of the capitalist dynamics itself; its implementation is a political action.

⁶ Compare [Rada C. and Taylor L., 2006] for a detailed treatment of this issue.

Part 2: Europe's Second Renaissance

It is a quite surprising fact that Europe, a part of the world that considered itself as the epicentre of human development for more than 2000 years, in the last 70 years has accepted (since it had to accept) that it is just a sideshow of world politics. Probably the answer to this riddle is that Europe as a political and economic entity did not really exist. But things are changing. In the above mentioned third stage that integrated capitalism entered in the early nineties the global political economy is not grouped around a single centre any more. Several continents are emancipating themselves in quite distinct forms. The rather desperate, though dangerous attempts of the USA to control and to exploit the overall development by direct military intervention at least in the mid-run is doomed to fail: The interdependence between politics and economics has a dominating direction of causation, and that leads from economics to politics – and therefore finally to the end of military intervention as last resort of political intervention.

These emancipation processes have taken place not despite the growing economic interdependence of all parts of the world, but because of this global unification. The outcome of growing global division of labour should thus be diversity of beneficial developments in different parts of the world – and not the adoption of a single best practice model provided by a dominant hegemonial power. This feature should have been evident right from the start of the discussion on economic policy. The so-called neo-liberal model is neither liberal nor new; it rather is a straight-jacket for policy making consisting of an old and well-known rule set, which is completely inadequate for current policy making. This rule set was launched in the second stage of integrated capitalism after WW II by conservative policy makers as an ideological weapon to destroy labour movement institutions world-wide. And it has to be admitted that it indeed was often successfully applied.

As the development of the third stage of integrated capitalism in Europe shows, neo-liberal ideology is starting to be on the run. Of course, it will take a longer time to get rid of this ideology in all quarters of policy making bodies – but at least those occupied with immediate practical questions more and more understand how useless the neo-liberal prescriptions in most cases are⁷. The still growing influence of the European Union might well develop into a motor for this positive development – perhaps against the intentions of EU leaders.

⁷ There is a small range of issues concerning the efficiency of bureaucratic organizations that could benefit from some of these rules.

When the European Union started its political spurt in the early eighties this was due to the reaction of the European transnational corporations against aggressive US export policy. They needed a common political institution to promote their economic goals on a global level – and they found a well organized political group (the European social-democrats) as an important partner. This was a start that still has left its fingerprints in the institutional structure of the EU.

The further development of the European Union can only be understood in the context of the needs of large European firms for a political institution that helps them to expand their activities beyond narrow national borders. The most dramatic step in this direction clearly was the Eastern enlargement of the EU in 2005, when ten new countries joined. There is a terminal point to these enlargements, and it will be reached with the accession of the remaining states on the Balkan and Turkey.

But in the last decade this simple entrepreneurial project has transcended its original intentions. The rather diverse European populations - differing widely in culture, language and almost every other aspect of life – started to want to take hold of the superficial vision provided by the policy making EU leaders. Indeed it is the evident difference to the aggressive union of a streamlined USA that now brings European nations closer to each other. European cultures are different, and that is exactly what unites them! There is a deep methodological turn hidden in this simple statement – a turn towards an evolutionary, long-run oriented, social-minded society. Of course, this still is very far away from anything that could be called a communist turn.

Special attention should be paid to Europe's financial architecture. As is apparent the difference to the USA is striking. While the financial sector in the USA is rather subordinated to industry, European finance dominates most industries. It is tempting to cite Schumpeter and Engels who were convinced that a strong and well developed, i.e. 'socialized', financial system is the most important pre-requisite for a more advanced, future society. To some extent European finance institutions are already rehearsing social responsibility – including severe failures from which one could learn.

Part 3: Progressive Global Alliances

The building of alliances has been the name of the game of global political economy since 1990. In particular China, the new strong player in world economics and politics, has been the object of desires of most existing coalitions. And, as recent developments make

clear, Chinese policy makers take their new role extremely serious, act strategically and with a long-run focus.

Also Latin America recently has experienced a remarkable up-swing. Not only did a certain political swing to the left ameliorate the fate of many poor people on the continent; it was also possible to improve the international trade position, achieving better prices on international resource markets. The role of China in this up-swing should not be neglected.

Cooperation with Europe does exist, but it is far from being satisfactory. Unfortunately the EU seems currently to be preoccupied with internal affairs. But this could change rather rapidly as soon as the final enlargements are accomplished and an appropriate institutional design is implemented. It might be helpful to look back at the many hesitating voices before the introduction of the Euro – and how quick all criticism has vanished after it. It should be possible for Europe at this point in time to re-enter world politics as a civilizing force.

After the politics of George Bush possible coalition partners for the USA are getting rare. This is a promising, though still dangerous development. It is not yet clear by which dimension the incredible superiority of the USA with respect to military power could be balanced. On the other hand the war in Iraq one more time (after Vietnam) has shown that military might is extremely costly and can only be sustained as long as some kind of victory can be announced at home. If a new administration will be elected in Washington the foreign policy of the USA might at first glance look somewhat different. But prudence is obligatory since any administration has to consider that it executes mainly in the name of corporations, and only partly to convince future voters.

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