

Satoshi Fujii *Editor*

Beyond Global Capitalism

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Preface

Introduction for Beyond Global Capitalism

Global capitalism (or globalism) has been increasing in power in recent years. Many scholars, economists, and policy makers paint a rosy picture of global capitalism. They believe that global capitalism provides benefits to the world by promoting global free trade and making the world economy more efficient. However, global capitalism's growing strength has brought about various harmful effects to the people of the world. For example, advancing globalism results in so-called global money running wild, and as a consequence, we have already witnessed the Asian crisis, Lehman Shock, and recent EU crisis. At the same time, with the advancement of globalism and global companies, the North–South problem has emerged, attracting much attention. Even in developed nations, that is to say, the countries in the Northern Hemisphere, there is increasing inequality, and poverty has become a great challenge for mankind.

In globalism, everything is treated within the market as it is, and so the authority of everything, except money, plummets, resulting in nihilism, a value system that believes in nothing, which then spreads throughout the world. This is because money itself does not have any intrinsic value. If and only if it were possible to exchange money with an attached value system would money have intrinsic value. Otherwise, money implies nothing. It is just empty matter. Therefore, those who believe only in money often end up becoming nihilists.

Thus, global capitalism is not as auspicious as claimed by some people, because it brings about a series of harmful effects to mankind.

This book contains revised transcripts of talks and discussions by five speakers who participated in the international symposium “Beyond Global Capitalism,” which was held in Kyoto, Japan, on December 2, 2013, by the Kyoto University Resilience Research Unit.

This symposium attempted to identify theories and strategies for overcoming the worldwide problems that have been caused by global capitalism since the 1970s and 1980s. To this end, we invited outstanding scholars from around the world to Kyoto,

the former capital of Japan, to share their important theories and political insights during discussions aimed at moving the world beyond global capitalism. More than 1,200 years old, the history of Kyoto far exceeds that of global capitalism. The discussions among the five scholars who gathered in Kyoto were aimed at contributing to the development of theoretical and practical frameworks for a global economy that can move beyond global capitalism, and building stable, prosperous, and resilient economies and societies that can enhance the well-being of people all over the world during the twenty-first century.

Frequently, global capitalism is said to be an inevitable product and a historical necessity. However, the flow of global capitalism is something that has been created by man, so it is not absolutely inevitable. In addition, because it is believed that global capitalism is inevitable, it is claimed that further discussion is unnecessary; global capitalism is just taken for granted. Sometimes it seems to be difficult to change the course of society. However, if you take a long-term perspective, the course of society is in fact created by the thoughts presented by well-known people. John Maynard Keynes states as follows in *The General Theory of Employment, Interest, and Money* (1936):

...the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist.

Therefore, if we can generate thorough discussion on a particular thought, then perhaps the discussion itself can lead to change. In fact, in the present globalization of the twenty-first century, many people throughout the world have already started rethinking the true meaning of globalization and its consequences, as well as what is necessary in order to overcome globalization. We have started to think about these issues, and the issue of globalization has been discussed within the realm of economics, including in the books *Kicking Away the Ladder*, *Development Strategy in Historical Perspective* and *23 Things They Don't Tell You About Capitalism*, both by Ha-Joon Chang in 2002 and 2011, respectively.

Professor Ha-Joon Chang, from Cambridge University, wrote these books, and we have included a chapter by him in this book. He describes clearly how globalization as promoted by neoliberalism has failed in many ways in terms of inequity, instability, and sluggish growth, and therefore insists that it is really time to put pressure on our political and business leaders to change this situation.

Since the globalization issue cannot be separated from history, we also have included a chapter from Professor Keita Shibayama, who wrote the book *The Quiet Great Depression* (Shizuka naru Dai Kyoko) in 2012 and discusses globalization from the perspective of political theory and economic history. Examining history since the thirteenth century, he states that the first globalization occurred from the late nineteenth to early twentieth centuries. He found that the first globalization led to tragedy and wars rather than creating a rosy world, so he believes we should apply the lessons from the first globalization to the current one.

Some may ask why global capitalism has been strongly supported by many people, including scholars, policy makers, and citizens, even though it is obvious that it is harmful to every nation. The theoretical answer to this question can be drawn from political philosophy. Satoshi Fujii, a policy scientist and psychologist and organizer of this symposium, as well as author of the book *Building National Resilience* (2014), described the social-philosophical reason for the popularity of global capitalism in the current world based on the analysis of totalitarianism by Hanna Arendt.

Because globalization is caused by people and nation states, it is greatly associated with the history and traditions of each country, as well as the core of every society, namely, the family institution. So we should also have a hard look at the family institution; from that viewpoint, it is suggested that free trade destroys democracy. With regard to this perspective, we have included a chapter in this book by Professor Emmanuel Todd of France, who is a world-famous anthropologist and has published the books *The Economic Illusion* (*L'illusion économique*) (1998) and *After the Empire: the Breakdown of the American Order* (2003). He describes various social factors, such as education, culture, family, science, and innovation, for the promotion or prevention of globalism. While accounting for these factors, he stresses the possibility of the United States playing a large role in moving beyond globalization.

We also have included a chapter from Professor Takeshi Nakano, who has studied political theory from the viewpoints of economics and conservatism, and has published the books *Theory of Ruinous TPP* (*TPP Boukoku-ron*) in 2011 and *New Theses on the History of Japanese Political Theory, Against Free Trade* (*Nihon Shisoushi Shinron*) 2012. He points out that conservatives are willing to embrace neoliberalism even though the original principles of conservatism are incongruent with neoliberalism. He concludes that this is because of the great degeneration hypothesis (GDH), which postulates that the elites all over the world have degenerated to such a large degree that they no longer feel any incongruence.

Finally, we had a discussion among all the scholars, keeping a close eye on the fact that globalization is going forward and that it is necessary to look at its cause and totality from many different aspects. We may be surprised by the very close similarities between today and the historical background of World War II. We wanted to discuss economics, anthropology, political science, history, and philosophy. We attempted to assemble the wisdom of mankind, from various fields, and we tried to find ways to correctly understand global capitalism in order to overcome its problems. We hoped that this symposium would trigger people to take another look at global capitalism in the history of the world.

We thought initially that our attempts to interpret and overcome global capitalism on a worldwide scale from a historical perspective might be the world's first. However, this was previously attempted right here in Kyoto. I would like to touch on that in this introduction.

Here in Kyoto, right during the middle of World War II in 1942, the Kyoto School of Scholars organized a symposium called "Overcoming the Modern," assembling the greatest minds of Japan, mainly from universities. Believing that the threads of

history are spun significantly in terms of ideological movements caused by modernization, they strongly believed that it was important to look closely at the issue of modernization and try to overcome it; that was indeed what was discussed at the symposium in 1942. This present symposium has attempted to do exactly the same thing through our discussions here. However, after World War II, details of the “Overcoming the Modern” symposium were merely recorded in the form of a small book. Thus, the records became buried in the history of Japan and the world, and the symposium had little impact and the movement to overcome modernization was soon forgotten.

However, after half a century, here again in Kyoto, we are trying to “overcome the modern” and its consequences, which have taken the form of global capitalism. Therefore, it is urgently necessary to look squarely at this issue here in the same city, having not only the benefit of Japanese wisdom but also the greatest wisdom of the twenty-first century from around the world. I hope that this symposium has equaled its predecessor, in the form of a twenty-first-century-world version. This symposium aimed to find ways to move *beyond global capitalism*. Following up on this first meeting, we hope to continue holding such a symposium in the future, as well as providing this kind of book as a record of the event.

I sincerely hope that this book becomes the first step toward a new history *beyond global capitalism*.

Kyoto, Japan

Satoshi Fujii

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Chapter 1

National Diversity and the Crisis of Globalisation from the Perspective of Historical Anthropology

Emmanuel Todd

Abstract This chapter discusses globalisation from a historical and anthropological viewpoint. The discussion is about the deeper forces—education, mobility, culture and family systems—that explain the inferior economic choices made today. I first discuss the idea that free trade, as promoted by globalisation, leads to inequality and demand insufficiency, which in turn leads to economic crises. I then discuss how acceptance of the expanding economic disparities in developed countries may be explained by the spread of educational stratification and by population aging in developed countries. Developed countries, rather than emerging countries, still have the potential to change or improve the world’s economic structure and restrain globalisation or free trade. I propose that possibly America has such potential partly due to its dynamic societal structure. For example, criticism against globalisation, including the concept of the richest 1 %, has been spread by the US to the rest of the world. Such optimistic views about America should be considered with some scepticism though.

1 Introduction

This chapter discusses the issue of globalisation from a historical and anthropological viewpoint. I discuss the deeper forces—education, mobility, culture and family systems—that explain the inferior economic choices made today. Throughout, my aim has been to address certain questions as well as to propose a couple of hypotheses, given that the arguments outlined herein are not ultimate conclusions. They constitute interrogations and very temporary conclusions. Note that the temporary conclusions about the US destiny are especially speculative.

The discussion in this chapter considers that the crisis centres on developed countries, which I regard as the focal point of globalization. It is in the US, Europe and Japan that real decisions are taken but it is also in the most advanced part of the

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world that economic stagnation weakens democracy. Emergent countries are not central, even when we talk about vast and important countries like China. I make an economic-political forecast based on the idea that this moment is a turning point. Today, for the first time since 1990, there is a real challenge to neo-liberal ideology because globalization no longer works. The world has not managed to get out of the 2007–2008 crisis. However, the present coexistence of a well-developed critique of neo-liberalism and of a complete paralysis of political systems is to some degree surprising. Because the paralysis can only be temporary, this chapter suggests a possible move into more regulated and controlled societies. There are historical cycles going, first from regulation to more liberalism, then from liberalism to more regulation. We are nearing an inflection point. While I cannot speculate precisely about the exact moment change will occur, I attempt to discuss the decisive countries that could emerge with new solutions and new regulation measures.

2 Free Trade Resulted in Demand Insufficiency

Discussing the basic economic mechanics of the crisis, it may be clear to many that free trade has become an issue and a crisis factor, a problem rather than a solution. Let us not become ideological. Speaking as a historian, one should admit that free trade is sometimes good, or rather, good at the initial stage. There are historical periods during which the growth of exchange creates positive effects. But there are also times when an excess of free trade has negative effects, and we have reached this stage. Criticism of free trade today is a little difficult because the positive aspects interfere with the negative in that many of the previous positive effects are still fresh in people's lives and minds.

There are numerous reasons for the existence of free trade. The idea of cooperation among nations is good in itself. Specialization leading to economies of scale is a perfectly valid argument and the lower cost of food or goods is another one. But really, the engine of free trade is not simply the search to maximize social well being, as defined by economists and managed by politicians. It is also, at the level of micro-economic capitalist behaviour, of actual businessmen and investors, a drive to maximize profit, as is typical and reasonable in any capitalist regime. The basic and nicely paradoxical justification for capitalism is that, by fully using our profit-seeking instincts, it gets us to do good for humanity. The primordial force behind free trade is the rate of profit, not the level of consumption.

So what is actually happening today? Free trade leads to two basic problems. The first, rising inequality, has been frequently mentioned. This is an effect of free trade that has been fully accepted by liberal economic theory on the basis that, while rising inequality is surely regrettable, it should not prevent the overall growth of riches, after which we can do what we please, perhaps share these riches more fairly through redistribution. The economic mechanism leading to a rise in inequality is accepted by the theory and is considered a necessary evil. Another consequence of free trade, however not accepted by the theory and certainly not mentioned by

international economy textbooks is the lag in global demand eventually created by generalized salary competition. Free-trade thus brings modern triumphant capitalism back to its old nineteenth century contradiction: demand lags behind productivity, under-consumption leads to overproduction.

To better understand this idea we should look at the 1950–1975 period of prosperity, a time of rising growth rates and full employment. What was happening then? There still was a predominantly national economy, with some sort of natural complementarity between salary growth and production growth. It was a Keynesian world, in practice if not in theory, for all economic actors. Enterprises of this post-war world, be it in the US or Japan, acted largely as if they were aware that aggregated salary growth meant rising effective demand. This was a world of full employment.

Free trade destroys this world. Even before it becomes a majority practice, its ideology encourages enterprises to no longer consider themselves as producers for a national internal market but rather as producers for an external foreign market. Internal global demand vanishes as a preoccupation. Employees are now considered simply as labour. The salary stops being a contribution to creating internal demand and becomes a pure cost. And of course, the rational enterprise will adopt a logic of salary cost compression. Now imagine a world in which all enterprises, one after another, in all the countries of the world, get into a logic of salary cost compression: a lag in effective demand is created on a truly global scale, insufficiency of demand becomes the true horizon of globalization.

This world is in ferment, unsettled and obsessed with economic outlets; it is a world of ferocious competition that is constantly on the verge of crisis because of demand insufficiency. The temporary solution that emerged in this globalised capitalism involved two things. First there was the American trade deficit, the fact that America consumes more than it produces, which acts like a stimulant for demand at the global level. Second, to allow the growth of American internal demand, new credit mechanisms were implemented. Between 2007 and 2008, these credit mechanisms plunged and the world entered a phase of real depression due to demand insufficiency. Here, I am not discussing the folly of the global financial system but am, rather, more interested in the matter of commercial exchanges and the pressure placed on salaries by commercial exchanges. But we should note that the same model very well explains what is happening in the financial area: rising inequality entail not only the compression of average people's revenues, but also too much money accumulating at the top of the social structure, money that feeds asset inflation, be it real estate inflation or stock inflation .

Why have the most advanced societies, like the US, UK, Japan, Germany and France, accepted the rise of inequality? We are currently noticing the importance of the "1 %" richest people. What is currently coming forward is the emergence of an oligarchy, a tiny minority of super-rich people while, at the same time, all the countries involved are democratic. All these countries are countries where there are voters with rights, which means that these disparities have been accepted.

We should understand how these societies were able to accept this and how they fare with it. Currently the British, Americans, Japanese, Germans and French all

vote, yet no significant economic changes are made, and it is this fact that must be explained. At this stage, the analysis of educational movements and the cultural dimension allows us to advance our understanding.

3 Worldwide Development of Literacy: Globalisation Ahead of Economy

Globalisation, or mondialisation as we say in French, is generally associated with commercial exchange, financial exchange, or the evolution of communication technology. During the first waves of globalisation, it was characterised by railroads, container ships, the telegraph or other similar inventions; nowadays it is due to the Internet. While all of this is true, there is now something even more important that makes possible the unification of the world, something that did not previously exist: soon, the whole world will be literate. We're reaching the end of mass education development; this started in Germany with sixteenth century Protestant Reform, then spread throughout Western Europe with the result there that the younger generations of many countries were fully literate by 1900. This movement has continued and by 2030, the whole planet will be literate, including Africa. It is an irresistible movement and, from my earlier studies of literacy, it is quite clear in history that when a population knows how to read and write, there will be an economic takeoff.

At the beginning of the 1980s I wrote a book that studied the relationship between family systems and the pace of the spread of literacy. At the time it was concluded, the whole of Asia and South America were literate. While mass literacy is really inevitable, it is not an effect of the economy. Instead, it is something that happens by spreading rapidly in certain family systems, especially where the status of women is high and where there is a certain type of authority relationship within the family. There is an entire familial, cultural and educational logic that evades the economy and, to me, precedes it. Actually, if we want to create a very simplified table of world unification, writing systems as they are known and used today have been invented twice, first in Sumer, Mesopotamia, and then in China 1,500 years later, after which writing reached all the countries in the world. Even Africa will reach a particular moment of human history when everyone will know how to read and write.

To me, that is globalisation. It explains this other fundamental dimension of the current planet, the decrease of birth rates and the fact that soon, all world populations will practice birth control. The fertility rate, that is, the number of children per woman, is at the moment slightly above 2.0. In African countries it stays above 4.0, and in a very few countries above 6.0. Muslim countries are somewhere between 2.0 and 4.0. All this happened independently of economic evolutions and will last no matter what the economic choices of the following years, so this is a special historical moment.

4 The Paradox That the Spread of Education Causes Cultural Inbalance

What is really interesting with regard to the most advanced countries is what happened after the war in terms of education. Progress continued in a more regular and decisive manner than economic progress. Educational progress meant the development of secondary and higher education and the enrolment of higher numbers of students, with positive consequences, not only for the economy, but also in terms of a higher level of consciousness and mental well-being of the populations. What could not be imagined was that the social homogeneity of the most advanced democratic societies would be destroyed by the development of higher education.

Between 1900 and 1950, America was slightly ahead European countries, Japan had almost caught up with Europe. All had very homogenous populations in which everybody knew how to read and write but very few people had achieved higher education. We had an educational structure for the population that was naturally democratic, an almost natural basis for universal suffrage.

While some strata of society retained massive economic privileges, a preference for equality emerged based on the fact that people were equal before culture. This was something new, powerful and positive. Previous history was almost entirely the history of the superiority of clergy and merchant elites. The spread of educational equality explains the rise of democracy, of the universal right to vote and the rise of what we might call, using a term from psychology, an “egalitarian subconscious”. An ideological preference for equality functions at the heart of political and social life, ultimately influencing the right as well as the left wing. It is this “egalitarian subconscious” which explains, in the immediate post-war phase, the efficiency of national economies in creating internal demand. With an egalitarian social subconscious, you will consider natural an economy in which the salaries distributed to workers or employees contribute to the nation’s welfare. Workers consume and are part of the nation, just like everybody else. That’s why these national, democratic, integrated and post-war economies were those that allowed full employment with regular salary growth.

But what happens with higher education? As long as higher education progresses, we can say or think that it is only the consequence of the mass development of the ability to read and write. However, what happens when we realize that not everybody will have access to higher education and that some people cannot even continue further than primary education? Then the disparity concept will materialise across the population. One of the paradoxical results of the incomplete spread of higher education is that it brought back the question of human equality to the core of societies. Typically, the word “higher” in “higher education” started to sound alarming. The words “higher education” impart the idea of superiority to people who have had a university education So the Organisation for Economic Co-operation and Development (OECD) replaced it by “tertiary education”, as opposed to primary and secondary education. Actually, in most countries, stagnation was attained

at a specific level of higher education. In the US, typically, educational level stagnation was practically reached in 1965, which marked the beginning of the development of neo-liberal ideologies. The number of students ceased to grow as school difficulties emerged, such as rising dropout rates. France, less advanced than the US reached educational stagnation around 1995.

5 The Escalating Educational Disparity in Developed Countries

There are national differences, as shown by OECD statistics around 2007, which was about the dawn of the crisis period. I would say that the three old liberal democracies, the US, UK and France are close cousins in history. The US, UK and France are three societies with individualistic family structures and a lot of liberty granted to children. According to the OECD, with regard to people between 25 and 34 years old, and also younger generations for which we can measure educational results, 40 % of people in the US, 37 % in the UK and 41 % in France have graduated from university. The relatively small percentage differences here are insignificant because we cannot precisely compare academic achievements in different nations, so let's take an overall average of, say 40 %. Japan lies at 54 %. In Germany, we see something rather surprising. There were slow developments with only 23 % of the people in Germany accessing higher education, which was only a little more than Italy, a country far less developed educationally speaking, that stood at 18 %.

In Germany's case, the relatively sluggish development of higher education does not impact the very impressive technical apprenticeship systems in the industry sector but it seems that Germany simply refused the mass diffusion of an upper tertiary educational culture, focusing, instead, on industrial activities. This is worth our attention. The comparison between Japan and Germany, their educational divergence is here fascinating, because these two countries used to be so close. If we compare the two countries from a social anthropological perspective, we find two societies derived from what we technically call the "stem family", which refers to the system of a unique heir or son taking over the family farm. Male primogeniture predominated but in the absence of a son, a daughter and a son-in-law could inherit. Starting from the discipline and educational potential of the stem-family, patterns of economic development were similar in both nations, something that economists see or feel but cannot explain. The values inherent in a stem-family were aimed at passing on competence, which explains the resistance of the German and Japanese industrial systems. Comparisons or parallels between German and Japanese economic histories are so numerous that it is not possible to mention them all here. But one of the things that strikes me today, in the concrete world of globalization, is the divergence between Germany and Japan.

There are no significant demographic divergences and the main reason for the low fertility rate (about 1.4 children per woman) in both countries is that women must choose between having a family with children and having a profession. Thus,

the family logic remains rather similar but the educational logic is now completely different. The divergence, I believe, can be explained only by history.

Germany destroyed a large part of its cultural system during Nazi times and World War II. We now see that in a certain sense, this was never completely revived. The historical trauma has created an anti-higher education bias in German society. Japan also had a difficult, painful history during World War II, but Japan never destroyed its intellectuals and universities. So Japan followed the normal Western educational trajectory after the war, only faster, while Germany started moving on a deviated trajectory.

Let's get back to the general social consequences of higher education. If 40 % of young people have higher degrees, as is the case in the US, UK and France, this is complemented with perhaps 40 % rate of young people with only medium or technical educations and, moreover, a significant rate of high school dropouts. These individualistic liberal societies are those that will end up being the most unequal in terms of education.

Japan and Germany are slightly different. In Japan, if 54 % of young people have a higher education, the society will retain a certain degree of homogeneity, although incomplete. Germany retains some homogeneity in the opposite sense, as higher education has been compressed. But the truth is that all advanced societies currently have educational stratification, which feeds pro-disparity attitudes. To me, this defines an "inegalitarian subconscious".

Coming back to economic concepts, I believe that one of the reasons why these developed societies have accepted the rise in economic disparities is that inequality already existed at educational and cultural levels, meaning that the disparity is rooted in the educational systems. Parents know these things. The new preference for inequality is hardly mentioned by political theories but it is actually visible when watching parents worry about their children's education. So much depends on competition in schools, which will produce inequality among children and an inegalitarian social subconscious.

We can now understand political inaction. Too much free trade leads to the rise of economic inequality and ultimately, social dislocation. We should act, admitting that more regulation and more integration is necessary by the state. But intellectuals and politicians now address a population whose faith in equality is much feebler than before.

6 Senior Citizens Are Positive About Present Conditions

If we want to understand why advanced societies react so slowly and weakly to the rise of inequality, we should have a realistic view and accept that concrete recent capitalism has not had negative consequences for the majority of people so far. Perhaps the simplest way to consider this issue would be to reflect upon the position of senior citizens.

Their age structure is a completely new feature of advanced societies. Longevity has increased and never before, in the history of humanity, have populations been so old on average. The two oldest populations on the planet, in terms of median age, are Japan and Germany. The median age in Germany and Japan is around 44 or 45 years; in France, it is just a little above 40, and it is the same in the UK. The US stands at 38. To compare: emerging countries are at around 26.

So we have populations that are relatively old. If we compare the first and second globalizations, around 1900 and now, one of major differences is that today advanced countries have very old populations.

These populations include a large proportion of people who are older than 60, generations with a specific history. Think of a country such as France at the time of my childhood. There existed large popular masses and terrible poverty. Typically, people did not have toilets, bathrooms or cars. So, today, to people over 60, one of the current situation's realities still is an almost miraculous improvement in their standards of living. People who, when younger, lived in dirty apartments without toilets now find themselves as pensioners in charming duplexes near social venues with modern standards of comfort.

Obviously these are not generations that will change and truly launch themselves in the fight against the current times and against the current world's ideologies because, to them, the truth is that so far a great fall in their standards of living has not yet begun.

This is also true for the US. American society is at the core of neo-liberalism and a leader in the world's drift into inequality but the standard of living of Americans over 60 has improved considerably until now.

The US has a social security system and provides pensions as well. Of course, if things go on as they are, the situation will turn disastrous. But at the current stage, although there is a spectacular rise in disparities, and 1 % of the Americans take an increasing part of the national income, old people are OK and their share of the vote increases daily.

If we add this age factor to the inegalitarian subconscious deriving from educational stratification, we can understand why the resistance of the current ideology or system is so strong. Of course, there are a few very rich people who own an ever increasing part of capital (including the domination of informational systems) and we can see the rise of a new dominant class, of an oligarchy. Of course, standards of living have started to drop. But we should acknowledge the fact that there is huge passivity and complicity on the part of a vast part of the population, particularly, people of a certain age.

7 The Obsession with “Free Trade”

Having understood this cultural and historical setting, we are able to understand why the 2007 crisis did not cause too much of a stir. The reactions toward the 2007–2008 crisis are interesting because they were partially positive. When first

faced with the crisis, national leaders everywhere reacted in an apparently Keynesian way. Governments and central banks understood that the world was being threatened by a real depression. In spite of uneven international cooperation, governments and central banks did what they had to do to avoid a massive depression similar to the Great Depression of 1929 and the '30s.

In this moment of crisis, the Keynesian approach to crisis management manifested itself, however, what was odd was that the Keynesian attitude tilted to the right. Money was re-injected into banks, trying to stimulate demand from above. This was not a truly Keynesian approach, in which recreating effective demand by raising ordinary people's salaries should be typically adopted. This would actually be the most efficient method of raising demand, although in the current ideological context, impossible. So we had pseudo-Keynesianism, or a Keynesianism of the right. What was also most surprising was how, during the crisis, each of the international meetings that adopted reasonable measures to re-boost demand and prevent a depression was accompanied by frantic proclamations to defend free trade. This was paradoxical because of course free trade is the proximate cause for the lag in world demand. Saving free-trade really meant keeping the pressure on wages everywhere, keeping the compression of demand everywhere.

Of course we should not go back to protectionism amidst chaos, destroying the production systems in a rash process. But, in fact, free trade, for me and many others, is the cause of the crisis. So we have a rather strange situation of people reuniting to save the world and yet again want to make sure that the issue still holds.

8 Developed Countries Still Controlling Science and Technology

Now, let's get back to a reasonable historical vision on power ratios in the world and the relative roles of the most advanced countries and emergent countries. I am unaware of the basic perceptions in each country, but I know that in Europe, the general perception is that nothing important really happens anymore in the most advanced countries, which are currently idle and overwhelmed. The emerging world is at the centre of growth, including China of course, often perceived as an important dominant force worldwide able to compete with the US and threaten Japan. The emerging world has a new capacity to negotiate in economic exchanges.

I hardly agree with this view and I am absolutely convinced that, with regard to piloting the world economy, the important decisions are still taken in the advanced countries. Decisions are made in the US, UK, Europe and Japan and are then followed by others. These countries have launched economic globalisation, imposed free trade and started the industrial offshoring movement. They are the engines. To understand this, we need to take an interest in technological evolution. We have an imperfect measurement tool for technological progress, that is, patent filings, particularly those triadic patents simultaneously filed in Japan, Europe and

the US. We thus realize that the concentration of technological activity in advanced countries has not changed at all, and that the dominance of the US and Japan in first place, with Europe and Korea in second, is more emphatic than ever, monopolistic.

The worth of Chinese patents that have been growing in numbers, reaching around 8 % worldwide, seems to be rather uncertain. However, the US keeps registering or producing 30 % of patents, Japan 30 %, then Europe and Korea together another 30 %. Technological innovations continue to be developed in the most advanced countries. I admit there is a paradox here. History cannot be simple demography. These advanced countries that keep producing technological innovations are also the oldest countries, demographically speaking. Young people are not numerous in these older countries, but they are extremely well educated and so they retain their technological leadership.

9 The Dark Future of China in Terms of Population

I would like to mention a few skeptical thoughts about the future of China, which, for me as well as for most demographers, is rather problematic. Every demographical forecast is skeptical concerning the Chinese boost because the demographic indicators coming from China are really unsettling. The fertility rate went down suddenly, with a fast pace as a consequence, and the Chinese boost has occurred within a specific demographical context, well known to demographers and termed as the demographic bonus. The context is this particular moment when there are very few children, very few seniors, and a massively dominant active population. This phase will be followed by accelerated aging and a very quick rise of the number of seniors yet China lacks a social security system. Beyond this demographic skepticism, the evolution of the Chinese population has not been well thought through, meaning there is not an intelligent and reasonable strategy to manage Chinese demography. This is unsettling, and seems to apply to the rest of Chinese development as well.

China's development is spectacular in terms of growth rate. All of the Chinese population knows how to read and write and is composed of disciplined individuals with Confucian traditions, capable of fast progress. However, some extreme features of Chinese development seem to be unhealthy and odd. First of all, export led development has not been decided by the Communist Party but rather accepted by the Communist Party. The important decisions were made in the US, then in Europe and Japan. Without doubt, China can now be defined as a world workshop and this has led to improvements in the standard of living within its borders; however, these were not internal decisions and there is still no general vision of the future. Witness the Chinese investment rate of 40–50 % of gross domestic product. This reminds me of the investment follies of the Stalinist era. It is similar to old-style Communist overinvestment into useless unproductive activities.

10 The Implications of Growth Rates of Developing and Developed Countries

Finally, the importance of growth rates should not be overestimated. Let's consider economic history as a movement to invent and apply new technologies, new products and new social forms. We should then distinguish two types of growth. Growth that invents, defines the future and growth that catches up on more advanced nations. Catching up will produce impressive GDP growth rates ranging from 5 % to 15 %. Once a country knows what it needs to produce and can imitate the more advanced economies, it can grow very fast. Although catching up may not be a bed of roses and may demand immense effort, it still constitutes catching up.

But in the countries that I call front line countries, countries that define modernity and invent new technological and economic forms, the growth rate will reach a potential maximum of not more than 2.5 %. These are typical growth rates in Anglo-Saxon countries at all times. We often mock the low American growth rates in a certain period. But the US after World War II and undoubtedly now is first among the countries that define modernity and that invent new forms, despite the difficulties involved, based on the trial and error method.

Before China, countries like France or Japan discovered that catching-up and inventing modernity are two very different things. Post-war France, while still a relatively modern country with scientific elites, was catching up on the US. As soon as she reached a US consumption and technological level, she got into trouble. Being back among the front line countries meant lowered growth rates. But France again started inventing new technologies: trains, the nuclear sector, the air and space sector, etc.

This is even more obvious in the case of Japan. Japan had still been a catching up economy with extraordinary growth rates during the 1980s. People had started speculating about a possible N°1 Japanese economy. However, as soon as Japan became part of the front line, she entered a crisis. But no sooner had the growth rates collapsed than Japan became, for the rest of the world, one of the countries inventing modernity. Robots, electronic cameras, hybrid vehicles, not forgetting sophisticated medical equipment and so on.... The Japanese crisis is a paradox indeed.

11 Free Trade Is Economic War Between Neighbours: The Experience in the EU

In order to advance further with this reflection on economic and social perspectives, bearing in mind that the most advanced countries remain the most important, we must explore what is really happening between these advanced countries. What is currently happening within Europe shows that free trade is creating a hidden and insidious state of war between the most advanced countries.

This is the issue at hand. I started with a rather nice and optimistic presentation of free trade ideology, with free trade as a peace tool, as optimizing collaboration between people and nations. This is true at the beginning. Free trade at the onset is a fruitful exchange between people. But, when opening up is at its peak, free trade becomes a terrible war for outlets and production niches. Here we have reached the stage when populations try to mutually destroy or submit each other through industrial competition. Today's world reality is hard to accept because today's world is relatively gentle from an ideological point of view. It no longer recognizes racism as a value and it loathes xenophobia. In this, as compared to the world between 1900 and 1945, our world truly is a beautiful world. But it is also a world that doesn't want to see itself as it is, as a world fueling economic war, where economic war has in fact become the great social regulator.

This applies especially well to Europe. Europe is usually perceived as especially peaceful, a liberal democratic and cooperation zone, with a great deal of social security and no army worth the name, often in contrast to Anglo-Saxon countries. But what is actually currently happening is rather different. The single European currency has exacerbated the effects of free-trade creating within, for a single a continent, the equivalent of the old gold-standard. In Europe, we cannot change monetary parity anymore. But France, Germany and Italy are very different countries with different family systems and very different types of balance between the individual and the collective. They cannot fuse, they must compete. The monetary system of fixed change within the Eurozone maximizes the intensity of confrontation.

Some French economists asked the right questions about German strategy within the Eurozone. When Germany is efficient, perhaps compressing wages by 20 %, she is not targeting China, where wages are 10–20 times lower. A salary compression of 20 % will hit Italy and France.

Europe's reality is that the French and Italian economies are under destruction, and that peripheral countries like Greece, Spain and Portugal have already become protectorates of the central area.

Europe is about to become the opposite of what it used to be, a community of free and equal nations. It is already a hierarchical system with a hegemonic power, Germany, with France as its not so brilliant runner-up, trying to protect her financial system by accepting the destruction of her industrial system. Europe has become something horrible. Economic war between neighbours has already led to something which can no longer be called liberal democracy.

This is the current situation in Europe and this certainly means that one of the platitudes of globalisation will soon be obsolete. People routinely think that globalisation is basically a confrontation between emergent countries with low work cost and the most advanced countries with high wages. True, this is the cause of offshoring and industrial destruction in advanced countries. But, in the real world of globalization, advanced countries try to survive by fighting against their neighbours, each one trying to be the last to fall. Germany, for her immediate economic, industrial and financial balance, turns against her political partners, France and Italy, against her closest geographical neighbours. The expected fight between advanced

and emergent nations is thus converted into a fight between countries that are closest in terms of economic and social development.

At the other end of the trade spectrum, things are the same. When China controls her currency, keeping it low, this is not a move against Japan, the US or Europe. It is a strike against Thailand, Vietnam, Indonesia or the Philippines, or Brazil, against other countries with low work costs. Countries with low work costs also end up trying to survive by crushing their closest neighbours.

12 Where Could the Breakthrough Emerge?

So much for analysis. The outstanding question now is, “Where could things change the fastest, with are the strongest chances of an ideology change?” This is a question naturally arising from the prior discussion about Europe. Until recently, I had thought that the place where resistance against globalisation could happen, that the place where markets could be regulated was Europe, with its traditions of respect for the state, for control and for individual integration. I had a notion that Europeans and Japanese could work together to control the American and the British folly. In Japan, as well as in Europe, we believe in the state, in the importance of collective solidarity. After all, the rise of inequality has been far less important in Europe and Japan. Despite my early skepticism about the Euro, I had a positive idea of Europe in this respect. However, I would not longer take this position. I am on the verge of recognizing what I would now call a fundamental error. Europe has become an area of maximal economic confrontation and of a particularly absurd belief in free trade.

We presently have discussions on free trade with the US, regarding the Atlantic and Pacific areas.

Le Monde, the French establishment daily, recently published an editorial about European-American and in particular French-American trade negotiations. This article was mind-boggling: Americans seemed to be asking for the treaty while at the same time Europeans were accusing them of being protectionist about specific actions. I think this is what happened. Americans are talking about free-trade out of habit but no longer really believe in its magic. Europeans, on the contrary, are turning into either cynical free trade supporters (the Germans) or naïve free-trade supporters (the French). It’s a bit harsh for me, being European, to say that my continent does “nothing but hope”. But the truth is that not much is to be expected from Europe as an ideological innovator. Under German leadership, or veto, Europeans are not even able to use their single currency as a tool for a flexible protection of industry and demand. While the US, the UK and Japan, are experimenting with quantitative easing, the Eurozone, does next to nothing, paralyzed as it is by a single currency invented at a time when nobody imagined free money creation by the state could become a necessity again.

Anglo-American countries and Japan are active regions in the search for solutions, be they financial regulation or currency manipulation. These measures will turn out to be insufficient. As long as unrestrained free trade continues, we cannot

solve demand issues. We need constraints on free trade, we need partial cooperative protectionism of some sort.

Japan will certainly be one of the centres of innovation, but cannot do much on her own. She is geographically isolated. Japan has the chance and the misfortune of not having neighbours to destroy like Germany. Japan's only neighbour, in geographical, economic and social terms is Korea, which is equally efficient economically and looks a lot like Japan in terms of family structure and basic educational performance. But Korea is small and often hostile. Again we have intense competition between advanced neighbours. Add the China problem and you will find it difficult to imagine an East Asian solution to the economic woes of the world.

13 The Stability and Plasticity of Anglo-Saxon Countries

The last discussion of this chapter regards the destiny of Anglo-Saxon countries, particularly the US. I wrote a book, published in 2003, called *Après l'empire* (After the Empire, Todd 2003), at a time when I was exasperated by Bush's US. In this work I forecasted the financial crisis that followed. I am not, by essence, a lover of the US system.

I am a radical critic of the rise in inequality there, I am well aware of the many things that are not working in American society: mad finance, proportion of population in jail, racism against Black people which has not yet been resolved, although the rate of mixed marriages is slowly growing, more so, very slowly in the case of black women marrying white men. So let's start by not forgetting that the US is "the problem".

The US and the UK were the major actors of globalisation, i.e., of deregulation. But the truth is that the Anglo-American world has been the economic leader since the middle of the eighteenth century and the start of the Industrial Revolution. Perhaps the entire history of economic development since the eighteenth century is the story of Anglo-American hegemony. These are the countries that defined economic modernity.

There was an English hegemony before World War I, with the Pound Sterling at its centre. Then there was the American hegemony with the Dollar at its centre. In recent times, the neo-liberal revolution began in the Anglo-Saxon countries. Perhaps this will continue. Perhaps we should simply reflect serenely and efficiently on what could happen next in the US in the coming years. Why shouldn't the US, the innovator in economic aspects, and where neo-liberal thinking originated, initiate a decisive turn away from neo-liberal ideology? For a historian, this is not an absurd idea.

I have spent a great deal of time during the last 40 years, pondering over England's and the US' special histories. Now, there is a sort of historical plasticity to England. For example, we find Puritan Englishmen in the seventeenth century, then relaxed Englishmen in the eighteenth. And then Victorians, puritans again. We see a lot of

plasticity in the industrial revolution. We see Englishmen leaving agriculture “en masse”. Then we have the financial revolution with Englishmen leaving industry with even more enthusiasm. Similar things happened in the US, first with a time lag, then even more brutally.

As an anthropologist, I’m quite sure Anglo-American plasticity is a consequence of the basic family structures of the Anglo-American world. The dominant form in this world is the absolute nuclear family, actually the opposite of what we find in Japan or Germany. It is a system that insists on the necessary separation between children and their parents. There is an ideal of the generations’ mutual autonomy that explains all types of phenomena. There is a quickness of change in social structure in these societies that we fail to see or tend to forget because they are so stable politically. Since the 1688 Glorious Revolution, England has had a perfectly working constitutional monarchy; since independence, the US has not changed their constitution. However, underlying this political stability, real, fast social change is possible.

14 “Tea Party” Is a Party of Old People

The US is my current research topic and one has to admit that working on American history is studying economic and social discontinuity. Take a recent book on the economic history of the US, *Land of Promise* (2012), by Michael Lind. Although pro-state, Lind describes several successive Americas, a continuous reinvention of the Nation. In *America 3.0*, (2013), by James Bennett and Michael Lotus, again you have a vision, from a completely opposite libertarian perspective, of a constantly mutating America. Bennett and Lotus are explicit that the absolute nuclear family is the reason for the flexibility. These are just two examples taken from two books I have just read.

But I feel that America is on the verge of mutating. If we look at what’s happening in the US political arena, the changes are quite important.

While writing *Après l’empire* (Todd 2003), I had the impression that America was slowly going mad, under Bush, a hyper-aggressive America gone mad because of the stress neo-liberalism imposes on individuals. The first Obama election was hardly impressive in that a Black president in a country where there are still very few mixed marriages seemed staged, to make us forget the financial crisis: Like a conjurer’s show where there’s a pretty girl who gesticulates on the side so that we fail to see the tricks. This was my impression about the first Obama election. His re-election impressed me, as did his recent confrontation with the “Tea Party”, which resulted in the absolute defeat of the Republican over social security.

Americans are starting to write a lot about disparities. They, in fact, introduced the topic of the “1 %” on the world stage although the 1 % concept also has a rather French feel and can be found in the books by Thomas Piketty (Atkinson and Piketty

2010; Piketty 2013) and the analysis of the highest income evolution by Emmanuel Saez, one of his friends, a Frenchman who lives in the US (Saez and Veall 2005).

The theme of the richest 1 % has been popularized by the US. An inventory would be impossible here but one has to admit that the US produces a lot of critical literature. Recent opinion polls show that young people in the US are in now in favour of the state having a say. So change may be imminent. The gaps between generations are also interesting in the US.

History proceeds by the succession of generations. Looking at the media, we have the impression that the “Tea Party” and the Republican right are an ascending force, on the verge of retaking power in the name of anti-state ideals and economic freedom, against social security and against Black people. The “Tea Party” is in fact a party made up of people over 60. It is thus a party of the past. It is not unreasonable to imagine an America that, again, suddenly changes and starts experimenting.

15 Acceptance of Diversity Would Improve America

So what does this mean? I think that Americans themselves, regardless of party membership, could stop believing in absolute free trade. It is not even certain today that the American economic elite really believes in market efficiency. This has been well expressed in a book by James Galbraith, “*The Predator State*.” His thesis is that only a number of naive leftists are now true believers in the religion of the market, while realistic money making people are very anxious to use the state apparatus to make money (Galbraith 2009; Galbraith et al. 2009). The State can make money at will. Quantitative easing, zero interest rates really end up as mass distribution of state created money to rich people.

I admit this is not a completely satisfying move.

But some changes are immediately beneficial.

The most recent interesting example was the attitude change of the US toward countries like Iran. It is important for countries such as France and Japan to see that perhaps America is on the verge of once again becoming tolerant towards countries that are dissimilar. Free trade ideology wishes itself universal, a magical recipe for the whole planet, the American ideal for the whole planet. It is no accident that Bush sent the US army to Iraq to set up an anti-state democracy there. Free-trade ideology is intolerant of cultural diversity.

The future America will be more modest perhaps, having understood that it is not that powerful; It could become more tolerant of the world’s diversity. Of course, the global regulation project should be undertaken by cooperation between world nations and one of the first prerequisites of such a project should be to accept the diversity of societies. Getting rid of absolute free trade means getting rid of an ideology that refuses to see and accept differences in ways of life and values. An America which starts accepting diversity, is an America that is maturing.

Restraint of Free Trade and Alliance with the US Could be Compatible

The hypothesis of an America that does not believe in absolute free trade anymore and is coming back to a more tolerant view on world diversity, allows us to imagine a solution to the current debate about free trade. My personal intuition is that most intelligent people now know that more free trade will only bring more problems. I am tempted to say that Americans ask for free trade by habit or maybe to reassure themselves. Recently there has been an association between the idea of American leadership and the acceptance of free trade. But disconnection is possible. In the world to come, it ought to be possible to fight for restraints on free-trade and still love America and say so. Namely, the restraint of free trade and alliance with the US could be compatible. My guess is that it is only a matter of time before this is understood and accepted in Washington.

Of course, this is my personal attitude, rather hostile to free trade at the moment, but amiable towards the US.

We need to understand that the particular feature of the Anglo-American world is plasticity, openness to change, which includes the possibility of evolving in a non-predictable manner. We have to admit that, on the whole, throughout history, the geopolitical and military role of the US has been positive. Recently, of course the US military attitude has been extremely negative. I described it, made fun of it, in *After the Empire* (Todd 2003). As I insisted, in the introduction, on my not being yet another anti-American French intellectual, many thought I was making it up. I wasn't. We must never forget that in its first phase, the phase during which America opened its markets to allow the development of Europe, Japan and Korea, the American empire was a good hegemon, responsible and positive. And there should be a way, for instance for Japan, to assure America of her eternal friendship while refusing absolute free trade.

16 The Hypothesis of the Death of Europe and an “Improving America”

Once again, I would note that my arguments thus far are extremely speculative. What I have just discussed in this chapter are interrogations. If America is changing, then of course the whole debate on free trade will change. We should not exclude a hypothesis of a “happy ending”, that is, with America leading towards more regulation and restraints on free trade. Let's conclude with something certain, the failure of the euro experiment: the best we can expect from Europe is the collapse of the Euro. However, that will not be helpful to the planet in the near future. I keep coming back to the idea that Europe represents death, as it seems to be committing deflation suicide, while America represents some unknown future. So between death and the unknown, I choose the latter.

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Chapter 2

The Failure of Neoliberalism and the Future of Capitalism

Ha-Joon Chang

Abstract Since the 1980s, the world economy has been dominated by the neoliberal policy regime. This regime came into being on the claim that it will increase economic growth and stability. Unfortunately, the promise has not been fulfilled and the world has seen slower growth, higher inequality, and bigger and more frequent financial crises. The chapter argues that only a thorough reform can change this situation. Two groups of reform measures are crucial. One is the reform of the financial system in the rich countries in a way that reduces its excessive complexity and excessive capital mobility. Another is the reform of the global economic governance system that regulates international trade and investment in a way that allows the developing countries to use policies that are more suited to them, namely, policies that help them promote infant industries in ways similar to what the rich countries did in the earlier stages of their economic development.

1 Today's Situation

The first chapter gives a powerful framework to understand what is going on in the world. This chapter aims to provide some details on the economic level within this broad framework.

Starting from where we stand in terms of our economic situation, we all know that we had a terrible financial crisis in 2008. Six years after the crisis, the economies of the rich countries remain in a dire state. At the end of 2013, per capita output remained lower than in 2007 in 18 out of the 34 OECD countries. So, basically more than half of them haven't recovered their level of 6 years ago.

Especially if we look at GDP per capita in constant prices, thereby filtering out the effect of inflation, GDP per capita in 2013 was 23 % below the 2007 level in Greece. In Ireland it was 12 % lower. In Luxembourg and Italy, it was 11 % lower. And in the United Kingdom, it was 6 % lower than the 2007 level. So after 6 years

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many countries have not even come close to recovering the pre-crisis standard of living.

Even in the United States, which is supposed to have recovered better than other countries, it has taken 6 years for per capita GDP to return to 2007 levels. Only in 2013 did GDP per capita edge up to 1.0 % above the 2007 level.

It is estimated that, at its peak, this crisis resulted in an extra 80 million people being unemployed worldwide and unemployment still remains very high in many rich countries. In the Eurozone, unemployment is still about 12 %. Of course, in countries like Spain and Greece, this is much higher. In the first quarter of 2014, the unemployment rate was 27 % in Greece and 25 % in Spain. These countries before the financial crisis had unemployment rates around 8 %. So unemployment increased by three times in these countries. In Greece and Spain youth unemployment, that is unemployment for people aged between 15 and 24, is over 50 %. More than out of two young people in these countries are unemployed.

Even in countries considered to be experiencing milder unemployment problems, like the United States and the United Kingdom, official unemployment rates had reached around 10 % and they are currently still 6–7 %. These figures are quite deceptive for two reasons. First, the employment situation has been so bad that there are millions of people in the United States and in the United Kingdom who are working part-time, not because they want to, but because they cannot find a full-time job. Second, there are a lot of ‘discourage workers’. In official statistics, in order to be counted as unemployed, you have to show that you have applied for a paid job in the last four weeks. A lot of people have given up on finding work because of the difficulty involved. If we included those working part-time out of necessity rather than choice and the discouraged workers, unemployment rates in these countries could go as high as 16–17 %.

2 Advocates of Neoliberalism

How have we ended up in this state, especially considering that world-famous economists and leading financiers had assured us that everything was alright for at least 10 years prior to the crisis?

In 1998 Larry Summers, Deputy Treasury Secretary of the US at the time, who soon became the Treasury Secretary and later served as the Chief Presidential Economic Advisor and a Harvard Professor, was asked by the members of U.S. Congress whether there should be more regulation on complex financial derivatives, CDOs, CDSs, and so on. He answered, “There is no need for regulation of derivatives because these products are mainly traded by largely sophisticated financial institutions that would appear to be eminently capable of protecting themselves from fraud and counterparty insolvencies.” Thus, he implied that they knew how to protect themselves, so let them do it; they are rational, sophisticated and they wouldn’t trade these products if they didn’t understand what was going on.

A few years later, Robert Lucas, the famous Chicago economist and 1995 Nobel Economics Prize winner addressed the American Economic Association as its new president in 2003 and said, “The problem of depression prevention has been solved”. So, according to him, there should never be any depression at all, yet we are still living through the biggest depression since the Great Depression of 1929.

Soon after that, in 2004, Ben Bernanke, who was until recently the Chairman of the Federal Reserve Board (the US central bank) and was at that time about to become the Chairman of the Council of Economic Advisors to the US President, argued that we have entered the age of “Great Moderation” with reduced macroeconomic volatility.

Soon after that, a lot of people became worried about the housing bubble in the United States. However, in June, 2005, at the height of the U.S. housing bubble, when he was questioned by U.S. Congressmen whether he wasn’t worried about the house prices that had been shooting up everywhere, Alan Greenspan, the then Chairman of the Federal Reserve Board, said although that are “signs of froth in some local markets ... a ‘bubble’ in home prices for the nation as a whole does not appear likely”. The same position was repeated by his successor, Ben Bernanke when he was still the Chairman of the Council of Economic Advisors, who argued in 2005 that, the house price increasing by 25 % in 2 years was fine because it “largely reflect[ed] strong economic fundamentals.”

However, the most outrageous statement was made by Joe Cassano, who was then the Chief Financial Officer of AIG, the insurance company that was bailed out by the US government in 2008 because it had bought so many of these problematic subprime mortgage loans and derivative products. In the spring of 2008, he said: “It is hard for us, without being flippant, to even see a scenario within any kind of realm of reason that would see us loose one dollar in any of the [CDS] transactions”. So, he couldn’t imagine how we could lose even a single dollar in these transactions just a few months before his company went bankrupt thanks to those transactions.

The list can go on, but these examples show that most mainstream economists and leading financiers, including the less extremist people like Larry Summers, were so blinded by the free market ideology that they just could not see what was wrong with the world, right up to the biggest financial crisis since the Great Depression. If any other kind of profession made this kind of error, it would have probably been banned, but the power of mainstream economics is such that these people are still very powerful and are still being consulted back and forth.

When confronted with their abject failure to foresee the crisis, some people have argued that the world was doing so great that no one could have predicted the forthcoming crisis, which was what the Americans love to term as “The Perfect Storm”. However, this ignorance is no excuse since at least for two decades before the crisis, anyone who cared to know could actually have known that all was not well with neoliberal capitalism. And I would argue that the 2008 crisis was only the culmination of the neoliberal failure that happened in the proceeding 20–30 years. Let us examine the record of neoliberalism in the three decades of its dominance since the 1980s.

3 Records of Neoliberalism: Inequality

It is well-known and accepted even by many neoliberal economists that neoliberalism has resulted in rising inequality in the majority of countries. According to an authoritative study done by the Italian economist, Andrea Cornia in the early 2000s, inequality rose in two thirds of the 73 countries he studied between the 1950s and the 1990s (Cornia 2003). A report from the International Labor Organization (ILO) shows that between 1990 and 2000, inequality increased in 16 out of 20 rich countries studied, and in 41 out of 65 developing countries studied (ILO 2008). So it wasn't everywhere but basically whichever study you look at or which group of countries you look at, two out of three countries have witnessed increasing inequality.

When one cites these kinds of figures, defenders of neoliberalism say that inequalities within countries might have risen but inequality for the world as a whole has actually been reduced. The notion of inequality they are using in this argument is known as global inequality, in which the whole world is seen as a single unit made up of seven billion individuals, and is different from national inequality (that is, inequality within a country) or international inequality (inequality between countries).

There are some studies showing that global inequality has fallen a little bit in the last two or three decades, but they are highly disputed. And, moreover, even if we accept studies showing that global inequality has fallen, I would argue that global inequality does not matter that much. You cannot tell Japanese people, "Look, you shouldn't worry about Japan's increasing inequality because Japan is still much less unequal than Brazil or South Africa." Japanese people wouldn't be persuaded by this because they don't care much about people in South Africa or Brazil. In other words, inequality matters only when people think they belong to the particular group whose inequality is measured. A thought experiment may clarify the point further. Suppose that someone came and told you that in the Galaxy there are 55 planets with intelligent life and huge gaps between them, giving a huge galactic income inequality. Would you really care? Personally, I don't care because I can't go to any of those 55 planets and won't even know who those other beings are. This is an extreme example, but it shows that inequality matters only because people think they belong to a community.

In short, the very notion of global inequality is debatable, as Fujii points out in his chapter too, so trying to dismiss concerns about increasing national inequality by citing evidence that global inequality has fallen a little bit (which is debatable) is very misleading.

4 Records of Neoliberalism: Instability

Neoliberal economists emphasize stability very much. But they define stability in a very narrow way, namely in terms of price stability, so they focus exclusively on inflation when they talk about stability. Basically, they want inflation between 1 % and 3 %. In order to achieve such low inflation, they have recommended tight fiscal

Table 2.1 List of major financial crises since the 1980s

1982: Chile
Late 1980s: the S&L crisis (bail-out equivalent to 3 % of US GDP)
Late 1980s–early 1990s: Scandinavia
1994–1995: Mexico
1997–1999: Asia (Korea, Malaysia, Indonesia, Thailand)
1998: Russia (the LTCM debacle)
1999: Brazil
2002: Argentina

policy and high interest-rate policy. Especially in countries like South Africa and Brazil, they have recommended very high interest rates, like 10–12 % in real terms, which killed off a lot of businesses.

As a result of these policies, inflation has generally, although not universally, come down since the 1980s. However, other forms of instability have increased immensely like instability in output, employment and financial indicators. Neoliberal economists try to give you the impression that the world financial system had been fine but then something unfortunate happened in 2008, but the world economy had already been suffering from numerous financial crises in the last 30 years, as shown in Table 2.1.

As can be seen in Table 2.1, the financial instability of the neoliberal era started with the Chilean banking crisis of 1982, which followed a radical financial deregulation implemented by the Pinochet government. The crisis was so bad that the Pinochet government, which had come to power with a bloody military coup in the name of defending private property, ended up nationalizing all the banks, because that was the only way to prevent systemic collapse.

And in the late 1980s, the U.S. actually had a practice run for the 2008 crisis as there was this massive crisis in these financial institutions known as the Savings and Loans institutions that were intended for small local savers. Until the early 1980s, S&L institutions used to be quite strictly regulated, because the government knew they were very small institutions with limited capabilities. For example, they were not allowed to lend money to people who wanted to buy commercial real estate, as opposed to their own personal housing, or to make consumer loans for purchase of things like cars, TVs, and so on. But in the early ‘80s, following the deregulation by the Regan administration, they got into all kinds of risky activities. In the end, the U.S. government had to bail out about one third of them in the late 1980s, with money equivalent to 3 % of U.S. GDP.

Soon after that, the Scandinavian countries had a major banking crisis in the late 1980s and the early 1990s. Sweden, Norway and Finland de-regulated banking and banks started lending money quite liberally to people trying to buy houses. This led to housing bubbles that burst, and once again many of the banks were bailed out with public money.

Then there was the so-called Tequila crisis in Mexico between 1994 and 1995 that followed a financial bubble that had built up in anticipation of Mexico signing the North American Free Trade Agreement (NAFTA) with the United States and Canada.

This was soon followed by the Asian financial crisis of 1997–1998 in the so-called MIT economies (Malaysia, Indonesia, and Thailand) and in South Korea, resulting from their financial opening up and de-regulation in the late 1980s and the early 1990s.

As soon as the world had taken a breather from the Asian financial crisis, a major crisis broke out in Russia and almost caused a big financial crisis in the United States as well because it nearly brought down the hedge fund called Long-Term Capital Management (LTCM), which had invested heavily in Russian financial assets. If this fund had gone bankrupt, 12 major U.S. banks were going to be hit with consequences that were too difficult to imagine. So the Federal Reserve Board brought in these 12 banks and forced them to convert their loans to the hedge fund into equity, making these banks reluctant owners of the hedge fund because there was no other way to save it unless the government injected in public money, which the U.S. government was not willing to do at the time. What's interesting about the LTCM is that two of its key partners, Robert Merton and Myron Scholes, were Nobel Economics Prize winners who had won the prize jointly for new methods to determine the value of derivatives, in which they heavily lost money. The Russian crisis was followed by the crisis in Brazil (1999) and then Argentina (2002).

For a few years between 2003 and 2006, things were quiet, which prompted neoliberal economists to come out and say. “We know how to prevent depression, we know how to get rid of the business cycle, and we have reached the Great Moderation.” Alan Greenspan was praised as the maestro. Obviously these people had a time horizon of 5 years—otherwise they would not have been able to say that they have figured out how to manage the financial system after a few years of calm, given the 20 years of financial mismanagement previously.

The financial instability of the neoliberal era becomes even more striking, when we compare it with the period of ‘mixed economy’, between the Second World War and the mid-1970s. In the latter period, there was virtually no banking crisis in the world, as summarized in Table 2.2. Between the mid-1970s to the late 1980s, about 5–10 % of countries, weighted by their share of world income, was in banking crisis. By the mid-1990s this ratio went up to 20 %, thanks to the Mexican and Asian crises. After a short period of calm, the proportion of countries with banking crises rose to an unprecedented 35 % after the financial crisis of 2008.

Table 2.2 Records of neoliberalism: instability

Between the Second World War and the mid-1970s: virtually no country in banking crisis
Between the mid-1970s to the late 1980s: 5–10 % of countries (weighted by their share of world income) in banking crisis
Mid-1990s: 20 %
A few years in the mid-2000s: 0 %
After the 2008 crisis: 35 %

In other words, during the neoliberal era, inflation might have come down a bit, but economic instability has increased, thanks to numerous financial crises, which create recession, unemployment, and all kinds of problems. Neoliberalism has failed to enhance economic stability.

5 Records of Neoliberalism: Growth

We've seen this record of inequality and instability, but the ultimate problem with the last three decades of neoliberalism is that it has failed to generate higher economic growth, in whose name we were asked to accept higher inequality. The logic was that in order to accelerate growth, we needed to create more wealth by giving the rich people more money since they are the ones who make investments and generate wealth, income, and jobs. When they generate more wealth and income, the argument goes, this will eventually trickle down to the bottom of the society and, in the end, everyone will have higher income in absolute terms, even if the share of poorer people in the national income may be lower.

The logic of trickle-down itself is not wrong, but unfortunately it simply hasn't happened. Between 1960 and 1980, the industrialized countries used to grow at about 3.2 % per annum, as can be seen in Table 2.3. This growth rate has fallen within the proceeding 30 years to close to half that level, to 1.8 %, as can be seen in Table 2.4.

When it comes to developing countries it's even more worrying. Overall, they used to grow at a rate of 3 % (Table 2.3), and this rate declined to 2.7 % (Table 2.4) in the proceeding 30 years. However, the growth in the latter is mostly owed to

Table 2.3 Records of neoliberalism: growth I. Per capita GNP growth rates, 1960–1980

	1960–1970 (%)	1970–1980 (%)	1960–1980 (%)
Low-income countries	1.8	1.7	1.8
Sub-Saharan Africa	1.7	0.2	1.0
Asia	1.8	2.0	1.9
Middle-income countries	3.5	3.1	3.3
East Asia and Pacific	4.9	5.7	5.3
Latin America and the Caribbean	2.9	3.2	3.1
Middle East and North Africa	1.1	3.8	2.5
Sub-Saharan Africa	2.3	1.6	2.0
Southern Europe	5.6	3.2	4.4
All developing countries	3.1	2.8	3.0
Industrialised countries	3.9	2.4	3.2

Source: World Bank, *World Development Report 1980* Appendix Table to Part I

Note: The 1979 and 1980 figures used are not final, but World Bank estimates. Given that the estimates were supposed to be on the optimistic side, the actual growth figures for 1970–1980 and 1960–1980 would have been slightly lower than what are reported in this table

Table 2.4 Records of neoliberalism: growth II. Per capita GDP growth rates, 1980–2010

	1980– 1990 (%)	1990– 2000 (%)	1980– 2000 (%)	2000– 2010 (%)	1980–2010 (%)
Developing countries	1.1	2.3	1.7	4.6	2.7
East Asia and Pacific	5.8	7.0	6.4	8.2	7.0
Europe and Central Asia	1.9	−0.7	0.6	3.9	1.7
Latin America and the Caribbean	−0.6	1.3	0.3	1.8	0.8
Middle East and North Africa	−0.1	1.8	0.8	2.5	1.3
South Asia	3.1	3.2	3.2	5.5	3.9
Sub-Saharan Africa	−1.0	−0.5	−0.7	2.1	0.2
Developed countries	2.4	1.9	2.1	1.1	1.8
World	1.3	1.3	1.3	1.3	1.3

Source: World Bank, *World Development Indicators 2013 Database*

Note: Data for Middle East and North Africa (developing) were only available until 2009

accelerated growth in China and India (which accounts for the bulk of the South Asian region). If we look at the other developing regions like Africa, Latin America and the Middle East, economic growth slowed down markedly in the neoliberal period. Unlike China and India, these other developing regions had to introduce a lot of neoliberal policies due to the conditionalities imposed by the IMF and the World Bank, and these policies markedly slowed down their growths by exposing them to global market forces prematurely.

Per capita income in Latin America used grow at 3.1 % per year during the ‘bad old days’ of import-substitution industrialization in the 1960s and the 1970s, but it grew at 0.8 % during the neoliberal era of 1980–2010. Sub-Saharan Africa, which grew at 1.6 % in per capita terms during the ‘60s and ‘70s (in Table 2.3, the region is divided into low-income countries and middle-income countries) grew at 0.2 % during the neoliberal era. This means that per capita income in Sub-Saharan Africa was only 6 % higher in 2010 than in 1980—China in some years grows that much in half a year!

From Table 2.4, we can see that in both regions, especially in Africa, there has been some acceleration in growth in the last decade. However, there still exists a big question about the sustainability of this growth in Africa, because it has been driven by external factors like the Chinese commodity boom, and by one-off factors, like the finding of new mineral resources (e.g., oil in Equatorial Guinea and Angola) or the end of civil war. Latin America has also benefitted from Chinese commodity boom, but their growth is a bit more sustainable mainly because many Latin American countries have at least partially abandoned their neoliberal policies during this period, and their growth was based more, although not sufficiently, on the increase in their productive capabilities than in the case for African countries. There’s been some growth acceleration in countries like Argentina, Brazil, Ecuador, and Uruguay because of their changed policies.

6 Why Neoliberalism Performs Poorly I: Excessive Complexity

We've seen that neoliberalism has failed on all fronts. It has made the inequality problem worse, made the world a lot more unstable, and has even failed to deliver more growth as promised. Neoliberal economies often say that, thanks to all these neoliberal policies, the world is richer than ever. However, this is a trivial statement. Yes, the world is richer than ever, but that will be the case as far as the economy grows at all. The real question is whether we could have been even richer. And the answer is that we certainly could have, given the marked fall in growth rates.

Then, one may wonder why things have turned out this way. The answers to this are rather obvious in my view. First of all, the neoliberal system produces this kind of result since it's driven by a financial system that is overly complex. Let me explain.

The complexity of the financial system we have today became very obvious when, following the 2008 financial crisis, we got to hear about all kinds of very complex synthetic financial products, like MBS (mortgage-backed securities), CDOs (collateralized debt obligations), CDOs-squared, CDOs-cubed, CDSs (credit default swaps), and so on. Briefly explaining with one example, in the old days, if someone borrowed money from a bank to buy a house, it was basically between him and the bank since the bank would take away the house if the borrower failed to repay the loan. Today, banks have created a new financial product called MBS by pulling together hundreds or thousands of mortgages and issuing a bond based on that asset portfolio. The logic is that, for some individual person, the risk of not keeping up with the mortgage payment is quite high, because people get sick, unemployed, have accidents, and what not. But when you bring together hundreds or thousands of people, the chance of something going wrong with all of these people at the same time is actually quite low, meaning that the MBS is safer than individual mortgages.

Unfortunately, it does not work quite like that. These financial products make the financial system so complex that we lose control over them. Andy Haldane, who is the director in charge of Financial Stability at the Bank of England, the central bank of the United Kingdom, illustrated this point by making a very simple calculation, showing that one needs to absorb information equivalent to a billion pages in order to fully understand a CDO-squared product—one of the more, but not the most, complex financial products—no one has the brain power or the time to absorb all this information. Indeed, I've met bankers who confessed that, "one day this 450-page contract for a financial derivative landed on my desk, but I didn't have time to read it." So basically, we have completely lost control of the system.

It was so evident in the Congressional hearings in the United States that those who were running the top financial institutions, who Larry Summers called 'sophisticated', did not really understand what was going on. When we are driven by a driver who doesn't understand how the bus works, it is no surprise that we have a crash. With this complexity, we have created a condition of extreme instability since

no one really understands what is going on, so we end up moving with herd instinct. One day someone says Colombia in Latin America is a good investment destination and we all end up there, then the other day they say this new mortgage-backed securities have high returns. Money keeps moving around in a very unstable manner and this is why we keep having these so-called emerging market crises. One day it's Chile, another day it's Russia, then Malaysia. All these crises happen only because some years before the crises everyone thought such and such country or such and such financial product was a great investment vehicle.

7 Why Neoliberalism Performs Poorly II: Financial Deregulation and “Shareholder Value Maximization”

More importantly, this new financial system has also changed the investment behavior of non-financial sector companies in a negative way. The reason is that it has made finance capital extremely impatient due to the proliferation of investment opportunities, following financial deregulation and opening-up. Many countries have opened up their financial markets, so there are so many countries to invest in and so many new financial products, with fewer restrictions on what you can and cannot own.

Deregulation has increased the profit rate in the financial sector so much that other sectors are also expected to deliver a high rate of profit. In the United States, the profit rate for financial firms was lower than the profit rate of the non-financial firms between the mid-1960s and the late-1970s, but, following the financial deregulation in the 1980s, became significantly higher than that of the non-financial firms (4–12 % against 2–5 %) (Duménil and Lévy 2005).

Given this, you, as the manager of a non-financial corporation, are compelled to deliver higher profit by ‘downsizing’—firing all seemingly redundant workers, squeezing the suppliers to the limit, and cutting investment (especially R&D investment) down to what is absolutely necessary for short-term survival of the company. And then you distribute the maximum possible proportion of those higher profits to shareholders through dividends and share buy-backs. When you do that, shareholders love you and will be happy to approve fat paychecks for you. This of course will weaken and destroy the company 5, 10 years down the line, because your workers will have become demoralized, your machines will be old and, your technology will be outdated, your suppliers—having been given little profit to invest with—will supply you low-quality products. However, that prospect does not worry you because you won't be working for your current company when these consequences are felt. Nor would it worry the shareholders, as they will probably have sold off and moved to another company well before the company goes into decline.

According to William Lazonick, an American economist, between 2001 and 2010, 459 largest US companies (companies in the S&P 500 stock market index for which the relevant data could be found) distributed 94 % of their profit in dividends

or share buybacks. The U.K. was scarcely any better—as the 86 UK companies in the S&P Europe 350 Index distributed 89 % of their profit in this way. This is a recipe for disaster, given that retained profit, that is profit that is not given away to shareholders in the form of dividends and share buybacks, is the most important source of company investment in the rich countries. Between the 1950s and 1970s, the U.S. corporations retained between 35 % and 45 % of their profits for investment. Today the ratio is just 6 %.

The end result of this strategy, commonly known as shareholder value maximization, is the long-term decline of companies pursuing their strategy, as most dramatically seen in the recent bankruptcy of General Motors, which used to be the world's biggest and best car company (back in 1955 produced 3.5 million cars, when all the Japanese companies put together produced 70,000 cars). The failure of the strategy was so obvious that Jack Welch, the former CEO of General Electric, who is credited to have actually invented the term “shareholder value maximization,” said, following the 2008 financial crisis, that it was the dumbest idea in the world—this is like Karl Marx denouncing communism.

The above discussion reveals one of the reasons behind the rise in inequality under Neoliberalism—the corporate strategy of shareholder value maximization. This strategy squeezes wages and the profits of small companies that supply large companies. At the same time it enables the managers of the large companies to enjoy absurd levels of salaries and its shareholders to receive unprecedented levels of dividends and profits from share buybacks. Amidst all this, the investment bankers who advise these managers and shareholders are drawing handsome fees.

As a result, the share going to the top 1 % has increased so much in countries where such corporate strategy has been dominant, especially the United States and Britain. In 1979, the top 1 % of the US income distribution took 10 % of national income, which was already very high compared to Japan and other countries. But by 2006 this ratio had risen to 23 %. So Americans now in proportional terms are paying their richest people 2.5 times more and what they get in return is low investment, declining economy, fewer jobs and financial crisis.

8 Impacts on Developing Countries

For developing countries, things are even more difficult. There are exceptions like India and China, which have resisted the capital market opening and thus are in large part protected from the destabilizing forces of deregulated global finance. However, the majority of other developing countries have to deal with this. It is in fact even more difficult for them because their economies are much smaller than that of China or India—even a tiny bit of money moving from the U.S. and other rich countries into a developing country can create huge financial instability.

South Africa has the biggest stock market in Africa and has a disproportionately large stock market because it has a very overdeveloped financial sector. But even this country that has a stock market that is only about 3 % of the U.S. stock market,

which means that, if, say, only 1 % of money from the U.S. stock market moved to South Africa, it would mean price rising by 30 % overnight, which will be hugely destabilizing. Things are even worse for other countries, which do not have an over-developed stock market, like the South African one. For example, despite its economy being only 20 % smaller than that of South Africa, Colombia has a stock market that is one third that of South Africa's. This means that its stock market is only 1 % of U.S. stock market, which means that if only 1 % of money in the U.S. stock market flowed out, it could buy the entire Colombian stock market. If Colombia, which is a solid middle income country with a relatively large population, is in such a situation, you can imagine what things are like for smaller, poorer developing economies.

Especially in the last few years, thanks to the quantitative easing in the U.S., U.K., and other rich countries, so much liquidity has been released into the international financial system and destabilized a lot of developing countries—so much that the IMF, the traditional critique of capital control, recommended to Colombia that it should introduce capital control and prevent the inflow of hot money.

Important the impact of Neoliberalism on financial stability of developing countries may be, it is not the only negative impact it has had on those countries. The Neoliberal world order has made it more difficult for developing countries to promote high productivity industries.

It's always a struggle for developing countries to promote investment in high productivity industries with bigger capital requirements and longer gestation periods. This is partly because these countries tend to have high degrees of economic and political instabilities, which increase uncertainty and therefore discourage investment. Returns on investment are future events and if the future is uncertain, the incentive to invest is reduced. Another reason is when they are newly established, these industries face superior competitors from economically more advanced countries. A well-known story is how Japan had to protect its car industry in the 1950s and 1960s.

As Professor Fujii mentioned earlier, I have shown in my books, *Kicking Away the Ladder*, *Bad Samaritans* and *23 Things They Don't Tell You About Capitalism*, how, exactly because of these problems, all of today's rich countries developed their economies through various forms of infant industry protection. This is basically protecting your young producers from competition from superior foreign competitors, using tariffs, subsidies, state-owned enterprises, and many other measures.

However, in the last few decades, these policy measures have become far more difficult to use for developing countries. Since the 1980s, the IMF and World Bank have demanded, as conditions for their loans, trade liberalization, reduction in industrial subsidies, privatization of state-owned enterprises, and many other measures to promote infant industry development. As a result, countries have lost all these tools to promote infant industry. More importantly, the launch of the World Trade Organization, WTO, in 1995 has reduced the scope for infant industry protection even more. It has not only restricted tariff protection but also the regulation of foreign direct investment—this is known as the TRIMS Agreement, or the Trade-Related Investment Measures Agreement. Especially important is the restriction on

local contents requirement (that is, requiring foreign investors to buy more than a certain proportion of their inputs from local producers), which was heavily used by countries like Japan and Korea in the past.

Moreover, within the last decade or so, an increasing number of bilateral and multilateral free-trade agreements, like the NAFTA, have been signed between the rich countries and developing countries, restricting the ability of developing countries to protect their infant industries even further, because these bilateral and multilateral free-trade agreements are even more restrictive than the WTO agreement.

As a result of this sudden trade liberalization and increase in economic instability, many developing countries have experienced premature de-industrialization. For various reasons, as they become richer, countries tend to de-industrialize (that is, the relative importance of manufacturing in terms of output and employment decreases). However, this usually happens when countries are quite advanced. In the last couple of decades, many developing countries have experienced de-industrialization at a time when their industrialization process is expected to still be going on. Hence the name 'premature de-industrialization'.

Given slow overall economic growth and fewer opportunities to invest in infant industries, investment has fallen as a proportion of GDP in many developing countries. For example, Brazil used to invest 27–28 % of its GDP in the 1950s, 1960, and the 1970s, but it now invests only about 17–18 %. Even when there are investments, they have flowed into existing low-productivity industries rather than new high-productivity industries, or into explicitly short-term-oriented activities like speculative construction of houses and office blocks. These investment patterns have also greatly contributed to rising inequality because they have reduced the creation of better-paying stable jobs in high-end manufacturing and increased the proportion of casual jobs in low-wage manufacturing and services in the so-called informal sector.

9 Reforming Neoliberalism I: Financial Reform

Our discussion shows that, unless we reform the financial system in the rich countries and also change the global rules that restrict the ability of developing countries to use policies that are more suited to their needs, like infant industry protection, we'll keep experiencing low growth and high inequality together with high degrees economic instability that we have experienced in the last three decades.

Some financial reforms have been made in rich countries, although many people still think these reforms are still insufficient. For example, this new Basel III capital adequacy regulation says that banks have to have 3 % core capital compared to their loan portfolio, but many people still consider 3 % to be too low. Moreover, these rules are being introduced very slowly and banks have been given 9 years to comply to these new policy standards. One American banker, writing in a British newspaper after this reform announcement, said that, back in 1933, when the Americans introduced the financial reform in response to the Great Depression, the banks were

given 1 year to comply to all these regulations. Compared to this, he pointed out, the compliance deadline of 9 years is overly generous. Even so, lobbyists from financial industries are busy diluting whatever little reform that has been introduced.

Having said all this, the most worrying thing is that the crucial problems of excessive complexity and excessive capital mobility have not been addressed. Defenders of the status quo argue that, “you don’t really need to regulate complex financial products because people now know they are dangerous, so no one’s really buying them and the market has shrunk quite a lot.” However, this is a very dishonest argument. First of all, the fact that people are not buying them now does not mean that they may not buy them in the future. And, more importantly, people can—and will—invent new complex financial products that will create the same problem.

I argue that the creators of complex financial products should be forced to demonstrate, prior to releasing their products, that the likely benefits of their products are greater than their costs. Many people will find my suggestion shocking, but in fact we do this kind of thing all the time—especially in relation to medical drugs but with all sorts of other things, including electrical equipment. You cannot just invent a drug and sell it the next day since you have to do many experiments and clinical trials to prove that the drug has more benefits than side effects. The same rule should be applied to the financial products.

Excessive capital mobility also needs to be addressed, and there are quite a number of ways to do this. For example, we should reduce the available range of financial products by regulating complex financial products. We could also reintroduce some of the old regulations like restricting who can hold which financial assets so that local savings institutions or pension funds are restricted in their ability to hold risky assets. This will reduce the demand for these risky assets, thereby reducing the options open to investors and thus making them less impatient. We should allow, or even encourage developing countries to use more capital control not only to help them better manage their economies but also to reduce the options available for financial investors from the rich countries. We may also reduce excessive capital mobility even by using measures complying with the logic of shareholder capitalism. For example, we can give greater voting rights to shareholders who have held their shares for a longer period. Or we can reduce capital gains tax in proportion to the number of years for which shares have been owned.

When I argue for stricter regulations of the financial system, people often think that I am being anti-finance. This cannot be further from the truth. I advocate a stricter regulation of the financial system exactly because I recognize its power and importance. When you think about it, if you didn’t have this modern financial system made of the stock market, the government bond market, the corporate bond market, the central bank, deposit insurance, bankruptcy law, and many other things, we would still be living in a world with small textile factories employing 50 people, like in the early days of the Industrial Revolution. It’s exactly because these financial institutions have developed that we can mobilize a larger movement of capital.

However, exactly because the system is much more powerful, we need more and stronger regulation. Let me illustrate this point with an example. In the old days

when most people walked and at most rode on a horse or horse-drawn carriages, no country had traffic lights, speed limits, seat belts, and air bags because traffic accidents were rare and the damage was relatively small in the event of its occurrence. But today, we have very powerful cars that can easily kill people so we have speed limits, traffic rules, ABS brakes, passenger seatbelts, side-impact bars and the like. It's exactly because we have acquired these powerful machines that we have more regulations about cars themselves and how they can be driven. So, when I advocate stricter regulation of finance, it's exactly because I appreciate its importance and great power.

10 Reforming Neoliberalism II: Reform of Global Rules

Global rules on trade and investments need to be reformed so that developing countries can more easily develop infant industries. Developing countries also need to use more actively all trade and industrial policies that are allowed by the global governance regime, although many developing country governments are scared of doing so because they will be 'blacklisted' by donor governments or foreign investors. Or, worse, many of them don't use even policies that are allowed out of ignorance. I sometimes joke that the WTO has become the greatest friend of lazy bureaucrats in developing countries: if you don't want to bother with some policy that your minister wants to introduce, you can just tell him that it is banned by the WTO in the knowledge that he's not going to look up over hundreds pages of relevant documents to figure out whether you are lying or telling the truth.

Even countries like China and India, which have grown fast in the last three decades, partly because they have used capital control and industrial policy measures more aggressively than other developing countries, need to re-examine some of their policies because they have failed to contain runaway inequality.

There are two ways to control inequality. One is to restrain the ability of their markets to produce excessive inequality and the other is to tax and redistribute. The first route was used countries like Japan and Korea between the 1950s and the 1980s. Those countries at the time had relatively low inequality even if they didn't have much redistribution through tax and welfare state, because strictly regulated the ability of the market to generate inequality, with agriculture protection, large store laws, and so on that protected small farmers and small shops. The other route to reducing inequality has been used by the European countries. The extent of redistribution through tax and redistribution in these countries is staggering. Before tax and welfare spending, income inequality in many European countries—Sweden, Denmark, Germany, Belgium, and others, depending on the exact year you look at—is comparable to, or even higher than, that of the United States. It is only because they tax and redistribute so much that these countries end up with societies that are far more equal than the United States.

China and India have done neither of these things, and inequality is going through the roof. Many people think that people in those countries are more or less happy

with their rising levels of inequality because they are all becoming richer thanks to their economies growing at 8 % or even 10 % per year. However, these countries are in turmoil. In China every year, there are literally hundreds of thousands of strikes, local riots, and demonstrations, except that the rest of the world rarely gets to hear about these occurrences. India is even worse, with increasing levels of violence in general and violent communal conflicts. Most significant and symbolic is the revival of the Maoist guerrillas, known as the Naxalites, that were strong in the 1960s and '70s but thought to have gone into permanent decline by the early 1990s. The Naxalites are very powerful in the eastern part of India, creating the situation like in China during the fight between the Communist and the Nationalist—rule by the government during the day, rule by the guerrillas during the night.

11 Concluding Remarks

In this chapter, we have examined how, in the last three decades, neoliberalism has failed to deliver on its promise of higher growth and greater economic stability. Instead, it has produced a world that is growing more slowly, becoming more unequal, and rocked by financial crises with frightening regularity, compared to the period between the 1950s and the 1970s.

Therefore, unless we thoroughly reform the neoliberal policy regime, both at the national level and at the international level, we are destined to repeat our last three decades of low growth, high inequality, and repeated financial crises in the coming years. It's high time we put pressure on our political and business leaders to change because the future is not bright for them either. We now have enough proof—not least in the form of the 2008 financial crisis and the sluggish and highly unequal recovery from it in many parts of the world—that neoliberalism does not work. It is time to act.

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Chapter 3

Totalitarianism of Globalism by the Top 1 %

Satoshi Fujii

Abstract In this chapter, I discuss the consequences and origins of global capitalism, including destabilization and inequality of the economy, globalization of crises, and increase in the power of money and decrease in the power of other values within all realms. I then discuss understanding the origin of global capitalism through the social philosophical concept of totalitarianism. Totalitarianism is defined as an ideology, movement, and system in which the superiority of “the whole” is thoroughly pursued. The direction or ideology of the whole, such as Nazism, is not selected by rational reasoning but by secular motivations, such as greed and fear. Those living in a totalitarian state come to lose the ability to think and therefore can commit evil acts without any sense of guilt. After describing the details of totalitarianism of Nazi Germany, I suggest how its basic social dynamics for expansion and basic structure are identical to those of the current global capitalism, while referring to the social scientific theories of Hannah Arendt (*The origins of totalitarianism*. Harcourt Brace & World, New York, 1951). Since the “top 1 %” in the totalitarianism of globalism (TOG) have ceased to think, they can believe in any irrational theory to support their beliefs, such as neoliberalism, and can therefore blindly commit evil acts without any sense of guilty. Lastly, I discuss the basic direction to follow in order to move beyond global capitalism based on the philosophical theory of totalitarianism.

1 Consequences of Global Capitalism

The aim of this chapter is to find a way to move beyond global capitalism. But in order to achieve this, we need to thoroughly understand global capitalism. Global capitalism is a kind of capitalism which has developed along with the lowering of national borders. Global capitalism does not take into account national borders. One may equate global capitalism with *internationalism*, but the two concepts are complete opposites. Internationalism regards each nation as a separate entity. However,

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Table 3.1 Consequences of global capitalism

Destabilization of economy
Rapid concentration of capital and rapid capital flight in monetary economy
Chronic deflation in actual economy
Increase and fixation of inequality
Globalization of crises
Increase in the power of money, and decrease in the power of other values (= indicates propagation of nihilism)
Loss of long-term rationality and regional and national resilience
Weakening of democracy and collapse of nations and families
Vanishing of national and regional cultures, virtues, traditions, and ethics
Diminishing value of humaneness and human civilization

global capitalism sees the whole world as one entity. Therefore, national borders are disregarded in globalism, unlike in internationalism.

Global capitalism leads to various consequences. The consequences have been well documented by various scholars, including Chang (2002, 2011, 2014), Shibayama (2014), and Stiglitz (2002, 2012), especially from an economic perspective. I will comprehensively summarize the consequences here in order to start my discussion on how we can move beyond global capitalism (see Table 3.1).

First of all, economic instability will increase due to global capitalism, as was discussed by Stiglitz (2002, 2012), because of the rampant money concentration and distribution in the financial economy. In protectionism, usually money does not move across national borders. However, if national borders are disregarded, money can easily go anywhere in the world. This is referred to as global money. That means that money will always seek the most “desirable” spots, resulting in the concentration of money in those spots and the inflation of “bubble” economies. But if there is a slight doubt about or problem in these spots, or there are more desirable spots somewhere else, then all of the money will move instantaneously toward new spots.

For example in 2013, Japanese stocks increased in price, and it was sometimes pointed out that global money was coming into the Japanese stock market. This was the consequence of *Abenomics*, which was launched at the end of 2012 by Japanese Prime Minister Abe. However, if some problem pops up in Japan, for example, if macroeconomic damage starts to appear due to raising the consumption tax rate, then there might be capital flight (in a form slightly differing from its original concept): once capital comes over to Japan, it will easily flee to other places. This would then lead to chronic deflation.

These consequences are on the monetary or financial side. However, in the real economy, global capitalism would cause other serious problems. Physical products, goods, and services would move beyond national borders as if they didn’t exist. As a result, almost all the winners would naturally be large corporations, and small- and medium-sized businesses in each nation would lose in the market battle because of the economies of scale. That means that large-scale global companies would continue to win and get bigger, and that production and supply volumes would increase in the market.

However, Japanese people and people in general can only eat three meals per day. We cannot eat four or five or ten meals, so demand remains at a constant level and only supply rapidly increases due to global capitalism. Therefore, global capitalism would result in chronic deflation in the real economy. In addition, large companies, which are winning the global competition battle, are typically more efficient than small- and medium-sized businesses. Thus, these businesses would lose and then collapse, and then the large companies could produce more efficiently with a smaller labor force. That means unemployment rates would rise and labor demand would decrease as large companies continue to win, leading to deflation in the market and economic stagnation. People's incomes would not increase due to the chronic deflation.

Under such circumstances, inequality would increase and become rigidly fixed under global capitalism. If this proceeds into the future, inequality among individuals would increase, and also international inequality would increase, not only in Africa and South America. In other areas of the world, poverty would greatly expand.

In one country, inequality between big companies and smaller companies would widen, and there would be inequality between globalized corporations and local corporations. This is because global capitalism promotes market competition among companies all over the world. Also, even in the big global corporations, there is great inequality between capitalists and laborers. This is because capitalists' capital is increased by global capitalism but laborers' incomes are inevitably lowered due to global competition with countries with low incomes (Stiglitz 2002, 2012; Tonelson 2000). So with the acceleration of global capitalism, again at this speed, inequality will also be accelerated. Together with global capitalism development, inequality expands.

This inequality, needless to say, promotes destitution all over the world, especially in poor countries. This destitution inevitably, in turn, causes dissatisfaction among people, which leads to political instability.

In addition, crises will be globalized (IRGC 2011; Howell 2013). In global capitalism, nations all over the world eventually become linked to each other. Therefore, products purchased somewhere can be immediately exported to other countries. Information is instantaneously shared due to global links. That's one of the good aspects. However, the same applies to crises as well. Once a crisis breaks out, then it immediately spreads to other countries. As we remember very well, the Lehman Shock spread to other regions of the world immediately. This was obviously a consequence of the global network developed by global capitalism.

If we look at sectors, sometimes we feel that money is the answer, and more people feel that way in today's world of capitalism. That's a natural consequence of global capitalism, which was noted by Chang (2011). If we further liberalize free trade, the power of money will increase to the point where money will become almighty; this is one possible consequence of global capitalism. However, there are other values that cannot be converted into money. Even if the value can be converted into money somehow, the value will not always be included in the price. For example, national security and environmental security are not always reflected in the

market price of goods or services. They say it is market failure, but we know the market always fails in many ways since all values are not reflected in all prices. So values that cannot be calculated into the market price, such as security, might be totally neglected together with the rampant development of global capitalism.

The market is always only looking at short-term results. It will lose its long-term rationality. Therefore, long-term perspective will be lost in the world as global capitalism widens. The overall society will then become less resilient. And the slightest economic crisis, earthquake, or series of bankruptcies will immediately result in a serious situation.

Chang (2011) has also noted that if we try to play the game only with money, then we will lose a lot. All values, including national and family, would vanish, and their framework would collapse as global capitalism further evolves, because they are not tradable in the global market. Cultures, virtues, traditions, and ethics would either vanish or greatly diminish in value as global capitalism evolves because they have little value in the market. That means that humaneness and human civilization itself would decrease in value.

Thus, as global capitalism evolves and accelerates, economic instability and inequality would expand and crises would globalize, and money would become almighty, resulting in the weakening of democracy and the collapse of nations and families.

2 Origin of Global Capitalism

Although global capitalism might bring some benefits, if we continue down this path, the welfare of human beings would greatly suffer. Then why do we have such a high level of development of global capitalism? That should be examined more deeply. Why is it still popular today?

Although the consequences of globalism might be understood through economic theories, its expansion cannot. This is because globalism is a political, social, and social psychological phenomenon, as well as an economic phenomenon. Therefore, in order to understand the reason for the expansion of globalism, social scientific theories are necessary.

I would like to refer to one social scientific concept in order to clarify the exact reason for the expansion of globalism: *totalitarianism*. This concept was developed while analyzing the historical phenomena in Nazi Germany and Stalinist Soviet Union. Many books have been written on this theme (Lederer 1940; Neumann 1942), but I would like to reference the most famous book on this topic, namely, Hannah Arendt's *The Origins of Totalitarianism* (Arendt 1951). In the discussion of totalitarianism, this book has been widely accepted around the world.

Hannah Arendt was a Jewish German philosopher. She lived from 1906 to 1975. She was a political philosopher and student of Martin Heidegger, a German philosopher. *The Origins of Totalitarianism* (1951) and *Eichmann in Jerusalem* (1963) were her major works. In these books, she theorized why totalitarianism

emerged and evolved based on historical facts, and described the social structure and social dynamics of totalitarianism. Recently, a movie titled “Hannah Arendt” was released in 2011. This movie was mainly based on her book *Eichmann in Jerusalem*. This indicates that the world has started to pay attention to her theories.

3 Totalitarianism

My main point in this chapter is that the origin of globalism could be well understood through interpreting the expansion process of the totalitarianism that Hannah Arendt described.

Totalitarianism is defined as an ideology, movement, and system in which the superiority of the whole, rather than the individual, is thoroughly pursued. The most common image of totalitarianism is the “Heil Hitler” type of movement. Like the fascism in Italy, that type of system during that period of history was called totalitarianism. Stalinism in the former Soviet Union can be regarded as a characteristic system of totalitarianism.

“Ism” usually means an ideology, so totalitarianism is a kind of ideology. However, social phenomena are also included in the concept of totalitarianism. Political systems are also included. So those are additional characteristics of “ism” attached to totalitarianism.

In totalitarianism, the whole goes toward one orientation only so that the system can work. In order for totalitarianism to evolve even among ordinary citizens, ideology is inevitably forced to orient in only one direction. This is indeed terrible since it ignores the natural diversity of ideologies throughout the world. Although totalitarianism is an “ism,” it easily goes beyond a mere ideology, because it has substantial power to induce social change inherently within it. Therefore, political and social phenomena are inherently embedded in the concept of totalitarianism.

4 How Totalitarianism Evolves

According to Arendt, what are the characteristics of totalitarianism? It involves not only ideology but also a movement or system and social phenomena. The second important feature is that the content of totalitarianism can be anything. Any kind of idea can be the core. An “ism” usually means specific ideology. For example, communism, neoliberalism, conservatism, and capitalism are all specific ideologies. These “isms” are not empty, and contain some ideas. However, totalitarianism is ideologically empty, and does not contain any ideas. Therefore, it can be any ideology, making totalitarianism like a chameleon. Furthermore, it does not always have to be an ideology. The only requirement of totalitarianism is that everything must yield to “the whole,” which can be anything, including any kind of ideology or any arbitrary passing idea imposed by a dictator.

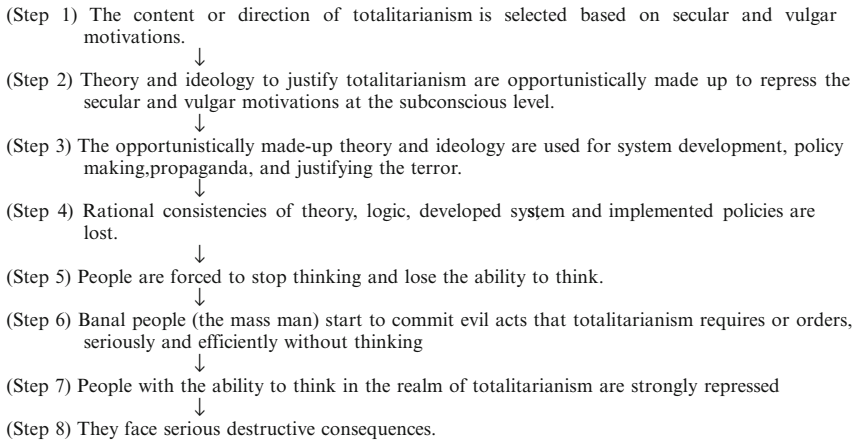


Fig. 3.1 Eight-step process of the evolution of totalitarianism from emergence based on secular motivation of the masses to destructive consequences

Thus, any kind of concept can be *arbitrarily* chosen in totalitarianism. But at the time of selection, there are some criteria. Even for die casting there is probability. What are the criteria for selection?

According to Arendt (1951), the criteria can include a social secular emotion or vulgar motivations, such as a jealous feeling, greed, fear, or anxiety of the masses, rather than rational thinking, as can be seen in Step 1 in Fig. 3.1. That means there is no relationship with religion or philosophy. Thus, in totalitarianism, the direction of “the whole” that everybody and everything must follow is based on vulgar motivations rather than reason. Subsequently, political systems, national laws, and all policies are developed based on such secular motivations of the mass.

However, such secular motivations cannot be used as the slogan for the political system. That would be too embarrassing. Nobody says in public, “Because of my jealousy or greed, I propose this system in the political field.” They are strongly motivated to hide the fact that the direction of the whole is determined by vulgar motivations. Since their social-psychological motivation to hide is so strong, they not only attempt to hide things from others but also *themselves*. This hidden process is well known in psychology as repression process (cf. Ellenberger 1970).

Because of the psychological motivation for repression, they are motivated to *make up* plausible logic and theory on why they selected that direction for the whole (which is actually determined by secular motivations), and to come up with good principles (see Step 2 in Fig. 3.1). They actually make up such logic and theory, which are just opportunistic and a fallacy. The typical example of fabricated theory through this repression process is Pan Germanism, where expansion of the German Empire in the world is just since Germanic people are believed to be superior. But

again, this takes place at the subconscious level. Nobody says, “I am conscious of the complex reason, so that’s why I behave this way.” They are not aware of the fact that their theory and logic are just opportunistic and a fallacy. Rather, they just strongly and blindly believe in such opportunistic theory and logic as to why they selected the direction of “the whole.” All people have subconscious elements. That is why people move from inside. Therefore, any kind of core element of totalitarianism can be born at the subconscious level based on the secular motivations of ordinary people.

Theory and logic are usually, and should be, created from reason or some philosophy. However, for totalitarianism it is different. They are just chosen at a subconscious level and are actually based on self-desire and vulgar motivations of the masses.

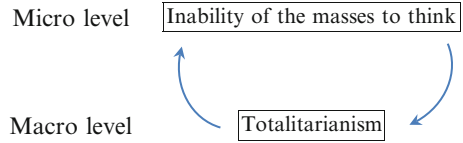
Fabricated logic and theory, such as Nazism, does not always fit with the facts. This is because the theory is not developed based on facts or rational reasoning, but fabricated to hide secular and vulgar motivations. Therefore, if we try to think deeply about the theories developed in totalitarianism, we find a lot of impasse and contradiction (see Step 4 in Fig. 3.1). If we think too deeply, then inevitably we will cease to think (see Step 5 in Fig. 3.1).

This is known as “thoughtlessness,” a very important concept proposed by Hannah Arendt. Our group shares the opinion that thoughtlessness is a very important term for philosophy. However, this philosophical concept has been primarily cited by Arendt (1963). Arendt described that thoughtlessness is a consequence of the *inability to think*. Thus, the inability to think is, in turn, a consequence of the fabrication of opportunistic theories to repress the natural thinking process. It means that totalitarianism is something that is rationally incomprehensible. So if we try to comprehend totalitarianism, which is incomprehensible, because of the inherent contradiction, we have to cease rational thinking.

5 Banalty of Evil: *Eichmann in Jerusalem*

What will then happen to ordinary people in totalitarianism? They stop thinking, but they need to behave in the way totalitarianism directs them. They just start to behave without thinking. Of course, they can think if they want. But they soon realize that they need to stop their thinking immediately, because if they start to think, for example start to doubt Nazism, they will find many discrepancies between the theories and the facts, automatically resulting in a feeling that the theory is just fallacy. This means that their daily behavior is also just based on fallacy. Thus, for them, if they start thinking directly, they will realize the harsh fact that they are living in a fallacy world. For “ordinary” people who cannot easily remove themselves from their situation, this realization would be intolerable. Therefore, they inevitably need to stop thinking. They are deprived of the ability to think by totalitarianism. Thus, almost all ordinary people in totalitarianism continue to behave as required or ordered by totalitarianism without thinking.

Fig. 3.2 Mutual reinforcement relationship between the inability of the masses to think and totalitarianism



Totalitarianism produces a mass society with the inability to think. But we should not forget the fact that totalitarianism is developed by the masses in a state of thoughtlessness and with secular motivations. Therefore, the evolution of the system of totalitarianism at the macro level and the deepening of the inability to think of the masses at the micro level mutually reinforce each other as can be seen in Fig. 3.2.

Thus, people who cannot think and are motivated to behave in accordance with totalitarianism, emerge in a totalitarian society. They start behaving seriously, eagerly, and efficiently in accordance with totalitarianism, without rational thinking, as can be seen in Step 6 in Fig. 3.1. Arendt describes the details of such behavior in her book “*Eichmann in Jerusalem*.” Eichmann was an elite bureaucrat in the Nazi system and several millions of Nazis were supervised by him. He was the person who determined how to most efficiently (at the least cost) find, accommodate, and process Jewish people. Essentially, he had full responsibility for the administration of the Nazi system.

The Institute for Intelligence and Special Operations found him responsible for the harsh concentration of the Jewish people and he was prosecuted by a court and given the death sentence. Those who watched over his criminal trial imagined that he would appear to be an evil villain because he had killed millions of people. They expected that this evildoer would have a fearful expression, without any warm blood. However, the person that everybody saw in court was just an ordinary and insignificant person with a bold head and frail body.

Arendt considered Eichmann to be the typical person with the total inability to think, and found him as just *banal*. She also found that this banal man had no sense of guilt, even though he had obviously committed an atrocious crime, which Eichmann himself later admitted. This was because he did not think rationally. For him, what he did was not the consequence of his rational decision making, but was just the consequence of his blind compliance to the orders from the totalitarianism system.

She named this banality of such people, who have engaged in great evil behavior without thinking and a sense of guilt, as the “*banality of the evil*.” In the symbolic soliloquy by the actress who portrayed Arendt in the movie “*Hannah Arendt*,” she states, “The true evil is the evil conducted by ordinary, mediocre people.” Thus, she found true evil in Eichmann’s banal appearance and inability to think.

Eichmann is just a symbol of the tremendous numbers of people in a totalitarian society. He was such a common, ordinary, mediocre person. He was nobody special. He was an ordinary father. He had some love for religion and family. However, this very ordinary, common, mediocre person caused tremendous human suffering. Hannah Arendt was able to see the true fear of evil.

Imperialism is an example of totalitarianism and was originally based on secular motivations. Going through the process, very smart people without thinking simply follow orders in totalitarianism. That's how totalitarianism evolves. People who maintain the ability to think remain outside of the totalitarian regime, and they are suppressed. There were many Germans within Germany who were against Nazism, but they were also arrested by the state as can be seen in Step 7 in Fig. 3.1. Non-banal, good people have to be arrested or killed in the regime of totalitarianism.

This is the story of totalitarianism. It starts from secular motivations by the masses, and evolves supported by banal people's thoughtlessness, through a mutual reinforcement process between totalitarianism and the inability to think by individuals. But the consequences of this evolution of totalitarianism are definite: destruction (as shown in Step 8 in Fig. 3.1). If and only if the evolution of a large-scale social movement like totalitarianism is rationally harmonized with other systems in the world, such as natural, societal, and cultural systems, can it be sustainable. Otherwise, it cannot be sustained, and will face a catastrophe sooner or later. Therefore, totalitarianism, which evolves without rational thinking, inevitably leads to destruction.

6 Totalitarianism in Nazi Germany

This is how totalitarianism will unfold according to Hannah Arendt (1951, 1963). In order to clarify her point, I will further explain the dynamics and structure of totalitarianism using the example of Nazism. The elements of totalitarianism can be seen in Table 3.2. The banal people who committed evil acts were German people, including ordinary people and members of the Nazi party, such as Eichmann. Those they repressed included anti-Nazis and those in other ethnic groups, including Jewish people.

There were 4 types of secular motivation among Germans, including greed, vanity, fear, and ontological anxiety, as can be seen in Table 3.2. European countries at that time suffered from surplus capital, so they were motivated to colonize other countries using imperial power. Colonization was a nice solution for that problem and was also beneficial to their countries for other various reasons. However, Germany was a capitalist state which lagged behind the U.K. and France. So Germany was too late in becoming a capitalist state in order to colonize other countries using imperial power. Thus, Germany was motivated to take control of neighboring states, such as Poland, in Europe. That's why Germany decided to invade Poland. This was simply because of the *greed* for economic benefit by German people, including German capitalists.

Germany had motivation to recover its wounded pride after its defeat in World War I. They also felt inferior to the U.K. and France, who succeeded in imperialism in Asian and African countries. This *vanity* was also a source of Nazism. Especially for the members of the Nazi party, career promotion within the party and state was a strong motivation that propelled totalitarianism forward.

Table 3.2 Elements of totalitarianism of Nazism and globalism

	Nazism	Globalism (differences from Nazism are in <i>italic</i>)
Banal people evildoers	German people, including members of the Nazi party	Evildoers: “ <i>top 1 %</i> ” of <i>global capitalism</i> (Stiglitz 2012), including <i>bureaucrats, economists, and politicians</i>
Repressed people	Anti-Nazis and other ethnic groups, including Jewish people	Anti- <i>globalists</i> and those <i>suffering from inequality</i> , such as <i>developing countries, farmers, and workers</i>
Secular motivation to evolve totalitarianism	Greed: greediness in obtaining economic benefits through colonization of other countries (= imperialism) Vanity: feeling of superiority or desire to extinguish inferiority complex with other European countries, and motivation for career progress and fame in German society Fear: fear of repression if go against Nazism	Greed: greediness in obtaining economic benefit through <i>global free trade</i> Vanity: feeling of superiority over the “ <i>bottom 99 %</i> ” in <i>global capitalism</i> , and motivation for career progress and fame in the “ <i>top 1 %</i> ” society Fear: fear of repression if go against <i>globalism</i>
Theory used for propaganda	Ontological Anxiety: the masses created by atomization of society developed ontological anxiety, which pushed them toward totalitarianism Pan-Germanism: expansion of the German Empire in the world is just since Germanic people are believed to be superior	Ontological Anxiety: the masses with <i>high education and/or capital</i> created by atomization of society developed ontological anxiety, which pushed them toward totalitarianism Neo-liberalism: liberal economic theories
Destructive consequences	Many deaths, destruction of towns and landscapes in many countries, and the self-destruction of the mother country Germany during World War II	Elitism: <i>bureaucrats, capitalists, and economists in Brussels (EU), Washington (USA), Tokyo (Japan), London (EU), Wall Street (USA), and world-famous universities all over the world</i> Many deaths, destruction of towns and landscapes in many countries, the self-destruction of mother countries all over the world, and widespread <i>poverty and change in value systems</i>

Totalitarianism was also strongly promoted due to the *fear* felt by all German people. There was a fear among them that they would be repressed if the Nazis regarded them as anti-Nazi. They always therefore needed to appear as if there were pro-Nazi. Otherwise, they would be arrested by the Gestapo secret police.

The fourth aspect of motivation is quite important. This fourth aspect was not only discussed by Arendt (1951) but also Ortega (1932), who described mass society. Humans typically wish to belong to some community, such as a family, local community, or company. In pre-modern society, the community was much more vital than it is in modern society. But in modern society, with capitalism, with the expansion of modernity, the various types of communities have been destroyed. Families and communities as the basic support systems for humans in modern society have been lost. Thus, people have become “atomized,” which means that they have become segregated from each other. As a consequence, people have become very anxious.

The anxiety caused by lost communities is called “ontological anxiety,” which emerges when people lose ontological security (cf. Beck et al. 1994; Giddens 1971,1990). Those with ontological anxiety are strongly motivated to ease their anxiety. Modern European people, including Germans during that era, have ontological anxiety, and therefore they have motivation to ease their ontological anxiety. When the Nazis appeared, they insisted that Germanic people belonged to one big family and that their superior blood made them a superior race. According to this theory, every German was a member of one, big blood-based family even though they did not belong to any actual community. So this theory was very “convenient” for those with ontological anxiety who had lost their actual communities, because they could ease their ontological anxiety. They had a strong desire to be absorbed by a community whatever it may be. Thus, ontological anxiety led the German people to totalitarianism in the form of Nazism.

Table 3.2 also summarizes other elements, including the theory used for propaganda that all Germanic people were members of a blood-based family. But this was of course something without any scientific foundation. Lastly, the catastrophic consequence was the huge number of deaths during World War II, destruction of towns and landscapes, and the self-destruction of their mother country Germany due to the war.

7 TOG: Totalitarianism of Capitalism

From sociological, social-psychological, political, economical, and historical perspectives, I have explained the structure and dynamics of totalitarianism of the Nazis during World War II mainly based on the political philosophy of Hannah Arendt (1951). This summary of totalitarianism by Nazis is surely helpful in understanding the dynamics and structure of global capitalism, since both social phenomena are extremely similar, at least from the perspective of the theory of totalitarianism.

I conducted social scientific analysis of globalism using a similar formula to the one used for Nazism. It is called *totalitarianism of capitalism* (TOG). Its elements are also summarized in Table 3.2. The differences between Nazism and globalism are underlined. Here, I will describe the social scientific analysis or interpretation of TOG based on the theory of totalitarianism, as discussed by Arendt (1951) and others, including Stiglitz (2012).

On the one hand, the banal people driving totalitarianism of Nazism were Germans. On the other hand, the banal people driving TOG are the “top 1 %” of global capitalism, who include bureaucrats, economists, and politicians, as discussed by Stiglitz (2012). He described the top 1 % who take almost all the wealth from the remaining 99 %, and that this is the consequence of neoliberalism and globalism.

According to Stiglitz (2012), the “top 1 %” includes capitalists that have won the capitalism competitions, elites that have won the examination and educational competitions, and bureaucrats and economists that have won the career competitions, all over the world. They are typically living in Brussels (EU), Washington (USA), Tokyo (Japan), London (EU), and Wall Street (USA) and working at the core of governments, global/international institutions, global companies, and world-famous universities all over the world.

Stiglitz also discussed the “bottom 99 %,” who are all those people not in the “top 1 %.” They include almost all people in developing countries, almost all workers and farmers in both developing and developed countries, and directors and executives of almost all small- and medium-sized businesses. All of them are suffering from inequality to some degree, as discussed at the beginning of this chapter. Thus, they are all regarded as those repressed by TOG. Anti-globalists are another group that are repressed. Many of them could be in the “top 1 %” if they wanted, but they decline to participate in totalitarianism as a player or repressor against weaker people. They are repressed in the structure of TOG. For example, it is typically much harder to publish scientific papers of anti-globalism than pro-globalism in major economic journals, or it is also typically much harder for bureaucrats advocating anti-globalism to be promoted in various governmental organizations than those supporting globalism.

As German totalitarianism evolved based on four types of secular motivation, including greed, vanity, fear, and ontological anxiety, the “top 1 %” also have the same four types of secular motivation.

One source of TOG is the greed of the “top 1 %” to obtain direct and indirect economic benefits through global free trade. Global companies need new markets to sell their products in countries all over the world, regardless of the fact that their businesses in the new market crowds out local companies, driving many of them into bankruptcy and producing jobless people in these countries. Advisors or supporters, such as economists, bureaucrats, and politicians, of global companies can also earn a lot, motivated by greed.

The secular motivation of fear to promote TOG is related to greed. The fear for them is to lose such rewards provided by the system of totalitarianism, including income, position, and fame in a global company, bureaucratic organization, or

research organization, including universities. If they are regarded as anti-globalist by other globalists, they immediately risk losing all or many of their benefits. In addition, they also fear that globalism will be proved to be unjustifiable, because such proof might lead to the weakening or removal of global capitalism from their society, resulting in a loss of all the rewards provided by the TOG system. Therefore, they have strong motivation to attack anti-globalists. The economists feed on TOG, and are actually typical economists in many developed countries embedded deeply in TOG, and therefore make great efforts to “prove” that globalism is justifiable while ignoring all the data that indicates the “fact” that globalism cannot be justified, such as the data shown by Chang (2014) and Shibayama (2014). Such academic reports by economists against TOG are of course just a nuisance to those attached to TOG, and anti-TOG proponents experience difficulties, such as failure in journal publishing, loss of position, or loss of research funds. In a similar way, pro-globalism bureaucrats and politicians will lose various benefits and opportunities related to TOG if globalism is pushed back. Thus, these fears are a strong source of expansion of TOG, because it urges them to support TOG and to repress anti-globalism.

Ontological anxiety that is a secular or vulgar motivation for expansion of totalitarianism of Nazism can be found in the evolving process of TOG. Emergence of ontological anxiety is a universal social phenomenon that can be observed in modernized countries, since the societies and communities that were well organized in pre-modern times have been destroyed in modern society. The “top 1 %” in TOG are not an exception. They also inevitably possess ontological anxiety.

Their ontological anxiety should be larger than others. Since they are globalists, they should have a tendency to disrespect or ignore their nation, which is an important source in easing ontological anxiety. In addition, they should have an inevitable tendency to disrespect or ignore the local community since such a community is typically embedded in a nation. Furthermore, since they typically believe in *neoliberalism*, which extremely emphasizes the importance of free trade and the free market (cf. Stiglitz 2002, 2012; Nakano 2014), they have a tendency to disrespect or ignore the importance of things other than the market or money, including family, community, and societal and mutual cooperation. This tendency definitely amplifies their ontological anxiety since it deprives them of places to ease their ontological anxiety. Even if they still have a community to belong to, including their family, the ideology they believe in would make the community more “business-like.” This transmutation of community they belong to contributes to the acceleration of ontological anxiety.

Thus, the “top 1 %” are expected to have great ontological anxiety at a subconscious level, which implies that they would have motivation to eagerly dedicate themselves to any kind of behavior to evolve TOG, since TOG is the only place for them to live in, in order to satisfy their secular and vulgar motivations, including greed, vanity, and fear. In other words, as long as they dedicate themselves to TOG, they can successfully satisfy their desire for greed, vanity, and fear, as well as ease their ontological anxiety, at least *temporarily*.

Note that their ontological anxiety, however, never disappears. These are TOG communities, such as global companies, governmental organizations, and academic societies, which work well in maintaining or expanding TOG, but are just fallacy communities. People in the community are often not concerned about each other, and the relations among people in such a community are not “important” at all, but just “instruments” for other purposes, such as maximizing profits. Ontological anxiety cannot be truly eased in such a community. That is why they are more and more strongly motivated to dedicate themselves to TOG once they strongly commit to it, since this is the only way to ease the anxiety, even though it is just temporal.

According to the theory by Ortega (1932), the “top 1 %” can be regarded as the typical mass man, since they have a tendency to lose their human community, steadfastly stick to their ideology without the ability to change their thinking, and typically believe that they are superior to other people. These features are all typical of the mass man theorized by Ortega (cf. Fujii et al. 2007; Hatori and Fujii 2008). Thus, without globalism they would have no place to belong to. Because of the fact that people become a mass man without a human community to belong to is an essential condition for the emergence of totalitarianism, as discussed by Arendt. The fact that the “top 1 %” are mass men supports the notion that TOG was developed by the “top 1 %.”

As Germans strongly believe in Nazism to justify their behavior in their totalitarianism, people feeding on TOG also strongly believe in *neoliberalism* (cf. Crouch 2011; Nakano 2014; Stiglitz 2002, 2012) based on new classical economics. This is because neoliberalism can perfectly justify TOG, and can successfully repress their actual secular and vulgar motivations, which are the actual origin of TOG. Neoliberalism predicts that the free market and free trade, with minimal governmental intervention and minimal or no regulations, will always improve human welfare since it can solve every problem in the world. However, this prediction is surely proved to be just a fallacy, as can be seen in the beginning section of this chapter, which overviews the consequences of global capitalism suggested by many scholars (e.g., Chang 2002, 2011, 2014; Shibayama 2014; Stiglitz 2002, 2012; Todd 2014). The consequences of TOG are many deaths, destruction of towns and landscapes in many countries, the self-destruction of mother countries all over the world, widespread poverty, and change to a value system that only respects money.

If my view, the recent evolution of global capitalism is just totalitarianism of globalism, and the people in TOG, i.e., the top 1 % or so-called “elite” people, have lost the ability to think, just like Eichmann. They have lost their minds. They don’t have any philosophy. That’s why they never listen to any kind of persuasive discussion to recognize the fact that global capitalism leads to seriously destructive consequences. That’s also why they seriously and loudly believe in the alleged justifications of neoliberalism and globalism without any hesitation. They simply or faithfully follow orders from TOG, without thinking. So they are quite serious in performing their work, without thinking. They are *banal people who have committed evil* acts even though they seem to be so intellectual, accomplished, rich, and high-class, like the banal people in Germany symbolized by Eichmann. The bureaucrats, scholars, and politicians who have stopped thinking and simply and faithfully follow orders

by the totalitarianism of globalism are banal like Eichmann, and are committing evil acts like Eichmann.

However, the bureaucrats, scholars, and politicians who are living in TOG do not believe that they are committing evil acts. They have no sense of guilt, again like Eichmann. Rather, they truly believe at the conscious level that what they are doing is good for the nation, even for the world. If somebody starts to criticize them, they get very upset because they believe that they are doing something very good, and it's just like Nazi Germany, when an ordinary German would have been upset if we doubted the Nazi propaganda. That is their appearance of banality. Because of their inability to think, they cannot understand their true motivations at the subconscious level and actual consequences of their behavior.

It can be also noted that it is quite unlikely for them to reach the "truth." This is because the truth is always cleverly hidden in the society of totalitarianism. First, the theory of neoliberalism always provides good reasons for how it can be justified and how anti-globalists cannot be justified (while ignoring all the facts that neoliberalism cannot explain). Second, those who can nicely justify TOG can typically obtain fame, and those who are against TOG cannot obtain fame in the totalitarianism system. Third, almost all people they meet in the realm of TOG have identical ideas of neoliberalism, because anti-globalism has been easily wiped out from the realm.

Therefore, it is highly difficult to break TOG. Actually, Arendt (1951) noted that it is extremely difficult or rather impossible to break totalitarianism from inside after it has well evolved. It can be only broken from outside.

8 Going Beyond Global Capitalism

I discussed how we should interpret global capitalism, but this interpretation took me more than 90 % of the pages of the chapter. I am sure that having an accurate and correct interpretation is the best way to find the best solution. For example, you need to have a good diagnosis of a disease in order to have a good prescription.

I noted that globalism today is a society made up of the combined groups of the top 1 % from all over the world. The bottom 99 % suffer from exploitation by the 1 %. The top 1 % try to hide their ontological anxiety and other secular and vulgar motivations in their pursuit of global capitalism, and in order to do that they try to use elitism and neoliberalism based on new classical economics. These social dynamics and structures regarding globalism are definitely ones observed in totalitarianism.

What then are the prescriptions for totalitarianism of globalism? In order to find a way to change the situation we can apply the existing discussion about totalitarianism. This has been the starting point of this chapter.

First of all, in order to struggle against totalitarianism we have to be aware of the existence of totalitarianism. The top 1 % are promoting the movement of totalitarianism, and we have to be aware of it. In order to change it, you definitely need

power from the outside. The Nazis went down because Germany lost the war. The internal efforts to change a situation would be quite difficult because the power of totalitarianism is very strong within its society, so you need external powers to destroy the system. This is the important message that we get from Hannah Arendt.

Then what can we do? What is the external force to counter the top 1 %? That force is the bottom 99 %, the weak people of the world, including elites with good thinking capability. Those outside of the regime must struggle. The bottom 99 % must look at what they have, like family systems. We have to respect the communities, and the largest community is the nation, so we have to respect nations and local communities. Nationalism (cf. Smith 1991) in that meaning should be strongly supportive of the struggle against totalitarianism of globalism. And collaboration among different nations in the name of *internationalism* is quite important, to help each other and to struggle together against totalitarianism of globalism.

Globalism is quite different from internationalism, although they may look quite similar. Nationalism-based internationalism is the way for us to overcome totalitarianism of globalism. Even though the bottom 99 % are diverse and different from each other, still they can collaborate and should collaborate in order to struggle against the totalitarian of globalization.

Lastly, we also have to recognize the fact that the national political systems in almost all countries where the top 1 % are living have strong political power and are usually democratically supported by the people in each country, including the bottom 99 %. This implies that those in these countries feel somewhat satisfied with their political situation. Why do people feel satisfied with their situation? There seems to be several possible reasons as discussed by Todd (2014). But the most important reason is *ignorance caused by the inability to think among 99 % of the people all over the world*.

We, the bottom 99 %, should recognize the fact that TOG is run by the top 1 %, while overcoming our inability to think. Many of us are ignorant of the destructive consequences of global capitalism, the fact that neoliberalism, which justifies global capitalism, has failed in reality to explain various types of economic phenomena, and the fact that the TOG top 1 % is exploiting the bottom 99 % all over the world. To overcome this ignorance, we need to overcome thoughtlessness (and start thinking). Otherwise, the ignorance that occupies us will prevent us from struggling against TOG.

However, a new interpretation of the world, or a new narrative to look at the world, could have the power to get us to overcome thoughtlessness and start thinking again, all over the world. It is this that could be the most important message from the discussion of totalitarianism by Hannah Arendt (1951, 1963). By her theory of totalitarianism, many of us can start discussions on how we can stop totalitarianism, which can emerge anytime and anywhere, and by virtue of her theory of banality of evil, many of us can start discussions on how to overcome thoughtlessness and the inability to think. So, I believe that a new look at the world as described in this chapter, that is, interpretation of totalitarianism of globalism, could stimulate peoples' ability to think, to promote discussions on how to struggle against exploitation by the top 1 % of the bottom 99 % in global capitalism.

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Chapter 4

The Second Globalization, the Second Tragedy?

Keita Shibayama

Abstract There are two major points I would like to say in this presentation. The phenomenon of globalization, according to mass media, is something recent. After the Cold War the whole world was covered by capitalism, and this led to the progress of globalization. That is, it is a very recent thing. However, according to the recent studies, globalization has been repeated many times in the past. This is confirmed by the statistics. Another point is that globalization did not continue forever. There was birth and destruction. There was a repetition of this process. Especially from around the middle of the nineteenth century to the middle of the twentieth century, there was integration of the world economy. This globalization was very fast, and it was on a large scale. It went through the two wars and the Great Depression, and these terminated globalization. Economies get tied up, and this will bring prosperity and peace to the world. That's what we think of globalization. It is only partly true. As we heard from Professor Chang that globalization would bring instability and make the peace a danger. So, based on that, I'd like to think about the future of the current globalization.

1 The Age of the First Globalization

To enlarge the framework of my argument, I'd like to talk about the globalization of the distant past. There are some definitions for globalization, expansion of trade, flows of money and the increase of movement of people. This kind of globalization is nothing new. Already in the thirteenth century the Eurasian continent was conquered by Mongol empire, and merchants moved right and left. From the fifteenth to sixteenth centuries, European adventurers and missionaries went to North American and South America, and came also to Asia. Portuguese came to Japan in 1543, when Japanese society was in Warring States period.

In these eras there was a transmission of goods and people. However, in the case of Pax Mongolica in the Medieval times, the plague which was the indigenous disease in that part of the world spread to Europe, and in the age of great navigation the

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indigenous disease of syphilis spread to the rest of the world. So Globalization brought both good things and bad things.

In the case of globalization over the Medieval and the great navigation age there are few statistics, so we incompletely know what the speed and size of globalization really was. From the nineteenth century we do have data on trade and data on capital, so we can get to know globalization as to its size and speed.

In the nineteenth century all the way up to the World War I, this is called the first era of globalization. It briefly restored after the war, but completely destroyed at the Great Depression and the World War II. Harold James wrote that the first globalization is similar to today's one. 'Economists who have tried to find a statistical basis for a comparison of this first era of globalization with our own era usually struck by the degree of similarity' (James 2001, pp. 11–12).

Recent researches show that world trade had grew rapidly through the nineteenth century. The ratio of merchandise exports to GDP increased by eight times between 1820 and 1913, when merchandise exports accounted for almost 8 % of world GDP and more than 16 % of western European GDP. It is impressive that UK trade ratio reached the peak at 1913, 17.5 %, and the start of the war, it had went down—the ratio was 13.3 % at 1929, 11.3 % at 1950 (Bordo et al. 2003).

Recently, the figure is over the pre-war level, when 2008 is 29.5 % percent. Compared with the modern days and today, the 1913 level was not high. However, even before the fluctuation was there, that means a very active trade was there. And trade increased importance on the livelihood of those citizens in those days. The similar is said for another European and South American country. Brazil, their percentage of the GDP in 1870 were 12.2 %. Recovery was made just recently, 11 % in 2009. For the Southern America, pre-war era was more active in terms of the trade in Southern America.

Now, we are focusing on Japan. Figure 4.1 shows the ratio of exports to GDP from 1901 to 2009. As you can see, exports ratio had increased between 1910s and 1930s. It's just recently now coming back to the previous level. That means that we are coming back to capitalism in pre-war period.

Before the World War II, which country was the destination of Japanese exports? Mainly to the United States and the Chinese continent. Still today, the destination from Japan are the United States and China.

As for capital flow, there is much research done. Capital flow had a peak once at 1914. According to Maurice Obsfeld and Alan Taylor, foreign assets accounted for 7 % of world GDP in 1870, but for nearly 20 % from 1900 to 1914. The figure was only 8 % in 1930, 5 % in 1945, and still only 6 % in 1960. It shot up to 25 % in 1980, and raised still further in 1990s. It was not until the 1970s that the pre-war level of financial integration was recouped (Obsfeld and Taylor 2003). So that means the First World War brought an end to the first globalization.

The phrase that John Maynard Keynes described the pre-war world in *The Economic Consequence of the Peace* is often quoted. Keynes wrote that:

What an extraordinary episode in the economic progress of men that age was which came to an end in August 1914!... The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, He could at the same

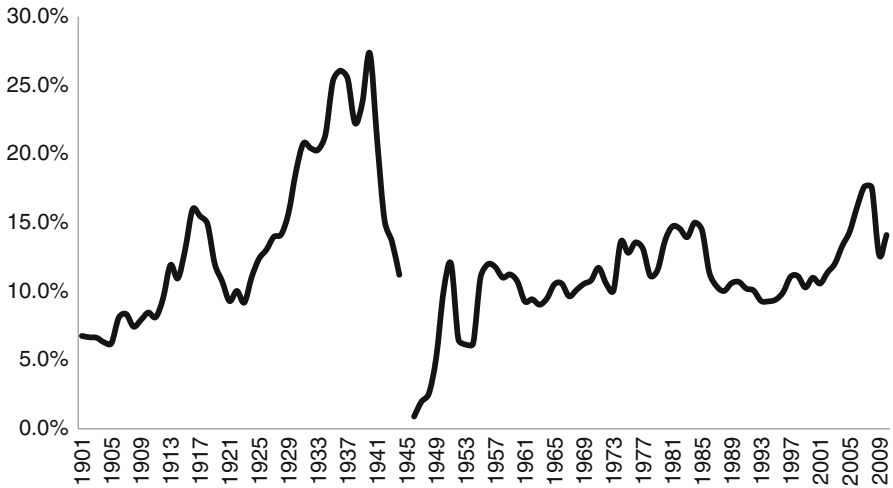


Fig. 4.1 Japanese export of GDP ratio, 1901–2011 (*Source: Historical Statistics of Japan*)

moment and by the same means adventure his wealth in the natural resource and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages. (Keynes 1919[1971], p. 6)

This description that can be applicable even today. if we hide the name of Keynes, this is can be seen as the current essay for today's global capitalism. From London they can use the phone for ordering, but now we can replace this word with internet, then it's completely applicable today.

The reason why the financial market was globalized in pre-war period is the international monetary regime. The gold standard system means there is a fixed exchange rate, and capital flow is easily made. Based on that framework, cross-border capital flow was very active. Even Japan in the Meiji days, which started in 1868, we opened a ward for the rest of the world, but Japan had little money. Even though they wanted to build a modern-state, there was not adequate financial resources. Therefore, the Japanese government had to issue the national bond in foreign market, mainly in London. Railway companies, or electric power companies needed capital from the foreign investors. So we got the capital flow from London, Paris and New York market to Japan to develop our country.

The Japan-Russo war, those military expenses were financed by investors from the London and New York. This is a very famous story. Korekiyo Takahashi and Eigo Fukai, those were the Japanese central bankers flew to London to get the loans from the Western millionaires. Jacob Schiff, a Jewish-American banker extended big loans to Japan through Kuhn, Loeb & Co., that enable Japan to prepare the war. After a victory, Meiji emperor invited him to the palace, and gave the highest Medal of Honor. Those were the old episodes. However, especially just after establishing the new nation of Japan, it was the capital flow among globalization which helped the nation building of Japan in those days.

Finally, we have to mention the trend of immigrant. In the late nineteenth century, the movement of people was more active, especially from Europe via Atlantic to the American Continent, Australia and New Zealand. This level is not yet recovered. For the people movement, the first globalized period was far larger than the second globalization.

For your reference, now we in Japan have fewer children. Are we going to receive immigrant from other countries? Japan had excessive population up until the 1940s, so we sent many people to Hawaii, the United States, Peru, or Brazil. So many Japanese moved to those countries, and we have offerings for those. Before World War II, we sent many Japanese to the rest of the world.

2 The Comparison Between First and Second Globalization

Then why in the nineteenth century did that type of globalization, the first wave, take place?

This is a very important question to reveal why the first globalization was ended. Why did it start? There could be many factors for possible reasons.

For example, after 1815 the Napoleonic Wars ended, European countries had not experienced big military conflicts until 1914 when World War I broke out. Crimean, or Franco-Prussian wars occurred so the regional disputes were there. However, the serious war between large powers was missed in this period. Globalization requires peace, otherwise international trade cannot be promoted.

Another one is that the largest power, the U.K., enjoyed the ocean hegemony. The definition of hegemony is difficult, so I will not go into that. Anyway, Great Britain had the power to control the world ocean. At the same time the U.K. promoted and initiated free trade. In those days economists for the U.K. tried to justify this with the testimony that their free trade is correct. Also gold standard was established. That means the international monetary system was introduced, and all the other countries should participate. In my view, in the first globalized wave this was the first and foremost important factor.

Now we use the word IT revolution, however, in those days a transportation revolution was made—railways, steamboats, freezing technology and telegram were developed. Not only domestic transportation but international transportation also was promoted. That's also a great factor. Transportation cost was reduced greatly for the international trade. That's why trade was promoted. In addition to those, we could list many other items.

Compared with today, with the first wave and second wave of globalization, what are the differences? There could be some commonalities. The first common element is that in those days, multinational corporations had lots of business activity. Of course not to the level of the foreign direct investment today, and the sales and factories established in other countries were quite simple. But still we did have the multinational corporation in the first wave (Jones 2004).

And today we believe that peace can be promoted with trade bonds among the countries in economics and politics. In the first wave, that was the belief similarly.

That means the mutual economic dependence would lead to peace. So that was the theory at the age of Enlightenment in Europe and also in Japan.

In the nineteenth century the U.K. was in power, and now it's the United States. In those major countries a liberalism-oriented economics had strong influence. Economic liberalism of the nineteenth century was called classical economics. The new type of today's economics is often called neo-classical economics. Of course tools are complicated today, but the basic ideology, the way of thinking, is the similar. That means that the price has an adjustment mechanism, then the market will function. Or, through competition productivity can be evaluated, or free trade is right as its principle, and the government should have their financial soundness or discipline. In the nineteenth century and also for today those are the same. For the superpowers that was a very convenient ideology.

Fourthly, between the advanced countries and emerging nations, the geopolitical conflict is getting stronger. The rapidly growing countries accepting the favor of globalization were Germany in Europe and Japan in Asia in those days. Currently, in the second wave of globalization, who are growing? China should be listed as the first example. The countries like China are growing, and military power, in accordance with economic power will be increasing. And of course the newly emerging countries work as the power to change of world system. So it goes without saying that in the nineteenth century the U.K., and then in the twentieth century the United States, they have already started to have conflicts with those which have the order.

Fifthly, Professor Ha-Joon Chang stated that after the 1970s, especially after the 80s, global capitalism brought in the financial crisis in a repeated manner. In 1997 there was the Asian Financial crisis. Then there was the Subprime crisis and Lemman Shock. The memory is still fresh. It's 1997, and then 2007. Both Ending always with a 7. This is not very scientific, but maybe a year ending with a 7 is risky. According to this naïve theory, the next crisis may be in 2017. And the Lehman Shock size was several times bigger than the Asian crisis, so we are quite scared of what might happen next time. Cyclical financial crises is also the characteristic of globalization. Already in nineteenth century globalization there have been many financial crises.

Then number six. Towards the end of the nineteenth century and into the twentieth century, this is the era of imperialism in the world history. Imperialism means that a big power directly or indirectly constrains the sovereignty of other weaker nations. What happened in the nineteenth century was quite apparently colonialism. A big power would colonize the weaker power. Clear-cut imperialism is not seen in this century. After World War II, a big power trying to steal the sovereignty from a weaker power would not happen or it cannot happen in an easy manner. However, a big power in various ways tries to control the weaker power for economic or strategic reasons. That is still happening even today.

Dominic Lieven studies the history of empires, and looking at EU, Germany which is a big power is pushing a variety of rules to the southern European countries, and in that sense Germany is becoming a new kind of empire (Lieven 2011). I don't know whether this hypothesis is right, but I think that even today a big powers in terms of rules and money has the power against the weaker nations. There may be a discussion whether we call it imperialism or not. In the days of globalization, a

bigger country can directly or indirectly control the weaker country. So in that sense, in the second globalization I think that there would be more rampant imperialistic activities throughout the world. It could be that in the case of TPP (Trans-Pacific Strategic Economic Partnership Agreement), the current free trade agreement between strong powers and weak powers may produce a new pattern of imperialism.

In these six points I compared the common points between the first globalization and second globalization. Although the two are not exactly the same. There are big differences between the past and the present.

Firstly, in the first and second globalization, the international monetary system is completely different. It was gold standard then; now it's a floating exchange rate system. Countries could not take free financial activities, and government had difficult in adjusting to the business cycle in the gold standard era. Today we do not have the golden fetter, so if the business turns sour, then the government can use various measures to try to bring a boom to the economy. This is a big difference and a progression.

Also, in the olden days, the welfare system was not well developed, so if there is some kind of economic shock, in order to protect our people, high tariffs would be charged to protect one's own country. On the other hand, since the Lehman Shock, in many countries one cannot go into very protective measures like 80 years ago. We don't have to try to protect the trade, mainly because we can bring up the people who are in difficulty by putting money into welfare. This is a big difference from gold standard era. This can be called as a big progress.

However, developing nations have limits to enlarge the welfare budget. In the developed nations, neo-liberalism is coming at the center of politics, and they will agree that there should not be financial deficit, so welfare should not turn too big. It could be that what I said as progress was establishment of the welfare nation. This could be difficult in the future.

Also, comparing the two periods, International Monetary Fund and WTO, we have these international organizations. In the case of IMF, EU and other countries with difficulties get a lot of assistance, and IMF is working to help out the economic difficulties of other countries. But is it really true? IMF and World Bank can lend money to countries in difficulty. But in return, the recipient would have to agree to neo-liberal Washington Consensus. So you can say that IMF is promoting the world recession and giving money to those in need. If it's true, in overcoming the economic difficulty, we don't know whether IMF really would be effective.

3 Post-War, Post-Globalization and After

The first globalization ended over the First World War. Niall Ferguson said the war literally "sunk" the globalization (Ferguson 2009). After World War I, the countries tried to go back to globalization with gold standard in 1920s. In 1929 there was a Great Depression, and in 1931 there was the financial crisis in Europe, and this turned into a global depression. U.S. raised trade barriers, the U.K. made a blocked economy. In Germany, Italy and Japan there was controlled economy. It is said that

after the 1930s the U.K. and U.S. were based on liberal democracy, but Germany and Japan were not. It is correct but you cannot say that in too explicit a manner. The government started to have stronger control over the economies, so it was economic nationalism. Every Nations went to the controlled-economy on one level or another. These transformation in economic regime is called by Karl Polanyi as “the Great Transformation” (Polanyi 1944[2001]). Then finally we go into World War II. After World War II, for some time the countries tried to control the economy.

After World War II there was GATT, General Agreement on Trade and Tariffs, and there were negotiations to reduce the tariffs mutually. It is said that GATT is a symbol of the post-war trade liberation, but GATT regime is not a long way from perfect free trade regime because countries could protect national industries with some excuses. This was a trade liberation admitting much exceptions. And it was a fixed exchange rate, and for the capital movement there was a very stringent control. Breton Woods system was made by Harry White in the U.S. and Keynes in the U.K., who knew that hot money introduced the instability. So in drawing up the blueprint for after the war, they tried to control capital flows very stringently, and this constrained financial globalization.

Countries started to regain its autonomy. I think this should be called the post-globalization era. In the nineteenth to twentieth century there was a wave of globalization. From mid 40s to mid 70s there was post-globalization, and then after that we had another wave of globalization. So that’s how we can summarize the past 150 or 200 years. It’s put into a Fig. 4.2. From the end of the nineteenth century we had the first wave of globalization, and in 1914 it went down, and after Breton Woods era there was a progress of the second globalization.

So, what is after 2008? In the waves of globalization, is it going to expand? Or, as the case of the first globalization, at some point in time is there going to be a decline or the end of globalization? Which path are we going to take?

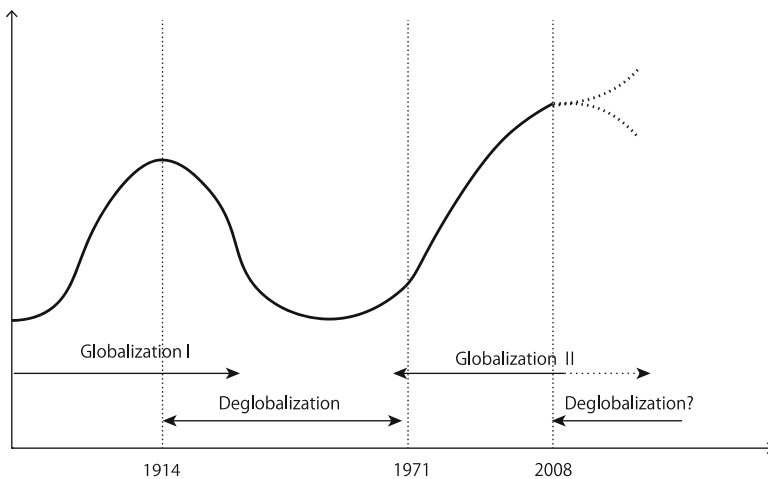


Fig. 4.2 Two waves of globalization

4 History Does Repeat Itself?

After the Lehman Shock, the world trade to GDP rate seems to reach a plateau. The cross-border capital flow went down sharply. By McKinsey reporter, the world capital flow to GDP was peaked at 11.8 % in 2007, and 4.6 % in 2012 (MaKinsey Global Institute 2013). As for trade, in 2007–2008 there was a peak, and it is recovering in a good sound manner. However, we have not gone beyond the peak. Then there won't be the progress of globalization as in the past. After 2008 the situation is as such.

Of course anyone cannot see the future certainly. You can say that the crisis in 2008 was a one-time thing, and after 4 or 5 years the economy gains stability, and trade and investment will become robust. If that's the case, the globalization has not ended yet.

In thinking about this, in the first globalization age, what actually took place? In the first globalization era there was the very fast shift of power, from U.K. to U.S., or Germany. Also today, power is starting to shift to emerging countries, especially China. The shift will lead to something in the international politics. Globalization is producing these strains in the income distribution, and this will increase as inequality inside the countries. The government tried to rectify the inequality. However, the government has many shackles, and it was not possible to do away with gold standard before the war. With neo-liberalism we cannot easily address inequality. And that brings greater insecurity in the society. This is the same before the war and after the war.

According to the stand point from power shift, Table 4.1 is for 1990 and 2010, the military budget. After the Cold War, the world has become peaceful. Yes, that

Table 4.1 Change rate of military expenditure (in US \$ millions, at constant 2010 prices)

	1990	2010	% change
US	510,998	698,281	37
Russia	259,734	58,644	-77
France	65,774	59,098	-10
Germany	66,876	45,075	-33
Japan	49,421	54,641	11
China	17,943	121,064	575
Korea	13,881	27,572	99
India	17,575	46,086	162
Israel	11,219	14,242	27
Saudi Arabia	23,445	45,245	93
Iran	2,415	11,096	359
Syria	1,107	2,346	112

Source: SIPRI (The data of Iran 2010 is in 2008)

applies for Europe, and for Russia it went down, and East Asia and Middle East after the Cold War the military expenses are increasing, especially in the case of China, in accordance with the gross rate, it is going up, so the increase rate is 575 %, then Iran at 359 %. I'm not showing you this data to criticize these countries. Their economy would grow and certainly at those times military expenses would go up. We have to come up with a new international order in alignment to this situation. Our next door neighbor, China, is increasing the military expense, and this is a factor for confusion in East Asia.

The second point I mentioned before is, what happened in the first wave of globalization? They denied the free economy and raised the tariffs, increased the wages for the workers, and this went into the political movement. Karl Polanyi said that this is the true reason for the great transformation. According to Polanyi, this was the self-defense of the society, and working people especially, depending on "the whims of the market", could not cope with the instability of their income level, so they would revolt to this (Polanyi 1944[2001], p. 185).

In an abstract manner this is excessive free market, excessive globalization. At some point in time it will have a backlash. It will take a return course. If there's excessive globalization, there will be anti-globalization, and the later would become the major movement. So there is the first globalization can be explained with this mechanism, the action and reaction.

In fact, in the nineteenth century—I say that was the free trade era, except that U.K. since 1870s increased tariff levels in Europe. The golden age of free trade began in 1860, when Britain and France signed the Cobden-Chevalier Treaty, which virtually eliminated trade barriers. The free trade movement was reversed in the late 1870s. Austria-Hungary increased duties in 1876, Italy in 1878, and Germany in 1879. France also increased tariffs from 1881. The United States is now waving the flag as the promoter for free trade, but up until 1940s the U.S. enjoyed a high duty. With the high duties, they protected their own industry in the United States. That's one reason why the United States has become a super power. The Smoot-Hawley Duty Act is infamous because that triggered the trade war in 1930s, but United States duties was very high through the first globalization era.

And for the protectionism, each country caused protectionism and then broke out their peace and a trade war started, and then went into the World War II. Many people say that. I don't think that's completely wrong. However, only half is correct. For protectionism, it was an unavoidable, natural course of the events. To the extreme level of globalization, farmers and workers had a self-defense. As democracy has permeated, voices of the weaker were becoming the mainstream. So that was the natural course of the development of the historical events causing the failure in 1930s.

We shouldn't think that protectionism was the cause. Protectionism was the effect of the first globalization. However, even with the protectionism, some framework with the coordinated international trade relationship was not impossible. I think that was the shortage in the 1930s.

5 Globalization as a Fetter

In that framework, let us look at what we should do today. Self-defense will take place because of the globalization. Now the inequality has enlarged, and the instability of the society will be made. Therefore, we should restrict to some degree this globalization. We should recover the security or the stability of the community. That means we should get away from the neo-liberalism type of ideology. Owners of those ideas join a list of scholars or the politicians, who are dominant minority in today's world. But perhaps many of the voices against those will be emerging in the future.

Many people recently voiced concerns about inequality in society. This is not a new event made from scratch. Before World War II the top 1 % of income is so high in US, Europe and Japan (Fig. 4.3). So inequality as of today is not maximum. We are just making a repeated pattern. Inequality is coming back. Globalization brings inequality. Up until the 70s, Bretton Woods system had a lower rate of inequality.

A bubble economy is correlated well with inequality. Instability of the economy is the result of the bubble collapse from various countries. In the United States, and many European countries other than German had their real estate bubble, as did China. Because of the bubble collapse, now the world economy is confused.

Why did bubbles take place? Some researchers say as follows. Because of the inequality enlargement, in order to suppress the dissatisfaction of the base level of the people, now the assets bubble was the quickest fixed way. So that is the result of today. That should have been done by the welfare. However, welfare is not difficult to be implemented. We have to enact the law at the congress, and then we have to

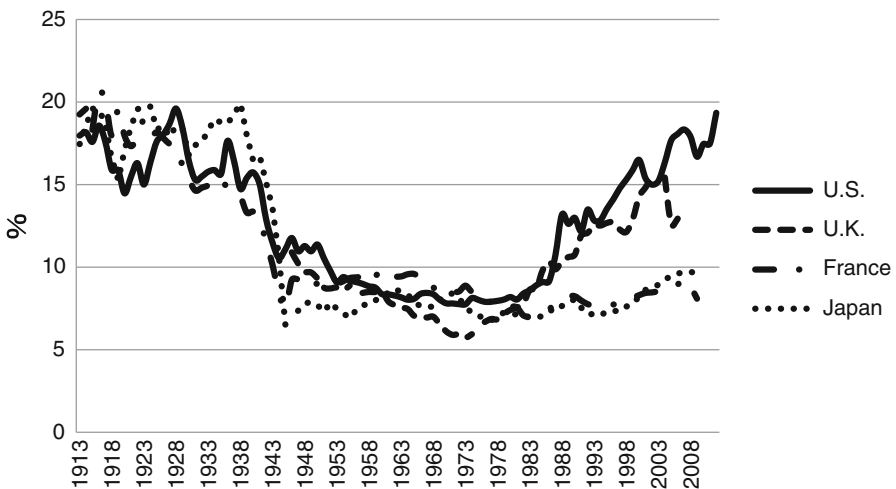


Fig. 4.3 Top 1 % income share, 1913–2012 (Source: World Top Income Database)

have the system through the procedures. That takes time and is troublesome, so an asset bubble is made, or at least leave as it is. By doing so, this will suppress the dissatisfaction level of the citizens.

There seems to be some relationship between the bubble and inequality. The free market or neo-liberalism seems to have the serious problem, I think that's the natural course of thought. But what I'm talking about here, in global perspective, especially limited to Japan, this is still just a minority voice. The free market is correct and the globalization should continue. This type of neo-liberal discourse is dominant in today's articles of journalism, not only in Japan, but also all over in the world.

This is a famous word "golden straitjacket" which Tomas Friedman wrote in *Lexus and Olive Tree*. If you want to develop your country, you have to wear this jacket whether you like it or not. The jacket is given to restrain national freedom. We usually say free trade. Free to whom? That means freedom for the economic actor like investors beyond their national borders. For their government, it is put into a straitjacket if they only to do the pro-business. So the free trade, from the viewpoint of the investors and entrepreneurs the freedom level is enhanced. However, from the government point of view it is a shortage of freedom. So Friedman said that is the golden straitjacket in short (Friedman 2000).

Now, the private sector should rent and the government should be shrunk and an austerity budget required and duty eliminated. And for foreigners worried that we will deregulate the barriers and state company will be privatized, and for foreigners we allow stock ownership or bonds, and we open the industrial market for foreigners, and deregulation will boost up the competition inside the country. Those are the requirements for the growth of economy. Other options are not logical, shouldn't be done. That is the policy platform for the neo-liberalism. So that's the basis for the globalization that we are seeing today.

I think it will not continue like this forever. Even with the Lehman Shock, globalization seems to be further promoted, and FTA is promoted. I think it will not give us the peace and growth, but probably it will endanger the world peace and stability. If we say this, and now I am saying it—are you promoting the closed country? You are criticizing the free trade so you want to close the doors of the country? Well, those are usually the questions.

6 To the Next Post-Globalization

The opposite to the current globalization means to support the closure of the door? It is not correct. The globalization is to the degree, so 0–100, and 50 is average. Now we have the 70–80, and if it's raised up to 90, that's risky. So let's make the level down to 50–60 or so, for example. I think this is a quite sane idea. That means enjoying the benefits of capitalism, but also we should protect the sovereignty of the nation and democracy of the people. That means that we should have the dual

objective to be executed in one. And that is possible, and the more reasonable and common sense. After the Lehman shock, the world should have gone to that direction, and I strongly believe that should be the direction. This means that internationalization with the sovereignty of the nation to be respected, and democracy. So for the globalization era to the deglobalization era, that should be the direction (Rodrik 2011, Shibayama 2012).

What I mean to say is that deglobalization is not isolated countries, not “Sakoku” which is the name of the regime in Edo period. And we shouldn’t go through the wars and those dangerous things to stop globalization. That means that for the future, depression or wars, those events should be avoided as much as possible. We should shift to the secondary level of the deglobalization in a soft landing manner.

For those people who think that Globalization is believed to be a wonderful thing, the deglobalization is the darkness. But as I said, up to date, up until the 1950s and 1970s in the globalized era, that cannot say an happy era. The average growth ratio is not high, not stable in pre-war era. But in the 50s and 70s the growth ratio was relatively high. Professor Chang showed us the statistics. In the Breton Woods era after the World War II, not only advanced countries but also developing countries enjoyed the high growth ratio. Moreover, the inequality ratio was moderate, partly because welfare systems were implemented.

Now, how can we come back that type of globalized era? Having said that, I’m rather pessimistic. We may repeat the similar mistake that we had in history, sorry to say. In the Lehman Shock we were not awakened. Perhaps in late 2010s another financial crisis will come, and in 2020 the conflict between countries may be too large and lead to something that is very pessimistic, but that is a future story. As of today we have to face the reality of the globalized era or globalism, and we have to notice what the problems are. If we can be aware of those problems, we might be able to avoid those historical tragedies.

Again, lessons through the history for the future tell us that block economy or war should be avoided. Those are extreme events. So how can we steer the handle to the deglobalized world? That is the problem. The current economic policies are going toward globalization. But globalization itself is the flow. The way to implement globalization is done in a wrong way today, so we should face those facts and come up with measures. For this, we have to step forward the analysis the history of globalization.

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Chapter 5

Neoliberalism and Conservatism

Takeshi Nakano

Abstract In spite of its emptiness, neoliberalism is an ideology with some curious characteristics, which deserve to be scrutinised. One of them is that neoliberalism has been associated with conservatism, though neoliberal policies such as deregulation and free trade threaten traditions and conventional communities which conservatives respect. However, conservatives in the nineteenth century were opposed to classical liberalism, an ancestor of neoliberalism. They proposed the paternalistic role of the government and the elites. I argue that the ability of the elites, whose paternalistic role, conservatives have for long expected, has degenerated and they came to accept neoliberalism as a principle of governance. As a result, conservatism has married neoliberalism since the 1980s, however, the failure of global capitalism justified by neoliberalism is now obvious. We should be reminded of the original and true meaning of conservatism.

1 Conservatives Advocating Neoliberalism

From the end of the twentieth century until now, we have been witnessing the phenomenon of globalization and the ideology that justifies the existence of globalization which is termed “Neoliberalism”. From the late 1970s to the early 1980s, neoliberalism emerged very dramatically. Today, many politicians’, bureaucrats’, economists’, business leaders’, and journalists’ minds are dominated by this ideology of neoliberalism. Criticizing neoliberalism is certainly what I am trying to do, but that ideology itself is extremely absurd and empty with no substance inside. I have to confess that criticizing neoliberalism is quite easy. It can be done by first year undergraduate university students so intellectually, that endeavor is not interesting. Nonetheless, neoliberalism, I can say, is an ideology with some interesting characteristics. One of them is, as Colin Crouch’s book title demonstrates, “The Strange Non-Death of Neoliberalism” (Crouch 2011).

Certainly, neoliberalism does not die. With the 2008 global financial crisis, it was clear to everybody that there had been a failure of neoliberal policies and institutions.

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But now, five years later, neoliberalism still stays in the center of the world stage and this is a strange phenomenon. Usually, when you make such a blunder, you are forced to leave the stage, but neoliberalism stays as a main player on the stage. Why does neoliberalism maintain to exert such a strong influence? This gives me a very interesting theme though it seems quite difficult to find an easy answer immediately.

Another interesting phenomenon of neoliberalism is that the ideology of neoliberalism has been advocated for by the political forces or intellectuals who call themselves conservatives. Typical examples during the emergence of neoliberalism in the 1980s were Margaret Thatcher and Ronald Reagan. Their ideologies were called neoliberalism. At the same time another new name, "New Conservatism" was given to these leaders. In Japan, from the 1980s until today, the neoliberal reforms have been conducted by the Liberal Democratic Party, which is regarded to be a conservative party in Japan. Now neoliberals are often called conservatives, especially by the left.

However, conservatism advocating neoliberalism is actually a very strange thing to see, because, according to Edmund Burke in the eighteenth century, who is the founding father of conservatism, conservatives originally were regarded as the people who respected the traditionally formed community and the stable social order. These have been the core of the value system for the so-called conservatives.

While the neoliberal (neoclassical) economists assume that the atomic, isolated individuals, the conservatives, believe that human beings are social beings, bound by the common culture and environment of the community and the social status to which they are born. Of course, conservatives also respect the value of liberty but the meaning of liberty respected by conservatives is quite different from the neoliberal one. While only negative freedom is ideal for neoliberals, freedom in the context of particular cultures, communities and forms of life, is truly meaningful for conservatives so there is a fundamental difference between neoliberalism and conservatism

Moreover, the unregulated market advocated for by neoliberals is something that would destroy the values respected and acknowledged by conservatives. For example, in free markets, businesses will be engaged in endless, cut-throat competition so that employment would be destabilized and the sense of solidarity among employees would be lost. Sustainable personal relationships will not be maintained in a corporation in the unregulated competition of free markets. Neoliberals say that it is quite important to maximize the freedom of choice for individuals but if you expand the freedom of choice for individuals in such a manner as neoliberals advocate, the stable personal relationships among family and community members will be undermined and the traditional value system in which people are supposed to realize themselves in a stable relationship with their community will be shaken. In free markets, the labor migrates freely and the more free migration of the labor forces means that the bond within a local community will be weakened or that there may be many people who are alienated from the community and remain in loneliness.

Globalization will undermine the cultures and traditional lifestyle of nations at the global level. The cultures and traditional ways of living that are unique to each nation are destroyed in order to allow the freedom of the migration of labor and this is the consequence of what neoliberals advocate for.

Neoliberals say and try to make people believe that globalization is an inevitable and irreversible trend of history thus it is useless to resist it. This view on globalization is based on a sort of historical materialism, however, conservatism has been the ideology which has denied historical materialism. Conservatism and neoliberalism should be mutually contradictory in this respect as well, however, during the last three decades or so, those advocating neoliberal ideas call themselves conservatives and we have associated neoliberalism with conservatism. I think this is one of the biggest scandals in the history of social thought.

2 The Conservatives Oppose to Neoliberalism

John Gray, a famous British political philosopher, said that conservatism died when it was combined with neoliberalism (Gray and Willetts 1994). On the other hand, Colin Crouch says that neoliberalism does not die. So the neoliberal-conservatism sounds like a zombie in a terror movie. John Quigin (2010), an Australian economist, certainly called neoliberalism, “Zombie Economics.” Conservatism turned into a zombie after its death when it was combined with neoliberalism. This has been happening only over the last three decades or so.

However, conservatism was quite different in the nineteenth century. During the nineteenth century, the period when the first globalization started, classical liberalism, that is today’s, “Neoliberalism”, was there as an ideational driving force for globalization and conservative thinkers were quite hostile to classical liberalism unlike today’s conservatives.

Benjamin Disraeli, the Tory’s Prime Minister, is a good example. He wrote a social novel named *Sybil* and in it, he described the widening inequality due to the industrial revolution. He regretted that England was divided into two nations—the rich and the poor—with no communication at all between them. The unity of the nation, or social cohesion, was quite important for Disraeli and other conservatives in the nineteenth century.

Another representative figure of 19th conservative is Samuel Taylor Coleridge, a re-known romantic poet whose ingenious insight of political economy we should not miss. Back then, there was a law called the Corn Law that was for the protection of agriculture. In one ongoing discussion, David Ricardo, a champion of classical liberalism, advocated for abolishing the Corn Law in order to liberalize trade. But Coleridge opposed the repeal of the Corn Law and argued against the dogma of free trade. Coleridge also argues that the excessive commercial spirit was destabilizing the financial markets causing the cycle of the bubble and financial crisis. As a solution, he said that we needed a revival of morality or religious sentiment in order to

moderate the commercial spirit. He also warned that the industrial revolution destroyed communities and expanded inequality so as a solution, he proposed that the government should take positive fiscal policy and he also supported the legal system to protect labor. Coleridge was a man of 200 years ago but he anticipated John Maynard Keynes and Karl Polanyi in the twentieth century (Kennedy 1958).

In the nineteenth century, in addition to Disraeli and Coleridge, Thomas Carlyle and John Ruskin, classified into conservatives in the history of political thought, also attacked money worshipping, utilitarianism and individualism which correspond to neoliberalism today. In the nineteenth century, Britain, the conservative thinkers sounded more like socialists than neoliberals. Both conservatives and socialists at that time regretted the widening inequality caused by free markets and advocated for the recovery of social solidarity of Britain. In this respect, it was impressive that Ed Milliband, the leader of the Labour Party, announced in the 2012 Labour Conference, 'We're the One-Nation Party' (Wheeler 2012).

In the nineteenth century, not only in the UK but also in France, conservatives were far from neoliberals. For example, Louis de Bonald (2006) wrote an essay titled "On the Wealth of Nations." According to de Bonald, national wealth is not the sum of physical wealth held by individuals as Adam Smith and other classical liberals would assume. He argues that the moral force of nations, which comes from their constitution and their political and religious laws, is thus their true wealth. It seems to me that De Bonald's view is associated with the political economy of Friedrich List in the nineteenth century in Germany, who is famous for his fierce attack on economic liberalism of the time in England. List as well as de Bonald stress the moral and cultural sources of economic power, which economic liberals neglect:

However, in all these respects, it mostly depends on the condition of the society in which the individual has been brought up, and turns upon this, whether science and arts flourish, and public institutions and laws tend to promote religious character, morality and intelligence, security for person and for property, freedom and justice...

Adam Smith has on the whole recognized the nature of these powers so little, that he does not even assign a productive character to the mental labors of those who maintain laws and order, and cultivate and promote instruction, religion, science, and art. (List 1999, p. 26)

We should discuss whether List should be regarded as conservative or not, but certainly, what I can say is that List established economic theories in order to criticize classical liberalism that emerged in England and the theories were much common with the economical thoughts of conservatives in France and England in the nineteenth century.

Coming into the twentieth century, with the emergence of totalitarianism and communism, Conservatives started to join hands with liberals because of the need to protect liberty from the threats of totalitarianism and communism thereby reducing the distance between conservatism and neoliberalism but until the late 1970s, the conservatives remained skeptical towards the neoliberals. For example, Irving Kristol, a US conservative, criticized Milton Friedman, a neoliberal ideologue. Friedman assumes that the social order would be automatically generated

from selfish individual activities in a free market context. However, Kristol (1973) argues that the free market fails to maintain the legitimacy of social order, because it tends to destroy the traditions and integrating institutions in society so as to engender selfish, materialistic and even nihilistic attitude.

Ian Gilmour, a conservative politician in the UK, also criticized Friedrich von Hayek, another big neoliberal name. Gilmour insists that the minimum state, for which Hayek argues, fails to engender people's interest in politics.

If the state is not interested in freedom, why should they be interested in the state? Complete economic freedom is not therefore an insurance of political freedom and indeed it can undermine political freedom. Economic Liberalism, because of its starkness and its failure to create a sense of community, is liable to repel people from the rest of Liberalism. That is perhaps the fundamental point of difference between Liberalism and Conservatism. (Gilmour 1977)

On the other hand, in his magnum opus, *The Constitution of Liberty*, Hayek (1960) clearly declares that he is not a Conservative. In this context, Hayek states definitely that the conservatives in the nineteenth century were skeptical about liberalism, and conservatism in the nineteenth century was closer to socialism. Hayek, the biggest ideologue of Neoliberalism said, 'I am not a Conservative.' Nonetheless, conservatives, since 1980s have clang to neoliberalism and this is a quite strange circumstance.

In any case, it clearly shows that from the early nineteenth century to the 1970s that conservatives and neoliberals did not get along. Then why is it that only after 1980, we have seen a stronger bond between neoliberalism and conservatism? This may be a very difficult issue, and there can be many interpretations, but personally, I think we can start with the one below.

3 The Crisis of the Governability

In the 1970s, developed countries suffered from stagflation which is basically inflation combined with economic stagnation. In particular, the US was faced with many political and economical problems such as the expanding fiscal deficit, the Vietnam War and the Watergate scandal. People's trust in the government was rapidly lost. Of course there were many discussions, but in 1975, one US Conservative political scientist, Samuel Huntington, together with Michel Crozier in France and Joji Watanuki in Japan, conducted joint research on the problems facing the advanced countries and the term they coined was the "Crisis of Governability" (Crozier et al. 1975).

Huntington argues that in the 1970s, the US was faced with the crisis of governability, due to the excessive rise of democracy in the 1960s. In the 1960s, the number of the young people dramatically expanded and based on the democratic and egalitarian value systems, young people started to challenge the establishment. They denied political authority and demanded political participation and welfare,

but refused to take any responsibility. Huntington saw this phenomenon as an excess of democracy.

According to Huntington, in economical policy, the government had to expand its activities in response to the increasing mass request, and this exacerbated the budget's deficit and inflation hence the authority of the government plummeted. Even though the labor unions of government employees repeatedly claimed to increase wages and went on strikes, the government was not able to suppress them and this caused inflation. The government had an increase in the budget's deficit and so had to increase tax. However, in the excess of democracy, nobody would agree with the increase of taxes. Therefore, it was hardly possible to stop expanding fiscal deficit. This was Huntington's diagnosis.

Additionally, Huntington mentioned that the excess of democracy had to be solved and the governability had to be regained and this implied the restoration of governance by the elites. If you look at the history of thoughts of conservatism, conservatives tend to favor the paternalistic governance by the traditional elite, which is full of the spirit of the *noblesse oblige*. Conservatives have shared the attitude of skepticism toward democracy, as Edmund Burke typically demonstrated in his critique of the French Revolution.

From that perspective, the assertion by Huntington can be said to be conservative. While the US and Europe had an economic stagnation, Huntington's view of the crisis of governability was arguably persuasive and probably shared by the elites. Since the 1980s, the elites have attempted to regain governability and decrease the fiscal deficit, however, for that purpose, the elites adopted, by surprise to us, neoliberalism!

4 Degeneration of Elites and Long Life Neoliberalism

Despite the adoption of neoliberalism, the elites of the 1980s did not actually curb the excess of democracy but actually could have even made matters worse. Look at the cases of President Reagan and Prime Minister Koizumi; they were getting substantial support by the excess of democracy. As I said at the outset, the thought of neoliberalism is something very void and more of a deteriorated ideology. However, after the 1980s, regardless of their elite status, the elites came to believe in such an ideology. What is the reason for this? This is the degeneration of the elites and more precisely, it can be said that the degeneration of the elites has brought about the crisis of governability, and their belief in neoliberalism is the effect. I think that in order to rectify the inequality or to appropriately regulate the global capital movement, government interventions in the economy will be required and this will require a certain level of governability. In particular, Keynesian policies cannot be put into practice unless the government attains a high level of governability but unfortunately, the governability went down. That means that the government cannot control the market and cannot help maintaining it as it is. The logic to justify this was presented by neoliberalism—*laissez-faire*!

It is curious that administrations who adopted neoliberalism such as Thatcher, Reagan and Koizumi tend to have longer office time spans. Neoliberals would have to fight with the labor unions, and would increase the vulnerable and the inequality. For these reasons, it appears that they could not get the support of the people, so you would think they would only have short office terms. However, they actively served in office for long terms. This is because neoliberalism goes for *laissez faire*—whatever they do, they do not have to be responsible. The voters would have no reason to criticize the governments so that is why the neoliberal power elites have a long office life.

We are now in a position to understand why conservatives are tied up with neoliberalism. Conservatives see the elites as a core of governance, and they expect the recovery of the elites in order to regain the governability. However, the elites have already degenerated and jumped into neoliberal creeds. Therefore, the conservative's attempts to overcome the crisis of governability have fallen into the dominance of neoliberalism.

Looking at the challenges and issues of global capitalism since 2008, there was a global financial crisis in 2008 and after which the world has not been able to get out of serious recession. In Japan, there has been deflation from 1998. And now, the United States and Europe are facing the same crisis of deflation. In the midst of this situation, what should the elites of these countries do? The conclusion is not so difficult, in fact, it is known that the current great recession is similar to the Great Depression of the 1930s as the structures are very similar. If we study the Great Depression, we will be able to find a way out of the current Great Recession. As discussed by John Maynard Keynes and Karl Polanyi, economic structures and policies shaped by the market fundamentalism in the nineteenth and early twentieth centuries led to the Great Depression. Strengthening the economic intervention of the government and controlling the markets is the solution given by Keynes and Polanyi thus what we ought to do is quite clear.

However, in a scary manner, almost all the elites in the world are now adopting budget austerity, the deregulation and the liberalization of trade and the capital mobility which are exactly neoliberal policies, meaning that the elites of the US, Europe and Japan are not learning any lessons from the historical experience in the 1930s and the prescriptions offered by Keynes and Polanyi. Rather the elites today are taking measures which are the exact opposite to the ideas of Keynes and Polanyi, which is very scary indeed.

Alexis de Tocqueville, a French Conservative in the nineteenth century, said that when the past no longer illuminates the future, the spirit walks in darkness.

Why is the current world not working well? It is because we are not learning from the past so that is why we are walking in the darkness.

De Tocqueville wrote a book entitled "Democracy in America" and what is in question now is precisely democracy in America. In October 2013, the democracy in America almost failed to raise the debt ceiling and pushed the federal government to the verge of financial breakdown which could have triggered another great recession. In the 1930s, there was the Great Depression and then World War Two, but

after the war, it is the United States which constructed the new international economical order, which is called the Bretton Woods System.

However, today's America is not trying to reconstruct the world economy. It is rather serving as a threat and cannot even rebuild its own economy. Besides the US, is there any other country which can rebuild the world economy? Certainly, we cannot expect an international collaboration as G8 or G20. The countries which have adopted the Euro are severely restrained by the Maastricht Treaty. Therefore even if it's in a recession, they cannot go for the active positive measures and cannot reevaluate their currency. Eastern Europe and Southern Europe are in difficulty with a high unemployment rate as in the Great Depression. The UK had the wisdom not to adopt the Euro, however, continues the austere fiscal policy voluntarily, and cannot recover from the recession.

Fortunately in Japan, we have gained a stable political foundation and we do not have an international restraint such as the Maastricht Treaty. However, Japan has gone voluntarily into neoliberal policies such as the austere fiscal policy, deregulation, the liberalization of the labor market and many more. The elites of Japan, America and the EU are promoting the negotiation for the Trans-Pacific Partnership and Transatlantic Trade and Investment Partnership, as if the world financial crisis or the crisis of EURO did not occur, yet the world is in a great recession. Even if you have a trade and investment agreement, at its best it would not have much efficacy. At worst, it would worsen financial instability and social inequality. The elites, who are fully embedded into neoliberalism, do not know economic policies other than neoliberal ones so they are indifferent to the difficulties and sufferings of the nation. I argue that currently, the elites of the world have degenerated so as to cause a crisis of governability at the global scale. This is my diagnosis of the present time.

5 The Great Degeneration Hypothesis

If I may borrow the title of Neil Ferguson's recent book (Ferguson 2012), I would like to call my diagnosis the 'Great Degeneration Hypothesis'. All the elites in the current world have so degenerated as to be neoliberal.

Why is it that the elites of all the countries are having faith in neoliberalism? Maybe that question itself is wrong. In fact, the elites are not positively thinking that neoliberalism is something good but merely just became degenerated and have abandoned the obligation to govern the people. This Great Degeneration could be a more serious state than the Great Depression of the 1930s. Comparing the level of politicians of the 1930s and the current times, the political leaders of that time were all very powerful and even scary. Roosevelt in the US, Churchill in the UK, Hitler in Germany and Stalin in the Soviet Union were the big monsters in whom historians are interested. They were powerful enough to overcome the crisis or rebuild the world order.

What about the world leaders after 2008? Bush/Obama in the US, Brown/Cameron in the UK, Sarkozy/Hollande in France, Merkel in Germany, Japan has too

many to be remembered and among all, no one is scary. There is one exceptional figure though, Putin! If you look at the line up of leaders, certainly it is proof for my self-advocated Great Degeneration Hypothesis.

Looking back, 2013 was a terrible year. However, if my Great Degeneration Hypothesis is correct, there is good news. This year is better than the next year! We are in the era that the world does not progress but degenerate. When the world degenerates, we have to look back at the past and we have to learn from the wisdom of history. We should cherish what is being lost and try to protect the good from destruction. That is the original meaning of conservatism and it is important for us. True conservatism, not tied up with neoliberalism, could save the world from the Great Degeneration.

Globalization is neither inevitable nor irreversible. If it is indeed the Great Degeneration, we should protest against it. Looking back at history, when the world was falling into degeneration, there were conservatives who stood up to stop this process. The theme of this symposium is 'Beyond Global Capitalism.' However, in order to go beyond global capitalism, we should stop or even step back rather than trying to step forward. That said, I think that the true conservatism is what I would hope for in the future.

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Chapter 6

Beyond Global Capitalism: A Discussion

Emmanuel Todd, Ha-Joon Chang, Takeshi Nakano, Keita Shibayama,
and Satoshi Fujii

1 The Calamity of Neoliberalism

Fujii Today, the major nations of the world are, without exception, facing national economic and political crises. Triggered by the 2008 “Lehman Shock” in the United States, the global economy fell into major chaos, pushing Greece, Spain, and other members of the EU to the brink of bankruptcy. Japan has also struggled with long-term deflation, and the gap between rich and poor continues to widen.

In the background of these developments are efforts in the U.S. and other countries to promote neoliberalism aimed at removing all regulation, and to push unstoppable globalization.

Despite this, there are still many politicians, bureaucrats, and economists who continue to assert that “globalization is inevitable,” and that “the only path to growth

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is through globalization,” and speak as if globalism will lead to days of wine and roses. The TPP (Trans-Pacific Partnership) that Japan is now facing is part of this.

Why do global capitalism and neoliberalism repeatedly generate crises? Is there no alternative to global capitalism? I would like to welcome world-famous anthropologist and demographer Dr. Emmanuel Todd and economist Dr. Ha-Joon Chang, Associate Professor at the University of Cambridge (U.K.), who have come to Japan for a symposium at Kyoto University, to discuss these issues.

First, please give us your analysis of the current circumstances.

Todd Although I am not an expert on the Japanese economy, one thing that I can state clearly is that circumstances here are much better than in Europe.

As far as I can tell, the currency devaluation policy that is part of “Abenomics” is a protective policy that should be implemented first in regard to the long-term recession, and that it is an obvious measure from the perspective of protecting the Japanese economy. Further, the tragic circumstances in the EU are the result of its inability to implement this obvious policy, in other words, a specific monetary policy that matches the actual situation of European countries.

It goes without saying that the region of the world in which the total free trade and elimination of economic borders advocated by global capitalism are most advanced is the EU. Tariffs were eliminated within the EU and the currency was standardized. Accordingly, observing the EU will give us an understanding of the consequences of globalism.

What is happening as a result? Individual nations are unable to devalue currency or implement other measures to loosen monetary policy or increase public spending. Formulation of appropriate industrial policy has also become impossible. Individual countries have lost economic independence and their national sovereignty is diminishing. It has been a complete failure, and because of it Europe is on the verge of death. The introduction of the Euro is one of the greatest errors committed by the French political elite in all history.

The EU was originally expected to serve as a fortification against the American or British style of globalization. Ironically, it went in the completely opposite direction. What is occurring is a “war,” as neighboring countries attempt to smash each other.

The only winner is Germany. A weak Euro brought significant gains to Germany’s export industry. Germany has been able to use other EU countries, in particular those facing economic crises, as low-wage “subcontractors.” The Eurozone became an open market for Germany, and the nation has utilized that fact to its fullest advantage. It also enjoys a significant trade surplus.

By contrast, the economies and industries, particularly manufacturing, of countries other than Germany are crumbling. They have lost freedom in formulating monetary policy, and are being forced into fiscal austerity, with no available options.

France should have been another leader in the EU, but the nation is in similar circumstances. After the introduction of the Euro, France fell into a trade deficit, and its economy is sluggish. French President François Hollande has, in a sense, become Germany’s Vice Chancellor, and the French Minister of Finance defers to Berlin for instructions.

Even Germany, the supposed winner, is seeing deepening social contradictions. The gap between rich and poor has grown, and it has become a society with an extremely strong hierarchy. The low-income class has become larger, and many of Germany's citizens have been placed in a difficult position. One sign of this is its low birthrate of 1.4, similar to that of Japan.

This is Europe's reality.

Nakano It is true that the Japanese economy is currently experiencing a weaker yen and higher stock prices due to the first "arrow" of Abenomics, namely, "bold monetary easing," and the second "arrow," namely "agile public spending." Further, the ratio of Japan's economy held by domestic demand is higher than the ratios in Germany, China, and other nations.

Be that as it may, we cannot let down our guard. How are things with the third "arrow" of Abenomics, "growth strategy to encourage private investment"? Keio University's Prof. Heizo Takenaka and Rakuten Chairman and CEO Hiroshi Mikitani, who serve as private sector representatives on the Council for Industrial Competitiveness, have led the way in proposing deregulation of employment, agriculture, and healthcare. It consists of nothing more than praise of blind neoliberalism and measures to promote globalism.

Some have argued for lowering of corporate taxes to bring in foreign capital, but unlike developing nations, Japan has a current-account surplus. Because there is an abundance of capital, there is no need for Japan to go out of its way to bring it in from overseas.

None of these policies seem like they would come from Prime Minister Abe, who said that "Japan, the Country of Lush Rice Fields, has market principles that are suited to its land" (*Bungeishunju*, January 2013). It is possible that the hard-won monetary easing and fiscal action will be completely wasted.

Shibayama In the past in Japan, opposition within the Liberal Democratic Party in some ways served as a brake to excessive deregulation and other neoliberal policies. It was even possible to remove the teeth of demands for unilateral opening of markets, such as those included in the Annual Reform Recommendations from the U.S. government. However, the LDP has now become a reform party, and the fact that there is no significant repelling force is a cause for concern. For example, even if arguments critical of TPP are made within the LDP, ultimately it is being moved forward.

2 The Dismal State of Affairs in South Korea After IMF Reforms

Fujii Dr. Chang, globalization in your home country South Korea seems to have progressed a full step ahead of Japan. An official in the Ministry of Economy, Trade and Industry, which is promoting TPP in Japan, has stated that "there is a good example nearby, namely, South Korea, which has been reformed by the International

Monetary Fund (IMF).” The nation has been presented as a model, and it appears that the special economic zones and TPP that are being promoted in Japan are following South Korea’s lead.

Chang It’s a shock to me that Japan has taken South Korea as a model! (Laughs) The reason is that IMF reforms and other neoliberal policies have severely devastated South Korea’s economy and society.

It is true that Samsung has superseded Sony in the electronics field. Further, it may be true that South Koreans think more globally and have better English and other skills than the Japanese. However, those are only some of the aspects of the current reality.

What is happening there is a destabilization of employment. Since the recession started, there has been a shift from full-time employment to part-time employment, with the assertion that the purpose is to utilize the free market for employment as well, and increase the flexibility of the labor market. The employment situation is particularly serious for young people, and it has been reported that the unemployment rate for people in that group (15–29 years old) is 7.5 % (as of January 2013). However, that figure does not include discouraged workers (workers who want to work but have given up on looking for jobs due to difficulty of finding one), and it is actually believed to be 20 % or more. This is the result of rapid destabilization of employment.

A study within the Organisation for Economic Cooperation and Development (OECD) has indicated that the annual number of suicides has exceeded 30 out of every 100,000 people. This significantly exceeds Japan’s approximately 20 per 100,000 people, and is the highest in the OECD. The number has tripled from approximately 10 per 100,000 in a period of 20 years.

Meanwhile, the birthrate is at the world’s lowest level. In 2011, the birthrate was 1.24, lower even than Japan’s 1.39. The reason is that the framework of the welfare state has not been established, and it is difficult for women to work while raising children.

South Korea began changing at the end of the 1980s. From the 1960s to the 1980s, the nation followed Japan’s economic model, and at the end of the 1980s and the end of the military dictatorship, the “free market” became the national consensus. Further, the view that “intervention by the state equals a dictatorship or oppression” grew among the South Korean people. This is a sad historical legacy.

This trend was strengthened in the 1990s by Japan’s economic struggles and America’s recovery. That further increased the volume of the cry that it was “the end of the Japanese model” and that “an American-style free market should be adopted.”

In that context, a financial crisis occurred in Asia, with the disorder in Thailand in 1997 affecting South Korea as well. There is almost no realization in South Korea that this crisis was created by excessively liberalistic policies. Under the control of the IMF, many advocates have asserted that it was “the fault of past governmental intervention,” and have demanded the liberalization of employment and other further deregulation. Subsequently, free-trade agreements have been concluded with

the U.S. and Europe, and the country rushed deeper into the free market, plunging South Korean society into dire circumstances.

Fujii Those circumstances are surprisingly unknown in Japan. Students from South Korea come to my university to study, and they have said that their society changed completely immediately before and after the Asian monetary crisis with the start of IMF control. As Dr. Chang has pointed out, normal companies, normal ways of working, and normal income have disappeared since the start of the IMF.

The important point here is that the acceptance of the IMF proposal as a “one-time” reform based on global capitalism or neoliberalism has the tremendous force to “fundamentally destroy” the society and economy of a country.

People who advocate “aiming to become like South Korea” may find benefit to their own business, but what about the people of their nation? We should learn from South Korea’s tragic experience.

Todd As I have listened, I have gotten the sense that Germany is a more aged version of South Korea. The social situation is not as severe as that in South Korea, but the two nations are facing extremely similar problems.

3 Peeling Away the “Myth” of Globalism

Chang There is something I would like to add regarding these tragic circumstances in South Korea. Ever since converting to a neoliberal economic society regardless of the many adverse effects, the economic growth rate has significantly declined.

If there had been accelerated growth as a result of the reforms, it might be possible to view the increase in the gap between rich and poor as a necessary sacrifice. However, per capita income growth rate, which was approximately 6–7 % before the reforms, has dropped to about 2–4 % since the reforms. South Korea’s neoliberals would likely assert that it is because “the economy has matured,” but the growth rate dropped sharply immediately after the reforms. It is highly unlikely that the economy would mature so suddenly, so that excuse is complete nonsense.

In addition, this is not only about South Korea. The growth rate in the developed world in general averaged 3.2 % from the 1960s to the 1980s. From the 1980s to 2010, the period in which the entire world was globalizing under a philosophy of neoliberalism, it dropped to 1.8 %, about half the previous rate.

In short, it was believed that “the economy would grow through global capitalism,” but looking objectively at the actual data, we can see that the truth is the complete opposite: “Globalism slows growth.”

So, why does neoliberalism, which seeks for growth, slow growth?

One possibility is that promoting unregulated free market has created an excessively complex and unstable economy. In the past, the nature of the economy was kept within a certain framework under set rules, and efforts were made to establish

stability. When those brakes were lost, instability was the cost. Economic crises such as the “Lehman Shock” are a prime example of that.

Meanwhile, companies are under pressure to achieve results in a short period of time. When they’re required to earn a high level of profit this quarter or this year, they are unable to take the long-term perspective of 5 or 10 years down the road.

Because they chase after short-term numbers, capital expenditures, training, and research get ignored. Accordingly, the improvement of productivity that is required for long-term growth and the long-term commitment that is required to increase income are not generated. As a result, technological development is slowed down, income does not increase, and growth slows. The battle for a piece of the pie that is right in front of them intensifies, but there are no efforts to increase the size of the pie itself despite the claim that neoliberal policies are pro-growth.

Those who have been promoting global capitalism have believed that if businesses were merely given their freedom, wealth and employment would be created, and maximum growth would be achieved, but they were wrong.

Fujii That’s an important observation. Globalism is hindering the world’s growth.

Chang In today’s global economy, governmental regulations are viewed as the enemy, but in the cases of both the U.S. and Japan, “governmental regulations for protection of industry” have created growth. Even just looking at Japan, the development of today’s Japanese automotive industry was made possible because the market was protected in the 1950s and the 1960s. Unfortunately, South Africa, Brazil, Colombia, and other currently developing nations are unable to implement such protective industrial policies. Before they have been able to grow sufficiently, the World Trade Organization (WTO), FTAs (free-trade agreements), BITs (bilateral investment treaties), and various factors have put pressure on them to ease regulation, and they have been forced to globalize. In actuality, the 3.0 % growth rate of developing nations overall from the 1960s to the 1980s dropped to 2.7 % from the 1980s to 2010. In Latin America, the rate dropped by about 75 %, from 3.1 % to 0.8 %.

4 Neither Inevitable nor Unavoidable

Shibayama Today, globalism is viewed as a historical inevitability, and as something that is unavoidable. Even with the occurrence of a crisis on the scale of the “Lehman Shock,” it is being interpreted as “temporary disorder,” and the assertion is that “we will at some point get back on the correct track of globalization.” However, even looked at historically, we can see that this is a huge mistake.

There have been times in which the world’s economy has been globalized in the past as well. In ancient times, we have the thirteenth century Yuan Dynasty, and in the fifteenth through sixteenth centuries we have the Age of Discovery. During those periods, powerful hegemonic states connected the entire world as a single

market. When the Yuan Dynasty, Spain, and other powerful nations waned, there was another “deglobalization.”

In modern times, the period from 1870 to 1914, immediately before World War One, was truly a time of globalism. Let’s call this the “First Globalization” of modern times. This era of “Pax Britannica” was focused on England. Residents of London were able to place orders for a variety of goods from around the world via the telephone while drinking tea, and they were able to invest their wealth in the world’s natural resources and new businesses. War and depression in the first half of the twentieth century put an end to that “First Globalization.”

What came next was a period of “deglobalization” under the so-called Bretton Woods system. Globalization is nothing more than a single historical phase, and is not unavoidable, and its end certainly does not signify doom.

Chang Looking back on the period from the 1950s to the 1970s, not only South Korea but all countries definitely had many more regulations than they do today, and taxes were higher. It is certain that there were many business-related regulations. The money and goods that crossed borders, as well as investment, were strictly controlled. In spite of that, the period had higher economic growth, even rising to double digits on occasion.

Shibayama There is another contradiction of globalization that tends to be overlooked. Capitalism has developed markets and governance within the framework of the nation. Markets do not function until they are firmly governed by the rules of the government.

Fujii Using roads as an analogy, automobiles are able to travel efficiently because there are lanes and traffic signals. However, if we say that “regulations” are getting in the way, demand more freedom to drive, and eliminate lanes and traffic signals, roadways would fall into chaos, and the efficiency of roads would significantly decline. The slowing of growth due to deregulation is like this. Moreover, if regulations are eliminated, “accidents” such as the “Lehman Shock” will also increase. In other words, appropriate regulations are absolutely necessary. The answer to the question of who is drawing the traffic lanes is that it is not the market, but rather the government.

Shibayama However, in principle, there is almost no governance in a globalized world that attempts to eliminate differences in rules between countries. Even when there is, it is extremely weak. Under normal circumstances, a global market requires global governance, but currently the situation is moving in the completely opposite direction.

Nakano To begin with, globalization cannot be established unless a hegemony protects the security of the world. England fulfilled that role in the “First Globalization” and the United States fulfilled it in the “Second Globalization.” However, America’s national strength is now beginning to weaken. Around Japan as well, the sharp intensification of the dispute with China over the Senkaku Islands, the dispute with South Korea over the Takeshima Islands, and other conflicts over

territory have been caused not only by nationalism, but also to a large extent by the regression of the United States. So, if the hegemony of the United States weakens, globalization will end.

Shibayama There are also significant differences between the “First” and “Second” globalizations. Compared to the former, during which there were many unstable elements both politically and economically, today’s developed nations have a great accumulation of wealth, a mechanism for a welfare state, and an extremely robust social system. The aging of society is also a significant difference. During the “First,” there were many young people who had a sense of idealism and a strong desire to change society. In many cases, this erupted into violent reform movements.

Todd What I believe is the dramatic difference between globalization prior to the early twentieth century and that of today is the impact of education. Prior to 1914, in France, for example, most people were just barely able to complete primary education. Today, the level of education has risen, and it goes without saying that the literacy rate has increased, as has the level of societal knowledge. The ability to think for oneself has also increased. Awareness of personality and maturity as individuals are high.

Shibayama However, conflict between nations and economic disorder have deepened. What is important is that we avoid the “hard landing” of war and depression, such as was experienced at the end of the “First Globalization,” and instead exercise wisdom to find a way to make a “soft landing.”

5 America’s New Start

Todd In the case of the United States, I get the sense that President Obama’s second term in office might become a “new start.”

For example, there has been a deepening of interest in domestic affairs, such as emphasis on social insurance. Internationally, just as America’s stance toward Iran is changing, a more tolerant attitude toward the world’s diversity has appeared. There are still negative aspects remaining, such as a significant social divide, and a lack of concern toward it, but I believe that it is possible that American society will change.

It was the Anglo-Saxon world that gave birth to global capitalism in the first place, and the histories of England and America are ones in which so-called neoliberal periods and periods of strict regulation by the state have repeatedly replaced each other. I think it might move in the direction of state intervention this time.

Chang While it is true that there were positive signs regarding diplomatic policy, there are doubts about how far Obama will be able to put it into practice. Considering the chaotic fight over raising the debt ceiling in conjunction with the “Affordable Care Act” (“Obamacare”), the American government is at a functional standstill.

Todd I am of the same opinion as Dr. Chang regarding U.S. industrial policy, but the conclusion I have reached from America's battle over the budget is the reverse of his hypothesis.

While it is true that it could be called dysfunction, it may have been the beginning of a confrontation between "two Americas."

On the one hand, we have opposition to social and governmental things, the "Tea Party culture," so to speak. However, if you think about it, the Tea Party consists of higher age groups, the generation that will be exiting the scene in the future.

By contrast—and this is nothing more than a theory—Obamacare and other such movements suggest possibilities for a new America. It is a culture that is concerned with health, politically liberal, and brings regulation into the economy. I'm not completely certain, but I think it may be possible to reinvent "the other America," one that is more tolerant and open toward people who are different, and that is hostile and cautious toward inequality.

So, although it is necessary to stand firmly against free trade, we shouldn't equate America with free trade.

America is still the leader of the free world, and the weight of the U.S. is necessary to maintain balance in the world. One of Japan's options here is to maintain a solid alliance in the maintenance of security, even while rejecting free trade. The same can be said about France.

6 Why Do the Elite Continue to Make Mistakes?

Nakano As we have seen, global capitalism and neoliberalism increase the social divide, destroy the nature of society, cause nations to lose their autonomy, and fail even to achieve economic growth. In addition, crises continue uninterrupted. However, the elite in America, Europe, and Japan continue to support these highly problematic and theoretically unsubstantiated ideas. Why do you think this is?

Todd Although I believe that it is true that neoliberal policies and neoliberal thinking are prevalent among the people currently at the core of the government, they can be divided into two types. One is people who truly believe in free trade and the supremacy of the market. Such individuals are frequent in the top levels of government, and there are many in France as well. They foolishly believe that neoliberalism is the sole, unavoidable option to bring prosperity to people, and are striving to put it into practice.

But there is another type. This is an idea that was strongly influenced by a book by James Galbraith, son of world-famous economist John Galbraith, but the other type consists of what should be called "hypocrites." They act as if they believe in neoliberalism, but in reality have no such thoughts. These are people who utilize a variety of governmental mechanisms for the benefit of specific companies and organizations.

Nakano In other words, people who use the state as a cover to pursue personal benefit while advocating a free economy and a competitive society. There are even people serving as private sector representatives in Cabinet advisory meetings who immediately insinuate that they will resign if decisions do not lead to some benefit to their companies (Laughs).

Fujii Global capitalism can also be approached as an ethical problem as well, can it not? When human desires are left uncontrolled, awful things happen. Ethics adjust them and draw boundary lines through rules. However, global capitalism eliminates those rules and attempts to use desire itself as the standard. It's natural that such places become lawless areas.

Nakano What I get a strong sense of is the “cowardice” of bureaucrats, scholars, and other elites who are involved in policymaking. A decade ago, when I was studying overseas, the response of a fellow bureaucrat who was studying abroad at the same time had a deep impact on me. He proudly stated, “I have learned from my study abroad that if you don't speak the language of neoclassical economics, the elite won't have a discussion with you.” He also said that “although it is true that there are movements critical of globalization, they're just laughed at by the elite as being unrealistic.”

Anyway, whether domestically or internationally, those who call themselves “elite” have formed a type of limited community in which they reassure each other that “This is how it is in America,” “Neoliberalism is the mainstream in Europe as well,” and “Those who don't globalize will be the losers.” On the other side of the coin, this is also an indication of the cowardice of those who fear being ousted from that community.

Todd Viewing the current state of these “elites” from the perspective of anthropology, we can see that, in the past, there were a variety of social groups, including religions, nations, and political parties, that each had its only group ideology. The fact that those have been lost and individuals have become disconnected may be related here. Individuals have become extremely inward-focused, and have become concerned solely with themselves, with their own health, appearance, and academic record. In short, they have become narcissists.

When individuals are isolated and alone, they become petty and easily hurt, which is human nature. As a result, they create small groups of people with similar hobbies and close themselves off in those groups. I think it's likely that elites also want to close themselves off in such groups to be safe.

7 The Great Degeneration of the Elite

Nakano Recently, I have begun to think that those elites do not actually believe proactively that neoliberalism is correct, but rather that they are simply abandoning their duty to govern. In other words, the ability of the elite class to govern has

significantly degenerated, and that they are unable to do anything. I believe that they are merely using neoliberalism's laissez-faire philosophy to justify their do-nothingness. Isn't globalization just the "great degeneration" of the elite?

Todd "Great degeneration." That's an interesting concept (Laughs).

Fujii They're trying to rule the world through neoliberalism, rubbish that they don't even truly believe themselves. Something that will be of reference when thinking about this unnatural situation is the book *The Origins of Totalitarianism* by German-born political philosopher Hannah Arendt.

Arendt approaches totalitarianism not only from the perspective of thought, but also from the perspectives of movements and social phenomena. She points out that the rationality of philosophies and theories is never questioned under totalitarianism. On the other hand, she also points out that philosophies and theories are selected in an opportunistic manner based on a variety of "worldly affairs in society." Surprisingly, this can be applied without modification to globalism and the elites who promote it. They desire and believe (let's assume) extremely simplified and easy-to-understand philosophies, theories, and narratives of the complex and diverse world, even if they are lies. The "logic of lies" chosen by the elites who promote globalism is nothing other than frighteningly simple neoliberalism and market fundamentalism.

Chang Isn't the difference between the "First" and "Second" globalizations the fact that today's global culture is excessively homogenous? It's a uniform Anglo-American color. At the time of the "First Globalization," there were three cultural paradigms. The first was that of England and the second was that of America. At the time, many Americans studied abroad in Germany, and the two countries had a close relationship. The third paradigm was that of France. In that sense, there are significant risks in a homogenized culture, particularly now.

Todd However, conversely, I'm not worried that the world will become uniform, or that homogeneity will radically increase, even if globalization progresses. I recently published the book *Le Mystère français* ("The French Mystery") with demographer Hervé Le Bras. In it we point out that even in a country like France that is unified linguistically, politically, and legally, the social manners and religious cultures differ completely between Brittany, which is near England, and Provence, which is near the Mediterranean Sea. The difference is as large as that between France and Germany or between France and Italy.

The birthrate is also an important figure that is the sum total of a variety of elements of daily life, and there are significant differences even between developed nations. So we see that they are not becoming completely uniform.

Shibayama I agree. For that very reason, the approaches to economic and societal problems should be different. As has been demonstrated by Dr. Todd's research, even the birthrate differs according to the form of families in each region as well as the nature of civil life. I think that the problem with globalism is that it attempts mechanically to write the same prescription for every case.

8 The Future of China, and the Future of Japan

Fujii Finally, I would like to discuss the future of the world's economy, as well as the direction that Japan should take.

Shibayama As America, which was the lead runner in global capitalism, stumbled due to the "Lehman Shock," and the EU has hit a dead end, a new standard-bearer of the world economy has arisen in the form of China.

However, is the future of China really that bright? China has continued to implement fiscal expansion policies to deal with the "Lehman Shock," but the result was an acceleration of the real estate bubble. In addition to concern about bad debt in the financial sector, there is the problem of "shadow banks." The country is facing a mountain of problems, including severe disparities in income and a skewing of society.

Todd I believe that there are two regions of the world that have enormous unrecognized risks. One is a Europe ruled by Germany. The other is China. Both as a demographer and as an anthropologist, I have to say that China's future is dark.

First is the problem of China's aging society. According to a United Nations estimate, the percentage of China's population that is 65 or older will increase from the current 9.4–19.5 % by 2035. Unlike Japan and other developed nations, China's population will begin aging before the overall populace becomes prosperous. With the size of China's population, even bringing immigrants from outside the country will do nothing to resolve the imbalance. In other words, there's nothing that can be done about it.

Intuitively speaking, China's economy is in a strange state. Between 40 % and 50 % of the GDP is being invested in housing, equipment, and other fixed assets. This is reminiscent of the Stalin-era Soviet economy, in which excessive investment aimed at rapid industrialization actually ended up as nothing more than an increase in unneeded production facilities.

From an anthropological perspective, the Chinese family type belongs to the category "communitarian family." This family type, in which the father takes the leading position and sons are all equal, was also common in Russia, Italy, the former Yugoslavia, Vietnam, and Cuba, but the interesting thing is that they are regions in which the Communist Party has taken control. In other words, the combination of an authority figure who rules and egalitarianism among the other people had a strong affinity with rule by the Communist Party. However, in China today, significant economic disparity and inequality are widespread in the name of reform and openness. I believe that such contradiction is very difficult to endure for the original nature of Chinese society.

Chang I agree. Examining the current income distribution in China from the perspective of a variety of figures, we can see that the social divide is as large as it is in America. The problem is that the gap in China has widened quickly.

The U.S. already had a social divide 30 years ago. On the other hand, 30 years ago, almost everyone in China was poor, and therefore equal in a certain sense. Everyone wore Mao jackets, rode bicycles, and ate shabby vegetables to survive, but now, while there are homeless people, there are also people who build and live in luxurious homes that are replicas of the White House. The great challenge is to determine how to close this gap. Although Chinese leaders understand the problem, there is no sense of urgency in their actions. I fear that things will explode at some point.

Naturally, the masses will not sit silently watching. There are 200,000 incidents of disorder in China every year, and that figure includes only the ones that are reported. Strikes at factories and companies, riots in rural areas, attacks on the government and local officials, and other incidents are occurring.

Nakano China is being treated as a winner in globalization, but in reality, China is the biggest victim of global capitalism. China was able to achieve rapid economic growth by suppressing wages and expanding exports to the European and American markets that were active due to an economic bubble. However, after losing the enormous American market with the “Lehman Shock,” China was unable to sustain that growth. Regardless, the dependence on external demand remains high, and the infrastructure for internal demand remains weak. Accordingly, it is certain that China will face considerable difficulties, both economically and socially.

Todd Even China’s educational level is barely at a point at which people can obtain primary education, similar to the situation in developed nations in Western Europe before 1914.

Fujii It is certainly not the type of country that will lead the world.

Shibayama If China is now in a “pre-1914” era, there is a possibility that it will replicate the experiences of today’s developed countries during that time. Currently, China is attempting to restructure the world order with territorial disputes and such. This dangerous “replication” is something that must be viewed with sufficient caution.

Chang I think that India is in a more dangerous situation than China. In contrast to China’s leaders, who are aware of the problems and society but are slow in taking action, India’s leaders are not even aware of the problems. Statistically speaking, the social divide is not that large in India, but 40 % of the population is in a state of absolute poverty. The infrastructure is unable to keep up with economic growth, and the quality of labor is considered to be even worse than China, and the economy is beginning to slow down.

In particular, eastern India has suffered the insurgency of the Naxalites, who have been attempting armed revolution since the latter half of the 1960s under the lead of the Maoist Communist Party. They were believed to have been eradicated in the 1980s, but they have recently begun to reappear.

Dr. Todd was among the few who foresaw the Arab revolution, and as we know great political change took place. It should be clear to everyone that China and India are ready to erupt at any moment.

Nakano So, what about Japan? In the 1990s, when talk of globalization began, I was conducting research on economic nationalism. Around that time, Dr. Todd's book *L'Illusion Economique* ("The Economic Illusion"; Fujiwara Shoten, 1999) was released in Japan, and I was deeply inspired by it. The following is what is written in the preface to the Japanese edition.

For anthropological reasons, Japan displays a model with an adjusted type of capitalism that is extremely different from the Anglo-Saxon model. Japan is currently maintaining its silence, but from the perspective of principles and policies, Japan can and should represent the counter to the Anglo-Saxon world...In a context of structural insufficiency of worldwide demand, the self-destruction of the Western European educational system, and the decrease in population in the developed world, France and Europe need Japan to be more proactive in the aspect of ideology. Japan must have more confidence, and be more critical of Anglo-Saxon ultra-liberalism.

That preface gave me courage, and I was determined to heed those words as an economic official. Because of that, my life got completely off track (Laughs). How do you view the Japanese economy now?

Todd I think the Japanese economy is much healthier when viewed from the outside than is being discussed domestically. As I mentioned at the start, I have a positive view of "Abenomics," and I think it will help Japan. I believe that people overseas who hold to a left-of-center thinking will actually take a positive view of it as well. The reason is that, from an international standpoint, it can be called a leftist policy under which a weak-yen policy decreases income regardless of class, and also provides support linked to that change. Meanwhile, Germany is implementing a policy of fiscal austerity, but it is a right-wing policy that reduces intervention by the state. Ironically, one of the ruling parties is the Social Democratic Party, which has its origins in the Socialist Workers' Party, and Japan's liberal economic policies are being carried out by the conservative LDP.

Moreover, today's Japan is not merely a wealthy country, but is also one of the developed countries that leads the world in science, technology, and other fields. For example, Japanese patents constitute 20–30 % of the worldwide total.

Countries that are trying to catch up, such as China at this time, will of course have a high growth rate. On the other hand, countries positioned at the frontlines worldwide will continue to see declining growth rates. The reason is that countries that develop heretofore undiscovered technology and provide something that did not previously exist to the world also carry a comparable risk of failure, and may develop something that is completely useless. In that case, the growth rate will inevitably be about 1.5–2.5 %. The time that Japan's growth rate fell to that level naturally coincides with the time that it stood at the world's leading edge.

Fujii I'd like to ask Dr. Todd a question in his capacity as a specialist on the family institution. Currently, there is a sense of crisis spreading through Japan that the

traditional family institution is crumbling. The number of unmarried people has increased, the birthrate has declined, and the unattended death of the elderly has become a problem. Even the Abe administration is advocating the restoration of the family.

Todd I believe that it is true that the low birthrate is a real problem that Japan is facing. However, I don't see the cause being the collapse of the family institution, but rather an excessively solemn and traditional way of thinking regarding "family."

From the perspective of an analysis of family types, Japan—like South Korea and Germany—is associated with the category "stem family." This category is characterized by parents having authority over their children, and a high rate of cohabitation of parent and child, an emphasis on passing down assets between generations, and diligence toward education of the children.

This view of the family is one cause of the decline in the birthrate. It may seem paradoxical, but the emphasis on the family is destroying the family. In other words, an emphasis on the family and obsessiveness about its form and nature are making the formation of families difficult. The same can be said about the low-birthrate in South Korea and Germany as well.

On the other hand, the reason that France has a high birthrate is likely the more casual approach to families. Divorce, single-parent families, and having children out of wedlock are not extraordinary things. Children born out of wedlock constitute 55 % of all births in France. Further, parents can send children to free public preschools from the time the children are 2 years old, making it easier to balance both work and raising children. In short, governmental intervention in early childhood education has resulted in a high birthrate. Regardless of the gloomy outlook for the economy, the society is surprisingly vibrant.

Fujii Japan has still not agreed to the TPP, and has not been swallowed up in free trade the way America and Europe have. Although Japan is facing an aging population ahead of other countries in the world, as Dr. Todd has pointed out, our nation has technological strength, as well as latent abilities even in the midst of low growth. Japan's current situation may be like a laboratory in which the future of the world will be determined.