

A NEW GLOBAL POLITICAL ECONOMY

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SUMMARY: I. *Historical perspectives.* II. *Characteristics of a new global political economy.* III. *Problems of transition.* IV. *References*

My theoretical perspectives on world change are threefold. First, there are long term development structures and processes which inhere in some societies and which have provided not only for unprecedented growth in population and wealth but also for the liberation of a large part of mankind from the threat of disease and the tyranny of dietary deficiencies. Second, there is human learning, technology or know-how, which is tied to the first and both contributes to and conflicts with development. Third, there are human decisions which sometimes facilitate development but can also delay it.

At this time the dynamics of development are operating at high speed, the new technologies of communication are ready to be used to promote an unprecedented level of integrated diversity on a global level, but human choice will be decisive about whether the next years will be easy or difficult.

The main assumption of this analysis of the current condition of the world political economy is that its actual and expected benefits contribute to the conditions for peace. These conditions are neither necessary or sufficient. Alone they cannot overcome the conflicts of aspirations for regional ascendancy among countries in the third world, residuals of hatreds among racial and ethnic groups, or tensions engendered by economic inequality. A stable and developing global political economy, however, can help.

I will present a few empirical implications for a new global political economy derived from a theory of developmental change, but not the arguments that constitute that theory (Teune and Mlinar, 1978). References will be made to technological changes to exemplify the importance of creativity and learning. Some speculations will be offered about human choice concerning the central problem of the development of new global political economy in the mid 1980s.

I. HISTORICAL PERSPECTIVES

Whether the transformation of human society that is now taking place will prove to be as monumental as those that changed life from hunting and gathering food to agriculture about seven thousands years ago, from local economies to national and world ones about 500 years ago, or from agriculture to theoretically based industrial production about a century ago cannot be known.

Since the organization of social sciences into professions in the last quarter of the 19th century, the cutting edge of change has been the territorial state and the industrial city. Both grew and dominated the peripheries as centers. They concentrated control and wealth at the expense of the countryside. Both were forces for liberating mankind from oppression of religious and property holding elites. The rural areas of community and familiarity were being emptied. Labor was being harnessed in factories for supervision to increase productivity.

By 1900 U.S. cities are estimated to have been five times more productive than that of dispersed operations based on water power (Higgs, 1971). Similar patterns occurred in Europe. Coal transformed into power for manufacture yielded dramatic results.

The problem was that labor had to be concentrated around these sources of power because steam cools rapidly when it travels any distance. The spine of the industrial city was thus access to coal generated power.

The technological pillar of population concentration was electricity. Masses of people could be brought to factories by trolley cars, in numbers horses could not do. Reinforced concrete allowed buildings to rise. The elevator allowed cheap transportation in vertical space (Owen, 1972).

But electricity had a more powerful other side-dispersion. It travels fairly well. Coupled to the automobile and the efficiencies of the assembly line requiring horizontal space, electricity brought the growth of industrial cities to a stop in the 1920s. Population density brings costs of control: distance dissipates some of those costs. Production became cheaper outside of cities.

Cities had a brief period of restoration with the construction of office buildings for coordination and control. They provided face to face contact. But by the 1960s the third generation computer and the standardization of information became a new technological force for decentralization and dispersions.

Today almost every major city in the old industrialized countries is losing population and de-concentrating production. The opposite is happening in the Third World in part because production is being shifted to them. The exceptions are France, several Eastern European countries and isolated Third World countries. The patterns of concentration and dispersion is taking place in a global political economy rather than within nations (Dogan and Kasarda, 1986).

The territorial state is giving way to the organizational state. The former is based on closure and hierarchical control; the latter on openness and control through competition. The former depends on expanding and protecting space: its hallmark is an army or navy. A necessary condition of territorial control is that people and activities must be harnessed to place. The organizational state requires flows of goods, services, people, ideas, and information about what is available and new. Its hallmark is technology and change.

Resources for consolidation of territorial state were sought through political arrangements and administrative domination of others. Colonies were a means of maintaining the political system. Japan and Germany in the 1930s grasped for colonies in the conviction that their survival was at stake. The new world order proclaimed in the Truman-Acheson doctrines in the 1940s were vindicated in the 1950s. Volkswagons proved more effective than tanks in assuring prosperity.

The decisions taken by the U.S. in the 1940s were a political bargain, a deal, the terms of which the U.S. is no longer able to meet. In exchange for renouncing colonies, the U.S. would create and maintain a world capitalist system. Japan and Germany had no choice; England equivocated on the offer; France after defeats in Vietnam and Algeria no longer rejected the new world order. The U.S. had already secured agreement on fixed rates of exchange at Bretton Woods. The new world order would have no 1930s. The Soviet Union started to create their own world order.

The U.S. would do the following to support the new system: 1) provide the dollar as an international currency; 2) offer access to the world's largest market—the U.S. itself—at ever increasing favorable terms of trade; 3) protect an open sea at vital choke points with a blue sea navy; 4) contain any impulses for territorial expansion by the U.S.S.R. especially in Europe, and 5) aid poor countries for economic development. The result of this was to be an interdependent and prosperous world. However, if it succeeded, then the capacity of the U.S. to sustain it would decline. A new global political economy would have

to emerge or be designed and put into place through cooperation and leadership.

It became evident during the intensification of U.S. involvement in the Vietnam War that the world system of the 1940s would not last long. It was obvious when the U.S. in the early 1970s took the dollar off the gold standard. U.S. economic surpluses to keep the world economy liquid were diminishing. Foreign aid from the U.S. to poor countries dropped to a trickle.

The use of private banks to determine exchange rates followed by the largest and fastest transfer of funds in world history, from the Middle East to Europe and the U.S. and then to Third World countries, destabilized the world economy. By 1975, bankers took credit for solving the problem.

The transformation now taking place was accompanied by several tremors. Most have been patched over. Today, as in the later 1970s, many fear a global economic collapse like the 1930s when world trade shrunk by about 25% in a few months following the failure of U.S. capitalist growth in the fall of 1929. But there is one difference: the U.S. economy is not now likely to collapse.

II. CHARACTERISTICS OF A NEW GLOBAL POLITICAL ECONOMY

Any characterization of something as incipient, new, and complex as a "new global political economy" will be less than satisfactory and controversial. Only a few dimensions will be given.

First, the world is now a system. More of what is done anywhere impact more everywhere. The inclusiveness of areas and peoples of the world and the extent to which the impact is made is also historically unprecedented. The price of shoes, oil, the content of movies, the variety of food, language respond to areas of the world often unknown.

Second, as a consequence of the first, national states have been irrevocably penetrated by dispersions of culture, information, products, and immigrants. Most face weakening control of their economies and societies, previously a vital sign of a strong state that could tax, defend, and service its population. The U.S., for example, had 4-5% of its GNP in imports and exports until the late 1960s. This percentage increased to 13% in 1985 and is projected to reach 25% by the year 2000 (Schultz, 1985).

Third, as has been stated, production is being decentralized. For most of the 19th century and the first part of the 20th, production was being concentrated in a few nations and their large cities. The proportion of

world production in the "world centers" has been dropping since the 1960s. This is one reason for the growth of giant cities, such as Mexico City, in the Third World.

Certainly the nation-state controls and impacts more in the aggregate than global markets and institutions. It is the coefficients of change that matter, for if any coefficients of any component change faster than others, eventually there will be a system transformation. Territory still controls, but less and less. The physical-economic infrastructure of the world, however, fits less well with the boundaries of state sovereignty. With capitalist competition, decreasing margins of differences in costs in energy, water, and other resources as well as those to maintain a benign environment for humans add up quickly to a competitive advantage or disadvantage. Further mobility of capital threatens any country or locality with disruptions of withdrawal. Even regional political arrangements are subject to the ecology of resources and production. Because of oil there is a pull in the EEC between the North Sea countries and those in the South, dependent on the Middle East.

Global changes have made the territorial components of the new world political economy more complex. Some of the capitals of the old industrial countries have become world cities. They are really two cities. Those living and working in vertical space at prices that make them inaccessible to the national population and those living in horizontal space with decaying buildings, such as is the case in New York. Rather than being economically integrated there are two classes of service employment: those working in the global economy and those working to service them. Such cities are bifurcated into classes and physical space, a new form of ghettoization. In the 1970s about seven million people moved in and out of New York. There are also world cities in the Third World, growing in population and organizing production in a network of trade and exchange. The first tier cities are engaged in finance, information, and control. The second tier in production. They also tend contracts to other places in the Third World in a new version of the 19th century "put-out" structure of production (Teune, 1986). Production has been spread out, decentralized but integrated in an international network of control and markets. What was once concentrated in certain countries and cities within them, now is being dispersed internationally.

The second type of territorial unit are formal organizations and informal arrangements of world regions, such as the North Sea or Southwest North America. They share economic interests, at times at conflict with the countries of which they are a part. Canadian Alberta has more

in common with the Northwest U.S. than it does with national politics adopted to serve Canadian national interests.

The nation and the cities, of course, still have a role in the global political economy. They are, however, not at the core of the focus of Change. Thus in four or five centuries the political alliance of cities and emerging national elites to assure and expand markets, to guarantee and strengthen currencies, and to legitimate and enforce contracts is weakening. Cities in the old industrial countries are becoming a drain on national revenues, some cities are now appointing their own envoys to negotiate favorable relationships, including those with other cities.

Three new sets of actors have been forming and assuming new roles of influence in the global political economy: the multinational corporations, the oldest, including here the more recent ones of the Eastern European countries that organized their labor forces for sale on the international market, international governmental organizations, and international professional societies, whose growth since 1945 has been exponential.

The first has been an enormous force in standardizing productions and setting criteria for world class products. In 18th century Philadelphia iron goods were sold there; in the early 19th century to the country; in the late 19th to the world. In the later 20th century information about world products is not only standardized but cheaply accessible through computers. Indeed, today, almost all parts and products are available in world cities and sometimes throughout a country in one or two days. The costs to efficiency of national control of this flow of goods puts most governments in a position of traffic facilitator.

International governmental organizations have contributed to an explosion in global expectations and norms. People more than ever before expect education, health care, sanitary water, among other things. In most countries these expectations are not controllable by national governments. Norms concerning how governments should treat their citizens and claims of human rights now has spread. Governments who violate those norms are on the defensive. Claims to sovereignty have lost legitimacy.

International professional societies have taken over control of information and knowledge, whether in medicine or physics, law or political science, bee keeping or pig breeding. Standards of quality of research and information are increasingly set by these associations. Most national associations of professional seek respectability in the international ones.

III. PROBLEMS OF TRANSITION

Accidents and mistakes, of course, could shake and delay the processes of the development of the new political economy that is integrating diversity on a world scale. The threats are war, disease, and, in at least the short term, the collapse of the present international monetary system. Some comments on each.

If one defines peace as the absence of violent conflict, then today most of the world is at peace: all of North and South America, Western Europe, East Asia. Regional conflicts prevail in parts of Africa, the Middle East, Southeast Asia, Central America, and the Middle East. Fighting in these areas for the most part has been contained either to specific places or periods of time. The U.S.-U.S.S.R. conflict is stalemated short of war with the twin dangers of Murphys Law that anything that has a positive probability of happening eventually will, or a technological breakthrough that convinces leaders of either country that the probability of winning a nuclear war is near certainty. Although some leaders in both countries believe that we now are at "winter kill", it might take sometime to convince everyone.

Disease now is largely forgotten as a destroyer of human development. Science and sanitation engineering have controlled world epidemics since the turn of the century. We now face a deadly epidemic that is moving some countries to close their borders to the movement of people. Experience in the 20th century is that science will cure this one and perhaps others. Never in this century has medical progress been so rapid as with AIDS, and on an international basis. It is, of course, possible that this epidemic cannot be stopped soon enough. If not, then it will put a break on the global flow of people, ideas, and perhaps some commodities.

This leaves the economy. Most of what has been called a global political economy is economic rather than political. Here mistakes can be made with problems that were denied or not understood 10 years ago but which today are visible and generally understood.

The main dynamic of the problem stems from the economic forces leading to declining commodity prices and debts incurred by Third World countries during the past 10-15 years. To survive politically and to service these debts, countries continue to sell at falling prices. Add to this that the U.S. cannot alone fix the system with sufficiently large new infusions of money because of its balance of trade and debt and that other countries cannot do anything without the U.S. The propensity of nations to seek short term political solutions of selling

now rather than waiting for more favorable prices has been aggravated by the inherent conflict in OPEC which has now broken out into an open price war. Saudi Arabia has a hundred years of oil reserves: Lybia, Nigeria, Indonesia, and others have 10-15 years. They all need to sell now to build their economic infrastructures for production by the next century. And then add that the Iraqi-Iranian war not only makes punishment of Saudi Arabia by armed intervention unlikely but also for a greater need of both countries to sell more at any price to buy arms.

As always there are two basic policy options: do nothing or do something. The first is creative destruction even if there is a sincere and concerted effort to take the suffering out of what would be very unevenly distributed damage. This is what happened in the U.S. in the early 1980s when high interest rates destroyed thousands of marginal businesses. New ones were formed and about 15 million new jobs were created. This choice might mean for the U.S. About 500 bank failures and localized recession which could be helped from national economic growth. It is a matter of domestic U.S. politics, especially for the Republicans, who need the Southwest and California. It also would cost the treasury in insurance payments and debt service to some oil producing countries. There would be winners and losers but a case could be made that the world economy would be stronger in the long run.

The alternative would be to create a new international monetary system. The main items in world exchange are commodities, manufactured goods, technology, services, labor, and money. Only the latter is freely floating in a free market, subject to only modest national and international controls. What will be required is an infusion of new currency printed by an international central bank to be allocated according to some principles of equity but primarily to restore liquidity for debts service and trade. But such an institution would be about as revolutionary as Bretton Woods and setting prices for currencies or taking the dollar off the gold standard and letting prices float in a free market.

What is being done now are marginal adjustments for specific cases in the hope that the bigger problem will disappear. Things seem to be getting worse. Those advocating change in the practices of the World Bank, which is tied to 20 and 30 year capital lending or the International Monetary Fund at best can expect marginal changes. The politics that control those organizations and bureaucratic inertia assure against radically altering what they are doing.

There is a strong evidence that political leaders do not fix things unless there is a crisis. Their short term political goals of stability and

power makes risky, visionary leadership unlikely. There is also evidence that most national banks get established after some currency crises. Only later and at much higher levels of economic and political integration can controls over currency be relaxed. Free trade in currency probably helped in the early 1970s, but the world was not sufficiently integrated for that to last long. In balances in distribution were an almost certain outcome for currencies sold in units of time of less than a day.

Since the 15th century and the beginnings of the developments that brought about secular societies committed to the improvement of mankind materially, individually, and immediately, there have been periods of regression and failure. But the overall direction of the trends for longer, healthier, wealthier lives spreading around the world has continued to move forward.

In the short run, it is clear that further advances in the development of a global political economy must overcome the present currency system. The question is how long do we have to fix it or at what price will it fix itself. In any event it is difficult to imagine that we will enter the 21st century having experienced a 25 percent contraction in world trade that marked the beginning of the Great Depression.

In the mid 1970s a distinguished historian, Lee Stavrianos wrote popular book titled, *The Promise of the Coming of the Dark Ages*. I am still waiting and expect to be for a long time.

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