Economic Depression and the New World Order: Global Poverty in the late 20th Century

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Author's Note

This article first published in the Journal of International Affairs (Columbia University), Vol. 52, no. 1 (Fall 1998). anticipates many of the changes in the global economy which have occurred in recent years including the impoverishment and thirdworldization of the developed countries. The text of this article was posted on globalresearch.ca in January 2002 with the following introductory note which addresses the economic crisis at the outset of the post 911 era.

Michel Chossudovsky, May 2013

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Introduction

The onslaught of America's war is occurring at the height of a global economic depression marked by the downfall of State institutions, mounting unemployment, the collapse in living standards in all major regions of the World, including Western Europe and North America and the outbreak of famines over large areas. This depression is far more serious than that of the 1930s. Moreover, the war has not only unleashed a massive shift out of civilian economic activities into the military-industrial complex, it has also accelerated the demise of the Welfare State in most Western countries.

War and globalisation are intimately related processes. The global economic crisis (which preceded the events of September 11) has its roots in the New World Order "free market" reforms. Since the 1997 "Asian crisis", financial markets have plummeted, national economies have collapsed one after the other, entire countries (e.g. Argentina and Turkey) have been taken over by their international creditors precipitating millions of people into abysmal poverty.

"The post-September 11 crisis" in many regards announces both the demise of Western social democracy as well as the end on an era. The legitimacy of the global "free market" system has been reinforced, opening the door to a renewed wave of deregulation and privatisation, which could eventually result in the corporate take-over of all public services and State infrastructure (including electricity, municipal water and sewerage, inter-city

highways, etc.).

Moreover, in the US and Great Britain, but also in most countries of the European Union, the legal fabric of Western societies has also been overhauled. Based on the repeal of the rule of law, the foundations of an Authoritarian State apparatus have emerged with little or no organised opposition from the mainstay of civil society. Without debate or discussion, "the war on terrorism" against so-called "rogue states" is deemed necessary to "protect democracy" and enhance domestic security.

A collective understanding of the war based on history, has been replaced by the need to "combat evil" and "hunt down Osama". These "buzz-words" are part of a carefully designed propaganda campaign. The ideology of the "rogue state" developed by the Pentagon during the 1991 Gulf war, constitutes a new legitimacy, a justification for waging a "humanitarian war" against countries which do not conform to the New World Order and the tenets of the "free market" system.

While a worldwide economic depression looms, Washington, Wall Street and the Western media point in chorus to a "cyclical downturn" attributable to "market uncertainties" resulting from the September 11th terrorist attacks.

This article first published in 1998 in the Journal of International Affairs, examines the inner causes of the global depression. Part of this analysis is also contained in my book, The Globalization of Poverty and ther New World Order, Second Edition, Global Research, Montreal, 2003.

M . C., 25 January 2002

THE GLOBALIZATION OF POVERTY

The late 20th century will go down in world history as a period of global impoverishment marked by the collapse of productive systems in the developing world, the demise of national institutions and the disintegration of health and education programs. This "globalization of poverty"–which has largely reversed the achievements of post-war decolonization–was initiated in the Third World coinciding with the onslaught of the debt crisis. Since the 1990s, it has extended its grip to all major regions of the world including North America, Western Europe, the countries of the former Soviet block and the Newly Industrialized Countries (NICs) of South East Asia and the Far East.

In the 1990s, famines at the local level have erupted in sub-Saharan Africa, South Asia and parts of Latin America; health clinics and schools have been closed down; hundreds of millions of children have been denied the right to primary education. In the Third World, Eastern Europe and the Balkans, there has been a resurgence of infectious diseases including tuberculosis, malaria and cholera.

IMPOVERISHMENT — AN OVERVIEW

Famine Formation in the Third World

From the dry savannah of the Sahelian belt, famine has extended its grip into the wet tropical heartland. A large part of the population of the African continent has been affected: 18 million people in Southern Africa (including 2 million refugees) are in "famine zones" and another 130 million in 10 countries are seriously at risk.(1) In the Horn of Africa, 23 million people (many of whom have already died) are “in danger of famine” according to a United Nations estimate.(2)

In the post-independence period extending through the 1980s, starvation deaths in South Asia had largely been limited to peripheral tribal areas. But in India today, there are indications of widespread impoverishment among both the rural and urban populations following the adoption of the 1991 New Economic Policy under the stewardship of the Bretton Woods institutions. More than 70 percent of rural households in India are small marginal farmers or landless farm workers, representing a population of over 400 million people. In irrigated areas, agricultural workers are employed for 200 days a year and in rain-fed farming for approximately 100 days. The phasing out of fertilizer subsidies–an explicit condition of the International Monetary Fund (IMF) agreement–and the increase in the prices of farm inputs and fuel is pushing a large number of small- and medium-sized farmers into bankruptcy.

A micro-level study conducted in 1991 on starvation deaths among handloom weavers in a relatively prosperous rural community in Andhra Pradesh sheds light on how local communities have been impoverished as a result of macroeconomic reform. The starvation deaths occurred in the months following the implementation of the New Economic Policy: with the devaluation and the lifting of controls on cotton yarn exports, the jump in the domestic price of cotton yarn led to a collapse in the pacham (24 meters) rate paid to the weaver by the middle-man (through the putting-out system).

“Radhakrishnamurthy and his wife were able to weave between three and four pachams a month, bringing home the meagre income of 300 to 400 rupees (U.S.$12 to 16) for a family of six; then came the Union Budget of 24 July 1991, the price of cotton yarn jumped and the burden was passed on to the weaver. Radhakrishnamurthy’s family income declined to Rs. 240-320 a month (U.S.$9.60 to 13.00).”(3)

Radhakrishnamurthy of Gollapalli village in Guntur district died of starvation on 4 September 1991. Between 30 August and 10 November 1991, at least 73 starvation deaths were reported in only two districts of Andhra Pradesh.(4) There are 3.5 million handlooms throughout India supporting a population of some 17 million people.

Economic “Shock Therapy” in the former Soviet Union

When assessing the impact on earnings, employment and social services, the post-Cold War economic collapse in parts of eastern Europe appears to be far deeper and more destructive than that of the Great Depression. In the former Soviet Union (starting in early 1992), hyperinflation triggered by the downfall of the ruble contributed to rapidly eroding real earnings. Economic “shock therapy” combined with the privatization program precipitated entire industries into immediate liquidation, leading to lay-offs of millions of workers.

In the Russian Federation, prices increased one hundred times following the initial round of macroeconomic reforms adopted by the Yeltsin government in January 1992. Wages, on the other hand, increased tenfold. The evidence suggests that real purchasing power plummeted by more than 80 percent in the course of 1992.(5)

The reforms have dismantled both the military-industrial complex and the civilian economy. Economic decline has surpassed the plunge in production experienced in the Soviet Union at the height of the Second World War, following the German occupation of Byelorussia and parts of the Ukraine in 1941 and the extensive bombing of Soviet industrial infrastructure. The Soviet gross domestic product (GDP) had by 1942 declined by 22 percent in relation to pre-war levels.(6) In contrast, industrial output in the former Soviet Union plummeted by 48.8 percent and GDP by 44.0 percent between 1989 and 1995, according to official data, and output continues to fall.(7) Independent estimates, however, indicate a substantially greater drop and there is firm evidence that official figures have been manipulated.(8)

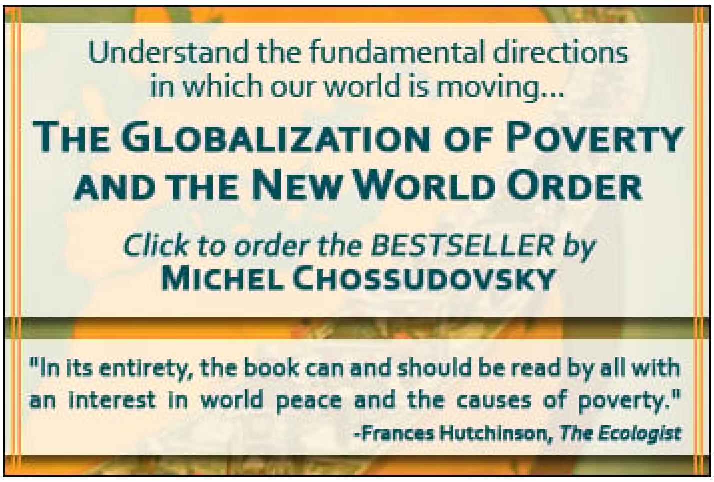
While the cost of living in eastern Europe and the Balkans was shooting up to western levels as a result of the deregulation of commodity markets, monthly minimum earnings were as low as ten dollars a month. "In Bulgaria, the World Bank and the Ministry of Labor and Social Assistance separately estimated that 90 percent of Bulgarians are living below the poverty threshold of U.S.$4 a day."(9) Old age pensions in 1997 were worth two dollars a month,(10) Unable to pay for electricity, water and transportation, population groups throughout the region have been brutally marginalized from the modern era.

Poverty and Unemployment in the West

Already during the Reagan-Thatcher era, but more significantly since the beginning of the 1990s, harsh austerity measures are gradually contributing to the disintegration of the welfare state. The achievements of the early post-war period are being reversed through the derogation of unemployment insurance schemes, the privatization of pension funds and social services and the decline of social security.

With the breakdown of the welfare state, high levels of youth unemployment are increasingly the source of social strife and civil dissent. In the United States, political figures decry the rise of youth violence, promising tougher sanctions without addressing the roots of the problem. Economic restructuring has transformed urban life, contributing to the "thirdworldization" of western cities. The environment of major metropolitan areas is marked by social apartheid: urban landscapes have become increasingly compartmentalized along social and ethnic lines. Poverty indicators such as infant mortality, unemployment and homelessness in the ghettos of American (and increasingly European) cities are in many respects comparable to those prevailing in the Third World.

Demise of the "Asian Tigers"



More recently, speculative movements against national currencies have contributed to the destabilization of some of the world's more successful "newly industrialized" economies (Indonesia, Thailand, Korea), leading virtually overnight to abrupt declines in the standard of living.

In China, successful poverty alleviation efforts are threatened by the impending privatization or forced bankruptcy of thousands of state enterprises and the resulting lay-offs of millions of workers. The number of workers to be laid off in state industrial enterprises is estimated to be on the order of 35 million.(11) In rural areas, there are approximately 130 million surplus workers.(12) This process has occurred alongside massive budget cuts in social programs, even as unemployment and inequality increase.

In the 1997 Asian currency crisis, billions of dollars of official central bank reserves were appropriated by institutional speculators. In other words, these countries are no longer able to “finance economic development” through the use of monetary policy. This depletion of official reserves is part and parcel of the process of economic restructuring leading to bankruptcy and mass unemployment. In other words, privately held capital in the hands of “institutional speculators” far exceeds the limited reserves of Asian central banks. The latter acting individually or collectively are no longer able to fight the tide of speculative activity.

GLOBAL FALSEHOODS

Distorting Social Realities

The increasing levels of global poverty resulting from economic restructuring are casually denied by G7 governments and international institutions (including the World Bank and the IMF); social realities are concealed, official statistics are manipulated, economic concepts are turned upside down. In turn, public opinion is bombarded in the media with glowing images of global growth and prosperity. As expressed in one Financial Times article, “Happy days are here again … a wonderful opportunity for sustained and increasingly global economic growth is waiting to be seized.”(13)

The world economy is said to be booming under the impetus of “free market” reforms. Without debate or discussion, so-called “sound macroeconomic policies” (meaning the gamut of budgetary austerity, deregulation, downsizing and privatization) are heralded as the key to economic success. In turn, both the World Bank and the United Nations Development Programme (UNDP) assert that economic growth in the late 20th century has contributed to a remarkable reduction in the levels of world poverty.

Defining Poverty at “A Dollar a Day”

The World Bank framework departs sharply from established concepts and procedures for measuring poverty.(14) It arbitrarily sets a “poverty threshold” at one dollar a day, labeling population groups with a per capita income above one dollar a day as “nonpoor.”

This subjective and biased assessment is carried out irrespective of actual conditions at the country level.(15) With the liberalization of commodity markets, the domestic prices of basic food staples in developing countries have risen to world market levels. The one dollar a day standard has no rational basis: population groups in developing countries with per capita incomes of two, three or even five dollars remain poverty stricken (i.e. unable to meet basic expenditures on food, clothing, shelter, health and education).

Arithmetic Manipulation

Once the one dollar a day poverty threshold has been set, the estimation of national and global poverty levels becomes an arithmetic exercise. Poverty indicators are computed in a mechanical fashion from the initial one dollar a day assumption. The data is then tabulated in glossy tables with forecasts of declining levels of global poverty into the 21st century

These forecasts of poverty are based on an assumed rate of growth of per capita income; growth of the latter implies pari passu a corresponding lowering of the levels of poverty For instance, according to the World Bank's calculations, the incidence of poverty in China should decline from 20 percent in 1985 to 2.9 percent by the year 2000.(16) Similarly, in the case of India (where according to official data more than 80 percent of the population (1996) have per capita incomes below one dollar a day), a World Bank "simulation" (which contradicts its own "one dollar a day" methodology) indicates a lowering of poverty levels from 55 percent in 1985 to 25 percent in the year 2000.(17)

The entire framework built on the one dollar a day assumption is tautological; it is totally removed from an examination of real life situations. No need to analyze household expenditures on food, shelter and social services; no need to observe concrete conditions in impoverished villages or urban slums. In the World Bank framework, the "estimation" of poverty indicators has become a numerical exercise.

The UNDP Framework

While the UNDP Human Development Group has in previous years provided the international community with a critical assessment of key issues of global development, the 1997 Human Development Report devoted to the eradication of poverty conveys a viewpoint similar to that advanced by the Bretton Woods institutions. According to the UNDP, "the progress in reducing poverty over the 20th century is remarkable and unprecedented…. The key indicators of human development have advanced strongly."(18) The UNDP's "human poverty index" (HPI) is based on "the most basic dimensions of deprivation: a short life span, lack of basic education and lack of access to public and private resources."(19)

Based on the above criteria, the UNDP Human Development Group comes up with estimates of human poverty which are totally inconsistent with country-level realities. The HPI for Colombia, Mexico and Thailand, for instance, is around 10 to 11 percent (see Table 1). The UNDP measurements point to achievements in poverty reduction in sub-Saharan Africa, the Middle East and India which are totally at odds with national estimates of poverty.

The human poverty estimates put forth by the UNDP portray an even more distorted and misleading pattern than those of the World Bank. For instance, only 10.9 percent of Mexico's population is categorized by the UNDP as "poor." Yet this estimate contradicts the situation observed in Mexico since the early 1980s: a collapse in social services, the impoverishment of small farmers and a massive decline in real earnings triggered by successive currency devaluations. According to one report:

[R]eal income [in Mexico] fell between 1982 and 1992 [following the adoption of IMF prescriptions]. Infant deaths due to malnutrition tripled.The real minimum wage lost over half its value; and the percentage of the population living in poverty increased from just under one-half to about two-thirds of Mexico's 87 million people.(20) A recent OECD study confirms unequivocally the mounting tide of poverty in Mexico since the signing of the North American Free Trade Agreement (NAFTA).(21)

Table 1. The UNDP Human Poverty Index Selected Developing Countries (in percent)

Country	
Trinidad and Tobago	4.1
Mexico	10.9
Thailand	11.7
Colombia	10.7
Philippines	17.7
Jordan	10.9
Nicaragua	27.2
Jamaica	12.1
Iraq	30.7
Rwanda	37.9
Papua New Guinea	32.0
Nigeria	41.6
Zimbabwe	17.3

Source: Human Development Report 1997, table 1.1, p. 21

Double Standards in the "Scientific" Measurement of Poverty

Double standards prevail in the measurement of poverty The World Bank's one dollar a day criterion applies only to "developing countries." Both the Bank and the UNDP fail to acknowledge the existence of poverty in Western Europe and North America. Moreover, the one dollar a day standard contradicts established methodologies used by western governments and intergovernmental organizations to define and measure poverty in "developed countries."

In the West, methods for measuring poverty have been based on minimum levels of household spending required to meet essential expenditures on food, clothing, shelter, health and education. In the United States, for instance, the Social Security Administration (SSA) in the 1960s set a "poverty threshold" which consisted of "the cost of a minimum adequate diet multiplied by three to allow for other expenses." This measurement was based on a broad consensus within the U.S. Government.(22) The U.S. "poverty threshold" for a family of four (two adults and two children) in 1996 was U.S.$16,036. This figure translates into a per capita income of U.S.$11 a day (compared to the one dollar a day criterion of the World Bank used for developing countries). In 1996, 13.1 percent of the U.S. population and 19.6 percent of the population in central cities of metropolitan areas were below the poverty threshold.(23)

Neither the UNDP nor the World Bank undertakes comparisons in poverty levels between “developed” and “developing” countries. Comparisons of this nature would no doubt be the source of “scientific embarrassment,” as the poverty indicators presented by both organizations for Third World countries are in some cases of the same order of magnitude as (or even below) the official poverty levels in the United States, Canada and the European Union. In Canada, which occupies the first rank among all nations according to the same 1997 Human Development Report published by the UN, 17.4 percent of the population is below the national poverty threshold, compared to 10.9 percent for Mexico and 4.1 percent for Trinidad and Tobago, according to UNDP’s HPI.(24)

Table 2. Poverty in Selected Developed Countries, by National Standards

Country Poverty Level (in percent)

United States (1996)(*) 13.7

Canada (1995)(**) 17.8

United Kingdom (1993)(***) 20.0

Italy (1993)(***) 17.0

Germany (1993)(***) 13.0

France (1993)(***) 17.0

Source: (*) U.S. Census Bureau

(**) Center for International Statistics, Canadian Council on Social Development

(***) European Information Service

Conversely, if the U.S. Bureau of Census methodology (based on the cost of meeting a minimum diet) were applied to the developing countries, the overwhelming majority of the population would be categorized as “poor.” While this exercise of using “Western standards” and definitions has not been applied in a systematic fashion, it should be noted that with the deregulation of commodity markets, retail prices of essential consumer goods are not appreciably lower than in the United States or Western Europe. The cost of living in many Third World cities is higher than in the United States. Moreover, household budget surveys for several Latin American countries suggest that at least 60 percent of the population in the region does not meet minimum calorie and protein requirements. In Peru, for instance, according to household census data, 83 percent of the Peruvian population was unable to meet minimum daily calorie and protein requirements following the 1990 IMF sponsored “Fujishock.”(25) The prevailing situation in Sub-Saharan Africa and South Asia is more serious, where a majority of the population suffers from chronic undernourishment.

Poverty assessments by both organizations take official statistics at face value. They are largely office-based exercises conducted in Washington and New York with insufficient awareness of local realities. For example, the 1997 UNDP Report points to a decline of one third to one half in child mortality in selected countries of sub-Saharan Africa, despite declines in state expenditures and income levels. What it fails to mention, however, is that the closing down of health clinics and massive lay-offs of health professionals (often replaced by semi-illiterate health volunteers) responsible for compiling mortality data has resulted in a de facto decline in recorded mortality.

Vindicating the "Free" Market System

These are the realities which are concealed by the World Bank and UNDP poverty studies. The poverty indicators blatantly misrepresent country-level situations as well as the seriousness of global poverty. They serve the purpose of portraying the poor as a minority group representing some 20 percent of world population (1.3 billion people).

Declining levels of poverty including forecasts of future trends are derived with a view to vindicating free market policies and upholding the "Washington Consensus" on macroeconomic reform. The "free market" system is presented as the most effective means of achieving poverty alleviation, while the negative impact of macroeconomic reform is denied. Both institutions point to the benefits of the technological revolution and the contributions of foreign investment and trade liberalization, without identifying how these global trends might exacerbate rather than abate poverty.

THE CAUSES OF GLOBAL POVERTY

Global Unemployment: "Creating Surplus Populations" in the Global Cheap-Labor Economy (26)

The global decline in living standards is not the result of a scarcity of productive resources as in preceding historical periods. The globalization of poverty has indeed occurred during a period of rapid technological and scientific advance. While the latter has contributed to a vast increase in the potential capacity of the economic system to produce necessary goods and services, expanded levels of productivity have not translated into a corresponding reduction in levels of global poverty

On the contrary, downsizing, corporate restructuring and relocation of production to cheap labor havens in the Third World have been conducive to increased levels of unemployment and significantly lower earnings to urban workers and farmers. This new international economic order feeds on human poverty and cheap labor: high levels of national unemployment in both developed and developing countries have contributed to depressing real wages. Unemployment has been internationalized, with capital migrating from one country to another in a perpetual search for cheaper supplies of labor. According to the International Labor Organization (ILO), worldwide unemployment affects one billion people, or nearly one third of the global workforce.(27)

National labor markets are no longer segregated: workers in different countries are brought into overt competition with one another. Workers' rights are derogated as labor markets are deregulated. World unemployment operates as a lever which "regulates" labor costs at a world level. Abundant supplies of cheap labor in the Third World (e.g. China with an estimated 200 million surplus workers) and the former Eastern block contribute to depressing wages in developed countries. Virtually all categories of the labor force (including the highly qualified, professional and scientific workers) are affected, even as competition for jobs encourages social divisions based on class, ethnicity, gender and age.

Paradoxes of Globalization

Micro-Efficiency, Macro-Insufficiency

The global corporation minimizes labor costs on a world level. Real wages in the Third World and Eastern Europe are as much as seventy times lower than in the United States, Western Europe or Japan: the possibilities of production are immense given the mass of cheap impoverished workers throughout the world.(28)

While mainstream economics stresses efficient allocation of society's scarce resources, harsh social realities call into question the consequences of this means of allocation. Industrial plants are closed down, small and medium-sized enterprises are driven into bankruptcy, professional workers and civil servants are laid off and human and physical capital stand idle in the name of "efficiency." The drive toward an "efficient" use of society's resources at the microeconomic level leads to exactly the opposite situation at the macroeconomic level. Resources are not used "efficiently" when there remain large amounts of unused industrial capacity and millions of unemployed workers. Modern capitalism appears totally incapable of mobilizing these untapped human and material resources.

Accumulation of Wealth, Distortion of Production

This global economic restructuring promotes stagnation in the supply of necessary goods and services while redirecting resources toward lucrative investments in the luxury goods economy. Moreover, with the drying up of capital formation in productive activities, profit is sought in increasingly speculative and fraudulent transactions, which in turn tend to promote disruptions on the world's major financial markets.

In the South, the East and the North, a privileged social minority has accumulated vast amounts of wealth at the expense of the large majority of the population. The number of billionaires in the United States alone increased from 13 in 1982 to 149 in 1996. The "Global Billionaires Club" (with some 450 members) has a total worldwide wealth well in excess of the combined GDP of the group of low income countries with 5 6 percent of the world's population.(29)

Moreover, the process of wealth accumulation is increasingly taking place outside the real economy; divorced from bona fide productive and commercial activities. As noted in Forbes Magazine, "Successes on the Wall Street stock market [meaning speculative trade] produced most of last year's [1996] surge in billionaires."(30) In turn, billions of dollars accumulated from speculative transactions are funneled toward confidential numbered accounts in the more than 50 offshore banking havens around the world. The U.S. investment bank Merrill Lynch conservatively estimates the wealth of private individuals managed through private banking accounts in offshore tax havens at U.S.$3.3 trillion.(31) The IMF puts the offshore assets of corporations and individuals at U.S. $5.5 trillion, a sum equivalent to 25 percent of total world income.(32) The largely ill-gotten loot of Third World elites in numbered accounts is placed at U.S.$600 billion, with one-third of that held in Switzerland.(33)

Increased Supply, Reduced Demand

The expansion of output in this system takes place by "minimizing employment" and compressing workers' wages. This process in turn backlashes on the levels of consumer demand for necessary goods and services: unlimited capacity to produce, limited capacity to consume. In a global cheap labor economy, the very process of expanding output (through downsizing, layoffs and low wages) contributes to compressing society's capacity to consume. The tendency is therefore toward overproduction on an unprecedented scale. In other words, expansion in this system can only take place through the concurrent disengagement of idle productive capacity, namely through the bankruptcy and liquidation of "surplus enterprises." The latter are closed down in favor of the most advanced mechanized production. Entire branches of industry stand idle, the economy of entire regions is affected and only a part of the world's agricultural potential is utilized.

This global oversupply of commodities is a direct consequence of the decline in purchasing power and rising levels of poverty Oversupply contributes in turn to the further depression of the earnings of the direct producers through the closure of excess productive capacity. Contrary to Say's Law of Markets, heralded by mainstream economics, supply does not create its own demand. Since the early 1980s, overproduction of commodities leading to plummeting (real) commodity prices has wreaked havoc, particularly among Third World primary producers, but also (more recently) in the area of manufacturing.

Global Integration, Local Disintegration

In developing countries, entire branches of industry producing for the internal market are eliminated while the informal urban sector–which historically has played an important role as a source of employment creation–has been undermined as a result of currency devaluations and the liberalization of imports. In sub-Saharan Africa, the informal sector garment industry has been wiped out and replaced by the market for used garments, imported from the West at U.S.$80 dollars a ton.(34)

Against a background of economic stagnation (including negative growth rates recorded in Eastern Europe, the former Soviet Union and sub-Saharan Africa), the world's largest corporations have experienced unprecedented growth and expansion of their share of the global market. This process, however, has largely taken place through the displacement of preexisting productive systems, i.e. at the expense of local-level, regional and national producers. Expansion and profitability for the world's largest corporations is predicated on a global contraction of purchasing power and the impoverishment of large sectors of the world population.

Survival of the fittest: the enterprises with the most advanced technologies or those with command over the lowest wages survive in a world economy marked by overproduction. While the spirit of Anglo-Saxon liberalism is committed to "fostering competition," G-7 macroeconomic policy (through tight fiscal and monetary controls) has in practice supported a wave of corporate mergers and acquisitions as well as the bankruptcy of small- and medium-sized enterprises.

In turn, large multinational companies (particularly in the US and Canada) have taken control of local-level markets (particularly in the service economy) through the system of corporate franchising. This process enables large corporate capital ("the franchiser") to gain control over human capital, cheap labor and entrepreneurship. A large share of the earnings of small firms and/or retailers is thereby appropriated, while the bulk of investment outlays is assumed by the independent producer (the "franchisee").

A parallel process can be observed in Western Europe. With the Maastricht Treaty, the process of political restructuring in the European Union increasingly heeds to dominant financial interests at the expense of the unity of European societies. In this system, state power has deliberately sanctioned the progress of private monopolies: large capital destroys small capital in all its forms. With the drive toward the formation of economic blocks both in Europe and North America, the regional- and local-level entrepreneur is uprooted, city life is transformed, individual small scale ownership is wiped out. "Free trade" and economic integration provide greater mobility to the global enterprise while at the same time suppressing (through non-tariff and institutional barriers) the movement of small local-level capital.(35) "Economic integration" (under the dominion of the global enterprise), while displaying a semblance of political unity, often promotes factionalism and social strife between and within national societies.

THE ONGOING INTERNATIONALIZATION OF MACROECONOMIC REFORM

The Debt Crisis

The restructuring of the global economic system has evolved through several distinct periods since the collapse of the Bretton Woods system of fixed exchange rates in 1971. Patterns of oversupply started to unfold in primary commodity markets in the second part of the 1970s, following the end of the Vietnam War. The debt crisis of the early 1980s was marked by the simultaneous collapse of commodity prices and the rise of real interest rates. The balance of payments of developing countries was in crisis, and the accumulation of large external debts provided international creditors and "donors" with "political leverage" to influence the direction of country-level macroeconomic policy.

The Structural Adjustment Program

Contrary to the spirit of the Bretton Woods agreement of 1944, which was predicated on "economic reconstruction" and stability of major exchange rates, the structural adjustment program (SAP) has, since the early 1980s, largely contributed to destabilizing national currencies and ruining the economies of developing countries.

The restructuring of the world economy under the guidance of the Washington-based international financial institutions and the World Trade Organization (WTO) increasingly denies individual developing countries the possibility of building a national economy. The internationalization of macroeconomic policy transforms countries into open economic territories and national economies into "reserves" of cheap labor and natural resources. The state apparatus is undermined, industry for the internal market is destroyed, national enterprises are pushed into bankruptcy These reforms have also been conducive to the elimination of minimum wage legislation, the repeal of social programs and a general diminution of the state's role in fighting poverty.

"Global Surveillance"

The inauguration of the WTO in 1995 marks a new phase in the evolution of the post war economic system. A new "triangular division of authority" among the IMF, the World Bank and the WTO has unfolded. The IMF has called for more effective "surveillance" of developing countries' economic policies and increased coordination among the three international bodies, signifying a further infringement on the sovereignty of national governments.

Under the new trade order (which emerged from the completion of the Uruguay Round at Marrakesh in 1994), the relationship of the Washington-based institutions to national governments is to be redefined. Enforcement of IMF-World Bank policy prescriptions will no longer hinge upon ad hoc country-level loan agreements (which are not "legally binding" documents). Henceforth, many of the mainstays of the structural adjustment program (e.g. trade liberalization and the foreign investment regime) have been permanently entrenched in the articles of agreement of the WTO. These articles set the foundations for "policing" countries (and enforcing "conditionalities") according to international law.

The deregulation of trade under WTO rules combined with new clauses pertaining to intellectual property rights will enable multinational corporations to penetrate local markets and extend their control over virtually all areas of national manufacturing, agriculture and the service economy.

Entrenched Rights for Banks and MNCs

In this new economic environment, international agreements negotiated by bureaucrats under intergovernmental auspices have come to play a crucial role in the remolding of national economies. Both the 1997 Financial Services Agreement under the stewardship of the WTO and the proposed Multilateral Agreement on Investment under the auspices of the OECD provide what some observers have entitled a "charter of rights for multinational corporations."

These agreements derogate the ability of national societies to regulate their national economies. The Multilateral Agreement on Investment also threatens national-level social programs, job creation policies, affirmative action and community-based initiatives. In other words, it threatens to lead to the disempowerment of national societies as it hands over extensive powers to global corporations.

CONCLUSION

Ironically, the ideology of the "free" market upholds a new form of state interventionism predicated on the deliberate manipulation of market forces. Moreover, the development of global institutions has led to the development of "entrenched rights" for global corporations and financial institutions. The process of enforcing these international agreements at national and international levels invariably bypasses the democratic process. Beneath the rhetoric of so-called "governance" and the "free market," neoliberalism provides a shaky legitimacy to those in the seat of political power.

The manipulation of the figures on global poverty prevents national societies from understanding the consequences of a historical process initiated in the early 1980s with the onslaught of the debt crisis. This false consciousness has invaded all spheres of critical debate and discussion on the “free” market reforms. In turn, the intellectual myopia of mainstream economics prevents an understanding of the actual workings of global capitalism and its destructive impact on the livelihood of millions of people. International institutions including the United Nations follow suit, upholding the dominant economic discourse with little assessment of how economic restructuring backlashes on national societies, leading to the collapse of institutions and the escalation of social conflict.

NOTES

(1) See Food and Agricultural Organization of the United Nations, Food Supply Situation and Crop Prospects in Sub-Saharan Africa, Special Report, no. 1 (April 1993). While there are no data at a regional level, one can infer from country-level figures that at least a quarter of Sub-Saharan Africa’s population is at risk of famine. Ten million peasants in the Sertao region of Northeast Brazil suffer from famine and lack of water according to official figures. See “Dix millions de paysans ont faim et soif,” Devoir, 16 April 1993, p. B5.

(2) For further details see Claire Brisset, “Risque de famine sans precedent en Afrique,” Monde Diplomatique (July 1992) pp. 24-25, and Claire Brisset, “Famines et guerres en Afrique subsaharienne,” Monde Diplomatique (June 1991) pp. 8-9.

(3) K. Nagaraj, et al., “Starvation Deaths in Andhra Pradesh,” Frontline, 6 December 1991, p. 48.

(4) ibid.

(5) See Michel Chossudovsky, The Globalization of Poverty (London: Zed Books, 1997) chapter 11.

(6) World Bank, World Development Report 1997 (Washington, DC: World Bank, 1997) fig. 2.1, p. 26.

(7) United Nations Economic Commission for Europe, Economic Survey of Europe, 1995-96 (Geneva: UNECE, 1996).

(8) Interviews conducted by the author with academic economists and international organizations based in Moscow, November 1992.

(9) Jonathan C. Randal, “Reform Coalition Wins Bulgarian Parliament,” Washington Post, 20 April 1997, p. A21.

(10) “The Wind in the Balkans,” Economist, 8 February 1997, p. 12.

(11) Eric Ekholm, “On the Road to Capitalism, China Hits a Nasty Curve: Joblessness,” New York Times, 20 January, 1998.

(12) ibid.

(13) “Let Good Times Roll,” Financial Tines, 1 January 1995 (editorial commenting on OECD economic forecasts), p. 6.

(14) For a methodological review on the measurement of poverty see Jan Drewnowski, The Level of Living Index (Geneva: United Nations Institute for Social Research and Development (UNRISD),

1965). See also the extensive research on poverty thresholds conducted by the U.S. Bureau of the Census.

(15) See World Bank, World Development Report, 1990 (Washington, DC: World Bank, 1990).

(16) See World Bank (1997) table 9.2, chapter 9.

(17) ibid.

(18) United Nations Development Programme, Human Development Report, 1997 (New York: United Nations, 1997) p. 2.

(19) ibid., p. 5. Introduced in the 1997 Human Development Report, the human poverty index (HPI) attempts "to bring together in a composite index the different features of deprivation in the quality of life to arrive at an aggregate judgement on the extent of poverty in a community." A high HPI indicates a high level of deprivation. See http://www.undp.org/undp/hdro/anatools.htm#3.

(20) Soren Ambrose, "The IMF Has Gotten Too Big for Its Riches," Washington Post, 26 April 1998, p. C2.

(21) See Clement Trudel, "Le Mexique subit le choc de l'internationalization," Devoir, 28 March 1998, p. A4.

(22) See U.S. Bureau of the Census, Current Population Reports, Series P60-198, Poverty in the United States: 1996 (Washington, DC: U.S. Bureau of the Census, 1997).

(23) ibid., p. 7.

(24) According to the official definition of Statistics Canada (1995). For country ranks based on the UNDP's Human Development Index, see United Nations Development Programme (1997) table 6, p. 161.

(25) See Chossudovsky, El Ajuste Economico: El Peru bajo el Dominio del FMI (Lima: Mosca Azul Editores, 1992) p. 83.

(26) See Leonora Foerstel, Creating Surplus Populations (Washington, DC: Maisonneuve Press, 1996).

(27) International Labour Organization, Second World Employment Report (Geneva: International Labour Organization, 1996).

(28) See Saulma Chaudhuri and Pratima Paul Majumder, The Conditions of Garment Workers in Bangladesh, An Appraisal (Dhaka: Bangladesh Institute of Development Studies, 1991). According to this study, monthly wages in the garment industry were on the order of U.S.$20 a month (including overtime) in 1992–less than ten cents an hour.

(29) "International Billionaires, the World's Richest People," Forbes Magazine, 28 July 1997.

(30) Charles Laurence, "Wall Street Warriors Force their Way into the Billionaires Club," Daily Telegraph, 30 September 1997.

(31) "Increased Demand Transforms Markets," Financial Times, 21 June 1995, p. II.

(32) "Global Investment Soars," Financial Times, 7 June 1996, p. III.

(33) See Peter Bosshard, "Cracking the Swiss Banks," Multinational Monitor, November 1992.

(34) Based on the author's research and interviews in Tunisia and Kenya, December 1992.

(35) For instance, while the large multinational enterprises move freely within the North American free trade area, non-tariff restrictions prevent small scale local capital in one Canadian province from extending into another Canadian province.

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