

Aftermath

A New Global Economic Order?

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A joint publication of the Social Science Research Council
and New York University Press

Introduction

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Perhaps the most significant choices to be made in the contemporary crisis involve the future of development—not just in the core countries that produced the crisis but also in the rest of the world. There is not likely to be a simple recovery, if that means a return not only to growth but to pre-crisis political and economic relations. As Saskia Sassen suggests in the opening chapter, the crisis has sorted winners and losers in a savage way. It has revealed strength in some national trajectories and policies, weakness in what had been boom levels of development elsewhere, and fragility in much of the financial architecture of Europe, America, and the international system they have led.

Some of the relative winners have been among the world's previously less developed countries, particularly among semi-peripheral countries gaining entry to the world's economic (and political) elite. China is the obvious but not the only example. Brazil suffered less in the crisis and started to bounce back faster than almost any richer country. Several other Asian and Latin American countries have also gained in relative standing as the OECD elite stumbled. There is more development in parts of Africa than there has been since the 1970s (though not without enduring fragilities and tensions). And Turkey, which long tracked the performance of eastern European countries, has more recently outperformed most of its fellow OECD members.

At the same time, a number of middle-income countries have been hit hard, including some of those inside the EU, like Greece, Portugal, Ireland, and Spain. Several of these had enjoyed dramatic recent growth and were being touted as global models. Now huge blocks of half-built housing sit empty, and countries that had recently found themselves receiving migrants have returned to the role of sending labor abroad. The crisis has hit hard enough in Latvia to make many citizens reconsider their rush to separate themselves as sharply as they could from Russia in the 1990s. But if Russia looks a more inviting partner to some of its neighbors now, it also took a significant hit during the crisis. It benefited initially from skyrocketing prices for energy resources but went on to suffer not only from the later fall in these export commodities but from losses in Russia's financial portfolio, largely invested in the West.

In *Possible Futures* volume 3, contributors assess what prospects the aftermath of the crisis holds for global economic growth, specific development policies and patterns in different countries, and how much growth will bring capacities to meet social needs. These are questions about real-world political economy, but thinking seriously about them demands changing academic and practical models of how economic growth works. For decades, a "Washington Consensus" reigned that emphasized the importance of free trade across national borders, reductions in state regulation, and conservative macroeconomic policies that reduced the burden of taxation on business and protected financial markets. The consensus is now in tatters. Many of the countries most successful in achieving growth and weathering the crisis are precisely those that flouted it. But only gradually are the ideas of the economics profession adjusting to the failures of neoliberalism and the limits of neoclassical models. The long boom that preceded the 2008 crash—perhaps, better described as a "multibubble" since it was marked by recurrent crises—was not just an era when financial engineering was ascendant but also one when economic orthodoxy was strong and centered on the building of models often expressed in elegant mathematics but with little purchase on real-world problems of economic development.

This third volume gathers chapters from a strong group of internationally prominent economists (including some labeled "heterodox") as well as other social scientists who seek to revive and advance the agenda of political economy. This doesn't mean in all cases arguing for state-led

development; it does mean taking states and more generally the relationships between politics and economics seriously.

Even before the crisis, the grip of orthodoxy and the onetime Washington Consensus had begun to loosen. There were, for example, more and more critics of the “structural adjustment” programs run by the World Bank and the International Monetary Fund, which demand that countries limit government spending and economic intervention in various ways in order to be eligible for loans (with IMF backing often a condition not only for access to the funds it controlled but to favorable terms from the private financial sector). Even as criticism grew, these programs continued to derive support from orthodox economic opinion (though macroeconomics became something of a backwater to academic economics during an era when new microeconomic models dominated).

In fact, macroeconomics is important, and macroeconomic reforms were important to the success of some developing countries—like Brazil—and macroeconomic failings were basic to the deep suffering of some economies, like that of Greece. But conventional approaches built a great deal of ideology into the demands made on developing countries. Ostensibly simply a call for macroeconomic prudence, structural adjustment policies were also pressure to rely more on the market and to be good clients in an era when major financial institutions in the Global North were lending to the Global South. The reforms demanded were often draconian and had direct negative impacts on the living conditions of the citizens of those countries, while long-term benefits remained a matter of faith. They involved ending food-price subsidies in many cases, for example, and in others insisting that governments not finance the provision of anti-retroviral drugs to fight HIV/AIDS. In retrospect it is odd to contemplate how much “prudence” was urged on governments in developing countries by the same professionals that threw prudence out the window when it came to the machinations of hedge funds and investment banks in London and on Wall Street. But in addition to the immediate human cost, the theory may have been wrong.

Orthodox policy advice was flouted by some developing countries, perhaps most prominently and successfully by China. Argentina decided to ignore IMF demands when it faced an earlier crisis, and there were many who thought that Greece might have done better if it had followed suit. More generally, even though flouting IMF and World Bank advice was

costly in terms of access to global finance markets, it seems to have been associated with enduring prosperity for some countries. Distinguishing what actual policies helped those countries is crucial, for not every one that resisted the Washington Consensus gained rapid development. Among many factors, two stand out: the implementation by strong states of policies favoring national economic development, not just international capital, and the development of materially productive industries.

This isn't the place to try to adjudicate all these arguments. The point is that crises can encourage more open-mindedness. This is particularly true today, but it was also true earlier, for example in the response of some Asian countries to the 1997 currency crisis. Both policy organizations and academic economists began to ask new questions about how to alleviate poverty, whether overly strict macroeconomic policies could be stultifying rather than helpful, and whether protectionism might actually be productive. Of course many—not least the WTO—stuck firm to the dominant economic ideology on matters of defending private-property rights and free trade. But even while neoliberal orthodoxy reigned in most policy settings, and an extremely abstract but generally compatible economics reigned in most academic quarters, dissident voices began to gain traction.¹ Economics was at its most orthodox in the US, but even in “mainstream” American departments, new kinds of empirical research started to challenge long-held theories backed more by elegant models and ideological convictions than evidence. Not least, the importance of relatively strong states was recurrently demonstrated. Around the world, “heterodox” economics grew almost as a parallel field. As the very idea of heterodoxy suggests, this was not a field with a single voice. Neo-Schumpeterians argued with neo-Marxists, neo-Smithians, and radical Keynesians. But common to many of those debating was the notion that states could play much more helpful roles in economic development than orthodoxy was suggesting.

This was not simply an abstract advocacy of strong states. It was rooted in historical research—noting, for example, the importance of state policies, including protectionism, to the successful development of today's rich countries. Historical research also challenged orthodox ideas of how investment was related to technological innovation. Where conventional economic theory suggested this was a matter of rational action based on recognition of the market value of the new technologies, new

research showed the importance of both irrational enthusiasms and long-term economic cycles that shaped how much money was available for bets on new companies or new technologies.² Importantly, free-market fundamentalism was challenged by those who saw problems in extreme financialization and in cognate ideas like a happy end to industrial society. The coming of post-industrial society, to borrow Daniel Bell's phrase for it, was at best an account of how some previously rich societies might fit into a global economy in which industrial production mattered a great deal, and possibly a dangerous account if read to suggest that emphasizing industry would always keep economies backward. The importance of industrial production has been manifest in the development of China, India, Brazil, and a range of other countries now moving from semi-peripheral to core status in the global economy.³

With the crash, such ideas found traction with new audiences. But if they helped produce a better understanding of successes in economic development, they also lent less happy insight to analysis of problems. A number of these were evident in formerly socialist economies that found themselves inserted into the modern world system as semi-peripheral players at best, with difficulty matching the low wages and labor discipline in Asia. And the combination of problematic policies and political favoritism for some investors didn't help. Perhaps the strongest of these countries, Russia has remained dependent on its (happily huge) natural resources but unable to generate self-sustaining techno-industrial growth. This is no doubt for many reasons, but at least one important one is the nature of the transition from communism imposed on Russia, one that abruptly transferred state property to private ownership. Not only was the public robbed, but also a powerful class of oligarchs was created and for the most part they were not disposed to productive investment.

All this is background to the challenge taken up in this volume, that of thinking through how to account for which countries were winners or losers in the "savage sorting" that Sassen describes in chapter 1 and what significance this has for pursuing growth and economic development in the future. Sassen herself integrates political economy with an understanding of the spatial transformations of capital accumulation on a global scale. She presents a view of the world in which governments—especially in the rich countries—support or even produce intensive privatization and mirror this in their regulatory and tariff policies. These governments

(backed up often by international organizations like the IMF) typically combine advocacy for free trade with fiscal policies that make financing available for efforts to extend profit extraction into what had previously seemed unlikely domains. This can be a matter of international investment—growing flowers in Africa for shipment to Europe. But it is a link between the domestic investments and the global investments that boomed in the financial era.

The paradigm case may be selling mortgages on modest properties to buyers who cannot plausibly be expected to repay them. The profits were grand because this was done on a large scale, with government guarantees, with mechanisms like credit-default swaps to provide an element of insurance, and with the quick conversion of mortgages into securities that could be sold to others. So there is a sharp division between winners and losers within nominally national economies. But at the same time, those economies are being subjected to new sorts of globalization that both challenge the tools governments use to manage domestic affairs and literally move entire sectors of production from one country to another (sometimes while leaving it under the control of the same capitalists). In less rich countries, the expansion of capitalist investment can offer opportunities—as it has in China. There are winners even in a competition for cheaper labor prices (though they are not necessarily workers themselves). But at the same time, there are expansions with much less clearly positive consequences for poorer countries, and while one may see this as capitalist globalization, it also wears new national faces—as, for example, China buys great tracts of land and mineral rights in Africa. As Sassen suggests, we see primitive accumulation alongside, and interwoven with, the most sophisticated workings of capitalist financial markets.

Many hoped the end of the Cold War would usher in an era of thriving capitalism, ever-extended democracy, and peace. There would be open exploration of the best collaborative solutions to global problems and respect for the different conditions and civilizational histories of different regions. It would be the end of a very problematic twentieth-century history, perhaps even the end of history.

Not so much. The post-Cold War era was dominated by neoliberalism and market fundamentalism, by a wave of small and not-so-small wars and humanitarian crises, and by a securitization of international relations led by a single superpower. Stock markets, real-estate markets,

and other more esoteric investments boomed repeatedly and suffered repeated crises even before the major meltdown of 2008. Russia was only one of the sites where neoliberal policies and practices wrought havoc. While fortunes were made, widespread damage was done.

Ensuing chapters in this volume focus on historical patterns, learned limitations, and possible future directions of development. An underlying theme is the question of whether and when development can mitigate or even overcome longstanding global and national inequalities. The first part of the book examines relatively general issues of economic processes and policies. The second addresses the experiences of development—and its limits—in different regional contexts.

In chapter 2, Ha-Joon Chang recounts how the economic crisis revealed the double standards that for years had informed economic policy: Keynesianism for the rich and monetarism for the poor. In other words, subsidies have been directed to capitalist enterprises and found their ways into profits and individual bonuses. At the same time, structural adjustment and similar policies justified by macroeconomic prudence impoverished the public sector and forced cuts in services to the poor. From this, Chang turns to summarize the difference between the policies rich countries (and many global organizations) recommend to the poor today and those they themselves followed in achieving their own development. In particular he stresses the importance of protection for national industries to actually become successful stories of economic development. Recalling the theories of Friedrich List, the great nineteenth-century German economist, Chang interprets the policies pressed by rich countries and the WTO as efforts to “kick away the ladder” lest others follow them up. Even when well-intentioned, development assistance has been tethered to problematic economic orthodoxies. Part of what is distinctive about the crisis centered in 2008, however, is that some of the same policies created problems for rich countries. Lack of financial regulation is an obvious case. This doesn’t mean that neoliberalism will be abandoned, of course, but though it still has beneficiaries, wider confidence that it could work for the general good has been shaken.

Dani Rodrik is a leading economist who has increasingly argued for the importance of strong state policies—and strong states to carry them out. In chapter 3, his contribution here, he assesses the future of economic growth after the crisis as a matter of managing a basic tension. On the

one hand, global macroeconomic stability is important; defaults and other destabilizations have serious negative effects. On the other hand, growth in poor nations depends on their being able to produce and market growing quantities of goods. Too much macroeconomic restraint can undercut productive investment. This is a matter not just of capacity to produce, of course, but also of terms of trade and the existence of markets.

For the most part, economic policymakers have focused on macroeconomic stability (and as the crisis reveals, not been able to deliver it consistently). They have often insisted in a rather doctrinaire fashion on both macroeconomic prudence and extreme commitments to free trade (and indeed developed countries have sometimes demanded more free trade from developing ones than they themselves practice despite their advantages). Rodrik calls for a shift in approach. Exchange-rate discipline and limits to external debt or other imbalances make sense if offset by industrial policies (including both subsidies and protection for nascent industries) that provide for growth and employment. We might think of this as something close to a Brazilian model. It is also a much better basis for asking China to reduce its trade imbalance with the United States and other countries than doctrinaire free-trade ideology.

The economist Jomo Kwame Sundaram and historian Felice Noelle Rodriguez take a broader and longer view of global financial architecture in chapter 4. They open their account with the 1944 creation of the Bretton Woods system of international institutions, explicitly designed to extend the success of the American New Deal to the rest of the world ravaged by the Great Depression and Second World War. The world economy was reasonably well-served by the Bretton Woods system for about three decades. This made the American dollar a *de facto* world reserve currency, however, which invited political abuse, notably during the Vietnam War. This led to the abandonment of the Bretton Woods system, to a substantial reduction in exchange-rate discipline, and to increased financialization of the global economy.

Tracing the story forward into the current crisis era, Jomo and Rodriguez call for a substantially rebuilt system of world financial regulation. This would mean, crucially, one that was equitably concerned with the interests of the whole world's population, not only with the interests of capital as concentrated in certain centers. They would organize this under the aegis of the United Nations, though this would require

making the UN less vulnerable to the pressures from major states. Weaker institutions are subject to too much pressure from powerful political and economic actors. Even if regulation is in the long-term interest of all, manipulation will be too tempting to too many in the short run.

In chapter 5, Manuel Montes and Vladimir Popov take up the question of whether there is a plausible basis for hope that countries in all world regions and at all levels of wealth might agree to a new world order. Implicitly, the “old world order” refers to the era of more or less successful postwar development under Bretton Woods institutions and with significant assistance from some wealthy economies like the United States to some others, both in Europe and in the Third World. Montes and Popov point out that during the Cold War many economies in the Global South were able to make significant gains by means of nationalization of resource industries and/or state-led development. The end of the Cold War reduced the leverage developing countries could exert. When more stringent Washington Consensus policies were imposed after 1991, their leverage decreased even more. The countries that developed most were those, like the so-called Asian Tigers, that resisted the Washington Consensus. This makes them objects of emulation, not least because of their assertions of effective state economic roles even in the face of pressure from developed countries, the World Bank, and the IMF. It also occasions growing trade and capital investment among countries in the Global South. Much of this is regional, and regional blocs are growing stronger. Taken together, these trends allow for cautious optimism that as the grip of free-trade and other economic orthodoxies loosens, a longtime growth in inequality can be reversed.

China has become the country exerting the most fascination among global economic policymakers. Perhaps ironically, it took the current economic crisis for American economists and the American public alike to wake up to the extent to which apparent US growth during the last several decades was financed by borrowing from China. Thinking only generically in terms of deficits and debt masked the significance of specific international “imbalances” and relationships.

Though various aspects of China’s success story—and its vulnerabilities—are constantly assessed, the way China looks at global political economy is less often considered. R. Bin Wong helps fill this vacuum, asking in chapter 6 how domestic, regional, and global concerns intersect

in Chinese thinking and mutually affect the policy choices leaders make. Wong starts with Chinese domestic political economy and moves his analysis outward through the Asian region to the global economy. This offers a distinctive perspective not only on China but also on Europe—a region of comparable size and diversity to the single country China. This provides for an unconventional assessment of such factors as income disparities. Rather than asking whether those within China are greater than those in, say, France, we can compare Chinese disparities to those between Portugal or Greece and Germany. National diversity and competition fueled an engine of growth in Europe—though the challenges of unification are now daunting. On both sides, the comparison sheds light on China as it achieves some of the world's highest growth rates and indeed works to sustain political unity. It should be no surprise, thus, that China's leaders work to reduce income diversity and increase political cohesion, even while their capacities for growth are constrained by collapsed global demand.

If China has offered the world's most glamorous economic success story in recent years, Africa has offered many of its most disturbing failures. Ironically, the OPEC success of the 1970s that symbolized increased leverage for parts of the Global South had devastating impacts in much of Africa. Hard currency dried up; both trade and aid shrank. The interstate ambitions of pan-Africanism also shrank as both nationalism and ethnic regionalism grew. In too many cases nominally nationalist governments were in fact predators on their people. Conflicts, humanitarian crises, and then HIV/AIDS dominated news reports of Africa.

This was at least in part misleading. Africa suffered in these decades but did not simply stagnate. First and perhaps most prominently, South Africa offered the greatest late twentieth-century success in overcoming oppressive rule, a racist regime dating from colonial domination. Moreover, South Africa has continued to develop—both as a vibrant economy and as a flourishing if sometimes troubled democracy. South Africa not only threw off apartheid rule, it did so in a remarkable process of transition to a multiracial state. The South African story is not the only positive one to come out of Africa in the late twentieth and early twenty-first centuries. African musicians play an increasing role on the world music stage. African cinema is increasingly part of world cinema. African artists produce work sought after globally.

While noting that there are positive stories from Africa, we must also take some care with the negative ones. In particular, we need to recognize global complicity in many of the ills the continent has suffered. Not only did structural adjustment programs destabilize many countries, leading to conflicts outsiders would later treat as somehow distinctively African, but financial assistance came largely in the form of debt, which imposed its own burdens. And debt was provided in ways, moreover, that encouraged corruption and even kleptocratic government. It takes nothing away from the guilt of *genocidaires* in Rwanda or Burundi to note that destabilization came also from democratization programs started and then dropped and plummeting coffee prices in an economy organized (and financed) for export monoculture. And perhaps above all, there is the extent to which Africa's extraordinary wealth of natural resources has been tied in disastrous ways to global trade.

In chapter 7, Alexis Habiyaremye and Luc Soete take up precisely this question of "immiserizing wealth." In the years immediately preceding the latest financial crisis, many mainstream economists advised African countries to reap the benefits of rising prices for primary commodities. The hope was that accruing surpluses, if responsibly managed, could help to buy Africa's way out of its predicament and generate sustainable development across the continent. Such facile prescriptions ignore both political realities and the well-known negative effects of dependence on resource exports. As Habiyaremye and Soete show, the ways in which such resources were marketized contributed to state weakness when in fact only strong states could manage those resources for effective long-term growth. "Blood diamonds" that fund conflicts are only a relatively extreme case of the role played by many resources. It is worth noting that even the World Bank has recognized that strengthening and reforming resource-rich African states is the key to their development. Habiyaremye and Soete call for industrially diversified growth. This offers both wider employment and the potential for increasing-returns instead of the decreasing-returns model of "immiserizing growth" based solely on natural endowments. Here their argument dovetails with the pro-industry arguments of the heterodox economists cited earlier.

Finally what of the situation after the Cold War in the countries that were on its eastern side? Russia and eastern Europe became laboratories for liberal economic policies, somewhat as Chile had been in the 1970s.

A sudden and disruptive transition intensified corruption, concentrated wealth to an astonishing degree, abetted financialization and reliance on natural-resource sales, and undermined productive industrial investments. It also weakened governments already troubled by the discrediting of communism and the difficulties of revamping institutions and reestablishing legitimacy. Those eastern European countries that could sought membership in the European Union, not only demanding concessions that now haunt the EU in the context of crisis but forcing themselves to accept austerity programs for which the payoff is currently unclear.

Piotr Dutkiewicz and Grzegorz Gorzelak offer a broad picture, in chapter 8, of transformations in the former socialist countries passing now under the necessarily awkward rubric of Central and Eastern Europe (CEE). These countries have very different histories, and Dutkiewicz and Gorzelak show that divergence has continued since the end of communist rule (which had in fact been more or less unifying). The current crisis seems to have driven these divergences even further. Dutkiewicz and Gorzelak reveal a surprisingly rapid and deep “Europeanization” of most CEE countries, if anything accelerated by their response to the crisis, as it accentuated their dependence on the western European core. Their collective identity is thus fading. Indeed, “it might be said that Hungary is closer (in an economic sense) to Portugal, and Latvia to Greece than they are to each other.” Most CEE countries were spared the worst of the crisis, however, because of the still shallow penetration of banking industries. This may be one reason why (as Rogers Brubaker noted in volume 2)⁴ the crisis therefore had relatively little effect on the politics of the CEE region.

The complacent consent of the post-communist eastern Europeans to their peripheralization stands in sharp contrast, however, to Russian angst over global standing since the end of the USSR. It is much harder for Russians to experience this transformation as a matter of liberation. As Georgi Derluguian shows in chapter 9, painstakingly reconstructing the historical genealogies of Russian state and society, Russia has long pursued both geopolitical power and standing as one of the world’s great societies. It has pursued these in an always uneasy relationship with the capitalist European countries flanking Russia from the west, and while the crisis of communism transformed this dynamic, it didn’t bring it to an end. Derluguian explores why the long-running dialectic of regional

non-capitalist might and global capitalist power mattered, why it came to a sudden end in 1991, and where this left Russia. Twenty years after the fall of communism, Russian elites, at first glance looking as provincial and politically hapless as ever, find themselves searching for a better position in the world division of labor. Merely managing a resource platform on behalf of global investors is clearly not a basis for long-term development. Yet moving beyond this semi-peripheral role requires social transformation, not just economic plans. Russia must renew its educational system, support industrial development and diversification, and provide the setting for creative new businesses to develop.

But the passing of communism was significant beyond Russia. Derluguan argues that it served as a major enabling condition for the intensification of neoliberal globalization. When neoliberal orthodoxy was embraced by Moscow itself, this seemed evidence to many that there truly was no alternative. Yet of course several countries resisting neoliberal orthodoxy, such as China and Brazil, prospered in the meantime. And Russians found their already difficult post-socialist transition made harder by much of the neoliberal inheritance.

Russia was one of the biggest losers in the “savage sorting” that Sassen describes in chapter 1. The post-communist transition accomplished with brutal speed a massive transfer of public wealth to private hands, the devaluation of assets throughout a large economy, and the subjection of a major country to global forces it was ill-prepared to resist or manage. There were beneficiaries in Russia, and there were beneficiaries among global speculators and investors. But there was no path forward by means of neoliberal economics alone. So Russia, like other countries, has given up its brief faith in the Washington Consensus. It will pursue more nationalist economic policies; these may or may not be coupled with authoritarian nationalism in domestic politics. Yet Russia remains a power and continues to occupy a central geopolitical position.⁵ The course of Russian development is likely to matter globally and certain to matter regionally. Whatever Russia’s path and relative success, its experience stands alongside the great crash of 2008 itself as evidence of neoliberalism’s depredations.

The issues explored in this volume were not all created by the global financial crisis. Some of them were brought newly to light by it. But the role of the crisis was also to call attention to the limits of conventional

economic thought and the importance of work that had previously been considered heterodox. Indeed, it made “heterodox” more of a proud label. But this was not just a matter of academic prestige, it was and is a matter of how potentially developing countries think about strategy, whose advice they seek out, and what policies they pursue. They are more likely now to pay serious attention to state-led strategies, the importance of regulatory arrangements both within and among countries, and the centrality of productive industry.

As James Galbraith contends in his closing chapter 10, learning depends on a willingness to ask new and sometimes more basic questions. Galbraith suggests that the financial crisis narrowly conceived has broad analogs. Those who made and sold unsound mortgages were like counterfeiters: they traded fake money. It was not that there was a criminal ring in the financial industry, but rather that the financial industry as a whole resembled a criminal ring. And one of Galbraith’s crucial points is that the discipline of economics didn’t recognize this, didn’t make it clear, didn’t facilitate efforts to make better policy. On the contrary, the rise of modern financial economics helped make this possible while the discipline as a whole was dominated by an orthodoxy that obscured what was going on. Galbraith is an economist, and it is perhaps easier for him to say that the “entire discipline managed to be overrun by a radical cult, its interests perfectly aligned with predatory financial power.” Galbraith addresses himself to other social scientists asking for better analyses of what economists have missed. But disciplinary blinders are not unique to economists. And whatever our evaluation of each field, we ought to agree that this possibility is a basic reason why we need multiple perspectives in order to see what is going on.