Which statement do you agree with most?

• Globalization is generally positive: it increases efficiency, global growth, and therefore global welfare

• Globalization is generally negative: it destroys indigenous communities and increases global inequality
From Western Embedded Liberalism to Global Neo-Liberalism

A Historical and Theoretical Overview
Today’s Menu

I. Review: Three schools of theory, Three Worlds
   A. Deadly Clash between Liberalism and Socialism
   B. The Global “North” after WW II: Theories of Embedded Liberalism and the Welfare State
   C. The Global South after WW II: Economic Liberal, state-led liberal, Dependency theories of development
   C. The Communist World: theories of Equality and Community

II. The Role of the Cold War 1945-1971
   A. The Global North: 1) U.S Provides hegemonic stability: liberalism embedded in institutions
   B. The Global South: Dependency Theory bolsters Nationalism,
   C. The Communist world: isolation from the Market
   D. The Battle for Hearts and Minds

III. The Decline of American Hegemony after 1971
   A. Hegemony causes decline!
   B. Role of the Cold War in America’s Decline
   C. Abandoning Gold

IV. The Rise of Neo-Liberalism and the world Economy without a Hegemon (1970s
   A. Shrinking of the Welfare state in the “North”
   B. New Roles for International Institutions
   C. Failure of Socialism –Second and Third Worlds
   D. Growing Privatization

V. Rise of Globalization (1980s-Present)
Review:

- Embedded Liberalism: A First World Phenomenon
  - Economic Growth and the Welfare State
- The Second (Communist) World: Isolated from the First World International Economy
- The Third World: A pawn in the ideological struggle between the First and Second worlds
- The Fall of Embedded Liberalism and the Rise of neo-liberalism
  - Definition of neo-liberalism
  - Impact of Neo-liberal policies
  - Interpretations
I. Review: Three Schools of Theory and Three Worlds
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   A. Deadly Clash between Liberalism and Socialism
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   A. Deadly Clash between Liberalism and Socialism
   B. The Global “North” after WW II: Theories of Embedded Liberalism and the Welfare State

- Rapid Economic Growth in the Global North.....A Triumph for embedded liberalism and the welfare state
- The Cold War between Capitalism and Communism was raging... Fear that markets would fail again if left to themselves
  - Feeding fear that Communists in pursuit of equality would take over
  - And creating a need for the welfare state...
  - And international governing institutions: IMF, World Bank, GATT
- The reality of American Hegemony: The golden age of embedded liberalism
- The First World recovered from war and developed quickly...
- American Hegemony propped up the embedded liberal system: HOW?
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   E. Freedom vs. Equality and Community: The Battle for Hearts and Minds
III. The Decline of American Hegemony after 1971  
A. Hypothesis 1: Hegemonic stability causes decline!

- The U.S. “sacrifices” its economy to “keep the “free world free”

<table>
<thead>
<tr>
<th>Per Capita Income</th>
<th>1950</th>
<th>1973</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>$3,700</td>
<td>$11,534</td>
</tr>
<tr>
<td>U.S. and Canada</td>
<td>$5,257</td>
<td>$9,288</td>
</tr>
<tr>
<td>Japan</td>
<td>$1,926</td>
<td>$11,439</td>
</tr>
</tbody>
</table>

![American Net Exports as a Share of GDP Chart]
III. The Decline of American Hegemony after 1971

A. Hypothesis 1: Hegemonic stability causes decline!

B. Hypothesis 2: Role of the Cold War in America’s Economic Decline

Deadly conflict between Capitalism and Communism, Deficit spending: Vietnam war

The United States entered the war to prevent a communist takeover of South Vietnam as part of their wider strategy of containment. Military advisors arrived beginning in 1950. Then came the massive escalation of the Vietnam war in the 1960s.

How was the war in Vietnam to be financed when there was a war on poverty at home?
Too many dollars

To finance the war, President Johnson printed more dollars rather than take money out of the economy in taxes or cut his domestic programs. American dollars flooded world financial markets. What happens when you print dollars? A decline in the value of the dollar. Because other countries were holding dollars in reserve, the U.S. was, in effect, exporting inflation.
Because other countries were holding dollars in reserve, the U.S. was, in effect, exporting inflation. By mid-1971, the dollar had become seriously out of line with other major currencies, and the differential rates of inflation between the U.S. and other market economies had produced a fundamental disequilibrium in exchange rates. (We don't really need to print money any more, to make more of it. The money supply is measured typically by four figures, known as M0, M1, M2, and M3. M0 is the total of all printed money. The others refer to certain amounts of money such as bank loans that are available to the economy but not as liquid. The management of these various money supplies is the foundation of Keynesian economics, which is in conflict with other approaches circulating today and arguably in decline. In the Keynes model, deficit spending is a key tool available to governments struggling out of a recession—but the flip side is that in the long run, deficit spending is inflationary.)
Declining Confidence in the Dollar
III. The Decline of American Hegemony after 1971
A. Hypothesis 1: Hegemonic stability causes decline!
B. Hypothesis 2: Role of the Cold War in America’s Economic Decline
C. The Result: America’s Partners Abandon the Dollar for Gold
III. The Decline of American Hegemony after 1971
   A. Hypothesis 1: Hegemonic stability causes decline!
   B. Hypothesis 2: Role of the Cold War in America’s Economic Decline
   C. The Result: America’s Partners Abandon the Dollar for Gold
      D. So the U.S. Closes the Gold Window
         • Dollar is Devalued
         • U.S. Turns to Economic Nationalism: “Buy American! New Tariffs!
         • And blames the “speculators” and U.S. Trade Partners
IV. The World Economy without a Hegemon
   A. The Rise of Neo-Liberal Ideology

A. A New Ideology......From Embedded Liberalism to Neo-liberalism

• A set of political economy principles within the Freedom school of thought

• Neo-Liberalism = Economic Liberalism
  – deregulation, privatization, and withdrawal of the state from many areas of social provision.”
  – strong private property rights, free markets, and free trade.

• A general definition: Not necessarily the specific policies pursued by Reagan and Thatcher

• Historical evolution of the Term: To distinguish neo-liberalism from political liberalism

• Brought the U.S. to where it is now
IV. The World Economy without a Hegemon
   A. Rise of Neo-liberal Ideology
   B. Shrinking of the Welfare State
IV. The World Economy without a Hegemon

A. Rise of Neo-liberal Ideology

B. Shrinking of the Welfare State

C. Failure of Socialism and Dependency Theory

• National independence movements led by socialists had been extinguished.
• ISI failed in Latin America
• Global recession: inability to expand exports
• Rise of Third World Debt
• Net resource transfer from South to North
• Third World Economic crisis
• Income gap between First and Third World doubled in the 1980s.
IV. The World Economy without a Hegemon
A. Rise of Neo-liberal Ideology
B. Shrinking of the Welfare State
C. Failure of Socialism and Dependency Theory
D. New Role for International Institutions:
   spread neo-liberalism to developing countries

- Third world debt threatened to destabilize the international financial system.
- New role for IMF and World Bank: guarantee private loans
- In return for structural adjustment (SAP)
- The Washington Consensus:
  - Stabilize, privatize, liberalize
- Contributing to......
  - freedom of finance capital and multinational corporations to roam the earth
GATT becomes the WTO

- **Goodbye embedded liberalism**: increasing liberalization of trade
  - No child labor protections
  - No environmental protections
  - No health and safety protections
  - Private actors: banks, multinational corporations

- **Hello Privatization**: banks, multinational corporations (not NGOs) sit on advisory panels, permitted freer global access leading to growing sales
IV. The World Economy without a Hegemon
   A. Rise of Neo-liberal Ideology
   B. Shrinking of the Welfare State
   C. Decline of Socialism and Dependency Theory
   D. New Role for International Institutions
   E. growth of unregulated global finance

• **International movements of money – both volume and speed**

• cross-border bank lending has grown about 10% annually.

• daily foreign exchange trades now exceed by a wide margin the combined reserves of all central banks.
F. Critique from the Political Liberals and the Economic Nationalists

• Critique from Political Liberalism
  – The rich get richer, the poor get poorer
  – A “race to the bottom”
  – “non-commercial values” cannot play a part in trade rules
  – Property rights preferred to health and human lives: “right to profit” over “right to life”
  – IMF and WTO undermine democracy The “Golden Straightjacket”
  – Impact on U.S. Society

• Economic Nationalist Critique
  – Organizations undermine state sovereignty and make private actors more powerful than states
G. And an economic Liberal rebuttal: Global Growth without a hegemon and with neo-liberalism!

Gross World Product, 1950-2005

Source: IMF, Worldwatch
V. The Consequence of Neo-liberalism: Globalization
V. The Consequence of Neo-liberalism: Globalization

A. What is Globalization?

- networks of interdependence Economic networks
  - Trade
  - Capital flows
  - Labor migration

- Communication and transportation networks
  - Networks linking soldiers, criminals, terrorists
  - Advocacy networks
  - Religious organizations
  - Social networks
Globalization is about mobility and speed to stretch beyond political boundaries

- Technologies of mobility
- Ideas of mobility
- Capitalism
  - Requires efficiency for economic competition
  - Efficiency requires mobility
  - Efficiency requires speed
  - Speed and efficiency require new technology
V. The Consequence of Neo-liberalism: Globalization

A. What is Globalization?

B. The Underlying Causes

Neo liberal ideology in centers of power and politics + fall of communism + rise of Asian Tigers and China (emerging markets)

Factor mobility—growing global commodification of land, labor, and capital

Rising competition

Be efficient or die!

Develop technologies of efficiency + pressure governments to lower wages, taxes, regulation
V. The Consequence of Neo-liberalism: Globalization

A. What is Globalization?

B. The Underlying Causes

C. The Long-term Effects

- Convergence of policies around the world
  “Washington Consensus” — often imposed by the powerful

- More efficiency

- More productivity, more specialization, more trade

- Global economic growth
  • But global income inequality...

- Convergence of cultures — global liberal culture
  • Homogenizing effects of mass consumerism
Global (liberal) culture? Is it a problem?