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The *New Economic Design*

I have written this book because while I was at the World Bank, I saw firsthand the devastating effect that globalization can have on developing countries, and especially the poor within those countries.

(Joseph Stiglitz)[1]

Today, with capitalism's conversion into a religion, a new type of capitalist market economic model is under implementation. This new religion is constructing its own institutions and its own creed; in fact, it is conditioning humankind. There are various names given to this new system. Some call it the "neoliberal economy," some call it the "globalized economy"; still others describe it as "free market democracy."[2] Here we will call it the *new economic design*; it is becoming such a belief system that its principles and rules cannot tolerate any discussion or argument. Some of its disciples declare, "You are either with us or against us." Some scholars have even claimed that this is the end of history; the world has found its economic design. The *new economic design* is built on competition and seeking individual interest.

Competitive Conditions

Today, the competitive environment is expanding. Competitive behavior is gaining increased approval and acceptance, and is conquering the domains of cooperation and solidarity. Competition among individuals, firms, economic

1 Joseph E. Stiglitz, *Globalization and its Discontents*, New York: W.W. Norton, 2002, p. 27.

blocs in order to gain advantage over one's rivals is believed to be the driving force of all economic advances and development. Individuals, firms and economic blocs seek to fulfill their own interests rather than what is right and fair. This behavior is admired in the newly transformed society as the new faith expands globally.

For many centuries of human history, those who were strong and powerful were able to gain the lion's share in the distribution of income and other means. The transfer of wealth among countries and continents was secured mostly by power. Even though this is still the case in our time, the current colossal developments in telecommunication technologies make it difficult to exercise power in seeking self-interest. In gaining the lion's share in distribution, convincing people that it is right and fair proves to be much more effective. This in turn creates a need to develop a faith, one which exalts capitalism based on conclusions reached by economic theory under certain theoretical assumptions.

Today, the *new economic design* under construction strives to preserve the affluence of developed countries. It has no concern for narrowing the gap between the incomes of the rich and poor. But this is not something that one can accomplish easily. In a world which is integrating, where location differences are becoming meaningless, and with improvements in communication, any design must take into consideration people's desires and aspirations. But these desires and aspirations are not always in line with the values of the *new economic design*. On the other hand, the free movement of capital among countries accompanied by a free movement of labor force may reduce the differences that exist between the welfare of countries. For that reason, developed countries need to supplement and redefine liberal economic concepts and coverage, and reshape people's values in order to preserve their affluence.

In this framework, a *new economic design*, which is based on competition and self-interest, is under construction. This design is developing under two dimensions that may seem contradictory: globalization and the formation of trade blocs. As the world is integrating into a single market, regional economic blocs become increasingly important as rival markets. Globalization is trying to spread competition to all markets in the world through trade liberalization. Member countries of trade blocs try to cooperate and support each other to improve their competitive position in international markets.

Globalization is taking its shape under the General Agreement on Trade and Tariffs (GATT). Some major trade blocs are already in operation and some are in the process of development. The three most important regional blocs are the European Union (EU), which started as the European Common Market, the North American Free Trade Agreement (NAFTA), and the Shanghai Cooperation Organization (SCO).[3] Among these blocks, the EU has broader objectives than just economic ones: the EU seems to also have an objective of social and political integration.

Below, we will try to review the development of GATT in order to understand the foundations of the *new economic design*.

The General Agreement on Tariffs and Trade (GATT)

The most important step in the direction of foreign trade liberalization can be said to be the signing of the General Agreement on Tariffs and Trade, or GATT. The GATT is trying to establish a global *new economic design*. Under this *new economic design*, all barriers to the free flow and trade of goods and services will be eliminated, and efforts will be made to provide improved conditions for the flow of capital among countries. The *new economic design* is claimed to integrate the world's economies, and therefore called *globalization*. But the *new economic design* does not allow for the free flow of labor; labor mobility has not been an issue in its formulation. The GATT has been deaf on labor mobility and immigration matters. In practice, each country formulates measures to prevent the flow of labor from poor to rich countries. The *new economic design* requires the creation of cheap labor pools in order to produce more cheaply the hardware of products, in order to increase profits. This requires containing workers within their present national boundaries.

The GATT was an agreement reached in 1947 to promote multilateral trade with the minimum of barriers to trade, the reduction of import tariffs and quotas, and the abolition of preferential trade agreements. Members of the agreement pledged to abide by the principle of the "most favored nation" clause. This clause obliged the signatories to extend to each other any favorable trading terms offered in subsequent agreements to third parties.[4] The exception to this rule is the regional trade blocs. Regional trade blocs are regarded as a single country. Therefore the members of regional trade blocs could extend

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3 The Shanghai Cooperation Organization (SCO) is an intergovernmental mutual-security organization which was founded in 2001 by the leaders of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan.

4 Graham Bannock, R.E. Baxter and Ray Rees, *The Penguin Dictionary of Economics*, Harmondsworth: Penguin Books, 1980.

favorable terms to each other without the burden of extending the same terms to all other signatories of the GATT.

Since 1947, the members of the GATT have had eight rounds of meetings to liberalize international trade. In each of the rounds, some tariff cuts were realized and tariff concessions were made. The last of the rounds, the Uruguay Round, started in 1986 and lasted for seven years. The Uruguay Round was the most ambitious round to date, hoping to expand the functions of the GATT to important new areas such as services, capital, intellectual property, textiles and agriculture. The round ended on December 15, 1993, with an agreement to make the GATT more operational in trade and services and in the establishment of the *new economic design* (later called globalization). Its members signed GATT on April 12–13, 1994 in Marrakesh, Morocco.

The Uruguay Round has had a very significant role in the development of the *new economic design*, and the discussions and disputes of the round can help us to understand the objectives and means of the design.

Discussions on two issues extended the time length of the Uruguay Round. The first was agricultural subsidies. On this issue, the US's interests conflicted with the interests of the EU and Japan. The EU subsidized its agriculture under the Common Agricultural Policy (CAP). A major portion of the EU budget – 44 percent, about €43 billion in 2005 – is allocated to these subsidies. The US, on the other hand, was against providing agricultural subsidies, and wanted them to be eliminated. The US claimed that the subsidies provided by the EU to its member countries provided them competitive advantages, resulting in unfair competition. By moving its subsidies from production areas to income protection and production restrictions, the EU helped to reach a solution. But even today agricultural subsidies in developed countries are a source of great concern for developing countries. Developing countries seem to suffer from the agricultural subsidies still implemented in developed countries.

The second issue was the quotas applied to textile products. The US and Europe wanted to continue protecting their textile sectors and did not want them to be liberalized. They claimed that labor employed in the textile sector had to be protected from the competition originating from developing countries. Developing countries on the other hand wanted the textile trade to be liberalized. Their position was, since the textile sector is labor intensive, textile products were their only hope of exports benefiting from their comparative advantages. Since 1974, the Multi Fiber Arrangement (MFA) has governed the world textile trade, and provides for the imposition of quotas on the amount of textiles developing countries can export to developed countries. The developing countries had argued for the elimination of the MFA.

Perhaps the best way to understand the *new economic design* brought about by the GATT is to listen to the words of those participated in the discussions. Below, we present in summary the testimony of Mickey Kantor, the US trade representative in the Uruguay Rounds. Following is that portion of his prepared testimony summarizing the major components of the agreement:

Industrial Market Access

> *The United States achieved substantially all of its major objectives in the industrial market access negotiations. As a result, increased market access opportunities will be available to U.S. exporters of industrial goods.*

Agriculture

> *U.S. agricultural exports will benefit significantly from the reductions in export subsidies and the market openings provided by the agreement.*[5]

Textiles and Clothing

> *The textile and apparel sector has always been a critical one in this Round. From the very beginning of the negotiations at Punta Del Este, the developing countries have linked their willingness to accept disciplines in services and intellectual property, as well as further market opening, on the achievement of the phase-out of the Multifiber Arrangement (MFA). The MFA has governed trade in textiles and clothing for the past 20 years.*
>
> *The Administration, however, was equally insistent on five key goals: 1) that the phase-out occur in a gradual manner that would permit our industry to adjust over time to the changes in the trading system; 2) that foreign markets be opened to U.S. textile and clothing exports for the benefit of U.S. workers; 3) that the U.S. retain the control over*

5 According to a study conducted by the World Bank, OECD and GATT, the results of the Uruguay Round will increase world income in ten years by $213–274 billion. Of this amount, $190 billion will be realized in the agricultural sector and the remaining $23 billion will come in industry due to the liberalization of trade.

which products would be integrated into the GATT at each stage of the phase-out period; 4) that strong safeguards be included in order to provide protection in the event of damaging surges in imports during the phase-out period; and 5) that in light of the phase-out of the MFA, that tariff cuts in this sector be held to a minimum.

We believe we have done very well in achieving those goals.

Subsidies and Countervailing Measures

The subsidies agreement establishes clearer rules and stronger disciplines in the subsidies area while also making certain subsidies non-actionable, provided they are subject to conditions designed to limit distorting effects.

Services

The General Agreement on Trade in Services (GATS) is the first multilateral, legally enforceable agreement covering trade and investment in the services sectors. The principal elements of the GATS framework agreement include most-favored-nation (MFN) treatment, national treatment, market access, transparency and the free flow of payments and transfers.

Trade Related Intellectual Property Rights

Trade in U.S. goods and services protected by intellectual property rights reflect a consistent trade surplus. For example, U.S. copyright industries – movies, computer software, and sound recordings – are consistently top U.S export earners.

U.S. semiconductors are found in the computers and appliances we all use each day. U.S. pharmaceutical companies are among the most innovative, and our exports of these important products have been growing. Strengthened protection of intellectual property rights and enforcement of those rights as provided in the TRIPS agreement will enhance U.S. competitiveness, encourage creative activity, and expand exports and the number of jobs.

… The Agreement obligates all Members to provide strong protection in the areas of copyrights and related rights, patents, trademarks, trade

secrets, industrial designs, geographic indications and layout designs for integrated circuits.

World Trade Organization

> *The Agreement establishing the World Trade Organization (WTO) encompasses the current GATT structure and extends it to new disciplines that have not been adequately covered in the past.*
>
> *The new organization will be more credible and predictable and thus benefit U.S. trade interests.*[6]

As it is clearly seen in the testimony of Mickey Kantor, the GATT is bringing a new design to world trade. In fact, it is not just a new design for trade relations, but its objective is much more comprehensive; it aims to set the foundations for the establishment of a *new economic design* all over the world. This new design is characterized by the free flow of goods and services, increased competition in the area of production, no labor mobility, and a full protection of intellectual property rights. The interesting aspect of the design is while all the barriers for the flow of goods and services among countries are eliminated, workers are imprisoned within the boundaries of their countries, and monopoly rights are provided to the designs, brand names and images of the goods and services. Let us try to understand the role of these characteristics of the *new economic design*.

Until very recently, products (goods and services) were items with observable qualities. Those who were able to produce high-quality products at low cost had the advantage in the competitive markets. Recently, products have split into two aspects: their hardware and software. Their hardware is their physical characteristics, which can be seen or touched by everyone. The way they look, the way they operate may be considered their physical nature. The software of the products cannot be seen or held easily, instead they create a perception or image for people: the perceived quality, design, brand name, image, relation to fashion are examples of products' software. With the new technology, the hardware of the products can be produced anywhere in the world. They all would look alike. But today, the software is produced primarily by developed countries with what are called intellectual properties and with access to communication channels. The *new economic design* puts these intellectual property rights under full protection. That is, only their owners can benefit from them. They cannot be used by anyone else. We should also note that although the products are split into two, the components together make up the identity of the products. And, today, product identities influence demand more than their physical nature.

Under the *new economic design*, developed countries and supranational companies obtained the chance to buy their raw materials from any market in any country in the world, produce the products in any country where labor is cheap, and sell it in any market that has the potential for high profits. Raw materials, parts and products can flow freely among countries and markets in the *new economic design*.

Market structures in hardware and software of the products differ also. In the area of hardware production, there is keen competition. Countries with abundant and cheap labor compete with each other. Competition is mainly on the cost of production. The supranational companies provide them the production know-how needed and the product designs. Under the new era, the quality is not a differentiating factor but a must. Under these conditions, low labor cost is the only competitive advantage of producers, and usually labor wages are reduced to subsistence levels.

On the other hand, in the software side of products, the component parts of the software grant strong monopoly power to their owners. Since these are protected by the TRIPS agreement of the *new economic design*, in these monopolistic markets supranational companies have an opportunity to increase prices to maximize their profits. Developed countries own most of products' intellectual properties. For the time being, developed countries also have greater potential to develop these intellectual properties. These countries also have control over communication channels and the media in order to influence customers' preferences.

It can also be argued that the *new economic design* also serves the interests of the developing countries that have abundant and cheap labor. The supranational companies' eagerness to earn profits guides them to have their goods produced in developing countries, which brings income and employment to countries where the production is done. This, somewhat, reduces poverty in those countries. While this is correct, it may also be seen as an exploitation of workers. When production facilities move from one country to another, the total impact on employment may not change, but labor costs go down. That means the share of labor in the income generated by operations decreases. That is why we observe increases in unemployment and poverty in developing countries and not much of an increase in global welfare. Since the free mobility of labor is not considered in the GATT, there is no tendency for wages to move towards equilibrium. A tendency towards equilibrium may mean an improvement in global income distribution, but an improved income distribution would also require workers to gain a more equitable and fair share from the income generated by operations. Liberalized international trade most probably will increase global total production, but if more equitable and fair income distribution schemes are not developed, only rich countries and the supranational companies based in these countries will benefit from the increase in output as supranational companies will be able to increase their profits.

Rich countries have accumulated their wealth by exploiting their colonies. In order for them to sustain consumption levels compatible with their wealth, they need to take a lion's share from the income generated by production and marketing operations. The *new economic design* is developed to provide them with that opportunity.

Since the construction of the foundations of the *new economic design* in 1994, the ensuing *globalization* has not helped to narrow the gap between the rich and the poor. In fact, income distribution in and among countries has deteriorated: as the rich became richer, overall poverty in the world has increased.

The Missing Pillar of the *New Economic Design*: MAI

The *new economic design* is constructed on providing full mobility to goods and services among countries and restraining the mobility of labor, keeping workers within the boundaries of their countries. In spite of all the efforts of the developed countries, it was not possible to reach an agreement on the free mobility of all types of capital. Extensive discussions were held to pass a Multilateral Agreement on Investment (MAI),[7] but the discussions did not lead to an agreement. This can be considered to be the missing pillar of the *new economic design*.

7 The Multilateral Agreement on Investments (MAI) has the following objectives: the opening of most economic sectors and natural resources to foreign ownership; fair and equal treatment of foreign firms; the removal of restrictions against the movement of capital; allowing for individual firms to sue foreign governments before an international mediation panel; and full and proper compensation for expropriation.

It can be claimed that the foundations of the *new economic design* go back to the Washington Consensus of 1978.[8] The Washington Consensus required the free flow of capital among countries in order to establish the sovereignty of capitalism all around the world. That is the reason why the World Bank and the IMF imposed on the developing countries the liberalization of capital markets and favorable treatment for the foreign capital as part of the recipe provided for structural adjustments which were the pre-condition for IMF credits.

Three types of capital flow exist among countries: direct foreign investments, long-term loans and short-term capital movements. Free flow of foreign direct investments among countries is an essential requirement of the *new economic design* in order for it to achieve its objectives. The benefits of foreign direct investment are so much advertised that an undisputable belief is created among people world-wide in the virtues of foreign direct investments. In general, foreign direct investment has great potential to benefit countries receiving these investments. Foreign direct investments come to a country to create income and employment. But there are varieties of these foreign direct investments. Some foreign direct investments come to a country to benefit from the local market and to replace the domestic production. These investments may not have positive contributions to income and employment. If a foreign investment comes to a country to benefit from low wages, it may leave the country when it finds another country where wages are lower. Some foreign direct investments bring technology, know-how and intellectual properties to a country. These investments may make significant contributions to the development of the host country. In short, foreign direct investments may or may not serve a country; they should be considered as tools to reach objectives and not as the end themselves.

Foreign direct investments have objectives when they come to a country. The host country must also have some objectives. The host country must be able to reconcile the objectives of the foreign direct investments and their own objectives. These types of investments are called "strategic alliances." Many countries do exercise caution in selecting the foreign direct investments that will serve their national interests.

Long-term foreign loans are also a form of capital flow among countries. Good examples of these loans are the development loans provided by the World Bank to developing countries. Countries may benefit greatly from these loans. But if the loans come with strings attached, these loans may not serve the purposes of the receiving country. As it is seen in the Washington Consensus, these loans may be used in order to impose policies on developing countries, which may not be always in the interest of the recipient country. Long-term foreign loans may or may not serve the interests of developing countries.[9]

Short-term capital movements among countries require utmost care, especially by the recipient country. There is a huge amount of capital in the world trying to earn money by making short-term investments in emerging markets and government securities in those markets. These are mostly pension funds and mutual funds trying to earn high returns for their investment portfolios. These funds invest most of their funds in secure investments at low returns, but allocate part of their funds to investments in emerging markets at very high returns; such returns may go as high as 30–40 percent. These are risky investments. In most cases, the risks themselves are created by the behavior of these capital flows. When these funds move into a country with an expectation of return, usually returns increase and more funds are attracted. But if these funds decide to leave a country, especially if they try to escape a probable hazard, they may cause a market crash. Since 1980, the numbers of market crashes have increased world-wide. For that reason, some governments try to regulate the flow of short-term capital movements in and out of their countries. This short-term capital is called "hot money" in daily use.

As we have mentioned above, after signing the GATT, developed countries, especially those who are exporting foreign capital, worked hard to reach an agreement to eliminate all barriers to the free flow of capital among countries. The WTO has been instrumental in supporting campaigns for reaching an agreement. A draft was prepared and discussed behind closed doors by the leadership of the Organization for Economic Cooperation and Development (OECD). In 1997, the first draft of the MAI drew widespread criticism from non-governmental organizations (NGOs) and developing countries. Developing countries feared that the agreement would make it difficult for them to regulate foreign investors and thus it was not possible to reach an agreement on the MAI. However, developed and capital-exporting countries continue to push for similar investment provisions, since the free flow of capital is an integral part of the *new economic design*.

Globalization and Trade Blocs

While some people believe globalization and trade blocs to be contradictory, other believe that the trade benefits of regional blocs make globalization more attractive. The signing of the GATT and the establishment of the WTO did not slow the formation of new economic blocs; in fact, it increased it. In 1998, there were more than 90 trade blocs operating in the world. Three-quarters of these trade blocs were established after 1994; that is, after the GATT came into effect. One-third of these agreements relate to the European Union.

The former Director-General of the WTO, Renato Ruggiero, believes that regional trade blocs may become useless:

> *Their contribution to the promotion of liberalization cannot be called into question. And yet the logic of regionalism makes less economic sense in an era of globalization. As production and distribution become increasingly global and as economies become more integrated and more driven by borderless technologies, it is in no one's economic interest to have a fragmented system with fragmented rules and even a fragmented dispute settlement system.*[10]

The WTO is trying to establish a unified, rule-based world with free trade and improved dispute settlement system. In spite of this, trade blocs in Europe, in North America and in the Asia-Pacific region are increasing in importance.

Trade blocs are expanding their functions beyond the economic interests of their members. Although the EU was formed to serve the economic interests of its members, it is converting itself to a political and cultural unity. The Black Sea Economic Cooperation group is promoting the economic development of its members. Trade blocs are also trying to establish relations amongst themselves. Discussions to establish relations are carried under the auspices of the WTO. The objective of all these regional developments is claimed to be the establishment of economic and political freedom, respect for human rights and social solidarity.

It seems that the free trade environment created by the WTO will be reinforced by the democratic values secured by the activities of the trade blocs in the development of the *new economic design*. In this context, the issue of how we define *democratic values* gains importance.

The Objectives of the *New Economic Design*

Globalization is a name for the *new economic design*. In spite of my calling the design a new one, in reality it is not new at all. The design is an income distribution design created to sustain the income levels of rich countries so that they will be in accord with the wealth they possess. The design is built to use the opportunities of the century, avoiding conflicts with the new trends in people's perceptions. Similar income distribution schemes, using the opportunities of their day, were developed and used throughout the centuries.

Until very recently, European countries accumulated their wealth by exploiting their colonies. They were able to consume more than they produced since they could acquire goods and services from their colonies at very low cost. Although the American case was somewhat different, the results were the same. The US was able to use slaves in its production at very low costs, to reach a high level of affluence.

After the First World War, oppressed countries and the colonies began to gain their independence, putting an end to their exploitation by wealthier countries. This in turn posed a threat to the developed rich countries in sustaining their consumption behavior. Since those days, rich countries have been in search of new designs to preserve – and perhaps increase – their level of consumption compatible with their level of wealth. The *new economic design* has the potential to meet the desires of rich countries to preserve their level of affluence. The architect of the new design is the US, and the design reflects American aspirations. As we have seen above, with the establishment of the new design, the interests of the US and Europe, and the interests of the US and Japan were in conflict. Europe and Japan tried to preserve their interests during the discussions of the GATT, and they were successful to a certain extent. On the other hand, poor and developing countries also tried to seek their interests, but they had to settle for the promises and the alleged benefits of the *new economic design*.

The *new economic design* was established under the name of *globalization* in the framework of the capitalist market economy in two phases. In the first phase, through an efficient propaganda machine, both developed and developing counties were persuaded about the *virtues* of capitalist market economies. In this stage, the capitalist market economy was converted into a creed. In the second phase, the capitalist market economy was reshaped to serve the interests of the developed rich countries.

The First Phase of the *New Economic Design*

To reach the objectives of the first phase, the IMF, The World Bank and the US Treasury reached a consensus that was later called the Washington Consensus.[11] This consensus brought a radically different approach to economic development stabilization. The World Bank, which was established to provide support to countries that could not develop without institutional support and the IMF, which was established to solve the problems countries faced in financing their current account deficits, started to impose the principles of the Washington Consensus as a single recipe to solve all kinds of problems. After the Washington Consensus, the phrase "free market economy" became a mantra,[12] and the concept was imposed on all developing countries as a precondition for any IMF loans. This imposition was in line with the objectives of the *new economic design*. It included the liberalization of foreign trade and capital markets, privatization, and the expansion of the principles of free markets. Shortly after implementing these policies, these countries faced severe foreign trade, and current account deficits. The emerging market economies of Asia and Latin America attracted huge inflows of foreign money in the forms of loans and speculative investments. Increases in their foreign trade deficits, and the subsequent financing of these deficits with loans and speculative investments ended up in crises in 1994 in Mexico, and in 1997 and 1998 in Asia, Russia and Brazil.[13]

As short-term foreign capital flows into a country, it creates a euphoric mood and speculative setting. The influx of short-term foreign capital increases short-term gains, inviting new inflows of capital. Soon, a speculative bubble

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11 Initially, this consensus appeared as a reform package prepared for the Latin American countries; later, this package became a standard recipe, which was imposed on all developing countries; about ten years later, John Williamson named the package the "Washington Consensus." This name received wide acceptance. This "reform package" (a recipe) included the following policies: financial discipline, setting priorities for public spending, tax reform, market determination of interest rates, competitive exchange rates, liberalization of trade, liberalization of foreign direct investments, privatization, deregulation and respect for property rights.

12 A *mantra* is the sacred word repeated during prayers or meditations in Hinduism. Joseph Stiglitz used this term in his book on globalization: Stiglitz, *Globalization and its Discontents*, p. 16.

13 A report of the International Forum on Globalization, *Alternatives to Economic Globalization – A Better World is Possible*, San Francisco, CA: Barrett-Koehler Publishers, 2002, p. 39.

is developed in the capital markets. But as the current account deficit grows – which is the natural result of the inflows – the expectation of a devaluation of domestic currency increases the investors' nervousness and anxiety. At one point, any unfortunate event may trigger a rush to the foreign exchange market to save the value of the invested capital. The mass behavior of crowds leads to a market crash and financial crises. The boom and bust resulting from the inflows of short-term foreign capital has been experienced in most of the crises that have occurred since the 1980s. The economic crises since 1980 have inflicted great economic and social costs to the countries experiencing them.

Joseph Stiglitz explains the way the Washington Consensus was imposed on the developing countries:

> *When crises hit, the IMF prescribed outmoded, inappropriate, if "standard" solutions, without considering the effects they would have on the people in the countries told to follow these policies. Rarely did I see forecasts about what the policies would do to poverty. Rarely did I see thoughtful discussions and analyses of the consequences of alternative policies. There was a single prescription. Alternative opinions were not sought. Open, frank discussion was discouraged – there was no room for it. Ideology guided policy prescription and countries were expected to follow the IMF guidelines without debate.*[14]

After all the crises, the IMF comes to the country to protect the rights of the lenders, forces the government take over the responsibility for debts of the private sector and grants new credits to the country. These new loans provide an opportunity for the IMF to impose new policies.

The breakdown of the USSR in 1990 is interpreted as the defeat of the socialist system, and was celebrated as victory for the capitalist system. This event created a great opportunity for the World Bank and the IMF to enforce their liberal recipes. The World Bank and the IMF rushed to the formerly socialist countries in order to help them to transform their economies to a market-based capitalist form. The recipe used was the same recipe used for developing countries: the Washington Consensus. Foreign trade and capital markets were to be liberalized, the state-owned enterprises were to be privatized, and the principles of the liberal market economy were to be spread to all parts of economy. Reforms in the formerly socialist countries were implemented at high speed. The Russian economy lost about 40 percent of its level of income in the process.

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14 Stiglitz, *Globalization and its Discontents*, pp. 17–18.

The East Asian crises in 1997 had destructive effects on one-time Asian "Tigers." The IMF's policies were also behind these crises. Walter LaFeber claims that Asian peoples accused the West, and primarily American capitalists, for the crises and their aftermath. In their opinion, the Western countries had created the speculative bubble in these Asian countries, made huge profits in a short time and then departed, leaving behind devastation. According to LaFeber, the result was widespread poverty, and social and political chaos in many countries. LaFeber also believes that the IMF made important mistakes in all the issues in which it was involved (such as development and crises management) and in transforming the communist countries to capitalist economies. In countries where limited growth was observed, the benefits of the rich (top 10 percent) increased while the incomes of poor remained the same, or decreased.[15]

At this point, we should also say a few words about the privatization policies of the World Bank and the IMF. The privatization strategy of the World Bank and the IMF is essential for the establishment of the *new economic design*. In developing countries, State Economic Enterprises (SEEs) operate in strategic sectors. These strategic sectors, which provide the infrastructure of almost all the developing countries, are the transportation, telecommunication and the energy sectors. Since these infrastructure sectors require huge amounts of investment, they cannot be undertaken by the private sectors of developing countries. The targets of the privatization strategy of the World Bank and the IMF are these sectors.

In the capitalist economic system, enterprises operate to serve the interests of the owners of capital or the shareholders. The ownership structure, therefore, is very important. If the firms are private firms, they will seek profits for their owners. On the other hand, if the enterprises are owned by the state, they have a public mission to accomplish and they will strive to reach national objectives under a national identity. The private companies are transforming themselves into supranational companies. We may call them "globalized companies":

> *The economic clout of global firms is equally staggering. As Sarah Anderson and John Cavanagh of the Institute for Policy Studies report, the combined sales of the top two hundred firms grew faster than overall global economic activity between 1983 and 1999, reaching the equivalent of close to 30 percent of world GDP.*[16]

These companies have no nation (at least so they claim). These companies also seek to serve their stockholders. In the *new economic design*, these companies have a very significant role. As it is often asserted, the world is becoming a unified one, without boundaries or barriers to hinder the free flow of goods and services. In the *new economic design*, economic operations must serve the interests of these supranational companies.

Let us return to the issue of privatization. Privatization of the SEEs is essential for these supranational companies to acquire ownership of the infrastructures – such as the transportation, telecommunication and energy sectors – of developing countries. Since the 1980s, privatization propaganda has benefited from justifiable arguments against state ownerships of enterprises. At that time, it was argued that state enterprises were "nests of corruption", a burden on government budgets, and the "bleeding wound" had to be healed. It was also asserted that the objective of privatization needed to be efficiency increases, and the purpose of privatization should never be to create funds for government spending. It took some time to convince the public about the virtues of privatization. But as soon as the public was convinced, privatization returned to its main objectives. Today, privatization activities are concentrated on energy power plants, refineries and telecommunication networks. Privatization in these areas require such huge amounts of funds that the local private sector cannot raise them. Supranational companies, together with their local partners, compete among each other to buy these SEEs.

To summarize, the first phase of globalization was convincing the public about the *virtues* of the capitalist market economy through pervasive and efficient propaganda. In this endeavor, the World Bank, the IMF and the US Treasury assumed significant roles and they were successful. Today, the principles of the Washington Consensus have become indisputable truths, the basic principles of a new creed, a new faith.

The Second Phase of the *New Economic Design*

We have already defined the second phase of globalization as a reshaping of the capitalist market economy to serve the interests of the developed rich countries, with the help of the new faith. These two phases do not follow one another in time. They are synchronistic, supporting each other and creating synergy in the establishment of the *new economic design*. However, in spite of this, we need to state that the first phase is the prerequisite of the second phase.

We believe that it may help to clarify a related issue before we explain the concepts, institutions and the operating modalities of the second phase. The statement that the *new economic design* will serve the interests of the rich countries brings a question along with it: will the *new economic design* serve the interests of countries or the supranational companies? As the *new economic design* eliminates national boundaries, is it meaningful to talk about nations? Or will it serve the affluence of those who are already rich?[17] One thing that is clear is that while the supranational companies have significant roles in the establishment of the *new economic design*, the agreements are discussed and shaped by nation states. It is not clear whether the supranational companies are using the countries as means to reach their ends, or whether the countries are using the supranational companies for their own interests. But we believe that this ambiguity will not affect our understanding of the concepts, the institutions and the operating modalities of the *new economic design*.

We need to clarify at this point a very important choice we have made about the concepts we have been using. In our explanations above, we were timid in defining the *new economic design* as *globalization*, and we were hesitant in calling supranational companies *global companies*. There was an important reason behind this caution. Globalization is a very broad term, which encompasses many different trends that will finally shape the world's design, hopefully a design that will serve humanity. What has been developing recently is only one such attempt, hopefully a futile attempt to shape the world. We call the current attempt a *new economic design*. For the same reasons, we hesitate to call supranational companies *global companies*.

Let us return to the second phase of the *new economic design*. Today, the concept known as "the product" has undergone an important transformation. Economic theory assumed a product to be something that granted utility when consumed. The hardware of the products was important. Theory also assumed that the products that satisfy a need are homogeneous, not differentiated and not perceived differently. Today, the same can be said only for the hardware of the products, in fact this is even more so. With current technology, the hardware of the products can be produced anywhere in the world, by any producer. But also, today, the software of the products has become important. The software of a product is the image of the product developed by its brand name, design, quality image and its price. The product's software is produced by the creativity and imagination, aspirations and visions of the human element of production. Laws under the name of intellectual property rights protect the things that make up the software of the products. Intellectual properties are factors like patents, copyrights, brand names, designs, printed circuits, trade secrets and geographical indicators. The new economic order provides strong protection to these rights. Together, hardware and software form the products' identity. When consumers purchase products, they consider the identity of the product. They try to match somewhat the identity they develop for themselves with the identity of the products they buy.

An important aspect of the *new economic design* is the separation of the production of the hardware and software of the products.[18] Under the *new economic design*, the hardware and software are produced separately by different production factors in different places.

Today, there has been another change in people's perception that has contributed to the image of the product. This relates to the perception of the price of the products. Economic theory assumes the price to be the burden one must bear in order to buy the product. With the developments in the complexity of the products, price became an integral part of the product's image. Price as a part of the product's image must be consistent with the other elements comprising the image. In fact, each component of the image must contribute to the others and create synergies to enhance the image. In addition, the product's price is the only concrete element of the image that conveys important quantitative information about the product's identity. Under these considerations, prices may be a source of satisfaction, rather than being a burden.

These conceptual changes have provided some actors great opportunities to gain a bigger share from the cake produced by economic operations. Those who possess the software of the products, such as brand names, designs, patents, copyrights, can get the hardware of the products produced in any country in the world where labor is abundant and the wages are low, at very low cost, and then ship them to the markets where opportunities exist to charge more for the product. In these operations, the intellectual properties that produce the image of the products are under full protection.

18 The split here in the separation in production is of utmost importance. In previous centuries too people used to talk about the hardware and software of the products. For example the products of some artisans used to be perceived differently. Differences in perception can be understood to be differences in the software. But in those centuries there was no separation in the production. The artisans were the people who produced both the hardware and the software.

The operating modalities of acquiring a bigger share of the results of economic operations are the GATT and the institution of the WTO, which implements the rules of the GATT. The GATT is an agreement of countries to liberalize the world trade. Under the GATT's rules, there will be no barriers to the free flow of goods and services among countries.

Again, under the GATT, the cheap labor pools of the labor-abundant countries are preserved. This is so because the GATT is silent on the issue of labor mobility among countries. Since the labor mobility issue is not addressed, labor markets are fractured and the differences in wages do not tend towards equalization. Since the countries where labor is abundant and there is competition with each other to get the production orders of the rich countries, wages in those countries remain at subsistence levels.

In spite of the free flow of goods and services in product markets and keen competition for production in labor abundant countries, intellectual properties are fully protected by GATT. Today, developed rich countries own most of the intellectual properties. These developed and rich countries have better chances to develop these properties further, as they are the countries that have the means to invest in research and development, and in human capital. In the *new economic design*, countries become rich because they own intellectual properties, they can then produce new intellectual properties because they are rich, and the new intellectual properties can make them even richer. This is why in the *new economic design*, the rich get richer while poverty increases in an ever-expanding spiral.

Another institutional requirement of the *new economic design* is the operation of supranational companies.

Capitalist market economics assume a perfect market with great numbers of buyers and sellers. It is assumed that no participant of the markets can influence the price. This assumption does not hold in case of international trade. Economic theory claims that international trade increases the size of the cake to be shared, but how much an importer or exporter will get depends on their bargaining power. Exporters and importers will try to impose prices in foreign trade transactions. Theoretically, in the case of hardware production, the producers in labor-abundant countries and the companies that give the production orders could bargain on prices. In reality, this kind of bargaining cannot take place since the producers are large in number. But in the case of supranational companies, there is no room for bargaining since these companies own the production plants outright, or perhaps the supranational companies have their products produced by their partners in those countries. In these cases, the supranational companies use the labor force of the labor-abundant countries just by hiring them at the prevailing wages of those countries. When wages increase in one country, the supranational companies move their plants to other countries where the wages are lower. Under the *new economic design*, the developing countries are convinced they should welcome foreign direct investment.

Another requirement of the operating modality of the *new economic design* is the power to control communication channels in order to enhance the country's and the product's images. The *new economic design* can also help poor countries to benefit from the rules and principles of the design. Developing countries can also create their own fashions, brand names and designs, which means they can enhance the image of their products. This would make life more difficult for rich countries that have created strong images in markets all around the world. That would mean keen competition in software also. For the *new economic design* to serve the rich countries and the supranational companies, they need to have control over the communication channels and media of the countries where they want to operate. This is provided by the privatization implementations. Privatization has always been an important issue in the agenda of the World Bank and the IMF; it was one of the principles of the Washington Consensus. The US has great potential in image development, for example, Hollywood motion pictures have always been an important export item for the US. These films have promoted not only products by enhancing their images, but they also promoted the concepts, institutions and the operational modalities of the *new economic design*.

We want to complete this chapter by citing Jaroslav Vanek on the sustainability of the existing trends. Vanek adds a new dimension to our analysis above:

> *The inflated standard of living enjoyed by the rich of the world can never, for many reasons, become the way of life of the 80 percent who are poor. The sane levels at which all humanity can survive indefinitely is somewhere near the order of ten times less than today's rich, and ten times more than today's poorest … This I would call the economics of hope. By contrast, the potentially cataclysmic road of our present, self-centered mainstream economics and "atom defense" of our ill-gotten riches is what I call the economics of damnation.*[19]

Conclusion

The *new economic design* currently under construction has the objective of preserving the affluence of the developed, rich countries. This is not an easy job to accomplish. The advances in communication technologies are making the world smaller and smaller. The free flow of goods and services and capital among countries, if accompanied by the free mobility of labor, may help to narrow the gap between the rich and the poor. In order to take a bigger share from the world output, the developed, rich countries must design a new economic rules and institutions. The *new economic design* needs to look right and fair to people in the world.

For that reason, the new design was launched, claiming that it will serve the interests of all. In the first phase of launching the design, with appropriate propaganda, people were convinced about the virtues of the principles, rules, institutions and the operating modalities of the *new economic design*. The World Bank and the IMF played an important role in this early phase. The design was promoted under an appealing name: globalization. The implementation gained its momentum through the GATT and the establishment of the WTO in 1994.

So far the implementation of the *new economic design* seems to have been successful in gaining acceptance and in reaching its objectives. But since its launch, the gap between the rich and the poor did not narrow. Rich people continued to get richer while poverty levels seem to have remained the same or even increased, while the world's resources are becoming more and more depleted. This situation has created opposition to the *new economic design*. In the next chapter, we will try to analyze the results of, and the opposition to, the *new economic design*.