

Evanescence World Development.

*David Ibarra**

ABSTRACT

With some minor differences around the world, there are two prevailing paradigmatic strategies that are compatible with the drive for globalization. One strategy is based on the expansion of credit as a substitute for investment and employment in the task of harmonizing aggregate supply and demand in each country. The resulting gap between the two variables is covered mainly by imports, creating imbalances in international trade and its financing. The second strategy is designed to cover gaps in domestic demand through exports, that is, using the purchasing power of other countries. Both of these strategies offer the obvious political advantage of eluding for a time difficult issues on income distribution. Today, however, both have become obsolete due to changing circumstances and due to the global imbalances that can be attributed to their application. There are huge disparities in the distribution of the benefits of trade and also between capital and labor. Those imbalances result in divergent political and economic problems among countries and regions that make it difficult to swiftly find common answers to both the global economic crisis and the reconstruction of the international economic order.

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AUTHOR

David Ibarra is a professor at the National Autonomous University of Mexico (UNAM). He is a former Secretary of Finance of Mexico, ex-director of UNECLAC-Mexico (CEPAL-México).

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Introduction

It has been five or six years, since Europe and the United States entered a crisis (2008) that some believe to be the prelude to a prolonged period of near-stagnation or a very slow global economic recovery, particularly affecting social equality and employment. Mean while more than four decades have elapsed since the beginning of the process of establishing the free market systems and shrinking the role of the state, with a significant reduction of universal progress and social protection systems.

Due to various circumstances, the sources of global growth have been partly switched off, not only with regard to their primary function, but also in bringing a swift end to a recession that has nearly reached the severity of the 1930s Great Depression. Since the 1970s, the pace of world development has slowed and the rate of cyclical downturns increased, while successive recoveries have not corrected unemployment, much less the skewed distribution of income in most countries. Furthermore, when economic momentum does recover, it is uneven and does not improve the general standard of living.

Industrialized countries are experiencing stagnant wages, unemployment, and increasing unequal income distribution, along with a decline in their welfare states. In many developing countries, the economic freeze or slow increase of salaries in real terms goes hand in hand with huge structural unemployment that manifests itself in informal employment, which absorbs between 30% and 60% of the workforce and obviously aggravates distribution inequalities. In emerging economies, such as India and China, as well as in some industrialized countries, such as Germany, export strategies are limiting

the growth of domestic consumption even when they lift significant segments of society out of poverty.¹

When all of these circumstances are taken into consideration, it is not surprising to find global imbalances, especially lack of demand, and with public policies that persistently ignore their core concerns, poverty and unemployment. Such are the critical failings in the current paradigms, or models of growth, that are worth studying in order to find answers to the ongoing economic crisis and the resulting erosion of democratic systems. Let us examine this question more closely.

Strategies In Vogue

Creditism

Against a backdrop of capital market liberalization and the limitations on government intervention, economic strategies became widespread across the globe. Until the 2008 crisis, many economies --including those of the United States and countries in southern Europe-- sustained their prosperity with increasing levels of consumption and to a lesser extent employment through the use of credit expansion, at the price sometimes of risking the formation of dangerous bubbles in the value of assets (shares, real estate, banking assets, commodities). Of course, the increase in credit and in the operation of

¹ Since the seventh decade of the last century, with few national exceptions in the world, the primary distribution of income between rich and poor people sharply deteriorated. Analogous shifts are present in different social strata. By and large, the government's participation in GNP diminish or become stagnant, while the private economy grows; the financial activities gain participation in comparison to the production of goods and services; the employees in the modern sectors of the economy improve their situation, but the unemployed, those in the shadow labour market, reduce their income in real or relative terms; the small and medium size industries lose ground, gained by the large corporations; income distribution favours especially the rich and very wealthy; the median classes income barely grows, and that of the poor members of societies declines or suffers from stagnation. See, Stiglitz, J. (2012), *The Price of Inequality*, W.W. Hampton, N. York.; Piketty, T. and Saez, E. (2003), "Income Inequality in the United States", *Quarterly Journal of Economics*, 118, No. 1, pp. 1-39; Noah, T. (2012), *The Great Divergence*, Bloomsburg Press, NY.; Atkinson, A. and Piketty, P. eds., (2010), *Top Incomes, A Global Perspective*, Oxford University Press, Oxford; Piketty, T. (2014), *Capital in the Twenty-First Century*, The Belknap Press, Harvard University, MA; Zalewski D. and Whalen CJ (2010), "Financialization and Economic Inequality", *Journal of Economic Issues*, 44 (3), pp. 757-777; Wray, R. (2012), *Modern Money Theory*, Palgrave Macmillan, London. The problems of inequality and the impact on growth are now receiving attention even from the International Monetary Fund. See, Ostry, J. et al (2014), "Redistribution, Inequality and Growth", *Research Note*, Washington.

asset management drove up the financial sector share in GDP, which in the United States, for example, rose from 2.8% in 1950 to 8.3% in 2006.²

The dominant economic theory that should serve as a guide to public policy keeps supporting, against all evidence, the hypothesis that market efficiency preserves and restores economic equilibrium and full employment with price stability. Any deviation, it is argued, is not the product of market failures, but rather due to external “shocks,” mainly related to intervention mistakes by governments or even by non-independent central banks.³

The assumption that economic stability can be maintained by manipulating monetary policy with few fiscal inputs, wholly ignores the basic institutional framework of all economic systems: those related to the industrial and financial structures, to income distribution and to the scope of the democratic system, all of which are inescapable determinants of economic results.⁴

With creditism, investment was no longer the indispensable Keynesian link to reconcile supply and demand and to use profits that fuel savings. The developmental role of investment was substituted by credit and the resulting supply deficits were substituted with imports, though neither is sustainable in the long term. The economic process ceased to be guided by savings and investment. They were replaced by loans and consumption.⁵

Moreover, creditism ends up favoring speculative activities even while financing investment. Insofar as growing investments reduce the liquidity of companies and raise the coefficients of debt to capital, the utilitarian logic during the boom leads productive agents and banks to take on more and more loans and risks. This way, speculative bubbles emerge, not regulated by orthodox economic remedies, given the supposed

² Greenwood, R. and Sharfstein, D. (2013), “The Growth of Finance,” *Journal of Economic Perspectives*, Spring 2013, pp. 13-28.

³ See, Hein, E. (2009), *A Post-Keynesian Perspective on Financialization*, Macroeconomic Policy Institute, 1/2009, Dusseldorf; Arestis, P. and Sawyer, M. (2008), “A Critical Consideration of the Foundations of Monetary Policy in the New Consensus Macroeconomic Framework”, *Cambridge Journal of Economics*, 32 (5), pp. 761-779; Keen, J. (2010), “The Coming Depression and the End of Economic Delusion”, in *Macroeconomic Theory and Its Failings*, Edward Elgar; Thirlwall, A. (1993), “The Renaissance of Keynesian Economics”, Banca Nazionale del Lavoro, *Quarterly Review* 70-186, pp. 327-337; Minsky, H. (1986), *Stabilizing an Unstable Economy*, Yale University Press.

⁴ See Fox, J. (2009), *The Myth of the Rational Market*, Harper Collins, New York; Irwin, D. (1996), *Against the Tide: An Intellectual History of Free Trades*, Princeton University Press, Princeton.

⁵ See Duncan, R. (2012), *The New Depression*, Willey & Sons, Singapore.

self-correcting ability of the markets. In addition, anti-inflationary measures are concentrated on consumer prices.

In this context, the political power of financial institutions expands supported by economic paradigms, as evidenced by the world deregulation and change of nature of financial operations and its instruments.⁶ Banking institutions, rather than providing mostly deposit services and conservative loans, become risk-taking institutions. In this sense, credit is preferred over the capitalization of companies. Consequently, financial incentives instead of promoting production, favor risky, speculative financial operations. Hence, the spectacular rise of the shadow banking systems,⁷ derivatives and structured credits; and then, the increasingly frequent interventions by the central banks to compensate for the destabilizing effects of the financial creditism.⁸

Creditism, always linked with free markets and deregulation, was very welcomed by the corporate sector, and brought about the political weakening of governments, unions, and workers. In particular, macroeconomic policies moved from fiscal policy to monetary policy in the hands of independent central banks, completing the circle of transference of power from the state to the market. For a long time, these changes were feeding huge commercial, financial, and distributive imbalances among and within countries, in economic as well as democratic terms.

One of the central reasons for the spread of the credit paradigm is clearly political in nature. It favors the interests of financial institutions and in general of the big international business. Above all, it makes temporarily unnecessary to halt income

⁶ By way of illustration, in the United States the Glass-Steagall Law was eliminated in 1999, which prohibited commercial banks from undertaking operations considered risky, while in 2004 the leverage limitations of investment banks were removed. See Lewit, M. (2010), *The Death of Capital*, John Wiley, N. Jersey; Hirsch, M. (2010), *Capital Offense*, John Wiley, N. Jersey; Morris, Ch. (2008) *The Trillion Dollar Meltdown*, Public Affairs, New York. It is not only on a domestic and international scale that funds and institutional investors influence the redesigned of financial regulations. Given the scale of the resources they handle, they have also influenced the realignment of the paradigms of business management. The old entrepreneurial aims of seeking long-term development of companies have been replaced by the short-term goal of maximizing the so-called "shareholder value", that is, immediate profits and stock-market valuations. This opens up another door for instability of financial systems, including the promotion of speculative operations (See Ibarra, D. (2008), "Government and Corporate Power," in *The Degradation of Utopias*, UNAM, Member of the Faculty of Economy, Mexico.

⁷ The shadow banking does not have access to the rescue of the Federal Reserve.

⁸ Financial stability prevailed in the United States between 1980 and 1995. Subsequently, the Federal Reserve has had to intervene seven or eight times to take depreciated private liabilities in exchange for its own securities in order to avoid dangerous financial imbalances.

concentration by providing transitory purchasing power to a fair proportion of the population, especially the middle classes. By the same token, the combination of credit, free trade, and imports eliminates distributive and inflationary pressures, singularly those associated to wage negotiations.

However, borrowing has its limits. In both the short and long term, incomes of households, businesses, and governments might not be enough to match debt saturation and the increases in principal and interest payments.⁹ Companies need the support of some capital, and deferring payments is no substitute for stagnated household incomes, nor does it correct the biases that concentrate the distribution of income. As a result, when financial speculation grows, when the asset bubbles appear, when interest rates rise, or when the economic cycle falters, demand falls and the number of loans due rises to the point of causing illiquidity or insolvency of financial institutions. Singular problem arise in countries when the balance of payment deficit drains international reserves, forcing interest rate increases, currency devaluations or even creation of adjustment programs. In the political sphere, crisis and recessions bring to the surface the hitherto --concealed problems of income distribution, now intensified by the unequal sharing of the costs of economic adjustment.

Nevertheless, industrialized countries aim at revitalizing the credit superstructure, rather than correcting the labor market imbalances, the weakness of productive investment, or the decline of social welfare. Take the case of the United States: when financial bailouts become inevitable, the Federal Reserve injects vast sums of liquidity into its own and the global economy. However, instead of making use of the bank's ability to discount securities and shares, it does so by massive credit creation. In fact, the purchase of assets through open market operations ("monetary easing" with loans at very low interest rates) made by the Federal Reserve increased three or four times from 2008 to 2013, reaching more than US \$3 trillion. By sustaining aggregate demand and corporate profits, this unorthodox monetary policy has made it possible discretionally to

⁹ In addition, banking practices lending with collateral guarantees are vulnerable to inflation of assets (real estate, equity, etc.) and to the temptation to expand credit without restraint to capture capital gains. Even structured credits with so-called "credit default swaps" --that supposedly eliminated the risk-- led to neglect of the payment capacity of borrowers and issuers of the swaps themselves. (See, Toporowski, J. (2010), "Excess Debt and Asset Deflation," in Kates, S., *Macroeconomic Theory and its Failings*, Edward Elgar; Stockhammer, E. (2010), "Neoliberalism, Income Distribution and the Causes of the Crisis," *Research in Money and Finance*, Paper No. 19, Development of Economics, SOAS, London.

select credit beneficiaries, accept depreciated collateral, favor institutions that were too big to fail, and rescue insolvent banks, while on the other hand neglecting the indebted families and students and disregarding the distribution of the costs of the crisis.

The recent history of credit underlines the goal of maintaining the growth of the financial sector, even though it might lead to economic instability.¹⁰In just a few years, during the Reagan administration, public credit in the United States evolved from a high rate of growth of government debt (190%), to surplus budgets with very high replacement rate of public for private credit, mostly in real estate and in household consumption during the Clinton administration. Then came the financial crisis, the bank bailouts, and a new spike in public debt. In any case, the credit spiral continues to expand. By 2010 the level of public and private debt (families and businesses) was above 300% of GDP, without entirely reviving the labor market and the economy.¹¹

In Europe, analogous phenomena occur: the crisis starting point began with heavy liabilities, mostly of businesses, but also of households and governments, followed by the complex spill over of the same liabilities among banks, corporations, governments, and the European Central Bank.¹² Moreover, within the European Union, the classic division between a prosperous, industrialized North, and an impoverished, indebted, in permanent recession South is reproduced. Japan is a special case for having experienced deflation for over a decade. There, despite the high concentration of government liabilities -the highest in the world at 200% of GDP- structural reforms are being tested, together with

¹⁰ In a sense, asset financial bubbles are necessary in order to keep alive creditism. (See Minsky, H. (1986), *Stabilizing an Unstable Economy*, Yale University Press, London.)

¹¹ In comparative terms, the joint public and private debt in the period 1940-1984 never exceeded 167% of American GDP. Similarly, lending to households grew from 46% to 99% of GDP between 2000 and 2006, while the shadow banking sector grew dramatically, increasing the fragility of the financial system (See Greenwood, R. and Scharfstein, D. (2013), "The Growth of Finance," *Journal of Economic Perspectives*, 27, primavera 2012, pp. 3-28.)

¹² In Spain, José Luis Leal (*El País*, February 9, 2014), described the situation: "The crisis plaguing the Spanish economy is basically a debt crisis. The dramatic drop in interest rates resulting from creation of the Monetary Union, the race for market share of savings banks, and lax monetary regulation, were all to facilitate the rapid indebtedness of households and firms. Later, after the bursting of the housing bubble there remained a mass of debt to be paid and the long road to debt reduction began, on which we currently find ourselves."

monetary expansion and a fiscal activism that is rarely seen in other developed countries.¹³

The International Monetary Fund (IMF), in its latest analysis, praises the efforts of governments to underpin the weak growth in credit, which is seen as the prime cause of the disappointing recovery of the global economy.¹⁴ This weakness is attributed to two obstacles: the reluctance of banks to take further risks, and the resistance among businesses and families to take more loans. Cautiously, the IMF recommends measures aimed at strengthening the supply and demand of credit. Not without hesitation, there is a persistent inclination in the First-World to achieve recovery, not by the direct route of investment and employment but by the indirect way of stimulating credit, especially private credit.

It is therefore not surprising that countries like the United States simultaneously face politically difficult paths to implement counter-cyclical policies -like expanding public expenditure on investment- in order to spur recovery, while implementing budgetary consolidation programs and reductions of monetary stimuli.¹⁵ In fact, despite the intense ideological debates (recall the “fiscal cliff,” “the government paralysis,” “the critical dangers of deficits spending,” etc.), public expenditure in the United States has not increased nearly enough to speed-up recovery.¹⁶ Government spending, borrowing and deficits have soared as a result of the recessionary drop in tax revenue, the bailouts and the social spending needed to compensate for the recession itself. However, discretionary

¹³ In Mexico, the path of growth through credit expansion faced and continues to face insurmountable obstacles. A structural challenge is the low levels of consumption associated with the concentration of income and the exclusion of 60% of the workforce from the formal sector. Another obstacle derived from the collapse of the financial bubble in 1995 that led to the bankruptcy and government rescue of the banking sector, the first such bailout in the world. Since then, the economy had continued to suffer from a chronic shortage of credit, partly resulting from the contractionary policies of the Central Bank, despite the almost complete foreign ownership of banks. Between 1995 and 2012, the expansion of bank credit was below the rate of increase in nominal GDP. The real bank credit decreased on average by 2.5% between these years. The only exception is consumer credit --mainly credit cards-- that has seen its share climb from 5% to 22% of total bank loans in the same period, thanks to the extraordinary interest rates that are charged.

¹⁴ IMF (2013, October), *Global Financial Stability Report: Transition Challenges to Stability*, Washington.

¹⁵ The Federal Reserve is reducing its monthly purchases of government and private securities, that is, compressing monetary incentives to recovery. This is not occurring in either Japan or Europe. The Central European Bank has not yet placed limits on its injections of liquidity or support to national banks, nor has the Central Bank of Japan.

¹⁶ A conservative and critical view of the budgetary issue may be seen in Stockman, J. (2013), *The Great Deformation, The Corruption of Capitalism in America*, Public Affairs, New York.

spending on investment and other countercyclical objectives is still compressed, as evidenced comparing its historical figures of 9.5% of the average public budget for the period between 1962 and 2007 against 7.9% between 2008 and 2013.¹⁷

Against all odds, fiscal imbalances in the First World are in an advanced stage of adjustment (see Table 1), although deficits have not generated the predicted inflationary pressures. Between 2009 and 2013, fiscal imbalances of industrialized nations were reduced by 46%, in the U.S. 55%, and in the EU 52%. Only in Japan they were not reduced. The governmental debt of these countries continues to rise, but at declining rates; lower fiscal deficits prove the application of predominantly conservative policies, despite their social costs and the risk to fall into deflation. The fiscal consolidation undertaken by several of the leading industrialized countries has put the brakes on recovery. Besides, it does not solve another dilemma: efforts to boost employment by expanding credit are frustrated when businesses, families, and government remain saturated with liabilities or when more credit must be rejected for political reasons.

¹⁷ See Sachs, J. D. (2014), "Our Dangerous Budget and What to do About It," *New York Review of Books*, Vol. LXI, No. 2.

Table 1.- Fiscal Indicators of Industrialized Countries
(% of GDP)

Year	Net Total	Annual public borrowing			Gross government debt		
		U.S.	EU	Japan	U.S.	EU	Japan
1997-2006	-2.7	-1.6	-2.1	-6.2	60.1	70.1	153.6
2007	-2.0	-2.7	-0.7	-2.1	64.4	66.5	183.0
2008	-4.5	-6.5	-2.1	-4.1	73.3	70.3	191.8
2009	-10.0	-12.9	-6.4	-10.4	86.3	60.1	210.2
2010	-8.8	-10.8	-6.2	-9.3	95.2	85.7	216.0
2011	-7.6	-9.7	-4.2	-9.9	99.4	88.2	230.3
2012	-6.9	-8.3	-3.7	-10.1	102.7	93.0	238.0
2013 ^{1/}	-5.4	-5.8	-3.1	-9.5	107.3	95.7	243.5

^{1/}Projections

Source: International Monetary Fund (IMF)

The Export Strategy

Another group of countries has tried, with varying degrees of success, to grow by complementing domestic demand with exports. Like the paradigm of credit, this paradigm of outward growth eludes difficult issues on distribution and also becomes less relevant in the face of changing circumstances in the world, without offering responses to new and old criticisms.¹⁸

As Joan Robinson noted some time ago,¹⁹ on the demand side, export-based growth favors disloyal international practices, such as undervaluing the exchange rate, which affect competitors of the neo-mercantilist countries, i.e., exacerbating their problem of insufficient demand. On the other hand, this export strategy exaggerates competition between countries that, together with the high mobility of transnational firms to shift around their chains of production, can easily disrupt and even deindustrialize many

¹⁸ Countries have followed different paths to instrument their export strategies, but all of them subject internal social and growth policies to the demands of world competition.

¹⁹ Robinson, J. (1932), *Essays in the Theory of Employment*, Basil Blackwell, Oxford.

economies. At the same time, these competitive practices slowly lead to deterioration in the standards of employment, wages, labor rights, ecology, and distribution of income, to the detriment of essential political equilibrium.

Prebisch and Singer, observing the same issue from the supply side, noted that the international division of labor tends to shift the terms of trade against backward economies that specialize in supplying minimally processed products with low value added. Now, this phenomenon also covers trade in raw materials as well as many manufacturing products and some services.²⁰ More specifically, the fierce competition for markets and investment among developing regions is distorted by the huge market size and low wages of China, which block the production of exports to many other countries and concentrate international investment to its benefit. Thus, there emerge trends that multiply the historical inequalities of profit and growth between countries in the North and the South, with new disparities among developing countries, and that even some industrial countries are finding inescapable. These trends are all part and parcel of the imbalances that led to the Great Recession of 2008.

From another point of view, it has been noted that the assumptions of the outward growth model, along with the suppression of state intervention, runs counter to the historical experience of development. Indeed, from Germany to the United States, no country has undergone industrialization or become an exporter of high value-added manufacturing and high-tech goods without industrial policies and macroeconomic and microeconomic support actions.²¹ By way of illustration, China, like Japan, Korea or Taiwan, in opposition to the dictates of the Washington Consensus, has maintained industrial policies, discriminatory tariffs, subsidies, controlled exchange rates, protected plants and industrial centers, and special arrangements for technology transfer, among other interventionist measures, all of them designed to foster domestic production until competitiveness is achieved.

²⁰ Prebisch, R. (1950), *El desarrollo de América Latina y sus principales problemas*, CEPAL, Santiago de Chile; Singer, H. (1950), "The Distribution of Gains between Investing and Borrowing Countries," *American Economic Review: Papers and Proceedings* 40 (2), pp. 473-485; see also, Lewis, A. (1978), *The Evolution Of the International Economic Order*, Shumpeter Lectures, Princeton University Press.

²¹ Chang, H. J. (2012), *Kicking Away the Ladder: Development Strategy in Historical Perspective*, Anthem Press, London.

In short, since the development of Keynesian economics, questions, now validated by recent experience, have been raised about market liberalization. These questions are related to the tensions between the demands of globalized trade and the economic autonomy²² of countries to satisfy their own objectives (employment, growth, equality). Likewise, imbalances were anticipated in the distribution of benefits and costs resulting from free trade among countries or between capital and labor, problems that are currently plaguing all nations regardless of their level of development. At the bottom of it lie complex issues of global governance that are well beyond the narrow legal framework of international organizations, such as the UN Security Council, the World Trade Organization, or the recently-created multilateral forums.

Moreover, the paradigm of export-based globalization rests on assumptions that are slowly losing relevance. The first assumption was the existence of robust expanding markets in industrialized nations that would allow the transfer of production to other countries. The actual result is that the First-World transnational corporation have benefited from the use of cheap labor and inputs from the periphery in the consolidation of productive chains of wide scope -underpinned by stable rules of international behavior observed by all. The second assumption relied on the expansion of financial institutions, also First World, for the funding of free trade, global commodity chains, mergers and acquisitions, so that those institutions ultimately become the economic hub of globalization itself.

With economic recession simultaneously occurring in the United States, Europe, and Japan, the first assumption is no longer fully met, sharpened by the massive geographic displacement of investments and supply centers.²³ Furthermore, the production shifts have negatively affected the balance of payments of several advanced economies, mainly the United States, and created disparities in the evolution of countries.

The second assumption has also been weakened. The trigger of the crisis lay in the lack of the domestic and international regulations necessary to contain excessive growth and speculation in the financial sectors. Today, stricter systems of regulation, less prone

²² Polanyi drew attention to the opposition between the demands of market expansion --now even more urgent since they are global markets-- and the demands of fairness and justice for the population (Polanyi, K. (1943), *The Great Transformation*, Beacon Press (2001), New York.

²³ Mandelbaum, M. (2014), "Can America Keep its Global Role?" *Current History*, Vol. 113, No. 759, pp. 6-7.

to speculation, are either anticipated or are in the course of being set up. These systems will somewhat limit the freedom and preeminence of financial institutions, but will not suppress the endogenous propensity of the banking sector to become unstable.²⁴

Meanwhile, deindustrialization, deficits in balance of payments or smaller surpluses in industrialized zones are eroding the sources of financial power. Between 2000 and 2012, according to the IMF, the joint international reserves of the United States, Europe and Japan have fallen from 32% to 15% of the world total, while those of China, Macao and Hong Kong have risen from 14% to 33% and those of the oil-exporting countries from 7% to 15%. For a time, the lower savings surpluses in the First World have been counterbalanced by recirculating surpluses generated in China and other Asian countries. Ultimately, however, this weakens the foundations of the old global financial system and alters the direction of the international flows of savings and investment.²⁵

As a net result of the shrinking of many economies and the consequences of the above mentioned problems, international trade has not recovered to the rate of expansion seen between 1987 and 2008 (7% a year), and has instead fallen to less than half (3% between 2008 and 2013; see Table 2). It is possible that this rate will pick up in the future, but it will be difficult to reach the dynamism of the early decades of globalization, and offer a route free of forceful obstacles to the export strategies.²⁶

²⁴ Ibarra, D. (2013), "La regulación financiera," *El Universal*, March 25.

²⁵ This does not mean a shift in dominance of the United States financial market. There is no other market with the same depth and liquidity as Wall Street. In this regard it is worth noting the impact on the exchange rates of emerging countries (Argentina, Turkey, Brazil, etc.) attributable to the reduction of monthly purchases of securities ("quantitative easing") by the United States Federal Reserve and other measures in the attempt to preclude the return of funds to the U.S. market.

²⁶ Since joining the GATT (now WTO) and signing the North American Free Trade Agreement and many other similar agreements, Mexico attempted to pursue the strategy of outward growth. However, unlike other exporting economies it has not managed to achieve surpluses in its foreign trade transactions. Indeed, if we take 1995 as a benchmark, exports have grown a great deal (an average rate of nearly 9% per year between 1995 and 2012), but purchases of goods abroad have increased even faster. On the other hand, cycles in the world economy generate significant instabilities within the country. For example, in the period between 1995 and 1999, exports and imports grew an average of between 14% and 18% per year, while in the following period (1999 and 2003), they fell between 3% and 4% per year. They grew once again between 2003 and 2007 by 12% or 13%, and then fell by half with the global recession of 2008.

Table 2.-Global trade

PERIOD	GROWTH RATE
	%
1987-1998	6.7
1998-2007	5.4
2007-2013	3.4
2008-2013	2.7

Source: International Monetary Fund (several issues), *World Economic Outlook*, Washington.

However, the number of countries pursuing export strategies has not decreased. Indeed, due to economic or political reasons, more and more countries are embracing such policies, and at the same time, compressing foreign purchases as much as possible. This leads to a dangerous composition fallacy when the majority of nations are seeking to sell and simultaneously avoid buying. The European Union stubbornly insists on applying export models to all its member countries once the expansion of credit in its peripheral economies is exhausted. Thus, the southern European nations, prevented from depreciating their currencies because they are in the euro zone, are forced to impose painful internal devaluation policies -compressing wages, social rights, raising taxes and accepting high unemployment- in the attempt to recover international competitiveness and substitute the earlier creditism strategy.²⁷ It should therefore come as no surprise that national economies remain fragile, while the concentration of income deepens.

From the perspective of emerging economies, it is clear that the policies and problems of the First World linked with those of national character, are creating a Keynesian situation of insufficient demand, reflected in the declining pace of economic growth in China, India, Brazil, Russia, South Africa, Turkey, which not so long ago were the second significant center of global prosperity. Indeed, the ties of interdependence

²⁷ However, to the extent that internal devaluations or increasing productivity are successful, they will induce the euro revaluation.

created by globalization, amplify the depressive effects of the crisis, and make it harder to find cooperative solutions.

Whether we like it or not, there are prevailing political views that hinder the achievement of a more stable and fair world. The United States after more than 20 years of having deficits in its balance of payments still promotes the paradigm of international free trade. Nevertheless, reality is catching up. Today, the United States has abandoned unrestricted multilateralism in favor of bilateralism and regionalism, in an attempt to create zones of influence, shore up its companies, and isolate its competitors. Once again, the world is fragmenting into economic blocs with divergent interests.

These realities explain the proliferation of bilateral agreements and the two most significant and recent U.S. initiatives. The Trans-Pacific Partnership encompasses more than a dozen countries, including Japan but excluding China, in a third-generation free trade regime that suppresses domestic regulations, and incorporates issues not included in previous agreements, such as intellectual property rights, labor, and environment regulations.²⁸ The second initiative, the Transatlantic Trade and Investment Partnership between the United States and Europe, aims to suppress non-tariff barriers in services, to harmonize regulatory standards, to exchange trade concessions, and to rejuvenate the economic power of the West.

As in the case of fiscal corrections, the balance of payments of the First World is improving (see Table 3). The United States has reduced its external deficit from 4.9% (2008) to 2.7% of GDP (2012), gradually abandoning the role of importer of last resort. The European Union went from having an exceptional deficit of \$97 billion dollars in 2008 to a surplus of \$227 billion in 2012, mainly generated by Germany. Japan has continued to show positive external balances and through audaciously devaluing its currency seeks to revive its export inclination. It can be inferred that the industrialized nations are following policies that directly or indirectly encourage exports or limit imports, even resorting to internal or external devaluations, reductions in the rate of economic growth or implementing import substitution policies in order to balance their

²⁸ See Stiglitz, J. (2014), "On the Wrong Side of Globalization," *The New York Times*, March 15; Ibarra, D. (2012), "La erosión del orden neoliberal del mundo," *CEPAL-México, Serie Estudios y Perspectivas* No. 145, Mexico.

foreign accounts despite the negative effects on world free trade. The aim is not only to recover lost ground in trade but also to regenerate the world's savings surpluses.

Table 3.-Current accounts of industrialized countries
Billions of dollars and % of GDP

Year	Total		U.S.		EU		Japan	
	Dlls.	%	Dlls.	%	Dlls.	%	Dlls.	%
1990	-110.7		-94.7	(-1.7)	-31.1	1/	35.8	(1.2)
1995			-148.2		-54.0	1/	111.4	
2000	-262.0	(-1.1)	-416	(-5.6)	37.0	(0.5)	119.6	(2.5)
2005	372.9	(-1.1)	-739.8	(-5.8)	50.3	(0.5)	116.1	(3.6)
2006	-421.0	(-1.0)	-798.5	(-4.9)	53.9	(0.5)	170.9	(3.9)
2007	-316.5	(-0.8)	-713.4	(-4.6)	46.4	(0.4)	212.1	(4.9)
2008	-480.4	(-1.1)	-681.3	(-4.8)	-96.5	(-0.7)	159.9	(3.3)
2009	-58.2	(-0.1)	-381.6	(-2.6)	30.5	(0.2)	146.16	(2.9)
2010	-12.9	(0)	-449.5	(-3.0)	71.8	(0.6)	204.0	(3.7)
2011	-54.7	(-0.1)	-457.7	(-2.9)	92.7	(0.7)	119.3	(2.0)
2012	-36.9	(-0.1)	-440.4	(-2.7)	227.0	(1.9)	60.4	(1.0)

Source: IMF (various issues) *World Economic Outlook*, Washington.

1/ European Union

General Outlook and Conclusions

All of the above is reflected in the figures shown in Table 4. The period between 1950 and 1973 was a time of world economic boom that brought together democratic aspirations, egalitarian ideals, and economic paradigms that advocated full employment and growth as key priorities. Back then the world economy grew at an annual rate close to 5%. In Europe, growth stood at a similar rate. In Japan, the rate was exceptional at 9%. In the U.S., the growth rate was almost 4% while in Mexico it was 6%. Subsequently development and employment fell, and instead of becoming well distributed, income became concentrated. Between 1973 and 2012, global rates of growth contracted by 35% as compared to the period between 1950 and 1973: in the U.S. the negative figure was 33%, in Europe and Japan, it was over 70%, and in Mexico, it was 44%. The continuing rise of China was not enough to compensate for the lost of economic world momentum.

Table 4.- Actual rates of growth of GDP

Period	World	U.S.	Europe	Japan	Germany	China	Mexico
1950-1973 1/	4.91	3.91	4.81	9.29	5.68	4.92	6.37
1973-2003 1/	3.17	2.94	2.19	2.62	1.72	7.34	4.32
2004-2012 2/	3.90	1.71	0.51	0.81	1.52	10.55	2.72
1973-2012 3/	3.20	2.61	1.78	2.18	1.64	7.81	3.58

1/ Base figures from A. Maddison, *The World Economy*, OECD, Paris.

2/ Base figures from the IMF.

3/ The results emerge from the combination of the two sources that respond to distinct methodologies.

The data shows unfavorable trends in the global economy, marked by the exhaustion of creditism and exports as paradigms of growth. Today, it is striking to observe recurring instabilities,²⁹ proliferation of conflicts and unequal distributions of the benefits of trade. The conclusion seems inescapable: free markets, as they have been conceived up to now, do not put an end to repetitive crises, but lead to poorer results in terms of social welfare as compared to those of the previous international order, if China and a few other countries are excluded from the comparison. Nevertheless, without nostalgia, we must admit that history cannot be reversed. It will henceforth be necessary to design paradigms that could recover the old priorities of employment and democracy, but now on a universal scale.³⁰ Otherwise, the world would need to anachronously rebuild national borders, an impossible turn back in history..

²⁹ For illustrative purposes, unlike the quiet period between 1940 and 1960, the Federal Reserve of the United States has had to intervene repeatedly to prevent or correct serious financial instabilities in 1966, 1970, 1974-1975, 1979-1980, 1982-1992, 2000-2001, and 2008-2009.

³⁰ According to Hyman Minsky, "There is a need for rethinking the system of intervention into capitalist economies that has evolved out of the New Deal Structure... In particular, there is a need to make full employment the main goal of economic policy, mainly because a full employment economy is supportive of democracy..." (See, Minsky, H. (1996), "Uncertainty and the Institutional Structure of Capitalist Economies," *Working Paper* No. 155, Levy Economics Institute of Bard College, New York.

In summary, creditism and exports are the two principal economic policies aimed at managing growth within the context of globalization, and avoiding the thorny issues of income distribution and employment. For a time, both paradigms improved the standards of living in some countries, or at least the feeling of well being of the middle classes in other countries. In fact, the actual priorities favored business leaders, especially in the financial sector. In the long term, however, the credit paradigm led industrialized economies to fall into the liquidity trap and the export paradigm undermined the growth of globalization. The first strategy involved replacing the multiplying effects of investment and employment with the simple expansion of credit --especially consumer and public credit--, in order to support demand and business profits, and use imports to fill the gap resulting from the shortness of production (as seen in the U.S., Spain, Mexico, and Greece) and contain inflation and wage demands. The second strategy took advantage of globalized exports to cover the lack of sufficient domestic demand, wages and employment through external sales that used the purchasing power of the rest of the world (as in Germany, China and South Korea).

The obsession to maintain both strategies hinders prompt solutions to the global and domestic recessions and foreshadows a long period of semi-stagnant growth. Both strategies are affected by compositional fallacies that, in the best possible case, might help a few fortunate countries, but would aggravate imbalances in others. Moreover, both strategies are grounded in the alliance between governments and world business leaders, jeopardizing the political representation of the national democratic systems.

Whether we like it or not, the likelihood of a global speedy recovery is subject to uncertainties. Though the U.S. economy has advanced the furthest towards ending the recession, it still faces relapses in growth and political obstacles to combine ideological, monetary, regulatory, and fiscal actions to boost employment and redistribute income. Also, on a global level, the United States may have lost the power to induce global prosperity, along with the ability to influence the restructuring of a better global economic order. Europe stubbornly adheres to export strategies, and is barely gaining a fragile and unequal recovery. It has been far from successful in implementing policies appropriate both to the impoverished economies of the South and to the more robust economies of the North. Likewise, it faces the risk of falling into deflationary processes and also failing to secure complex structural reforms, such as the banking union and the

harmonization of fiscal policies. In short, recovery in Europe depends on German willingness to encourage domestic consumption to finance the EU's more backwards economies, and to restructure damaged welfare states.

Elements of uncertainty remain in Japan. These are mainly related to the outcome of combining fiscal spending with monetary stimuli to combat deflation and to recover strong exports, even by means of devaluations. China is confronting extremely complex choices; it seems to be forced to base its growth less in exports and more in domestic demand, as it is doing despite the recent inversion of the cycle of revaluation of the yuan. Further it has to maintain difficult social balances, highly dependent on the rate of growth and to consolidate its position in the world manufacturing, export, and finance sectors. At present, it is already experiencing descending economic growth, though would likely maintain its considerable global economic leadership.³¹

Most emerging economies, such as India, Brazil, South Africa, Argentina, Turkey and Mexico, will need to adapt to harsher conditions in external trade and international finance, due to the reprioritizing of policies by First World governments and their central banks. In particular, they will face displacement of capital flows and arise in international interest rates, combined with a weakening global demand for raw materials. These phenomena are already depressing their development, forcing them to devalue their currencies, to raise interest rates, accept higher inflation and to compress their international trades.

In this complex environment, countries strive to take care of themselves and if possible transfer the cost of the global economic adjustment to others.³² The path of fiscal and balance of payments adjustments undertaken by the First World will certainly deteriorate the outlook for emerging economies, and will increase the sacrifices that will have to be made. Meanwhile, countries of the size of China or India are highly likely to adopt defensive measures that have the potential to generate costs to other nations.

In short, the world is at a parting of the waters. There are forces, pushing for a return to almost the same economic system of the recent past, in front of widespread aspirations -albeit devoid of political power- to achieve something substantially better

³¹ See Navarrete, J. (2014), "China: Motor o Freno del Crecimiento Global," a forthcoming publication in *Revista Economía UNAM*, Mexico.

³² See Rickards, J. (2011), *Currency Wars, The Making of the Next Global Crisis*, Penguin.

that provides universal security and progress. It would be naive to expect a fast, let alone homogenous, global economic and social recovery. There are too many open fronts, and very powerful interests involved, so solutions would face inevitable delays, slow advances, and even setbacks. The obstacles and political disputes will take time to disappear since they are rooted in the divergent interests and aspirations of different countries and regions, making it difficult to bring them into cooperative strategies. We will have to wait for the appearance of favorable conditions among the leading powers in order to create new universal paradigms that later on would extend to other countries. Meanwhile, there is a high probability that the world will become subdivided into blocs with discordant visions and that the adjustment costs of the global crisis will disproportionately impact the countries with weakest economies. A third scenario, not entirely unfeasible, would be to fall back into another global crisis that will force the world to overcome the prevailing lethargy in making decisions, even though it would multiply the social costs yet to be paid.

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