Lecture 2

Global Economic Crisis

Factors

- Economic and social gap between nations and within nations
  - Income distribution among nations and between different classes within a nation
- Unequal international division of labor
  - Certain countries are producing certain goods, and another doing nothing but consuming
- Concentration of global wealth
  - World concentrated 80% wealth in group of 10-20 countries.
- Growth in corporate power and its impacts both domestically and internationally
- Structure of global trade and finance
  - International trade agreements

Conclusions

- Increase in poverty all around the world result of globalization movement

Examples, statistics

- 80% of world's population receive 18% of world's income
- 15% of world's most wealthy population receives 80% of international income.
- The lower and middle income countries, which represent 85% of world's population receive only 20% of total income
- During 1990's, real earning declined
  - Purchasing power has declined by 60%
  - Due to two reasons: decline in wages, and massive increase in commodity prices

- Minimum wages declined by up to 85%
- Today, large number of countries, monthly wage is less than $10USD
- The price of basic goods, food staples, has increased substantially
    - Certain policies pushes local prices to international levels
- Low income countries which represent 60% of world's population (3.8 billion) received 6.3% of world's total income.
    - Sub-Saharan African nations, total income less than 1/2 of state of Texas' GDP.
- 3rd world countries' wages today are 70 times less than all OECD countries.
- 1990's, a greater disparity between social income groups in most of developing groups
    - National income controlled by 20% of population

Why is this?

- Situation direct result of structural adjustment programs, of macroeconomic stabilization policies imposed by IMF and the World Bank (later on the WTO as well)
- Early 1980's, both the IMF and World Bank start imposing set of conditions on the developing countries as a condition for receiving **financial assistance**, **technical assistance**, and **re-negotiating external debt**.
- These policies have a devastating impact on developing countries, leads to increase in poverty rate in 3rd world country and has negative effect on economic situation even in developed countries
- All the SAP's recommended by IMF and the World Bank, are contradictions to the Bretton Woods Agreement
    - Bretton Woods 2 principles
        - Economic reconstruction

        - Fixed exchange rate
    - Instead, led to destabilizing national currencies and destroying economies of developing countries.

Impact

    - Undermining of economic sovereignty, especially national control over fiscal and monetary policy
        - Policies were more focused on international trade than advancing local economies
    - Adopting of IMF and World Bank SAP's led to establishment of parallel government; controlled by international financial institutions.
        - In most cases, they were more influential than the elected governments
    - Domination and strengthening of internal security forces
    - In most third world countries, the IMF and World Bank policies led to political repression and prevented establishment of a genuine democratic system.

IMF and World bank SAP's

- They recommended the same policies to every country without even considering differences in socioeconomic factors in these countries.
- Basic recommendations
    - Encourage a balanced budget
    - Cut government expenditure substantially
    - Devaluation of local currencies
    - Makes exports cheaper, export revenue lower
    - Makes imports more expensive
    - Trade liberalization

        - Free trade
        - Removal of all trade barriers, tariff and non-tariff barriers
        - Will lead to emerging industries being unprotected from competition
    - Privatization of public sector
        - Transfer of ownership to private at very low costs.
    - Elimination of all types of subsidies (health, income, agriculture)
    - Encourage or promote free and multi-party elections as well as good governance.
- Create social and economic and political crisis
- Increase poverty rate
- Several critiques on SAP's
    - Form of economic genocide
        - Negatively affected well-being of working population
    - Also create a new structure of international economic relations; market colonialism
        - Reshape the sovereign nations, confiscate their national sovereignty
    - More specifically
        - Policies lead to 5 consequences
            - Massive collapse of domestic purchasing power
            - Increase in external debt/foreign debt (most 3rd world countries worse off in terms of external debt than they were before adopting SAP's)
            - Increase in both government budget deficit and public debt
            - Cancellation of major social programs, and elimination of all major subsidy programs
            - Negatively affect standards of living in countries, especially health and education.

            - Large number of hospitals and schools closed

Since 1990s, SAP's have been applied to developed countries as well

- But less harsh than those imposed on developing countries
- MEP (macro economic policies) of developed countries, they are completely based on new ideology
- Monetary policy - (G8 countries) focus on inflation- zero inflation policies: changing interest rate to keep inflation to zero.
- When we have a growth in the demand, they increase the interest rate which makes investment more expensive which discourages people from buying and borrowing
- Most of these policies focus on monetary policy and fiscal policies
    - Inflation
        - Followed zero inflation policy
            - Central bank will determine rate that will make inflation rate close to zero by adjusting interest rate.
            - Whenever there is increase in aggregate demand will lead to rising prices, so the central bank will increase interest rate to control prices.
            - Makes consumption more expensive
    - Fiscal
        - Balance the budget
            - Decrease government spending
            - Cut gov't programs
            - Make total revenue = total expenditure

Problems

- Low real wages

  - Real purchasing power is less than what it was 10-15 years ago
- Relatively high level of unemployment
  - Trade off between inflation and unemployment
  - To reduce unemployment have to accept higher inflation; to reduce higher inflation must accept increase in unemployment
- Increase in income and wealth distribution gap
  - 500,000 millionaires in Canada
- Massive cuts in social and welfare programs, especially income supporting programs
- Collapse of small or midsize businesses
- Increase poverty rate
- Degradation of environmental condition
- Lead to demise of national economies
  - Reshaping of policies prevent form building a strong national economy

Role of Global Institutions in Global Economic Crisis

- Creation of WTO create further pressure against national sovereignty
- Sovereign nations are left with no options but to adopt these policies
- According to WTO rules, all of the SAP's recommendations become preconditions to joining the WTO agreement
- The new WTO trade rules mainly deregulation of trade rules along with intellectual property rights, allowed multinational corporations to have full control over local market.
  - Resulted in massive increase in commodity prices
- Under the new system
  - National economies were restricted not by national priorities but by multinational interests

- Increase magnitude of global crisis

Four things happened

1. Massive cuts or elimination of social programs
    - Massive cuts in income obtaining programs
    - Elimination of job creation policies
    - Rent control, wage control, etc
    - Poor were left without social programs
2. Direct transfer of power of economic decision making from national government to corporate interests, and global corporations
3. The WTO agreement encouraged democracy and free elections and good governance,
    - But instead violates democratic process
    - Did not consider any institutions or laws if they are contradictory to the WTO agreement
4. Negative impact on authority and effectiveness of various UN agencies, UNCTAB, ILO