

良性全球化或世界末日：從資本與福利 角度研究

A Benign Globalization vs. a Doomsday Scenario: How to Make Globalization in a Capital and Welfare Perspective

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摘要 / Abstract

本文所強調的是積極強化跨國經濟互動之經濟體的內部結構，而非全球化現象。且假設所有涉入的經濟體皆能夠追求充分就業的政策，則與新古典經濟學派期待一致的擁戴全球化模型就可達成，進而創造出經濟聚合的現象。然而，今日被邊緣化所形塑的經濟體已經在製造商品出口上具有競爭力。(例如所謂貨品，是由結構性的勞工剩餘所形塑)。至於伴隨著農業自足或剩餘而來的綠色革命，則能夠使上述的經濟體將既有的甚或於新的比較利益轉換為利用低於優先購買力的貨幣貶值手段的成本效益考量。如此一來，主要工業國家企圖限制勞工成本的結果，促使全球低消費趨勢更加惡化。故其解決方案是由一

個全新的要素所構成，也就是從受邊緣化支配經濟體所發展出的製造出口業，且此經濟體以經濟與社會改革來達到吸收上述勞工剩餘的目標。筆者認為對受邊緣化支配的經濟體而言，目前逐漸發展出的文化認同運動，在其各項改革中，不失為適當的伙伴。

It is the internal structures of the economies actively intensifying transborder economic interactions that matter, and not globalization. If all participating economies were (able) to pursue full employment policies, a convoy model of globalisation that corresponds to the expectations of neo-classical economics would be achieved, thereby creating economic convergence. However today economies characterised by marginality (i.e. goods, that are characterized by a structural labour surplus) have become competitive in the export of manufactured goods. The green revolution accompanied by agricultural self-sufficiency or surpluses enables the said economies to transform pre-existing or even new comparative advantages, into cost-efficiency by means of devaluation below purchasing priority. Attempts to limit labour costs by leading industrialized countries further aggravate under-consumptionist tendencies at the global level. The alternative consists of complementing new, manufactured exports from marginality ridden economies with economic and social reforms aimed at the absorption of the said labour surplus. The emerging movements with cultural identities might be appropriate partners for such reforms in marginality ridden-economies.

關鍵詞：全球化，比較利益，文化認同

Keywords: globalization, comparative advantages, cultural identities

Mainstream neoclassical and Marxist positions vs. Keynesian positions

Globalization has its fervent adepts and its resigned followers. They invariably agree on its inevitability, which likewise implies automaticity in terms of the forms it takes. The inevitable character of globalization involves the conviction that markets dominate, and that nobody can afford not to heed market signals, since they would otherwise run the risk of being severely sanctioned by these very market forces. This is essentially the neoclassical paradigm of economics. The paradigm, however, also predicts convergence of levels of economic development, per-capita income and productivity, as well as rising mass incomes due to full employment and labor being paid according to its marginal product. Neoclassical economics makes worrying about globalization as irrelevant as worrying about the removal of trade barriers within nations. Provided that markets are free and factors of production flexible enough, no regulatory power is needed other than an antimonopoly commission and a legal system enforcing freedom of contract and the execution of contracts once these are agreed upon. The mainstream WTO path of sanctioning market imperfections is considered the right way to go. Globalization is advocated by its followers using the theoretical models of neoclassical economics because it is the safest way for technically lagging economies to catch up with leading economies. Even where schools of neoclassical economics such as new endogenous growth theory¹ can account for the absence of convergence in the wake of globalization, they do not deny the positive role of opening up to the world market, possibly bolstered by a state providing an environment favorable to technical innovation, capital accumulation and

¹ Hemmer, Hans-Rimbert: "Die endogene Wachstumstheorie als Reaktion auf die Erklärungsdefizite der traditionellen neoklassischen Wachstumstheorie", in: Schubert, Renate (ed.): *Neue Wachstums- und Außenhandelsstheorie - Implikationen für die Entwicklungstheorie und -politik. Schriften des Vereins für Socialpolitik 269* (Berlin: Duncker und Humblot, 1999); pp. 11-44.

international competitiveness. This state is not correcting capitalism, but “enabling” it – the fashionable new adjective used to describe the new state that is to be created all over the world through administrative reform and new public management.²

The ambiguity of neoclassical economics is reflected by statements made by the former president of the International Monetary Fund and by the current president of Germany: the president of the IMF claims that opening to the world market is imposed as a means of catching up, while the president of Germany declares that the catch up of East Germany will never be complete despite its total opening to the West German economy.³ If there is no convergence in the wake of globalization, the market loses its main sanctioning power: if you fall backward anyway, why follow the market when you can try something else, for example, combining state and market? Neoliberal globalization of this tinge would end up arguing in favor of state intervention to correct the market if other players in the globalization process benefit from market imperfections that cannot be corrected by those suffering from the temporary technical monopolies of a more advanced economy. The neoliberal paradigm leads to a conclusion that is the opposite of its starting point.

Globalization also has its enemies and its critics. However, they rarely develop arguments about how to combine an opening to the world market with the promotion of one’s own position in the international division of labor apart from a blanket rejection of globalization. Marxian orthodoxy, on the other hand, even in

² Turner, Mark: "Choosing Items from the Menu: New Public Management in Southeast Asia", in: *International Journal of Public Administration*, 25, 12 (2002); pp. 1493-1512. Bowornwathana, Bidhya: "Governance Reform in Thailand: Questionable Assumptions, Uncertain Outcomes.", in: *Governance*, 13, 3 (2000); p. 401. Park, Dongsuh: "Research and Reform of Korean Public Administration: Track Adjustment.", in: *Korean Social Science Journal*, 27, 1 (2000); pp. 37-55.

³ Köhler, Horst: "Einmischen statt abwenden. Interview Focus", in: *Focus*, 38 (September 13, 2004).

the Leninist version of its critique of capitalism and imperialism,⁴ cannot reject globalization. Globalization is just a new form of the progressive historical transformation of the world through capitalism.⁵ The Communist Manifesto of 1848 is in agreement with Marx's articles on India⁶ that capitalism has the historical mission of destroying precapitalist structures. The current antiglobalization discourse is based either on inane anticapitalist sentiments or on a new version of old dependencia thinking. Baran⁷ and Warren⁸ are clear in their admission of the progressive role of capitalism. The dependencia-based rejection of penetration, based on the argument that capitalist structures are not really transferred into the periphery, implies imperfect competition between capitalists enterprises. Although this may correspond to reality, theoretically it implies oligopolistic or even monopolistic structures which can be corrected by political action without infringing on the profit rate of nonmonopolistic capital. In this case, the introduction of correcting measures does not repel capital. Correction is compatible with capitalism if there is imperfect competition. As long as there are enterprises that do not have access to monopoly rents, the state will find partners for corrective action within the globalization process.

⁴ Lenin, Wladimir Iljitsch: "Ursprünglicher Entwurf der Thesen zur nationalen und zur kolonialen Frage", in: Lenin, Wladimir Iljitsch: *Werke*, vol. 31 (Berlin: Dietz, 1972); pp. 132-139. Lenin, Wladimir Iljitsch: "Die Differenzen in der Europäischen Arbeiterbewegung", in: Lenin, Wladimir Iljitsch (ed.): *Werke*, vol. 16 (Berlin: Dietz, 1973); p. 354.

⁵ Marx, Karl: "Vorwort zur ersten Auflage", in: Marx, Karl: "Das Kapital", in Marx, Karl; Engels, Friedrich (eds.): *Werke*, vol. 23 (Berlin: Dietz, 1972); p. 12. Marx, Karl; Engels, Friedrich: "Manifest der Kommunistischen Partei. 1848", in: Marx, Karl; Engels, Friedrich (eds.): *Werke*, vol. 4 (Berlin: Dietz, 1972); p. 467.

⁶ Marx, Karl: "Die britische Herrschaft in Indien. 10. Juni 1853", in: Marx, Karl; Engels, Friedrich (eds.): *Werke*, vol. 9 (Berlin: Dietz, 1972); pp. 127-133. Marx, Karl: "Die künftigen Ergebnisse der britischen Herrschaft in Indien", in: Marx, Karl; Engels, Friedrich (eds.): *Werke*, vol. 9 (Berlin: Dietz, 1972); pp. 220-226.

⁷ Baran, Paul A.: "On the Political Economy of Backwardness", in: *Manchester School of Economic and Social Studies*, 20, 1 (January 1952); p. 67.

⁸ Warren, Bill: "Imperialism and Capitalist Industrialisation", in: *New Left Review*, 81 (September-October 1973); pp. 3-44. Warren, Bill: *Imperialism: Pioneer of Capitalism* (London: NLB, 1980).

Neoclassical pro-globalization positions have to reject state intervention as unnecessary because of convergence, whereas its critics cannot argue against globalization without accepting market imperfections as a major element shaping the current pattern of globalization. Thus, both would have to admit that the empirical reality of continuing polarization and the absence of full employment or even increasing unemployment has something to do with the conditions being absent on which the benign outcomes predicted by neoclassical economics are based.

It is therefore surprising that the Keynesian view is present in the debate only in a very caricatural manner.⁹ Both sides, the advocates and the critics of globalization, argue that one of the Keynesian options for getting capitalism to work no longer applies: redistribution to the benefit of labor in the form of the European versions of the welfare state, which bridges the phases of cyclical unemployment, i.e., when the neoclassical mechanism of empowering labor through its scarcity under conditions of full employment does not function.

In fact, such measures illustrate the difference between Keynesians and neoclassical economists with regard to the practical consequences of a fundamentalist view of the operating conditions in the neoclassical model. Are resources fully engaged only if prices are right, or does the investment process depend on expectations so that liquidity preferences will temporarily lead to unemployment regardless of the price of capital and goods? This issue is at the root of the controversies over globalization. If Say's theorem¹⁰ holds, there is a tendency not only to full employment but to rising wages with average productivity. Differences in wages are not related to increases in physical productivity in

⁹ Elsenhans, Hartmut: "The Relevance of the Principles of Keynesian Economics for the Transition to Capitalism in Today's Underdeveloped World", in: Davidson, Paul; Kregel, Jan A. (eds.): *Improving the Global Economy. Keynesianism and the Growth in Output and Employment* (Cheltenham: Edward Elgar, 1997); pp. 283-303.

¹⁰ Say, Jean-Baptiste: *Traité d'économie politique* (Paris: Calmann-Lévy, 1972); pp. 140-141.

different branches, but to the scarcity of labor with a variety of skills. According to Say, capitalism itself produces the empowerment of labor, as incomes of the capitalist cannot be used for anything but the purchase of goods and services, which ultimately leads to a demand for labor until all labor is employed. If the demand for produced goods and services does not correspond to the whole of income earned because of liquidity preference and the active role of money, liquidity preference may lead to unemployment despite the compensatory effects of monetary policies. For Keynes, unemployment is the result of business potentially preferring liquidity preference if markets are sluggish. Thus, Keynesian deficit spending is not proposed in order to improve productivity and hence profitability from the cost side, but to balance consumptive and productive capacity. Keynes assumes that the economy is perfectly flexible. Injections of monetary resources will cause the main economic agents to adapt immediately. Hence, for Keynes, the lack of empowerment of labor in this manner is a temporary phenomenon which can be reversed by fiscal and monetary policies, especially if there is no labor that does not yield an economic surplus given sufficient demand. This implies a level of marginal productivity (and capitalist conditions of equally high average productivity, as will be demonstrated below) where any able-bodied worker is capable of producing a surplus. Standard underdevelopment theory since Rosenstein-Rodan, Nurkse and Hirschman¹¹ assumes, however, that – for a large variety of reasons not to be discussed here, including demographic growth and low levels of technical development – there is a surplus of able-bodied labor which produces less than its inevitable costs of subsistence until development is achieved.

¹¹ Rosenstein-Rodan, P.N.: "Problems of Industrialization of Eastern and South Eastern Europe", in: *Economic Journal*, 53, 210 (June-September 1943); pp. 202-211. Nurkse, Ragnar: *Problems of Capital Formation in Underdeveloped Countries* (New York: Oxford University Press, 1953). Hirschman, Albert O.: *The Strategy of Economic Development* (New Haven, Conn.: Yale University Press, 1958)

The controversies about globalization are largely due to the fact that the benign model is inevitable if in all participating economies the neoclassical assumption holds that the marginal product of labor is higher than the inevitable costs of subsistence, hence if the contribution of the weakest able-bodied worker is higher than the costs of his own and his nuclear family's subsistence. With a scarcity of labor, wages will increase in line with productivity, so that the problem of providing sufficient demand is solved by the automatism of the capitalist system itself. If marginal product is, however, lower, even successful exports and increasing productivity in the export sectors will not lead to scarcity of labor, and hence rising wages, so that overall demand will not increase despite even rapid increases in overall productivity. This leads to an underconsumptionist model of globalization that can be called a doomsday model.

The outcomes of globalization differ depending on whether or not there is an automaticity of sufficient effective demand. Different outcomes of globalization can therefore be predicted according to the internal structures of major participants. It can still be argued that the benign model will prevail as long as the assumption holds that the participants not yet automatically tending to full employment because of their internal structures will eventually be transformed by the impact of globalization. If it can be shown, however, that for a substantial part of the world economy these growth-impeding internal structures are not automatically transformed by the globalization process itself, it can be argued that their impact on the world economy may block the benign model emerging from the mechanisms of economies which by themselves would tend to full employment. Thus, all depends on the impact globalization can exercise on internal structures, the limits of these impacts, and the avenues open to increase the tendencies favorable to the benign model.

The thrust of this paper is therefore to highlight the mechanisms of the benign model, its limits because of underdevelopment in the societies newly integrated into the international division of labor, the conditions of their being transformed by the globalization process, and the possible strategies available to national governments and transnational coalitions for increasing favorable tendencies, which, given the spread of globalization processes to the political and cultural spheres, have to become available if globalization is to be embedded into the social mechanisms operating at the local, regional and global levels.

A convoy model of globalization

Let us suppose a world economy composed of national economies within whose territorial boundaries not only capital but also labor is fairly mobile. We assume that these national economies are characterized by a tendency to full employment because of sufficiently low labor costs, as in the models of standard neoclassical economics. The various national economies differ in their levels of productivity. Changes in productivity in a given sector of any of these economies will not necessarily lead to unemployment, but only to changes in the terms of trade of these economies. This may lead to relatively stable hierarchies in the international division of labor, but also to long-term convergence, quite in line with the standard neoclassical model.

At equilibrium, i.e., if all economic agents have adjusted to differences in prices and productivities, the economies of this convoy-model world economy will be characterized by all homogeneous factors of production having identical productivities across a national economy, and identical differences in productivity between economies with different levels of technical development.

For the convoy model to work, the neoclassical assumption must hold that any labor, even marginal labor, yields a surplus, so that all labor is employed.

I will prove first that the tendency to homogenization is contingent upon the tendency to full employment. Any entrepreneur able to employ a new technology that allows him to raise his profit rate beyond the profit he might earn in another activity will try to attract labor by offering wages higher than those paid in the other occupations open to this labor. Entrepreneurs who compete for scarce labor have one of the following options. They can try to develop innovations themselves in order to remain competitive on factor markets. Through innovation their earnings increase or their costs decrease, allowing them to defend their access to labor by offering the same wage increases the original innovator was willing to offer. Or they may reduce production and shift capital to investment in the technology of the original innovator. The new technology attracts capital from new entrants and from already established enterprises that cannot earn above-average profit rates through other uses. The innovative branch will be characterized by an increase in production. With the usual slopes of the demand-price curve, increased production based on new technology leads to lower prices and therefore to a decrease in earnings and productivities in monetary units. Reduced output in less innovative products based on older technologies makes it possible to charge higher prices, resulting in higher earnings and an improved ratio between factor input and output in monetary terms. Productivity in monetary terms increases. Higher wages can be paid in order to keep labor from moving to the innovative branch.

Wages and productivity converge until they are equal in all branches of the economy. Despite very different developments in physical productivity (quantities and qualities of output) according to branches of production, branchwise productivities converge if labor is scarce. Labor and capital which did not participate in any innovation benefit from the increases in productivity in a

particular branch through changes in relative prices. Computers become cheaper in relation to haircuts, and the wages in computer-producing branches and in haircutting converge for workers with comparable scarcities of skills.

Even a small increase in factor earnings due to innovation or change in demand in one branch will trigger off factor movements. This is the basis of flexible adjustment in a capitalist economy which makes it more efficient than a planned economy. Any owner of labor power or of investable resources will behave in a way to permanently keep this equalization process going.

Branchwise differences in labor productivity in monetary terms and branchwise productivities measured in monetary output and costs of labor between economies with different levels of technical superiority will also be equal. Thus, branchwise productivities corresponding to average productivities in an economy mean that branchwise differences in lags in different branches between more advanced and less advanced economies tend to be equalized. Real wage differences between economies with different levels of technical development will correspond to differences in average productivities. This implies that differences in physical productivities in identical branches of advanced and less advanced economies will also correspond to the differences in average productivities between these two economies. Suppose a less advanced economy is characterized by relatively high physical productivity in a particular branch in relation to the advanced economy, so that its productivity lag in this branch is lower than the average. As it has to pay only average wages, the lag in wages vis-à-vis the more advanced economy being greater than its lag in productivity, this branch will have lower unit costs in the less advanced economy than in the more advanced one. It will therefore expand in the less advanced economy. It will undersell the corresponding branch in the more advanced economy until prices for its products go down, until the expanding trade surplus, which it contributes to in the less advanced economy, imposes an

appreciation of the less advanced economy's exchange rate, or until the more competitive branch in the less advanced economy attracts labor for its increased exports and the resulting scarcity of labor increases average wages in the this economy. Vice versa, the more advanced economy will give up the production of tradables where its advance in physical terms is lower than its average advance.

These processes are at the basis of specialization according to comparative advantage as described by Ricardo¹² without any recourse to factor endowments, as technical progress is not explained by factor endowment but by a variety of factors which will not be discussed here. The less advanced economy undersells the more advanced one even if its productivity in physical terms is lower than in the advanced economy provided that its lag in the respective branch is lower than its average lag in the production of tradables.

Even if the advanced economy is more productive in physical terms in any branch, it not only has an interest in specializing on branches where its productivity advance is highest – it is forced to do so. The less advanced economy can increase its wealth if it sells products whose productivity lag in physical terms is lower than the economy's average. The more productive albeit lagging-behind branch earns on the world market more than other branches earn on local and international markets. If the economy raises its international wage costs to levels still compatible with price competitiveness for the more productive export branch, the branches with average lags in physical productivity will be faced with price competition from the more advanced economy, even on their domestic markets. Labor will be set free, whereas the demand for foreign exchange increases. At floating exchange rates there is an oversupply of the less advanced economy's currency on the world market for convertible currencies. The currency of the less advanced economy

¹² Ricardo, David: *On the Principles of Political Economy and Taxation. The Works and Correspondence of David Ricardo (1)* (Cambridge et al.: Cambridge University Press, 1951); pp. 135-151.

must be devalued. Vice versa, the more advanced economy offering all tradables at lower prices than its competitors has to face the consequence of not having the means to pay for its own factors of production locally. Its foreign customers compete for these scarce means of payment through their willingness to offer higher quantities of their own currency. The currency of the advanced economy appreciates until some of its exports lose their price competitiveness despite technical superiority, obviously the branches where the productivity lead of the advanced economy is lowest.

Comparative advantage is transformed into cost competitiveness through adjustments of the exchange rate in the case of floating exchange rates (and scriptural monies). In the case of universal money (such as the gold standard), the same process of adjustment of national (and not branchwise) cost levels is achieved by means of transborder movements of bullion.

Adjustment to differences in innovativeness in a convoy model of globalization

Let us assume innovation in a global economy composed of national economies which tend to full employment. Assume an innovation in the more advanced economy. The more advanced economy will increase its exports. The demand for its currency also increases. Branches not experiencing innovation will face a rise in their cost level in comparison to their competitors in the economy where no innovation has taken place. They have to innovate or to reduce production. The economy which did not experience innovation will enjoy increased export possibilities as well as the chance to replace hitherto imported products with local production, at least until the additional demand for labor from these activities

exceeds the effect of labor being shed off due to the new exports of the innovative branch in the advanced economy, so that its own labor costs increase because of labor scarcity.

The innovative economy improves its terms of trade. The less innovative economy has to accept deteriorating terms of trade, but not unemployment. The more rapidly devaluation makes it competitive in products where no innovation has taken place in either economy, the lower its rate of devaluation and the deterioration of its terms of trade. As the large majority of branches are characterized by very gradual innovation, the less advanced economy in the convoy model will be drawn into a process of slowly following the leaders by specializing on older products. The deterioration of its terms of trade will be mild. It will be considered a little backward, far from the frontier of innovation, but close to the leading economy in terms of living standards. The deterioration of the international value of its currency and the deterioration of its terms of trade remain limited, as productivities in monetary terms are similar between its high-tech and its low-tech industries before innovation takes hold in the more advanced economy.

Long term capital movements do not block this process of adjustment but reinforce it. Exchange-rate appreciations will induce the noninnovative branches in the advanced economy to delocalize their production to less advanced economies because factors of production are cheaper there. The first to describe this process among classical authors was Marx, with his vitriolic criticism of the admiration for British businessmen and of the docility and diligence of Belgian workers in the second half of the nineteenth century.¹³ Such views could be culled directly from a contemporary business journal. Furthermore, the innovative branches in the more advanced economy will try to protect themselves against the competition of lower-

¹³ Marx, Karl: "Das Kapital: Kritik der politischen Ökonomie (1): Der Produktionsprozeß des Kapitals", in: Marx, Karl; Engels, Friedrich (eds.): *Werke*, vol. 23 (Berlin: Dietz, 1972); p. 700.

cost production sites, provided they do not depend on the skills of immobile labor employed in their own economies. If they can exploit their innovation by employing cheap labor elsewhere, they will delocalize. Technology transfer occurs, and is enhanced if the noninnovative economy can imitate. In this case the innovative branch of the advanced economy will have to delocalize its production to avoid being undersold by competitors using similarly efficient technologies in economies with lower labor costs. Technology transfers have the same consequence as innovation on relative prices in the lower-cost economy: ultimately higher costs of local factors of production because of the scarcity of labor. Increased foreign direct investment is not only linked to rising real wages in the branch where it takes place, but in all other branches, too, provided that the receiving economy is characterized by full employment.¹⁴

There are two possible scenarios for the positioning of more advanced and less advanced economies on the basis of these equilibrating mechanisms. Important elements of technical progress are geographically immobile, such as the proximity to markets with high purchasing power or the dependency of technical innovation on innovation systems whose main elements are external to business firms (educational systems, centers of technical research, the supply of knowledge from complementary branches not directly involved in international trade, cultural characteristics influencing the desire to learn, income distribution as an incentive to technical innovation provided by mass demand).¹⁵ Thus, the hierarchies of the international division of labor are maintained and the less advanced economy

¹⁴ Aitken, Brian; Hanison, Aun; Lipsey, Robert E.: "Wages and Foreign Ownership. A Comparative Study of Mexico, Venezuela and the United States", in: *Journal of International Economics*, 40, 3/4 (May 1996); pp. 345-371.

¹⁵ Freeman, Chris: "The National System of Innovation in Historical Perspective", in: *Cambridge Journal of Economics*, 19, 1 (January 1995); pp. 5-24. Nelson, Richard R.: *National Innovation Systems: A Comparative Analysis* (Oxford: Oxford University Press, 1993).

adjusts by means of devaluation and subsequent specialization on technically less advanced branches.

If the less advanced economy has the capacity to innovate, its new specialization on branches where the more advanced economy has not experienced innovation will benefit from new markets which are potentially favorable to innovation. If specialization occurs in line with comparative cost advantage, it is unlikely that the hierarchy of the international division of labor will be stable. The post-Keynesian observation of stable capital-output ratios¹⁶ implies that, in most branches, productivity increases depend on technical progress. This stability has been integrated into the neoclassical production function via new endogenous growth theory, which insists on a variety of sources of technical progress, ranging from learning by doing to collective technical efficiency on the basis of

¹⁶ Boyer, Robert: *La théorie de la régulation* (Paris: La Découverte, 1986); p. 100. Andreff, Wladimir: *Profits et structures du capitalisme mondial* (Paris: Calmann-Lévy, 1976); p. 16. Aglietta, Michel: *Régulations et crises du capitalisme: L'expérience des Etats Unis* (Paris: Calman-Lévy, 1976). Kendrick, John W.: *Productivity Trends in the United States: A Study by the National Bureau of Economic Research* (Princeton, N.J.: Princeton University Press, 1961). Bicanic, Rudolf: "The Threshold of Economic Growth", in: *Kyklos*, 15, 1 (1962); pp. 7-28. Helmstädter, Ernst: *Der Kapitalkoeffizient. Eine kapitaltheoretische Untersuchung* (Stuttgart: Gustav Fischer, 1969). Kuznets, Simon: *Economic Growth of Nations. Total Output and Production Structure* (Cambridge, Mass.: The Belknap Press of Harvard University Press, 1971); p. 67. Gordon, Robert J.: "\$ 45 Billion of US Private Investment Has Been Mislaid", in: *American Economic Review*, 59, 1 (March 1969); p. 221. Mayor, Thomas: "The Decline of the United States Capital-Output Ratio", in: *Economic Development and Cultural Change*, 16, 4 (July 1968); p. 498. Fellner, William: "Appraisal of the Labour-Saving and Capital Saving Character of Innovations", in: Lutz, F.A.; Hague, D.C. (eds.): *The Theory of Capital. Proceedings of a Conference Held by the International Economic Association* (London; New York: Macmillan; St.Martins Press, 1961); pp. 58-74. Domar, Evsey D.: "The Capital-Output Ratio in the United States: Its Variation and Stability", in: Lutz, F.A.; Hague, D.C. (eds.): *The Theory of Capital. Proceedings of a Conference Held by the International Economic Association* (New York; London: Macmillan; St.Martins Press, 1961); pp. 95-117. Sato, Kazuo: "International Variations in the Incremental Capital Output Ratios", in: *Economic Development and Cultural Change*, 19, 4 (July 1971); pp. 621-640. Oshima, Harry T.: "Consumer Asset Formation and the Future of Capitalism", in: *Economic Journal*, 71, 281 (March 1961); p. 22. Phelps, D.M.; Weber, B.; Brown, E.H.: "Accumulation, Productivity and Distribution in the British Economy 1870-1938", in: *Economic Journal*, 63, 250 (June 1953); pp. 263-288. Abramovitz, Moses: *Thinking About Growth and Other Essays on Economic Growth and Welfare* (Cambridge: Cambridge University Press, 1989); p. 163. Gillman, Joseph M.: *Das Gesetz des tendenziellen Falls der Profitrate* (Frankfort on the Main: Europäische Verlagsanstalt, 1969); p. 45. Arrow, Kenneth J.: "The Economic Implications of Learning by Doing", in: *Review of Economic Studies*, 29, 80 (June 1962); p. 155. Lorenzi, Jean-Hervé; Pastré, Olivier; Toledano, Joelle: *La crise du XXe siècle* (Paris: Economica, 1980); p. 159.

complementarities in learning to social and political structures.¹⁷ These are promoted by innovation, which always originates in a specific branch. Any of these innovations will normally result in a higher competitiveness of the respective branch, hence in adjustment of the exchange rate. An isolated innovation spreading to other branches may enhance the productivity of the latter, too. It is not plausible, however, that this effect is identical to improved productivity in the branch where the innovation has taken place. Consequently, the innovative economy may become locked into a pattern of specialization on products with limited growth potential which keeps it from benefiting from new opportunities of specialization, not because of its technical inefficiency but because of its high efficiency in old products.¹⁸

Suppose that technical progress is path dependent because of learning by doing, and has spread effects to other branches producing new products. A leading economy, for example, machine building or luxury-car production in Germany, will increase its comparative advantage in productivity by a continuous flow of innovation with the attendant improvements in its exchange rate and terms of trade. It enjoys an advance in other branches, for example, newly emerging branches, albeit to a lower degree. Even if there is no spread of technical progress from the innovative economy to other branches of the less advanced economy, the less advanced economy enjoys comparative advantage in the branches competing with the newly emerging branches of the innovative economy, since the productivity advance of the advanced economy in older branches is higher than in the newly

¹⁷ Romer, Paul M.: *Human Capital and Growth. Theory and Evidence* (Cambridge, Mass.: National Bureau of Economic Research, 1989). Romer, Paul M.: "Increasing Returns and Long-Term Growth", in: *Journal of Political Economy*, 94, 2 (September-October 1986); pp. 1002-1037.

¹⁸ Botticelli, Peter: "The British Engineering Press During the Second Industrial Revolution: Responses to Corporate Capitalism", in: *Business History Review*, 71, 2 (Summer 1997); pp. 260-286. Broadberry, Stephen N.: *The Productivity Race: British Manufacturing in International Perspective, 1850-1990* (Cambridge: Cambridge University Press, 1997); pp. 165ff. Brezis, Elise; Krugman, Paul R.; Tsiddon, Daniel: "Leapfrogging in International Competition: A Theory of Cycles in National Technological Leaderships", in: *American Economic Review*, 83, 4 (September 1993); pp. 1211-1219.

emerging innovative branches. At the exchange rate corresponding to the advance in productivity in the branch where innovation took place through learning by doing, the less advanced economy has comparative advantage in the branch where innovation only took place by a spread effect in the advanced economy. The less advanced economy will increase its share in world sales in the branches where there are only initial spread effects, and will most likely attract the innovations that occur in these branches. Thus, it specializes on the very branches in which the product cycle theory expected the advanced economy to maintain its position of technical leadership.¹⁹

The theory of the product cycle assumes that technical progress is path dependent and increases productivity in not yet established branches. As productivity increases because production takes place, the lag in productivity of the less advanced economy is high in the branch the advanced economy is currently specialized on. Being dependent on productive activity (because of learning by doing), the technical innovativeness of the advanced economy in an already established branch will be higher than its innovativeness in an activity where it does not yet produce. The less advanced economy is supposed to be active neither in the branch where technical innovation is taking place on the basis of learning by doing nor in the newly emerging branches. It lags behind in both branches. But

¹⁹ Vernon, Raymond: "International Investment and International Trade in the Product Cycle", in: *Quarterly Journal of Economics*, 80, 1 (February 1966); pp. 190-207. Cantwell, John: "The Globalisation of Technology: What Remains of the Product Cycle Model", in: *Cambridge Journal of Economics*, 19, 1 (February 1995); pp. 155-179. Wells, Louis T.: "Test of a Product Cycle Model on International Trade: US Exports of Consumer Durables", in: *Quarterly Journal of Economics*, 83, 1 (February 1969); pp. 152-162. Paqué, Karl Heinz: "Technologie, Wissen und Wirtschaftspolitik - Zur Rolle des Staates in Theorien des endogenen Wachstums", in: *Die Weltwirtschaft*, 3 (1995); pp. 237-253. Aukrust, Odd: "Factors of Economic Development: A Review of Recent Research", in: *Weltwirtschaftliches Archiv*, 93, 2 (1964); pp. 23-43. Homburg, Stefan: "Humankapital und endogenes Wachstum", in: *Zeitschrift für Wirtschafts- und Sozialwissenschaften*, 115, 3 (1995); pp. 339-366. Caballé, Jordi; Santos, Manuel S.: "On Endogenous Growth with Physical and Human Capital", in: *Journal of Political Economy*, 101, 6 (December 1993); pp. 1042-1067. Amendola, Giovanni; Dosi, Giovanni; Papagni, Erasmo: "The Dynamics of International Competitiveness", in: *Weltwirtschaftliches Archiv*, 129, 3 (1993); pp. 452-471.

neither economy is active yet in the branches that have to be built up. Although the less advanced economy will enjoy the spread of technical progress to these new branches less if neither economy is active there and if neither are enjoying the productivity-increasing effects of learning by doing, its lag in these branches will be lower than in the currently established branch, where the less advanced economy does not benefit from learning by doing but the advanced economy does, considerably increasing its productive potential in this manner.

The backward economy will specialize on new products even if it is technically inferior here, provided that it is less inferior than in the old technically leading branches, where the advanced economy, but not the less advanced one, enjoys the effects of disembodied technical progress.²⁰ Taking Ricardo's example and replacing, on the one side, textiles with high-technology cars and wine with microelectronics, and, on the other side, replacing England with Germany and Portugal with Southeast Asia, Germany would have to specialize on luxury cars and leave microelectronics to Southeast Asia. This is a realistic modeling of Germany's lock into the old industries of the second industrial revolution (chemicals, electrical products, machinery and cars) and the rise of East and Southeast Asia through their specialization on microelectronics.

Obviously, by the same mechanism the falling-behind economy can hope to recover a leading position in the next wave of technical innovation. It will not defend its leadership position in the newly emerging industries if the only consequence of falling behind is the one outlined in the convoy model of globalization presented here: the deterioration of terms of trade and economic convergence, and not decline and unemployment. A convoy model of this sort will

²⁰ Denison, Edward F.: *Why Growth Rates Differ* (Washington: Brookings Institution, 1967). Denison, Edward F.: "The Contribution of Capital to Economic Growth", in: *American Economic Review*, 70, 2 (May 1980); pp. 221-224. Faxen, Karl-Olof: "Disembodied Technical Progress: Does Employee Participation in Decision Making Contribute to Change and Growth?", in: *American Economic Review*, 68, 2 (May 1978); pp. 131-134.

be characterized by changing leadership positions and limited possibilities for the technically less advanced economies to overtake the more advanced ones, because deteriorations of the exchange rate are limited by the new competitiveness of technically less demanding branches in the wake of devaluation. The convoy model will be characterized by convergence within relatively stable hierarchies, which can be explained by immobile factors such as the size of the internal market. It depends on the capacity of the less advanced economies to increase employment on the basis of competitiveness in technically less demanding branches on the basis of homogeneity in branchwise productivities, which has been shown to be the result of full employment. The convergence between industrial economies in the last quarter of the nineteenth century²¹ and the three decades following World War II²²

²¹ Williamson, Jeffrey G.: "Globalization, Convergence and History", in: *Journal of Economic History*, 56, 2 (June 1996); pp. 277-306. Dormois, Jean-Pierre; Bardini, Carlo: "La productivité du travail dans l'industrie de divers pays d'Europe avant 1914", in: *Economies et Sociétés*, 29, 12 (December 1995); pp. 77-103. Rosenbloom, Joshua L.: "Anglo-American Technological Differences in Small Arms Manufacturing", in: *Journal of Interdisciplinary History*, 23, 4 (Spring 1993); pp. 683-698. Broadberry, Stephen N.: "Comparative Productivity in British and American Manufacturing During the Nineteenth Century", in: *Explorations in Economic History*, 31, 4 (October 1994); pp. 521-548. O'Rourke, Kevin; Williamson, Jeffrey G.: "Late Nineteenth-Century Anglo-American Factor Price Convergence: Were Heckscher and Ohlin Right?", in: *Journal of Economic History*, 54, 4 (December 1994); pp. 892-917.

²² Costello, Donna M.: "A Cross-Country, Cross-Industry Comparison of Productivity Growth", in: *Journal of Political Economy*, 101, 2 (February 1993); pp. 207-222. Wolff, Edward N.: "Capital Formation and Productivity Convergence Over the Long Term", in: *American Economic Review*, 81, 3 (June 1991); pp. 576-578. Alam, M.Shahid: "Convergence in Developed Countries: An Empirical Investigation", in: *Weltwirtschaftliches Archiv*, 128, 2 (1992); pp. 189-201. Neef, Arthur; Dean, Edwin: *Comparative Changes in Labour Productivity and Unit Costs by Manufacturing Industry. American Enterprise Institute Conference on Interindustry Differences in Productivity Growth* (Washington, 1984); p. 7. Neef, Arthur: *An International Comparison of Manufacturing Productivity and Unit Labor Cost Trend* (Palo Alto, California: Social Science Research Council, 1988); p. 3. Archibugi, Daniela; Pianta, Mario: "Aggregate Convergence and Sectoral Specialization in Innovation", in: *Journal of Evolutionary Economics*, 4, 1 (February 1994); pp. 17-33. Dosi, Giovanni; Pavitt, Keith; Soete, Luc: *The Economics of Technical Change and International Trade* (New York et al.: Wheatsheaf, 1990); p. 109. Ark, Bart van: *International Comparisons of Output and Productivity. Manufacturing Productivity Performance of Ten Countries from 1950 - 1990* (Groningen: Groningen Growth and Development Centre, 1993); p. 101. This is dealt with by intra-industry trade theory, Kleiman, Ephraim; Rop, Yaakov: "Who Trades with Whom - The Income Pattern of International Trade", in: *Weltwirtschaftliches Archiv*, 120, 3 (1984); pp. 498-521. Abd-el-Rahman, Ranval: "Firm's Competition and National Comparative Advantages on Joint Determinants of Trade Composition", in: *Weltwirtschaftliches Archiv*, 127, 1 (1991); pp. 83-98. Becuwe, Stéphane; Mathieu, Claude: "The Determinants of Intra-Industry Trade: The Case of the Automobile Industry", in: *Weltwirtschaftliches Archiv*, 128, 1 (1992); pp. 34-51. Lundberg, Lars: "Intra-Industry Trade: The Case of Sweden", in:

can be quoted as empirical illustrations of the convoy model, including the possibility of changes in the rank order of some of the participating economies (Germany overtaking Britain but not the U.S.,²³ where a large and thriving domestic market compensated the initial, international specialization on “nondynamic” products).²⁴

**The conditions for the convoy model are absent when there is
“structural unemployment” in major participating economies**

The convoy model was deduced from the assumptions of standard neoclassical economic theory, in which falling behind does not imply unemployment and where catching up implies rises in employment which translate into scarcity of labor and productivity increases, allowing wages to rise. The conditions for a convoy model do not exist if major participants in the international division of labor cannot attain full employment themselves. Development theory elaborated long ago on labor surplus being the major characteristic of underdevelopment.²⁵ The lack of effective demand results in backwash effects:

Weltwirtschaftliches Archiv, 118, 2 (1982); pp. 302-316. Siddhartam, Natteri S.; Kumar, Nagesh:

"The Determination of Inter-Industry Trade Variations in the Proportion of Intra-Firm Trade: The Behaviour of US Multinationals", in: *Weltwirtschaftliches Archiv*, 126, 3 (1990); pp. 580-591.

²³ Fremdling, Rainer: "Productivity Comparisons between Great Britain and Germany, 1855-1913", in:

Scandinavian Economic History Review, 39, 1 (1991); p. 39. Howard, Earl Dean: *The Cause and Extent of the Recent Industrial Progress of Germany* (Cambridge, Mass.: Houghton Mifflin, 1907);

pp. 91f. Kindleberger, Charles P.: "Germany's Overtaking of England 1806-1914 (2)", in:

Weltwirtschaftliches Archiv, 111, 3 (1975); p. 482. Brown, John C.: "Imperfect Competition and Anglo-German Trade Rivalry: Markets for Cotton Textiles before 1914", in: *Journal of Economic History*, 55, 3 (September 1995); pp. 494-528. Chandler, Alfred D.: "Managerial Enterprise and

Competitive Advantage", in: *Business History*, 34, 1 (January 1992); p. 17.

²⁴ Romer, Paul M.: "Why Indeed in America? Theory, History, and the Origins of Modern Economic Growth", in: *American Economic Review*, 87, 2 (May 1996); pp. 202-206.

²⁵ Lewis, William Arthur: "Economic Development with Unlimited Supply of Labour", in:

Manchester School of Economic and Social Studies, 22, 4 (May 1954); pp. 139-191. Fei, John C.H.; Ranis, Gustav: *Development of a Labor Surplus Economy. Theory and Policy* (Homewood, Ill.: Irwin, 1964).

available financial resources are not invested for a lack of purchasing power. In my marginality-*cum*-rent model, I elaborate on this simultaneous existence of a surplus of resources and a surplus of labor with average skills.²⁶

Suppose an economy with low levels of average productivity and mass incomes. In such an economy the share of food in the consumption of average households will be high, in the case of the mass of poor households around 50 to 70%. Moreover, employment will at least initially depend on the capacity of agriculture to provide productive employment, i.e., employment that yields more than labor's consumption. Leaving environmental factors aside, a given technical solution for industrial products can be replicated indefinitely, whereas decreasing returns in the wake of increasing employment is only temporary. This is not so, however, in agriculture and any branch depending on the natural environment, such as mineral production. With demographic growth, available fertile land has to be cultivated more intensively and less productive land has to be put into cultivation. The marginal product of labor decreases. Georgescu-Roegen has insisted, along with others,²⁷ that underdevelopment is characterized by labor in agriculture producing less than its costs of subsistence. The

²⁶ Elsenhans, Hartmut: "Rent, State and the Market: The Political Economy of the Transition to Self-sustained Capitalism", in: *Pakistan Development Review*, 33, 4 (December 1994); pp. 393-428. Elsenhans, Hartmut: "Überwindung von Marginalität als Gegenstand der Armutsbekämpfung", in: Schäfer, Hans Bernd (ed.): *Bevölkerungsdynamik und Grundbedürfnisse in Entwicklungsländern. Schriften des Vereins für Socialpolitik* 246 (Berlin: Duncker und Humblot, 1995); pp. 193-201.

²⁷ Georgescu-Roegen, Nicholas: "Economic Theory and Agrarian Economics", in: *Oxford Economic Papers*, 12, 1 (February 1960); pp. 1-40. Dandekar, V.M.: "Economic Theory and Agrarian Reform", in: *Oxford Economic Papers*, 14, 1 (February 1962); pp. 69-80. Sen, Amartya Kumar: "Peasants and Dualism with or without Surplus Labour", in: *Journal of Political Economy*, 74, 5 (October 1966); pp. 427-450. Minami, Ryoshin: "A Model of Economic Development from Classical to Neoclassical Stages", in: *Weltwirtschaftliches Archiv*, 97, 2 (1966); pp. 345-355. Minami, Ryoshin: "Economic Development and Income Distribution in Japan: An Assessment of the Kuznets Hypothesis", in: *Cambridge Journal of Economics*, 22, 1 (January 1998); pp. 39-58.

commonly advanced reasons for this are demographic growth, low levels of technical efficiency in agriculture, and social structures where redistribution takes place within primordial communities.

There is a surplus of labor if marginal product decreases without labor starving. Because there are some workers in agriculture who produce more than their costs of subsistence by cultivating more fertile land, there is also a surplus of resources. The same is true in a hierarchically organized society where the property rights of cultivators are not established or where surpluses are taken away from the cultivators by political or legislative means. The defining criterion of underdevelopment is the simultaneous existence of a surplus of resources and a surplus of labor. Because of the availability of a surplus of labor, often called structural unemployment, labor cannot become scarce on the basis of an expansion of internal demand triggered off by market mechanisms. The neoclassical mechanism of rising wages in line with increases in productivity cannot take place (because it can take place only if full employment is reached²⁸). Innovations may take hold in a particular branch of such an economy, and an innovation may lead to entrepreneurs hiring more labor in order to increase their sales. But the overall effect of employment creation in this branch is too limited if there is a surplus labor, enabling sectorally constrained wage increases to occur without forcing employers in other branches to innovate. The owners of assets in noninnovative branches are not forced to spend on investment, particularly in agriculture (Adam Smith's nonimproving landlord),²⁹ where there is a wealth of unemployed labor. And available surplus is not reduced by the pressure of rising mass consumption. Moreover, the owners of assets who are innovative cannot undersell the less

²⁸ Fields, Gary S.: "Changing Labor Market Conditions and Economic Development in Hong Kong, the Republic of Korea, Singapore and Taiwan China", in: *World Bank Economic Review*, 8, 3 (September 1994); pp. 395-414.

²⁹ Smith, Adam: *An Inquiry into the Nature and Causes of the Wealth of Nations*, vol. 1 (Chicago, Ill.: University of Chicago Press, 1976 [1776]); p. 354.

innovative owners of assets. "Traditional" land owners can always return to the production of subsistence and luxury goods on their estates, or buy luxury goods at admittedly deteriorating terms of trade by selling their agricultural surplus, without losing their land, even if they do not use this land very productively.

There is surplus available, but no mechanism through which either scarce labor could claim it as an additional income (wage increase due to its scarcity) or entrepreneurs faced with expanding markets could spend it on investment, possibly financed by credit, transforming it into additional employment and hence additional demand for wage goods.

In an economy where average-skilled labor does not tend to scarcity, capitalist profit is not the dominant form of surplus. As Kalecki³⁰ has shown, capitalist profit depends at the macrolevel on investment spending: the increase of wage-goods demand beyond the wages paid in consumption-goods production enables the producers of consumption goods to sell their goods at a profit. There have to be wage earners who use their incomes for consumption goods, but do not produce consumption goods themselves. A positive profit rate in wage-goods production will entice the producers of investment goods to engage in consumption-goods production if similar profit rates cannot be made in investment goods. Investment goods would become scarce and their prices would rise, until the producers of investment goods earn profit rates comparable to the producers of consumption goods. Positive net investment always has to increase output in relation to costs, as investment spending is not profitable otherwise. Due to this condition³¹ net investment and capital accumulation ultimately depend either on rising mass

³⁰ Kalecki, Michal: *Selected Essays on the Dynamics of the Capitalist Economy 1933-1970* (Cambridge: Cambridge University Press, 1971); pp. 2-13.

³¹ Bortkiewicz, Ladislav von: "Wertrechnung und Preisrechnung im Marxschen System, 3. Teil", in: *Archiv für Sozialwissenschaft und Sozialpolitik*, 25, 2 (1907); pp. 455-459. Okishio, Nobuo: "Technical Changes and the Rate of Profit", in: *Kobe University Economic Review*, 7 (1961); pp. 85-90.

incomes³² or increasing exports. The former, i.e., dependency on rising mass incomes, can be ruled out in the case of widespread marginality.

Dependency on increasing exports implies competitiveness in price-elastic exports, and will be dealt with in analyzing the current pattern of the globalization process.

From the employment side, only certain forms of technical progress lead to a reduction of marginality. Improving technologies in luxury-consumption goods will lead to the consumption of more or better luxuries. Increases in productivity in nonfood wage-goods production reduces the cost of labor and raises the level of marginality. But this process is limited, because with declining prices for nonfood essentials their share in the spending of low-income households will decrease. The threshold of marginality will be reached when additional labor produces less surplus food than it consumes. Technical progress in agriculture can take two forms. First, it can raise the surplus produced by the already productive workers. The surplus available to the asset holder increases and is used for luxuries, with employment increasing only in luxury-goods production. Second, it can raise the threshold of marginality by raising the marginal product of agriculture. In this case, employment in agriculture increases. Only this type of technical progress will contribute to a reduction of marginality.

The marginality-*cum*-rent structure is stabilized by the very existence of surplus. As spending on investment is limited, the share of surplus appropriated on competitive markets is also limited. Other available surplus will be appropriated by political means. The holder of assets will create links of clientelism in order to gain political power. They will accept the fact that some marginal labor must be fed

³² Elsenhans, Hartmut: "Rising Mass Incomes as a Condition of Capitalist Growth: Implications for the World Economy", in: *International Organization*, 37, 1 (Winter 1983); pp. 1-38. Elsenhans, Hartmut: "Égalité et développement. L'expérience européenne et le monde sous-développé d'aujourd'hui", in: *Cultures et développement*, 15, 2 (1983); pp. 187-216.

from the surplus in order to be available for political action.³³ In order to increase their political means for appropriating surplus, the holders of assets will engage in alliances and abolish market competition. The process of surplus appropriation and surplus allocation will be based on power relations. Where entrepreneurs earning their money on the basis of innovation emerge, they invariably try to defend their positions by entering or being co-opted into the networks of power relations, as often shown in precapitalist structures by the co-optation of long-distance trade capital into the existing precapitalist power structures.³⁴ Competitive entrepreneurs will not try to displace these power structures, but will make arrangements with them. At the basis of society, a given household will face fierce competition for employment and the labor market will be constituted as a lottery-type market. Households, whether marginal or not, will try to enter into the proposed relations of dependency. They will also increase their opportunities to enter into employment or networks of clientelism by having abundant offspring. Marginality will not be reduced by letting the marginal population starve.

³³ Elsenhans, Hartmut: "Die Rolle internationaler Entwicklungszusammenarbeit unter veränderten wirtschaftlichen und gesellschaftsstrukturellen Rahmenbedingungen", in: Barsch, Dietrich; Karrasch, Heinz (eds.): *Die Dritte Welt im Rahmen weltpolitischer und weltwirtschaftlicher Neuordnung* (Stuttgart: Franz Steiner, 1995); pp. 141-142. Elsenhans, Hartmut: "Terms of Trade and Underdevelopment: How to Benefit from Improving Terms of Trade. Contribution to the Festschrift in Honor of Hans Wolfgang Singer", (2005); p. forthcoming.

³⁴ Holderness, B.A.: "The English Land Market in the Eighteenth Century: The Case of Lincolnshire", in: *Economic History Review*, 27, 4 (1974); p. 574. Jones, Eric L.: *Agriculture and the Industrial Revolution* (Oxford: Basil Blackwell, 1974); pp. 176-179. Kamen, Henry: *European Society, 1500-1700* (London: Hutchinson, 1984); p. 123. Bolton, J.L.: *The Medieval English Economy 1150-1500* (London: Totowa, N.J.: J.M. Dent & Sons; Rowman & Littlefield, 1980); p. 283. Rubinstein, W.D.: *Men of Property. The Very Wealthy in Britain Since the Industrial Revolution* (London: Croom Helm, 1981); pp. 213ff. Grassby, Richard: "English Merchant Capitalism in the Late Seventeenth Century. The Composition of Business Fortunes", in: *Past and Present*, 46 (February 1970); pp. 87-107. Hocquet, J.C.: "Capitalisme marchand et classe marchande à Venise au temps de la Renaissance", in: *Annales E.S.C.*, 34, 2 (March-April 1979); p. 295. Couturier, Edith B.: *Hacienda of Hueypan: The History of a Mexican Social and Economic Institution, 1550-1940* (New York: Dissertation, 1965); pp. 24-28. Hellmann, Manfred: *Grundzüge der Geschichte Venedigs* (Darmstadt: Wissenschaftliche Buchgesellschaft, 1981); p. 165. Taylor, George V.: "Non-Capitalist Wealth and the Origins of the French Revolution", in: *American Historical Review*, 72, 2 (January 1967); p. 472. Richards, Eric: "The Industrial Face of a Great Estate: Trentham and Lilleshall, 1780-1860", in: *Economic History Review*, 27, 3 (1974); p. 430. Rapp, Dean: "Social Mobility in the Eighteenth Century, the Whitbreads of Bedfordshire", in: *Economic History Review*, 27, 3 (1974); p. 393.

There are strong links of dependency which largely condition social behavior. At the bottom of society, any household will endeavor to belong to a larger community in order to spread risks. Within these larger communities, those who predominantly have labor contracts where they earn less than their subsistence needs will press for a distribution. They will utilize moral values such as respectability to increase their capacity to negotiate their material situation. Respectability will be increased if the respective household has links of dependency to the more powerful.³⁵ The communities at the bottom of society will have an interest in accepting links of dependency proposed by the powerful. In the struggle over resources, the powerful take advantage of their political resources, especially force, and material resources, but also their prestige – the capacity to influence others without having to provide costly political and material resources. There are few horizontal alignments of social classes and a low propensity to break the solidarity of the powerful through competition on markets. Hence there will be no struggle to increase mass incomes in order to reduce rent in favor of profit, nor will there be struggles among those who appropriate rent in order to reduce the politicized structure of the struggle over resources.

A marginality-*cum*-rent structure is not open to transformation through a capitalist structure by means of technical progress, mass politics or elite fragmentation.

Under the international demonstration effect, marginality-ridden economies have tried to improve levels of productivity through the investment of rents. This was the basis of the bureaucratic development societies that followed import-substituting industrialization under the guidance of a planning state, whose

³⁵ Elsenhans, Hartmut: "Die Rolle internationaler Entwicklungszusammenarbeit unter veränderten wirtschaftlichen und gesellschaftsstrukturellen Rahmenbedingungen", in: Barsch, Dietrich; Karrasch, Heinz (eds.): *Die Dritte Welt im Rahmen weltpolitischer und weltwirtschaftlicher Neuordnung* (Stuttgart: Franz Steiner, 1995); pp. 141-142.

dominant class, the state classes,³⁶ centralized available rents and tried to increase rent for export with the argument, ever since the 1930s, that underdevelopment is caused by deteriorating terms of trade.³⁷ The current process of globalization can be interpreted as resulting from the failure of this type of development strategy, which went bankrupt because available surplus was not efficiently invested, making employment growth limited and production growth inferior to the growth of the stock of invested capital.³⁸ Capital productivity dramatically declined in all of these cases in the 1970s and the 1980s, whereas since the mid-1980s the perspective within this strategy of removing constraints to the accumulation of capital through higher raw-material prices vanished for good, as shown by the complete failure of the integrated program for commodities proposed by UNCTAD in the wake of the oil-price crisis of the 1970s.³⁹

The world economy is hence constituted by developed capitalist countries and countries that have experienced a limited modernization process and have to produce some sort of economic progress in order to maintain political stability under the worldwide demonstration effect associated with the cultural aspects of globalization. The shift from import-substitution as a solution to marginality to export orientation as an instrument for increasing employment, production and income is an important element of the specific pattern of globalization at present. It

³⁶ Elsenhans, Hartmut: *Abhängiger Kapitalismus oder bürokratische Entwicklungsgesellschaft. Versuch über den Staat in der Dritten Welt* (Frankfort on the Main; New York: Campus, 1981); pp. 193-211.

³⁷ Singer, Hans Wolfgang: "U.S. Foreign Investment in Underdeveloped Areas. The Distribution of Gains between Investing and Borrowing Countries", in: *American Economic Review*, 40, 2 (May 1950); pp. 473-485. Prebisch, Raúl: "The Economic Development of Latin America and its Principal Problems", in: *Economic Bulletin for Latin America*, 7, 1 (February 1962); pp. 1-22.

³⁸ Bruton, Henry J.: "Productivity Growth in Latin America", in: *American Economic Review*, 57, 5 (December 1967); pp. 1098-1116. Sanchez Ayuso, Manuel: "Quelques réflexions sur l'industrialisation et le commerce extérieur dans les pays en voie de développement", in: *Economie appliquée*, 25, 1 (January-March 1972); pp. 113-124.

³⁹ UNCTAD: *The History of UNCTAD* (New York: United Nations, 1985); p. 72. Rothstein, Robert L.: "Regime-Creation by a Coalition of the Weak: Lessons from the NIEO and the Integrated Program for Commodities", in: *International Studies Quarterly*, 28, 3 (September 1984); pp. 307-328.

is the main reason this process appears as threatening, i.e., increasing the international competitiveness of labor in low-wage areas, allowing them to undersell production in the developed capitalist countries. This gives rise to the image of a worldwide race for employment, the so-called race to the bottom, where the bargaining power and the income position of labor in the hitherto industrialized capitalist countries is being eroded.⁴⁰ The entry of marginality-cum-rent-ridden economies into the international division of labor appears to be the main feature of a new pattern of globalization, which I refer to as the underconsumptionist pattern.

The political economy of devaluation-driven industrialization

The current pattern of globalization is based on the newfound capacity of hitherto underdeveloped economies to transform comparative advantage into cost competitiveness by means of devaluation. It is not based on a qualitatively new capacity for technical learning and technology transfer, although these may contribute to the pattern. It is not based on low real wages either, as real wages diverge considerably from the international labor costs of these economies. It is based on increased productivity – not necessarily in the branches serving as the forerunners of export-led manufacturing in less advanced economies, but in the

⁴⁰ Verdun, Amy: *European Responses to Globalisation and Financial Market Integration: Perceptions of Economic and Monetary Union in Britain, France and Germany* (Houndsmill, N.Y.: Palgrave Macmillan, 2002); p. 197. Oman, Charles: *Policy Competition for Foreign Direct Investment: A Study of Competition among Governments to Attract FDI. Development Centre Studies* (Paris: OECD, 2000); p. 9. White, Howard: "Pro-poor Growth in a Globalized Economy", in: *Journal of International Development*, 13, 5 (July 2001); p. 564. Streeck, Wolfgang: "Industrielle Beziehungen in einer internationalisierten Wirtschaft", in: Mehrländer, Ursula (ed.): *Globalisierung der Wirtschaft, Standortwettbewerb und Mitbestimmung. Gesprächskreis Arbeit und Soziales 70* (Bonn: Friedrich Ebert Foundation, December 1996); pp. 51-55. Albo, Gregory: "Competitive Austerity and the Impasse of Capitalist Employment Policy", in: *Socialist Register*, 31 (1994); pp. 146f. Liemt, Gijsbert van: "Economic Globalization: Labour Options and Business Strategies in High Labour Cost Countries", in: *International Labour Review*, 131, 4/5 (1992); pp. 469. Sharp, Margaret; Pavett, Keith: "Technology Policy in the 1990's: Old Trends and New Realities", in: *Journal of Common Market Studies*, 31, 2 (June 1993); pp. 130-151. Panitch, Leo: "Globalisation and the State", in: *Socialist Register*, 31 (1994); p. 82

form of the green revolution, i.e., the capacity of local agriculture to produce a larger surplus of food, either by enabling available surplus labor to produce food or by increasing the productivity of labor already engaged in food production. It is not the expression of a qualitatively new dynamism of capitalism on a global scale. Quite the contrary, its fear-inspiring characteristics are caused by the limited impact of globalization.

Comparative advantage is the basis of international specialization. Even an economy that is completely undynamic experiences changes in its comparative advantage if at least one economy exists in the world where innovation occurs. Even a very distant innovation affects the relative backwardness of the undynamic economy in its various production lines. Long before the emergence of capitalism in the West there were international trade relations based on comparative advantage, especially in luxury products. Shifts in comparative advantage were also commonplace. Production for the world market of Latin American silver, Caribbean sugar, coffee and cacao, sandalwood in East Asia, etc. were all based on comparative advantage. India reacquired comparative advantage in textile production as early as the last decades of the nineteenth century, having lost it due to the monopoly practices levied, especially by Britain, against Bengal weavers in the eighteenth century. The comparative advantages of East Bengal were exploited by the English East India Company in order to sell cheap cotton textiles in Britain until the introduction of protective barriers around 1700. The same occurred for a much longer time in West Africa.

Comparative advantage by itself does not create trade; it has to be transformed into cost competitiveness by sufficiently low international costs of the potential exporting country. It is possible that a country has comparative advantage without being able to sell the respective products, ultimately because the factors of production (i.e., workers) to be employed in the manufacturing of these products at

the required cost competitiveness cannot be paid from export earnings or from the local production of goods, although they can survive by consuming locally produced nontradable products.

The current globalization process is said to have been triggered off by low wages in the countries engaging in export manufacturing. The press and even scholarly publications are full of wage comparisons, Western wages being presented as fifty times higher than the wages in some of the less advanced Asian countries. Labor in the West is criticized for being too demanding. It is said that wages have to be cut in order to preserve jobs in the West. This argument is spurious. Most international companies do not know the real wages they have to pay in poor countries.⁴¹ They take into account only the international labor costs in convertible currencies of the labor they employ in poor countries. In the convoy model, the assumption holds that exchange rates correspond to purchasing-power parity,⁴² but not between developed capitalist and underdeveloped marginality-ridden economies.⁴³ The whole argument⁴⁴ about structural heterogeneity is but the

⁴¹ Kenney, Marvin; Florida, Richard: "Beyond Mass Production: Production and the Labour Process in Japan", in: *Politics and Society*, 16, 1 (March 1988); pp. 128-158.

⁴² Frenkel, Jakob A.: "International Interdependence and the Constraints on Macroeconomic Policies", in: *Weltwirtschaftliches Archiv*, 122, 2 (1986); p. 640. "Entwicklung und Bestimmungsfaktoren des Außenwerts der D-Mark", in: *Monatsberichte der Deutschen Bundesbank*, 45 (November 1993); pp. 51-56. Fortune, J. Neill: "Expected Purchasing Power Parity", in: *Weltwirtschaftliches Archiv*, 121, 1 (1985); pp. 97-104. Hakkio, Craig S.: "A Re-examination of Purchasing Power Parity: A Multicountry Multiperiod Study", in: *Journal of International Economics*, 17, 3 (1984); pp. 265-277. Abuaf, Niso; Jorion, Philippe: "Purchasing Power Parity in the Long Run", in: *Journal of Finance*, 45, 1 (March 1990); p. 172. Wasserfallen, Walter; Kyburz, Hans: "The Behaviour of Flexible Exchange Rates in the Short Run. A Systematic Investigation", in: *Weltwirtschaftliches Archiv*, 121, 4 (1985); p. 657. Junge, Georg: "Trends and Random Walks of Real Exchange Rates", in: *Weltwirtschaftliches Archiv*, 121, 3 (1985); pp. 427-437. Serletis, Apostolos: "Maximum Likelihood Cointegration Tests of Purchasing Power Parity: Evidence From Seventeen OECD Countries", in: *Weltwirtschaftliches Archiv*, 130, 3 (1994); pp. 475-494.

⁴³ Pilat, Dirk: "Comparative Productivity of Korean Manufacturing, 1967-1987", in: *Journal of Development Economics*, 46, 1 (February 1995); p. 140. Amsden, Alice H.: "Diffusion of Development. The Late-Industrializing Model and Greater Asia", in: *American Economic Review*, 81, 2 (May 1991); pp. 282-286. Yotopoulos, Pan A.; Lin, Jenu-Yih: "Purchasing Power Parities for Taiwan: The Basic Data for 1985 and International Comparisons", in: *Journal of Economic Development*, 18, 1 (June 1993); p. 11. Yotopoulos, Pan A.: *Exchange Rate Parity for Trade and Development: Theory, Tests, and Case Studies* (Cambridge et al.: Cambridge University Press, 1996). Weliwita, Avanda: "Cointegration Tests and the Long-Run Purchasing Power Parity: Examination of

theoretical offshoot of the absence of convergence. A brief look at World Bank data reveals that the per capita BSP of a typical underdeveloped economy is only about one-fourth of the per capita BSP measured in purchasing-power parity.⁴⁵ A Chinese household can buy in China from its salary up to ten times the goods it typically consumes than if the same salary were spent on these goods in Canada.⁴⁶ Real wages in the main exporters of manufactured products of the South are not 1/50th of real wages in the West, but about one-fifth to one-seventh.⁴⁷ This does not radically differ from the anecdotic evidence about real-wage differences between India and Britain when India⁴⁸ and Japan⁴⁹ undersold British textiles in the

Six Currencies in Asia", in: *Journal of Economic Development*, 23, 1 (June 1998); pp. 103-113. Köhler, Gernot: "A New Look at Unequal Exchange", in: *Asien-Afrika-Lateinamerika*, 29, 4 (2001); pp. 332-346. Sabaté, Marcela; Gadea, María Dolores; Serrano, José María: "PPP and Structural Breaks. The Peseta-Sterling Rate, 50 Years of a Floating Regime.", in: *Journal of International Money and Finance*, 22, 5 (October 2003); pp. 613-627.

⁴⁴ Nohlen, Dieter; Sturm, Roland: "Über das Konzept der strukturellen Heterogenität", in: Nohlen, Dieter; Nuscheler, Franz (eds.): *Handbuch der Dritten Welt (1): Unterentwicklung und Entwicklung - Theorien, Strategien, Indikatoren* (Hamburg: Hoffmann & Campe, 1982); pp. 94-100. Aydalot, Philippe: "Essai sur les problèmes de la stratégie de l'industrialisation en économie sous-développée. L'exemple tunisien", in: *Cahiers du CERES* (April 1968); p. 42. Abdel-Fadil, Mahmoud: "Modèles dynamiques d'introversion de l'économie dans les pays en voie de développement", in: *Economie appliquée*, 24, 4 (October-December 1971); pp. 619-658. Pickett, James; Robson, R.: "Technology and Employment in the Production of Cotton Cloth", in: *World Development*, 5, 3 (May 1977); p. 209. Hardin, Einar; Strassmann, W. Paul: "La productividad industrial y la intensidad de capital de México y los Estados Unidos", in: *Trimestre Económico*, 35, 137 (1968); p. 60. Salazar-Carillo, Jorge; Tirado de Alanso, Irmas: "Real Product and Price and the Rest of the World", in: *Review of Income and Wealth*, 34, 1 (March 1988); p. 34.

⁴⁵ India \$450 vs. \$2,149, China \$780 vs. \$3,291, Vietnam \$370 vs. \$1755, World Bank: *World Development Report 2000/2001: Attacking Poverty* (Washington: World Bank, 2000); p. 274.

⁴⁶ Chen, Haichun; Gordon, M.J.; Zhiming, Yan: "The Real Income and Consumption of an Urban Chinese Family", in: *Journal of Development Studies*, 31, 1 (October 1994); pp. 201-213.

⁴⁷ Strack, D.; Helmscholdt, H.; Schönherr, S.: "Internationale Einkommensvergleiche auf der Basis von Kaufkraftparitäten: Das Gefälle zwischen Industrie- und Entwicklungsländern verringert sich", in: *IFO-Schnelldienst*, 50, 10 (April 1997); pp. 8-14.

⁴⁸ Lokanathan, P.S.: *Industrial Organization in India* (London: Allen & Unwin, 1935); p. 358. Morris, David: *The Emergence of an Industrial Labor Force in India. A Study of the Bombay Cotton Mills, 1854-1947* (Berkeley, Cal.; Los Angeles: University of California Press, 1965); pp. 22.

⁴⁹ Grünbaum, Heinz: *Die Welttextilkrise. Zur Umschichtung der internationalen Industriestruktur* (Berlin: Reimar Hobbing, 1931); pp. 14f. Shimizu, Hiroshi: "Anglo-Japanese Competition in the Textile Industry in the Interwar Period: A Case Study of Iraq 1932-1941", in: *Middle Eastern Studies*, 20, 3 (July 1984); pp. 259-290. Shimizu, Hiroshi: "The Mandatory Power and Japan's Trade Expansion into Syria in the Inter-war Period", in: *Middle Eastern Studies*, 21, 2 (April 1985); pp. 151-171. Shimizu, Hiroshi: "Rise and Fall of Japan as a Principal Supplier of Cotton Manufactures for Turkey: The Interwar Period", in: *Middle Eastern Studies*, 21, 1 (January 1985); pp. 15-32.

late nineteenth century on the Middle Eastern and the West African markets. A superficial look into international TV programs shows poor people in sub-Saharan Africa and Southern Asia, which have not yet attracted labor-intensive manufacturing for exports nor other substantial foreign direct investment in export branches, whereas the low international labor costs are in East and Southeast Asia, where there are less poor.⁵⁰ The success in transforming comparative advantage into cost competitiveness thus depends on the ability to have exchange rates lower than purchasing-power parity. The drive for export-led industrialization in catch-up underdeveloped economies is based on devaluation.⁵¹

Commenting on China, even the German superminister for economics has admitted that the export drive of this country depends on an “undervalued” exchange rate, which nevertheless corresponds to the equilibrium of its foreign accounts.⁵² The insistence on devaluation by all of the International Monetary Fund’s structural adjustment programs indicates that the divergences in the exchange rate appropriate for balancing the foreign account of a country and the exchange rate corresponding to purchasing-power parity is not the result of manipulative practices, but is constitutive for technically backward economies’ attempts to benefit from globalization.

⁵⁰ India \$25.26, China \$62.17, Nigeria \$84.26 (= monthly wage), according to <http://laborsta.ilo.org>

⁵¹ Lafay, Gérard: "Les origines internationales du chômage européen", in: *Revue d'économie politique*, 106, 6 (November-December 1996); pp. 943-963. Guillaumont Jeanneney, Sylviane ; Hua, P.: "How Does Real Exchange Rate Influence Income Inequality between Urban and Rural Areas in China?", in: *Journal of Development Economics*, 64, 2 (April 2001); pp. 529-545. Guillaumont-Jeanneney, Sylviane; Hua, Ping: "Politique du change et développement des exportations manufacturées en Chine", in: *Revue économique*, 47, 3 (May 1996); pp. 851-860. Narrassiguin, Philippe: "Croissance tirée par les exportations et politique de change: Le cas de l'île Maurice", in: *Revue d'économie politique* (March 1995); pp. 315-331. Tzannatos, P. Zafiris: *International Competitiveness in East Asian Manufacturing: Unit Labor Cost Analysis for Selected Countries* (Washington: World Bank, 1997). On Japan, after World War I: Morimotu, Kokichi: *The Standard of Living in Japan. John Hopkins University Studies in Historical and Political Studies* (Baltimore, Md.: Johns Hopkins University Press, 1918); p. 44.

⁵² Clement, Wolfgang: "Mittelständler verlassen Deutschland", in: *Handelsblatt* (August 2004); p. 6.

An economy is capable of promoting exports by means devaluation if it is capable of “subsidizing” labor from a locally produced and nonexportable surplus of wage goods. It is clear that even the most ingenious Western mainstream economist would be unable to feed his family on 1/50th of the wage of low-skilled labor in Germany or the U.S., even by limiting consumption to the bare essentials. Workers in export-led newly industrializing economies of the South receive wages in local currency which, if converted into dollars, would not allow them to buy the minimum of goods required for their survival. If the share of labor in export earnings from the manufactured goods of the newly industrializing countries is not sufficient for labor to buy its necessities from the world market, these goods have to be produced locally.

The consumption of a low-income household in a typical export-led industrializing country is made up of food, simple industrial products (textiles, household utensils and some furniture), shelter and a limited range of modern products, typically according to a hierarchy of demand, from refrigerators and television sets to basic transport equipment. With the exception of these modern products, the industrial goods are provided by local small and medium-scale industry, and the additional supply of food by local agriculture. The small and medium-scale industries, often referred to as the informal sector, sell their products against the entitlement of their workers to locally produced food and simple industrial products whose manufacturing, once again, ultimately depends on the possibility of buying food from a thriving local agriculture. Extending employment by devaluation under conditions where additional labor cannot buy its subsistence goods from the world market therefore implies that local agriculture produces a surplus. All economies successfully engaging in the export of manufactured

products have been characterized, at least in the initial phases of this process, by self-sufficiency in food.⁵³

Europe's periphery on the southern shore of the Mediterranean does not fulfil this criterion. This is the main reason why, in contrast to Japan, South Korea and Taiwan, Europe has not been able to take part in the new division of labor, transforming a dynamic periphery into a supplier of cheap goods and a dynamic customer for its technology.⁵⁴

The importance of an agricultural surplus explains why the successful exporters of manufactured goods from the South are the countries where the green revolution has been successful, and not the poverty-stricken food-dependent countries of the Arab world and sub-Saharan Africa.

Devaluation, as its Latin American critics of the 1960s had argued,⁵⁵ depends on the capacity to locally produce wage goods. An economy that produces a large enough agricultural surplus can accept any rate of devaluation until it reaches full employment. If its political leaders give priority to the aim of empowering the local

⁵³ South Korea 100% in 1961, Malaysia 48% in 1980, Indonesia 92.6% in 1990, China 100% in 1990, Thailand 154% in 2002, Vietnam 123% in 2002, www.faostat.fao.

⁵⁴ Elsenhans, Hartmut: "Le volet économique du Partenariat Euro-Méditerranéen (PEM)", in: *Le Détour*, 13, 4 (2004); S. 277-308. Elsenhans, Hartmut: "Option export-led et structures rentières dans les Pays du Sud de la Méditerranée", in: *Annuaire de l'Afrique du Nord 1996* (1998); p. 287. Elsenhans, Hartmut: "Enjeux méditerranéens et cohésion européenne", in: Bistolfi, Robert (ed.): *Euro-Méditerranée: Une région à construire* (Paris: Publisud, 1995); pp. 121-134.

⁵⁵ Dunkerley, Harold B.: "Exchange Rate Systems in Conditions of Continuing Inflation. Lessons from Colombian Experience", in: Papanek, Gustav F. (ed.): *Development Policy. Theory and Practice* (Cambridge, Mass.: Harvard University Press, 1968); p. 129. Felix, David: "The Dilemma of Import Substitution, Argentina", in: Papanek, 1968; p. 89. Diaz Alejandro, Carlos F.: *Exchange Rate Devaluation in a Semi-Industrialized Country. The Experience of Argentina 1955-1961* (Cambridge, Mass.; London: M. I. T. Press, 1965); p. 364. Robertson, Raymond: "Exchange Rates and Relative Wages: Evidence from Mexico", in: *North American Journal of Economics and Finance*, 14 (2003); pp. 25-48. Buffie, Edward F.: "Devaluation and Imported Inputs. The Large Economy Case", in: *International Economic Review*, 27 (February 1986); pp. 123-140. Hanson, James: "Inflation and Imported Input Prices in Some Inflationary Latin American Economies", in: *Journal of Development Economics*, 18, 2/3 (August 1985); p. 407. Wilson, T.: "Effective Devaluation and Inflation", in: *Oxford Economic Papers*, 28, 1 (March 1976); pp. 1-24. Porzecanski, Arturo C.: "The Inflationary Impact of Repetitive Devaluation", in: *Journal of Development Studies*, 11, 4 (July 1975); p. 364. Mengisteab, Kigane: "Export-Import Responses to Devaluation in Sub-Saharan Africa", in: *Africa Development*, 16, 3 (July-September 1991); p. 54.

masses through high levels of employment, they may opt for decreasing export earnings (with increasing quantities of old products) and entering into the export of new products. Increasing quantities and varieties of exports may require rates of devaluation which cause total earnings to decrease because of low price elasticity of demand on the world market.

The importance of indirectly subsidizing additional labor employed in the export sector indicates that more egalitarian societies will be more successful: the demand on foreign exchange for luxury imports decreases if household consumption is determined to a greater degree by the needs of poor and middle-class households. The same applies for societies in which the privileged have a tendency to satisfy their demand for luxuries from local production. Felix has shown a difference between East Asia and Latin America, the privileged classes in Latin America having a much greater propensity to imitate Western consumption styles and buy imported products.⁵⁶

Two problems need to be addressed with respect to the devaluation-based export drive in manufactures of catch-up economies. First, the amount of agricultural surplus may not be sufficient to allow devaluation to decrease to levels where full employment is reached. Secondly, the solution is costly in conventional terms, as it implies an intensification of unequal exchange⁵⁷ and hence a loss of potential income being available for either the purchase of investment goods or the purchase of luxuries.

⁵⁶ Felix, David: *Industrial Development in East Asia: What are the Lessons for Latin America. Discussion Paper 84* (Geneva: UNCTAD, 1994); pp. 12-15. Felix, David: "Import Substitution and Late Industrialization: Latin America and Asia Compared", in: *World Development*, 17, 9 (September 1989); p. 1466.

⁵⁷ Suh, Suk Tai: "The Theory of Unequal Exchange and the Developing Countries", in: Kim, Kyong Dong (ed.): *Dependency Issues in Korean Development. Comparative Perspectives* (Seoul: Seoul National University Press, 1987); p. 111.

With respect to the first problem, it is useful to distinguish between a benign and a malign case. An economy which is able to devalue to an extent that full employment is reached will, with increasing exports, experience the pressure of demand by business for additional labor. The mechanism described in the convoy model is then triggered off: entrepreneurs outside the export sector face a scarcity of labor and proceed to innovation. The presence of an export sector with superior technical solutions serves as a reservoir from which blueprints for technical innovation can be made. It is not necessary that these technologies are copied entirely. They sometimes function merely as a learning institution for local businessmen and engineers, often by means of labor in the export sectors shifting to internal-market-oriented branches of production.

The less benign case is characterized by devaluation not leading to full employment. In this case, labor is not empowered and is not made scarce. The earnings in the export sector may be relatively high without attracting other investment opportunities. They roam around and engender avarice among businessmen well connected to political institutions of investment promotion and to politicians who will always find a good purpose to use this money for, without being made accountable for its profitability. As long as devaluation-driven exports are not sufficient to create full employment, increased manufacturing exports will also lead to rent seeking, not unlike the rent seeking in typical raw-material-exporting economies, with the consequence of greater international competition leading to increased rent seeking and rent-dominated structures at the local level.

The second problem concerns the costliness of devaluation. A devaluing country will receive less for its factors of production after devaluation than before, although its total exports, and especially its total employment, may increase. The effect of devaluation decreases with the diversification of exports. If the local content of exported manufactured products decreases, the price-reducing effect of

devaluation diminishes. A foreign content of exported products of 50% at a devaluation rate of 50% will lead to a cost reduction of only 25%. The argument about the dependence of devaluation on the local production of wage goods has to be extended in the case of an increased foreign content of exported manufactures. The more an economy is able to reduce the foreign content, the more effective a policy of devaluation will be. Historically, the successful exporters of manufactures such as South Korea or Taiwan have therefore pursued industrial policies aimed at the subsidized establishment of supplier industries for their export sectors. The most famous case is the blocking of further textile-machinery imports in Korea in the 1960s.⁵⁸ Korea was facing declining price elasticity for its textile exports, which were not being undersold by any competitor. Instead of devaluating further, Korea blocked the import of textile machinery, thereby raising the cost of its textile production. As price elasticity was low, the overall effect on earnings was limited. By blocking its internal market, Korea subsidized the local producers of textile machinery, which, given the competitiveness of textile exporters, could charge the prices they needed to develop textile machinery. Textile producers were certainly better extension agents than public servants in industrial promotion agencies for these small and medium-scale enterprises, which in the end were capable of producing their own textile machinery. The manufacturing of South Korean textile machinery formed the basis of South Korea's machine-building industry. Any type of machinery is nothing more than an assembly of worked metal parts to assure the transfer of force into specific mechanical movements, so that a successful producer of textile machinery is basically able to address any mechanical challenge. Taiwan

⁵⁸ Mytelka, Lynn Krieger: "The Transfer of Technology: Myth or Reality?", in: Cosgrove, Carol; Jamar, J. (eds.): *The European Community's Development Policy: The Strategies Ahead. Conference organised at the College of Europe, Bruges, 4-6 July 1985* (Brugge: De Tempel, 1986); p. 258.
Haggard, Stephan Mark: *Pathways from the Periphery: The Newly Industrializing Countries in the International System* (Berkeley, Cal.: Dissertation, 1983); p. 282.

seems to have engaged in similar strategies of upgrading,⁵⁹ whereas Singapore taxed its low-wage export sectors in order to finance training for technically more demanding industries.⁶⁰ The new pattern of globalization is therefore characterized by elements of economic liberalization and elements of enhanced state interventionism in a variety of types. These types are not unimportant. Basically, all of these forms of intervention represent a mobilization of rent for purposes whose economic efficiency is not directly subject to market control via competitiveness.

Export-led growth itself is a form of mobilizing rent. The surplus of agriculture which is bought by additional export workers with their local currency had been previously mobilized by a tax-gathering state engaged in state-led investment programs during the period of import-substituting industrialization. In export-led growth, this rent is no longer administratively appropriated. It is available on the market, and can be bought under forms of market competition by workers who receive incomes because of their productive activity for the world market. In this case, the rent goes into a subsidy for these workers, who would not be able to purchase their food items from the world market. In its value form, the rent becomes a subsidy to consumers in the importing countries, which enjoy improving terms of trade, and to the additional workers employed, who enjoy increases in consumption compared to when they were unemployed. Rent seeking and rent allocation therefore play an important role in the current globalization process. The linkage to the establishment of relatively authoritarian governments, at least in the initial phase, has its politico-economic basis in the emergence of

⁵⁹ Shih, Chien-Sheng: "Economic Development in Taiwan After the Second World War", in: *Weltwirtschaftliches Archiv*, 100, 1 (1968); pp. 121-123.

⁶⁰ Holtgrave, Wilfried: *Industrialisierung in Singapur. Chancen und Risiken industrieorientierter Spezialisierung* (Frankfurt on the Main; New York: Campus, 1987); pp. 58-81.

these rents and in their strategic role in a devaluation-based industrialization process.

As globalization is based on devaluation, it can be blocked neither by wage restraint nor by protectionism. There are only two ways to make globalization socially acceptable:

Intensify globalization so that through full employment the catch-up economies are transformed into full-employment capitalist economies, where innovation spreads to the rest of the economy and dynamizes the whole economy on the basis of tendential full employment. This implies promoting local technology production, which greatly enhances the effects of devaluation on employment. If this effect is considerable, financial movements will be ineffectual for an economy suffering from capital flight. Outflows of capital of the speculative or long-term type depress the exchange rate and increase the competitiveness of the respective economy if, through the existence of a local technology-producing sector, import content is limited in restructuring the product mix. For Euroland, the decline of the euro-dollar parity has been an ideal program of employment promotion.

The alternative would be to encourage demographic growth in the underdeveloped economies until agricultural surpluses are exhausted, making devaluation impossible. Nobody would seriously favor this version, which would create the economic conditions for a worldwide holocaust.

Cultural globalization and economic globalization

Precapitalist structures are characterized by rent instead of profit and by the economic weakness of labor due to marginality. Rent is not controlled by market

competition. Labor is not protected by scarcity. In order to render society viable, norms have to exist for a multitude of relations. These are normally characterized as moral economy. The doctrine of just prices or the prohibition of interests in Islam and early Christianity can be quoted as examples. The capacity of noncapitalist societies to deal with the problem of transition until the triad of a lean state, an autonomous civil society and a self-steering economy has been reached depends on the mechanisms in other subsystems of the preexisting politico-economic and social structures that favor the empowerment of labor before full employment is achieved. These precapitalist structures are determined by a heritage drawn from the modes of regulation attendant to these structures, i.e., no automaticity of market competition, no control of the powerful through competition, and no scarcity of labor. The relevance of such a heritage can be linked to the fact that all precapitalist structures are largely characterized by the dominance of political power, the exercise of which is embedded in rules commonly referred to as culture. Precapitalist structures cannot be reduced to the mere regulation of exchange, as capitalist ones can according to Tönnies.⁶¹ Their regulations concerning the public domain comprise much larger spheres of social life than capitalism. In capitalism, these spheres belong to the domain of private life, and perhaps civil society. In precapitalist structures they belong to the domain of public life because they are essential for maintaining the equilibria of precapitalist structures.

Capitalism is therefore basically an acultural system. A capitalist does not lose his customers by not belonging to the predominant religious community in a given area, provided that he offers competitive products. People will buy competitive products even from a businessman who is known to beat his wife, to drink, or to

⁶¹ Tönnies, Ferdinand: *Gemeinschaft und Gesellschaft: Grundbegriffe der reinen Soziologie* (Berlin: Curtius, 1935); pp. 40f.

have lost his driver's license because of drunk driving.⁶² The only rules a capitalist has to follow to avoid being excluded from the class of capitalists are essentially the legal regulations pertaining to contracts. In a capitalist society, businessmen interact with each other by means of contracts, even if they may still be inclined to establish relations of clientship and old boys' networks. Under perfect competition, an old boy will not buy from another old boy if the latter's price is not competitive. The codes of civil law in a capitalist society will comprise rules regulating contracts, debt, and payments – but not morals. Even in private domains where society has to regulate in order to avoid costs, for example the costs of caring for children, the regulation of contracts is more important than the establishment of general rules. The negotiations between the EU and Turkey are a prime example. Adultery is reprehensible in Western European societies, too, but affects only the relations between spouses, being a cause for divorce and the reduction of alimony.⁶³ In itself, adultery is not punishable in Western Europe, whereas Turkey wanted to make it a crime. Although the lean state of capitalism, an autoregulating economy and an independent civil society may be an ideal type, modified in practice by a large variety of weak social groups claiming protection beyond that which is afforded by the scarcity of their labor on the labor market, the freedom of contract is only restricted by major moral principles. The introduction of the ten-hour day in the first half of the nineteenth century is a wonderful example for students to learn about the transformation of the freedom of contract.⁶⁴ Later on, labor protection took the form of rules which work contracts had to abide to in order to be valid. Shakespeare dealt with the problem rather nicely in the figure of Shylock, who was denied the execution of a contract entitling him to the flesh of

⁶² Abutalebi, Gian: *Despite Schumpeter's Prediction: Why Capitalism Survives. Political Economy Working Papers 99-1* (Dallas: University of Texas, School of Social Sciences, 1999); p. 20.

⁶³ Cf. the decision of the Turkish parliament on September 26, 2004 to comply with the European Union demand for excluding adultery as a punishable offense, *Leipziger Volkszeitung*, September 27, 2004, p. 2.

⁶⁴ Marx, *Das Kapital*, op. cit. fn. 13, pp. 294-314.

his opponent. Capitalism admits all possible contractual agreements provided they respect certain, essential human rights, such as the life and health of society's members – rights which are protected in any society regardless of its cultural setup.

A moral economy, on the other hand, protects a vision of good life derived from a religious vision about how people should improve not their performance, but their spiritual well-being.

The current pattern of globalization has been described as differing from the one that existed in the nineteenth and early twentieth centuries not in terms of the degree of transnational economic interactions,⁶⁵ but by virtue of the devaluation-based new competitiveness of marginality-ridden economies which have not yet succeeded in their transition to capitalism before being integrated into the global economic system. They do not exhibit the characteristics by which the convoy model of globalization is automatically implemented *uno actu* with integration into the capitalist world system. Capitalism is penetrating these economies from the outside, as had been the case to some extent during the takeoff of globalization in

⁶⁵ Indeed, in the areas of trade and capital flows these transnational interactions were quite similar, albeit not so in terms of short-term capital flows. Verdier, Daniel: "Domestic Responses to Capital Market Internationalization under the Gold Standard", in: *International Organization*, 52, 1 (Winter 1998); p. 1. Bovenberg, A. Lans; Gordon, Roger H.: "Why Is Capital so Immobile Internationally? Possible Explanations and Implications for Capital Income Taxation", in: *American Economic Review*, 86, 5 (December 1996); pp. 1057-1076. Williamson, Jeffrey G.: "Globalization, Convergence and History", in: *Journal of Economic History*, 56, 2 (June 1996); p. 302. Irwin; Douglas A.: "The United States in a New Global Economy? A Century's Perspective", in: *American Economic Review*, 86, 2 (March 1996); pp. 41-46. Theurl, Theresia: "Globalisierung als Selektionsprozeß ordnungspolitischer Paradigmen", in: Berg, Hartmut (ed.): *Globalisierung der Wirtschaft: Ursachen-Formen-Konsequenzen. Schriften des Vereins für Socialpolitik 263* (Berlin: Duncker und Humblot, 1999); p. 26. Bairoch, Paul: "Globalization, Myths and Realities: One Century of External Trade and Foreign Investment", in: Boyer, Robert; Drache, Daniel (eds.): *States Against Markets. The Limits of Globalization* (London: Routledge, 1996); pp. 173-192. Bergeijk, Peter A. G. van; Mensink, Nico W.: "Measuring Globalization", in: *Journal of World Trade*, 31, 3 (June 1997); p. 166. Ghosh, Atish R.: "International Capital Mobility Amongst the Major Industrialized Countries: Too Little Or Too Much", in: *Economic Journal*, 105, 428 (January 1995); p. 128. Epstein, Gerald: "International Capital Mobility and the Scope for National Economic Management", in: Boyer, Robert; Drache, Daniel (eds.): *States Against Markets. The Limits of Globalization* (London: Routledge, 1996); pp. 211-224. Epstein, Gerald; Gintis, Herbert: "International Capital Markets and National Economic Policy", in: *Review of International Political Economy*, 2, 4 (Autumn 1995); pp. 693-718.

the nineteenth century, albeit on the basis of more favorable internal social structures. The crux of the problem with the current pattern of globalization is whether globalization will have a sufficient impact on the transformation of these internal structures in still marginality-ridden economies.

The capitalist mechanisms of control on economic agents do not yet operate in the marginality-ridden economies. Hence precapitalist norms are not rendered obsolete, but are only threatened or adapted. The empowerment of agents does not take place. Labor is not scarce. Surplus is not predominantly appropriated on perfect markets with competition, but primarily as rent. All agents, labor and business, reactivate old norms or modernize such norms in order to protect themselves against imperfect competition or being shed off. The whole issue of the negative effects of the contemporary pattern of globalization is linked to this problem.

There are agents available, some of them from traditional structures, others having been created through the transition process, which cannot rely on capitalist mechanisms of disciplining and empowering, so that they use available norms, predominantly old ones, modernizing them to a certain extent in order to compensate the strains of transition they experience due to capitalism's not yet being fully in operation. These old norms are bodies of rules and worldviews on which utopias can be constructed combining the return to tradition with a view to bettering the world by constraining the "lawlessness" of capitalism. These phenomena of transition also existed in the early phases of capitalism in Europe. The utopia of Thomas More⁶⁶ was an example followed by others, including the advocates of so-called agrarian communism in the first decades after the French Revolution.

⁶⁶ More, Thomas: *Utopia* (London: Random, 1992).

Thus, the problem with cultural globalization is not the clash of civilizations⁶⁷ but the destruction of the binding character of cultural norms, which have become “obsolete” as a means of maintaining social stability in systems that – because of capitalist mechanisms of control – basically avoid civil war by allowing all members to conclude contracts at “arm’s length.” It is therefore no coincidence that the dependency of capitalist growth on rising mass incomes, even the emergence of capitalism as a system depending on the empowerment of labor,⁶⁸ was accompanied by the elaboration of contract theories of the state and the subsequent formulation of human rights.

The globalization of cultural attitudes and social and legal norms, construed as a shrinking of time and space,⁶⁹ has not begun with the present pattern of globalization; it largely antedates the contemporary process of globalization. It began with the spread of the idea of democracy in the form of the resistance movements that emerged in Asia, Africa and Latin America to combat European colonial domination. It was powerful as early as the second wave of colonialism in the late nineteenth century, as evidenced by the founding of the Indian Congress in 1885,⁷⁰ the year of the Berlin Conference establishing the rules for dividing up the rest of the non-European world. In a process of colonial aggression against existing norms and the social deconstruction of precapitalist structures, national liberation movements, with the resistance they offered, became the hegemonic political

⁶⁷ Huntington, Samuel P.: “The Clash of Civilizations?”, in: *Foreign Affairs*, 72, 3 (Summer 1993); pp. 22-49.

⁶⁸ Elsenhans, Hartmut: “Rising Mass Incomes as a Condition of Capitalist Growth: Implications for the World Economy”, in: *International Organization*, 37, 1 (Winter 1983); pp. 1-38. Elsenhans, Hartmut: “Le développement autocentré contradictoire”, in: *Cahiers du CREAD*, 3 (July-September 1984); pp. 4-47.

⁶⁹ Laïdi, Zaki: *Le temps mondial. Enchaînements, disjonctions et médiation. Les cahiers du CERJ* (Paris, 1996).

⁷⁰ Hill, John L.: *The Congress and Indian Nationalism: Historical Perspectives* (London: Curzon Press, 1991).

forces in the not yet capitalist world.⁷¹ After the demise of the nonaligned movements and the collapse of communism we observe a shift in the orientations of these movements to an increasing representation by new cultural identitarian political movements. They are replacing the secular nationalism of a cosmopolitan orientation which, in the wake of the Great Depression of the 1930s, was able to mobilize not only the new middle strata of society, the leaders of the anticolonialist movements, but also large, especially rural, masses of the population.⁷²

The demise of the secular leadership of anticolonialist movements in the 1970s and 1980s is not a root cause of the current pattern of globalization. The causes of its decline are strongly linked, however, to the strategies followed by marginality-ridden economies in order to overcome marginality. Both secular forces and cultural identitarian movements were present during the rise of anticolonialist movements. They could often be found in the same leadership staff, as evidenced by the importance of so-called educated or "évolué" elements in these movements.⁷³ The Indian RSS was founded in the 1920s.⁷⁴ Sarekat Islam was active in Indonesia even before the First World War.⁷⁵ The intellectual basis of the

⁷¹ Elsenhans, Hartmut: *Global Change and Implications for India* (New Delhi: Lancer Books, 1992); pp. 31-34.

⁷² Elsenhans, Hartmut: "Decolonisation: From the Failure of the Colonial Export Economies to the Decline of Westernised State Classes", in: *The Maghreb Review*, 19, 1/2 (1994); pp. 95-122.

Elsenhans, Hartmut: "The Great Depression of the 1930s and the Third World", in: *International Studies*, 28, 3 (1991); pp. 273-290.

⁷³ LeTourneau, Roger: *Evolution politique de l'Afrique du Nord musulmane 1920- 1961* (Paris: Armand Colin, 1962); pp. 315f. Kedourie, Elie: *Nationalism in Asia and Africa* (London: Frank Cass, 1983); p. 89. Torri, Michelguglielmo: "'Westernized Middle Class': Intellectuals and Society in Late Colonial India", in: Hill, John L. (ed.): *The Congress and Indian Nationalism: Historical Perspectives* (London: Curzon Press, 1991); p. 41. Shivji, Issa G.: *Class Struggles in Tanzania* (London: Heinemann, 1976). Rodney, Walter: *How Europe Underdeveloped Africa* (London; Dar-es-salam, 1972); p.140. Wariavwalla, Bharat: "Die Zerstörung des Muslimentempels und die Problematik des Nationalstaats", in: *Comparativ. Leipziger Beiträge zur Universalgeschichte und vergleichenden Gesellschaftsforschung*, 4, 6 (1994); pp. 78-92.

⁷⁴ Curhan, Jean Alonzo: *Militant Hinduism in Indian Politics. A Study of the R.S.S.* (New York: International Secretariat, Institute of Pacific Relations, 1951). Deshmuk, Nana: *RSS, Victim of Slander. a Multi-dimensional Study of RSS, Jana Sangh, Janata Party, and the Present Political Crisis* (New Delhi; Bombay: Vision Books, 1979).

⁷⁵ Fitz, Angelika: "Sarekat Islam - Ziele, Möglichkeiten und Grenzen islamisch- politischer Kräfte im Kampf um die nationale Befreiung", in: *Asien-Afrika-Lateinamerika*, 8, 4 (1980); pp. 639-650.

Hindu renaissance was elaborated in the nineteenth, especially in the late nineteenth, century, and Vivekananda was an illustrious representative of Hindu reform at a world level before the First World War.⁷⁶ But the leadership of the secular forces of nationalism was greatly enhanced by Western powers, who considered them to be the most reasonable partners, to whom they could cede national sovereignty if colonial territories were to become ungovernable without large police forces.

The project secular nationalism and its state classes⁷⁷ pursued was import-substituting industrialization based on the centralization of a rent injected into the economy by a planning state in order to diversify its industrial basis. When this model failed to deliver on its promises because of inefficiency, those in charge of implementing the model attempted to preserve their power, often through corruption and other deplorable practices. The process of shifting to a new model of export orientation was therefore sometimes – though not always – connected to deregulation and liberalization in favor of a rising new middle class, which the import-substituting secular state had greatly promoted by educational measures and by the constant deficit character of its public-sector enterprises, which distributed incomes without creating supply.⁷⁸ The “fundamentalism” of newly emerging cultural identitarian movements is, in actual political practice, rarely directed

MacVey, Ruth T.: *The Rise of Indonesian Communism* (Ithaca, N.Y.: Cornell University Press, 1965); pp. 7f.

⁷⁶ Graham, Bruce D.: *Hindu Nationalism and Indian Politics. The Origin and Development of the Bharatiya Jana Sangh* (Cambridge: Cambridge University Press, 1990). Basu, Shamita: *Religious Revivalism as Nationalist Discourse: Swami Vivekananda and New Hinduism in Nineteenth-Century Bengal* (New Delhi et al.: Oxford University Press, 2002). Rao, Ursula: *Kommunalismus in Indien. Eine Darstellung der wissenschaftlichen Diskussion über Hindu-Moslem-Konflikte. Südostasienswissenschaftliche Arbeitsblätter 4* (Halle (Saale): Universität Halle, 2003).

⁷⁷ Elsenhans, Hartmut: "Capitalisme d'Etat ou société bureaucratique de développement", in: *Etudes internationales*, 13, 1 (March 1982); pp. 3-22. Elsenhans, Hartmut: *State, Class and Development* (New Delhi; London; Columbia, Mo.: Radiant; Sangam; South Asia Books, 1996); pp. 172-254.

⁷⁸ Elsenhans, Hartmut; Kleiner, Elmar; Dreves, Reinhart Joachim: *Développement, équité et extension du marché des masses. Une autre alternative. Le cas algérien. L'enjeu des PME industrielles* (Paris: Publisud, 2000); p. 44.

against the West and integration into the world market, but against corrupt local remnants of elites from the former state-led import-substituting model. Even where, as in the Arab world, the West is used as a scapegoat, the strategic aim is always to destroy corrupt local elites.⁷⁹

It is therefore no coincidence that fundamentalist movements of this sort are largely shaped by the contradictions inherent to the process of transition to a developed capitalist social and economic structure through globalization. Despite high levels of nationalism, South Korea, as an example for successful transition to capitalism, has not experienced fundamentalist movements, its nationalism being accompanied instead by a simultaneous renovation of its cultural foundation, going as far as the adoption of Christianity by large parts of the population.⁸⁰

The absence of new cultural identitarian political movements is characteristic of all successful export-led economies of East and Southeast Asia that have achieved full employment. In Latin America, due to the deep penetration of European culture through settler colonization, the stock of traditional norms rendered sacred by cultural heritage is limited. New populist movements have emerged here, as in the case of Venezuela.^{81,82} In sub-Saharan Africa, the urban middle classes do not perceive rural areas as markets for launching thriving small

⁷⁹ Kepel, Gilles: *Jihad. Expansion et déclin de l'islamisme* (Paris: Gallimard, 2000); p. 265.

⁸⁰ Han, Sung-Joo: "South Korea: Politics in Transition", in: Choi, Sang-Yong (ed.): *Democracy in Korea. Its Ideals and its Realities* (Seoul: Seoul Press, 1997); p. 58. Moon, Chung-In: "Changing Patterns of Business - Government Relations in South Korea", in: Choi, Sang-Yong (ed.): *Democracy in Korea. Its Ideals and its Realities* (Seoul: Seoul Press, 1997); p. 471. Kim, Hong Joo: "Kanalisation von Renten und Transitionsproblematik - am Beispiel der Republik Korea", in: Zinecker, Heidrun (ed.): *Unvollendete Demokratisierung in Nichtmarktökonomien. Die Blackbox zwischen Staat und Wirtschaft in den Transitionsländern des Südens und Ostens* (Amsterdam: G+B Verlag Fakultas, 1999); pp. 57-70. Kim, Sun-Hyuk: "Civil Society in South Korea: From Grand Democracy Movements to Petty Interest Groups", in: *Journal of Northeast Asian Studies*, 15, 2 (Summer 1996); pp. 81-97. Lee, Su-Hoon: "Transitional Politics of Korea, 1987-1992: Activation of Civil Society", in: *Pacific Affairs*, 66, 3 (Autumn 1993); pp. 351-367.

⁸¹ Sylvia, Ronald D.; Danopoulos, Constantine P.: "The Chávez Phenomenon: Political Change in Venezuela", in: *Third World Quarterly*, 24, 1 (2003); pp. 63-76. Ellner, Steve: *Venezuelan Politics in the Chávez Era: Class, Polarization, and Conflict* (Boulder, Colo.: Rienner, 2003).

⁸² Ellner, Steve: "Obstacles to the Consolidation of Venezuelan Neighbourhood Movements National and Local Cleavages", in: *Journal of Latin American Studies*, 31, 1 (February 1999); pp. 75-97.

and medium-scale industries. Their process of democratization is not accompanied by a destitution of secular forces, as only the secular forces can credibly claim to adhere to the discourse of Western values from 1776 and 1789, which they use to reopen the tap of external assistance, i.e., rents.⁸³ The rise of new cultural identitarian movements within the national liberation movement, a movement aiming at modernization, is therefore limited to the areas of Asia and North Africa where the excluded marginal population can be persuaded to take up traditional values in order to stake its claim for social integration and social assistance. These movements become powerful when the middle classes turn away from the secular state, which has lost rents, can no longer exercise patronage, and therefore appears as a rapacious tax collector.⁸⁴ They can thus claim property rights, sanctified by religion⁸⁵ and with the support of the marginalized ones, who respect property provided it is embedded in a moral economy.

⁸³ Lancaster, Carol: "Democracy and Economic Development: Structural Conditions and Material Prerequisites", in: Adam, Erfried (ed.): *Democracy in Africa - A New Beginning?* (Bonn: Friedrich Ebert Foundation, 1994); pp. 83-86. Bratton, Michael; Van de Walle, Nicolas: "Towards Governance in Africa: Popular Demands and State Response", in: Hyden, Goran; Bratton, Michael (eds.): *Governance and Politics in Africa* (Boulder, Colo.; London: Lynne Rienner, 1992); p. 49. Decalo, Samuel: "The Process, Prospects and Constraints of Democratization in Africa", in: *African Affairs*, 91, 362 (January 1992); pp. 7-35. Krieger, Milton: "Cameroon's Democratic Crossroads, 1990-1994", in: *Journal of Modern African Studies*, 32, 4 (December 1994); p. 612. Nwajiaku, Kathryn: "The National Conferences in Benin and Togo Revisited", in: *Journal of Modern African Studies*, 32, 3 (September 1994); pp. 429-447.

⁸⁴ Bhambhri, Chandra Prakash: *Bharatiya Janata Party: P eriphery to Centre* (New Delhi: Shipra, 2001); p. xix. Joshi, Sanjay: *Fractured Modernity: Making of a Middle Class in Colonial North India* (Delhi et al.: Oxford University Press, 2001); p. 173. Varma, Pavan K.: *The Great Indian Middle Class* (New York: Viking, 1998); p. 69. Dumont, Paul: "Les 'disciples de la lumière'. Le mouvement hourdjou en Turquie", in: Carré, Olivier; Dumont Paul (eds.): *Radicalismes islamiques. Tome (1): Iran, Liban, Turquie* (Paris: Harmattan, 1985); p. 239. Abrahamian, Ervand: *Radical Islam. The Iranian Mojahedin* (London: I.B. Tauris, 1989); p. 260. Ahmad, Feroz: "Islamic Reassertion in Turkey", in: *Third World Quarterly*, 10, 2 (April 1988); pp. 750-769. Rudolph, Lloyd I.; Hoerber Rudolph, Susanne: *In Pursuit of Lakshmi Political Economy of the Indian State* (Chicago, Ill.; London: University of Chicago Press, 1987); p. 42.

⁸⁵ Briant, Pierre: "Villages et communautés villageoises d'Asie achéménide et hellénistique", in: *Journal of the Economic and Social History of the Orient*, 28, 2 (1975); p. 178. Dikonoff, I.M.: "The Rural Community in the Ancient Near East", in: *Journal of the Economic and Social History of the Orient*, 28, 2 (1975); pp. 128ff. Liverani, Mario: "Communautés de village et palais royal dans la Syrie du IIe millénaire", in: *Journal of the Economic and Social History of the Orient*, 18, 2 (1975); p. 151.

Cultural globalization appears as a problem within the framework of the current pattern of globalization because it is opposed by the social groups that suffer in the transition process: small and medium-scale industry with limited growth perspectives and the excluded marginal population, which can join together in a political alliance against the still rent-collecting strata by reviving a moral economy. The latter requires a reinforcement of traditional norms and worldviews as a justification, often combined with a rejection of the West.

Internal enabling mechanisms and where culture matters

The current pattern of globalization will not lead to a violent conflict of civilizations if the globalization process is implemented to the extent that precapitalist economies enjoy full employment and reasonable growth perspectives for the mass of their populations. The crux of cultural globalization and the resistance to it is therefore the question of how these new identity-creating processes can contribute to easing the strains of transition in ways which allow the underdeveloped world to more rapidly attain the triad of a full-employment-based self-steering economy, welfare-based autonomy of civil society, and a lean state.

I have described elsewhere the economic mechanisms that would propel the transition to capitalism.⁸⁶ In brief, successful strategies of development, including the transition to capitalism, invariably involve the mobilization of rent and its allocation to a subsidy for labor in order to provide productive employment for marginal labor. I have shown in this contribution the limits to the present pattern of

⁸⁶ Elsenhans, Hartmut: "Eklektizismus zur Erreichung von Kohärenz. Die Theorie der Rente und ihre Implikationen für das Zusammenwirken ökonomischen, politischen und sozialen Engineering in der Entwicklungspolitik", in: Kappel, Robert (ed.): *Weltwirtschaft und Armut* (Hamburg: Deutsches Übersee-Institut, 1997); pp. 1-46.

export-led growth. Even the most world-market-oriented strategy involves the mobilization of rent.

Agrarian reform takes away rents from large landlords and creates low-income small holdings where marginal labor is employed for its survival, but where the bulk of the means of subsistence are earned by the "first hours" of work based on already high agricultural yields.⁸⁷ NGOs have various aims, but their economic significance lies in the channeling of resources from the rich to the poor, creating empowerment of the poor through greater self-respect.⁸⁸ Decentralization and poverty reduction are strategies with basically the same aim. Import-substituting industrialization consisted in the centralization of rent in the hands of a benign and powerful elite, which was expected to implement a change in the economic structure and increase the marginal productivity of the masses by the most parsimonious means: reducing consumption and increasing investment to the highest possible level. As with any political measure, all of these types of mobilizing and using rents suffer from decreasing returns, so that an "orthodox" solution to the problem of overcoming marginality is probably less efficient than an eclectic one.

With respect to cultural globalization and the resistance to it, the key issue is whether these social movements will be able to engage in eclectic policies that counteract a reinforcement of growth-impeding structures and the cementing of marginality. The distinctions made by Huntington in his mapping of the world into different cultural areas are not very helpful in this analysis. Precise worldviews and transcendental visions are of little import to the behavior of elites who benefit from

⁸⁷ Elsenhans, Hartmut: "Agrarverfassung, Akkumulationsprozeß, Demokratisierung", in: Elsenhans, Hartmut (ed.): *Agrarreform in der Dritten Welt* (Frankfort on the Main; New York: Campus, 1979); pp. 557-569. Elsenhans, Hartmut: "A Welfare Capitalist World System or the Feudalisation of the Global System", in: Babu, B. Ramesh (ed.): *Changing Global Political/Ideological Context and Afro-Asia Strategies for Development* (New Delhi: South Asian Books, 1996); pp. 96f.

⁸⁸ Elsenhans, Hartmut: "Marginality, Rent and Non-Governmental Organizations", in: *Indian Journal of Public Administration*, 41, 2 (April-June 1995); pp. 139-159.

rent and are expected to use them for elevating the threshold of marginality. I suggest another approach. Capitalist societies are characterized by certain mechanisms of social cohesion, in particular scarcity of labor, complemented by the solidarity of labor in the wake of labor being constituted as a homogeneous social category, a class with its own consciousness described in the literature as a *Klasse für sich* (literally "class for itself").

Precapitalist societies have other referents for their moral rules. Primordial communities are important for sanctioning these rules and in their role as referents. I discern two types of primordial communities and their relations to the overarching society they are a part of.⁸⁹ There is an Eastern variant, having neither state religions nor book religions with universally applicable and enforceable rules, and there are Western monotheist religions, which in their relation to society are characterized by an unknown transcendental Being as the referent for the behavior of all individuals. The commandments of this Being may be interpreted by ecclesiastical hierarchies of a more or less bureaucratic type, but these bodies never possess unquestioned legitimacy. Luther's exclamation "sola scriptura" – only the Holy Bible – is echoed by contemporary fundamentalist movements in the Muslim world which reject the traditional ulama interpretation of the Koran.

The social web of all precapitalist societies is largely structured by primordial communities based on links of kinship, but also on imagined kinship such as caste in India. With social hierarchization in the wake of economic development, which also takes places in the transition from more communitarian modes of production to tributary modes of production (often called Asiatic modes of production), more clannish relations may give way to more family-based ones. The precise rules of

⁸⁹Elsenhans, Hartmut: *Défis spécifiques de la mondialisation pour la culture musulmane. Colloque: "L'impact de la mondialisation sur la culture islamique* (Algiers: Haut Conseil Islamique, May 2004) ; forthcoming. Bouakba, Amel: "Le monde arabo-musulman face aux effets néfastes de la mondialisation", in: *Tribune* (19 May 2004); p. 3.

reciprocal relations, i.e., the amount of gifts due to more distant chiefs on holy occasions, can be used as a measure for the shrinking scope of primordial communities and the increasing focus on the nuclear family. The demise of clan-based relations in favor of family relations is often accompanied by an increased dependency of households on powerful lords not belonging to their own kin.

The developed tributary mode of production is most likely characterized by weak community relations and a relative autonomy of the nuclear-family household in economic affairs. The debate in India⁹⁰ about taxing villages (communities) as opposed to taxing individual rayats indicates that, at least under the Moguls and under the conditions of a strengthened British colonial administration, tributary modes of production were characterized by relatively autonomous households. It can therefore be argued that the substitution of kinship with nonkinship-based patron-client relations seems to have taken place in all rent-based societies with the rise of a state capable of centralizing rents due to an increased agricultural surplus.

It is tempting to assume that these processes were linked to the resistance of peasants against the tax-collecting tributary modes of production by inventing the equality of all human beings in relation to the Supreme Being. In Jaspers's⁹¹ Axial Age, peasants and urbanites rejected the old areopagus of gods, which can be linked to the hierarchical structures of kinship and tributary modes of production. They replaced it with a Supreme Being as the sole judge of human actions. Religion as the most important aspect of culture all over the world would indicate that the monotheistic revolution, which accompanied the early phase of tributary modes of production, has been successful in the West, where tributary modes of

⁹⁰ Moreland, William Harrison: "The Revenue System of the Mughal Empire", in: Haig, Wolsley; Burn, Richard (eds.): *The Mughal Period. The Cambridge History of India (4)* (New Delhi: S. Chand, 1987); p. 451. Chandra, Satish: "Mughal India", in: Raychaudhuri, T.; Habib, I. (eds.): *The Cambridge Economic History of India* (Cambridge et al.: Cambridge University Press, 1982); p. 458.

⁹¹ Jaspers, Karl: "Die Achsenzeit in der Weltgeschichte", in: *Monat*, 1, 6 (June 1948); pp. 3-9.

production could not count on significant rents compared with the rich monsoon-fed Asian river systems in India, China and elsewhere. Here the distinctions between urban and rural environments as well as within cities had probably advanced much further than in the regions west of the Indus-Indian Ocean line.

The world of monotheistic religions is characterized by the overarching role of a public space ruled by a set of laws considered to be part of the divine revelation and to which all individuals can refer, even against the overwhelming judgement of their communities. Even nonmonotheistic religions have been modernized in reaction to the rise of such basically classless religions. Hinduism, following Buddhism and Jainism, introduced the same notion of a Supreme Being, of whom its gods are merely incarnations. In other regions with family-based religions, general teachings about right or wrong in daily life have been elaborated as a moral code based on some sort of divine Being. But in the absence of a Supreme Being, the spiritual power of the leaders of different primordial communities remains important for producing cohesion among diverse social groups. If an analysis of this sort of the different relations between public and private is pertinent, some of the major differences in the careers of export-led industrialization around the world could be better understood.

The Muslim world, besides its suffering from Dutch disease on the basis of high raw-material prices, especially among its Arab members, Iran, and Indonesia, is characterized by a high degree of unity between the public and the private sphere provided by a religion that tries to incorporate all elements of moral economy into a single code of behavior. This code of behavior does not fit into a capitalist economy, although it is suited to commercial relations. The long-standing debate about Islam and capitalism points out Islam's integration of commercial relations.⁹² The argument in favor of the compatibility of Islam and capitalism does not take

⁹² Rodinson, Maxime: *Islam et capitalisme* (Paris: Seuil, 1966).

into account that capitalism is an acultural structure which comes into conflict with any cultural structure the more this cultural structure has integrated the tenets of moral economy into its fundamental ethical norms.

Precapitalist societies that have experienced a partial shift to monotheistic religions preserve an important spiritual role of their communities. As there is neither a clearly defined set of written rules nor an undisputed interpreter of existing rules in the form of a single Supreme Being, the only possible referent is the group.

Societies where monotheistic religions dominate depend on a public social order that risks breaking down under the impact of cultural globalization. Societies with nonmonotheistic religions will be characterized by communities more resistant to cultural globalization in the norms of everyday life. Communities as well as households are able to adopt as economic units to the weakening of rules in the public realm, and shoulder a large part of this process of rent redistribution themselves.

If the distinction holds between monotheistic and nonmonotheistic religions, the capacity of East Asian Confucian and of South Asian Hindu and Buddhist societies to adapt to the acultural onslaught of cultural globalization through capitalism should be greater than the capacity of the Muslim world, where norms break down because they are not only part of the family order but also the public order. There are societies in the South which can live with cultural heterogeneity because their communities are bearers of their values, and there are societies which have developed the principles of the tributary mode of production to such an extent that the public order is the main anchor of the moral economy. As this public order breaks down most rapidly under the onslaught of economic globalization (because new earning opportunities erode the existing order), these societies are most

directly threatened in their capacity to develop mechanisms of adapting to globalization via resources from other walks of society.

It is evident that communitarian structures persist in all precapitalist societies, meaning that some redistribution in favor of the marginal population exists everywhere. But I argue that these structures are stronger in societies where the spiritual power of the communities has not been weakened by the establishment of monotheistic religions. At least the feeling of decadence is much more intense in the world of Islam than in India and probably the East Asian world under Chinese cultural influence. The acceptance of cutthroat market competition seems to be much higher in the latter, because the realm of solidarity is not anchored to a public moral order but to a community-based private order.

The public realm, especially the state, loses its redistributive functions under the onslaught of cultural globalization. This loss is much more detrimental to the maintenance of mechanisms of control in the period of transition in the world of Islam than in societies with nonmonotheistic religions. The rejection of cultural globalization is hence also more violent, and even prone to open violence. At least in India, the new cultural identitarian movement, the BJP, is more accommodative to capitalism than parallel movements in Islamic societies.⁹³

In both types of societies, the decline of the import-substituting industrializing secular state is supported by rising new middle classes calling for a retreat of state interventionism in the economy. In the Islamic world, however, the acceptance of a retreat of the moral economy to the benefit of market regulation is accompanied by

⁹³ Bharatiya Janata Party: *Birth-Memorable Events* (New Delhi: Excelprint, 2000); p. 19. Sharma, Mahesh Chandra: *Economic Philosophy of Deendayal Upadhyaya* (New Delhi: Research and Development Foundation for Integral Culturalism, 2000). Khouri, Nicole: "Acteurs islamistes et modernité dans l'Egypte des vingt dernières années", in: *Tiers Monde*, 36, 141 (January-March 1995); pp. 145-158. Nigam, Shalu: "Delhi: Kargil Euphoria and Vajpayee Wave", in: Pinto, Ambrose (ed.): *Vox Populi 1999: Analysis of Parliamentary Elections* (New Delhi: Indian Social Institute, 2000). Mukhopadhyay, Asok: "Management of Social Tension: Rethinking on Politico-Administrative Response" (2002).

fierce opposition to world capitalism. This attitude is absent in India. The BJP tries to exploit the opportunities for growth through an opening to the international division of labor by combining liberalization with pragmatic state intervention.⁹⁴

It cannot be ruled out that the distinction between the world of Islam and the world of nonmonotheistic religions has other causes. The Arab world, with its Dutch disease due to oil rents, has fewer opportunities than the non-Arab world to avail itself of new possibilities of export-led industrialization, since their oil rent pushes up the exchange rate. It is significant, however, that internal disorder is much more pronounced even in Islamic countries with no oil reserves, or with so little oil that there is no Dutch disease, in comparison to neighboring countries with similar economic structures. Anti-Western attitudes are more marked in the new cultural identitarian movements of Pakistan and Bangladesh than in India. The same applies to a comparison between Indonesia, or even Malaysia, and Thailand. In India, the cultural identitarian movement has not tried to reverse the agrarian reforms enacted by the secular nationalist governments, whereas this is a major demand of the Islamist movements in Algeria and Egypt.

To what extent can the West strengthen structures that ease the strains of transition?

In the West, globalization is felt as an attack on the basic social structure, since it threatens employment. The statistical record of delocalization is not important. It is sufficient to show that productivity growth outstrips production growth, because increases in average wages would result in branches with below-

⁹⁴ The Bharatiya Janata Party stands for liberalization with self-reliance, or, to stress the swadeshi angle, self-reliance with liberalization. Bharatiya Janata Party: "National Executive, Bhopal, 24 August 1992", in: Bharatiya Janata Party: *Economic Resolutions 1980-1999* (New Delhi: Excelprint, 1992); p. 119. Cf. Joshi, Murti Manohar: "Need for Selective Globalization", in: *Organizer* (May 21, 2000); p. 10.

average productivity advances being threatened by imports from low-cost production sites. It is evident that the urge for wage restraint is stronger in developed capitalist economies that are technically less advanced than the technical leaders, as they are the first to come under competitive pressure from devaluation-driven exporters. The latter object appreciation of their currency because many of their export branches do not enjoy the effects of technical upgrading and thus come under competitive pressure themselves from still less advanced new export-led industrializing countries.⁹⁵

Wage restraint, especially in leading industrialized countries, leads to underconsumptionist tendencies, even worldwide, especially given the fact that if wages are to follow the growth of income to be distributed in the leading industrialized countries they would have to rise not only in line with productivity increases, but, according to neoclassical economics, also in line with improving terms of trade.

If the assumption holds that new products produced with technically more demanding technologies are consumed mainly by better-off households, the strategy of accelerating structural change is hampered by policies of wage restraints in the leading industrialized countries.

This leads directly to the options described in strategic trade theory: preserve your jobs by creating temporary monopoly on the world market and continuously innovate in order to employ your labor, not on the basis of your own domestic demand, but by exploiting the entire global demand for new products.⁹⁶

⁹⁵ Elsenhans, Hartmut: *Das Internationale System zwischen Zivilgesellschaft und Rente* (Münster: Lit, 2001); pp. 67-70.

⁹⁶ Krugman, Paul: *Strategic Trade Policy and the New International Economics* (Cambridge, Mass.: MIT, 1986). Krugman, Paul R.: "Increasing Returns, Monopolistic Competition and International Trade", in: *Journal of International Economics*, 9, 4 (November 1979); pp. 469-479. Krugman, Paul R.: "Scale Economies, Product Differentiation, and the Pattern of Trade", in: *American Economic Review*, 70, 5 (December 1980); pp. 950-959. Jie-A-Joen, Clive Sie Joeng: *Strategic Trade Policy, Multinational Firms, and Vertically Related Industries* (Amsterdam: Thesis Publication, 1997).

Adaptation to globalization through wage restraint favors state intervention and rent seeking in two forms. From the supply side, new endogenous growth theory and strategic trade theory both insist on state-organized subsidizing of innovation systems in order to maintain monopolistic advantages. The resources for such a policy can only come from wage restraint. Thus, the typical configuration of wages driving profit without the intervention of a planning state is abandoned, even if only partially, in the form of industrial and technology policies, where bureaucrats, without any further oversight, decide – admittedly, often in connection with enterprises – about the future profitability of investments. Costs, by necessity, must be socialized and profits privatized. The process of selecting industries necessarily implies bureaucratic negotiation and log rolling, the contradictions of which I have described in my critique of state classes and their restriction of information in the underdeveloped world.⁹⁷ The conflicts between shareholders and management in recent debates in the West indicate that there is basically no difference between an underdeveloped economy and a developed economy in terms of the strategies of withholding and manipulating information.

In the analysis of limiting the costs of devaluation-driven exports I have shown that catch-up economies may be attracted to industrial policies of diversification in order to facilitate the upgrading of their product mix. They are more efficient than more advanced economies, since they only have to imitate, not discover new products.⁹⁸ The Asian crisis of 1997 revealed the often rentier

Bergeljik, Peter A. G.; Rabels, Dick L.: "Strategic Trade Theories and Trade Policy", in: *Journal of World Trade*, 27, 6 (December 1993); pp. 175-196. Cowling, Keith; Sugden, Roger: "Strategic Trade Policy Reconsidered: National Rivalry versus Free Trade versus International Cooperation", in: *Kyklos*, 51, 3 (1998); pp. 339-357. Grossman, Gene M.; Richardson, J. David: "Strategic Trade Policy: A Survey of Issues and Early Analysis", in: *Special Papers in International Economics*, 15 (April 1985); pp. 1-34.

⁹⁷ Elsenhans, Hartmut: "Dependencia, Underdevelopment and the Third World State", in: *Law and State*, 36 (1987); pp. 83-86.

⁹⁸ Leff, Nathaniel H.: "Optimal Investment Choice for Developing Countries. Rational Theory and Rational Decision-Making", in: *Journal of Development Economics*, 18, 4 (August 1985); pp. 342-345.

character of the so-called market-oriented systems of newly industrializing countries,⁹⁹ findings largely described by Korean authors at a much earlier point in time.¹⁰⁰ A pattern of globalization driven to underconsumptionist disequilibria on the basis of wage restraint in the leading industrialized countries will most likely be a major force pushing the global system towards a politicized structure where rent seeking is the normal, state-supported instrument for achieving competitiveness on markets and for financing innovation.

Wage restraint will also limit full employment within the leading industrial countries and create tendencies towards rent-based systems from the bottom of those societies. Some business leaders suggest that labor reduces its wages demands in order to remain competitive and to keep their jobs from being delocalized. Organized labor has been greatly threatened in recent years, with unions losing members on a massive scale. Unions no longer dare to advocate the necessity of rising consumption in order to create employment, because management argues that rising consumption implies rising real wages, endangering the international competitiveness of labor. An odd situation existed in Germany in 1995: while top managers were appearing on TV and calling for wage restraint in order to keep the German economy competitive, the U.S. dollar depreciated by 10% from about 1.50 deutschmarks to 1.35, a percentage which largely compensated all nominal wage increases in Germany during the preceding decade. Managers suddenly disappeared from the TV screen. An explanation was not given.

Instead of calling for a new theoretical paradigm which admits wage increases even under the conditions of globalization, the dominant discourse in the

⁹⁹ Baer, Werner; Miles, William R.; Moran, Alan B.: "The End of the Asian Myth: Why Were the Experts Fooled", in: *World Development*, 27, 10 (October 1999); p. 1743. Wade, Robert: "From 'Miracle' to 'Cronyism': Explaining the Great Asian Slump", in: *Cambridge Journal of Economics*, 22, 6 (November 1998); pp. 693-706.

¹⁰⁰ Rhee, Jong-Chan: *The State and the Industry in South Korea. The Limits of the Authoritarian State* (London: Routledge, 1994); pp. 153-238.

industrialized countries revolves around easing the strains of wage restraint and unemployment. A new NGO literature is emerging under catchphrases such as “society of citizens,” “civil society,” “the active society” or “the enabling state,” and is linked to attempts at administrative reform.¹⁰¹ New NGO literature even goes so far as to suggest easing unemployment by extending the third sector.¹⁰² Although these movements appear to be animated by humanitarian goals, they uncritically accept the demand for wage restraint and hence contribute to the justification of underconsumptionist tendencies. Objectively, they introduce an implicit acceptance of the fascist solution to the world economic crisis of the 1930s, i.e., the reduction of consumption and the increase in state-guaranteed profits, even if they reject any association with this political position.¹⁰³ A vast literature has emerged which tries to accommodate the absence of labor’s entitlement by means of full employment, as full employment is considered an unrealistic goal. This discussion fails to recognize what Marx had discovered, that the doubly free proletarian, free from ownership of the means of production yet free to sell his labor power at any wage rate can come into existence only if he earns a wage that covers his costs of reproduction.¹⁰⁴

By introducing community-based subsidies, a rent based structure is reintroduced. The redistributive mechanism within a national economy has been

¹⁰¹ Bogumil, Jörg: "Modernisierung des Staates durch Public Management: Stand der aktuellen Diskussion", in: Grande, Edgar; Prätorius, Rainer (eds.): *Modernisierung des Staates?* (Baden-Baden: Nomos, 1997); pp. 21-44. Bogumil, Jörg; Holtkamp, Lars: *Bürgerkommune konkret - Vom Leitbild zur Umsetzung. Arbeitskreis Bürgergesellschaft und Aktivierender Staat* (Bonn-Bad-Godesberg: Friedrich Ebert Foundation, 2002)

¹⁰² In the present disagreement with some of my German colleagues; among others Wulf Damkowski, Albrecht Koschützke and Michael Bürsch, I have insisted on the implied decay of German social democracy, cf. esp. Bürsch, Michael: *Leitbild Bürgergesellschaft – reformpolitische Orientierungen für Staat und Gesellschaft* (Bonn: Friedrich Ebert Foundation 2004); p. 18. The members of the discussion group “citizens’ society and activating state” have objected that I have a simplistic view of the history of social democracy and an outmoded perspective on the distinction between community and society.

¹⁰³ Sohn-Rethel, Alfred: *Ökonomie und Klassenstruktur des deutschen Faschismus* (Frankfurt on the Main: Suhrkamp, 1973).

¹⁰⁴ Marx, *Das Kapital*, vol. 1, op. cit. fn. 13, p. 742.

described as a mechanism of redistributing the rents collectively appropriated against the interest of less developed countries.¹⁰⁵ The "community" within which this redistribution takes place, the nation, is at least amenable to democratic control. The new communities described by this new civil society literature may be characterized by more humanitarian values and may be more inspired by a commitment to democratic values than certain national governments. In politico-economic terms, these new organizations are an instrument for channeling rent where even participation of the target group is vitiated by dependency, a relationship increasingly identified by the pro-participation literature on developing economies.¹⁰⁶ Through wage restraint and community development, the West imports the rentier structures of the South, even if these are still in their benign form.

The alternative involves efforts to allow the South to accelerate the absorption of marginality. This implies the adoption of mechanisms of redistribution in order to pull more and more labor above the threshold of marginality. Agrarian reform, NGO promotion, export-led industrialization and import-substituting industrialization invariably imply the mobilization of rents to subsidize the poor, as was the case with the English poor laws, which reduced surplus and rent in favor of

¹⁰⁵ Kampeter, Werner: *The Distribution of Production and Incomes in the World Economy. An Explanation Based on Differential Rent Theory* (Yokohama: Economic Society of the National University of Yokohama, 1987). Kampeter, Werner: "The Industrial Countries as Rentier States: Complex Environments and Fertility Rents", in: Boeckh, Andreas; Pawelka, Peter (eds.): *Staat, Markt und Rente in der internationalen Politik* (Cologne; Opladen: Westdeutscher, 1997); pp. 95-120.

¹⁰⁶ Cooke, Bill: "Participation, 'Process' and Management: Lessons for Development in the History of Organization Development", in: *Journal of International Development*, 10, 1 (January/February 1998); pp. 35-54. Cleaver, Frances: "Paradoxes of Participation: Questioning Participatory Approaches to Development", in: *Journal of International Development*, 11, 4 (June 1999); pp. 597-612. Crook, Richard C.; Manor, James: "Democratic Decentralisation and Institutional Performance: Four Asian and African Experiences Compared", in: *Journal of Commonwealth and Comparative Politics*, 33, 3 (November 1995); p. 330. Putzel, James: "Accounting for the 'Dark Side' of Social Capital: Reading Robert Putnam on Democracy", in: *Journal of International Development*, 9, 7 (November/December 1997); p. 942.

mass consumption and profit.¹⁰⁷ It is more than plausible that the privileged, who have to shell out a share of their rent, will not accept the attendant deterioration of their consumption levels. My proposal to create a dynamic low-labor-cost area on the southern shore of the Mediterranean by transferring European agricultural surpluses in order to allow devaluation finds less opposition in European Union countries than in the Maghrebian countries themselves, as it jeopardizes the privileges of local middle classes there. It regularly encounters mild sympathy for the intended transfer of resources, yet at the same time clear resistance in the form of obstacles to its implementation or questioning the plausibility of its promised successes.¹⁰⁸

A strategy of intensifying globalization will therefore require two major elements. At the level of discourse, the possibility and the conditions of a benign model have to be put forth in order to break the hegemony of the neoclassical discourse, which claims that only appropriate reductions of consumption will be successful. The East Asian cases of Korea, Taiwan and China have caused a large fissure in this discourse. The World Bank has had to admit that the success of these countries has depended on shared growth,¹⁰⁹ a euphemistic expression for redistributive policies, especially agrarian reform. The fear-creating discourse about a clash of civilizations can be sized down to its real challenges through the very success of societies which have kept their identities despite export-led industrialization and the positioning of new cultural identitarian movements, which in their large majority are prepared to accept globalization.

¹⁰⁷ Elsenhans, Hartmut: "English Poor Law and Egalitarian Agrarian Reform in the Third World", in: Elsenhans, Hartmut: *Equality and Development* (Dhaka: Center for Social Studies, 1992); pp. 130-162.

¹⁰⁸ This was the reaction to my paper Elsenhans, Hartmut: *Pour une vraie complémentarité entre les deux rives de la Méditerranée. Contribution au colloque international : « La question de l'emploi en Afrique du Nord Tendances récentes et perspectives 2020 »* (Sidi Fredj, June 2004).

¹⁰⁹ Page, John et al.: *The East Asian Miracle. Economic Growth and Public Policy* (Washington: World Bank, 1993); pp. 157-198.

On the other hand, we need instruments to reduce marginality. As social reform with large redistributive elements will be difficult to implement, I have proposed an instrument that is easy to handle and limits administrative waste. Suppose that an artificial industry of collecting easily identifiable stones is created.¹¹⁰ Helicopters would drop these stones in remote areas. The labor power of the poor and marginalized population would be required to collect these stones, so that labor power therefore has to be reproduced. This labor power will be able to impose on the labor market wages which at least guarantee its reproduction. Only the poor and the marginalized population will, provided the exchange rates for the stones are appropriate, opt to collect these stones. They will exchange these stones at decentralized market points. Transport entrepreneurs will then transport the stones to offices where Western donors will purchase the stones at a previously announced price. The stones can be reused, being subsequently dropped in other remote areas. The marginalized and poor collectors will use their money to buy food and simple industrial products, i.e. from a sector that is not import-dependent in its innovation and will therefore grow. Middle farmers will do their best to employ their unutilized family labor to increase production and sell a greater agricultural surplus. The sectors alternative development strategies want to mobilize are thus directly mobilized by the market. Western aid agencies can be transformed into companies selling appropriate technologies. They will go bankrupt if the promises on which they have received money from their home governments turn out to be false. They will be competitive if they have truly constituted a stock of knowledge about appropriate technologies. Small producers in agriculture and the small and medium-scale industrial sectors will address the market for improved technology as long as this technology increases their labor

¹¹⁰ Elsenhans, Hartmut: "Reforming the Economic System of Bangladesh: Main Fields of Action", in: Sautter, Hermann (ed.): *Wirtschaftspolitische Reformen in Entwicklungsländern. Schriften des Vereins für Socialpolitik 209* (Berlin: Duncker und Humblot, 1991); pp. 127-133.

productivity – and not if it allows displacing their own labor, whose costs they do not calculate in their cost-benefit analyses unless other employment opportunities are available. Suppose that the number of poor to be employed by these measures is about equal to the number registered by the World Bank. An increase in their per capita income through direct spending on this new industry of about \$200 p.a. – which given the size of families in the South would be \$100 per month per family, an appreciable increase in income, say, in India, where a university assistant will rarely earn more than \$100 per month – would cost about \$200 billion, certainly much more than the present amount of development aid being disbursed. This is, however, a tiny sum if compared to the annual transfers from West to East Germany, which did not lead to inflationary pressures in the world system. Other measures for embedding globalization, such as a turnover tax on speculative finance market operations, would easily yield the amount proposed.

This is not the golden path to overcoming underdevelopment. But it is a negotiating position the West can take if it faces noncollaborative allies in the South who want to defend their own access to rents instead of using rents for accelerating the absorption of marginality, reducing rent and making the world safe for globalization through the cooperation of capitalist welfare states at the global level.

The political arena will be opened up for an “escorted” globalization of this sort only if we manage to regain the hegemony of a Keynesian perspective of globalization. Not all marginality-ridden economies will necessarily engage in such measures immediately and simultaneously, since they are not cost-increasing for single underdeveloped economy. There is also no need that all underdeveloped countries engage simultaneously in such a strategy. No underdeveloped economy following this strategy will lose competitiveness: costs do not depend on internal redistribution, but on exchange rates. A few countries can start, and Western

countries can provide them with special incentives in the form of trade liberalization, access to technology and other support measures. The shift to favoring a convoy pattern of globalization can be gradual and decentralized. The issue is not globalization or no globalization. The issue is whether there are alliances and combinations of mechanisms available through which the current pattern of globalization with its underconsumptionist tendencies can be transformed into a convoy model.