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A WORLD DIVIDED – OR COMING TOGETHER?

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The International Monetary Fund (IMF) warning of a possible world recession came in parallel with fears expressed at the World Economic Forum (WEF) in Davos about the spread of protests across the world. Given that Oxford Research Group (ORG) has long argued that the widening wealth-poverty divide is both damaging to communities and a danger to peace, do the current protests, such as the “Occupy” movement, point to a larger global trend or are they isolated, short-term and probably irrelevant? To examine this, it is helpful to look at western protests in relation to more deep-seated problems in countries, such as China and India, and to put this wider view in a broad historical perspective.

Relevant History

At the global level, the past thirty years has seen a widening of the divide between about one-fifth of the world’s people, who have benefited significantly from economic growth, and the great majority, who may not have grown poorer, but have faced a widening gap between them, and the wealthy minority. In terms of income, the most successful fifth has about 84% of the total, and if the measure used is household wealth, then the concentration is even more extreme. The gap has grown markedly wider in recent years, but even this recognition is in the context of a longer-term historical context of around six decades from 1950, and it is appropriate to divide this into two periods - the first thirty years through to 1980 and the period since then.

The late colonial and early post-colonial period from 1950 to 1980 saw most of the western world and much of the ‘Global South’ run on the basis of variably mixed economies, with strong elements of social welfare in the wealthier states. The Soviet Bloc was organised far more centrally, and the challenge it presented in the era of decolonisation was sufficient to encourage western states to support aid programmes, including some welfare provision, in many developing societies. Furthermore, in the immediate aftermath of decolonisation by the early 1960s, newly independent states were determined also to gain a degree of economic independence in a world trading economy largely dominated by the wealthy industrialised states of the North.

The first UN Development Decade of the 1960s achieved little, but the UN Conference on Trade and Development (UNCTAD) tried persistently to facilitate North/South negotiations that would ensure fairer terms of trade for the Global South, thereby helping to aid development. Such improvements might include commodity agreements, as well as associated buffer stock and compensatory finance arrangements, tariff preferences and schemes for regional industrialisation. The peak of these efforts followed the sudden fourfold increase in oil prices in 1973-4 and the temporary and unusual weakening of the terms of trade for the northern states. This was sufficiently serious for a bloc of developing countries to consider the idea of a New International Economic Order (NIEO), based primarily on a grand plan for world commodity trade, known as the Integrated Programme for Commodities, with its associated Common Fund to finance the necessary buffer stocks.

If the NIEO had gone forward, then UNCTAD trade economists argued that this would greatly aid the development prospects of much of the Global South, but the stagflation and

subsequent collapse of commodity prices that followed the oil price hike meant that by 1976, the industrialised North had largely lost interest in trade reform. Not only that, but the economic problems of the late 1970s were to usher in a radically different approach to the global economy, one focused primarily on the free market. The administrations of Ronald Reagan and Margaret Thatcher led the way in this, and the ideology was effectively imposed on much of the Global South by the conditionality represented by the “Washington consensus” and the loan and financial activities of the IMF and the World Bank. By the late 1980s, this approach was embedded in large parts of the world economy, with emphasis on privatisation of state assets, the liberalisation of trade and the freeing up of labour markets. One event of particular significance was the so-called “Big Bang” in 1986 – the deregulation of financial institutions centred on London, with other financial centres following suit.

The process of deregulation and the evolving free market economy got a massive boost with the collapse of the Soviet Bloc and the growth, or what was termed “turbo-capitalism”, with little notice being taken of the appalling hardships experienced in former Soviet states, not least as wealth rapidly accumulated in relatively few hands, including a number of hugely wealthy oligarchs. In spite of this, there was now a deeply inbuilt view that there was only one economic model for the world, with even China coming to embrace elements of the free market. It is true that the late 1990s saw the development of an anti-globalisation movement, with major demonstrations in Seattle and Genoa, but this went into retreat after the 9/11 attacks and the western concentration on the “war on terror”. By the early 2000s, there was a conviction among political elites that the free market economy not only ensured economic growth and increasing wealth, but was the only way of responding to poverty. That the world trading system remained deeply advantageous to western states was not acknowledged, nor was the manner in which cheap labour made manufactured goods from newly industrialising countries so competitive. Perhaps most surprising was a failure to recognise that the thirty years prior to 1980 actually saw higher overall economic growth than the thirty years afterwards, or that the latter period witnessed such a widening of the socio-economic divisions.

The Current Crisis

It was not until 2007-08 that cracks began to appear in the workings of the free market - cracks that now threaten a serious international recession. Initially, they were focused on the toxic sub-prime mortgage market in the United States and severe over-reach by many European banks, the context being a pervasive arrogance, backed by out-of-control quantitative analysis and minimal financial regulation. There was a rapid expansion of credit default swaps and unsustainable, yet traded, collateral debt obligations, leading to bank failures and bail-outs by governments, which, in turn, resulted in ever higher levels of state debt.

By 2009, there was a belief that the worst was over, even if a period of austerity was inevitable as governments sought to curb excessive debts. There was also a belief that those countries, such as China, Brazil and India that were still experiencing rapid economic growth would continue to grow and would thereby counter the risk of world recession. The mistake in this assumption was the failure to recognise that such growth was rooted, in part, in export markets to the Euro-Atlantic community and, with those markets moving towards stagnation, the export potential had fallen as well. Furthermore, attempts to stimulate domestic markets, such as that of China, have run into the issue of the high level of high personal savings, which is a consequence of the need to compensate for a limited social welfare system.

The Global Context

In early 2012, it is now clear that the worst was not over in 2009 and that the Euro-zone crisis of recent months is part of an entrenched failure of the current economic system. This brings us back to the twin issues of the IMF warning of recession and the predictions at the Davos WEF of popular protest at the current predicament. Do these protests, mostly in western countries, relate to wider world problems of a wealth-poverty divide?

The broad historical context outlined above suggests that there are indeed many connections, bearing in mind that the protests in the west are paralleled by much more determined protests and revolts elsewhere. The Arab Awakening of the past year stemmed from multiple factors, but highly significant among them was the combination of many millions of young educated people with few job prospects and a perception of relative marginalisation. In both India and China, protests against marginalisation are widespread and increasingly radical, if conspicuously under-reported in the western media. Over the past ten years, for example, India has experienced a serious revolt from the margins in the form of the Naxalite movement. This movement is ideologically neo-Maoist; it draws considerable support from impoverished rural communities and is regarded as the greatest internal security threat to the state. To the north of India, a broadly neo-Maoist rebel movement has proved so successful that it now forms part of national governance in Nepal.

China has seen impressive economic growth over the past two decades, but there is evidence of a rapidly widening division between perhaps 200 million people, who have benefited at the expense of far more that remain marginalised. Moreover, for many of the richer people, an informal economy ensures that the levels of wealth are not even recorded in official statistics. The socio-economic divide, combined with corruption and maladministration, does much to explain the numerous reports of strikes, riots and other forms of social unrest, as impoverished migrant workers and the rural poor react against their situation.

Connections and Implications

If the western protests, such as the Occupy movement and the Indignados, are put in this global context, then a picture begins to emerge of world-wide reaction against a common predicament. This may be the case, but there is an important caveat. The opposition to economic trends in the wealthier countries stems from people, who are by no means desperate, yet are educated, frustrated and angry with the concentration of wealth, as well as facing prospects much poorer than their parents. In the majority world of the South, people face far greater problems, often concerned with basic issues of health, nutrition and even survival. They are more educated and knowledgeable than a generation ago, and their predicament gives scope for the rapid evolution of radical, and even extreme, social movements - the Naxals being an example. What is not clear is whether the coming years will see a coalescing of diverse movements into a phenomenon that is more truly global. It is certainly possible, and it could be aided by two factors - the duration of the period of austerity and even recession in western states, and the extent to which a global economic downturn makes the situation even more difficult for the majority in the Global South.

Over all this lies the fundamental issue of a world community that is now facing serious environmental limitations, especially climate change. It is this combination of increasing socio-economic divisions and environmental constraints that is at the heart of the challenge - relating closely to the Oxford Research Group's foresight, or 'sustainable security', analysis,

having pointed for considerable time to the urgent need for greater equity and emancipation, and a transition to far more sustainable economies.

What is significant about the social movements in the west is the extent of the questioning of the current economic model, not just by Occupy protestors, but across large sectors of society. More than twenty years after the collapse of the centrally planned economies of the Soviet Bloc and the ascent of free market economics as the primary global model, there is now a recognition of inadequacy, if not failure. If that recognition can be the basis for positive thinking on better economic organisation, and if that can in turn be integrated into the critical need to respond to climate change through low-carbon economies - then prospects for a transition to a fairer and more stable world will be good. The coming months and years will be crucial in this regard.

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