Solidarity Federation
The Emperor's New Wardrobe
reinventing imperialism
Spring 1999

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cally" elected Guatemalan government, whose social and economic policy was described by the CIA as a "virus" that might spread. In 1960, there was the coup in Brazil, described by Kennedy as "the single most decisive victory of freedom in the mid-twentieth century". In 1973, our new friend, General Pinochet, saved Chile from Marxism.

Nor should we be fooled into thinking that the new "democratic" world order has made coups a thing of the past. The 1990's have seen a mildly reforming government in Haiti prove too much for the US. One coup later, the dogs of war were called off, but only after the reforms were dropped in favour of the World Bank's free market strategy.

old dog's old tricks

What could be a better argument against the global market myth of mysterious uncontrollable economic laws driving the world we live in today? It is not the law of supply and demand that despatches military might to protect capitalist interests, but the decisions of the rich and powerful. The reality is that it is unelected human beings who control the world economy for the benefit of the few and the disadvantage of the many.

In some ways, however, disproving the idea that the global market will lead to greater equality misses the point, for the aim of those who argue for global market theory has little to do with greater equality. Instead, it is to intellectually underpin free market ideas, to provide the theoretical abstractions to justify extracting greater wealth from the world's poor. This, of course, can never be admitted. As such, the global market thesis should be seen more as a capitalist propaganda tool than an explanation of how the world works. For a truer explanation, that over-used cliché, "imperialism", still has much to offer.

So, on paper, in terms of industrialisation, the gap between rich and poor is narrowing — but in terms of income, the gap is actually widening. Furthermore, with the development of microelectronic technology, there is evidence that multinational companies are shutting down labour intensive assembly in the underdeveloped world and relocating back to the developed world threatening even this low-tech industrialisation.

underdog's new tricks

Underdeveloped nations are aware of the role capitalism has allocated them and have introduced economic reform aimed at breaking free of first world dominance, especially their dependence on first world imports by building up production for domestic consumption — so-called import substituting industrialisation. This process involved import controls and financial regulation in order to shelter the economy while domestic production grew. A crucial task was to stimulate the consumption of and demand for home-produced goods. This required wealth redistribution and agrarian reform to provide the mass of the population with the required buying power.

This flew in the face of capitalist post-war strategy. By the late 1940's, as recently declassified records show, the CIA was alarmed at the growth in the world's poor nations of "new nationalism", which aimed "to bring about broader distribution of wealth and to raise the standard of living of the masses". Thus, by 1955, the main threat to capitalist interests was no longer Soviet communism, but "nationalistic regimes", whose populist message was winning mass support, and threatening "our raw materials".

Attempts to develop through import-substituting industrialisation were quickly ended by US military intervention, notably in Latin America. Just a few examples will illustrate the point. In 1954, there was the overthrow of the "democrati-

Contents

key concept 5
do as we say 6
cash machine 7
dynasty 8
holding power 9
underdog's new tricks 10
old dog's old tricks 11

nations' access to technology. With their near-monopoly on technology, developed countries can put all sorts of barriers in the way of development in the poorer nations.

With the increasing importance of advanced technology came greater restrictions. For all the talk of free trade, protectionism regarding technology has actually increased in the last twenty years. Nowhere is this more apparent than in the role of multinational companies. Under the global market, underdeveloped countries are supposed to gain access to new technology. Here again, free market theory couldn't be further from reality. Even when multinationals do relocate to underdeveloped parts of the world, that relocation is limited and strictly controlled.

holding power

Multinationals tend to create economic enclaves that are almost entirely independent of the domestic economy. These enclaves use cheap labour to assemble components imported from the developed countries. Attempts by Third World governments to impose quotas for finished goods including domestically produced components have totally failed. The result is virtually no linkage to the domestic economy and therefore no technology transfer, except between companies where it can be tightly controlled, preventing dispersal into the wider domestic economy.

This helps explain the productivity gap between rich and poor countries. Industrialisation that has occurred in the Third World remains low-tech and low skilled, generating low incomes. For instance, the likes of Australia, Ireland, Denmark and Norway have a manufacturing share of GDP of 20% or less, yet they generate incomes per capita that Latin American countries like Mexico, Argentina and Brazil, with higher manufacturing shares, can only dream about.

and state-protected private power centres. The idea that they are about to abandon the protection and privileges offered by the advanced states in favour of those on offer in the Third World is nothing short of ludicrous.

Having established the fact that productivity is the main factor in determining cost, let us now consider another global market myth — that poor nations can compete on equal terms. In reality, a free trade system has only one outcome. Goods produced much cheaper in the developed world flood into underdeveloped countries, consequently holding back the domestic economy and making poor countries dependent on these imports.

There are a number of major flaws in the global market idea. The notion that it can ever close the gap between rich and poor is simply untrue. For a start, such a notion fails to take any account of human decision making. Poverty exists across the world because it suits the interests of the rich and powerful.

dynasty

After World War II, the economic victors, the USA, took responsibility for the welfare of world capitalism in the face of the growing communist threat. To help ensure capitalism's long term survival underdeveloped nations were assigned "major functions", primarily to provide the industrial world with raw materials and help absorb the massive surpluses of capitalist overproduction. There was no ambiguity in this. Third World raw materials were described as "ours" by the first world planners. The thought that they might be used by the indigenous populations to meet their own needs was not even entertained.

Implicit in this was the idea that the underdeveloped world would remain so and would not develop its own industry. Since World War II, capitalism has done its best to halt Third World development by attempting to restrict underdeveloped

Sorry mate, you can't buck the market. Old clichés die hard, especially when they still have some use in them. The current line is that we cannot do anything about the 'poor, unfortunate' Brazilians, Indonesians, Thais, etc., etc., it's just the whim of the market. Back in the middle-ages, some Godlike being was supposed to be looking over us and dealing out lessons wherever 'he' (sic) willed. More recently, it was Imperialism that was to blame. Now it's Mr. Global Market that steals from the poor and gives to the rich. Just how many outfits have these filthy rich emperors really got?

Imperialism is based on inequality, on capitalists using their economic power, backed by state military power if necessary, to exploit the weaker countries. Reduced to basic economics, it is the transfer of wealth from the poor to the rich. For every dollar capitalists invest in the Third World, more than a dollar returns in the form of repatriated profits, royalties, debt repayments, interest and so on.

In recent years, however, this notion of imperialism has become clichéed and outdated. Capitalism is portrayed as a liberating force which, having defeated communism, will go on to free the world. The social and economic model for poor nations to follow is the advanced capitalist free market coupled to social democracy.

Behind this free-market hype, we find nothing more than a smokescreen designed to obscure the fact that the rich still get richer and the poor still get poorer.

key concept

One of the key concepts of this post-communist new world order is the global market, which has literally changed the way we view the world. It has negated the concept of imperialism. Rich states no longer exploit the poor, for it is argued that the global market has made the nation state redundant. Instead, there is a new world of individual firms competing on equal terms in one vast market. It is self-regulating market forces that drive the global economy, not governments — who are increasingly portrayed as powerless.

The global market is crucial to capitalism's rehabilitation ensuring that poor countries can now compete on equal terms with the rich ones. Furthermore, being poor in this new era has its advantage. It provides the competitive edge of cheaper labour costs. Free of human control, footloose capitalism can flood into underdeveloped countries drawn by the prospects of higher returns, and in so doing it begins to eliminate world poverty.

As capital flows into the underdeveloped world, wages will rise and the labour market will tighten. This capitalist relocation will continue until labour costs are equal throughout the world. Only then will the incentive to relocate disappear. This is in line with the basic tenets of free market theory. Competition drives companies to produce goods at the lowest possible cost. They will therefore take advantage of cheaper labour costs in the underdeveloped world. The free market claim that capitalism can make the most efficient use of the world's scarce resources depends on this principle that it will always produce at the lowest possible cost.

do as we say

The IMF and the World Bank operate in line with this free market orthodoxy. For the global market to be efficient, barriers that prevent the movement of capitalism must be swept aside. Accordingly, they have imposed restructuring programmes across Africa, Latin America and, in recent years, Asia. This has involved privatisation, cuts in state spending, liberalisation of finance and trade, and the opening up of domestic industry to foreign competition, all in return for aid.

But will this new world order work? Are we heading for a social democratic utopia where market forces eradicate the gap between rich and poor nations? Not quite. The truth is that free market theory bears little resemblance to reality. Crucially, it omits the human factor, reducing the market to mathematical formulae which take no account of human behaviour. In reality, the economy is political; it does not operate according to economic laws but by human decisions. As such, who makes the decision, and to what end, matters far more than the laws of supply and demand, as we shall see.

cash machine

Before looking at how human behaviour shapes economic activity, we can also challenge the global market thesis on purely economic grounds. The argument that the prospect of lower costs due to cheaper labour will force industry to relocate is flawed. It assumes that labour cost is the most important factor in determining overall costs. However, in an advanced economy, the level of technology is far more important.

This is easily proved. US wage levels are far higher than in Latin America. Yet, Latin American productivity levels are only 30% of those in the USA. The 70% difference is a reflection of the technology gap. When the technology factor is added in, the idea that poor countries have a competitive edge in the global market soon falls apart. Since technology levels are so crucial in determining profit, companies will locate where there is the best hope of technological advance. The global market thesis expects us to believe that multinationals will abandon the massive scientific base of rich countries in favour of the scientific underdevelopment of the poorer nations.

We can take the arguments surrounding relocation much further. Multinational companies do not operate according to free market theory. In the modern world, they are state-subsidised