



Global Marshall Plan

balance the world
with an Eco-Social Market Economy

Global Marshall Plan – Why Market fundamentalism creates global poverty

Prof. Franz Josef Radermacher

Aus: Gaia Vol. 13, H.3 (2004). S. 170 - 175.

This contribution to the discourse on free markets, market fundamentalism, turbo capitalism and the neoliberal philosophy of the world economy is meant to add clarity to the issue. Frustrating developments of the unregulated world economy have become commonplace, such as: the popping of the New-Economy-Bubble, collapse and fraud scandals in the world financial markets, the catastrophic consequences of an IMF policy in Africa and Latin America under the terms of “Washington Consensus“, recent cutbacks in social services in industrial nations, as well as low rates of economic growth. The same goes for massive environmental degradation, the rapid usage of critical resources, the increase of social hardship, and the expansion of hate and terror. Nevertheless, the official debate avoids the taboo of infringing on the neoliberal model. The Dogma still maintains that the mechanisms of the neoliberal model represent the best method for attaining high levels of economic growth, which is the solution to all problems. According to this model, the low rates of growth in rich nations such as Japan and in Europe must be traced back to too much social equality.

I would like to demonstrate, however, that the situation is in reality systematically different. Aside from the many problems that it generates, market fundamentalism does not result in the highest possible rate of growth; it cannot even keep that promise. Market fundamentalism does perhaps lead to more growth than communism, but it is surely not an adequate measure for all aspects of society – the eco-social market economy is a better model.

The free market produces something else: alleged value creation through the plundering of the environment, in addition to massive redistribution of wealth to the already wealthy. From the short-term perspective of the top echelons of society, the so-called “top of the pyramid”, both options are often more appealing than higher growth rates with a more even distribution of wealth.

The mechanisms responsible for the current distribution relationships are significantly

Global Marshall Plan Initiative
Rissener Landstrasse 193
22559 Hamburg
Deutschland
info@globalmarshallplan.org
www.globalmarshallplan.org

fon: +49-(0)40-82290420
fax: +49-(0)40-82290421
Konto 212
BLZ 25120510, Sozialbank
IBAN DE73 2512 0510 0008 4098 00
SWIFT (BIC) BFSWDE33HAN

anchored in the state of the world order. Examples of this are the WTO and the IMF. These mechanisms have already prevailed as monopolies and as such, no place in the world has the option of improving the situation with alternative policies promising more economic growth. The preferred implementation mechanisms include an overemphasis on property rights – especially for intellectual property – or the establishment of monopolies such as Microsoft, as well as recent pushes for puppet themes like "homeland security" over alternatives such as an intelligent collaborative effort toward the goal of global security.

The fact that market fundamentalism degrades the environment, provokes worldwide hate and terror and decreases security, is in fact helpful to this system. Under threatening conditions, even more control can be achieved, while at the same time maintaining positions of pro-property rights, self-interest and personal security. The sealing of borders and the selective admission of premium candidates for Green Cards is a subtle exercise of power ensuring both differentiation within the "poor world" as well as even more redistribution of wealth to the "wealthy world."

The evidence of the high growth rates of certain poorer nations is then used as a further deception to confuse the populations of wealthier nations and emphasize the effectiveness and growth potential of market fundamental solutions. In order to provide background and a better understanding of such manipulation of public awareness (Public Awareness Management), this article draws from the results of a study, which is part of the EU Project, TERRA 2000 [3].

Growth and social equality

The Struggle for the Metaphilosophy of the Modern World

A central theme in the organization of large societies is the usage of intellectual constructs as universal explanations. In the past it was religions; today it is economic metaphilosophies and ideological paradigms [4]. The belief in the free market is an example of a metaphilosophy driving current society. Such "philosophies" guide societies in certain directions by framing the way we think about the problems of the world. The free market and its growth potential in today's world is somewhat like the Holy Grail in past societies. From the perspective of the extremely wealthy to the masses of the population, concepts like social equality, government intervention and redistribution of wealth to the poor are not looked upon favourably. Growth is especially glorified – never mind how much one already has, or how close the situation of resource use and the environment is nearing disaster. The mentality is: after us, the devil-may-care!

As a result of this, few issues concern modern society as much as economic growth. On the other hand, the measurement of growth poses difficulties. This is directly linked to the problem of defining the gross domestic product. The main question is, how should degradation be adequately considered when calculating revenue? [5]

Why do societies deify growth? Because under growth conditions, wealth can be redistributed and social conflict can more easily be solved politically than under conditions of a stagnant or shrinking "pie" (GDP per capita). In this scenario, wealth can only be reallocated by taking it away from someone else. For this reason, growth is a magic formula for almost anything, even in wealthy nations. As the "first world" we even subscribe to the perverse ideology that it is impossible to ensure meaningful employment for all people without two to three percent annual growth.

Of course, a fundamental problem remains: how does one reconcile growth rates with social equality? For example, when equality is measured by ensuring that the poorer portion of the population has a certain percentage of the pie, then the question becomes: is a higher percentage of a smaller pie better than a smaller percentage of a much larger pie? In the second case, the poor has absolutely more, relatively speaking. But compared to their fellow citizens, they have less. Although there is evidence supporting the relative aspect of poverty, which is also the unofficial position of the European Union, modern societies generally vote for higher growth even at the price of lower social equality. There are two reasons for this. (1) Absolute growth always increases with higher growth rates over the long-term. The phrase "growth beats quotas" therefore, is valid on a continuing basis. (2) Today, nations hardly have an independent choice, as long as the current world order conditions allow this path to continue. Those who do not go along will be economically marginalized in relation to other more growth intensive nations, and subjected to the wills of these competitors. From a power-political perspective, high growth policies continuously beat every alternative and force the current (and wrong) world order on everyone.

In fact, [2] is actually an underlying reason for the break-up of the Soviet system. It also explains the special significance of a Green Card – every nation that has fallen behind continually loses its most well educated citizens and promising junior employees at the "top of the pyramid." It then becomes hopeless for these nations to remain competitive. Thus, the question of if, and how, one can achieve as high growth as possible plays a crucial role in current political discourse in all nations. Not surprisingly, it is also the declared policy of the EU to become the most vigorously growing information-economy in the world.

It is now at the heart of the market-fundamental propaganda that free markets generate the highest growth and that increasing reallocation towards the top, increasing deregulation and decreasing focus on social equality in fact continually drive growth higher. For all nations, a policy of dismantling social services is therefore the most attractive path to becoming wealthier. Moreover, the dynamic, newly industrializing economies provide evidence that growth rates of six, eight or even ten percent or more are conceivable prospects. In opposition to this, only the blockade of stubborn, reform-averse political administrations and self-serving union officials would stand in the way, becoming a hindrance to growth out of sheer selfishness. In the following, it will be shown that this image is false, but excellently serves the secret interests of the "top of the pyramid" and the experts doing their work; who are actually less bent on growth than on the changing of the distribution relations in their favor. For better understanding of the situation, two differentiations are necessary: (1) one must make a fundamental distinction between the growth capacities of wealthy nations and those of so-called developing nations. (2) Balance is the magic formula for growth. Not enough social equality and too much social equality make countries poor.

Both extremes are equally bad. The downfall of the Soviet system of communism (a temporary ersatz religion) is related to the fact that forced equality keeps nations poor. The current worldwide problems of environmental degradation, hunger, hate and terror are related to the latest ersatz religion, turbo capitalism. Indeed, this social question involves balance. Fortunately, under responsible world order conditions, societies should not have to pay for increasing rates of growth with increasing inequality in order to remain internationally competitive. Moreover, it turns out that the highest growth rates are coupled with a reasonable amount of social equality, whereas a continuing increase in inequality leads to smaller growth rates. These political problems can be feasibly overcome. This notion directly relates to Rawls' theory of justice, and in a certain sense, illustrates the practicality of his theory. [6]

How should we operate in a misconceived world order that makes some nations poorer than necessary? A reasonable national policy cannot prevent these conditions that result from free trade, because capital and investments will always flow to areas more readily targeted for

“plundering” if such actions are allowed by the WTO. This situation presents somewhat of a dialectic in reaction to a difficult situation (“prisoners dilemma” in the language of game theory). This means, in a misconceived world order, one is compelled to do what is wrong in order to survive; yet at the same time one should not justify wrongful actions as correct. In fact, it would be wiser to forge diplomatic alliances with other concerned parties in order to change the global conditions so that eventually the power at the top of the pyramid can be toppled, paving the way for a more reasonable global regime - the global eco-social market economy.

Why does too much social equality make nations poor?

Throughout history, people have followed different approaches in order to regulate the issue of social equality. In its ideal manifestation communism is a system in which everyone receives basically the same amount, or more precisely, everybody receives what he or she needs. The system eventually collapses either because of too much unsatisfied wants or because the equal treatment of everyone does not leave room for individuality. People are extremely different, both in respect to what they want as well as to what they can afford. If an attempt is made to implement equality by force, then the motivation and freedom of the individual is eventually reduced to a point where everyone produces so little that even the poorest are unhappy despite the fact that they receive as much as the richest.

Therefore, we must accept that differentiation is necessary; societies and markets that accept a certain amount of differentiation function better. This is supported by empirical evidence showing that there is not one single successful society, meaning a wealthy nation, in which the richest 20% of the population divide less than 35% of the “pie” amongst themselves. If as much as 65% of the pie is left over for the poorer 80% of the population, there is enough leeway to be able to reward excellence, risk-taking and even luck.

The results report of the Project TERRA 2000 argues that a certain number of people in each nation (3-10 out of 10,000) must earn 20-25 times the average income (before taxes) in order to ensure sufficient motivation potential for high performance and commitment. Based on a mathematical theory of social equality, it logically follows that the richest 20% in a nation must receive at least 35% of the pie so that at least 3 out of 10,000 people can earn 16fold of the average income after taxes.

Why does too little social equality make nations poor?

We have seen that too much social equality leads to poverty. Performance and acceptance of risk must be rewarded. From this fact, supported by the downfall of communism, market fundamentalism has developed a program, one that is never openly discussed but nevertheless deeply ingrained below the surface of discourse: the more deregulation and upward flowing redistribution of wealth, coupled with less organized social equalization means the better for all of us, the wealthier we become, the better society functions. This is an absurd line of reasoning. If in the extreme case, the whole pie were distributed amongst the richest 20%, the rest of the population would starve.

The “ideal variant” is the notion that if a public budget is readjusted so that taxes are lowered, resulting in much more growth, more taxes would be received in the end due to the lower tax base than under the previously higher taxes. This suggestion could be correct from the reference point of extremely equal distribution of wealth; it becomes absurd, however, if half of the pie is distributed amongst 20% of the population, because this distribution would effectively attend to the interests of those 20%. Because the rich are left significantly better off after cutbacks of social spending, a rationale is developed to support even more cutbacks

of social services. This is despite the fact that 80% of the population is significantly worse off. In other words, cutbacks of social services do not generate growth, but are still good for the richest 20% since the rich have the capacity to purchase the affordable services of others, one of the most important functions of wealth. In this respect, the condition of those at the top of the system is continually improved. This is a point at which a moral hazard problem emerges. The gap between the interests of the wealthiest fifth and the poorest fifth of the population is potentially widened.

We now address the question of why nations are poor when income distribution is too top heavy. In other words, what actually contributes to social equalization? Upon closer inspection, it is not spending on social welfare. In Germany, money spent on social welfare comprises less than one percent of the GDP. Rather, the main purpose of social equalization is to focus on the total societal capacity of educating, maintaining universal health standards and providing the population with a reasonable infrastructure. This is not only because social equality is fair since it secures freedom and reflects the systemic character of prosperity, but also because it provides the basis for a true democracy – it is the premise for putting people on a relatively “level playing field”. Why is there an unavoidable, substantial element of redistribution necessary in order to ensure a good education, good health conditions and an excellent infrastructure for the whole population? If one thinks about this carefully, in a nation in which the citizens have freedom of establishment, meaning they are not forced into “low cost” employment by limitations on their freedom to travel or through emigration restrictions, then certain highly valued services must be paid at least the average income. For example, good scholars and doctors can usually demand an adequate salary. Especially in highly developed nations, it is not possible to require these people to offer more favourable conditions to the children of poorer portions of the population through administrative or institutional regulations. In other words, it is not possible for poorer families to consider themselves adequately paid with mere percentages of the income of well educated earners.

It was precisely this phenomenon that was an important function of racial segregation in the US. Through this process, the expenditure on the education of black children was decreased by one third. The Supreme Court used this as a rationale for removing racial segregation and establishing affirmative action programs. This means that a nation not in the position to redistribute sufficient portions of their GDP into social services through the tax system has no chance of educating the whole population by international standards. If a nation does not succeed, then its citizens have less value by international comparison and will therefore end up in low paid and low valued jobs, mainly in the service industry. This automatically means that such a nation is a poorer country at the per-capita level (compare digression).

The difficulty with a well-educated population in a democracy guaranteeing freedom of establishment is that the income levels of the top of the pyramid cannot be much over the average income for that country. Only very few people can earn significantly more than average when everyone is so well educated that they are placed at above half of the average income level, as should be the case according to the minimum-equity-formula for Europe, in which a maximum of 47% of the pie is allocated to the wealthiest 20% of the population.

Brazil is another example of this. It is a beautiful and diverse country, but it is also a poor country from a per-capita standpoint and it still feels the effects of its colonial structure. Currently about 65% of the pie is distributed amongst the wealthiest 20% of the population. In Brazil, the per capita GDP is only about an eighth of Germany’s per capita value. On the other hand, based on the mathematical equity-curves, calculating how many Brazilians out of a million earn more than 25 times the average German per capita GDP – a figure greater than 200 times the average Brazilian per capita GDP – shows that there are more wealthy Brazilians than Germans. In addition, the high income is much more attractive for Brazilians than the same amount of money in Germany because services are much cheaper in Brazil. Brazil is a poor nation, in the sense that too many people are begging on the streets for

money, and this is in no way a value generating occupation. Do Brazilians want to remain poor? Do the elites in Brazil want this? Why do they continue these relationships that are unjust and keep the country poor at the same time?

We should not pose this question so hauntingly. The problem for us is that the world as a whole is in a much worse state of inequality than Brazil or Africa. In this world, the inequality is even more extreme – the richest 20% have as much as 85% of the pie. At the global level, the inequality exists primarily between nations and not within nations. All people in the OECD states belong to the richest 20%. Compared to the world as a whole, Brazil is an oasis of social equality. In the age of globalization, the world economy has reached a state never before seen by individual nations at any point in history and would be practically impossible within democracies or given total freedom to immigrate. We are packed like sardines on this planet, but as the wealthier portion of the world, cleverly protected by systems of impermeable and selectively used borders, we send images of infatuating possibilities via television to the most remote huts, generate hope, apply indirect pressure, and capitalize on income differences as never before seen by humanity in order to produce in the cheapest locations, in some cases using child labour. All of this is accepted by WTO policy.

As I saw these conditions represented in numbers a few years ago, my conclusion was that there would be resistance, insurgency and terror, just as there always has been throughout human history when material inequalities and power mechanisms were seen as completely unjust. Terror has many faces, but it is often a systemic reaction to intolerable and inhumane conditions. This condition often takes the form of an unfair, forced ultimatum game, one that has been studied empirically in economics in recent years and resulting in completely new insights about how people act in market situations. They act very different than the Economic Man of classical economic theory. The nature of the ultimatum game is reflected in the world economy. If its effects are considered unjust, there will be hatred and revolt. This is especially true in conditions in which power is perpetuated by a legalized but unfair mechanism such as free world trade where the winner takes all.

Even if the winners at the “top of the pyramid” do not consider anything wrong with the system, the losers of this process will decide for themselves if the situation is intolerable. The more the winners avoid an honest debate, the worse the hate and anger becomes. This is still the case after September 11, 2001. The winners insist that evil powers wanted to rob them of their freedom. On the other side, the losers fight against global economic access to their world by resisting the attempts of forced change. This situation is completely independent of the question of whether one cultural system is superior to the other. The issue at hand is empathy with which to understand what the other side is thinking. The lack of empathy in this situation allows one to understand why more than 100 billion EUR per year can almost instantly be allocated in reaction to a singular event in which about 3000 people were killed in the rich part of the world, whereas not even millions of dollars is allocated to the 24,000 people that starve to death every day, and this is not even a topic of discussion.

Viewed in its aggregate, turbo capitalism is generating increasingly intolerable conditions. There are three fronts worth studying:

In brutal defence of the interests of the rich over the poor, turbo capitalism excludes fair regulations with regard to environmental degradation and resource exploitation (examples: CO₂ emissions, Kyoto Protocol, oil consumption, war over oil). These conditions are driving the planet towards a future that is the opposite of sustainable.

Turbo capitalism confronts the South with abhorrent inequality. The poor masses have to look on as the resources of their countries are often squandered by deals between their elites and the elites of the North. The IMF often takes advantage of the poor masses by then passing the debt on to them.

The current effect of globalization in the North is the dismantling of all social systems, even education systems. According to logic used here, this will make our countries poorer than necessary; this affects 80% of people, even the local middle classes. For this reason, citizens can no longer tolerate the word “reform”. Globalization is causing a forced reconstruction of society, against which one can no longer resist in an ad hoc fashion. This is something no politician is willing to explicitly say, but consequently, people around the world will have to argue against market fundamentalism and have to face the dominant power of the US for a second time if real change is to occur.

All of this serves as kindling for a fire and is at the centre of a political debate in which it is not openly expressed that the “new God,” market fundamentalism, is destroying the world and our well developed nations because this logic is not suited to the model of globalization. As long as the world order resists change, little can be done about this in the short term. It is astonishing that this dismantling process is sold as progress and that governments, especially social-democratic governments, do not even resist against this nonsense in public discourse. The nonsense lies in the fact that conditions are created under which growth is practically stagnant but this fact is then used as the argument for why further dismantling of social services is necessary, rather than finally calling attention to a supremely misguided form of globalization inspired by market fundamentalism.

Social Equality, Welfare and Growth

Why do poor nations have theoretically higher growth potentials than wealthy nations? Nations that are catching up have completely different possibilities for growing rapidly than countries that are already ahead. The most important form of this is so-called “leapfrogging”, the ability to copy the best solutions already developed by rich nations. Examples of this are: fiber optics for telephone systems are cheaper and better than copper networks as well as cellular phone networks. In this sense, nations do not have to invent anything; they only have to implement what has already been discovered. In essence, all the developing nations must do is invest, invest, invest.

It is imperative to create conditions that make it is easy for global lenders to invest in a country. China has demonstrated this for years. This process enables the development of incredible capabilities. For example, the best technologies are rapidly adopted around the world. As a result of this process, more and more people in “catch-up” nations enter the formal economy (extension). In China, these people are mostly farmers from the country, coming from a human reserve of 800 million people already socialized according to the same cultural traditions, logic and language, making them relatively easy to integrate. The working population is in fact becoming considerably larger, especially in sectors adding substantive value to the economy, so growth naturally follows. Bringing in guest workers from different countries or integrating more women into the formal economy can achieve the same results, although each with different consequences.

If organized effectively, there can be an expansion program in poorer countries, occurring over a long period of time. This takes into account an ever increasing input of soil, biomass, water and oil, which is itself another form of extension. Therefore, nations that are catching up have many possibilities for facilitating their growth, making ten percent annual growth attainable, but only as long as these nations are very poor. A continually high growth rate cannot be maintained unless growth is extremely dematerialized because consumption would otherwise continue infinitely.

One should also keep in mind that the current one percent annual growth in Germany is equal to approximately three times the absolute per capita growth of the ten percent in China because Germans are on average 30 times richer per capita than people in China. This means, however, that poorer nations have the best conditions for high growth rates. Admittedly, this is not something special, but rather an expression of their poverty.

If countries want to lunge forward economically like Singapore, Taiwan and Korea have done or are trying to do, they must eventually reach a high level of social equality because empirically there has never been a wealthy nation without high social equality. However, as soon as they have reached the top however, they must compete with other fully developed nations for innovation, and this is the principle growth potential of wealthy nations. Innovations are expensive, and it is only at this stage that high growth rates can be sustained. This tendency was also observed with the catch-up process of the Germans and Japanese after the Second World War. Once a nation is top class, then it is suddenly in another league.

Although an “enlightened dictatorship” may be the most promising solution – in relation to a true democracy – for a nation on its way to the top (compare China), there is still a necessity to generate growth through innovation. One must be creative and try out new things and this happens more easily in democracies and open societies. A combination of well-educated people, excellent infrastructure and reasonable government systems is the mixture a nation must maintain at the top of the pyramid. All this is time-consuming and expensive; one to two percent growth at this level is still quite a lot.

The limited growth capacities of wealthy nations and the preconditions for their realization are explored in more detail in the TERRA text, mentioned in the introduction. It demonstrates that the different growth potentials between technology driven sectors of the economy and other parts of the economy that cannot be accelerated by technology, such as child rearing and care for the dying, play an especially significant role. If a balanced growth is not achieved by “pumping” money from one sector into another, which is important for redistributive government transfer systems and social services, a “deadlock” of people is created that are not paid adequately and treated unfairly, worry about their jobs, their future and spend less money. The growth process then comes to a halt. Indeed, the current social alignments of many wealthy nations block their growth potential.

What can be done against this? Unfortunately, it is not so easy to break out of this trap because of the powerful global market conditions. One can at operate with a twofold strategy. First of all, admit what is going wrong and explain why current conditions facilitate wrongful actions. On the other hand, maintain that the goal of attaining better solutions at the global level can be achieved with clear political considerations and actions. In other words, the blockades to growth and other problems that we face today are not primarily determined by the fact that we as a society are becoming older, nor that we are having too few children.