

# A Historical Approach to Globalization and Its Ethical and Educational Implications

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**Resumen:** La introducción de la globalización y su enseñanza son cuestiones problemáticas de las que no son conscientes muchos habitantes de los países industrializados. A pesar de que los efectos negativos colaterales del capitalismo global actual son problemas críticos, hay otro efecto, por lo menos tan peligroso, relativo a la manera como la globalización se presenta y se enseña tanto por los pro-globalistas como por los anti-globalistas. En ambos lados, se tiende a presentar la globalización como un fenómeno "occidental". Hay dos cuestiones que serán abordadas en este artículo. Primero, ¿hay realmente un "Occidente" desde el que se originan valores e instituciones universales? Segundo, si éste no es el caso, ¿qué causa este fenómeno y cómo podemos corregirlo? Todo esto nos lleva a un modo alternativo de presentar la enseñanza de la globalización.

**Palabras clave:** Globalización, Occidente, educación, valores universales.

**Abstract:** Introducing and teaching globalization increasingly becomes a very sensitive issue of which most inhabitants of industrialized countries are hardly aware of. Though the negative side effects of present-day global capitalism are critical issues, there is another effect, as dangerous, concerning the way globalization is presented and taught both by pro-globalists and anti-globalists. Both sides like to present globalization as a "Western" phenomenon. There are two questions here to be answered. First, is there indeed a "West" from which all universal values and institutions originate from? Second, if this is not the case, what caused this phenomenon, and how do we correct it? Of course this leads us to an alternative way of presenting and teaching globalization.

**Key words:** Globalization, West, education, universal values.

**Sommaire:** L'introduction de la globalisation et de son enseignement sont des questions qui posent problème, dont la plupart des habitants des pays développés n'en sont pas conscients. Malgré les problèmes critiques, et des effets négatifs collatéraux du capitalisme global, il y a un autre effet, au moins aussi dangereux, relatif à la manière comme la globalisation se présente et s'enseigne autant du point de vue des pro-globalistes, comme de celui des anti-globalistes. Des deux côtés, on a la tendance à présenter la globalisation comme un phénomène occidental. Il y a deux sujets qui seront abordés dans cet article. Le premier : y-a-t'il réellement un « occident » à partir duquel s'origine des valeurs et des institutions universelles ? Le deuxième : si ce n'est pas le cas, qu'est ce qui cause ce phénomène et comment peut-on le corriger ? Tout cela nous conduit à une forme alternative de présenter l'enseignement de la globalisation.

**Mots-clés:** Globalisation, occident, éducation, valeurs universelles.

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## A Historical Approach Fighting Global Terrorism?

Introducing and teaching globalization increasingly becomes a very sensitive issue of which most inhabitants of industrialized countries are hardly aware of. Though the negative side effects of present-day global capitalism are critical issues, there is another effect, as dangerous, concerning the way globalization is presented and taught both by pro-globalists and anti-globalists. Both sides like to present globalization as a “Western” phenomenon. Anti-globalists include it in their argument that everything that originates (and originated) in the so-called “West” is bad, while pro-globalists maintain that Western values and products are universal and that there are no substitutes. In doing so they both assume that there is indeed a concept like the “West”, which can be identified, defined and described. Hardly any specialist on globalization has ever tried to do so but that did not seem to bother them. A recurrent argument is that the recent uprising of Islamist movements against the “West” proves that the “West” actually exists. What is not considered is the possibility that many movements against globalization actually derive from the continuous claim that principles considered as universal, like scientific and rational thought, economic behaviour, democracy, equality, freedom, etc., were of European origin and had no relationship with so-called non-Western civilizations like Islam, Hinduism, Buddhism or native-American cultures. Once people identify certain values as foreign or alien, even worse, if they link them to what they historically and psychologically perceive as the oppressor, then these values also come to represent the oppressor. The oppressor, who by then is no longer an oppressor, is surprised by the reaction from certain foreigners to “his” principles, which are ba-

sically well-meant. That is the core of the problem of present-day globalization, which seems to invite almost automatically phenomena like international terrorism, fundamentalism and nationalism. Reacting to these new phenomena the so-called “Westerner” not surprisingly increasingly chooses a similar nationalist party to vote for.

There are two questions here to be answered. First, is there indeed a “West” from which all universal values and institutions originate from? Second, if this is not the case, what caused this phenomenon, and how do we correct it? Of course this leads us to an alternative way of presenting teaching globalization.

### Definitions

One also has to take into account the current discussions regarding the pros and cons of globalization. The core of the problem is the link that neoclassical economists assume between economic growth and globalization. They also assume that growth is necessary for sustainable development.

Everything starts with proper definitions. Steger provides a multidisciplinary definition of globalization: “Globalization refers to a multidimensional set of social processes that create, multiply, stretch, and intensify worldwide social interdependencies and exchanges while at the same time fostering in people a growing awareness of deepening connections between the local and the distant”<sup>1</sup>.

To understand these processes we argue that a historical approach of globalization is necessary.

1 M. B. Steger, *Globalization. A Very Short Introduction*, Oxford-New York-e.a., Oxford University Press, 2003, p.13.

Smith<sup>2</sup> provides proper definitions of growth and development. He illustrates the current tensions between both concepts. On the one hand, growth is a purely economic concept, measured by the Gross National Product (GNP) or Gross Domestic Product (GDP). “Development”, on the other hand, is a complicated term. It is usually measured by the Human Development Index (Source: Human Development Report, published by UNDP), expressing access to income, access to a long and healthy life, access to education, etc. This is based on Indian Nobel Price winner Amartya Sen’s concept that development is a process towards more capabilities for all individuals<sup>3</sup>. It is also inter-related to other terms like “welfare”. Welfare is expressed through the “Measure of Economic Welfare” (MEW) which takes into account “externalities”, meaning costs and benefits to society, like pollution, stress, etc. Development is also linked to the difference between absolute and relative poverty. Any rise of Per Capita Income can be deceiving if income concentration remains high (no “trickle-down effect”). This is measured by the Gini coefficient.

## From an Asiatic to a Eurocentric Globalization

Even recent globalization historians like MacGillivray<sup>4</sup>, consider globalization to be a Europe-centred phenomenon that started around the 16<sup>th</sup> C., shortly after Columbus supposedly discovered America. However, Maddison’s<sup>5</sup> calculations show that 2000 years ago India held 33 % of the world economy, while China was in second place with 26 %. India’s population was around 75 million while that of China was about 60 million. –Just to compare, Europe had a population of only 25 million–. According to economist Deepal Lal, India (and China) had

too much too soon and became complacent. Lal comments on India:

If reports like those of the Greek traveller Megasthenes, who spoken of India’s fabulous wealth, and of subsequent visitors like the Chinese pilgrim Huan Tsiang (606-647 AD) are accurate, India must have attained a standard of living higher than other civilisations of the time well before the beginning of the Christian era<sup>6</sup>.

Of course, such figures and descriptions can be debated but the broad picture he suggests goes unchallenged. History was clearly on India’s and China’s side. Smith<sup>7</sup> calls the current rise just the return of the *status quo*. The Harappan or Indus civilization, among the oldest and certainly one of the most sophisticated, peaked between 3000 and 1700 BC. Excavations, the first of which began at the end of the 19<sup>th</sup> C, in modern Pakistan have uncovered not only what may have been the world’s first cities, but well-engineered systems of drainage, irrigation and household water supply that were probably superior to those in many parts of modern India and Pakistan. According to Maddison<sup>8</sup>, relatively little changed during the first Christian millennium, being the only significant change the relative rise of Africa. In the year 1000, India was still ahead on 29% of the global economy, with China at 23%. Only the next 500 years, from 1000 to 1500 saw the beginnings of the rise of Western Europe, from 9 to 18%. Simultaneously, China caught up and then overtook India. By the time of the Renaissance and Columbus’s discovery of America, China and India accounted for nearly half of the global economic activity between them. These numbers tell a different story from the traditional Eurocentric interpretation of history and also suggest a different interpretation of the history of globalization<sup>9</sup>.

2 Ch. Smith, *Economic Development, Growth and Welfare*, Houndmills-London, MacMillan, 1994.

3 A. Sen, *On Ethics and Economics*, New Delhi-etc., Oxford University Press, 2000; *Commodities and Capabilities*, New Delhi-etc., Oxford University Press, 2005; *Development as Freedom*, New Delhi-etc., Oxford University Press, 2005.

4 A. Macgillivray, *A Brief History of Globalization*, London: Robinson, 2006.

5 A. Maddison, *The World Economy: A Millennial Perspective*, Paris, OECD, 2001.

6 Quoted by D. Smith, *The Dragon and the Elephant. China, India and the New World Order*, London, Profile Books, 2007, p. 13.

7 Smith, *The Dragon and the Elephant. China, India and the New World Order*, op. cit.

8 A. Maddison, *The World Economy: A Millennial Perspective*, op. cit.

9 Smith, *The Dragon and the Elephant. China, India and the New World Order*, op. cit., pp. 8-33 and Maddison, *The World Economy: A Millennial Perspective*, op. cit.

Similarly, another popular myth is that the so-called “Western” civilization is a result of a logical chain: Classical Greece and Rome-Renaissance-Industrial Revolution. There are plentiful of examples to contradict this. The English speaking democracy owes as much to the Anglo-Saxons as it does to the Classical Greek model. The development of full positional numerals with the concept of zero developed in India (the “Arabic system”) about 600 AD, and reached Europe only in the late the Middle Age. A similar system was already developed by Olmecs (1200 BC) and pre-Classic Maya’s (from 400 BC)<sup>10</sup>.

The feelings that reading these otherwise very scholarly written overviews evoke among the so-called non-Western public are not taken into consideration. Let us first consider the historical evidence for an Asiatic world model.

## An Asiatic World

Historical evidence suggests that maritime networks around 2000 BC were connecting India (Harappa civilization, in present-day Pakistan), Mesopotamia (in present-day Iraq and Syria), China, Egypt and the Mediterranean. “Silk Routes”, connecting China to Europe via Central Asia existed from the 2<sup>nd</sup> century BC. This was increasingly supported by sophisticated monetary systems: coinage, which was introduced for the first time in Lydia (Asia Minor, in present-day Turkey) around 700 BC, was taken over by Persians, Indians, Chinese, Greeks, Romans, Byzantines and Arabs. Their empires were single currency zones. This again puts the phenomenon of the “Euro” in quite a different perspective. However, the recurrent shortages of capital always resulted in producing coins which contained less gold (to finance military expenses,...) causing inflation. After opening new gold mines new “Dollars” were introduced financing international trade, like the Byzantine “solidus” and the Arab “Dinar”.

10 R. Wright, *A Short History of Progress*, New York, Carroll & Graf Publishers, 2005.

Europe actually remained until the 16<sup>th</sup> century at the Western end of this global network of international trade. During the “Dark Ages” it was in the periphery, as still mentioned by Adam Smith in his famous *The Wealth of Nations* (1776). International trade consisted mainly of intra-Asian trade (India-South East Asia-China). Europe was connected to this trade through Arab middlemen (cfr. The “Arab Golden Age” from 8<sup>th</sup> to 11<sup>th</sup>c), resulting in a trade deficit for Europe (luxury textiles and spices sold to Europe). In 1966, the French Marxist historian Maxime Rodinson was one of the first ones to demonstrate that, far from discouraging economic development, “Islam provides an explicit legitimation of trade and commerce”<sup>11</sup>. Actually, the book showed that Muslims were the first real “global capitalists”. As middlemen, Arabs made use of the comparative advantages which were mostly on the Asian side: low labour costs (higher population density resulting from economic growth) and more advanced production techniques. A proto-capitalist production system had developed in India in which merchant clothiers engaged farmers to process and weave wool they owned. In this way, the production could be scaled up to meet the growing international demand. As a result, most of the Latin American gold and silver would finally end up in the Indian Mogul Empire<sup>12</sup>.

Moreover, concepts that are traditionally considered to be part of the “West” had been moving around in an Asiatic world. Democratic and egalitarian principles as well as tolerance, existed in the Hindu Bhakti movements, the Muslim Sufi tradition, and the “Buddhist councils”, held shortly after the Buddha’s death in the 6<sup>th</sup> century BC until the 2<sup>nd</sup> century (also under patronage of Indian emperor Ashoka in the 3<sup>rd</sup> century BC). They were also present when in the 16<sup>th</sup> century Moghul emperor Akbar laid the foundations of a secular legal structure and religious neutrality of the Indian state; and in 7<sup>th</sup> century Japan, the Buddhist Prince

11 M. Rodinson, *Islam and Capitalism*, London-San Francisco-Beirut, Saqi Essentials, 2007, p. 7.

12 N. Chanda, *Bound Together. How Traders, Preachers, Adventurers and Warriors Shaped Globalization*, London-etc., Penguin Viking, 2007, pp. 76-78.



Shotoku introduced a relatively liberal constitution...; materialism and atheism were part of the Indian Lokayata and Carvaka philosophical systems. The same applies to scientific concepts. The so-called "Western science" drew substantially on earlier work done by Arabs, Chinese, Indians and others. Aryabhata's work, completed in 499, on the diurnal motion of the earth, originated in India; the first ever printed book (in 868) was the Chinese translation of an Indian Sanskrit treatise; the decimal system and the concept of "zero" developed in India between the 2<sup>nd</sup> and 6<sup>th</sup> century and was brought to Europe by the Arab. The only possible conclusion is that "modernity" is wrongly seen as coming to Asia from the West.

### **The Emergence of a Eurocentric World**

If so then, how did a Eurocentric world emerge? Western Europe started awakening from the 11-12<sup>th</sup> centuries onwards. Pre-capitalist signals occurred in Northern Italy and Flanders whereby cities grew more independent, and "bills of exchange" were copied from the Arabs and introduced as common trading techniques. Even more significantly, after 1500 Western Europe became more capital intensive than Asia because of the integration of American precious metals in international trade. Not surprisingly, new mercantilist ideas were introduced from the 16<sup>th</sup>c. In 1694 the Bank of England was founded, while Isaac Newton suggested that the government should fix gold price. With such an unexpected new and solid financial basis, West-Europeans increasingly participated in the intra-Asian trade, using American precious metals (cf. the East India Company). West-Europeans also increased their share in world trade: they financed export crops in South America, they took over the Arab slave trade and, of course, they were increasingly responsible for financing intra-Asian trade.

Simultaneously, there were incentives in Western-Europe for industrialization: a relatively labour-extensive and capital-intensive environment (interest rates were dropping)

invites labour-saving machines. Asia, on the other hand, remained labour-intensive; it had no incentives for industrialization. The results were dramatic: Britain used scientific inventions, resulting from developments that generally moved from East to West, using the profits from trading companies and later from colonial transfers. British machine-made products increasingly become cheaper and better than Asian man-made products. This resulted in a reversal of the trade flows; Asia was now exporting raw materials and Western Europe was exporting finished products. This went hand in hand with a reversal of the trade balance in favour of Western Europe. Having obtained comparative advantages, Western Europe now forced "free trade" upon overseas areas. The political domination of the Indian Moghul Empire and the Opium War against Imperial China (1840-1842) were expressions of this new phenomenon. Frank<sup>13</sup> identifies a "high-level equilibrium trap" in Asia, resulting in growing poverty and de-industrialization.

### **Historical Evidence for the Need of an Ecological Approach to Globalization**

A historical approach also weakens the popular myth that only today's so-called "Western" civilization is durable, that it is the "ultimate" civilization. According to R. Wright<sup>14</sup> civilizations either disappear or slow down. He considers growth to be stimulated by desire. In post-I.R. societies, this was based on wealth, prestige, food, power and sex; but different combinations of the same factors also stimulated Sumer, Easter Island, Ancient Greece, Rome, China and India. Easter Island and Sumer wrecked their environments so thoroughly, that their civilizations disappeared. Ancient Rome and the Maya continued to exist in simplified "mediaeval" forms after their collapses. West-European Feudalism replaced Rome and 8 million people still speak a Mayan language

13 A.G. Frank, *Reorient: Global Economy in the Asian Age*, Berkeley-Los Angeles-London, University of California Press, 1998.

14 Wright, *A Short History of Progress*, op. cit.

today. Some civilizations also have “heirs”: the Byzantine Empire for Rome, the Aztecs for the Maya’s, the Ottoman Empire for the Arab Caliphates, the Russian empire for Kiev and Kiev for the Byzantine Empire.

According to R. Wright<sup>15</sup> a civilization is a “pyramid scheme”. First, there is a human social pyramid (class or caste based societies), reflected by outward, visible signs such as pyramids, statues, tombs, office towers, among others. This is carried by a less visible natural pyramid: the food chain and all other resources in the surrounding ecology (natural capital). There is plenty of historical evidence. Ancient civilizations gathered wealth to their centres from an expanding periphery. This could be either a political empire like Rome, a trading empire like the British Empire or political imperialism like the Soviet Union. The only alternative was through intensified use of local resources or a combination of both.

When the peak of economic growth is reached, a maximum demand on the ecology is also reached. Unless a new source of energy and wealth appears, there is no room left to raise production or absorb the shock of natural fluctuations. The effects can take many shapes. Possibly nature reacts by way of erosion, crop failure, famine and disease. The “social contract” breaks down: the ruler’s relationship with “God” is exposed as a delusion or a lie. Religious and public buildings were looted as Roman temples were by Germanic peoples and Byzantine churches by Arabs. In a more recent era, statues of Stalin and Lenin were thrown down. “Barbarians” like Germanic invaders, Mongols and Vikings were welcomed. A recovery may take centuries: it requires regeneration of natural capital, as woods, water and topsoil slowly rebuilt. However, a distinction should be made between true collapses and political upheavals (like the French, Russian and Mexican revolutions and the fall of communism). Here the prime cause was exhaustion of social, not natural, capital; after reorganization, civilization continued or even expanded.

<sup>15</sup> Ibidem.

## **Historical Experience Regarding Economic Growth and Development: From the Pax Britannica to the Inter-War Period**

If globalization and growth have ecological limits, what then is the best economic foreign policy? Usually the entire historical experience with liberalizing international trade is completely ignored. It is as if free trade is a post-Second World War phenomenon. It is true that before 1850 economic fragmentation was the rule, as tariffs were the main source of income for government. In that respect, the British Corn Laws were famous. At the time the UK government was still traditionally representing agrarian “land lord” interests. From 1840 onwards, however, the system collapsed because of necessary imports, connected to a severe agricultural crisis and starvation in Ireland, in 1845-46. In 1842, Prime Minister Peel abolished export tariffs on finished products and lowered import tariffs.

On a monetary level, we observe the creation of more solid and reliable systems. Already in 1696, re-coinage was introduced in order to restore the traditionally accepted silver content of coins. The famous scientist Sir Isaac Newton, who became Master of the Royal Mint in 1699, recognized the benefit of the “gold standard”. In 1789, Britain gave up the “gold standard”, but reintroduced it in 1821. The “sovereign” got a fixed value and its exchangeability was assured. From 1848 new oxygen was found: “gold fever” started in California, later in Siberia, Australia, New Zealand and South Africa. By the 1870s, the “golden standard” was accepted everywhere. In the meantime, a “Latin Monetary Union” was introduced in 1865 on the Continent, standardizing French, Italian, Swiss and Belgian currencies.

In 1860, the British-French Cobden-Chevalier treaty introduced a “most favoured nation treatment” for the first time. This confirms

an already existing tendency: only industrialized countries, having built up comparative advantages in that area, were interested in free trade and would also try to enforce it on other nations. However, the still non-industrialized Germany saw the virtues of internal liberalisation: in 1868 the Rhine became a “free river”. Other rivers followed. The result was a remarkable growth of international trade, more than world output. International trade became the “engine of growth”.

Does that mean that from a historical point of view the case for protectionism was lost? What historians actually observe is a contradictory evolution. As free trade was spreading, protectionism experienced a “Renaissance”. This seems to be linked to increased nationalist feelings. The growth of international trade and the rise of nationalism took place simultaneously. The resemblance to the international situation in the beginning of the 21<sup>st</sup> century is obvious.

Between 1790 and 1815, the us took advantage of the Napoleonic Wars as they had the same effect as protectionism. As soon as the situation normalized, the us implemented “Tariff Acts” in order to continue that effect. As a result, us industrialization took off. The Civil War was financed by tariffs and us industrial products were protected against British products. In 1873, the international economy was hit by a deflationary overinvestment crisis, typical of industrialized economies. This resulted in agrarian and other protectionism, also for financing rearmament, in connection to the emerging nationalist feelings. The start of the First World War clearly was an act of traditional terrorism: in 1914, the Crown Prince of the Habsburg Austro-Hungarian Empire was killed in a street in Sarajevo.

Simultaneously, arguments for protectionism again emerged. In the us, Hamilton stated already in 1791 that industrial maturity implied similar economies of scale. In Germany, List introduced in 1841 the “infant-industry argument”, claiming that an economy passes

through different phases and that “fair trade” is only possible within the same phase. Again, in the us Carey argued for agrarian protectionism as industrial growth was limited by the availability of agrarian surpluses.

Was 19<sup>th</sup> century *Fin-de-Siècle* a period of globalization? And if so, what can we learn from it? Despite the crisis world trade continued to grow. It should be noted that the objective of the new protectionism was taxation, while no non-tariff barriers were implemented. Except for the uk, most industrialized countries maintained negative trade balances with raw material suppliers. The uk was the main exporter of finished products but also the main importer of raw materials for its empire and finished products from “Newly Industrializing Countries”, like Germany, the us and Japan. Very importantly, the uk was the main recipient of “invisible revenues”, like services and profits from foreign direct investments. Simultaneously, the late 19<sup>th</sup> century “Newly Importing Countries” developed within a protectionist environment. In Germany corporatism was introduced by Chancellor Bismarck after the unification in 1870. In the us, anti-trust legislation was increasingly introduced by the government and the Tariff Acts continued to exist. In addition, since the crisis Foreign Direct Investments increasingly replaced foreign trade.

Summarizing, the degree of today’s openness, at the beginning of the 21<sup>st</sup> century, is not exceptional. It is misleading that most studies only show graphs from the post-Second World War period. According to Hobsbawm<sup>16</sup>, movement of labour was one factor that was more “global” compared to today’s globalization; but labour movement was within an “imperial design”. Of course, today there are more technological possibilities. Hobsbawm<sup>17</sup> defines it as “the abolition of distance and time”.

The real question to ask, however, was whether both the 19<sup>th</sup> century and 21<sup>st</sup> cen-

16 E. Hobsbawm, *The Age of Extremes. A History of the World, 1914-1991*, New York, Vintage Books/A Division of Random House, 1996.

17 *Ibidem*.



tury globalizations were really characterized by openness? According to Jomo and Reinert<sup>18</sup> historical evidence suggests that for most of the 19<sup>th</sup>c, tariffs as a percentage of total imports were higher in “free trade England” than in notorious “fortress France”. While the British preached free trade, they did not implement it themselves. Not surprisingly, in 1820, US economists recommended: “Don’t do as the English tell you to do, do as the English do”<sup>19</sup>.

Again, from the Inter-War period (1914-1945) interesting lessons are to be learnt. Clearly, countries having profited from the isolation during the First World War, the so-called “War babies” (Australia, India, Argentina), faced difficulties after the War but succeeded to some extent to maintain certain levels of protectionism. After the War, the UK abandoned the “gold standard” but tried to return to it by unpopular deflationary measures. This resulted in high interest rates and job losses. Other countries, especially Germany, were caught in an inflationary vicious circle. Protectionist reactions to global inflationary tendencies after the First World War, reinforced when confronted with the 1929 Wall Street crisis. New motives for protectionism, e.g. employment, emerged. The entire set of Protectionist tools was reintroduced: “exchange control”, bilateral trading agreements (barter agreements) and the introduction of higher tariffs on the remaining products. However, there were reactions against the new extreme protectionist environment. Both, the Oslo-group (Scandinavia and future Benelux-countries) and the Commonwealth introduced lower interior tariffs. In 1932, Ottawa-agreements, based on a “General Preferential System”, implemented lower interior tariffs within the Commonwealth. However, these were compensated by higher exterior tariffs. The only multilateral agreements of the 1930s were “international commodity control schemes” (forerunners of the present ones).

18 K.S. Jomo and E.S. Reinert (ed.), *The Origins of Development Economics. How Schools of Economic Thought Have Addressed Development*, London-New York, Tulika Books-Zed Books, 2005.

19 *Ibidem*, p. viii.

Kenwood and Lougheed<sup>20</sup> summarise the period, introducing a “Diminishing trade hypothesis”. They identify certain phenomena. Raw materials were increasingly substituted due to more advanced technology. Importing capital goods caused import substitution. According to the Law of Engel, the rise of income resulted in a lower share of food products and a higher share of services, being more locally produced. There were no new geographic markets left to be exploited. Finally, economic vulnerability evoked protectionism.

Summarizing, first we observe that countries who had introduced import protection and were characterized by a high investment rate managed to industrialize and at the same time introduce a sustainable growth. Secondly, we observe that even the industrial forerunners like the UK implemented free trade principles only very selectively. Like Jomo and Reinert<sup>21</sup>, we observe gaps between rhetoric and reality in ostensibly grand schemes based on abstract theory but actually modified in practice. The teachings of Adam Smith and David Ricardo, urging conversion to free trade, were only meant for dependent countries within the “Empire”, not for the UK itself.

### **The experience of the “Pax Americana”: Growth through International Trade?**

The experience of contemporary history shows discontinuity with the immediate past but continuity with the past from a longer perspective. Just like during the 19<sup>th</sup>c, world economy continued to grow. This also coincided with measures for a freer and more stable economic and monetary environment. The gold convertibility of the Dollar was restored after the Second World War. Statistics show that foreign trade again became the engine of growth.

20 A. G. Kenwood and A.L. Lougheed, *The Growth of the International Economy. 1820-2000. An Introductory Text*, London-Boston-Sydney-Wellington, Unwin Hyman, 2000.

21 Jomo and Reinert (ed.), *The Origins of Development Economics. How Schools of Economic Thought Have Addressed Development*, op. cit.



However, there are a few observations which reflect change. Economic integration focussed the industrial sector and much less agriculture and raw materials. The share of trade between developed nations and within regions (cf. free trade areas) increased. The share of Asia also increased but the share of other “developing” regions decreased. There was also an extreme increase of foreign direct investments, in which the shift from export crop estates and raw materials to industrial plants and services was remarkable. The motivations were still quite similar but set in a different technological and transport environment. The access to raw materials, the cost-saving argument, the need to enlarge markets, the opportunity to compete with other companies, and the possibility to remain close to potential clients, all these incentives remained important. The origin of foreign direct investments also reflected the 19<sup>th</sup> century importance of the industrialized countries: especially OECD-countries were both sending and receiving most of the investments. The share of the US started extremely high but kept dropping afterwards, and an alarming phenomenon is that since 1970 also the share of developing countries started dropping. Meanwhile the share of Japan and Asia was rising significantly. One last observation regarding foreign direct investments was the phenomenon of intra-firm trade within international trade, made possible through the use transfer prices.

Critics blossomed. They claimed that there were too many tax exemptions for multinationals, that this did not stop suddenly redrawing from the host country leaving workers jobless, that environmental effects were ignored and that undemocratic political interference in order to protect the foreign direct investments were the order of the day (e.g. in the 1970s: Allende versus Pinochet in Chile).

This rebirth of free trade after the Second World War, and the subsequent intensified international economic relations were framed within a new and solid institutional environment. The US had reacted strongly to the failure of corporate protectionism from the 1930s:

they considered free trade as a solution for both war damage and developing economies. Under US guidance the GATT (General Agreement on Tariffs and Trade) was introduced in 1947, pushing forward two principles: first, non-discrimination, which manifested itself in a most-favoured-nation treatment and a national treatment; second, reciprocity; and third, the exclusion of non-tariff-barriers (NTB's) by principle. This culminated into the last of a whole series of GATT-rounds, the Uruguay Round (1986-1994), when the new World Trade Organization (WTO), was introduced. This Round aimed at including also agricultural products and services (GATS), and at settling the Trade-Related Intellectual Property Issues (TRIPS). This, however, resulted in the growth of another kind of NTB's which evidently escaped the WTO: first, quantitative restrictions of which many were Voluntary Exports Restraints (VER's), like Multi Fibre Arrangement quotas (MFA) since 1973; second, product regulations on a national level; and third, the subsidizing of R&D (WTO forbade direct subsidizing of exports). Meanwhile the WTO, just like the GATT, still allowed measures against dumping (anti-dumping import tariffs). During the post-GATT Rounds, developing countries kept standing against rich countries. The core issues at Seattle (1999) were the subsidizing of agriculture in the EU and the exemptions for developing countries, which both originated from the GATT-era.

Another major exception on the GATT-rules had been regional economic integration, as this was seen as an already “step further”. The different types/stages of economic integration are usually identified as:

- Preferential trade arrangement (partial preferences)
- FTA or Free trade area (abolishing tariffs and NTB's)
- Customs union (harmonizing foreign trade policy)
- Common market (including labour and capital)
- Economic Union (harmonizing economic policy, e.g. EU)

However, it is interesting to note that Viner<sup>22</sup> very early identified an “unfair trade diversion” as a result of the regional integration. Much later Bhagwati<sup>23</sup> would elaborate on this accusation: he suggested that there is a contradiction between non-discrimination and FTA, which is rather a “preferential trade area, discriminating against outsiders”.

Nevertheless, the move towards a West-European Economic Union (EU) was not to be stopped. In 1952 six countries formed the “European Community of Coal and Steel” and in 1957 the “European Economic Community” (an FTA) was founded. Gradually “4 freedoms” were introduced: the free movements of products, persons, services and capital. While from 1968 non-participating countries were confronted with common exterior tariffs, the European agricultural policy caused deterioration on terms of trade of developing countries. In 1996, the EEC became the EU, in order to become a real economic union, e.g. the introduction of Euro in 2002.

The EU was successful as economic growth in the West-European area was sustained. However, the role played by the massive Marshall aid from the US, within the framework of the Cold War, may have been more crucial (see further). The success probably initiated other similar initiatives around the globe, however lacking the immense Marshall aid from which Western Europe benefited after the Second World War. Initiatives outside Western Europe include:

- Mercado Común Centroamericano (1960)
- Latin American Free Trade Area (LAFTA, 1960)
- Andean Common Market (1966)
- Association of South-East Asian Nations (ASEAN, 1967)
- ASEAN Free Trade Area (AFTA, 1992)
- Caribbean Common Market (CARICOM, 1973)

22 J. Viner, *The Custom Union Issue*, New York, Carnegie Endowment for International Peace, 1950.

23 J. Bhagwati, *Free Trade Today*, New Delhi-Oxford-New York, Oxford University Press, 2002.

- Southern African Development Coordinating Conference (SADCC, 1980)
- Gulf Cooperation Council (1981)
- Mercado Común del Sur (MERCOSUR, 1991)
- North American Free Trade Agreement (NAFTA, 1991).

Conversely, many obstacles for integration slowed down the pace. Similar economic structures of participating countries would make the whole idea contradictory. Countries were mainly each other’s competitors on overseas markets. There was certainly a lack of political will as politicians refused to share decision-making with foreign governments. In many cases there were also communication and transport problems.

Clearly, just like during the 19<sup>th</sup>c, the benefits from free trade only touched those who were involved in it. Those poor countries who did start to get involved and initiated a genuine growth process, like the Asian Tigers, also introduced planning, import substitution and protectionism as much as the other developing countries did. Again, nobody actually implemented the recommendations of the Classical and Neo-Classical Schools. What historical experience shows indeed is that the gap between rich and poor countries was growing. If so, the concept of developmentalism, even though not theoretically opposing the free trade movement, offered a possible alternative. But, was it a genuine alternative?

## **The Historical Record of Developmentalism (Desarrollismo)**

At the end of the Second World War there was a general consensus that also planning was to be part of new economic strategies, whether this would be within the framework of economic liberalization, as the US was propagating, or within the framework of state-control, as the USSR was suggesting. The Structural Change Models were a first generation of models which

were predominantly put forward by socialist thinkers. Lewis' "two sector-model"<sup>24</sup> was a trendsetter and broadly suggested squeezing the agricultural surplus on behalf of fast industrialization. In the work of Fei and Ranis<sup>25</sup> agriculture becomes a "full-fledged" sector having to reach a production level so as to feed industrial workers against cheap prices. However, this resulted in a mass migration –from countryside to cities– due to difference in income level. In most cases, a totalitarian system was necessary to squeeze the agricultural sector in order to promote industrialization. This, again, resulted in a "forced" "green revolution" based on large-scale "agro-business", once more resulting in further marginalizing of traditional agriculture. Only big firms could introduce the necessary investments.

Another set of ideas became known as the Linear Stages Theories and would also be promoted from the us side. Nurkse<sup>26</sup> suggested a balanced wave of investments spread over different sectors, to escape from the vicious circle of poverty; this leads to higher productivity, resulting in higher income, resulting in more demand, resulting in growth of the sectors concerned, resulting in more demand for workers, resulting in higher salaries, resulting in more demand... However, the conditions for the model to actually work included the application of the Law of Say, the application of forced savings, possibly complemented by aid, and an optimal input of labourers. Rosenstein-Rodan<sup>27</sup> and Rostow<sup>28</sup> compared it with an airplane taking off: a minimum of investments corresponds with a minimum of supply and demand in the "take-off phase". Then one growth sector will generate spill-overs to other sectors (external economies) in a "sustainable growth phase".

24 W. A. Lewis, "Economic Development with Unlimited Supplies of Labour", *The Manchester School*, vol. 22, n. 2 (1954), pp. 139-191.

25 J. Fei and G. Ranis, *Development of the Labour Surplus Economy, Theory and Policy*, New Haven, Yale University Press, 1964.

26 R. Nurkse, "The Conflict between 'Balanced Growth' and International Specialization", in *Lecturers on Economic Development*, Istanbul, Istanbul University, 1958, pp. 170-176.

27 P. N. Rosenstein-Rodan, "International Aid for Underdeveloped Countries", *Review of Economic Statistics*, v. 63, 2 (1961), pp. 107-138.

28 W. W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto*, Cambridge, Cambridge University Press, 1960.

Rostow defended "the American way": after the "take-off" phase, government intervention and aid would no longer be necessary, and growth would be "self-sustaining".

Hirschman<sup>29</sup>, on the other hand, suggested an "unbalanced growth": production rise is "unbalanced", but finally all sectors influence each other and this results in a balance. His system was based on the concept of an "*unité motrice*" having forward and backward linkages. Gerschenkron<sup>30</sup> supported Hirschman and argued that a deterministic approach of the industrialization process is not correct; a "great spurt" is needed to remove backward technology, aided by government planning (e.g. the USSR).

Already in the 1960s and certainly in the 1970s the consequences of developmentalism became visible. The problem was that usually developmentalism involved planning, protectionism and import substitution. This resulted in industrial output growth, but not in less agricultural workers. Obviously, the poor did not benefit from industrialization. Also in many cases, the main objective of policies was self-reliance and not obtaining a higher productivity. Diversification and output growth was fairly easy in countries like India with a high-skilled labour reservoir. A licence system guaranteed monopolistic profits (like a corporate system in the Middle Age), but no productivity growth or innovations. Licensing involved a huge bureaucracy promoting rent-seeking activities through government jobs (bribing). Trade protectionism had similar effects to licensing: import substitution could only be achieved with obsolete technology and the never-ending continuation of protectionism. This resulted in protected small-scale industries for promoting employment (e.g. textiles) or protected large-scale industries becoming inefficient production giants (e.g. steel). Clearly, the system worked only if export promotion, and not import substitution and self-reliance, was part of the strategy.

29 A. O. Hirschman, *The Strategy of Economic Development*, New Haven, Yale University Press, 1958.

30 A. Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays*, Cambridge, MA, Belknap Press of Harvard University Press, 1962.



## The Institutional and Aid Framework

International organizations and international aid played an essential part in strategies influenced by developmentalism. On the monetary level, the Bretton Woods agreements provided new stability. From July 1944, new international organizations laid the foundations for a more stable world economy: the IMF, the World Bank or IBRD, the ITO -which was later replaced by the GATT. Again, gold was fixed to a specific value expressed in dollars. Other currencies received a fixed value expressed in dollars. This basically restored the Gold Standard. The fixed gold price was guaranteed by the "Federal Reserve System". The Bretton Woods currency exchange system never really worked: until the late 1950s, there was no convertibility of European currencies. Dollars were much needed for the reconstruction of Europe. After 1958, problems with the US balance of payments started. In the beginning of the 1970s, due to an overvaluation of the dollar, a capital flight from the US took off, resulting in the suspension of the gold convertibility of the dollar by US President Nixon in 1971. Surprisingly, the new system of floating currencies worked.

The functioning of the new organizations was crucial for the new world order of the Pax Americana. The IMF encouraged exchange rate stability to avoid currency restrictions. The solution was to provide short-term credit facilities to support balance of payments. This protected currencies against market disturbances, while maintaining fixed exchange rates (system of parities) in order to identify comparative advantages, and thus promoting optimal allocation of production. Each IMF-member paid a "membership fee", depending on economic criteria, thereby obtaining a "quota". Every 5 years these quotas were raised. In addition, a special credit facility was introduced by the "G-10": the "General Arrangements to Borrow" (GAB). This was a network of bilateral credit lines between participants, benefiting first the UK, because of its initial balance of payments problems after the War, and later especially de-

veloping countries during their debt crisis from 1982. From 1970, countries could also enjoy "Special Drawing Rights" (SDR's), "created out of nothing", mathematically fixed, and thereby focussing monetary reserves more on the real needs. However, SDR's as a currency (based on a basket construction) never took off.

Meanwhile, the World Bank supported the post-War process of economic development and growth. It attracted freely capital from international financial markets and passed it on to developing countries, guaranteed by credit-worthy member states. As a result of international negotiations combined with financial/monetary power, new international forums came into existence. Groups of countries were formed in order to exchange information or to coordinate policy, e.g. the G-10 (1962), the G-7 (1967, a group of industrialized countries consisting of US, Japan, Germany, UK, France, Italy and Canada) and the G-24 (a group of developing countries).

But even more important was the real miracle of Marshall Aid which provided the new Pax Americana with economically strong allies for the US. In 1947, the Marshall Plan and the Organisation for European Economic Cooperation (OEEC) were introduced in order to distribute American aid to Western Europe. Strict conditions of saving, reinvesting and economic integration were enforced and proved to be essential to its success. The Plan resulted in the "welfare state", reinforcing the position of Western Europe against East European communism. McMillan, the British Prime Minister, was able to tell his voters in 1959: "You never had it so good".

In 1961, the OEEC became the Organisation for Economic Cooperation and Development (OECD). By that time, the original recipients of American aid had become a "club of rich countries". Its Development Assistance Committee (DAC) now coordinated the development cooperation policies of the OECD-members. Roles were reversed but never the same size of development aid, as expressed as a share of GNP, would be achieved again.



What was the impact of multilateral and European development aid? Basically it was the World Bank, supplying loans against bank interests, which would play the role of Marshall aid on an international level. Other multilateral players in this field included the International Development Association (1960, IDA, soft loans), the IFC (1956, IFC, loans to private sector) and the regional development banks (connected to WB). During the 1950s, the overall emphasis was on projects for financing the public sector of developing countries (roads, electricity). During the next decade, however, funds shifted to agriculture, education, population control and urban development. The doubts about the efficiency of projects, expressed during the 1970s, resulted in the introduction of conditional "programmes", the Structural Adjustment Programmes (SAP's) during the 1980s. The new formula consisted of balance of payments support with guidelines for better macro-economic policies, in collaboration with the IMF and the World Bank.

Also other organizations linked to the UN were involved in redistributing wealth on an international level. On the one hand there were the UN-organizations under the Economic and Social Council (UNDP, UNICEF, UNCED, WFP, etc.) On the other hand there were Specialized UN-Organizations (FAO, WHO, UNESCO, IFAD, etc.) On a European level, the then European Economic Community (EEC) channelled its aid through Yaoundé (1965-) and Lomé (1975-) agreements with ACP-countries (small African-Caribbean-Pacific countries with an, especially French, colonial past). The agreements included the STABEX-scheme, guarantying stable prices for raw materials and food export crops, tariff exemption or reduction and straightforward development aid. Unfortunately, the countries involved were only confirmed in their position as suppliers of raw materials and the agreements had poor results. The EEC also introduced its own General System of Preferences (GSP), introducing tariff quotas for finished products from developing countries. However those products, which would really make a difference, were mostly excluded from this system.

Does the historical record show that aid works? Statistics, actually, show a negative correlation between aid and growth: Africa, performing extremely poor, received ten times more aid per capita than Asia and Latin America, performing relatively well. There are a number of observations that may explain this phenomenon. First, the amounts involved remained negligible in comparison to the size of the problem. The UN promoted development cooperation of more than 1% of GDP. For instance, the US in 2001 only spent 0.1 % of GDP on development cooperation, including military assistance. The GSPs, which were gradually granted by all rich countries, did not include strategic products like textiles, and were even often abolished when they started being effective<sup>31</sup>. Second, aid is removing hard budgetary restraints. This retarded a domestic consensus on introducing necessary economic measures. Third, during the Cold War aid focussed geo-political reasons, not economic growth. Also the response, conditional aid through introducing SAPs, proved to be having poor results. A vicious circle started: creditors responded to weak performances by increasing conditions which certainly could not be met, while the IMF and the WB simply kept sanctioning loans for their own survival.

Were Non-Governmental Organizations (NGOs) a realistic and sustainable alternative? Since 1980s, NGOs experienced a spectacular growth. They were characterized by the absence of profit motives and by co-financing from the public, national governments and international organizations. As most of them were small and local they could implement local and appropriate know-how, involving collecting and interpreting data emergency aid, local integrated development, etc. However, since the 1990s gradually the new populism also reacted against NGOs, the public not making a distinction between official bilateral aid and NGO-work. To some extent, critics rightly questioned the NGOs neutrality, as most of them took a progressive and sometimes leftist stand.

31 Bhagwati, *Free Trade Today*, op. cit.

Summarizing, aid only confirmed the successful combination of planning and export promotion, as it did in Japan, South Korea and Western Europe, and the failure combination of planning and self-reliance.

## The Historical Perspectives of Dependencia, Neo-Marxist and Utopian Schools

Schools of thinking that did have a historical approach to international development problems included the *Dependencia* and Neo-Marxist Schools which became very popular during the 1960s. In general, they regarded trade as an obstacle to development. Also, for the first time the issue of international trade and relations was considered from the perspective of developing nations. Basically, the new way of thinking was based on two statistical observations which involved a certain historical perspective. First, the share of intra-industry trade still increased, reflecting more refined specialization patterns among industrialized countries. Second, developing countries kept specializing in labour-intensive products, like agricultural & raw materials, and consequently failed to pick up with growth of international trade in processed products. Singer<sup>32</sup> actually concluded that the use of their comparative advantages kept developing countries backward. Many economists also concluded from history lessons that institutional obstacles (policies, technology) determine size, direction and content of foreign trade, exactly as the Industrial Revolution had led to a polarization of poor and rich in the domestic economies concerned. This confirmed the so-called drain theory that took place both at national and international levels.

The Centre-Periphery Model was a specific attempt to explain these mechanisms more precisely. Already in 1948, the French economist

Perroux spoke about "Paris et le désert", illustrating the transfer of capital from one region to another. The Argentinean doctor-economist Prebisch<sup>33</sup> translated Perroux's concepts on an international level: the "periphery" is collaborating with the "centre" through a "bourgeoisie comprador". Economists like Furtado<sup>34</sup>, Frank<sup>35</sup>, Cardoso<sup>36</sup>, Stavenhagen<sup>37</sup> and Wallerstein<sup>38</sup> created modern theories of "imperialism", whereby the social product and surplus is being expropriated through a chain of relationships. Their theories were supported by specific statistical observations. First, the export of developing countries often depended on one raw material. Second, the terms of trade evolved to the advantage of finished products (not so much lower prices for raw materials, but higher prices for finished products). Third, the income elasticity of demand for raw materials and agricultural products was relatively low.

Myrdal<sup>39</sup> and Levin<sup>40</sup> stated that capital flows to where higher profit margins are expected ("vicious circle"), resulting in non-diversification of production and exports of developing countries. In addition, investments to developing countries focus unproductive "economic enclaves" ("polluting" mines, plantations) and pull out savings from local economies. Emmanuel<sup>41</sup> argued that the proletariat in developing countries is exploited (low salaries to increase profits which are repatriated), while prices are institutionally fixed. A model of development took shape in which capital is

32 H. W. Singer, "The Distribution of Gains Between Investing and Borrowing Countries", *American Economic Review*, 40 (1950), pp.473-85; *The Strategy of International Development. Essays in the Economics of Backwardness*, London-Basingstoke, The MacMillan Press, 1975; Singer, H. and Ansari, J., *Rich and Poor Countries*, London-Boston-Sydney, George Allen & Unwin, 1982.

33 R. Prebisch, "El falso dilema entre el desarrollo económico y estabilidad monetaria económica de América Latina", *Boletín Económico de América Latina*, 6, 1 (1961).

34 C. Furtado, *Economic development of Latin America*, Cambridge, Cambridge University Press, 1970.

35 A. G. Frank, "The Development of Underdevelopment", *Monthly Review*, 18, 4 (1966), pp. 17-31.

36 F. H. Cardoso, "The Consumption of Dependency Theory in the United States", *Latin American Research Review*, 12, 3 (1977), pp. 7-24.

37 R. Stavenhagen, "Siete tesis equivocadas sobre América Latina", *El Día* (25 y 26 de junio), México, 1965.

38 I. Wallerstein, *Politics of the World-economy: the States, the Movements, and the Civilizations*, Cambridge, Cambridge University Press, 1984.

39 G. Myrdal, *An International Economy. Problems and Prospects*, New York, Harper & Brothers, 1956.

40 J. Levin, *The Export Economies: Their Pattern of Development in Historical Perspective*, Cambridge, Harvard University Press, 1960.

41 A. Emmanuel, *El intercambio desigual*, México, Siglo XXI, 1972.

mobile while labour is immobile. It was argued that the assumption that profits benefit local economies is wrong because of globalization of the ownership of capital. Baran and Sweezy<sup>42</sup> observed that technological revolutions only take place in rich countries and that marketing in developing countries focus “foreign” products. They concluded that because monopolies create surpluses they use developing countries as a “forced” market.

While *Dependencia*-schools only criticized the way international trade was taking place, and not so much international trade itself, the Utopian School, with its slogan “small is beautiful”, was more explicit. Schumacher<sup>43</sup> referred to Mahatma Gandhi, emphasizing “*production by the masses*” instead of “*mass production*”. Lipton<sup>44</sup> attacked both communism and capitalism for concentrating capital in the cities. These approaches resulted in a “Basic-Needs strategy” (e.g. ILO’s World Employment Programme, 1969), whereby “small scale” is using “appropriate technology”, planning gets decentralized, land and capital get redistributed (through land reform and taxes) and local capital is made available (although not too cheap to increase efficiency).

These and other objectives of developing countries also became more spread while they were discussed during UNCTAD-rounds, which increasingly became an outlet for developing countries. In 1964, Prebisch became the first secretary-general of United Nations Conference on Trade and Development (UNCTAD), based in Geneva. Within the UNCTAD, the OECD, being a “rich club”, was facing a “Group of 77”, representing the developing countries. Among the UNCTAD’s achievements were the introduction of the GSP, of international commodity agreements (ICA’s), guaranteeing price stability, of regulations for

FDI’s and multinationals, for the untying of aid, for Special Drawings Rights (SDR’s from IMF), and for the proposal for a “New International Economic Order” (NIEO) in 1974. However, as we have seen already, many of these measures had little or no impact.

Summarizing, dependency theory reflected the mercantilist theories of “good” and “bad” trade. It could prove that exporting raw materials while importing manufactured goods was (and still is) “bad” trade<sup>45</sup>. The theory has unfortunately been abused for protecting old industries for small home markets, like was the case in many Latin American countries.

### **Another Experience of Economic liberalism: The Age of Neo-Liberalism**

Because of the failures of developmentalism, a new age of neo-liberalism was introduced. While stagflation (inflation combined with stagnation) had become a new reality, free trade and globalization were given another chance. The first signs of the collapse of the Keynesian economy came when President Nixon suspended the gold convertibility of the dollar to stop speculation against the dollar. A healthy demand inflation gradually became a cost push inflation. This was initiated by a new collaboration among oil producers within the OPEC, resulting in a rise of oil prices. More inflation stimulated more loans and higher interest rates. An international financial crisis hit the world, but especially developing countries were suffering. Central Banks reacted by introducing tight money policies. The new crisis actually allowed a break-through of monetarists and neo-liberals, implicating higher saving rates, controlling money supply, along with the usual social side effects when such measures are being introduced. At the same time, more attention was paid on finding alternative energy sources.

42 P. A. Baran, and P. M. Sweezy, *Monopoly Capital: An Essay on the American Economic and Social Order*, New York, Monthly Review Press, 1966 and P. A. Baran, *The Political Economy of Growth*, New York, Monthly Review Press, 1957.

43 E. F. Schumacher, *Small is beautiful. Economics as if people mattered*, New York, Harper & Row, 1973.

44 M. Lipton, *Why Poor People Stay Poor: Urban Bias in World Development*, Temple Smith, London, 1977.

45 See also Jomo and Reinert (ed.), *The Origins of Development Economics. How Schools of Economic Thought Have Addressed Development*, op. cit., p. xix.



Within the new framework of thinking, free trade became considered as the ultimate solution. Economists like Friedman and Von Hayek led the attack on Keynesianism. On the political level, Reagan and Thatcher were leading the new movement. They believed in replacing subsidizing lame ducks by the “*magic of the market place*”, introducing “economies of scale”. The Japanese-American philosopher Fukuyama expressed the superiority of capitalism and liberal democracy, which provided both material benefits and social recognition.

The new spirit included criticizing traditional development theories. New economists claimed that demand had too often been ignored. The role of the agricultural sector had to be revised. The alternative was summed up as a combination of international trade and building up technological capacity, while the role of sub-contracting and small entrepreneurs was emphasized. Later on, business guru Prahalad<sup>46</sup> even identified “the fortune at the bottom of the pyramid”. He illustrated how, collectively, the world’s billions of poor people have immense entrepreneurial capabilities and buying power.

“Asian Tigers and Elephants” became the proof of the success of the new approach. Actually, their story had already begun in the 1950s when most future “Tigers” introduced planning in order to substitute imports and to promote exports. These Newly Industrializing Countries (NIC’s) had introduced certain institutional factors, e.g. high savings through high taxation, resulting in a favourable combination of labour productivity, wages and exchange rates. As labour in the NIC’s gradually became more expensive, the more labour intensive activities shifted to Newly Exporting Countries (NEC’s), thereby also avoiding import restrictions on goods from NIC’s. Since the late 1990s, another shift took place towards the “Elephants”: China, which had been liberalizing its economy for some time specializing in manufacturing, was now joined by India, which specialized in ser-

vices, e.g. software. India, with its huge population and cheap labour was thus specializing in a relatively capital-intensive sector, thereby illustrating the shortcomings of neo-classical economics.

Inspired by the “new economics” the IMF and the WB introduced Structural Adjustment Programmes (SAP’s) in order to solve the new problems of developing countries. The recycling of petrodollars had created an easy access to private international banking. Unfortunately, the stagflation resulted in a low international demand. This resulted in a series of balance of payments shortages, or a “debt trap”. From 1982, SAP’s were introduced as a remedy for “debt-trapped” developing countries. These SAP’s consisted of IMF-loans in combination with savings, deflation, privatization and outward looking policies.

“Developmentalism” itself gradually became the result of a new term called “Bad Governance” which was now also under attack. Political instability and chaos, caused by clientelism and warlordism, were identified. Likewise, inefficient socio-economic domestic policies were responsible: the creation of a political market had misallocated means through subsidizing and fixed prices, exchange control, investment policies of financial institutions, the maintenance of a huge public sector, and the growth of a black economy. Economists concluded the need for “Good Governance”, which became conditional for aid programmes. However, political and social scientists like Mahbubani<sup>47</sup> argued that “Good Governance” is not connected to any system or ideology. Undemocratic China provides more guaranties for “Good Governance” than democratic India. None of the NIC’s in South-East Asia had been democracies. A democratic Pakistan may allow Muslim fundamentalism to rise to power, etc. Likewise there are many understandings of human rights, either in a socio-economical or in a political sense.

46 C. K. Prahalad, *The Fortune at the Bottom of the Pyramid. Eradicating Poverty Through Profits*, New Delhi, Wharton School Publishing-Pearson Education, 2007.

47 K. Mahbubani, *Can Asians Think?* Singapore-Kuala Lumpur, Times Editions, 1998.



Summarising, the entire case for neo-liberal economics was based on a short-term view of history. The failure of Keynesian economics and “developmentalist” thinking to solve global socio-economic problems allowed neo-liberals to impose on developing countries what they had never imposed on themselves. The main problem was a total disregard of economic world history before the Second World War.

### Recent Experience: From “Free Trade” to “Fair Trade”?

At the beginning of the 1990s new product cycles provided new oxygen to the world economy. The information technology revolution originating from “Silicon Valley” in the us created “a new engine for growth”, reemphasizing the role of the us. Meanwhile new emerging markets looked like catching up with this technological train. However, in 1997 a financial crisis hit the NIC’s. Basically, East Asia confronted a typical overproduction-crisis, combined with an export failure, a foreign debt increase, and an escape of investors to the us dollar. Three years later a general overproduction crisis hit the entire world economy. This was accompanied by a crisis of a political nature: the terrorist attacks of 11 September 2001.

These crises provided the background against which critics were focussing the new neo-liberalism. They illustrated the weaknesses of the neo-liberal approach. Again, growth proved to be “unsustainable”. Voices came up for a different kind of globalization. Critics focussed certain issues. First, there was the ethical dimension of what neo-liberals were introducing. Economic philosophers were identifying a “metaphysical void”. Market mechanisms had allowed violence, sex and “infotainment” (information being disinformation because of entertainment), which may be contrary to certain moral values. The reactions can clearly be identified: ethical banking became relatively successful while an increasing number of economists started emphasizing the “human factor”.

Second, neo-mercantilism and neo-corporatism emerged in rich economies. Neo-Corporatism is a system whereby “Big Capital” turns into “managerial capitalism”. Saul<sup>48</sup> describes it as “a system to maintain millions of unproductive managers”. Activities like merging, take-overs, investments in real estate and the booming of business schools, take place while no genuine growth is achieved. “To think” is being replaced by “to manage”. Neo-Mercantilism refers to the “nation” as the new economic reference point. Krugman<sup>49</sup> argues that competitiveness is a funny way of saying productivity, resulting in unemployment and an increasing income gap. Hobsbawm<sup>50</sup> argues that the main problem is that “the need for human beings is constantly diminishing”.

Third, there is the issue that integration results in fragmentation. Barber<sup>51</sup> describes it as: “Jihad Versus Mac World”, whereby economic and cultural globalization increasingly results in a more “tribal” world divided by race, religion, and language. This is also reflected by the adjustment of international financial players to local markets, e.g. cnn Turkey, CNN PLUS, MTV India, etc.) Despite the fact that Huntington’s “Clash of Civilizations” is based on the false presumption that humanity can be pre-eminently classified into distinct and discrete civilizations, and that the relations between different human beings can somehow be seen in terms of relations between different civilizations, his predictions may become true if people keep on being brainwashed by media emphasizing cultural differences and thereby reducing the concept of a human being to merely belonging to a “civilization”.

The fourth problem is that neo-liberalism is being presented as a solution to the development problem. According to Hobsbawm<sup>52</sup> “the

48 J. R. Saul, *The Unconscious Civilization*, New York, Simon & Schuster, 1999.

49 P. Krugman, *Peddling Prosperity. Economic Sense and Nonsense in the Age of Diminished Expectations*, New York-Londen, w.w. Norton & Company, 1994; *Pop Internationalism*, Cambridge, Mass., MIT Press, 1996; *The Accidental Theorist*, New York-Londen, w.w. Norton & Company, 1999.

50 E. Hobsbawm, *The New Century*, London, Abacus, 2000.

51 B. R. Barber, *Jihad vs. McWorld. How Globalism and Tribalism Are Reshaping the World*, New York, Ballantine Books, 1995.

52 Hobsbawm, *The New Century*, op. cit.

problem with globalization is its aspiration to guarantee a tendentially egalitarian access to products in a world that is naturally unequal and varied". Indeed, more access to means does not imply a more equal access for everybody, as economic and political power relations are independent from the scale of the economy, e.g. access to capital markets. Sen<sup>53</sup> argued that (development) economics should be about developing capabilities of people, and increasing the options open to them rather than about trying to produce more goods or maximize utility. He also rejected the assumption of human rationality in neo-classical and neo-liberal economics. Humans would become "rational fools", since acting selfishly can lead to absurd interactions leaving out any concern for other people. Also preferences do *not* determine human actions (e.g. illiteracy). However, Sen concluded that provided the right policies, even low per capita income countries can expand capabilities and opportunities.

A fifth problem is a contradiction in the implementation of neo-liberalism itself. Rich countries did not introduce neo-liberal policies; instead, they introduced highly conditional trade policies. That there is no genuine open-door policies in rich economies is illustrated by the increase in non-tariff barriers (NTB's) and product regulations (the so-called "grey-zone measures" or "new protectionism" connected to neo-mercantilism). This was possible due to the success of populist visions in rich countries. On the other hand, the GATT Uruguay Round actually reduced preferential import tariffs for developing countries. According to Bhagwati<sup>54</sup> rich countries implemented tariff peaks and NTB's in case of products increasingly imported from poor countries (e.g. G.W. Bush was responsible for the growth of steel and agricultural protectionism in the US). One has to take into account the ethical difference between agriculture (small group of large-scale producers in rich countries) and textiles (where unskilled labour in both rich and poor countries compete

with each other). Also, higher tariffs on labour intensive products result from political economy itself: rich countries focus "their" products in liberalization process; poor countries use more anti-dumping measures and implement a higher industrial tariff average.

This entire problem of the contradictory implementation of neo-liberalism is of course a political problem. There is the populist fear for unemployment in rich countries caused by globalization and neo-liberal policies. Part of the public opinion is convinced that free trade causes unemployment. The French economist Allais identified it as the consequences of "*le capitalisme sauvage du modèle anglo-saxon*". These views, of course, exclude the possibility that the development of poor countries will make them customers. Instead, they demand an increase of populist protectionist policies, resulting in a rise of the "new protectionism", like the introduction of social and environmental labels, which escape the WTO-rules.

A sixth issue is that neo-liberal thinking does not take into account the timing of liberalization: a lack of industrial productivity growth could lead to de-industrialization, e.g. the consequences of European imperialism in the 19<sup>th</sup>C. Liberalization may be a good thing provided the time is right.

Finally, there is the confrontation with reality: the already discussed crises of 1997 and 2000 and the failing SAP's. The SAP's were criticized from different angles. First, there is the lack of flexibility, which Stiglitz<sup>55</sup> identified as "*market fundamentalism*", whereby no difference is made between "good" and "bad" governments. Second, non-sustainable growth is stimulated, causing for instance environmental damage. Third, SAP's result in higher income concentration. However, the question may also be raised whether this is the result of globalization and liberalization or of a manipulating government representing a small group. Means for basic needs may also be diverted to the export

53 Sen, *On Ethics and Economics*, op. cit; *Commodities and Capabilities*, op. cit.; *Development as Freedom*, op. cit.

54 Bhagwati, *Free Trade Today*, op. cit.

55 J. Stiglitz, *Perverse globalisering*, Utrecht, Het Spectrum, 2002.

sector. Fourth, SAP's result in more unemployment. Due to neo-mercantilism developing countries become competitive in capital intensive products and FDI's focus capital intensive sectors, while neglecting cheap labour, the main comparative advantage. Fifth, implementing SAP's which have, by definition, adverse effects on socio-economic conditions during a long transitional phase, may be contradicting public opinion and may thus be in contradiction with democratization.

Finally, as a case study the role of a rich economic union like the EU may be examined. Again critics have been raised. First, it is observed that the principle of redistribution stops at the EU borders. Second, protectionist effects of the abolishment of all intra-EU trade restrictions on non-EU trade partners must be taken into consideration. The fears of a "Fortress Europe" are spreading outside Europe. Third, Hobsbawm<sup>56</sup> described the EU "in global terms a mechanism for preventing immigration". Fourth, the exclusion of certain countries may have adverse effects in the long run. The feeling, not to be taken into account, leads to frustration, nationalism and fundamentalism, e.g. Nazi Germany and, of course, today's Turkey being blocked from EU-membership.

We conclude that the rhetoric-reality gap that existed during the 19<sup>th</sup> century still exists. US President G.W. Bush preaches the benefits of free trade while the US gives tariff protection and subsidies to the world's largest farms and to a host of industries. American trade policy guru Paul Krugman confirms this by accusing his country of not implementing orthodox neoclassical theories. Not surprisingly a globalization with such an internal contradiction is bound to fail. There is no record of a developing economy, which escaped the cycle of poverty by implementing export promotion without simultaneously implementing planning and import protectionism. According to Jomo and Reinert<sup>57</sup>, the only reason why Marx insisted on supporting free trade was that it hastened the

revolution. They imagine that today's revolutionaries, like fundamentalists and nationalists, are of the same opinion.

## New Uses of Historical and Institutional Approaches

At the end of the 20<sup>th</sup> and the beginning of the 21<sup>st</sup> centuries, globalization is confronted with nationalist and fundamentalist tendencies. Religious Fundamentalism is rising in poor countries. There is no doubt that poverty and a lack of opportunities are important breeding grounds. Populism and Nationalism is on the rise in rich countries. The advocated immigration stop is in contradiction with the need for specialized labour; actually, Asia continues to be a reservoir for human capital in rich countries. Throughout the 20<sup>th</sup> century both academic and literary authors like Galbraith<sup>58</sup> and Tagore<sup>59</sup> continued to warn against the negative aspects of nationalism from an economic perspective. Summarizing their arguments, "wasted energy" was invested in "national pride".

However, since the 1990s, the so-called modern institutionalists reacted against neo-liberalism and provided some alternative answers. According to Rivers<sup>60</sup>, the basic argument is that a market is incomplete and socially institutionalized. Neo-classics, he said, did not consider Marxist "surplus value" despite the continued existence of poverty. Similarly, Bhaduri<sup>61</sup> claimed that exploitation can be expressed in institutionalized trade relations.

North and Thomas<sup>62</sup> used the same approach to defend certain capitalist institutions

56 Hobsbawm, *The New Century*, op. cit.

57 Jomo and Reinert (ed.), *The Origins of Development Economics. How Schools of Economic Thought Have Addressed Development*, op. cit.

58 J. K. Galbraith, *A History of Economics. The Past as the Present*, London-New York-Ringwood-Toronto-Auckland-Harmondsworth, Penguin Books, 1991; *A Journey Through Economic Time*, Boston-New York, Houghton Mifflin Company, 1994; *The Economics of Innocent Fraud*, London-etc., Penguin Books, 2004.

59 R. Tagore, *Nationalism*, New Delhi-Calcutta-Allahabad-Bombay, Rupa & Co, 1994.

60 J. Rivers, *Twentieth Century Growth Theories*, New Delhi-Bangalore-Chennai-Calcutta-Patna-Kanpur-London, USPD, 1999.

61 A. Bhaduri, *La estructura económica de la agricultura atrasada*, México, Fondo de Cultura Económica, 1983; "Economic Power and Productive Efficiency in Traditional Agriculture", in B. Gustafsson (ed.), *Power and Economic Institutions. Reinterpretations in Economic History*, Aldershot, Edward Elgar, pp. 53-68.

62 D. C. North/R. P. Thomas, *De opkomst van de westerse wereld. Een nieuwe economische geschiedenis*, The Hague, Martinus Nijhoff, 1980.



like private property. They concluded that “The performance of economies over time is affected by the kinds of institutions they have and their interaction”. McNeill & McNeill<sup>63</sup> investigated historical “webs” (“networking”) of human interaction, which determine economic performance of world regions. Pointing<sup>64</sup> investigated “discrimination”, causing underdevelopment, from a historical perspective. He concluded that deep-rooted structural problems cannot easily be solved by e.g. positive discrimination.

These and similar historically oriented studies addressed the same basic question: what is the institutional sustainability of globalization? The similarities between *fin-de-siècles* of 19<sup>th</sup> and 20<sup>th</sup>c. are striking and the one of the 19<sup>th</sup> century resulted in two devastating world wars. Usually the researchers come to the same conclusion: globalization should not be considered negative by definition. The roots of underdevelopment are institutionalized, regardless their scale. To address these roots there is a need for “international good governance”.

Also an economist like Sachs<sup>65</sup> was influenced by such an approach when he wrote his “Millennium Development Goals”. His cost-benefit-analysis showed that this is the best way to fight terrorism. The costs of the Iraq War by far exceeded the costs for his “Millennium Development Goals”. Comparing post-War Marshall Aid for Europe, being 2% of US GNP, to us aid in 2000 (only 0.2% of US GNP) he came to the obvious conclusion from this historical perspective. Then he identified networks of connections and behaviour guidelines for multinationals and poor communities as a long-term solution for development problems and as a model for future globalization.

Nevertheless, on the whole, historians were not anti-globalists as such. On the contrary,

63 J. R. McNeill /McNeill, W.H., *The Human Web. A Bird's-Eye View of World History*, New York-London, W.W. Norton & Company, 2003.

64 C. Pointing, *World History. A New Perspective*, London, Chatto & Windus, 2000.

65 J. Sachs, *The End of Poverty. How We Can Make It Happen In Our Lifetime*, London, etc., Penguin Books, 2005.

based on the historical experience globalization was considered as *The Logic of Human Destiny*. Wright<sup>66</sup> illustrated with examples from history that trade relations are the “non-zero-sum-situation number one” generating peace. As illustrated above, historians were also increasingly aware of globalization as a genuine international phenomenon because also so-called “non-Western” civilizations (in particular the Asian one), historically contributed to the first “globalizations”. Wright, however, was too uncritical about which type of globalization he was defending. The already discussed rhetoric-reality gap has precisely been identified by a historical approach to international and development economics.

Also the ecological case is defended by historians. Concepts like sustainable development and environmental economics increasingly became part of the language economic historians spoke. Already Meadows with his revolutionary *The Limits to Growth* (1972) was aware of a historical perspective. But both the Earth Summit in Rio (1992) and the Kyoto Protocol (1997), rejected by G.W. Bush, met with the same question: “Who is going to pay for it?” Wright<sup>67</sup> and Diamond<sup>68</sup> referred to historical case studies (Sumer, Ancient Egypt, Greece and Rome, Easter Islands, Petra in Jordan, Maori's in New Zealand, Chaco Pueblos in New Mexico) to illustrate that humans and growth are self-destructive: “Nothing learned, and everything forgotten”<sup>69</sup>. Likewise Pointing<sup>70</sup> studied the relationship between the environment and human history already 1991. He argued that societies have prospered by exploiting the Earth's resources but then reached the point where those resources could no longer sustain their populations, causing their subsequent collapse.

66 R. Wright, *Nonzero. The Logic of Human Destiny*, New York, Vintage Books, 2000.

67 Wright, *A Short History of Progress*, op. cit.

68 J. Diamond, J., *The Rise and Fall of the Third Chimpanzee. How Our Animal Heritage Affects the Way We Live*, London-Sydney-Auckland-Parktown, Vintage. Random House, 2002.

69 Wright, *A Short History of Progress*, op. cit.

70 C. Pointing, *A New Green History of the World. The Environment and the Collapse of Great Civilisations*, London, Vintage Books, 2007.



The global approach of world historians suits the new post-modern era. The consequences of globalization lead to reconsidering “modernism” and looking for combined socio-economic and cultural approaches, which involve a broad historical perspective.

## Conclusions

First, we argue that contemporary economic history shows that post-War economic development thinking did not provide an answer to development and globalization problems. We suggest that a more profound look at the historical experience of economics is necessary for a better insight in contemporary problems. We refer here to the remarkable approach of Reinert<sup>71</sup> in which economics is described as a profession that has lost its own history. He identified the classical and neo-classical schools as a-historical theorising that replaced a far richer tradition of social and economic thought. As Sen<sup>72</sup> also claims, the classical school imagined an abstract and natural equilibrium while market information is per definition imperfect. This “Other Canon”, as Reinert put it, “understood that economic development was based on collective rent-seeking, originating in synergies of increasing returns, innovations and division of labour that were found clustered only in the cities”<sup>73</sup>. Thus, the origins of the concept of increasing returns are not to be found in Adam Smith’s all-too-famous example of the division of labour in a pin factory, but in the writings of Xenophon, whose book *Oeconomicus* in the 4<sup>th</sup> century BC in Greece gave economics its name. In 1613, the Italian Antonio Serra described the positive effects of increasing returns with greater clarity than Smith, while 18<sup>th</sup> century German economist Ernst Ludwig Carl used the same pin factory example first. In the same vein, Reinert showed that many of the so-called

novelties of modern economic modelling are no more than repetitions of earlier insights of 16<sup>th</sup>, 17<sup>th</sup> and 18<sup>th</sup> centuries mercantilists, physiocrats and economic liberals.

Reinert actually defended a return to pre-Adam Smith economics as an answer to development and globalization problems. He argued that the key concept is not comparative advantage or free trade, but rather what Enlightenment economists called “emulation”. This involves recognizing wealth synergies around increasing returns activities and conscious targeting, support, and protection to these activities, including temporary monopolies and patenting, tax breaks, export bounties and cheap credit. The division of labour has to be maximized through a diversified manufacturing sector, while the landed nobility and other groups with vested interests, based in the production of raw materials, have to be relatively suppressed. Also emphasis has to be put on learning and teaching and, where necessary, skilled foreign labour has to be attracted to work in targeted activities. Finally, a strong agricultural basis should be maintained and supported, combined with restraints on export of raw materials.

In addition, we would extend the argument of Reinert to so-called “non-Western” economic thinking, derived from Islamic, Buddhist and Hindu economic thinking which supported theoretically the already mentioned successes of Asian and Middle Eastern economies for millennia. Unfortunately, Reinert’s historical approach remains Eurocentric.

Also according to Reinert, history’s first deliberate large-scale industrial policy –the promotion of wool production in the 15<sup>th</sup> century in England– was based on an observation of what made the richer areas of Europe rich: that technological development in one field in one geographical area could extend wealth to an entire nation. Subsequently, there have been systematic attempts to suppress this basic insight: “Wealthy nations keep poor countries poor based on theories postulating the non-

71 Jomo and Reinert (ed.), *The Origins of Development Economics. How Schools of Economic Thought Have Addressed Development*, op. cit. See J. Ghosh, “Worldly Philosopher”, in *Frontline*, Chennai, Kasturi & Sons Ltd, June 29, 2007, pp. 90-91.

72 A. Sen, *Identity and Violence. The Illusion of Violence*, London, etc., Allen Lane-Penguin Books, 2006, p. 137.

73 Ghosh, “Worldly Philosopher”, op. cit., p. 79.

existence of the very factors that created their own wealth"<sup>74</sup>. Sen concludes:

As has been amply demonstrated in empirical studies, the nature of market outcomes are massively influenced by public policies in education and literacy, epidemiology, land reform, micro-credit facilities, appropriate legal protection, etc... and in each of these fields there are things to be done through public action that can radically alter the outcome of local and global economic relations<sup>75</sup>.

Reinert's intellectual lineage has been described as "neo-Schumpeterian", but his approach touches the very essence of the problem. Reinert even describes the Millennium Development Goals as "palliative economics", which are aimed at easing the pains of poverty rather than making the fundamental structural changes that result in true economic development.

As Beinhocker<sup>76</sup> points out, also the recent approach of "complexity economics" goes in the same direction but considers disequilibrium as a natural state as quantum-physics and interacting organisms in an ecosystem are the scientific reference points and no longer traditional physics. Rather than portraying the economy as a static equilibrium system complexity, economics consider it as a complex adaptive evolutionary system with no equilibrium in sight.

Second, as far as socio-political dangers are concerned we suggest that more importance in education on all levels is put on history, which reflects the achievements of mankind as global phenomena and stops presenting everything within a dangerous West/non-West framework. In many world history overviews the entire continent of Asia is overlooked, except when the so-called "West" interacted with it or intruded on it. Typically, India is mentioned when Alexander the Great reached it. Similarly, the Muslim world is mentioned when European *Jihad*, the

Crusades, reached it. From this point of view, Latin America is usually overrepresented as the European *conquistadores* reached it relatively early. Only when 19<sup>th</sup> century European imperialism left its traces on overseas territories, the whole world comes to life. Obviously, history reflects personality and environment but in a world that is becoming increasingly conscious of the inter-relationship between the world's continents, there is a specific need to overcome these subjective factors and to consider globalization and development from a broadminded, genuinely international historical framework. The psychology of humans is to consider everything that they do not understand or can identify with as something suspicious. Sen<sup>77</sup> refers to a Hitchcock film called "*Rear Window*" where a crippled photographer, played by James Stewart, was observing some very suspicious events in the opposite house. Like James Stewart, the audience became convinced that a gruesome murder had been committed in the apartment that could be seen from the rear window. The film was actually an indictment of McCarthyism in the US, which encouraged everybody to watch the activities of other people with great suspicion. The lessons from a global historical approach are plentiful: experiences with ecological problems, empire-building of many different natures, the results of foreign economic policies, the interconnection between socio-economic factors and political phenomena like nationalism, fundamentalism and terrorism, etc.

In addition, there is the problem of how the so-called non-Western world comes to life. As explained in the first chapter there is for instance enough historical evidence to illustrate Muslim tolerance and diversity. Sen<sup>78</sup> demonstrates by referring to the religious tolerance and the call for open dialogue and free choice by Moghul Emperor Akbar in the 1590s. He called for the "Path of Reason" (*rahi aql*) and stated that "no man should be interfered with on account of religion, and anyone is to be allowed to go over to a religion that pleases him"<sup>79</sup>.

74 Ghosh, "Wordly Philosopher", op. cit., p. 79.

75 Sen, *Identity and Violence. The Illusion of Violence*, op. cit., p. 138.

76 E. D. Beinhocker, *The Origin of Wealth. Evolution, Complexity, and the Radical Remaking of Economics*, London, Random House Business Books, 2007, pp. 3-20.

77 Sen, *Identity and Violence. The Illusion of Violence*, op. cit., p. 44.

78 *Ibidem*.

79 Quoted by Sen, *Identity and Violence. The Illusion of Violence*, op. cit., p. 64.

Similarly, Sen<sup>80</sup> refers to the Jewish philosopher Maimonides who was forced to migrate from an intolerant Christian Europe to a tolerant Cairo in the 12<sup>th</sup> century. Furthermore there is the example of 10<sup>th</sup> century open-minded and Muslim-ruled Cordoba, in Southern Spain, where under Caliph Abd al-Rahman III, Jews were a protected and appreciated minority. Are both Muslims and non-Muslims today aware of this heritage of Islam? If they are not then there is a serious gap in the educational standards of how the world and its globalization are presented to young people and the public in general. Then the wrong groups, both Muslim and non-Muslim, are being supported or even subsidized and some groups may have an interest in maintaining the present falsified Western versus non-Western tensions. Similarly, Europe and America have to acknowledge that they would have been a lot poorer, economically, culturally, and scientifically, had they resisted the globalization of mathematics, science, and technology coming from China, India, Iran, and the Arab world in the course of world history. How many Europeans and Americans are today genuinely aware of this?

Another problem is that, also according to Sen<sup>81</sup>, the media and the politicians seem to insist that humans are only identified as belonging to a religious-cultural group. An Iraqi can only be a Shia, a Sunni or a Kurd. Likewise, there is tendency to take Muslim, Hindu or Sikh religious leaders as spokesmen for the Muslim, Hindu or Sikh immigrant communities in West-European countries. Little attention is given to encourage citizens of diverse backgrounds to interact with each other in civil society instead, they are invited to act through their "own community". All other identities different from the religious community people belong to are ignored. The human condition becomes extremely limited by excluding all other kinds of identification. Multiculturalism is doomed to fail if a person's identity must be defined by his or her community or religion, ignoring

all the other affiliations a person can have, like language, class, political view, civil role, profession, personal interest, etc. Instead, politicians and public opinion identify people only on the basis of inherited religion or tradition and ignore reflection and choice of a free person. Not surprisingly, these people end up by feeling discriminated and pushed back into their own "religious community". Genuine multiculturalism, based on awareness of global history, however, allows and encourages individuals to live as they would value living, instead of being restrained by ongoing tradition. Sen concludes: "In this case, the importance of cultural diversity-instrumental as it is-will follow directly from the value of cultural liberty, since the former will be a consequence of the latter"<sup>82</sup>. The individual's choices and capabilities can only increase in a multicultural environment.

However, the recent past provides examples of alternative ways to tackle the problem of presenting world history from a proper perspective. For example, the characterization of Western culture in a world of other –very different– cultures that was presented by Oswald Spengler in his *The Decline of the West* did make explicit room for heterogeneities within each culture and for the cross-cultural similarities that can be clearly observed. In fact, Spengler argued that there was nothing special about Socrates, Epicurus or Diogenes, who all have their more ancient Indian counterparts. Unfortunately, when the book came out in post-World War I Germany, both timing and the location were wrong for introducing such ideas<sup>83</sup>.

Finally, Sen<sup>84</sup> made an interesting comparison between the demand for immigrants in America or Europe to learn more about "Western" civilization and the little recognition of the importance for Americans and Europeans to learn about the global intellectual history of the world. As long as the so-called West does

80 Sen, *Identity and Violence. The Illusion of Violence*, op. cit.

81 *Ibidem*.

82 *Ibidem*.

83 O. Spengler, *The Decline of the West*, New York, Oxford UP, 1991 (reprint. Original 1922-23).

84 Sen, *Identity and Violence. The Illusion of Violence*, op. cit.



not acknowledge that the foundations of many of the features of what we now call “Western civilization” or “Western Science” were deeply influenced by contributions coming from non-Western countries, the “anti-West” sentiments in these non-Western countries and among immigrants in Europe or America will continue to grow. At the same time, it will restrict the intellectual horizons of the original Europeans and Americans, leaving their education peculiarly fragmentary. The artificial West-anti-West confrontation may finally result in a human drama, which would entirely be based on a misunderstanding.

Yet, there is no doubt that the limited horizons of the fundamentalist mind in many developing economies originates from experiences with West-European imperialism. The diagnosis of many anti-globalists that the new globalization is simply an extension of the old imperialism is indeed quite relevant. The ownership of the big multinationals and the power structure of the World Bank and the IMF confirm this and many groups focus on these observations. As a result, the study of “neo-colonialism” has become very popular during the last decade of the 20<sup>th</sup> century. Young<sup>85</sup> argues that a historical approach would also reveal the conquests, colonial dominance, alien rule, and the humiliation of conquered people which remains still relevant today because of the psychology of the human being itself.

But it promotes seeing oneself as “the other”, in contrast with some other external power, in this case the so-called colonizing “West”. By seeing themselves as a unique and ultimate civilization, which was different from all other civilizations, “Westerners” contribute to this phenomenon. Such theories like the West-non-West theories “have lives of their own, quite definitely of the phenomenal world that can actually be observed”<sup>86</sup>.

85 J. C. Young, *Postcolonialism. A Very Short Introduction*, Oxford-New Delhi-etc., Oxford University Press, 2006.

86 Sen, *Identity and Violence. The Illusion of Violence*, op. cit., p. 104.

Kido Takayoshi, one of the most influential Japanese leaders of the late 19<sup>th</sup> century identified the basic issue: “Our people are not different from the Americans or the Europeans of today; it is all a matter of education or lack of education”<sup>87</sup>.■

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87 Quoted by Sen, *Identity and Violence. The Illusion of Violence*, op. cit., p. 110.

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