

**SOUTH AFRICA (AS A DEVELOPING COUNTRY IN THE POOR SOUTH
AND IN AFRICA) VS. THE RICH NORTH IN THE FRAMEWORK
OF GLOBAL CAPITALISM**

1. The three main growth trends of the 20th century

The end of the 20th century offered us an opportunity to contemplate the main trends of the last 100 years. Although the 20th century displayed a multitude of trends, none of them was more spectacular and had more lasting effects than the following three "growth" trends: firstly, the growth in the total amount of goods and services "produced" world-wide; secondly, the growth of the world population; and thirdly, the "growth" in the damage done to the environment through pollution and through the exploitation of unrennewable scarce resources.

If we look at the first two growth trends in isolation, both can be regarded as major accomplishments of the 20th century. The quantity of goods and services "produced" in the 20th century was several times - perhaps five or times - greater than the total quantity of goods and services "produced" during the previous 19 centuries. This extraordinary accomplishment was achieved through spectacular progress in the natural sciences and technology - especially in the generation of energy; in the improvement of communication and transportation; through a spectacular increase in capital accumulation - not only capital deepening but mainly capital "modernisation" or "quickenning" (i.e. the embodiment of new knowledge and technology in new capital); through a much larger, better skilled and better motivated (or more productive) labour force, mainly due to much higher spending on education and training (i.e. higher investment in human capital); and through improved methods of evoking entrepreneurial and labour efforts by emphasising individual self-interests (or greed) more strongly than ever before.

The population of the world increased from 1,7 billion in 1900 to 6 billion in 2000 - it multiplied 3,5 times from 1900 to 2000! This growth trend - considered in isolation - can also be regarded as one of the main accomplishments of the century. This increase in the population would not have been possible without the spectacular advancements in the medical sciences and their application - especially in combating the spread of contagious diseases and in bringing down the high rate of infant mortality. The increase in the population was also made possible by major improvements in the production and distribution of food.

The same sense of accomplishment cannot be applied to the “growth” in the deterioration of the environment - the result of the growth in both production and population.

Therefore the three trends must be explored together. It becomes evident that all three growth trends - considered together - are malignant in nature. This combined malignancy attain alarming dimensions when extrapolated to the end of the 21st century.

Only 15% of the world's population, 900 million people, live in the Rich North - in the highly industrialised core, the majority members of the OECD. The rest of the world's population - 85% of the total or 5,1 billion people - lives in the Poor South or the periphery.

The distribution of income between the Rich North and the Poor South is very unequal and became more unequal during the 20th century. During the 1990s the Rich North received an average of 80% of the total income. The Poor South, with 85% of the population, received only 20% of total income.

The Poor South should be sub-divided. The Low-Income Countries, with 60% of the world's population, received only 6% of world income. Sub-Saharan Africa's population in 1999 was 11% of the total and they received only 1,1% of world income! In 1999 the per capita income in the Poor South was only \$1240 or almost 21 times smaller than the per capita income of \$25730 in the Rich North¹.

The absolute and relative gap grew massively during the 20th century. In 1960 the richest 20% of the world's population had incomes 30 times greater than the poorest 20% of the world's population. In 1990 this ratio was 60 times greater².

The problem of the unequal distribution of income occurs also between countries in the Rich North. For instance, the 1999 per capital income of New Zealand was \$13780, while that of Switzerland was \$38250³. Moreover, the distribution of income within the countries in the Rich North became more unequal during the last quarter of the 20th century - having become somewhat more equally distributed during the third quarter of the century. In almost all countries in the Rich North the share of the top 30% has increased since 1975. Lester Thurow points out that income in the USA will

¹ World Development Reports of the World Bank, 1993 and 2000.

² Quoted by Nüremburg, 1999: 58.

³ World Development Report, 2000.

have doubled between 1950 and 2000. But all the additional income will be concentrated in the hands of the top 30%, leaving the income of the lower 70% in real terms the same as in 1950! He asked the following important question: "How far can inequality [in the USA] rise before the system cracks?"⁴

The result is that the top 1/3 in countries of the Rich North - 5% of the world's population - in 1999 earned about half of the total income of the world, while the lower 2/3 in the countries of the Rich North - 10% of the world's population - earned some 30%. This leaves about 20% for the rest of the world.

2. Factors responsible for the Great Divide between the Rich North and the Poor South

Attempts to explain the Great Divide between the Rich North and the Poor South must take into account a multitude of historic, cultural, religious and ideological factors. First we should note that all the countries in the Rich North are in Western Europe and North America. - with the exceptions of Japan, Australia and New Zealand - while those in the Poor South, situated in Latin America, South America, Africa, Asia and Eastern Europe, were formal or informal colonies of European countries and the USA for long periods. For a large part of the 20th century the countries in Eastern Europe were satellite states (or colonies) of the USSR. All the countries that were part of the communist block during the Cold War (1947-1989) are now part of the Poor South.

Another obvious contrast is that the Rich North are highly industrialised with democratic systems. By contrast, most countries in the Poor South are not industrialised and their political systems are not yet stable democracies.

All the countries of the Rich North (with the exception of Japan) are part of Western and Christian traditions, which experienced a process of modernisation that started some 500 years ago in Europe. Broadly based cultural, intellectual and ideological movements like the Renaissance of the 14th and 15th centuries, the Reformation of the 16th century, the Scientific Revolution of the 17th century and the Enlightenment of the 18th century created in Western civilisation a *Weltanschauung* based on rationalism, materialism and individualism as well as a pursuit of progress (especially economic progress) that was absent in the civilisations of other parts of the world. These attitudinal changes played an important role in the economic revival that was experienced in European countries from 1500 onwards.

⁴ Thurow, 1996: 2.

Simultaneously, political and institutional factors came into play of decisive importance for the rise of the capitalist and the democratic systems. From the 15th until the 17th century the Italian city-states, Spain, Portugal, Holland and the Hanseatic League made important contributions to the development of trade practices and shipbuilding, of money, banking and other financial institutions and the all-important technological developments. In the 17th century France modernised the handicraft industry. During the 18th and 19th centuries Britain was the pioneer in trade, banking and financial developments and in the democratisation process, and succeeded in launching a technological and industrial revolution at the end of the 18th century. During the first three-quarters of the 19th century Britain maintained its primacy in industrial production, but was overtaken in this by Germany and the USA in the last quarter of the 19th century⁵.

These processes largely explain why Western countries enjoyed economic primacy over the rest of the world from the beginning of the 20th century. In fact we can claim that the Great Divide has opened up slowly from about 1500, and was to a large degree the result of the greater ingenuity, greater motive power and more successful entrepreneurship among Western peoples.

But this argument is incomplete. We must also take into account the important contribution of state building and colonialism from 1500 to 1900 towards the rise of the West. This brings us to the role political and economic power played in the rise of the West.

Capital accumulation represents the distinctive characteristic of capitalism. But capital accumulation could not happen in a political vacuum. Those responsible for capital accumulation needed the protection and the support of the political authorities. It is, therefore, not surprising that the rise of capitalism and the rise of the nation state occurred during the same period and in mutual support. One of the decisive forms of support given by nation states to the emerging capitalist class from 1500 onwards was colonial expansion⁶. Colonialism created lucrative opportunities for plunder for European countries - and later also for the USA and Japan. This was for many centuries an important form of capitalist accumulation and indispensable for the rise to primacy of the Western world. A few examples will suffice: the plunder of Latin America by Spain in the 16th and 17th centuries; the spice trade of the Portuguese and the Dutch during the 16th and 17th centuries; the slave trade in which many European countries participated and which was responsible for taking 12 million slaves from Africa to the Americas; the colonial and invasions by France and especially

⁵ Kindleberger, 1996.

⁶ Kennedy, 1988.

Britain from the 16th to the 20th centuries; the neo-imperialist plunder of especially Latin and South American countries by the USA during the 19th and 20th centuries; the “scramble for Africa” in the 19th century and the colonial exploitation of Asian countries by Japan during the 20th century.

Western countries’ success in this enterprise was due to the fact that they had better ships and better guns at their disposal. They also benefitted by the lack of immunity to Western diseases by people in the Americas, parts of Africa, New Zealand and in Australia: a high percentage of indigenous people that died of smallpox and other diseases shortly after the arrival of the European colonists, and made it much easier for the colonists to deprive the rest of the indigenous population of their land⁷. But the most important reason for their success was the comprehensive support given to them by the nation states. Colonialism was at bottom state-supported plunder on a massive scale and over a period of almost 500 years. This misuse of state power enabled the European countries to accumulate capital on a scale impossible without plundering the colonies. It is doubtful whether Europe could have pulled itself up by its proverbial bootstraps to liberate itself from the chronic stagnation of feudalism and the Middle Ages were it not for the extraordinary profits made through the colonies.

Colonialism and imperialism not only enriched the North, they also disrupted, exploited and impoverished many of the countries that are now part of the Poor South. The traumatic effect of almost 400 years of slave trading in Africa has lasted to this day. The contagious diseases resulted in massive mortality rates in colonial countries. In many of the colonial countries the indigenous population was wiped out almost completely by European diseases and by colonial warfare. In several parts of the world - for example, North America, Australia and New Zealand - population vacuums were created. This made it possible for the European colonies to become cultural extensions of Europe. Some ex-colonies became so completely westernised that today they are part of the Rich North. Some of them, mainly those in the Upper-Middle-Income group like Brazil, Argentina, Mexico and South Africa, may be said to have benefited economically more than they lost. But almost all the Low-Income and Lower-Middle-Income economies only became colonies of Western countries after the ‘outbreak’ of the New Imperialism in the last quarter of the 19th century, when it was exceptionally exploitative. Its main purpose was to plunder the lucrative mineral resources and plantations of the relevant colonies. The infrastructural developments were limited to those which facilitated the colonial extraction processes⁸.

⁷ See Diamond, 1997.

⁸ See Terreblanche, 1980, Chapter 6.

The first part of the period of New Imperialism - i.e. from ±1870 to 1914 - coincided with the first phase of global capitalism. This was also the period of liberal or *laissez-faire* capitalism. The Western governments did not intervene in their local economies, but gave large-scale military support to the nationalistically driven imperialist expansionism. During this period the world was on the gold standard and exchange rates were determined in the global gold market.

John Maynard Keynes, in his *General Theory* (1936), explained the aggressive nature of imperialism at this time: "Under the system of domestic *laissez-faire* and an international gold standard ... there was no means open to a government whereby to mitigate economic distress at home except through the competitive struggle for markets"⁹. The uncontrolled rivalry between the industrialised countries for colonies, raw materials and markets during the first phase of global capitalism caused a situation of political and socio-economic instability that could be resolved only through a global conflict on the scale of the First World War¹⁰.

By the beginning of the 20th century the Big Divide was established. The Bretton Woods period of controlled exchange rate adaptations coincided with the golden age of high economic growth - especially in the countries in the Rich North. The annual growth rate of sixteen industrialised countries - i.e. the core of the Rich North - from 1950 to 1973 was almost 5%, while the annual growth rate of the per capita income was almost 4%¹¹. During this period the Poor South experienced a much lower economic growth rate and a much higher population growth rate.

The Bretton Woods system and the controlled adaptation of exchange rates came to an end when President Nixon closed the "gold window" in 1971. After a period of exchange rate uncertainty, the IMF's control over exchange rates was ended. Exchange rates of almost all countries since the middle 1970s have been established daily (and even every minute) by global financial markets. This opening-up of financial markets led to an unprecedented flow of goods and financial capital between countries. The world became integrated into a so-called "global village" in which all countries in the world became closely interdependent. After the fall of the Berlin Wall and the implosion of the Soviet Union, the process was one of galloping globalisation. The gap between the per capita

⁹ Keynes, 1936: 382.

¹⁰ Imperialism in this period included the "scramble for Africa", the German *Drang nach Osten* into Eastern Europe and into Asia Minor, the dollar diplomacy of the USA into Latin and South America and into south-east Asia, the US commercial penetration of China through its "open door" policy and Japanese colonialism in Manchuria and Korea. This aggressive phase of imperialist plunder was legitimised by racist ideologies that claimed racial superiority for whites or Western people over those that were colonised. In 1895 Joseph Chamberlain confirmed his trust in the British race as "the greatest of governing races the world has ever seen". The other Western countries made similar claims.

¹¹ Maddison, 1986: 45.

income of the Rich North and the Poor South widened further during the last quarter of the century. Between 1960 and 1991 the income of the richest 20% of the world's population increased from 70% to 85% of total income, while the income of the poorest 20% declined from 2,3% to a pathetic 1,4%.

3. The structural dependence of the Poor South on the Rich North

At the end of the 20th century, the Rich North had become the core and the Poor South the periphery of global capitalism. The unequal distribution of power between the core and the periphery means both trade relations and capital flows are *asymmetrical*. The periphery became *structurally dependent* on the core during the periods of colonialism and imperialism, and the process of globalisation has intensified this structural dependence over the last 30 years. During the 1930s the Cambridge economist, Joan Robinson, justified Britain's imperialist exploitation as follows: "The misery of being exploited by capitalists is nothing compared to the misery of not being exploited at all"¹². Thus she acknowledged the structural dependence that had been established. And thus the decolonised countries became economically "re-colonised" into global capitalism during the last quarter of the century.¹³

The structural dependence of the core on the periphery takes many forms. During the first phase of global capitalism (1870-1914) there were few restrictions on the flow of people and capital. In this period more than 50 million Europeans migrated from Europe to the "New Europes" and especially to the USA. Large numbers of Indians also migrated as plantation workers to other parts of the world. But in today's global capitalism the flow of people from the Poor South to the Rich North is strictly controlled, while capital - financial, physical and human - can flow almost unrestricted. The Rich North is powerful enough to allow only the flow of people and capital that is to its advantage. The "brain power" that is allowed to flow from the Poor South to the Rich North improves the productive capacity of the Rich North at the expense of the Poor South. Risk capital only flows to the periphery if the returns there are high enough to offset the greater risk in the Poor South. To attract capital, the Poor South has to make concessions at the expense of the local population.

¹² Robinson, 1965: 45.

¹³ WA Lewis claimed in 1978 that the dependence that developed during the colonial period between developing and developed countries must be regarded as a main cause of poverty in the Poor South: "The principle cause of poverty in the developing countries, and of their poor factoral terms of trade, is that half their labour force (more or less) produced food at very low productivity levels. This limits the domestic market for manufacturers and services, keeps the propensity to import too high, reduces taxable capacity and savings, and provides goods and services for export on unfavourable terms. Lewis, 1978: 76.

The major current feature of the global economy is that financial markets develop much faster than commodity markets¹⁴. Modern information technology and the enormous growth of *financial capital* have made the situation in the countries of the Poor South particularly vulnerable. The “global meltdown” of 1998 showed that when the creditworthiness of some parts of the Poor South became doubtful, the large investment houses in the Rich North withdrew their financial capital from all parts of the South. Developing countries are almost completely at the mercy of the large investment banks, whose actions are unpredictable, selfish, short-sighted and irrational.

Many countries in the Poor South have mainly agricultural products to offer at global markets. Because they are under-developed, they find it hard to compete with Rich North. Worse. governments in the countries in the North have the clout and the financial means to subsidise their farmers against competition from the Poor South¹⁵.

The debt crisis of many countries in the Poor South is to a large extent also the result of self-serving actions by the Rich North. During the oil crisis of the 1970s the financial windfalls of oil-rich countries piled up in banks and had to be recycled into the global economy. In these circumstances it was easy to persuade governments in the Poor South to borrow at low interest rates. When President Reagan spent billions of dollars on the US defence programme, interest rates and debt servicing soared. At the same time development aid was much lower than promised. The General Assembly of the United Nations accepted a resolution in 1975 that the Rich North should give 0,7% annually of their GDP as development aid to the Poor South. Very few reached this target. The average for the Rich North is less than 0,25%.

The structural dependence of the periphery on the core has a cumulative character. The *developed* status of the core implies that it has a better infrastructure, a better educated labour force, a higher saving and investment rate, and much more can be spent on research and development. It would take decades for the periphery - for some centuries - to improve its productivity and its productive capacity to the present levels of the core. It cannot happen without inputs from the core. No wonder countries in the Poor South are *continuously* slipping backwards in relative terms even when making progress in absolute terms. The structural nature of the Big Divide makes it inevitable that the gap will enlarge, and with it poverty and misery.

¹⁴ If we assume an index basis of 100 in 1972, by the end of 1995 world production increased to an index of 806 and exports reached an index of 1277. But in the same time period, the financial markets index had exploded from 100 to 4266. This trend has further intensified since 1995.

¹⁵ Agricultural subsidies in OECD countries rose from 28% in 1980 to 47% in 1986. Quoted by Nüremberg, op.cit., 124, 127.

The structural dependence of the periphery is also the result of the much better *organisational* structures in the core. The legal, political, economic and propaganda institutions are much better developed. The highly developed legal system protects the property and patent rights of people in the core. The developed democratic system and the active role of the more pluralistic civil society in the core are together a better guarantee against institutional corruption and bureaucratic mismanagement. Most important, business organisations - banks, investment houses, corporations, professional organisations, etc. - are much larger, richer, better equipped technically and much more powerful than similar organisations on the periphery. According to the United Nations Centre on Transnational Corporations, the number of multinational enterprises rose from 7000 to 35 000 from 1973 to 1993¹⁶. Almost all these are based in the core and they enjoy all kinds of legal, bureaucratic and political privileges and protection which enable them to compete with large advantages against enterprises on the periphery.

The rise of global capitalism over the last thirty years and the relentless discipline of a *stateless* world financial market, has undermined the sovereignty of all countries. Like the first phase of global capitalism (1870-1914), the present phase limits the ability of nation states to pursue social and economic policies that limit the freedom of the multinationals. While all countries are experiencing a loss of sovereignty, it is much larger and much more painful in the Poor South. The overall effect has been to increase the power of the nation states in the Rich North vis-à-vis the Poor South.

During the 20th century the population of the periphery quadrupled while the population of the core more or less doubled. In as much as colonial and imperialist exploitation were responsible for the chronic poverty experienced by many countries on the periphery and insofar as this poverty proved to be conducive to a higher population growth rate, the core has to take some responsibility for the high population growth rates on the periphery. Moreover, imperialism also disrupted the social structures and destroyed the moral norms and the sexual and marriage habits that had controlled the population growth rate in peripheral countries for centuries at levels much lower than those experienced in the 20th century. In two other ways, the core made an important contribution to the high population growth rate in peripheral countries. The spectacular development of medicine occurred mainly in the core and was exported to the periphery at a high price. Likewise the "green revolution" in food production also occurred mainly in the core and was also exported to the periphery at a high price. The core has done the latter a great disservice in its multifaceted relations

¹⁶ United Nations Centre for Transnational Corporations, *World Investment Report* (New York, United Nations, 1994).
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with the periphery during the 20th century. In as far as the core supported or caused the high population growth rate on the periphery and has not given comparable support to enable the periphery to attain an economic growth rate equal to (or preferably higher than) the population growth rate, the core can justifiably be blamed for the low growth (and in many cases the decline) of the per capita income of countries on the periphery.

4. The impact of high economic and population growth rates on environmental deterioration

The high rate of both economic and population growth are closely linked to the deterioration in the environment. Many more people are now making demands on natural resources and are responsible for human waste and pollution. Even more important are the high economic growth rate and the high standards of living maintained in the Rich North. It was estimated at the Rio de Janeiro Conference on the environment in 1992 that to maintain this standard of living, the per capita harm done to the environment by citizens in the USA is some 30 times higher than the per capita harm caused by the citizens of India¹⁷. By extension, the harm done to the environment by 900 million people in the Rich North is more than 5 times greater than the harm done to the environment by the 5.1 billion people of the Poor South! This is despite the fact that the people of some countries are so poor that they can remain alive only by ecological destruction. But while the people of the Rich North are living in 25% of the land area, the environmental harm for which they are responsible is not limited to their 1/4 of the land area, but is spread all over the globe.

If the living standards of every person in the Poor South's were increased to the same standard as the people of the Rich North, the harm done to the environment would be multiplied by 20 to 30 times. It would in all probability cause such a destruction of the environment that the globe would become uninhabitable for human beings! Thus the Rich North is in fact responsible for *unsustainably* high levels of ecological destruction. It is possible for the Rich North to maintain its excessively high living standards by plundering the Poor South through the neo-imperialism of global capitalism, and by plundering the environment. By so doing it is destroying some of the living space of future generations! In other words, the Rich North can maintain its high living standards only by shifting part of the "cost" to the Poor South and a part of the "cost" to future generations¹⁸.

¹⁷ America, with a population equal to 4% of the world's population, was responsible for 22% of the carbondioxide pollution and for 25% of the depletion of non-renewable energy resources. In contrast, India with a population equal to 16% of the world's population was only responsible for 3% of carbondioxide pollution and for the depletion of 3% of the non-renewable energy resources (Time Magazine, June, 1992).

¹⁸ See special edition of Time Magazine in November 1997.

As long ago as 1969 the American economist, Walter Heller, formulated the destruction caused to the environment by the Rich North as follows:

*"[The] first claim on the products of growth should be to repay the ravages of the growth process. If as by-products in our quest for growth, we destroy the purity of air and water, generate ugliness and social disorder, displace workers and their skills, gobble up our natural resources and chew up the amenities in and around our cities, the repair of that damage should have first call on the proceeds of growth. If the damage is essentially a private cost forced on society, as in the case of industrial effluents and smoke discharge, it should be forced back on those private units. But much of the problem and the costs can be met only by government."*¹⁹

Heller's statement has far-reaching implications. If all direct and indirect *costs* of economic growth were to be calculated and compensated for *immediately*, a high growth rate would probably seem less attractive. To put this in another way: *if all production factors were to receive a (factor) price that is reconcilable with the economic reproduction of the factor concerned, the growth rates attained by the rich industrialised countries in the past half century would probably have been considerably lower.* The way in which "costs" and "profits" are determined in the capitalist's world in accordance with the economic theories of the neo-classical school, makes it impossible to quantify the exploitation of the environment and of labour inherent to almost all capitalist production processes. The theoretical approach of mainstream economists is an important reason for the *indifference* towards the harm done to the environment by high economic growth rates in the Rich North.

5. The Power of the Rich North/ the Powerlessness of the Poor South

So far we have established a number of facts stemming from the *interdependence*, the *interconnectedness* and the *spatial distribution* of economic growth, population growth and environmental deterioration during the 20th century.

First, the gap between the incomes of people in the Rich North and the Poor South has grown almost uninterruptedly during the 20th century. The UNDP's Human Development Report 1996 puts it this way: *"If present trends continue, economic disparities between industrial and developing countries will move from inequitable to inhuman"*.

¹⁹ Heller, WW, "Government and Economic Growth", in *Readings in Economics*, ed. H. Köhler (1969), p. 579.
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Second, the rich North live in extravagant luxury, while of the 5,1 billion people in the Poor South, 2,8 billion are living on \$2 or less a day and 1,2 billion on \$1 or less a day. During the last 30 years globalisation has produced a zone of peace and comfort for a minority and one of turmoil and misery for the majority. At no stage since the birth of Christ have so many people lived in such dismal poverty and squalor as at the end of the second millennium. And at no time since the birth of Christ was the production of goods and services as extensive as at the end of the 20th century. The turmoil and misery in the Poor South are in many ways the direct result of the integration of this zone into global capitalism. What has always been true of unbridled capitalism is now so much the more true of *stateless* - and therefore totally *unbridled* - global capitalism. Given the high level of *interconnectedness* in the shrinking global village, the wealth of the Rich North and the poverty of the Poor South have become two sides of the same global coin. The Rich North cannot distance itself from the poverty in the Poor South or vice versa.

Third, both population and economic growth rates are responsible for a malignant deterioration in the environment – caused largely by economic growth rates in the Rich North. The fact that a large part of the harm done to the environment is exported to the Poor South contributes to the misery of the people.

But the fundamental difference between the Rich North and the Poor South is *the immense POWER that has become concentrated in the countries that constitute the Rich North and the contrasting POWERLESSNESS of the countries that constitute the Poor South*. It is important to realise that the huge concentration of political, economic, corporate, organisational and ideological POWER in the Rich North is *protected* behind the *nation state* borders of each of the countries in the Rich North. It is not technology alone that has driven globalisation, but rather policies of governments that first opened up new opportunities for the development of global capitalism. The increased globalisation of financial markets during the last three decades was undoubtedly the result of decisions of the relevant governments that granted more freedom, more opportunities, more power and more nation state protection to those players that are actively involved in the global game. The problem of the extraordinary wealth in the Rich North and alarming poverty in the Poor South is not a technical problem, but an organisational, moral and political one.

The Big Divide between the Rich North and the Poor South would have been inconceivable without the nation states, and the process of colonialism and imperialism. These states were strong enough to decide when and how to integrate into global capitalism, and they could choose the degree of isolation or regulation which served their national interest better. While the first phase of

globalisation created space for the free flow of people as well as capital, the second phase saw unrestricted flows of “mobile capital” (financial, physical and human capital) but that immobile “natural” labour was restricted.

It is important to understand the *restructuring* of power relations *within* the countries in the Rich North during the last 30 years. The Bretton Woods period (1945-1974) was the high point of the system of democratic capitalism and of social democracy. During this period power was distributed fairly equally between the democratically elected government and its bureaucracy in the public sector, on the one hand, and the private sector corporations, on the other hand. During this period organised labour was also strong enough to play, with other organisations in civil society, an important “countervailing role” against the power of the corporate sector. But with the rise of global capitalism and the acceptance of the ideology of new liberalism over the last three decades, the power relations within the countries in the Rich North were drastically *restructured* in favour of private sector corporations. The changing view of the American political philosopher Robert Dahl on this subject is interesting. Between 1956 and 1980 he claimed that in the comprehensive democratic and capitalist system power is distributed in such a way that a wonderful “competitive equilibrium” was created. He propagated the idea that power was effectively disaggregated and non-cumulative and is shared and bartered by *numerous* groups in society representing diverse interests²⁰. In a book he published in 1985 Dahl changes his point of view radically, coming to the conclusion that “modern corporate capitalism tends to produce *inequalities* in social and economic resources (and power) so great as to bring about severe violations of political equality and hence of the democratic process”²¹. According to this neo-pluralist view of Dahl and others, interest groups (like the big corporations) cannot be treated as necessarily equal, and the state cannot be regarded as a neutral arbiter among all interest groups. The big business corporations wield *disproportionate* influence over the state, and therefore, over the nature of democratic outcome.

Within the corporations in the private sector power has also escalated into the hands of a relatively small managerial elite of the MNCs. This corporate elite’s power is immense, and very much entrenched and protected by all kinds of rights and privileges within the nation state system. The result is a sharp increase in the income of the top 30% and a decline in the income of the lower 70%. So the restructuring of power *between* the Rich North and *within* countries over the last 30 years, is responsible for not only a much more unequal distribution of income between the Rich North and the Poor South, but also for a much more unequal distribution of income between the capitalist elite and the rest of the population in almost all the countries of the world. The distributional implications of globalisation is already not reconcilable with domestic concepts of *distributive justice* and is

²⁰ See Dahl, 1961; See also Held, 1987, Chapter 6.

destined to become even less reconcilable in the years ahead. Jeffrey Williams alleges that the same kind of inequalities also resulted from the first phase of globalisation before the First World War and was then also not reconcilable with democratic concepts of distributive justice²².

The new power relations *between* and *within* countries have the effect of intensifying poverty for two reasons. On the one hand, the bargaining power of labour has been weakened. At the same time the relentless discipline of global markets have forced governments to retrench their spending on social welfare. Dani Rodrick puts it as follows:

“The social welfare state has been the flip side of the open economy. International integration thus poses a serious dilemma: Globalisation *increases* the demand for social insurance while simultaneously *constraining* the ability of governments to respond effectively to that demand”²³.

The dilemma created by globalisation is much more intense in the Poor South. While the level of social spending in many of the countries was already too low before the rise of Global Capitalism, the relentless discipline of the global market has forced those countries to lower their social spending

6. Globalisation and the managerial elite

The largest concentration of power in the Rich North is in the hands of the 35 000 (or perhaps already 40 000) multinational corporations (MNC). All these corporations have been able to achieve corporate privileges in their own and in other countries. Such is their power that they can demand special privileges even in the Poor South. The MNCs of the United States are, for example, such powerful and privileged instruments of neo-imperialism for the United States that it is no longer necessary for the government to implement a colonial policy to plunder other countries to the advantage of the USA. While it was often necessary in the 19th and early 20th centuries for the government of an imperialist mother country to send gunboats and soldiers to colonies to protect and to promote their corporations' colonial interest, in present-day global capitalism the power

²¹ Dahl, 1985, p 60.

²² According to Williamson, “[G]lobalization ... accounted for more than half of the rising inequality in rich, labor-scarce countries, [e.g. the United States, Argentina, and Australia] and for a little more than a quarter of the falling inequality in poor, labour-abundant countries [e.g. Sweden, Denmark, and Ireland]” in the period before World War I ... Williamson concludes that “the inequality trends which globalization produces are at least partly responsible for the interwar retreat from globalization [which appeared] first in the rich industrial trading partners” Williams, 1996: 19-20.

²³ Rodrick continues, “...(T)he global expansion of markets is undermining social cohesion and is inexorably leading towards a major economic and political crisis ... [Consequently] the broader challenge of the 21st century is to engineer a new balance between *market* and *society* - one that will continue to unleash the creative energies of private entrepreneurship without eroding the social basis of co-operation”. Rodrick, D. Spring, 1997: 22, 30 & 36.

relations between the Rich North and the Poor South have become *structured* in such a manner that it is sufficient to send senior officials of the MNCs and the World Bank to settle disputes in the Poor South countries to the advantage of the MNCs in the Rich North.

According to Galbraith the power of the managerial elite depends to a large extent on their ability to create an *image* of the large corporations through effective ideological propaganda, and with the help of the mass media:

[The big corporation is] the institution that most changes our lives and [which] we least understand, or, more correctly, seek most elaborately to misunderstand ... It exercises a greater influence on our livelihood and the way we live than unions, universities, politicians or government. There is a corporate *myth* which is carefully and assiduously propagated. And there is the *reality*. They bear little relation to each other. *The modern corporation lives in suspension between fiction and truth*²⁴.

The philosopher, Noam Chomsky, claimed in a lecture at the University of Cape Town in June 1997 that the unhealthy and tyrannical POWER in the hands of the large corporations is something that emerged at the beginning of the 20th century:

The whole system of private tyranny, the existence of corporations, is a very modern development. In the USA, it happened early this century. Before that, corporations had no [special] rights. They were partnerships and restricted to particular actions determined by state charter. That changed early in the century, *not by legislation, but by courts and by lawyers* - the international community played its role. These institutions were given extraordinary rights [and POWER] that they never had before.

The managerial elite of the large corporations is able to maintain its power essentially because it is not *accountable* to the broader public. In this respect their power differs radically from that of elected politicians, who must *account* for the way they have used their political and bureaucratic power. Corporations are in fact obliged every year to hold a meeting of shareholders, but the transparency of such meetings has become almost minimal. Corporations are also obliged to get an annual audit of their books, but the business relationship between the large corporations and the large accountancy firms is often of such a nature that they are not scrutinised to the necessary degree. Even the federal government in the USA is hardly able to call for effective accountability from the large corporations. The ability of governments in the Poor South to call for effective accountability from MNCs is for all practical purposes zero!

²⁴ Galbraith, 1977: 257.

Understanding of the relative power of the Rich North would be incomplete without noting the way in which ideological propaganda is used to legitimise the hegemony of the Rich North. The alleged advantages of global capitalism are propagated with relentlessly zeal by the governments of the Rich North, the managerial elite of the MNCs and all of their agents in the international financial organisations. All these “power groups” have billions of dollars at their disposal to spread the global ideology. All have access to the global mass media – most of them owned by MNCs - to carry the message of global capitalism to every corner of the globe. The MNCs also have all the means at their disposal to propagate *consumerism* world-wide.

The proponents of the global economy regard global capitalism as an unmixed blessing, claiming that global markets have the *potential* to stimulate productivity and higher living standards world-wide. The managerial elite argues that globally integrated economies lead to an improved distribution of labour among countries through giving countries with low wages the incentive to concentrate on labour-intensive production processes, while countries with high wages use their labour more technologically. They also claim that developing countries will benefit over the longer term by importing the technology, the capital and the professional skills that flows to them from the developed countries. Another alleged advantage is that large firms can better exploit the benefits of scale of large-scale production in a global economy.

The argument for an unbridled global economy is in effect the same as the one put forward by the proponents of *laissez-faire* capitalism in the 19th century. It was argued that an unbridled domestic market economy would lead to the effective allocation of resources and the highest growth rate for the country concerned. Both are flawed by ignoring almost completely the role played by institutionalised *power constellations* within the countries in the Rich North and especially between the Rich North and the Poor South. Heilbroner and Milberg (*Crisis of Vision of Modern Economic Thought*) put the case against the lack of reality of modern mainstream (or neo-classical) economics as follows:

The mark of modern day economics is its extraordinary indifference ...[towards] a visible concern with the connection between *theory* and ‘*reality*’ ... At its peak, the ‘high theorising’ of the present period attains a degree of *unreality* that can be matched only by medieval scholasticism²⁵.

Cole, Cameron and Edwards are also of the opinion that mainstream economics does not give a theoretical justification of the free market system, but represents a deliberate obfuscation of the capitalist reality to protect powerful vested interests:

The free market system is not only regarded by social democrats as unlikely to remove glaring poverty, it is also suspect of being an *ideological* veil disguising a reality in which resources are allocated with little regard to the general social interest²⁶.

Mainstream economic's defence of the free market and global capitalism can indeed be regarded as ideology in the service of power, i.e. an ideology to protect and to legitimise the power and the property of the managerial elite in capitalist countries and to protect the power of the Rich North.²⁷

The global economy is in fact a euphemism for the expansion of the American world. The USA - the only remaining superpower - has a vested interest in maintaining the *structural imbalance* between the Rich North and the Poor South. Jeffrey Sachs puts it as follows:

America has wanted global leadership on the cheap. It was desperate for the developing world and post-communist economies to buy into the [USA *vision* of the world] in which globalisation, private capital flows and Washington advice would [according to American propaganda] overcome the obstacles to sharing prosperity so that the pressure on the rich countries to do more for the poorer countries would be contained by the [American] dream of universal economic growth ... In essence, America has tried to sell its national *ethos* [to the rest of the world]: *the rich need not help the poor, since the poor can enjoy rising living standards [through participating in global capitalism] and someday become rich themselves*²⁸.

A typical example of the kind of propaganda the USA is making to justify global capitalism and the USA's position in it is the following statement of US Treasury Secretary, Larry Summers: "When history books are written 2000 years from now about the last two decades of the 20th century, I am convinced that the end of the Cold War will be the second story. The first story will be about the appearance of emerging markets, about the fact that the developing countries - where more than 3 billion people live - have moved towards the market and seen rapid growth in income". This alleged "movement", however, is not true of Latin America and Africa. From 1980 to 1993 income per person in Latin America has grown only by 0,3% annually, compared with 3,5 from 1960 to 1980. In Africa the income per person declined by 1% annually from 1980 to 1993, while it has grown almost 2% annually from 1960 to 1980²⁹.

²⁵ Heilbroner & Milberg, 1996: 3-4.

²⁶ Cole, Cameron & Edwards, 1991: 155.

²⁷ Rodrick puts it as follows: "[Mainstream] economists' standard approach to globalization is to emphasise the benefits of the free flow of goods, capital and ideas and to overlook the *social tensions* that may result". Rodrick, Spring 1997: 31.

²⁸ Sachs, The Economist, September 12, 1998: 21.

²⁹ Information from Weisbrot, in Mail and Guardian, 12 May, 2000.

Perhaps the most remarkable characteristic of global capitalism is that it is *stateless* and that no political authority has any effective control over it. It is sometimes said that the WTO, the IMF and the World Bank - the three most important international economic institutions - are "institutions of global governance". But as Mark Weisbrot pointed out these institutions "*are much more of a global anti-government, unaccountable to any electorate ... One does not need a conspiracy theory to notice the progressive transfer of economic decision-making from governments to unelected bureaucrats*"³⁰.

The annual meetings of the G8 can also not be regarded as an "institution of global governance". To broaden the G8 to a G22 or G25 would be of little avail given the structural dependence of the Poor South on the Rich North. Global capitalism, being "stateless", is controlled by the managerial elite of the MNCs with the consent and the support of the governments of the nation states in the Rich North. This can turn out to be the Achilles heel of the second phase of global capitalism. The first phase was ended by the First World War and by the Great Depression, exactly because it was also *stateless*. During the "global meltdown" of emerging markets in 1998 the vulnerability of global capitalism was demonstrated in a frightening manner.

7. A comparison between apartheid South Africa (1975) and global capitalism (2000)

The apartheid system reached its high point at the middle of the 1970s. The apartheid South Africa of 1975 (ASA, 1975) was in many respects a *microcosm* of global capitalism in 2000. The population was 26 million, with four million White people, or 15% of the population, living in the core; while the rest - 22 million people, or 85%, living on the periphery. The distribution of income in ASA 1975 was not quite as unequal as in global capitalism 2000. The white core received 70% of income and the black periphery 30%.

TABLE 3
COMPARISON OF POPULATION AND INCOME DISTRIBUTION IN APARTHEID SOUTH AFRICA 1975 AND IN GLOBAL CAPITALISM 2000

	SA 1975 (Microcosm)		Global Capitalism 2000 (Macrocosm)	
	White Core %	Black Periphery %	Core %	Periphery %
Population	15	85	15	85
Income	70	30	80	20

³⁰ Mark Weisbrot, "Free Humanity from the grip of globalisation", *Mail and Guardian*, May 12 to 18, 2000: 31-32.
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The similarities within the power structures is even more striking. In global capitalism 2000, the Poor South is structurally dependent on the Rich North. In South Africa in 1975 Black peoples were also structurally dependent on the whites in the core. All the nation states in the Rich North are highly developed industrialised countries with well-developed democratic systems. These nation states dominate the international economic and political institutions like the WTO, the IMF, the World Bank, the Security Council of the UN and also the OECD. The core in South Africa in 1975 was highly industrialised and all the political power was concentrated in the hands of a white elected system. A very high percentage of the productive capacity and professional labour is presently concentrated in the Rich North. In global capitalism 2000 the Rich North is responsible for a very high percentage of technological research and new knowledge. This was also the case with the white core in ASA 1975. In global capitalism 2000 the Rich North has access to the mass media and is using it for sophisticated ideological propaganda to legitimise and to perpetuate its own power and privileges. In South Africa the white core also had exclusive access to the mass media and also used it for sophisticated ideological propaganda to legitimise and to perpetuate the power and the privileges of the whites.

Just as the Big Divide between the Rich North and the Poor South “opened up” over a period of 4 to 5 centuries, with Western imperialism playing an important role, so the power and privileges enjoyed by the whites in ASA 1975 were the result of a process of colonialism and neo (or “internal”) colonialism over a period of more than 300 years. As the countries in the Rich North used their nation state sovereignty to protect and promote their power in global capitalism 2000, so the white people in 1975 used the sovereignty of the Republic of South Africa and the (alleged) “legitimacy” of the white parliament to protect and to promote white power and privileges with every legal and military means at their disposal. While the wealth in the Rich North and the poverty in the Poor South are causally linked and two sides of the same global coin, so the wealth of the whites and the poverty of the blacks were also causally linked and two sides of the same apartheid coin in South Africa.

The trade, investment, and labour relations between the Poor South and the Rich North in global capitalism 2000 and between the non-whites and the whites in ASA 1975 can be compared with a soccer game. In both cases the playing field is very uneven. This was the result of the structural dependence of the Poor South and the black periphery on the Rich North and the white core respectively. It is not surprising that black people in ASA 1975 and the Poor South in global capitalism were and are always on the losing side.

In 1994 apartheid was abolished after 20 years of liberation struggle. A deep-seated political transformation has been set in motion to “level the playing field” for black and white. Therefore South Africa in 2000 is an incomparably better country than it was in 1975 or in 1989. But the transformation process is not complete. The prescriptions of the powerful beneficiaries of the global economy have restricted the sovereignty of the new democratically elected government in addressing the problems of poverty and other legacies of the apartheid period to the necessary degree. South Africa is now an ordinary country in the Poor South and within the structure of global capitalism even more dependent on the Rich North than was the case with ASA 1975.

The “playing field” on which the Poor South has to play against the Rich North will have to be levelled *drastically*. As the power structures in ASA 1975 were *vulnerable and unsustainable*, and the discrimination against the blacks was *unjust and inhuman*, so the power structures in global capitalism 2000 are also *vulnerable and unsustainable*, and the poverty and the structural dependence of the Poor South are equally *unjust and inhuman*. It is not possible to create a better world through more and more economic growth within the present structures of global capitalism. The only road to a better world is through a *fundamental restructuring* of the global system. In this restructuring process the viability of the “nation state idea” of Westphalia (1648) in today’s world will have to be reconsidered thoroughly. Many factors contributed to the collapse of the apartheid regime in South Africa in spite of the formidable political, military and economic power concentrated in the hands of the whites. In the end the whites could not resolve the moral and ideological crisis of the system of white political dominance and racial capitalism. The political, military and economic power concentrated in the hands of the Rich North is much more formidable. But what will matter in the end is whether a moral and ideological justification can be given for the Great Divide between the Rich North and the Poor South.

Peter Sutherland (chairman of the Overseas Development Council) describes the disadvantages of the global economy and the challenges with which it is confronted as follows in an article in *Time Magazine* (2 February 1998):

While globalisation has raised living standards for many, it has made life more difficult for those dislocated by change and it threatens to leave part of the world behind. The *foremost* challenge of globalisation is to ensure that its fruits extend to all countries. The *second* challenge of globalisation is to allay the fear that the growth it brings is *inherently* destabilising. The *third* challenge of globalisation is to address the concern in wealthier nations that international competition will harm [their] living standards. The *fourth* challenge of globalisation is to tackle the problems complicated by expanded trade and investment - environmental degradation, disease, migration, crime and terrorism. Our ability to confront

this set of new, post-Cold War challenges will require greater *global co-operation*. The challenges raised by globalisation yield no easy answers. *They strain the abilities of national governments to confront them directly*. Collective consideration, in the form of [a global economic] summit and some ongoing consultative process, will be a crucial confidence-building effort.

Sutherland's plea for a "global economic summit" at which the participating governments must decide on *joint* action in the global economy presupposes a "world government" of sorts. What Sutherland and others do not appreciate is that the *power relations* in global capitalism needs to be changed drastically. If it does not happen by consent it will precipitate a global crisis.

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