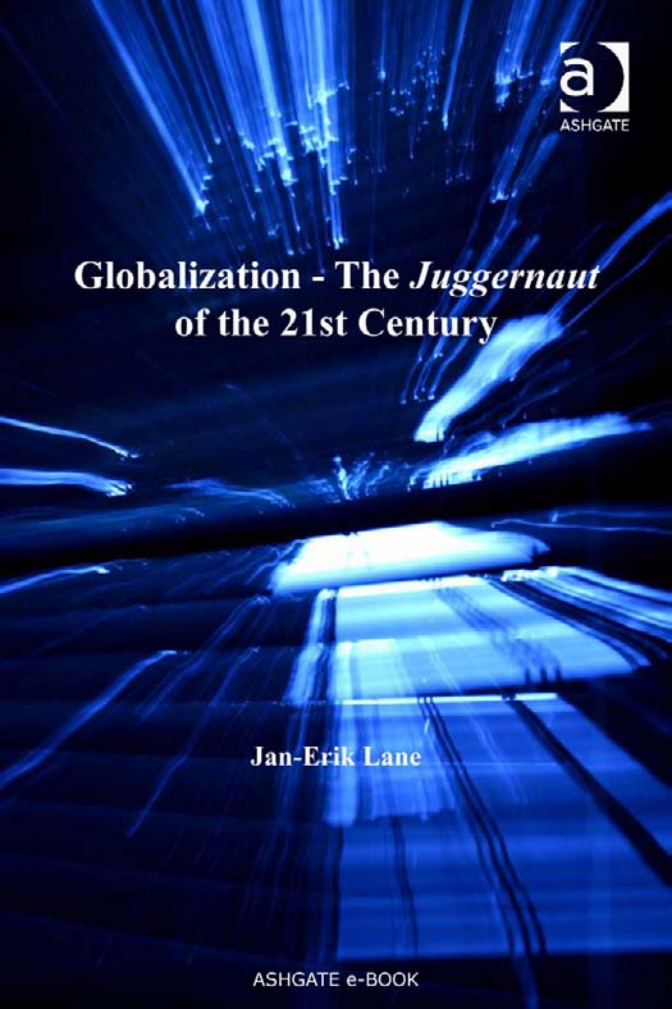
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Globalization - The *Juggernaut* of the 21st Century
Jan-Erik Lane
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Globalization – The *Juggernaut* of the 21st Century

JAN-ERIK LANE
University of South Pacific, Fiji

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Preface

While some people debate whether globalization is real or not, it proceeds, in my view, with a pace that is unstoppable, affecting all societies on the planet Earth in a most profound way. At the same time as scholars discuss whether globalization is mainly positive or negative, it rolls over us, presenting hitherto unknown challenges of a very difficult nature. As governments have finally started to talk with each other about what to do in relation to these challenges, it is becoming all the more obvious that globalization is little manageable. Globalization, I will argue in this book, constitutes a *Juggernaut*.

In Indian religions the term 'Juggernaut' describes a force that crushes all in its path. Sanskrit 'Jagannātha' means 'Lord of the Universe' – one of the many names of Krishna from the ancient Vedas. The Jagannath Temple in Puri, Orissa, hosts the Ratha Yatraor chariot procession that is an annual event with chariots carrying the statues of Jagannâth, Subhadra and Baladeva (Krishna's elder brother). Due to the fact that devotees have been crushed in the past as the massive 45 foot tall, multi-ton chariot slipped out of control, killing many, the word 'Juggernaut' stands for an unstoppable and crushing force.

Globalization is the *Juggernaut* of the twenty-first century. It makes all countries of the world interdependent in relation to the coming energy crisis, the unstoppable climate change, the sharper cleavages between rich and poor countries, as well as superrich and the middle classes within any country, and the coming of a multicultural social structure. The probability that governments will be able to coordinate upon planned global responses to these challenges is small. The planet Earth will have to rely upon global or regional adaptation to the changes that this global Juggernaut will result in.

The book has four parts. First, the optimistic scenario is discussed. Second, the energy-environment conundrum is analyzed and its consequences for the countries of the world spelled out. Third, the hopes for a strong international community or regional organization are analyzed. Finally, the idea of a global open society is launched.

The adaptive capacity of societies depends upon their rationality. It is highest with the countries that endorse the *global open society* as their model of organization, providing the best capacity to adapt to the changes that the Juggernaut brings about. However, there is no guarantee that there will be successful adaptation for each and every country. The risks associated with globalization are increasing, as we proceed into the twenty-first century. But the costs may fall very unevenly upon the countries of the world.

The time has come to conceive of a *global* open society in order that the process of globalization may be analyzed and criticized publicly. Only such an open society on a global scale can help humanity confront the chief issues of the twenty-first century, linked mainly with the energy-environment problematic.

One belief about this problematic is the *cornucopian* standpoint – which I outline in Chapter 1. However, I will stress the basic challenge that the *Juggernaut* of globalization poses for the global community: its most fundamental problematic – the *energy-environment conundrum* – can only be met by a sustained policy of resource conservation and global environmental protection (see Chapter 2).

I have drawn upon a few published articles: with S. Ersson, 'South African Democracy', in *Commonwealth and Comparative Politics* (2007); with R. Maeland, 'International Organization as Coordination in N-person Games', in *Political Studies* (2006); and 'The New Regional Organization: Incentives, Rules and Constitutional Implications', in *Zeitschrift für Staats- und Europa-wissenschaften* (2007(4)) as well as 'Political Integration and Economic Convergence' in the same journal' (with assistance from S. Ersson) (2006 (4)). Sylvia Dumons in the Political Science Department at the University of Geneva was very helpful in bringing the manuscript into a book. These chapters have emerged from my teachings of globalization at universities in Hong Kong, China, Singapore, Taiwan, Alaska, Kottoyam, South Dakota and Fiji.

Introduction: The Challenges of Globalization, World Capitalism and the Global Open Society

Globalization is real, I am convinced. Thus, the time has come to spell out the challenges that globalization presents to mankind. I believe these to be so serious that globalization will constitute the *Juggernaut* of the twenty-first century, because it drives the *energy-environment conundrum*. Only the responses that a global open society may bring forward could possibly meet these challenges and their *Juggernaut* potential.

The social systems that various countries of the world have built up, during a long process of socio-economic, cultural and political evolution, need energy on the one hand and a clean environment on the other hand. The level of affluence in today's world is founded upon the massive burning of fossil fuels at a hilarious pace, resulting in global warming due to the greenhouse gases that accumulate slowly over time. These energy resources took an incredibly long time for Mother Nature to build up, but they will be depleted in a foreseeable future.

The problem with the greenhouse gases enters into a profound ecological crisis for Mother Nature, as a variety of environmental difficulties are caused by the present life style of the more than six billion men and women populating planet Earth. One sees many sign of overexploitation of the environment, such as the destruction of the rain forests, the increasing size of deserts, the dramatic reduction in fish stocks, the elimination of rare species, growing mega-cities etc.. It seems more and more obvious that Mother Earth cannot sustain the present life style of human beings, based on exploitation of energy resources and ecology. This sets up the energy-environment conundrum.

The problematic of the energy-ecology conundrum is that it is propelled by the strongest forces in humanity, the economic drive for profits, gain, greed and mere survival. It is when the two most populous countries in the world, China and India, start to adopt the life style of the West that the energy-environment conundrum is driven to its peak. As the Third World wants a bigger part of the cake, while the rich countries refuse to redistribute much, the energy crisis can only become more and more difficult to handle and the global environment will suffer increasingly from the struggle over resources.

Economic Incentives behind the *Juggernaut*

One does not have to adhere to some crude version of historical materialism in order to emphasize the force of economic incentives in human behavior. As the globe has been more and more integrated into ONE global economy, the relevance of materialist interests have only increased and increased. This puts an incredible pressure upon the energy and environment resources of planet Earth.

Only two circumstances may constrain men and women to respect the restrictions upon the pursuit of economic advantages that the given energy and ecology assets entail, namely price on the one hand and the enforcement of rules on the other. Let me comment upon them, and how they may contain the *Crassus' motivation* of people. Legend has it that super rich Crassus was killed by the Parthians by having molten gold poured down his throat to satiate his thirst for wealth, though this may be a rumour spread by his enemies. In relation to the wealthy of the First World, one may ask when is enough, enough? One cannot blame the millions in the Third World for greed, as their chance finally arrives, along with the hope of leaving poverty behind inherent in the globalization of the economy.

Price

As witnessed in 2007 and 2008, the prices on many basic commodities have reacted sharply to the growing shortages of basic materials, energy, food and metals. However, these sharp increases in primary materials will only delay the ultimate energy crisis, as there is nothing available to replace the dependency upon the fossil fuels. If bad goes to worse, then mankind will start burning coal on an even grander scale, aggravating the ecology crisis even more.

Rule Enforcement

Much of the pressure upon the environment comes from behavior that bypasses law, or violates international rules. Thus, the burning of rain forests is often illegal, which is also true of most logging. Similarly, fishing often surpasses what has been agreed upon. And the poaching of endangered species is illegal. Yet, often rules that protect the environment are missing, or they are not enforced, either by the state or by the international community.

Neither price nor given conventions will be able to stop the march of the *Juggernaut*, I argue. Thus, one may dare to suggest that the energy-ecology conundrum presents the most grave challenge to mankind thus far in human history. When the acquisitive society, according to the classical interpretation of R.H. Tawney, spreads to become a global phenomenon, then global capitalism is turned into an unstoppable wheel, a *Juggernaut* indeed.[1]

The Global Market Economy and Capitalism

As the countries of the world more and more adhere to the model of an open economy, the global integration of national economies receives two contradictory responses. On the one hand, one group of scholars deplore the arrival of 'global capitalism', while another group of scholars salute the same phenomenon.[2] These two contrasting views on the globalization of the economies of the countries of the world reflect the opposing views among the pro-globalization and the anti-globalization scholars.

The debate on the nature of capitalism has raged since the beginnings of political economy. One may be reminded of the seminal contributions of Karl Marx, Max Weber and Joseph Schumpter. The question about present day capitalism may be phrased in the following way:

1) Is the market economy = global capitalism?
2) Will the market economy solve the energy-environment conundrum?

Firstly, it seems to me obvious that the global market economy as the institutionalization of a regime for legal economic activity does NOT encompass all forms of capitalism. In reality, the hiatus is rather large, meaning that lots of illegal economic activity takes place. Thus, one encounters the dismal expressions of capitalism in child labor, sex trafficking and money laundering for instance. Secondly, the market economy may help finding alternative solutions to the energy problem, but it does not alleviate the ecology concerns.

The strength of the market economy is its innovative capacity. Today, there is no real alternative to the market economy. But it does not cover all kinds of economic activities. And it does not offer solutions to the overexploitation of the environment. On the contrary, its rationality may drive the economic actors to not only criminal behavior but also the occurrence of the tragedy of the Commons.

This economic force pushes mankind to the depletion of vital energy as well as environmental resources. How can this *Juggernaut* be contained, at least to some extent? One argument entails that the energy-environment conundrum need not be taken seriously – *the cornucopian hypothesis*. Most prominent American political scientist Aaron Wildavsky stated it succinctly (see Chapter 1).

The controversy over globalization is well captured in the debate among neo-liberals and anti-globalizers. According to the first group of scholars, the process of globalization is mainly an economic transformation, comprising both the real and the financial economies, which is basically positive for mankind, taking all things into account. A global market will, unfettered by state regulations and trade hindrances, maximize total utility somehow and, however total gains or advantages are distributed, it works to the benefit of the Third World.

The anti-globalization movement rejects the claims of the neo-liberals, arguing that the global market economy works to the benefit of the First World, especially the already superrich in the capitalist democracies. Some of the anti-globalizers maintain even that globalization is more fad and fashion, constituting more of an illusion. Much of the opposition between neo-liberals and anti-globalizers

reflect their completely different views upon state intervention in the economy and the advantages and disadvantages of government regulation.

The neo-liberal camp adheres to economic institutionalism, rejecting a role for government in economic life except as guarantor of the workings of the institutions of the market economy – the *laissez-faire* position in a modern version, including the phenomena of asymmetric information. Any government intervention beyond what is required by the guardian state only results in *rent-seeking*, i.e. the dissipation of gains. This is true domestically as well as on the international scene. Thus, the call for deregulation, privatization and free trade is derived from *laissez-faire* theory. When people can engage with each other in economic activity freely and trade with people in other countries, then affluence will start to grow automatically. When the institutions are correct, then no more state intervention is necessary. The global coordination by the IMF, WB and WTO is enough to bring all countries on aboard, allowing them to 'take off' through trade, foreign direct investments and migration of labor.

Frederick S. Mishkin expresses the credo of the neo-liberals well in his *The Next Great Globalization* (2006).[3] Let me first quote his definition of 'globalization':

> Globalization is a term that is often used imprecisely and can mean many things. This book focuses on economic globalization, the opening up economies to flow of goods, services, capital and businesses from other nations that integrate their markets with those abroad. (p. 1)

Focussing upon globalization as the workings of the ONE global market economy, Mishkin completely rejects the anti-globalization message, stating:

> Anti-globalizers have it completely backwards: globalization is not the enemy. Particularly disturbing to me are elements of the left that are against globalization. They say they care about poor people, and I believe they do. They are correct in saying that the globalization process has often been perverted by rich elites and that simplistic solutions like privatization and the establishment of free markets often do not work. They are also right that globalization will not cure all the ills of poor nations. By itself globalization, in both finance and trade, is not enough to ensure economic development.

Mishkin puts the emphasis on getting the institutions right. Thus, he underlines the enforcement of the rules of the market economy against '*capitalisme sauvage*'. Yet, he argues, like fellow economist J. Bhagwati, that globalization presents a golden opportunity for the Third World:

> But to be against globalization is most assuredly to be against poor people in the rest of the world, and this is a morally indefensible position. Less developed countries cannot get rich unless they globalize and, in particular, they must globalize their financial sectors. Financial globalization is not a choice: it needs to be the focus of the next great globalization. (pp. 15–16)

The anti-globalization movement denies this 'rosy' picture of the global economy along the old lines of theory development initiated by Adam Smith, Jean Baptiste Say and David Ricardo, augmented with the new developments in the theory of asymmetric information (adverse selection, moral hazard). Let me quote from David C. Korten's *When Corporations Rule the World* (2001)[4] saying:

> Previous chapters document the progress and consequences of corporate globalization up to early 1995. The destructive trends have since continued on an ever more alarming downward path. The global financial system has become even more short-sighted and unstable. The pressure on corporations to keep their share prices rising at all costs continues to grow. And the corruption of the political process has become so intolerable in the United States that people have started taking to the streets in mass protests demanding sweeping structural reforms. (p. 287)

In this picture of globalization, the villain is the set of multinationals, which drive the chase for profits to its extreme. Trade liberalization and the opening up of the financial systems belong to the same search for greed:

> From Asia, Latin America, Western and Eastern Europe, Africa, and North America the reports are all much the same. Civilization is being dismantled as a trade barrier and the commons is for sale to the highest bidder. Social and environmental standards are being rolled back. Safety nets for the poor are being phased out in favour of increased welfare for dependent global corporations. Small farms, shops, and factories continue to be displaced by global corporations and subsidized imports. (p. 288)

Moreover, the globalization of capitalism leads to environmental disasters:

> Pollution, foreign debt, environmental destruction and inequality continue to grow in response to public policies put in place by the World Bank, IMF, and WTO or by the governments acting at the behest of corporations and other wealthy interests. (p. 288)

The greed of the huge corporations becomes an *Armageddon* for the human beings, especially in the poor countries, where the outcome will be dismal:

> Everything seems to be on the auction block – from water, air, information, indigenous knowledge, prisons, seeds and genetic codes, to social security, health care, and schools – turning public services available to everyone into private services available only to those who can pay and common heritages resources into private property. As ecological economist Herman Daly has noted, it is as if humanity has decided to hold a final going out of business sale. (p. 288)

I will not enter into this profound debate about the nature of globalization. To a large extent, the sharp difference in opinions reflects whether the emphasis is put upon the aggregation of affluence, as with the neo-liberals, or upon the fair distribution of the affluence, as with the anti-globalizers. However, whether one adheres to the pro-globalizers or the anti-globalizers, one still cannot escape the energy-environment conundrum.

Beyond the Pro and Anti Globalization Debate

As the process of economic globalization rolls on, the energy-environment conundrum is aggravated. Neither the neo-liberal approach nor the anti-globalization movement has any reply to the challenges that it poses to mankind. Let me pin them down succinctly:

1) Cheap energy is a thing of the past. Higher energy prices reflect the coming shortages in fossil fuels, as no economically viable energy source is available or in sight.
2) Higher energy prices feed into a rise in price for all primary commodities, putting pressure on economic growth and aggravating the poverty situation globally.
3) The distributional effects of a price shock for energy and primary materials will have serious consequences for the political relations among countries and feed the risk of civilization confrontations.
4) The environmental concerns will be more difficult to defend, when the global economy is no longer moving predictably with the availability of cheap energy.
5) Ecological considerations will give in to economic ones, as the economic difficulties mount.

This energy-environment dilemma will hold whether neo-liberalism or anti-globalization becomes the predominant ideology of the twenty-first century.

The seriousness of the energy problem is analyzed in Chapter 2, focussing upon the occurrence of a global Hubbert peak in oil production. Despite sharply rising energy prices, nothing is done towards closing the incredible gap between the conspicuous consumption according to Veblen of the superrich and the denigrating poverty of the poor (see Chapter 3). It is far from certain that democracy will spread around the globe, as the optimistic modernization theory with Lipset claimed (see Chapter 4). On the contrary, more and more countries struggle with the Hobbesian dilemma of anarchy, as analyzed in Chapter 5.

Regulation and Global Coordination

The neo-liberals have no answer to the challenges that the energy-environment poses, except clinging to the cornucopian view that things will somehow work out in the end. The anti-globalization movement looks upon global regulation as the method to constrain the *Juggernaut* of global capitalism. Yet, international governance is not easily achieved (see Wicksell's insights in Chapter 6). The optimistic view on international law, launched by Kelsen early in the twentieth century, is hardly defensible today, as states still live in as much of an Hobbesian jungle (as pointed out in Chapter 8).

Regionalism is a new theory about coordination that may offer possibilities to counteract the severe dependencies among countries in the globalization era

that will be the twenty-first century *par preference*. The institutionalization of regionalism is driven by first and foremost trade considerations. It seems that the globe is organizing itself into some ten major regional blocks of states. Some of these regions may go further in regional integration, putting in place a common market or a currency union.

Merely by reducing the number of players in global coordination games, regionalism could be effective in helping a small number of regions counteract the march of the *Juggernaut*. Regional trade blocks may not only promote openness in trade and investments, but also take on the challenges of environmental protection and poverty reduction.

Yet, regionalism is more hope than reality, as stated in Chapter 7, following the Balassa path of economic integration. Only the European Union has succeeded in creating a compact block of so-called nation-states. Examining other regional arrangements, the evidence suggests that regionalism is not the *panacea* against the implications of the energy-environment conundrum.

Globalization and Culture

The drive of globalization stems from the economic integration of the countries of the world into one global market economy. The implications for the culture of the civilizations of the world have already started to become visible, as formulated in the theory of multiculturalism and the new *Diasporas*.[5] Negative aspects have been expressed in the theme of a clash of civilisations (Huntington, 2002). Positively, globalization harbours the possibility of a global open society, focussing upon the Internet and the civil society of NGOs.

Adherence to the global open society can only be denied at the cost of isolation. Its endorsement, fully or partially will differ from one culture to another. One may conceive of a slow but steady process of the coming together of various civilizations into one global open society, based upon respect for the different cultures of the world. Only a global open society may be capable of confronting two key challenges that globalization has thrown up: the energy-environment problematic and world poverty, however difficult these challenges may turn out to be (see Chapter 9).

An open society is a society that operates according to the same logic as that of scientific argument, i.e. critique. It thus invites all people to come forward with their ideas and exchange them in open debate, stating the pros and cons in relation to argument and counter-argument. There is no established theory, which should be removed from critique. The universe of discourse comprises all kinds of arguments: theoretical or practical, empirical or normative (as stated in Chapter 10).

Today, the challenge to an open global society comes from religious fundamentalism. Chapter 11 examines various forms of religious bigotry. *Salafism*, or Koranic fundamentalism has world political implications, both domestically and in foreign relations. But it is far from the only form of religious fundamentalism that opposes the global open society. And it is not inherent to Islam, when interpreted along the lines of giant Averroes.

Conclusion

In this introduction, I have stated the two assumptions that have guided my ideas about the process of globalization. The first assumption states, negatively, that globalization throws up the *energy-environment conundrum* involving depletion of oil and natural gas resources while harming the global environment. The global market economy links all countries into strong dependencies. Its political economy involves a staggering increase in economic inequalities, between countries as well as within countries. The impact of this *Juggernaut* upon the countries of the world is unstoppable, as it is driven by the most powerful incentives among human beings, namely the search for economic gain.

The second assumption says, positively that globalization is conducive to the creation of a global open society. The philosophy of the global open society transcends any present, real or imagined, clash of civilizations, drawing the political conclusions of the Internet revolution. It would require of the member states of the international community that they adhere to the treatises that their governments have signed. Thus, the global open society would combine openness in communications with good governance. By doing so, it may also enhance global justice.

The idea of an open society emerged in twentieth century philosophy as a result of the discussion about science and metaphysics, capitalism versus socialism, dictatorship versus democracy and nationalism versus internationalism. It includes two basic components: the free competition between arguments and the free choice of values. Various strands of thought may vindicate the open society. To show that both analytical philosophers and continental philosophers may arrive at the conception of the open society along entirely different routes, I will enquire into Popper and Derrida in Chapter 9. When it comes to ethics, as with Weber and Habermas in Chapter 10, the issue is the free choice of values. One may advocate an open society because one argues that it furthers the truthfulness of beliefs or the responsibility in choosing values. Thus, the philosophy of the open society is closely linked with a theory of knowledge and a theory of ethics.

I have chosen to approach the major aspects of globalization as the *Juggernaut* of the twenty-first century by examining the ideas of a few major scholars. Key theories are more easily remembered when they come with a name. To make this link as accessible as possible, I have added a few words in each chapter on the course of life of these prominent early theoreticians of globalization.

Notes

1 R.H. Tawney (2004), *The Acquisitive Society*, Dover Publications (2004).

2 See for instance Naomi Klein (2007), *The Shock Doctrine: The Rise of Disaster Capitalism*, New York: Allen Lane; John Gray (2002), *False Dawn: The Delusions of Global Capitalism*, Granta Books; Andrew Glyn (2007), *Capitalism Unleashed: Finance, Globalization, and Welfare*, Oxford: Oxford University Press; L. Boltanski and E. Chiapello (2007), *The New Spirit of Capitalism*, London: Verso; Leslie Sklair

(2002), *Globalization: Capitalism and Its Alternatives*, Oxford: Oxford University Press; V. Nee (2005), *The Economic Sociology of Capitalism*, Princeton, NJ: Princeton University Press; The Economist, *Globalisation. Making sense of an integrating world* (2001), London: The Economist Books.

3 F.S. Mishkin (2006), *The Next Great Globalization*, Princeton: Princeton University Press.

4 D.C. Korten (2001), *When Corporations Rule the World*, Bloomfield: Kumarian Press.

5 C.W. Watson (2000), *Multiculturalism*, Oxford: Open University Press; T. Modood (2007), *Multiculturalism*, Oxford: Polity Press; W. Kymlicka and K.G. Banting (eds) (2006), *Multiculturalism and the Welfare State: Recognition and Redistribution in Contemporary Democracies*, Oxford: Oxford University Press; M. Guibernau and J. Rex (eds) (1997), *The Ethnicity Reader: Nationalism, Multiculturalism and Migration*, Oxford: Polity Press; G. Sheffer (2006), *Diaspora Politics: At Home Abroad*, Cambridge: Cambridge University Press.

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PART 1
Rejecting the Cornucopian View

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Chapter 1

Resilience is better than Anticipation: Wildavsky was both Right and Wrong

Introduction

Resilience was a basic notion in Aaron Wildavsky's painstaking analysis of policy-making, budgeting and implementation. His most famous paper is titled: 'If Planning is Everything, then maybe it is Nothing?' (1973).[1] Correct, because rationality lies not in predicting *ex ante* what will happen, as no one has that certain information about society and social change. It resides in the capacity to respond to challenges by taking appropriate action *ex post*. Wildavsky draws the correct conclusion, that the market economy is to be preferred to any economic system that invites large-scale government intervention and regulation.

He combined the idea of resilience with a *cornucopian* view of the globe, i.e. he believed that advances in technology would deliver continued progress and provision of material items for mankind. Fundamentally, there would be enough matter and energy on the Earth to provide plenty for the estimated peak population of about 9 billion in 2050. The abundance of matter, energy and land would promise mankind an unlimited room for growth. The cornucopian view sees few natural limits to growth, as if the world could provide almost limitless abundance of natural resources. In practice, the cornucopian view relies upon the economic law of supply and demand: When demand rises for any commodity, its price rises accordingly, inducing producers to deliver more of it, or finding a substitute. The subsequent increase in production tends to lower the price and make the commodity widely available to consumers.

I am sceptical of the view that technology can overcome the problem of an increasing human population living off a finite base of natural resources at a very high standard of living. This view assumes that the resource in question is renewable, or that continued exploitation will benefit from constant technological break-throughs. Wildavsky was wrong here, failing completely to appreciate environmentalism.

His Life

Aaron Wildavsky was perhaps the most genial of American social scientists after the Great War. Not only did he make lasting contributions to several fields of political science and participated most actively in the debate on policy and

social change. But his style of writing, expressing his sharp intellectual capacity, was unsurpassed by any of the other major figures such as Dahl, Lindblom and Huntington. All he published was based upon a rare talent for combining new theory with massive empirical backing, just like Weber in the first half of the twentieth century.

Wildavsky's passed away prematurely from lung cancer in 1993. The child of Ukrainian immigrants, he grew up in Brooklyn and went to Brooklyn College. Born in 1930 in Brooklyn, he was the son of Eva and Sender Wildavsky, who had immigrated to the United States from Poltava. He served in the US Army and, in 1954–1955, held a Fulbright Fellowship to the University of Sydney. In 1955 he embarked on graduate work at Yale and completed his dissertation, *Dixon Yates: A Study in Power Politics*, in 1958. From 1962 until his death, he was a professor of political science at the University of California at Berkeley, where he served as department chairman during the stormy 1960s, and as dean of Graduate School of Public Policy – a blueprint for such programs in the US and abroad.

As former president of the American Political Science Association, Wildavsky was the most honoured political scientist of his generation. Some 40 books by him, and associates, enquire into the budgetary process, policy analysis, foreign affairs, culture and presidential elections. Wildavsky was looked upon as one of the 'neo-conservatives' who in the 1960s left the New Deal camp, as his contribution to conservatism targeted the limitations of government. His *Politics of the Budgetary Process* (1964) was named by the American Society of Public Administration as a most influential work in public administration in the last 50 years. His book with Heclo, *The Private Government of Public Money* from 1974 was a chief work on how British government, or Whitehall, operates in reality. He became a fellow of the American Academy of Arts and Sciences, the National Academy of Public Administration and the Center for Advanced Study in the Behavioral Sciences. Implementation analysis was stimulated by Wildavsky's book with Pressman (1973). And Wildavsky's studies of Jewish prophets, coming out of his strong interest in cultural analysis, opened up the Bible for political interpretation.[2]

One may divide Wildavsky's production into two stages, the Younger Wildavsky and the Older Wildavsky, with the cut off year around 1982, involving the start of his collaboration with anthropologist Mary Douglas, embarking upon cultural theory. His earlier work was based on an entirely different model of human decision-making, called *bounded rationality*.

The Theory of Resilience: The Younger Wildavsky

The young Wildavsky was occupied with theorizing the growth of government in the advanced countries of the world after 1945. This entailed a focus upon government outputs and outcomes. He found the model of decision-making that could be applied to all kinds of levels of government activity in the Herbert Simon theory of bounded rationality. Lindblom had already in the late 1950s applied this model to public administration, outlining his incrementalist approach or marginalist framework in 'On the Science of Muddling Through' (Lindblom, 1959).

It was in his budgetary studies that Wildavsky put the model of bounded rationality to work, developing incrementalism into a set of decision principles, later to be operationalized into mathematical concepts or budgetary equations. The same framework could be generalized to apply to any form of decision-making in policy-making or implementation.

Simon had launched the model of bounded rationality in an effort to improve upon the lack of realism in the neo-classical framework, typical of mainstream economics. It created a still enduring gulf between economics and business administration. Scholars looking at economic organization could not find empirical evidence for the validity of the assumptions of *homo economicus*:

1) Complete knowledge of all the alternatives of action.
2) Perfect information about the probabilities of all outcomes.
3) Rationality of preferences meaning comprehensively coherent evaluation of all conceivable outcomes.
4) The use of maximization strategies such as calculating the expected value or utility of each action alternative.

If economic man did not in reality behave like this, then perhaps also political man adhered to an alternative logic of behavior?[3] Business administration analyzes how enterprises operate in a market environment with or without much government intervention. Its focus of study is *organizational man*, operating in a collaborative context, not the independent economic man of Adam Smith, i.e. the rational consumer or the high-powered entrepreneur. The cognitive limitations upon individual rationality must be equally vexing in governmental offices, public bureaux and agencies. Thus, bounded rationality must be as true of public as of private organizations. This is the starting-point of Wildavsky's insights into public administration, public policy and implementation.

Following the model logic of bounded rationality, applying it to public sector, there will be an emphasis upon cognitive limitations as well as value confusion or conflicts. Thus, policy-making cannot be encompassing or comprehensive. It will focus upon the achievement of some goals to the exclusion of others, including even negligence of some objectives. Moreover, policy-making will be more intuitive than calculative. And goal attainment does not result in the maximization of any goal or objectives index, but merely in subjective satisfaction.

Wildavsky first applied bounded rationality to budget making, and then proceeded to examine policy-making in general as well as implementation with this model of human decision-making. Since government legislation, or policy-making, needs funding for activities to become real, budgeting fulfils an essential function in the state. Only its formal or legal aspects were well known when Wildavsky began to enquire into how budgets are really done. His findings were startling and made him world famous, almost immediately.

Lindblom translated the concepts of bounded rationality into incrementalism or marginalism with regard to public administration, whereas Wildavsky did it with reference to budgeting. Thus, budget making was analyzed as decisions over increments, positive or negative, in relation to a fixed base. Changes recorded from

one year to another were only concerned with the increments, never the base left unchanged or untouched. Incremental increases or decreases resulted from heavy confrontation between choice participants, who would not possibly be capable of arriving at a comprehensively rational goal structure (transitive and connex).

This analysis of budgeting made sense, portraying the choice participants as involved in conflicts that could only be resolved by making small decisions. It also seemed to be in agreement with the cognitive limitations typical of politicians and bureaucrats. If politics concerned other things than power and prestige, that would have to be money, meaning appropriations in the millions or billions.

Later on, Wildavsky and associates transformed this incrementalist theory of budgeting into a system of mathematical models, expressing budget making with equations. It focuses upon predicting the yearly changes in requests by agencies and appropriations by Congress with the goal of establishing stable patters of increases or decreases.

Bounded rationality rejects encompassing or comprehensive decision-making. It is sceptical about the rationality of human behavior. And it does not believe in the possibility of maximizing objectives. The practical conclusion is obvious: planning cannot work. Wildavsky arrived at it after finding convincing evidence for incrementalism in budgeting. But bounded rationality entails more.

Policy-making in general, not only budgeting, must adhere to the logic of bounded rationality, meaning that it is low scale problem solving with no guarantee of success. Policy analysis is more understanding than prescription. Government does not have sufficient control in order to radically change society, as only incremental changes are feasible, if any at all. Thus, a market economy must offer more reliable decision-making mechanisms than large scale planning.

Policy-making is not excluded in this fundamental reliance upon market mechanisms, but it can only work by limiting its scope or range and by making it more profound. Wildavsky turned against the Great Society when the full conclusions of his incrementalism were obvious to him in the 1970s, favouring voluntary coordination ahead of government intervention. To emphasize the limits of policy-making, he framed much of the new field of implementation by underlining the distance between policy ambitions and real outcomes.

The role of government becomes different, once all the conclusions from the application of bounded rationality onto government have been drawn. It may be summed up in the concept of resilience as the ability of a system to keep working with one or more of its components malfunctioning, called *fault tolerance*. Comprehensive social change is excluded, because it would pile up errors in decision-making and implementation. What can be hoped for is successive error elimination, improving matters marginally. The end result is a philosophy of state and society that underlines the role of the market economy – consisting of millions or billions of small decisions – and provides government with the function of intervening when things have gone wrong, through what Popper called 'piecemeal' policy-making, based on profound policy analysis.

This is the gist of the Younger Wildavsky, having a plausible and empirically backed theory of policy-making in general and budgeting in particular. Now, this theory entails nothing for or against environmentalism, or the philosophy that

argues that Mother Earth is endangered in various ways. After all, environmental policy-making could conceivably be done on the basis of the principle of resilience: Find out what is wrong – like, for instance, heavy metals pollution; acid rain; ozone depletion; climate change, and then proceed step by step to counteract them as much as possible. Yet, Wildavsky was not to arrive at this reasonable conclusion. Instead, he would become a most vocal critique of environmentalism. How did this come about?

New Cultural Theory: The Older Wildavsky

Wildavsky did not embark upon cultural theory by himself, as he collaborated with several scholars in developing its key conceptual categories. The influence of star anthropologist Mary Douglas was especially pronounced with Wildavsky, but a number of other scholars may also be mentioned such as Richard Ellis and Michael Thompson. Yet, it was mainly Wildavsky who pushed the implications from the New Cultural Theory (NCT) to their limit, becoming a main spokesman for the cornucopian position in globalization studies.[4]

The term comes from 'cornucopia', meaning the mythical 'horn of plenty' in Greek mythology. The *cornucopian* view is the opposite to the sceptical or Malthusian view that technology cannot overcome the problematic of an increasing human population living off a finite base of natural resources. If the resources used are renewable, or so vast that continued exploitation of supply could continue to meet demand, then there is no problem. In the debate over oil for instance, cornucopians posit that rising prices make deposits previously considered too expensive to extract profitable (oil sands) as well as further the development of alternative fuels as well.

Two scholars have ventured to enter the cornucopian position into the globalization debate, Wildavsky and Danish born B. Lomborg (2002). Whereas Lomborg proceeds from a statistical inquiry into resource data, Wildavsky employs cultural theory to arrive at his rejection of the environmental concerns in globalization. In fact, to counter the cornucopian argument, one may employ statistics differently from Lomborg, or one may question the conceptual foundation of Wildavsky in his New Cultural Theory. Here, the first and most important point is to show that the Older Wildavsky could not have reached his critical stance against the environmental movement merely on the basis of the model of the Younger Wildavsky, i.e. bounded rationality.

Let us look at one of his statements where giving strong endorsement of resilience as a strategy for coping with future uncertainty and present adversity:

> A strategy of resilience [as opposed to anticipation] requires reliance on experience with adverse consequences once they occur in order to develop a capacity to learn from the harm and bounce back. Resilience, therefore, requires the accumulation of large amounts of generalizable resources, such as organizational capacity, knowledge, wealth, energy, and communication, which can be used to craft solutions to problems that

> the people involved did not know would occur. Thus, a strategy of resilience requires much less predictive capacity but much more growth, not only in wealth but also in knowledge. Hence it is not surprising that systems, like capitalism, based on incessant and decentralized trial and error accumulate the most resources. Strong evidence from around the world demonstrates that such societies are richer and produce healthier people and a more vibrant natural environment.[5]

The endorsement of the principle of resilience is deducible from bounded rationality. But it in no way leads to his extreme rejection of environmentalism in almost all forms. The Older Wildavsky examined several environmental issues: global warming, acid rain, ozone holes, asbestos, etc. His analysis of the evidence concluded that all environmental issues involved risk claims. In *Is It Really True* (1997), Wildavsky presents findings concerning these safety issues in a concise manner, inviting citizens to evaluate whether there was an exaggeration of danger. From issues such as 'Love Canal' to 'Times Beach', from 'DDT' to 'Agent Orange', acid rain, and global warming, from saccharin to asbestos, nuclear waste, and radon, Wildavsky reached the conclusion that risks had been presented in a biased manner.[6]

Yet, such a comprehensive rejection of environmentalism and its concerns is not warranted on the basis of bounded rationality. One may accept the theory that the global environment faces severe problems but still adhere to an incremental strategy of for instance reducing the emissions of dangerous particles (green house gases) by and by. Wildavskys' relentless criticism of the environmental movement comes out of the new theory of human decision-making that he and his associates developed in the 1980s, the so-called *New Cultural Theory*.

Two central components in the approach of the Older Wildavsky are on the one hand a new theory of values and on the other hand the concept of blame. Together they make up a new concept of risk, or biased risk assessment, which is at the heart of his rejection of environmentalism. His books *Searching for Safety*, as well as *Risk and Culture* (with Mary Douglas) from 1982, and *The Rise of Radical Egalitarianism* (1991), structured the debate on risk and policy towards the risk.[7]

Life harbours opportunities and dangers, both positive risks and negative ones. To make life safer, one may have to accept the introduction of new risks. Increased safety results from learning, i.e. try new things, make mistakes and learn from experience. Over time, risks are reduced. Trial by error or an evolutionary approach to a safer world differs from today's risk management, based upon the *precautionary* principle. A wealthier population can buy healthier food, live in safer neighborhoods, purchase higher quality goods and see doctors more frequently. Risk reduction regulations should meet this minimum test: saving more people than they kill. Expensive regulations may fail this standard. Yet, to Wildavsky, the environmentalist's rejection of an evolutionary perspective on risk entails a bias, namely an egalitarian distaste for modern society. Wildavsky argued that negative attitudes toward risk reflect the dramatic rise in the power of so-called radical egalitarians, that is, those groups who see all differences in the citizenry as pertinent evidence of social injustices. Egalitarians view differentiation itself

as evil, opposing the Schumpeterian 'creative destruction' that accompanies economic and technological change, since change creates winners and losers. Egalitarians favour a 'steady-state' economy, thus viewing with suspicion the risks brought about by economic growth and technological progress.

People are living longer, healthier lives than ever before. Environmental risks are not dramatic compared to other existing threats. The world has not become riskier, but a wealthier, healthier population has naturally become more concerned with risks. Attitudes towards risk are a function not only of the objective risks, but also of the manner in which these risks are perceived – *bias*. Risks that are voluntary, visible, or reversible are more acceptable than risks that are hidden, imposed, or permanent. Thus, one should ask whether the risks of living near a nuclear plant, of drinking water that may contain low levels of chemicals, or of sharing blood with strangers are accepted voluntarily. Or are these risks imposed by the nuclear industry, manufacturers whose chemicals get into the water supply and AIDS carriers?

A seminal development in post World War II politics is the rise of powerful risk regulatory agencies in the USA and elsewhere. The regulatory offices underline certain risks and ignore others. These agencies consider only the possible risks from a new product or process. Wildavsky argued that culture as *bias* was the dominant factor, when people choose to fear things, and not beliefs about objective risks. People select to fear those things that convince them that deeply held biases are valid (cultural functionalism). Wildavsky claimed that America's intense preoccupation with trivial risks reflected the growing strength of egalitarian values. Finding threats in economic activity as well as dangers from technological change serve to criticize business and unnerve the market economy, which ultimately strengthens the environmental groups themselves – bias furthering the function of survival.

A cornucopian risk policy would strengthen the right of private contract, as people may wish to be free to voluntarily expose themselves to increased environmental risks, if there are offsetting benefits. People will examine the risks and benefits that lie on each side of an activity. In accepting risks, people should be free to use private means of managing their risks, like insurance, if indeed there is no asymmetric information.

Conclusion

The Older Wildavsky's rejection of environmentalism was more than a statistical exercise, as with Lomborg's much debated but also heavily criticized *The Sceptical Environmentalist* from 2002.[8] On the contrary, Wildavsky offered a whole new decision theory from which he branded environmentalism as extreme egalitarianism, serving the hidden purpose of undermining the economic institutions that individualists cherish – the competitive market economy. The crux of the matter is to make the concept of risk extremely biased towards avoidance of dangers, however small their probabilities. This leads to the *precautionary* principle, which could stop all taking of risks in order to benefit

from opportunities, creating wealth. However, it seems to me that Wildavsky committed a type I error, rejecting a true hypothesis, namely that the global environment is not breathing well.

New Cultural Theory (NCT) offers a fascinating model for the analysis of the diversity of human culture. But it does not replace the theory of bounded rationality. It is not even on a similar level of discourse. Environmentalism cannot be falsified merely by means of an analysis of different conceptions of risk. It is true that bounded rationality can be developed to include the notion of bias. Thus, it may be a bias that leads decision-making to be myopic and one-sided. And biases may stem from values. But it was NCT that led Wildavsky to claim that the bias of one group – the radical egalitarians – was more flawed than the bias of another group – the competitive individualists or 'marketers'.

The forces of globalization – this *Juggernaut* of the twenty-first century – are so overwhelmingly strong that they will change Mother Earth in an unalterable manner. The only thing we can do is to trust the strategy of resilience. Whether it will make it possible to reverse the present trends towards climate change, rain forest destruction and species extinction is debatable or perhaps unlikely. The irreversibility of globalization stems from the economic forces at work in global capitalism that will, I would argue, drive some of key resources of the Earth towards their ultimate limits of depletion.

Yet, the Younger Wildavsky was correct when emphasizing that social problems must be approached by means of rational analysis and piecemeal engineering. What makes the *Juggernaut* of globalization even more threatening is the fact that there is no global consensus about beliefs and values among the civilizations of the world. What would a plausible epistemology and theory of value look like that could confront this *Juggernaut*? Given the place of beliefs and values in any action, a theory of knowledge that responds to the demands of globalization with regard to the respect for the search for truth and a theory of value that at the same time respects peoples' values are what we need. Wildavsky's theory of public policy as resilience fits well with the notion of a global open society.

The theory of the open society would find its predecessors in both analytical and non-analytical philosophy. Thus, in the twentieth century one finds an elaborate idea of the open society in both Karl Popper and Jacques Derrida. However different they may have been, both philosophers emphasized criticism in discourse, or deconstruction of argument, as the basic activity in an open society. Thus, a respect for the opinions of people as well as for debate may be found with both analytical and non-analytical philosophers. The political philosophy of Immanuel Kant with its emphasis upon rule of law and eternal peace is highly relevant when speculating about the globalization process that will dominate the twenty-first century.[9] Yet, the Kantian framework too has to confront the basic difficulty of the twenty-first century, namely the *energy-environment conundrum*.

Notes

1 A. Wildavsky (1973) 'If planning is everything, then maybe it is nothing', in *Policy Sciences*, pp. 127–153. Reprinted in Wildavsky (2003), *The Revolt Against the Masses and Other Essays on Politics and Public Policy*, Brunswick, NJ: Transaction Publishing.

2 On his life, see A. Wildavsky (1989), *Craftways: On the Organization of Scholarly Work*, Brunswick, NJ: Transaction Publishing. See also http://content.cdlib.org/xtf/view?docId=hb5g50061q&doc.view=frames&chunk.id=div00096&toc.depth=1&toc.id=&brand=calisphere.

3 On bounded rationality, see H.A. Simon (1997), *Administrative Behavior: A Study of Decision-making Processes in Administrative Organisations*, New York: Simon & Schuster Ltd; rev. ed. edition. See also S. Huck(ed.) (2004), *Advances in Understanding Strategic Behaviour: Game Theory, Experiments and Bounded Rationality*, Basingstoke: Palgrave Macmillan.

4 R. Ellis, M. Thompson and A. Wildavsky (1990), *Cultural Theory*, Boulder, CO: Westview Press Inc; A. Wildavsky (1991), *The Rise of Radical Egalitarianism*, Boston, MA: Rowman & Littlefield Publishers.

5 See F. Smith (1992), 'Environmental Policy at the Crossroads', in M. Greve and F. Smith (eds) *Environmental Politics: Public Costs, Private Rewards*, New York: Praeger. See also http://www.cei.org/pdf/3262.pdf. A. Wildavsky (1997), *Is It Really True?*, Boston, MA: Harvard University Press.

6 M. Douglas and A. Wildavsky (1982), *Risk and Culture: An Essay on the Selection of Technical and Environmental Dangers*, Berkeley: University of California Press; A. Wildavsky (1988), *Searching for Safety*, Edison, NJ: Transaction Publishers. See also P. Slovic (2001), *The Perception of Risk*, London: Earthscan.

7 B. Lomborg, *The Sceptical Environmentalist* (2002), Cambridge: Cambridge University Press. See also B. Lomborg (2007), *Cool It: The Skeptical Environmentalist's Guide to Global Warming*, Knopf Publishing Group.

8 See e.g. I. Kant (1991), *Political Writings* (H.S. Reiss (ed.)), Cambridge: Cambridge University Press. See especially: I. Kant (1993), *Idée d'une histoire universelle au point de vue cosmopolitique*, Paris: Bordas; I. Kant (2007), *Vers la paix perpétuelle*, Paris: Flammarion.

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Chapter 2

The Energy-Environment Conundrum: Why Hubbert's Pessimism is Grounded

Introduction

The attention given to climate change since 2005 is, in reality, a late recognition that the ever expanding global market economy faces a major challenge for which it is ill equipped to respond: the energy-environment conundrum resulting from the excessive global reliance upon fossil fuels. This problematic of burning, in an exhilarating speed, the since million of years inherited energy assets of the globe, thus contributing to environmental pollution, had been identified already in the 1950s.

One aspect of this conundrum is the quick exhaustion of global oil reserves – the so-called Hubbert peak. Another aspect is the ever-grimmer state of the environment of Mother Earth. For quite some time, the debate has raged whether there is a tight link between the increasing burning of fossil fuels and the environmental degradation. Thus, climate change would chiefly result from CO_2 emissions – the greenhouse effect, suggested already around 1900 by Swedish chemist Arrhenius. This contested hypothesis seems to be vindicated by more and more recent data.

Whatever the exact links may be between the burning of oil, gas and coal and the polluting of the environment, it remains the case that mankind is facing a double-edged problematic, namely:

1) How to find energy alternatives to fossil fuels? and
2) How to protect Earth from the ecological disaster of global warming?

Each of these two problems poses daunting challenges to mankind. When taken together they create a pessimistic scenario for the future where energy becomes more and more expensive and degrades the global environment more and more. Hubbert realized early on the dilemma between capitalism as *Juggernaut* rolling up against the limits of the planet's resources.

Life of Hubbert

Marion King Hubbert (1903–1989), son of William Bee and Cora Virginia (Lee) Hubbert, was born in San Saba, Texas, 1903. When he was four his mother

organized a school for neighborhood children, an undertaking that impressed him deeply. A year later the family moved to the vicinity of Fort Stockton, where William Hubbert worked as a ranch foreman and farmer. Not long afterwards the family returned to San Saba County. His fascination with steam engines and telephones, then first appearing in Texas, revealed his precocity. Between 1921 and 1923 he attended Weatherford Junior College then enrolled at the University of Chicago, where he received his BS in 1926 and his MS in 1928. In 1930, while working towards his doctorate, he was hired to teach geophysics at Columbia University, where he remained until 1940. He finished a PhD in 1937. During the summer months Hubbert worked on geophysical problems for the Amerada Petroleum Corporation in Oklahoma, the Illinois State Geological Survey, and the United States Geological Survey. In 1943, after serving as a senior analyst at the Board of Economic Warfare in Washington, DC, he joined the Shell Oil Company in Houston, where he directed the Shell research laboratory up to retiring from Shell in 1964. Later Hubbert joined the United States Geological Survey as a senior research geophysicist, where he stayed until 1976.

It is true that Hubbert made important contributions to geophysics, ranging from fundamental scientific research to extensive studies of oil and natural gas reserves in the United States and worldwide. In 1937 he resolved a standing paradox regarding the apparent strength of materials that form the crust of the earth. Hubbert demonstrated mathematically that when the hardest of rocks on the earth's surface is subject to the immense pressures occurring across large areas, then it responds in a manner similar to clays. In the early 1950s he introduced important revisions in theories about the flow of underground fluids. Fluids can become entrapped under circumstances previously not thought possible, which calls for a major reassessment of the techniques employed to locate oil and natural gas deposits. By 1959, Hubbert contributed to the explanation of the puzzling displacement of enormous blocks of material, known to geologists as over thrust faults, as a consequence of fluid pressure between such blocks and underlying materials.[1]

Hubbert's Peaks

Yet, Hubbert is best known for his studies of petroleum and natural gas reserves. He started in the 1920s while a student at the University of Chicago. In 1949 he calculated the worldwide volume of oil and natural gas supplies and then also documented their sharply increasing consumption. In 1956 he predicted that the peak of crude oil production in the United States would occur between 1966 and 1971, an interpretation later judged as essentially correct. His figures of future reserves were lower than those accepted by American petroleum companies. To show the limits of available oil and natural gas supplies Hubbert delivered a report on mineral resources in Texas. He was invited to participate on various government panels, including the Committee on Natural Resources Advisory to President John F. Kennedy, organized by the National Academy of Sciences.

Hubbert was highly influential in promoting the study of geophysics. This area of research was well into the 1950s more at home in government agencies, private research institutions, or petroleum corporations than in academic environments. Between 1936 and 1949 Hubbert participated in committees on geophysical education by the American Institute of Mining and Metallurgical Engineers, the National Research Council, and the Geological Society of America. He became active in the Technocracy Movement of the 1930s, a group led by Howard Scott that attracted economist Veblen and physicist Tolman. He also remained committed to teaching undergraduates about natural resources, accepting visiting professorships for this purpose at the University of California at Los Angeles, the University of California at Berkeley and Johns Hopkins University.

Fossil Fuels

The global market economy is completely dependent upon cheap and efficient energy coming from the burning of oil, gas and coal . As global capitalism expands year in and year out, it needs more and more fossil fuels. The question then becomes: When will cheap fossil fuels be a thing of the past? Hubbert devoted himself to this problem by calculating so-called Hubbert peaks, one for US oil and another for global oil production. He was right about the timing of the first peak, but incorrect about the occurrence of the second peak. Estimating the correct Hubbert peak for global oil extraction involves some thorny problems with fitting a differential equation based upon correct data about production and available resources, which though are not known exactly. One may also employ a simple ratio of resources divided by consumption. Table 2.1 shows global energy consumption. According to Table 2.1, global energy consumption is expected to rise sharply, although fossil fuel reserves will shrink quickly.

The dependency of the global community and economy upon fossil fuels is as high as almost 90 percent. Thus, fossil fuels account for more than 80 percent of world energy consumption. Petroleum leads with a share of nearly 40 percent of total world energy consumption, followed by coal with 24 percent and natural gas with 22 percent. Fossil fuels are currently the most economically available source of power for both personal and commercial uses. There are environmental consequences associated with extracting, transporting and using fossil fuels. In particular, in the process of burning fossil fuels, compounds are emitted into the air, which cause harm to humans, plants, animals and entire ecosystems. Carbon dioxide as a greenhouse gas is one key element emitted, resulting in induced global warming. Yet, the first concern is: What to use when oil and natural gas are exhausted? Coal will not be exhausted for the next century, as there are still abundant reserves. But it pollutes more than oil and natural gas.

Reserves-to-production (R/P) ratios are available by country and for oil, natural gas and natural coal reserves. The R/P ratios represent the length of time that those remaining reserves would last, if production were to continue at the previous year's level. It is calculated by dividing remaining reserves at the end of the year by the production in that year. One may use these ratios to get

Table 2.1 World marketed energy consumption by country grouping, 2004–2030 (quadrillion Btu)

Region	2004	2010	2015	2020	2025	2030	Average annual % change, 2003–2030
OECD	*239.8*	*254.4*	*265.2*	*275.1*	*285.9*	*298*	*0.8*
North America	120.9	130.3	137.4	145.1	153	161.6	1.1
Europe	81.1	84.1	85.8	86.1	87.5	89.2	0.4
Asia	37.8	39.9	42.1	43.9	45.4	47.2	0.9
Non-OECD	*206.9*	*256.6*	*294.2*	*331.9*	*367.8*	*403.5*	*2.6*
Europe and Eurasia	49.7	54.7	59.4	64.4	68.7	71.5	1.4
Asia	99.9	131	154.7	178.8	202.5	227.6	3.2
Middle East	21.1	26.3	29.5	32.6	35.5	38.2	2.3
Africa	13.7	16.9	19.2	21.2	23.1	24.9	2.3
Central and South America	22.5	27.7	31.5	34.8	38.0	41.4	2.4
Total world	*446.7*	*511.1*	*559.4*	*607*	*653.7*	*701.6*	*1.8*

Note: Totals may not equal sum of components due to independent rounding.

Sources: 2004: Energy Information Administration (EIA), International Energy Annual 2004 (May–July 2006), website www.eia.doe.gov/iea. Projections: EIA, System for the Analysis of Global Energy Markets (2007).

an understanding of the energy-environment conundrum. Data are available with the *Energy Information Administration*, which is the official energy statistics bureau of the US Government. The International Energy Outlooks (IEO) contain yearly assessments, done by the Energy Information Administration (EIA), of the outlook for international energy markets all the way through to 2030. Thus, the US projections appearing in IEO2007 are consistent with those published in EIA's *Annual Energy Outlook 2007* (AEO2007). The Oil company, BP, also publishes data and projections about global energy. The crux of the matter is to separate *rosy beliefs* from realistic beliefs, confirmed by available information. There is a tendency to overestimate reserves and underestimate consumption growth.[2]

Oil

Oil was first discovered in the US in 1859. At the beginning of the twentieth century it supplied only 4 percent of the world's energy, but a few decades later it became the most important energy source. Today oil supplies about 40 percent of the world's energy and roughly 90 percent of its transportation energy. Since the shift from coal to oil, the world has consumed over 875 billion barrels. Another 1,000 or more billion barrels of probable reserves remain to be recovered. From now to 2020, world oil consumption is said to rise by about 60 percent.

Transportation would be the fastest growing oil-consuming sector. By 2025, the number of cars is predicted to increase to well over 1.25 billion from some 700 million today. Global consumption of gasoline would double. However, such trajectories are not realistic.

China and India have the highest rate of growth in oil use. In the next two decades, China's oil consumption is expected to grow at a rate of 7 percent per year and India's with 5 percent, compared to a 1 percent growth for the industrialized countries. Thus, it will be strategically imperative for these countries to embark upon a policy to secure their access to oil. If consumption goes up quicker in China and India, then fossil fuel reserves will last even shorter, with oil prices skyrocketing.

The Oil Reserves

Proved oil reserves stand at some 1300 billion barrels, which are quantities of oil that geological information indicates can with reasonable certainty be recovered from known reservoirs. Of the trillion barrels currently estimated, some 6 percent are in North America, 9 percent in Central and Latin America, 2 percent in Europe, 4 percent in Asia Pacific, 7 percent in Africa, 6 percent in the Former Soviet Union, but some 66 percent of global oil reserves are in the hands of Middle Eastern regimes: Saudi Arabia (25 percent), Iraq (11 percent), Iran (8 percent), UAE (9 percent), Kuwait (9 percent), and Libya (2 percent) – see Table 2.2.

Table 2.2 includes the oil sands of Canada, which have recently been fully upgraded. Thus in Table 2.3 Canada is recognized as a major oil country.

There is, of course, more oil to be discovered as Table 2.3 indicates – but how much more? The problem is that finding new reserves becomes increasingly difficult, costly and improbable. An optimistic scenario is outlined in Table 2.4, drawing upon the exploration of low-grade oil reserves or deeply situated reserves in the oceans.

Are these estimates really realistic ones? Finding new huge oil deposits becomes more and more unlikely although search methods have improved. Several oil producers are getting close to their Hubbert peaks.

The rise of radical Islam has called for the reduction of the dependency on Middle East oil. To offset the growing influence of Middle East producers, non-OPEC countries in Africa and Former Soviet Union have increased their production considerably. Thus, Russia's oil production has increased, the country becoming the second largest exporter behind Saudi Arabia. Yet, Russia's prospects of being a key player in the oil market in the long run are slim. Russia ranks seventh in proven oil reserves, holding only 5 percent. Its oil production *peaked* around 1999. At current production rates, Russia will be out of the running by 2020. Reliable oil suppliers outside the Middle East now include African countries like Angola, Nigeria, Guinea and Chad. But total reserves amount to 7 percent and its largest producer, Nigeria will peak by the end of the decade. By 2020 some 80 per cent of global oil reserves could be controlled by Middle Eastern regimes. Table 2.5 shows the overall picture for reserve to production ratios.

Table 2.2 World oil reserves by country as of January 2007 (billion barrels)

Country	Oil reserves
Saudi Arabia	262.3
Canada	179.2
Iran	136.3
Iraq	115
Kuwait	101.5
United Arab Emirates	97.8
Venezuela	80
Russia	60
Libya	41.5
Nigeria	36.2
Kazakhstan	30
United States	21.8
China	16
Qatar	15.2
Mexico	12.4
Algeria	12.3
Brazil	11.8
Angola	8
Norway	7.8
Azerbaijan	7
Rest of world	65.5
World total	*1317.4*

Source: 'Worldwide Look at Reserves and Production', *Oil and Gas Journal*, Vol. 104, No. 47 (December 18, 2006), pp. 24–25.

Reserves in non-Middle East countries are being depleted more rapidly than those of Middle East producers. Their overall reserves-to-production ratio is much lower – about 15 years for non-Middle East against 80 years for Middle East producers. Some large producers, such as Russia, Mexico, US, Norway, China and Brazil will become small producers in less than two decades. In fact, Middle Eastern producers will have a much bigger piece of the pie than ever before. Saudi Arabia has 261,700,000,000 barrels (bbl) of oil, i.e. 25 percent of the world's oil. The United States has 22,450,000,000 bbl. The United States government recently declared Alberta's oil sands to be 'proven oil reserves'. Consequently, the US upgraded its global oil estimates for Canada from five billion to 175 billion barrels. This means that the rosy scenario concerning oil reserves boils down to

Table 2.3 World oil reserves: ten largest gains and losses, 2000–2007, by country (billion barrels)

Country	Change in oil reserves
Canada	174.3
Iran	46.6
Kazakhstan	24.6
Nigeria	13.7
Libya	12
Qatar	11.5
Russia	11.4
Venezuela	7.4
Azerbaijan	5.8
Kuwait	5
Romania	–0.8
Malaysia	–0.9
Yemen	–1
Colombia	–1.1
Saudi Arabia	–1.2
United Kingdom	–1.3
Australia	–1.3
Norway	–2.9
China	–8
Mexico	–16

Source: 'Worldwide Look at Reserves and Production', *Oil and Gas Journal*, Vol. 104, No. 47 (December 18, 2006), pp. 24–25.

some hefty projections about three things: Canadian oil sands, Australian offshore deposits and Caspian Sea reserves.

China and the other countries of non-OECD Asia fuel their growth in oil demand by taking an increasing share of the world's oil imports. China's petroleum imports are expected to grow fourfold from 2003 to 2030, with much of the increase coming from Persian Gulf suppliers. In 2003, China imported 0.9 million barrels per day of oil from Persian Gulf OPEC members and, in 2030, its Persian Gulf imports could total 5.8 million barrels per day. The rising dependence of China on Middle Eastern oil supplies has geopolitical implications both for relations between the two regions and for the oil-consuming world as a whole, such as the US and the EU.

Oil producers in South America have significant potential for increasing output over the next decade besides Venezuela. Brazil became a million barrel per day

Table 2.4 The optimistic scenario

	Proved reserves	Reserves growth	Reserves not yet found
Total world	1,292.5	730.2	938.9
OPEC	901.7	395.6	400.5
Non-OPEC	390.9	334.6	538.4

producer of crude oil in 1999; Brazil's production is expected to rise throughout the projection period, topping 3.9 million barrels per day of conventional supply and 0.6 million barrels per day of unconventional supply in 2030. Colombia's civil war has delayed development of its oil production infrastructure, but its output is expected to exceed 610,000 barrels per day within the decade. Argentina is expected to increase its production volumes by at least 65,000 barrels per day over the next three years; by the end of the decade it could possibly become a million barrel per day producer. There is optimism that Ecuador will double production volumes over the projection period.

Production and Consumption

Saudi Arabia produces the most at 8,711,000.00 bbl per day, and the US consumes the most at 19,650,000.00 bbl per day, amounting to a staggering 25 percent of the world's oil consumption. One may point out that the US and the EU has the same oil deficits. Thus, the US consumes 19,650,000.00 bbl per day and produces 8,054,000.00, leaving a discrepancy of 11,596,000.00 bbl per day. This compares to the EU, which produces 3,244,000.00 bbl per day and consumes 14,480,000.00 bbl per day for a discrepancy of 11,236,000.00 per day.

At known reserves at 1,300 billions of barrels and world consumption at 76 million per day, there is oil for about 27 years – the reserves to consumption ratio. If consumption increases an average 5 percent a year, then oil would only last for about 15 years, given increased demand in e.g. China and India. But the US Geological Survey estimates the amount of oil that is still to be found at about 3 trillion including low-grade oil reserves – a realistic figure?

In the IEO projections, world oil demand would grow from 80 million barrels per day in 2003 to 98 million barrels per day in 2015 and 118 million barrels per day in 2030. Demand increases strongly despite higher world oil prices. Much of the growth in oil consumption is projected for the nations of non-OECD Asia, where strong economic growth is expected. In this rosy scenario, total petroleum supply in 2030 will need to increase by 38 million barrels per day, to 118 million barrels per day, from the 2003 level of 80 million barrels per day. OPEC producers are expected to provide 14.6 million barrels per day of the increase. Higher oil prices would cause a substantial increase in non-OPEC oil production, or 23.7 million

Table 2.5 World crude oil and lease condensate production and reserve-to-production ratios by country, 2005

Country	2005 production million barrels/day	2005 share of world production (percent)	Reserve-to-production ratio (years)
S. Arabia	9.55	13.3	75
Russia	9.04	12.6	18
US	5.18	7.2	11
Iran	4.14	5.7	83
China	3.61	5	14
Mexico	3.33	4.6	12
Norway	2.7	3.7	9
Nigeria	2.63	3.6	37
UAE	2.54	3.5	106
Kuwait	2.53	3.5	110
Venezuela	1.98	2.7	107
Iraq	1.88	2.6	168
Algeria	1.8	2.5	18
UK	1.65	2.3	7
Brazil	1.63	2.3	18
Libya	1.63	2.3	65
Canada	1.28	1.8	10
Angola	1.26	1.7	12
Indonesia	1.07	1.5	12
Kazakhstan	1.05	1.5	23
Qatar	0.84	1.2	50
Oman	0.77	1.1	19
Malaysia	0.75	1	11
Argentina	0.7	1	10
India	0.66	0.9	22

Sources: 2005 Production: 'Energy Information Administration', *Short-Term Energy Outlook* (October 2006). Reserves: 'Worldwide Look at Reserves and Production', *Oil and Gas Journal*, Vol 104, No. 47 (December 18, 2006), pp. 24–25.

barrels per day. The resulting increase in world oil prices would turn previously uneconomical resources in non-OPEC regions economical.

Non-OPEC supplies of both *conventional* and *unconventional* resources (including bio fuels, coal-to-liquids, and gas-to-liquids) are expected to increase as a result. In 2003, world production of unconventional resources totalled only 1.8 million barrels per day. Unconventional resource supplies could rise to 11.5

million barrels per day and account for nearly 10 percent of total world petroleum supply in 2030. But will it really be enough to meet demand?

Much of the world's incremental oil demand is projected for use in the transportation sector, where there are few competitive alternatives to petroleum. Several of the technologies associated with unconventional liquids – gas-to-liquids, coal-to-liquids, and ethanol and bio diesel produced from energy crops – are expected to provide petroleum liquids. The industrial sector accounts for a 39 percent share of the projected increase in world oil consumption, mostly for chemical and petrochemical processes. Could the price stem this demand explosion?

World Oil Prices

The projections of the IEO concerning future oil price are shaky, failing to anticipate the 2008 increases. The high price case assumes that the worldwide crude oil resource is 15 percent smaller and is costly to produce. The low price case assumes that the worldwide resource is 15 percent more plentiful and is cheaper to produce. Advances in exploration and production technologies are likely to bring prices down when additional oil resources become part of the reserve base. Limits to long-term oil price escalation include substitution of other fuels such as natural gas for oil, marginal sources of conventional oil that become reserves i.e., economically viable when prices rise and unconventional sources of oil that become reserves at still higher prices.

Future oil prices will reflect increasing costs in opening new fields as well as global inflationary pressures. Oil prices can be expected to be volatile in the future principally because of unforeseen political and economic circumstances. It is widely recognized that tensions in the Middle East, for example, could give rise to serious disruptions of oil production and trading. On the other hand, high real prices could deter consumption and encourage the emergence of significant competition from currently uneconomical energy supplies.

The share of total petroleum exported to OECD member nations in 2030 is more than 9 percentage points below their 2003 share and their share of Persian Gulf exports falls by more than 13 percent. The significant shift expected in the balance of OPEC export shares between the OECD and non-OECD economies is a direct result of the economic growth anticipated for the non-OECD nations, especially non-OECD Asia. OPEC petroleum exports to non-OECD economies increase by 13.6 million barrels per day over the projection period, with more than 85 percent of the increase going to the non-OECD economies of Asia. China, alone, is likely to import about 8.4 million barrels per day from OPEC in 2030, 69 percent of which is expected to come from Persian Gulf producers.

North America's petroleum imports from the Persian Gulf could increase by more than 40 percent from 2003 to 2030. At the same time, more than 40 percent of North America's total imports in 2030 are expected to come from Atlantic Basin producers and refiners, with significant increases anticipated in crude oil imports from Latin American producers, including Venezuela, Brazil, Colombia

and Mexico. West African producers, including Nigeria and Angola, are also expected to increase their export volumes to North America.

With a moderate decline in North Sea production, OECD Europe is expected to import increasing amounts from Persian Gulf producers and from OPEC member nations in western Africa. Substantial imports from the Caspian Basin are also expected. OECD Asian nations are expected to increase their already heavy dependence on OPEC oil. The non-OECD economies of Asia are expected to more than double their total petroleum imports between 2003 and 2030.

Natural Gas

As the oil reserves are increasingly used up, the global market economy will turn to natural gas and coal for its energy needs, at least in the short run. Natural gas is in many ways a perfect substitute for oil. Table 2.6 presents the known natural gas reserves.

World natural gas reserves in 2006 stood at 6.112 trillion cubic feet – about 1 percent higher than the estimate for 2005. Despite increasing natural gas consumption, particularly over the past decade, most regional reserves-to-production ratios have remained high. Consumption of natural gas worldwide is expected to increase from 95 trillion cubic feet/year in 2003 to 182 trillion cubic feet/year in 2030 in the IEO projections. Natural gas will be an important fuel source in the electric power and industrial sectors. The annual growth rate for natural gas consumption in the projections is slightly lower than for coal consumption, as higher world oil prices increase the price of natural gas, making coal a more economical fuel source.

The reserves-to-production ratio is estimated at 66.7 years. Central and South America has a reserves-to-production ratio of 55.0 years, Russia 81.5 years, and Africa 96.9 years. The Middle East's reserves-to-production ratio exceeds 100 years. In Australia and New Zealand, the industrial sector currently is the predominant user of natural gas, and it accounts for more than one-half of all natural gas consumption in the region. Given abundance of coal reserves in Oceania and with its natural gas reserves located far from demand centres, its natural gas consumption in 2030 on a Btu basis is projected to be less than one-half of its coal consumption. Non-OECD Europe and Eurasia and the Middle East account for almost three-quarters of the world's natural gas reserves. In 2003 they accounted for 39 percent of world production, but these two regions account for 47 percent of the projected increase in global natural gas production from 2003 to 2030, much of it for export to OECD countries.

Natural gas consumption, worldwide, increases at an average rate of 2.4 percent annually from 2003 to 2030, as compared with 2.5 percent per year for coal and 1.4 percent per year for oil. Natural gas is a more environmentally attractive energy source, burning more efficiently than coal. Table 2.7 shows the actual and projected gas production. Natural gas is expected to be increasingly used in the energy and industrial sectors.

Table 2.6 World natural gas reserves by country as of January 1, 2007

Country	Reserves (trillion cubic feet)	Percent of world total
World	*6.183*	*100*
Top 20 countries	*5.602*	*90.6*
Russia	1.68	90.6
Iran	974	15.8
Qatar	911	14.7
Saudi Arabia	240	3.9
UAE	214	3.5
US	204	3.3
Nigeria	182	2.9
Algeria	162	2.6
Venezuela	152	2.5
Iraq	112	1.8
Turkmenistan	100	1.6
Kazakhstan	100	1.6
Indonesia	98	1.6
Norway	82	1.3
China	80	1.3
Malaysia	75	1.2
Uzbekistan	65	1.1
Egypt	59	0.9
Canada	58	0.9
Kuwait	55	0.9
Rest of world	*581*	*9.4*

Source: 'Worldwide Look at Reserves and Production', *Oil and Gas Journal*, Vol. 104, No. 104, no.47 (December 18, 2006), pp. 22–23.

In 2003, the industrial sector accounted for 44 percent and the electric power sector 31 percent of the world's total natural gas consumption. Natural gas would grow by 2.8 percent per year in the industrial sector and 2.9 percent per year in the electric power sector from 2003 to 2030. In the industrial sector, natural gas would overtake oil as the dominant fuel by 2030. In the electric power sector, however, despite its rapid growth, natural gas remains a distant second to coal in terms of share of total energy use for electricity generation.

Table 2.7 World natural gas production by region and country, 2004–2030 (trillion cubic feet)

Region/country	2004	2010	2015	2020	2025	2030	Av. ann. % change 2004–2030
OECD North America	*26.9*	*28.1*	*28.2*	*29.3*	*29.2*	*29.6*	*0.4*
United States[a]	19	19.5	19.7	20.9	20.7	20.7	0.3
Canada	6.5	6.8	6.4	6	5.9	6	–0.3
Mexico	1.5	1.8	2	2.4	2.6	3	2.7
OECD Europe	*11.4*	*11.7*	*11.2*	*10.7*	*10.5*	*10.1*	*–0.4*
OECD Asia	*1.6*	*2.2*	*3.1*	*3.8*	*4.3*	*4.7*	*4.2*
Japan	0.1	0.1	1	0.1	0.1	0.1	0.4
South Korea	0	0	0	0	0	0	–
Australia/New Zealand	1.5	2.1	3	3.7	4.2	4.6	4.3
Total OECD	*39.9*	*42*	*42.5*	*43.8*	*44.1*	*44.5*	*0.4*
Non-OECD Europe and Eurasia	*28.6*	*33.2*	*36.4*	*39.5*	*42.4*	*45.2*	*1.7*
Russia	22.4	24.9	27.4	30	32.6	35.2	1.7
Other	6.3	8.3	9.1	9.5	9.8	10	1.8
Non-OECD Asia	*10.5*	*13.6*	*16.4*	*19.1*	*22.2*	*25.2*	*3.3*
China	1.4	2.5	3.1	3.5	4	4.3	4.1
India	1	1.5	1.7	2.1	2.4	2.5	3.5
Other non-OECD Asia	8.1	9.6	11.5	13.5	15.8	18.4	3.1
Middle East	9.9	13.8	17.4	20.1	21.8	24.1	3.3
Africa	5.3	7.8	9.5	11.1	13	15.1	4
Central and South America	4.5	5.8	7	7.7	8.4	9.2	2.7
Brazil	0.3	0.6	0.7	0.8	0.9	1	4.1
Other Central/South America	4.2	5.3	6.3	6.9	7.6	8.2	2.5
Total non-OECD	*58.9*	*74.3*	*86.7*	*97.4*	*108*	*119*	*2.6*
Total world	*98.9*	*116*	*129*	*141*	*152*	*163*	*1.9*

a includes supplemental production or forecast discrepancy. For details, see Energy Information Administration (EIA), *Annual Energy Outlook 2007*, p. 159, Table A13, 'Natural Gas Supply, Disposition and Prices'.

Note: Totals may not equal sum of components due to independent rounding.

Sources: 2004: EIA, International Energy Annual 2004 (May–July 2006), website www.eia.doe.gov/iea. 2010–2030: United States: EIA, *Annual Energy Outlook 2007*, DOE/EIA-0383(2007) (Washington, DC, February 2007), website eia.dow.gov/oiaf/aeo. Others: EIA, *System for the Analysis of Global Energy Markets* (2007).

Natural Gas Projections

Russia, Iran and Qatar, combined, accounted for about 58 percent of the world's natural gas reserves. Reserves in the rest of the world are fairly evenly distributed on a regional basis. OECD member countries account for one-half of the world's total natural gas use, non-OECD Europe and Eurasia account for one-quarter and the other non-OECD countries account for the remainder. The OECD countries are mature consumers of natural gas with well-established infrastructure and consuming patterns. In contrast, natural gas infrastructure in the non-OECD countries, outside of non-natural gas reserves are located in the Middle East and Eurasia.

Natural gas consumption in the non-OECD countries could grow more than twice as fast as consumption in the OECD countries, with 3.3 percent average annual growth from 2003 to 2030 for non-OECD countries. Natural gas demand in the non-OECD countries would account for 73 percent of the total world increment in natural gas consumption over the projection horizon.

Iran's natural gas reserves increased by 31 trillion cubic feet between 2005 and 2006, from 940 trillion cubic feet to 971 trillion cubic feet. In the Middle East, higher reserve estimates were reported by Saudi Arabia, with an increase of 7 trillion cubic feet. Other countries with substantial increases in reserves include Norway with a gain of 11 trillion cubic feet, Nigeria with an increase of 9 trillion cubic feet and Indonesia with an increase of 7 trillion cubic feet. Declining natural gas reserves were reported for Bangladesh, Argentina, Taiwan, Germany and the United Kingdom. Of the new natural gas resources expected to be added through 2025, the rosy scenario projects 2350 trillion cubic feet.

Russia is the world's single largest exporter of natural gas, with net exports of 6.3 trillion cubic feet in 2003, by pipeline. There are plans to export natural gas from the Middle East. Much of the region's increase in production is projected to be used domestically in the electric power sector, as shifts from petroleum to natural gas allow the producing countries to monetize more of their oil assets through export. Africa, although with underdeveloped natural gas resources, could face the fastest growth rate in natural gas production worldwide, with supply possibly rising by 4.9 percent per year from 2003 to 2030, to be exported, both by pipeline and in the form of liquefied natural gas (LNG).

Whereas the OECD countries accounted for 41 percent of the world's total natural gas production and 52 percent of total natural gas consumption in 2030 they are projected to account for only 25 percent of production and 40 percent of consumption. The OECD countries would rely increasingly on imports to meet natural gas demand, with a growing percentage of traded natural gas coming in the form of LNG. Canada is the source of almost 90 percent of US net natural gas imports, but would remain so only until 2010. After 2010, LNG imports replace Canadian imports as the primary source. The decline of Canada's largest producing basin, the Western Sedimentary Basin, coupled with 1.9 percent projected average annual growth in Canada's domestic consumption, reduces Canadian natural gas export to the US. Two major North American pipelines that have long been in the planning stages will be constructed. A Canadian

pipeline to transport natural gas from the MacKenzie Delta is expected to become operational in 2011. An Alaska pipeline is expected to begin transporting natural gas from Alaska to the lower 48 States in 2015, contributing to US domestic supply. Alaska's natural gas production would account for most of the growth in domestic US conventional natural gas production, with flows on the pipeline exceeding 2 trillion cubic feet/year in 2030.

More than one-third of the remaining US technically recoverable resource base consists of unconventional sources, which include tight sands, shale and coal-bed methane. Since most of the large onshore conventional fields in the US have already been discovered, the US and Canada must use these costlier sources of supply to make up for declines in conventional production.

Natural gas consumption for electricity generation in OECD Europe will increase. A growth of 3.9 percent per year from 2003 to 2030 makes gas outweigh the use of renewables for electricity generation by 2015 and the use of coal or nuclear power by 2020. The share of total electricity sector energy demand met by natural gas would rise from 14 percent in 2003 to 24 percent in 2015 and 32 percent in 2030. Russia currently provides around two-thirds of Europe's imports. Europe is aggressively expanding LNG receiving capacity and several new pipelines have been proposed that would link Europe to supplies in Egypt, the Middle East, the Caspian Basin and Africa.Yet, both China and India use natural gas little in the overall energy mix, representing only 3 percent and 7 percent, respectively, of total primary energy consumption in 2003. Both countries are rapidly expanding infrastructure to facilitate natural gas consumption, as well as natural gas imports. Both China and India have limited natural gas reserves and are projected to rely on imports to meet more than 40 percent of natural gas demand in 2030. China and India have also been pursuing LNG imports.

However, in Central and South America, natural gas is already the fastest growing fuel source, with demand increasing on average by 3.9 percent per year. Pipelines linking Bolivia, Brazil, Argentina, Chile and Uruguay crisscross South America's southern cone area. By 2010, natural gas overtakes oil as the second most prevalent fuel for electricity generation in the region, with renewables and hydropower retaining their dominant share in the sector.

Coal

Coal is the most abundant of the fossil fuels, and its reserves are the most widely distributed. Estimates of the world's total recoverable reserves of coal in 2002 were about 1,081 billion sort tons. The resulting ratio of coal reserves to production exceeds 200 years. Significant reserves are found in the US and the Former Soviet Union but not in the Middle East. The US, with 26 percent, and the Former Soviet Union, with 23 percent, account for nearly half of global coal reserves. China (12 percent), Australia (8 percent), Germany (7 percent), South Africa (5 percent) and Poland (2 percent) also have significant amounts of coal.

One option in the energy-environment conundrum is to look at alternative ways of producing crude oil, especially coal to liquids (CTL) technology. Coal

liquefaction has been utilized since the early twentieth century. In South Africa, coal liquefaction already meets 30 percent of oil demand. High oil prices and energy security concerns are conducive to renewed interest in CTL technology. Using coal to produce an alternative to crude oil is feasible as there is a lot more coal than either oil or gas.

CTL utilizes indigenous coal resources or the international coal market to reduce the risks associated with oil import dependence. Coal prices are generally lower and more stable than oil prices. CTL can produce oil between $25 and $45 per barrel of oil equivalent, including the costs of carbon capture and storage. CTL fuels are ultra clean to use: no sulphur, significantly reduced NOx, particulate matter and carbon monoxide emissions. CTL fuels offer higher efficiencies than conventional oil resulting in lower CO_2 emissions when used. Carbon dioxide capture and storage CCS provides the potential for major reductions in CO_2 emissions from coal. CCS could reduce greenhouse gas emissions by some 20 percent over the full life cycle than fuels derived from crude oil.

Proved coal reserves are shown for anthracite and bituminous including brown coal and sub-bituminous and lignite. Data are measured in million tonnes – see Table 2.8. Coal production includes data for solid fuels only. Included in the hard coal category are bituminous and anthracite. The sub-bituminous coal includes lignite and brown coal. In the coal production Table 2.8, the units are in million tonnes oil equivalent (mtoe).

Coal reserves are more evenly distributed than oil or gas – see Table 2.9. Proved reserves of coal are general taken to be those quantities that geological and engineering information indicates with reasonable certainly can be recovered in the future from known deposits under existing economic and operating conditions.

Coal consumption is high in Asia and the United States – Table 2.10. It is expected to rise sharply due to the coming shortages in oil.

Governments in Australia, China, the USA and India have all been taking serious steps towards CTL development, but the main use of coal is for electricity production and heating.

Other Energy Resources

Nuclear power consumption stagnated in 2005, rising by 0.6 percent, below the 10-year average of 1.8 percent – see Table 2.11. But energy from nuclear power is expected to rise, despite there being no solution in sight for all the waste.

Wind, geothermal and solar power generation, as well as bio fuels, continue to grow rapidly, but at present they represent only a small part of today's global energy picture. It comprises less than 3 percent of primary energy consumption, but plays an increasingly important role in the energy balance in some countries. Wind power generation has a significant share in total electricity generation in Denmark (16 percent), Spain (8 percent) and Germany (5 percent); geothermal sources account for approximately one quarter of total electricity generated in El Salvador, one fifth of all electricity in the Philippines and in Kenya, and 17 percent in Iceland.

Table 2.8 World coal production by region, 2004–2030 (quadrillion Btu)

Region	2004	2010	2015	2020	2025	2030	Av. annual percent
OECD North America	*24.6*	*27*	*28.3*	*29.4*	*33.3*	*37*	*1.6*
United States	22.8	24.6	25.8	26.7	30.4	33.9	1.5
Canada	1.5	1.9	2.1	2.2	2.4	2.5	2
Mexico	0.2	0.4	0.4	0.4	0.5	0.5	3.3
OECD Europe	*7.9*	*8*	*7.7*	*7.1*	*6.6*	*6.6*	*–0.7*
OECD Asia	*8.1*	*9.7*	*10.4*	*11.2*	*11.9*	*12.7*	*1.7*
Japan	0	0	0	0	0	0	–
South Korea	0.1	0.1	0.1	0.1	0.1	0.1	0.9
Australia/NZ	8.1	9.6	10.2	11.1	11.9	12.6	1.7
Total OECD	*40.6*	*44.7*	*46.4*	*47.7*	*51.9*	*56.2*	*1.3*
Non-OECD Europe and Eurasia	*10*	*11.5*	*12.5*	*13.3*	*13.6*	*13.7*	*1.2*
Russia	5.9	7.1	7.5	7.9	8.2	8.5	1.4
Other	4.1	4.4	5	5.3	5.4	5.3	0.9
Non-OECD Asia	*55.2*	*70.6*	*82.4*	*94.7*	*105.4*	*116.7*	*2.9*
China	43	55.4	64.6	74.3	83.4	93.4	3
India	7.3	8.1	9.5	10.8	12	13	2.3
Other	4.9	7.1	8.3	9.6	10	10.3	2.9
Middle East	*	*	*	*	*	*	–1.2
Africa	5.9	7.1	7.7	8	8.6	8.9	1.6
Central and S. America	1.8	2.7	3.1	4	4.3	4.3	3.4
Brazil	0.1	0.1	0.2	0.2	0.2	0.2	3.3
Other	1.7	2.5	2.9	3.8	4.1	4.1	3.4
Total non-OECD	*72.8*	*91.9*	*106*	*120.1*	*131.9*	*143.7*	*2.6*
Total world	*113.4*	*136.6*	*152*	*167.7*	*183.8*	*199.9*	*2.2*

* Less than 0.05 quadrillion Btu.

Note: With the exception of North America, non-seaborne coal trade is not represented in the IEO2007 cases. As a result the projected levels of production assume that net non seaborne coal trade will balance out across the world regions. Currently, a significant amount of non- seaborne coal trade takes place in Eurasia, represented by exports of steam coal from Kazakhstan to Russia and exports of coking coal from Russia to Ukraine.

Sources: 2004: Energy Information Administration (EIA), *International Energy Annual 2004* (May–July 2006), website www.eia.doe.gov/iea. Projections: EIA, *System for the Analysis of Global Energy Markets* (2007) and *National Energy Modelling System* run IEO2007.D032707B.

Table 2.9 World recoverable coal reserves as of January 1, 2004 (billion short tons)

Region/country	Bituminous and Anthracite	Sub-bituminous	Lignite	Total
World total	*528.8*	*298.1*	*170.9*	*997.7*
United States[a]	123.7	110.3	33.5	267.6
Russia	54.1	107.4	11.5	173.1
China	68.6	37.1	20.5	126.2
India	99.3	0	2.6	101.9
Other non-OECD				
Europe/Eurasia	50.1	187	31.3	100.1
Australia and NZ	42.6	2.7	41	87.2
Africa	55.3	0.2	*	55.5
OECD Europe	19.5	5	18.8	43.3
Other non-OECD Asia	1.4	2	8.1	11.5
Brazil	0	11.1	0	11.1
Other Central and South America	8.5	2.2	0.1	10.8
Canada	3.8	1	2.5	7.3
Other[b]	1.8	0.4	0.1	2.3

a Data for the United States represent recoverable coal estimates as of January 1, 2006.
b Includes Mexico, Middle East, Japan, and South Korea.
* Less than 0.05 billion short tons.

Sources: United States: Energy Information Administration, unpublished data from the Coal Reserves Database (April 2007). All other countries: World Energy Council, 2004, *Survey of Energy Resources*, J. Trinnaman and A. Clarke (eds) (London: Elsevier, December 2004).

There is no universally accepted definition of renewable energy, but it includes energy derived from natural processes that do not involve the consumption of exhaustible resources such as fossil fuels and uranium. Hydropower, wind and wave power, solar and geothermal energy and combustible renewables (methane gas) and renewable waste (waste incineration and biomass) are the constituents of renewable energy. Large-scale hydropower generation and non-commercial combustible renewables and renewable waste are sometimes excluded from this definition, as small-scale hydro, wind and wave power, solar and geothermal energy and modern biomass energy defined narrowly as renewable energy.

Renewable energy is often non-commercial, as its production and consumption do not involve a market transaction. Energy that is not commercially traded comprises combustible renewables and renewable waste, including firewood,

Table 2.10 World coal consumption by region, reference case, 1990–2030 (quadrillion Btu)

Region/country	History			Projections					Av. annual % change
	1990	2003	2004	2010	2015	2020	2025	2030	2004–2030
OECD									
OECD N. America	*20.7*	*24.1*	*24.1*	*26.4*	*27.9*	*29.7*	*33.2*	*36.8*	*1.6*
United States[a]	19.2	22.3	22.6	24.2	25.6	27.3	30.6	34.1	1.6
Canada	1.3	1.4	1.2	1.5	1.5	1.6	1.7	1.8	1.6
Mexico	0.2	0.4	0.3	0.7	0.7	0.8	0.9	0.9	3.8
OECD Europe	*17.6*	*13.2*	*13.1*	*13.2*	*128*	*12.2*	*11.6*	*11.5*	*-0.5*
OECD Asia	*5.2*	*8.6*	*9.3*	*9.8*	*10*	*10.3*	*10.7*	*11*	*0.6*
Japan	2.7	4.3	4.8	4.8	4.8	4.7	4.6	4.6	-0.1
South Korea	0.9	1.9	2.1	2.2	2.5	2.7	2.9	3.1	1.5
Australia/NZ	1.5	2.3	2.4	2.8	2.8	2.9	3.2	3.3	1.2
Total OECD	*43.5*	*45.9*	*46.6*	*49.4*	*50.7*	*52.1*	*55.5*	*59.3*	*0.9*
Non-OECD									
Europe/Eurasia	15.1	8.7	9	9.7	10.5	11.3	11.7	11.7	1
Russia	6.8	4.5	4.8	5.1	5.3	5.7	6	6.1	0.9
Other	8.3	4.2	4.2	4.6	5.2	5.6	5.6	5.6	1.1
Non-OECD Asia	*27.2*	*45.8*	*53.6*	*70.4*	*82.9*	*95.8*	*107*	*119*	*3.1*
China	20.3	33.7	41.1	55.3	65.3	75.5	85	95.2	3.3
India	4.3	7.5	8.1	9.3	10.7	12.2	13.7	15.2	2.4
Other non-OECD									
Asia	2.6	4.6	4.3	5.8	6.9	8	8.5	8.8	2.8
Middle East	0.1	0.4	0.4	0.5	0.5	0.5	0.6	0.6	1.6
Africa	3	4	4.1	5.3	5.7	6	6.5	6.7	1.9
Central/S. America	0.6	0.8	0.8	1.1	1.3	1.5	1.5	1.7	2.8
Brazil	0.4	0.5	0.5	0.7	0.8	0.9	0.9	1.1	3.3
Other Central and South America	0.2	0.4	0.4	0.4	0.5	0.6	0.6	0.6	2
Total non-OECD	*45.9*	*59.7*	*67.9*	*86.9*	***100,9***	*115,1*	*126,4*	*140*	*2.8*
Total world	*89.4*	*105.6*	*114.5*	*136.4*	*151.6*	*167.2*	*182,9*	*199,1*	*2.2*

a includes the 50 states and the District of Columbia.

Note: Totals may not equal sum of components due to independent rounding.

Sources: History: Energy information administration (EIA), *International Energy Annual 2004* (May–July 2006), website www.eia.doe.gov/iea. Projections: EIA, *Annual Energy Outlook 2007*, DOE/EIA-0383(2007) (Washington, DC February 2007), AEO2007 *National Energy Modelling System*, run AEO207. D112106A, website www.eia.doe.gov./oiaf/aeo; and *System for the Analysis of Global Energy Markets* (2007).

Table 2.11 World nuclear energy consumption by region, reference case, 1990–2030 (billion kilowatt hours)

Region/country	History			Projections					Av. annual % change
	1990	2003	2004	2010	2015	2020	2025	2030	2004–2030
OECD									
OECD North America	*649*	*845*	*883*	*910*	*936*	*2012*	*1015*	*1033*	*0.6*
United States[a]	577	764	789	789	812	885	886	896	0.5
Canada	69	71	86	110	113	116	118	126	1.5
Mexico	3	10	9	11	11	11	11	11	0.9
OECD Europe	*743*	*931*	*941*	*914*	*902*	*835*	*831*	*847*	*-0.4*
OECD Asia	*242*	*351*	*396*	*433*	*497*	*559*	*592*	*646*	*1.9*
Japan	192	228	272	299	325	352	370	394	1.4
South Korea	50	123	124	134	172	207	222	252	2.8
Australia/NZ	0	0	0	0	0	0	0	0	-
Total OECD	*1.64*	*2.13*	*2.22*	*2.26*	*2.34*	*2.406*	*2.44*	*2.53*	*0.5*
Non-OECD									
Europe and Eurasia	219	260	263	278	323	405	479	476	2.3
Russia	115	141	137	149	190	236	299	315	3.2
Other	104	119	125	129	133	169	180	161	1
Non-OECD Asia	*38*	*97*	*103*	*148*	*265*	*389*	*495*	*557*	*6.7*
China	0	42	48	64	135	217	283	329	7.7
India	6	16	15	37	66	97	124	144	9.1
Other non-OECD Asia	32	39	40	47	64	75	88	84	2.9
Middle East	0	0	0	5	6	6	6	6	-
Africa	8	13	14	14	15	15	21	21	1.5
Central and S. America	9	20	19	20	28	34	33	33	2.2
Brazil	2	13	12	13	18	22	22	22	2.5
Other Central and South America	7	7	7	7	10	12	11	11	1.6
Total non-OECD	*274*	*390*	*399*	*465*	*637*	*849*	*1034*	*1093*	*4*
Total world	*1.91*	*2.52*	*2.62*	*2.72*	*2.97*	*3.255*	*3.47*	*3.62*	*1.3*

a Includes the 50 states and the District of Columbia.

Note: Totals may not equal sum of components due to independent rounding.

Sources: History: Energy Information Administration (EIA) *International Energy Annual 2004* (May–July 2006), website www.eia.doe.gov/iea. Projections: EIA, *Annual Energy Outlook 2007*, DOW/EIA-0383(2007) (Washington, DC, February 2007), AEO2007 *National Energy Modelling System*, run AEO2007. D112106A, website www.eiia.doe/gov/oiaf/aeo; and *System for the Analysis of Global Energy Markets* (2007).

charcoal, crop residues and animal waste. This source of energy is important in emerging economies and accounts for much of the world's renewable energy use.

Geothermal, wind and solar forms of renewable energy are today mostly used in the production of electricity and process heat or district heating. Renewable energy, excluding combustible renewables and renewable waste, accounts for around 2.7 percent of total primary energy. In electricity generation, renewables are the third most important source of energy after coal and gas, providing 18 percent of total electricity. Hydropower accounts for almost 90 percent of total electricity generated from renewable sources corresponding to 16 percent of total electricity generation. Geothermal, wind and solar electricity generation combined, account for approximately 1 percent of global electricity generation. Global hydroelectric generation rose by 4.2 percent, the second consecutive above-average year – see Table 2.12**.** It is also expected to rise considerable although these resources have been fully exploited in several countries. Table 2.13 shows the carbon dioxide imprint upon the globe.

Conclusion

The global economy and its insatiable need for cheap energy is the *Juggernaut* that pulls the cart of globalization. Whatever measures are taken to protect the environment – and they are of utmost importance, the energy side of the conundrum will prevail when priorities are made, meaning that environmental concerns will have to cede. The total impact upon Mother Earth will depend upon how the energy problem is resolved. That there will be enormous consequences is clear already today, as climate change has, it seems, begun to work out its course in the twenty-first century.[3]

Since it will prove impossible to replace the burning of oil with renewable energy resources or nuclear energy, the only realistic long-run perspective is the massive use of oil sands, natural gas and coal. The environmental impact will be enormous. There is cause for pessimism about the resolution of the energy-environment conundrum that the global economy is conducive to. To keep expanding the economy and reduce poverty around the globe, there must be access to cheap energy. Only continued use of fossil fuels can provide that for the foreseeable future. But burning fossil fuels results in environmental changes that probably have enormous consequences for the planet. This holds especially, if large scale coal burning would be the only final option for mankind. As scarcity of oil increases, oil prices will climb higher and higher. Are energy markets so well operating that they send efficient signals to energy producers to shift into other sources? Or will adaptation be slow, resulting in a global depression similar to the 1930s? Table 2.14 presents total energy consumption 1990–2030.

If the energy question becomes entangled with the religious question about the correct God and the place of religion in state and society, then the prospects for modernization and peace appear much smaller. The oil reserves are located disproportionately in the Middle East. In this region, religion is a main cause

Table 2.12 World consumption of hydroelectricity and other renewable energy by region, reference case, 1990–2020 (quadrillion Btu)

Region/country	History			Projections					Av. annual % change
	1990	2003	2004	2010	2015	2020	2025	2030	2004–2030
OECD									
OECD N. America	*9.5*	*9.8*	*9.9*	*12.2*	*12.6*	*13.1*	*13.8*	*14.4*	*1.5*
United States[a]	6.1	6	6	7.5	7.8	8.1	8.4	8.6	1.4
Canada	3.1	3.5	3.5	4	4.1	4.3	4.7	5	1.4
Mexico	0.3	0.4	0.4	0.6	0.7	0.7	0.7	0.7	2.3
OECD Europe	4.8	5.9	6.3	6.9	7.2	7.5	7.7	8	0.9
OECD Asia	1.6	1.8	1.7	1.9	2	2.1	2.2	2.3	1.2
Japan	1.1	1.2	1.1	1.3	1.3	1.4	1.4	1.5	1
South Korea	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	3.2
Australia/NZ	0.4	0.5	0.5	0.6	0.6	0.7	0.7	0.7	1.3
Total OECD	*15.9*	*17.5*	*17.9*	*21.1*	*21.8*	*22.7*	*23.7*	*24.7*	*1.2*
Non-OECD									
Europe/Eurasia	2.8	2.8	2.9	3.6	4.1	4.3	4.6	4.9	2
Russia	1.8	1.6	1.7	2.2	2.5	2.5	2.7	2.8	2
Other	1	1.2	1.2	1.4	1.6	1.8	1.9	2	2
Non-OECD Asia	*3*	*5.2*	*5.7*	*7*	*7.9*	*9.1*	*10.2*	*11.3*	*2.7*
China	1.3	2.9	3.3	4	4.6	5.3	5.9	6.6	2.7
India	0.7	0.8	9	1	1.1	1.4	1.6	1.7	2.5
Other non-OECD									
Asia	0.9	1.5	1.5	2.1	2.2	2.5	2.7	3	2.8
Middle East	0.1	0.2	0.1	0.2	0.2	0.2	0.3	0.3	2.7
Africa	0.6	0.9	0.9	1.1	1.1	1.2	1.3	1.3	1.5
Central/S. America	3.9	5.6	5.6	7.4	8.2	9.1	9.9	11	2.6
Brazil	2.2	3	3.1	4.2	4.8	5.4	6.1	6.8	3.1
Other Central and S. America	1.7	2.5	2.5	3.2	3.4	3.6	3.9	4.1	1.9
Total non-OECD	*10.3*	*14.5*	*15.3*	*19.3*	*21.6*	*23.9*	*26.3*	*28.8*	*2.5*
Total world	*26.2*	*32.1*	*33.2*	*40.4*	*43.4*	*46.5*	*50.1*	*53.5*	*1.9*

a Includes the 50 states and the District of Columbia.

Note: Totals may not equal sum of components due to independent rounding. US totals include net electricity imports, methanol, and liquid hydrogen.

Sources: See Table 2.11.

of political instability. This will probably aggravate the energy-environment conundrum.

Table 2.13 World carbon dioxide emissions by region, 1990–2030 (billion metric tons)

Region/country	History		Projections					Av. annual % change	
	1990	2004	2010	2015	2020	2025	2030	1990–2004	2004–2030
OECD	*11.4*	*13.5*	*14.1*	*14.7*	*15.2*	*15.9*	*16.7*	*1.20*	*0.80*
North America	5.8	6.9	7.3	7.8	8.2	8.8	9.4	1.30	1.20
Europe	4.1	4.4	4.5	4.6	4.6	4.6	4.7	0.50	0.30
Asia	1.5	2.2	2.3	2.4	2.4	2.5	2.6	2.50	0.60
Non-OECD	*9.8*	*13.5*	*16.8*	*19.2*	*21.6*	*23.9*	*26.2*	*2.30*	*2.60*
Europe and Eurasia	4.2	2.8	3.1	3.3	3.5	3.7	3.9	-2.80	1.20
Asia	3.6	7.4	9.7	11.4	13.1	14.8	16.5	5.20	3.10
Middle East	0.7	1.3	1.6	1.8	2	2.1	2.3	4.40	2.30
Africa	0.6	0.9	1.1	1.3	1.4	1.5	1.7	2.50	2.30
Central and S. America	0.7	1	1.2	1.4	1.6	1.7	1.9	3.10	2.30
Total world	*21.2*	*26.9*	*30.9*	*33.9*	*36.9*	*39.8*	*42.9*	*1.70*	*1.80*

Sources: 1990 and 2004: Energy Information Administration (EIA), *International Energy Annual 2004* (May–July 2006), website www.eia.doe.gov/iea. 2010–2030: EIA, *System for the analysis of Global Energy Markets* (2007).

Table 2.14 World total energy consumption by region and fuel, reference case 1990–2030 (quadrillion Btu)

Region/country	History			Projections					Av. annual % change
	1990	2003	2004	2010	2015	2020	2025	2030	2004–2030
OECD									
OECD N. America									
Liquids	40.5	47.2	49.2	50.6	53.5	56.2	59.1	62.7	0.9
Natural gas	23.2	28.5	28.5	31.5	33.5	35.3	36.1	36.8	1
Coal	20.7	24.1	24.1	26.4	27.9	29.7	33.2	36.8	1.6
Nuclear	6.9	8.9	9.3	9.7	9.9	10.7	10.8	11	0.6
Other	9.5	9.8	9.9	12.2	12.6	13.1	13.8	14.4	1.5
Total	100.8	118.3	120.9	130.3	137.4	145.1	153	161.6	1.1
OECD Europe									
Liquids	28.4	31.9	32.4	32	32.2	32.4	32.6	32.7	0

Table 2.14 cont'd

Region/country	History			Projections					Av. annual % change
	1990	2003	2004	2010	2015	2020	2025	2030	2004–2030
Natural gas	11.2	18.6	19.3	21.8	23.6	24.8	26.3	27.6	1.4
Coal	17.6	13.2	13.1	13.2	12.8	12.2	11.6	11.5	–0.5
Nuclear	7.9	9.8	9.9	10.2	10	9.3	9.3	9.4	–0.2
Other	4.8	5.9	6.3	6.9	7.2	7.5	7.7	8	0.9
Total	*69.9*	*79.5*	*81.1*	*84.1*	*85.8*	*86.1*	*87.5*	*89.2*	*0.4*
OECD Asia									
Liquids	14.5	17.7	17.4	17.3	17.9	18.2	18.6	19	0.4
Natural gas	2.9	5.3	5.3	6.3	6.9	7.3	7.6	8	1.5
Coal	5.2	8.6	9.3	9.8	10	10.3	10.7	11	0.6
Nuclear	2.5	3.5	4	4.6	5.3	6	6.3	6.9	2.1
Other	1.6	1.8	1.7	1.9	2	2.1	2.2	2.3	1.2
Total	*26.6*	*36.9*	*37.8*	*39.9*	*42.1*	*43.9*	*45.4*	*47.2*	*0.9*
Total OECD									
Liquids	83.4	96.7	98.9	99.9	103.5	106.8	110	114.4	0.6
Natural gas	37.2	52.4	53.1	59.6	64	67.5	70	72.3	1.2
Coal	43.5	45.9	46.6	49.4	50.7	52.1	55.5	59.3	0.9
Nuclear	17.3	22.2	23.2	24.5	25.3	26	26.4	27.3	0.6
Other	15.9	17.5	17.9	21.1	21.8	22.7	23.7	24.7	1.2
Total	*197.4*	*234.7*	*239.8*	*254.4*	*265.2*	*275.1*	*286*	*298*	*0.8*
Non-OECD									
Non-OECD Europe and Eurasia									
Liquids	19.5	9.4	9.9	10.6	11.2	11.8	12.4	12.9	1
Natural gas	27.5	24.2	25.1	27.6	29.9	32.3	34.5	36.6	1.5
Coal	15.1	8.7	9	9.7	10.5	11.3	11.7	11.7	1
Nuclear	2.5	2.9	2.9	3.2	3.7	4.7	5.5	5.5	2.5
Other	2.8	2.8	2.9	3.6	4.1	4.3	4.6	4.9	2
Total	*67.2*	*47.9*	*49.7*	*54.7*	*59.4*	*64.4*	*68.7*	*71.5*	*1.4*
Non-OECD Asia									
Liquids	13.9	28.1	30.6	38.7	44	49.1	54.9	61.5	2.7
Natural gas	3	8.1	8.9	13.3	16.9	20.5	24.7	29.3	4.7
Coal	27.2	45.8	53.6	70.4	82.9	95.8	107	119.2	3.1
Nuclear	0.4	1	1.1	1.6	3	4.3	5.5	6.2	7
Other	3	5.2	5.7	7	7.9	9.1	10.2	11.3	2.7

Table 2.14 cont'd

Region/country	History			Projections					Av. annual % change
	1990	2003	2004	2010	2015	2020	2025	2030	2004–2030
Total	*47.5*	*88.2*	*99.9*	*131*	*154.7*	*178.8*	*203*	*227.6*	*3.2*
Non-OECD (c'td)									
Middle East									
Liquids	7.3	11	11.6	14.6	15.9	17.2	18.7	20.1	2.1
Natural gas	3.8	8.4	9	11	12.8	14.6	15.8	17.1	2.5
Coal	0.1	0.4	0.4	0.5	0.5	0.5	0.6	0.6	1.6
Nuclear	0	0	0	0.1	0.1	0.1	0.1	0.1	–
Other	0.1	0.2	0.1	0.2	0.2	0.2	0.3	0.3	2.7
Total	*11.3*	*19.9*	*21.1*	*26.3*	*29.5*	*32.6*	*35.5*	*38.2*	*2.3*
Africa									
Liquids	4.3	5.6	5.7	6.9	7.9	8.9	9.4	10.1	2.2
Natural gas	1.5	2.7	2.8	3.5	4.3	5	5.8	6.6	3.3
Coal	3	4	4.1	5.3	5.7	6	6.5	6.7	1.9
Nuclear	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	1.7
Other	0.6	0.9	0.9	1.1	1.1	1.2	1.3	1.3	1.5
Total	*9.5*	*13.3*	*13.7*	*16.9*	*19.2*	*21.2*	*23.1*	*24.9*	*2.3*
Central/ S. America									
Liquids	7.8	11.1	11.5	13.4	15.2	16.8	18.4	19.9	2.1
Natural gas	2.2	4	4.4	5.5	6.5	7.1	7.8	8.5	2.6
Coal	0.6	0.8	0.8	1.1	1.3	1.5	1.5	1.7	2.8
Nuclear	0.1	0.2	0.2	0.2	0.3	0.4	0.4	0.4	2.3
Other	3.9	5.6	5.6	7.4	8.2	9.1	9.9	11	2.6
Total	*14.5*	*21.7*	*22.5*	*27.7*	*31.5*	*34.8*	*38*	*41.4*	*2.4*
Total non-OECD									
Liquids	52.7	65.2	69.3	84.1	94.1	103.8	114	124.4	2.3
Natural gas	38	47.4	50.3	610	70.4	79.5	88.5	98.1	2.6
Coal	45.9	59.7	67.9	86.9	100.9	115.1	127	139.8	2.8
Nuclear	3.1	4.2	4.3	5.3	7.2	9.6	11.7	12.4	4.2
Other	10.3	14.5	15.3	19.3	21.6	23.9	26.3	28.8	2.5

Table 2.14 cont'd

Region/country	History			Projections					Av. annual % change
	1990	2003	2004	2010	2015	2020	2025	2030	2004–2030
Total	*150*	*191.1*	*206.9*	*256.6*	*294.2*	*331.9*	*368*	*403.5*	*2.6*
Total world									
Liquids	136.2	161.9	168.2	183.9	197.6	210.6	224	238.9	1.4
Natural gas	75.2	99.8	103.4	120.6	134.3	147	159	170.4	1.9
Coal	89.4	105.6	114.5	136.4	151.6	167.2	183	199.1	2.2
Nuclear	20.4	26.4	27.5	29.8	32.5	35.7	38.1	39.7	1.4
Other	26.2	32.1	33.2	40.4	43.4	46.5	50.1	53.5	1.9
Total	*347.3*	*425.7*	*446.7*	*511.1*	*559.4*	*607*	*654*	*701.6*	*1.8*

Note: Energy totals include net imports of coal, coke and electricity generated from biomass in the United States. Totals may not equal sum of components due to independent rounding. The electricity portion of the national fuel consumption values consists of generation from domestic use plus an adjustment for electricity trade based on a fuel's share of total generation in the exporting country.

Sources: History: Energy Information Administration (EIA), *International Energy Annual 2004* (May–July 2006), website www.eia.doe.gov/iea. Projections EIA, *Annual Energy Outlook 2007*, DOE /EIA-0383(2007) (Washington DC, February 2007), AEO2007 *National Energy Modelling System*, run AEO2007. D112106A, website www.eia.doe.gov/oiaf/aeo; and *System for the Analysis of Global Energy Markets* (2007).

Notes

1 M. King Hubbert (1987), *Oral History*, Niels Bohr Library, American Institute of Physics, New York; McGraw-Hill (1987), *Encyclopaedia of Science and Technology*, New York: McGraw-Hill; New York Times (1984), *Who's Who in Frontiers of Science and Technology*, see http://www.hubbertpeak.com/hubbert/bio_doel.htm.

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PART 2
March of the *Juggernaut*

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Chapter 3

World Capitalism and Unsustainable Lifestyles: Veblen is Still Relevant Today

Introduction

The global market economy keeps growing every year, fuelled by trade and foreign direct investments (FDI). International trade has expanded each and every year since 1945; and FDIs have grown exponentially in the last decades. Yet, poverty is everywhere present, not only in poor countries.

Capitalism is the undisputed economic regime for the globe, following the demise of the command economy – socialism – and the dismantling of the nationalist regimes – state capitalism. In some parts of the world, capitalism is restrained through the institutions of the market economy, but in other parts it operates as '*capitalisme sauvage*'. Savage capitalism including slavery, human trafficking, child labor, prostitution, excessive working hours and extremely low wages, absence of labor protection regulations, etc, occurs not only in the poorest countries of the world but also in the rapidly developing countries, e.g. China and India.

Capitalism, in its legal or illegal forms, produces an ever-greater bundle of goods and services that it distributes in a highly inegalitarian fashion. The problem of poverty has become more and more pressing, at the same time as the wealth of the wealthiest has grown bigger and bigger. Several billionaires have more wealth than the total GDP of poor countries. This imbalance between aggregate income and the distribution of income leads to an exacerbation of the phenomena of capitalism that Thorstein Veblen pinned down 100 years ago under the label of '*conspicuous consumption*'.

I wish to argue in this chapter that we live in a Veblen world even more today than in the 1920s. In his foresightedness Veblen predicted the dominance of the people in the bank over the craftsmen, the finance community over the entrepreneur. Today it is often easier to make money on dealing with money than on craftsmanship and entrepreneurship.

Veblen's Life

The son of Norwegian immigrants, Veblen was born 1857 in Manitowoc County, Wisconsin, and grew up in rural Minnesota. He received his BA from Carleton College (1880) and Ph.D. in philosophy from Yale (1884). From 1892 to 1906, he taught political economy at the University of Chicago, gaining a reputation as brilliant but eccentric. He had to leave the University of Chicago in 1906 following an extramarital affair. He taught at Stanford for three years, but was expelled again for personal reasons. With some difficulty Veblen found a post as a lecturer at the University of Missouri at a much lower salary. In *The Theory of the Leisure Class* (1899) Veblen targeted the influence of laissez-faire economics and big business in shaping modern society and culture. *The Instinct of Workmanship* (1914), elaborated on his idea that the modern business enterprise was in fundamental conflict with the human propensity for useful effort.

In 1918 he started in the Food Administration in Washington, DC, but his approach to economic problems was of little use to government administrators. In the fall of 1918 he joined the editorial staff of *The Dial*, a literary and political magazine in New York, for which he wrote articles that were later published in book form. A series of these articles was later published in *The Engineers and the Price System* (1921), where Veblen outlined a utopian idea for complete reform of the economic system: engineers had the knowledge to run industry and should take over its direction, because they would manage it for efficiency instead of profit. This became a central theme to the debate over technology and the so-called 'technocracy' movement. His last book, *Absentee Ownership and Business Enterprise* (1923), stressed the contradiction between the industrial arts and business enterprise.[1]

Veblen's private life fell apart around 1920, when his second wife suffered a nervous collapse which was followed by her death. Veblen himself had to be looked after by a few devoted friends and appeared to be psychologically incapable of conversing with strangers interested in his ideas. For a while he lectured at the New School for Social Research in New York City, his salary supported by a subsidy from a former student. In 1926 he gave up teaching and returned to California, where he lived with a stepdaughter in a cabin in the mountains overlooking the sea. He remained there until the end of his life in 1929.

Veblen's position on the fringe started when he grew up in a Norwegian immigrant farming community in Wisconsin, speaking only Norwegian at home, as he did not learn English until his teens. He studied economics under John Bates Clark, a leading neoclassical economist. Later he did his graduate work at Johns Hopkins University, under pragmatist philosopher Peirce, and at Yale University, under laissez-faire proponent William Graham Sumner. But he never endorsed their ideas. Veblen wanted to explain the social and cultural causes and effects of economic change. Yet, Veblen was unsuccessful at getting economists to examine the original problems that now enter evolutionary economics, partly due to his special style of writing.

Veblen's scepticism about religion and his rough manners was an obstacle with the many universities that were affiliated in some way with churches. His great

luck was that in 1892 the newly formed University of Chicago hired his mentor, J. Laurence Laughlin. Laughlin took Veblen on as a teaching assistant and also as managing editor of the *Journal of Political Economy*. One admirer, Wesley C. Mitchell called him 'a visitor from another world': 'No other such emancipator of the mind from the subtle tyranny of circumstance has been known in social science, and no other such enlarger of the realm of inquiry'.[2] Suffice it to say that his key concepts are highly relevant today as the global market economy enters the twenty-first century.

Leisure Class, Workmanship, Technology and Absentee Ownership

Veblen engaged in several projects that appear artificial or abstruse today. Thus, his explanations of the origins of property and the agrarian society are easy to criticize, which is also true of his ideas of the origins of the paternalistic society and the dominance of men over women. As an institutionalist, he is inferior to Weber. His strength was *social critique*, where he has had no comparable American besides perhaps John Kenneth Galbraith.[3] Yet, his original vision appears most concisely when the variety of insights from his different books are put together into a neo-Veblen view of post-modern society.

The leisure class is not merely there today. It dominates the culture of society. The attention focussed upon the *Superrich* has taken on such proportions that their manners become guiding for ordinary men and women. It is the mass media, particularly television and newspapers that convey on a daily basis what the Superrich are doing or not doing, how they dress as well as what they believe in.

Workmanship contrasts starkly with the glamour of the heroes of the leisure class, the Hollywood system. Ordinary workmanship is low paid, whereas unique pieces of workmanship, such as paintings and modern art, are paid staggering sums of money, because they enhance the prestige of the people in the leisure class.

The modern corporation with its ocean of shareholders – absentee ownership – pays dream salaries for its small group of key managers while rewarding its core group of employees – the engineers – badly. Technology like workmanship creates the advanced products in the market economy, but the chief rewards tend to end up with the *bourse cluster* of finance people and CEOs of the big corporations. Never has the difference between the salaries of the *bourse cluster* and those of the ordinary employee been so huge.

When the *bourse cluster* mixes with the leisure class, then the neo-Veblen vision comes into place in the twenty-first century with full transparency. The chief weakness of this capitalist economy is not the excessive rewards of the capitalists but the on lingering feature of poverty. One might perhaps be prepared to accept the capitalist economy, if it really reduced global poverty while at the same time enriching the leisure class and the *bourse cluster*. In defence of capitalism, one may argue that it is the only economic system proven to work, as it achieves allocative efficiency, meaning maximizing output, according to Chicago School Economics

teaching. If it alleviates the burden of the poor, then perhaps one might accept the incredible richness of the leisure class? But does it?

Veblen's idea of replacing the price system with technocracy appears naïve, but his notion of conspicuous consumption has lost no relevance at all. Today the key question is: If the modern corporation is necessary for economic efficiency, then how can its fruits be distributed in a more egalitarian fashion, including both its employees and the billions of poor people in the world today?

Poverty amidst Conspicuous Consumption

Poverty is pronounced deprivation of well-being. Traditionally poverty was understood primarily as material deprivation, as living with low income and low consumption, characterized primarily by poor nutrition and poor living conditions. One observes that income poverty in most cases is associated with low health and education levels. Income and human poverty also tend to be accompanied by social deprivations such as high vulnerability to adverse events – disease, economic crisis, or natural disaster, voicelessness in most of society's institutions and powerlessness to improve one's living circumstances. Poverty as a multidimensional phenomenon suggests a more comprehensive policy aimed at poverty reduction through access to health and education services and development of social security. Poverty reduction strategies must be based upon the fact that different aspects of poverty interact, reinforcing each other. Thus, improving access to basic needs not only makes poor people feel less vulnerable, but also allows them to move to another location or changing qualifications. Increasing poor people's representation and participation contributes to better targeting of public policies, e.g. health and education services.

As poverty may be measured in several ways, one needs to look at the evidence from various indicators. Thus, one finds that the number of poor countries is increasing, while the number of people living under a certain poverty lines has been reduced somewhat due to economic advances in mainly China and India.

Poor Countries

It is the United Nations General Assembly that decides which countries are included in the list of LDCs. It is the group of African, Caribbean and Pacific countries that designate themselves as the poorest countries in the world. Sometimes they act in unison before the international organizations. This group is sometimes referred to as the 49 or 50 poorest countries in the world. Fifty countries are currently designated least developed countries (LDCs). The list is reviewed every three years by the Economic and Social Council (ECOSOC), in the light of recommendations by the Committee for Development Policy (CDP).

There are no WTO definitions of 'developed' or 'developing' countries. Developing countries in the WTO are designated on the basis of self-selection. The WTO recognizes as LDCs those countries that have been designated as such

by the United Nations. Of the current 50 LDCs on the UN list, 32 have become WTO members. Eight additional LDCs have been in the process of accession to the WTO.

Among the current 50 countries considered to be LDCs, 40 are ACP countries. They have a population of 700 million, representing approximately 12 percent of the world population. The level of poverty of the population and the lack of economic, institutional and human resources distinguishes this category of countries. In its latest triennial review of the list of *Least Developed Countries* in 2006, the Economic and Social Council of the United Nations used the following three criteria for determining the LDCs:

1) Gross national income per capita: The threshold for inclusion was calculated at $745, a three-year (2002–2004) average Gross National Income (GNI) per capita of the low-income threshold established by the World Bank, based on the World Bank Atlas method. The threshold for graduation was set at $900.
2) Human assets index (HAI): The HAI is a combination of four indicators, two for health and nutrition and two for education: (a) the percentage of population undernourished; (b) the mortality rate for children aged five years or under; (c) the gross secondary school enrolment ration; and (d) the adult literacy rate. The threshold for inclusion in the list of LDC is an HAI value of 58 and the threshold for graduation is 64.
3) Economic vulnerability index (EVI): The EVI reflects the risk posed to a country's development by exogenous shocks. The EVI is a combination of seven indicators: (a) population size; (b) remoteness; (c) merchandise export concentration; (d) share of agriculture, forestry and fisheries in gross domestic product; (e) homelessness owing to natural disasters; (f) instability of agricultural production; and (g) instability of exports of goods and services.

The concepts of threshold and graduation reflect the endeavour of not having to reclassify countries that exit the LDCs as LDCs again, when there is adversity for the country in question in any of the three indicators. The present set of LDCs appears from Table 3.1.[4]

Of today's 50 LDCs, 35 are in Africa, nine in Asia, one in the Caribbean and five in the Pacific Region. Botswana is the only country ever removed from the LDC list. The number of LDCs has risen at a rate of approximately one per year, since the international community in 1971 recognized the existence of this category with 24 countries. The United Nations has not succeeded in holding down the number of poor countries.

The LDCs roughly constitute 10 percent of the population of the globe. In the second half of the 1990s the average per capita income in the world's poorest countries, when measured in terms of current prices and official exchange rates, was estimated at $0.72 a day and the average per capita consumption was at $0.57 a day. These estimates would entail that on average there was only $0.15 a day per person to spend on public investment in infrastructure and the running of public services. Estimating the total population of the LDCs to some 700 million people,

Table 3.1 The LDCs

Afghanistan	Haiti	Somalia
Angola	Kiribati	Sudan
Bangladesh	Lao People's Democratic Republic	Tanzania
Benin	Lesotho	Timor-Leste
Bhutan	Liberia	Togo
Burkina Faso	Madagascar	Tuvalu
Burundi	Malawi	Uganda
Cambodia	Maldives	Vanuatu
Cape Verde	Mali	Yemen (Republic of)
Central African Republic	Mauritania	Zambia
Chad	Mozambique	
Comoros	Myanmar	
Congo (D.R. ex Zaire)	Nepal	
Djibouti	Niger	
Equatorial Guinea	Rwanda	
Eritrea	Samoa	
Ethiopia	Sao Tome and Principe	
Gambia	Senegal	
Guinea	Sierra Leone	
Guinea Bissau	Solomon Islands	

possessing 0.72 cents per day for total spending, gives an estimated $200 billion in income for all 50 countries; which is about half of the GDP of Switzerland or the combined fortunes of a few billionaires (Table 3.2).[5]

Poverty is not confined to the LDCs, as it occurs in all countries with that part of the population that is malnourished, having less than $2 to live from on an everyday basis. Of the roughly 6 billion people living on Earth at the end of the twentieth century, almost half – about 2.8 billion – lived on less than $2 a day, and about one-fifth – 1.2 billion – lived on less than $1.

Poor People in Poor Countries

Poverty may be measured by the lack of a minimum income or consumption level that is necessary to meet basic needs. The World Bank has defined two poverty lines, at US $1 and $2 per day in 1993 Purchasing Power Parity (PPP). The $1 per

Table 3.2 World billionaires, 2007

1	Bill Gates	US$ 56.0 billion	Microsoft
2	Carlos Sliim Helù	US$ 53.1 billion	Telmex, América Movil, Grupo Carso
3	Warren Buffet	US$ 52.4 billion	Investments
4	Ingvar Kamprad	US$ 33.0 billion	IKEA
5	Lakshmi Mittal	US$ 32.0 billion	Arcelor Mittal
6	Sheldon Adelson	US$ 26.5 billion	Las Vegas Sands

day level is generally used for the least developed countries, primarily African, whereas the $2 per day level is used for middle-income economies such as those of East Asia and Latin America. The $1 and $2 per day measures offer a convenient, albeit crude, way to quantify global poverty. Purchasing power parity (PPP), as defined by the World Bank, is a method of measuring the relative purchasing power of different countries' currencies over the same types of goods and services. Because currency rates may fail to balance out those goods and services that cost more in one country than in another, PPP allows for a more accurate comparison of the standard of living across countries.

The original $1 per day was based on 1985 PPP estimates; currently the poverty line is based on 1993 PPP estimates, which has raised the amount from $1.00 to $1.08. As a convention, '$1 a day' is still widely used when discussing income poverty. Table 3.3 shows the percentage living on less than $2 per day in a variety of countries.[6]

Half of the population of the globe finds itself within that $2 a day poverty line. The richer a country is, the higher its national poverty line. According to the $1 per day measure, the portion of extremely poor people in the world's population – those living on less than $1 a day – fell between 1990 and 1999, from 29 percent to 23 percent. But, owing to the fast growth of the world's population, the absolute number of people living in extreme poverty decreased by only 123 million in that time period.

Hungry People: What to do?

There is a strong positive relationship between economic growth and poverty reduction. Most of the world's poor live in South Asia (over 40 percent), Sub-Saharan Africa (almost 25 percent) and East Asia (about 23 percent). In Sub-Saharan Africa, almost half of its population live below the $1 poverty line. In South Asia the incidence of poverty went down from about 41 percent to about 32 percent during the 1990s. East Asia including China reduced the share of its population living below the international poverty line from about 29 percent in 1990 to about 15 percent in 2000. In China alone, nearly 150 million people were lifted out of poverty. In Sub-Saharan Africa with negative growth rates, both the incidence of poverty and the absolute number of poor people increased – from

Table 3.3 The percentage of the population living below the specified poverty line: $2 a day at 1985 international prices (equivalent to $2.15 at 1993 international prices), adjusted for purchasing power

Country	Percent	Country	Percent	Country	Percent
Zambia	94.1	Mongolia	74.9	Honduras	44.0
Nigeria	92.4	Sierra Leone	74.5	Egypt	43.9
Mali	90.6	Laos	74.1	Tajikistan	42.8
Tanzania	89.9	Benin	73.7	Bolivia	42.2
Burundi	87.6	Pakistan	73.6	Sri Lanka	41.6
Niger	85.8	Burkina Faso	71.8	El Salvador	40.6
Madagascar	85.1	Nepal	68.5	Trinidad and Tobago	39.0
Central African Republic	84.0	Moldova	63.7	Ecuador	37.2
Rwanda	83.7	Mauritania	63.1	South Africa	34.1
Zimbabwe	83.0	Senegal	63.0	Paraguay	33.2
Gambia	82.9	Kenya	58.3	Guatemala	31.9
Bangladesh	82.8	Lesotho	56.1	Peru	31.8
Nicaragua	79.9	Namibia	55.8	Armenia	31.1
India	79.9	Indonesia	52.4	Venezuela	27.6
Ghana	78.5	Cameroon	50.6	Georgia	25.3
Mozambique	78.4	Botswana	50.1	Thailand	25.2
Haiti	78.0	Côte d'Ivoire	48.8	Argentina	23.0
Ethiopia	77.8	Philippines	47.5	Kyrgyzstan	21.4
Cambodia	77.7	China	46.7	Brazil	21.2
Malawi	76.1	Yemen	45.2	Mexico	20.4

47 percent to 49 percent or by 74 million. The fastest growth of poverty took place in the region of Eastern Europe and Central Asia that experienced a strong economic recession associated with market-oriented reforms. Between 1987 and 1998, the incidence of poverty in this region increased from 0.2 percent to 5.1 percent and the number of poor people from about 1 million to 24 million.

In the globalized world of the twenty-first century, over 800 million poor suffer from chronic undernourishment. According to the UN Food and Agriculture Organization (FAO), in 1999–2001 there were 842 million undernourished people in the world, including 798 million in developing countries, 34 million in countries with transition economies and 10 million in high-income countries. Three quarters of the world's hungry people live in rural areas and the majority of the hungry are women. The numbers of undernourished have fallen in East Asia and Pacific, but remain high in South Asia and continue to rise in Sub-Saharan Africa and in the Middle East and North Africa. In India, after a decline of 20 million between 1990–1992 and 1995–1997, the number of undernourished climbed by 19 million over the following four years. In China, the number of undernourished people was reduced by 58 million over the 1990s.

Hungry people live in countries that lack arable land or water to feed their populations. Or hungry people live in countries specializing in producing and exporting a single agricultural commodity, such as cacao, coffee, or cotton, with often declining prices in the world markets. Brazil exports those same food products that are desperately needed by their own poor and malnourished. Persistent hunger reflects more extremely unequal distribution among countries as well as within countries. Weak export earnings for the poorest countries prevent them from buying sufficient food in the world markets, but when food is available inside a country, the poorest citizens cannot buy it. Land and water resources could often be better used for growing food and making it available to these countries' populations.

The Food and Agriculture Organization (FAO) has laid down an average requirement at 1,900 calories a day, although the needs of individuals vary with age, sex and height. In the FAO's estimation, extreme hunger occurs with a shortfall of more than 300 calories. Child malnutrition is measured by comparing the poor children's weight and height with those of well-nourished children of the same age. Undernourishment is practically speaking the same as consuming too little food to maintain a normal level of activity. Malnourishment hampers children's school attendance and their educational attainment. The legacy of malnourishment in childhood, combined with insufficient food intake in adulthood, manifests itself in lower wages and reduced earning capacity for adults, who will be unable to support their own families. In addition, malnourished mothers are more likely to give birth to underweight babies. Health outcomes in developing countries are associated with hunger and malnutrition.

Aid

Given the immense gap between the rich countries of the world and the 50 LDCs, one would be inclined to suggest a yearly income transfer to help accommodate the poor countries. Global redistribution exists but it does not have the necessary amplitude to move the globe towards more of equality.

There are several numbers on how much money rich countries transfer to poor countries, but they are not easily interpreted. Aid to Third World countries comes in different forms and they are not easily added up. Some key distinctions are public versus private aid, free versus bound aid and gross aid versus net aid. An issue in the interaction between the rich North and the poor South is the role of trade in ameliorating the plight of the poor. Thus, it is argued that increased trade, as well as more of fair trade, would be much more instrumental in lifting the poor countries out of their dismal predicament than aid.

The World Summit on Sustainable Development in Johannesburg and the United Nations General Assembly 2002 called for immediate implementation of the *World Solidarity Fund* to reinforce the global fight against extreme poverty and hunger. However, perhaps even more important for improving the lot of developing countries' poor and hungry, might be pro-poor reforms in international trade, such as those discussed during the Doha round of world trade negotiations or suggested by J. Stiglitz.

The vicious circle of poverty involves savings and low investments. So are poor countries doomed to remain poor? The small size of poor countries' economies, as well as lower saving rates, results in a much smaller pool of savings available for much needed domestic investment in physical capital and human capital. For example, Sub-Saharan Africa consistently has the lowest saving rate and the smallest pool of savings. High-income countries in 1996–2000 saved a smaller share of their GDP than some developing countries, but their pool of savings was about three times as large as all the savings of developing countries. Without new investment, an economy's productivity cannot be increased and incomes cannot be raised. The data on saving and investment in East Asia over the past two decades suggest that the answer is 'No'. Despite low initial GNP per capita, the rates of gross domestic saving and gross domestic investment in the region were higher than in any other region and resulted in some of the highest economic growth rates. Saving and investment are promoted by political and economic stability, a reliable banking system and favorable government policy.

Both domestic and foreign investors are discouraged by the threat of political upheaval and by the prospect of a new regime that might impose punitive taxes or expropriate capital assets. Political instability scares away new investments, which prevents faster economic growth and improvements in people's economic welfare, causing even more dissatisfaction with the political regime and increasing political instability.

Foreign investment (FDIs) can help developing countries break out of the vicious circle of poverty, particularly if such investment is accompanied by transfers of advanced technology from developed countries. The opportunity

to benefit from foreign investment and technology is an advantage, which could enable poor countries to develop faster than today's rich countries did.

Emergency projects for hungry people to get direct access to the food they need, such as public food distribution or food-for-work programs, constitute last resort policy. In the long-run, environmentally sound irrigation in drought-prone areas can raise the productivity of local agriculture, simultaneously improving the local availability of food and increasing local farmers' incomes. Public investment in construction of rural roads can improve the physical access of the rural poor to markets and create additional jobs outside of agriculture.

Poverty, Inequality and Conspicuous Consumption

Despite phenomenal increase in global production since the end of World War II, the global economy tends to be characterized by dismal poverty in many countries. Economic inequalities are visible not only between rich and poor countries but also within countries. This sets up a situation where aggregation comes into conflict with distribution.

More than 2 billion people live under the denigrating conditions of a basic lack of what Rawls called 'primary goods' or what A. Sen refers to as capability.[7]

- Each year, more than 8 million people around the world die because they are too poor to stay alive.
- More than 800 million go hungry each day.
- Over 100 million primary school-age children cannot go to school.

Tackling global poverty demands a multi-pronged approach where there is no single cure-all. Issues of poverty are many and complex: children's rights, women's rights, epidemics such as HIV/AIDS, access to clean water and sanitation and preservation of the world's natural resources. The *Millennium Development Goals*, agreed to by the international community in 2000, set forth concrete targets for significantly reducing extreme poverty and related ills by 2015. Yet, most developing countries will fail to meet the majority of the MDGs by 2015.

This global predicament contradicts Rawls's endorsement of primary goods for citizens. Rawls's conception of a person's welfare is that of a set of goods most people consider important regardless of anything else. Primary goods are 'things that citizens need as free and equal persons' and they include the following: 'income and wealth', 'the basic liberties', 'freedom of movement and the choice of occupation', 'positions of responsibility' and 'the social basis of self-respect'. Fundamentally, Rawls thinks everyone deserves primary goods, as primary goods are meant to be means for people to pursue their life goals. When a person has access to primary goods, then he/she has a capability that empowers him or her to act and be free – the approach to development with Sen. How, then, promote development so that millions more can enjoy these primary goods? Will the market economy accomplish this liberal conception of freedom as development or capability?

Neo-Liberal Theory and the Washington Consensus

Much attention has focussed upon what international organizations can do to alleviate poverty. In reality, this question raises concerns about the basic policies of the global economic coordination bodies, which tend to change according to the regime or philosophy in place. The policies entering into the so-called *Washington Consensus*, governing global governance in the WB, IMF and WTO, were:

- tax reform lowering marginal rates and broadening the tax base;
- interest rate liberalization; a competitive exchange rate;
- trade liberalization and liberalization of inflows of foreign direct investment;
- privatization; deregulation to abolish barriers to entry;
- secure private property rights;
- fiscal discipline: elimination of domestic and external deficits.

It is been much discussed whether the *Washington Consensus* simply meant the reduction of the public sector generally, or if the goal was a redirection of public expenditure priorities toward areas offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education and infrastructure. What needs to be assessed empirically is whether the neo-liberal economic doctrine led to the reduction in poverty. Did the Washington Consensus work? Different parts of the world may have their own story to tell.[8]

The number of people living on $1 a day or less fell slightly from about 1.3 billion in 1990 to 1.2 billion in 1998. Because the population of developing countries rose over this period, the proportion of the population living in poverty – the poverty rate – fell from 29 percent to 24 percent. The trends for people living on less than $2 a day were similar: absolute numbers rose slightly from 2.7 to 2.8 billion between 1990 and 1998, while the poverty rate fell from 62 to 56 percent. Poverty fell by most in East Asia, though much of the reduction in poverty occurred in China.

Total numbers under $1 a day increased in all other regions. South Asia, which contains over a quarter of the developing world's population, did experience a modest 4-percentage point decline in poverty rates. Poverty rates were broadly flat in Latin America, Sub-Saharan Africa and the Middle East and North Africa. Both poverty numbers and poverty rates increased sharply in the East European and Central Asia region, in particular among the countries making a transition from socialism to a market economy.

Does trade liberalization help the poor? Analyzing these questions, one must disentangle the effects of trade liberalization from other domestic policy choices. More open trade would raise per capita incomes – and the incomes of the poor. Empirical studies show that greater openness to international trade has a positive effect on country per-capita income.[9] Higher average incomes in a country are generally associated one-for-one with higher incomes of the poor. The same work finds that this link applies to income increases caused by more trade. In other

words, the impact of trade on the income of the poor is generally the same as that on per-capita incomes. Thus, for example, a 10 percent increase in the trade to GDP ratio could ultimately raise per-capita income by perhaps 5 percent, and one would in general also expect a 5 percent rise in the income of the poor.

Trade liberalization is conducive to a shift of labor and capital from import-competing industries to expanding, newly competitive export industries. The unemployment caused by trade opening is therefore expected to be temporary, being offset by job creation in other sectors of the economy. The loss of output due to this transitional unemployment (called the social adjustment cost of trade opening) is also usually expected to be small relative to long run gains in national income due to opening. Or, put another way, these adjustment costs are expected to be small compared to the costs of continued economic stagnation and isolation without opening up.

Increased trade has strongly encouraged growth and poverty reduction and has contributed to narrowing the gaps between rich and poor worldwide. The growth effects of trade may be systematically studied using a large sample of developed and developing countries. This evidence has recently been subjected to criticism. The 24 *globalizers* contain well-known trade liberalizers, including Argentina, China, Hungary, India, Malaysia, Mexico, the Philippines and Thailand. Because China, India, and several other large countries are included, more than half of the developing world's people live in this group. But it also includes some anomalies, such as Haiti and Rwanda. For the globalizers the Washington Consensus may be said to work.[10]

Growth with the Globalizers

Per capita GDP growth in the post-1980 globalizers accelerated from 1.4 percent a year in the 1960s and 2.9 percent a year in the 1970s to 3.5 percent in the 1980s and 5.0 percent in the 1990s. The rich countries saw steady declines in growth from a high of 4.7 percent in the 1960s to 2.2 percent in the 1990s. The non-globalizing developing countries did much worse than the globalizers, with the former's annual growth rates falling from highs of 3.3 percent during the 1970s to only 1.4 percent during the 1990s. The rapid growth of the globalizers relative to the rich countries means that the globalizers are narrowing the per capita income gap. Moreover, because most of the globalizers like China, India and Bangladesh, were among the poorest countries in the world 20 years ago, their growth has narrowed worldwide inequality. The growth benefits of trade must be recognized, but one may be concerned about the effects of trade liberalization on income distribution. The growth benefits of increased trade are, on average, widely shared, as there is little evidence of a systematic tendency for inequality to increase when international trade increases.[11]

Worldwide interpersonal income inequality can be attributed to the large differences in average incomes between countries, rather than to inequities in the distribution of income within countries. And since many of the globalizers were initially poor, their rapid growth over the past 20 years has contributed

to reducing income inequality between countries. Much of the decline in the between-country component of inequality can be seen to be due to the rapid growth of the globalizers, most notably China and India. The integration of the world economy over the past 20 years has been dramatic. The experiences of the post-1980 globalizers show that the process can have great benefits, contributing to rising incomes and falling poverty and enabling some of the poorest countries in the world to catch up with richer countries. The real losers from globalization are those developing countries that have not been able to seize the opportunities to participate in this process: What to do with poverty among the non-globalizers?

Given the evidence in favour of the trade and economic growth favouring the reduction of absolute poverty, must one question the priority given to deregulation as well as privatization in the Washington Consensus? Can policies be devised which accomplish both, favouring public education and health care at the same time as they engage in large-scale privatization and deregulation? The lessons from the last two decades do not support that such a policy mix is easily put together and implemented. Thus, the criticism of the Washington Consensus has resulted in a revision of the basic principles, listed above, as with Joseph Stiglitz.[12] Now, the WB, IMF and WTO underline: Corporate governance, anti-corruption, flexible labor markets, WTO agreements, financial codes and standards, 'prudent' capital-account opening, non-intermediate exchange rate regimes, independent central banks/inflation targeting, social safety nets, targeted poverty reduction. Yet, even in this list of objectives there is one omission, namely the importance of public services in Third World countries.

Growth in the Latecomers

The idea that poorer countries are able to catch up on richer ones was advanced already in the nineteenth century to explain Continental Europe's convergence with Britain. This potential, embodied in the follower countries/regions, is to be linked with sufficient own absorptive capacity and resources. An initial gap in productivity with technologically advanced countries, along with contemporaneous growth in knowledge presents the opportunity for the laggards to catch up with the leaders. Leaps in economic growth can then be achieved so that the potential of the formers to converge with the latter is viable. In a convergence process the possibility that lagging countries may forge ahead of even progressive leaders arises – the Gerschenkron model.[13]

The larger the technological gap, which can be assessed as disparity in income per capita or productivity level, the stronger is the follower's potential for catching up. The pace of rapid growth of the laggards, due to their technological and operational backwardness, is not expected to last permanently as the gap between the leader and the follower decreases. The backward country/region is likely to follow a path very different from that of a more advanced industrial region, according to the Gerschenkron model – see next chapter.

Market openness, labor mobility as well as the investment environment drives late industrialization. Capital accumulation and technological transformation play a role:

- *technical-oriented* factors include (1) the embodied and disembodied technological change that leads to productivity-enhancing innovations; (2) the exploitation of scale economies; (3) the re-allocation of capital and labor to more fruitful industrial environments and finally, (4) capital accumulation which increases the capital-labor (C/L) ratio;
- *social-oriented* factors constitute, generally speaking, 'social capabilities': a country's market institutions and its stage of economic development. 'Social capability' has been related to education and to organization. The economic systems' openness to competition, the rapid establishment and operation of new firms alongside the sale and purchase of new commodities and services tap 'social capability'. The education level of a country's population and its existing institutional arrangements constrains the choice of technology. Social capital matters.

Technological backwardness, in this analysis, does not occur by chance. A country's failure to achieve the higher pace of growth of a more technologically advanced country can be explained by societal characteristics. A group of countries' technological and social 'abilities' do not have to be identical, but a country's social capabilities appear to be the only factor that restrains the potential for productivity-enhancing technology transfer. Towards the full exploitation of a country's existing technology, the content of its educational system and the character of its industrial, commercial and financing organizations may be well designed. One can assume that every society has the capacity to adapt new methods given by a country's level of growth; nevertheless, countries or regions may differ from one another in this respect as their capacities to adapt differ.[14]

Conclusion

The global distribution of income and wealth is extremely inegalitarian. Much of income is concentrated in the advanced countries, where income inequalities tend to be rather sharp. This implies that a few billionaires have a wealth that is larger than the national income of several countries. The World Bank poverty lines of $1 or $2 per day identify a great many people who struggle desperately to survive daily. It is not only the case that as much as 40–50 percent of the population in several countries try to get by with less than $2 a day. But entire countries fall into the poverty trap from which it seems very difficult to escape. Thus, only one country – Botswana – has been able to leave the group of LDCs, created by the UN, which group has doubled in number.

This stunning inequality in income and wealth, where wealth results from many years of income inequality, fuels a Veblen society, where a small group of people can divulge in conspicuous consumption. Middle income people tend to be the

spectators in the neo-Veblen society, looking at news about how the rich groups enjoy life on a planet with half of its inhabitants struggling to survive on $2 a day. No one knows how to resolve the striking contradiction between aggregate output and distributive justice in the global market economy.

There exists no real threat to world capitalism in the sense of organized resistance and social protest. The anti-globalization movement is not strong enough to challenge global capitalism in its foundations, although it gives voice to an opinion that dreams about an alternative economic system. The only major challenge to global capitalism stems from the energy-environment conundrum that the massive use of fossil fuels presents.

Veblen blamed the price system for the inability of capitalism to satisfy human needs. It led to the predominance of finance over technology, which in turn made the masters of the modern enterprise – the engineers – slaves under the financial managers. To restore the ethics of workmanship a different economic system was needed. Similar thoughts were collected in the *Technology Movement* in the US, focussing upon the disaster of the Great Depression. One of the adherents of Technology Inc. was Hubbert, who was the first to realise the coming global energy crisis, as fossil fuels are driven towards their depletion at a hilarious speed by global capitalism.

No one claims that the global market economy is in any sense perfect or not in need of changes and reforms. But what to do? This is the problem. The list of bad features in global capitalism can be made long indeed. However, what kinds of reforms would improve the state of the global economy, not making things worse? Adaptation to global restrictions upon energy and environment would not have to take the form of a war of all against all. There could be piecemeal accommodation by means of a variety of taxes, as expectations about living standards are scaled down in efforts to economize upon energy and protect the environment. Yet, it would be the poorest countries that would face the threat of total collapse.

Export led growth and little systematic change in inequality in the *globalizers* considerably reduce poverty. In Malaysia, the average income of the poorest fifth of the population grew at 5.4 percent annually. In China, where inequality increased sharply and the income growth rate of the poorest fifth lagged behind average income growth, incomes of the poorest fifth still grew at 3.8 percent annually. The fraction of the population of these countries living below the $1 a day poverty threshold fell sharply between the 1980s and the 1990s, e.g. from 43 percent to 36 percent in Bangladesh, from 20 percent to 15 percent in China and from 13 percent to 10 percent in Costa Rica. But poverty reduction through rapid trade expansion and trade led economic growth is only an option in some of the developing countries – the globalizers. And it runs up against the depletion of cheap energy from oil as well as the environmental pressures it results in. What to do for poverty reduction in countries where the trade growth path is not available – the non-globalizers? As a matter of fact, the globalizers make the energy-environment conundrum much worse, pushing the globe towards its Hubbert peak for oil production.

Notes

1 On Thorstein Veblen, see e.g. J.P. Diggins (1999), *Thorstein Veblen: Theorist of the Leisure Class*, Princeton: Princeton University Press; E. Jorgensen and H. Jorgensen (1998), *Thorstein Veblen: Victorian Firebrand*, M.E. Sharpe; D. Dowd (2000), *Thorstein Veblen*, Edison, NJ: Transaction Publishers.

2 See http://en.wikipedia.org/wiki/Thorstein_Veblen, http://en.wikipedia.org/wiki/Wesley_Clair_Mitchell, http://www.britannica.com/oscar/print?articleId=74932&fullArticle=true&tocId=222948.

3 R. Parker (2005), *John Kenneth Galbraith. His Life, his Politics, his Economics*, Chicago: University of Chicago Press.

4 http://en.wikipedia.org/wiki/Least_Developed_Countries.

5 http://en.wikipedia.org/wiki/List_of_billionaires_(2007).

6 http://en.wikipedia.org/wiki/List_of_countries_by_percentage_of_population_living_in_poverty.

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8 Kwame Sundaram Jomo (2005), *The New Development Economics: Post Washington Consensus Neoliberal Thinking*, London: Zed Books Ltd; Ben Fine, Jonathan Pincus and Costas Lapavitsas (eds) (2003), *Development Policy in the Twenty First Century: Beyond the Post-Washington Consensus* (Routledge Studies in Development Economics) London: Routledge; Akira Kohsaka (ed.) (2004), *New Development Strategies: Beyond the Washington Consensus*, Basinstoke: Palgrave Macmillan; Narcis Serra and Joseph E. Stiglitz (eds) (2008), *The Washington Consensus Reconsidered: Towards a New Global Governance*, Oxford: Oxford University Press.

9 David Dollar and Aart Kraay (2001a), 'Growth Is Good for the Poor', World Bank Policy Research Department Working Paper No. 2587 (Washington). This paper can also be found on the web at http://www.worldbank.org/research/growth; David Dollar and Aart Kraay (2001b), 'Trade, Growth, and Poverty', World Bank Policy Research Department Working Paper No. 2615 (Washington). This paper can also be found on the web at http://www.worldbank.org/ research/growth.

10 Francisco Rodriguez and Dani Rodrik (2000), 'Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence', in Ben Bernanke and Kenneth Rogoff (eds), *NBER Macro Annual 2000*, Cambridge, MA: National Bureau of Economic Research; see also Charles I. Jones (2002), *Introduction to Economic Growth*, New York: W.W. Norton & Co Ltd. R.J. Barro (2003), *Economic Growth*, Cambridge, MA: MIT Press.

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13 On Gerschencron, see e.g. http://faculty.arts.ubc.ca/tiberg/Poli%20390-week%2010%20-BR/Michael-Gerschenkron.htm; http://www.gees.bham.ac.uk/downloads/gesdraftpapers/BobGwynne-Gerschenkron.pdf. See also: Alexander Gerschenkron (1962), *Economic Backwardness in Historical Perspective, A Book of Essays*, Cambridge, MA: Belknap Press of Harvard University Press; Alexander Gerschenkron (1968), *Continuity in History, and Other Essays*, Cambridge, MA: Belknap Press of Harvard University Press; Gerschenkron, Alexander (1977), *An Economic Spurt that Failed: Four Lectures in Austrian History*, Princeton, NJ: Princeton University Press; Alexander

Gerschenkron (1989), *Bread and Democracy in Germany* with a new foreword by Charles S. Maier, Ithaca, NY: Cornell University Press.

14 On social capital and economic development, see J.S. Coleman(1998), *Foundations of Social Theory*, Boston: Harvard University Press and F. Fukuyama (1996), *Trust: The Social Virtues and the Creation of Prosperity*, New York: Free Press.

Chapter 4

The Asian Miracle: Perhaps Lipset was Wrong about Affluence Producing Democracy, or Gerschenkron might have Predicted Correctly

Introduction

Global affairs may be more easily handled, if there was convergence upon the rule of law regime. The hope that rule of law, as democracy, would arrive everywhere, hinges upon the supposed link between affluence and democracy – the modernization hypothesis most well presented by sociologist Seymour Martin Lipset. Thus, as the global economy expands and more countries experience the *take-off* date for embarking upon modernization, democracy would be more firmly supported by their populations. The affluence model, accounting for the spread of constitutional democracy around the globe, was presented in the first edition of Lipset's *Political Man* in 1959. It received empirical confirmation in statistical studies by various scholars. But it was also criticized by Marxist scholars for its simple mechanism that is linked to the growth of, mainly, the middle classes. To Rueschemeyer, the key role in linking economic development with democracy rests with the working classes and how the industrial proletariat organizes itself.[1]

The so-called latecomers or late industrializers in the global economy subscribed to a theory of economic nationalism that is completely at odds with the Lipset model. Alexander Gerschenkron, born in 1904 in Odessa, died in 1978 in Cambridge, Massachusetts. He was a Russian-born American economic historian at Harvard, trained in the Austrian School of economics. His early work concentrated on development in the Soviet Union and Eastern Europe. Although Gerschenkron advanced the *linear stages* theory of economic development entailing that economic development goes forward in fairly determined stages, he did accept that different periods exhibit different types of development. The coexistence of advanced and backward countries allow the latter to skip stages the former had to go through by adopting their advanced technology, as illustrated by the peculiar paths of industrialization of Japan and the Soviet Union. Gerschenkron postulated that the more backward an economy was at the outset of development, the more a few conditions could promote growth:

consumption would be squeezed in favour of investment (i.e. savings), greater reliance on banks and other means of directing investment, etc. Yet, if latecomers can move quickly to affluence, will they adopt democracy?

To understand the limits of the affluence model, one may examine so-called outliers, meaning countries that take on extreme values on the key variable and thus negating the validity of the model association. Here, two rich countries will be examined: Singapore and the United Arab Emirates on the one hand, as well as one poor country, India, on the other hand.

Life of Lipset

Lipset (1922–2006) was a senior fellow at the Hoover Institution and the Hazel Professor of Public Policy at George Mason University until 2006, when he passed away. Very few American scholars can display such an impressive record of international awards and honorary appointments. Previously he was professor of Political Science and Sociology at Stanford University 1975–1990 and professor of Government and Sociology at Harvard University. His major works cover the fields of political sociology, trade union organization, social stratification, public opinion and the sociology of intellectual life. He wrote extensively about the conditions for democracy in comparative perspective. He authored, and co-authored, numerous books and monographs, including *American Exceptionalism: A Double-Edged Sword* (1997) and *Continental Divide: The Values and Institutions of the United States and Canada* (1989) and, with Earl Raab, *Jews and the New American Scene* (1994).[2] Lipset researched democracy in an effort to understand the objective and subjective conditions that support it.

Lipset was awarded many prizes. He was a member of various honour societies in the US and abroad: the National Academy of Sciences, the American Philosophical Society, the National Academy of Education and the American Academy of Arts and Sciences. He was the only person to have been president of both the American Sociological Association (1992–1993) and the American Political Science Association (1979–1980). He also served as the president of the International Society of Political Psychology; the Sociological Research Association; the World Association for Public Opinion Research; the Society for Comparative Research; and the Paul F. Lazarsfeld Society in Vienna. Lipset was active in public affairs in many roles: director of the United States Institute of Peace; member of the US Board of Foreign Scholarships; co-chair of the Committee for Labor Law Reform; co-chair of the Committee for an Effective UNESCO; and consultant to the National Endowment for the Humanities; the National Humanities Institute; the National Endowment for Democracy; the American Jewish Committee; president of the American Professors for Peace in the Middle East; chair of the National B'nai B'rith Hillel Commission; the Faculty Advisory Cabinet of the United Jewish Appeal; and co-chair of the Executive Committee of the International Center for Peace in the Middle East. All this amounts to a truly globalized academic career.

Yet, given such a long and impressive record of academic recognition, one may wish to examine more closely one of his key ideas or research contributions. I would suggest the *modernization theme.* Diamond and Marks trail their former teacher as one of the major social scientists of the twentieth century. How has his modernization theory fared?

Testing the Lipset Model: How about the Outliers?

The relationship between affluence and democracy is well researched in political economy; meaning the discipline that enquires into the interaction between politics and economics. The Lipset model is, perhaps, the most debated theory in political economy, reflecting both the theoretical and normative importance given to economic development and democracy on the one hand and the availability of lots of data to test the model on the other.[3]

The Lipset model is a probabilistic hypothesis, linking differences in economic output – GDP – with variations in the implementation of human rights – democracy. Looking at the data from 2005, using the most recently available information from the large World Bank study on Governance, Figure 4.1 shows the overall picture.[4]

Surprisingly, the correlation between GDP and democracy is now less than 0.5. It has not remained stable, as Cutright's enquiry in the early 1960s indicated a much stronger roughly 0.7 correlation. Why is this? One way to understand the mechanism that links affluence with democracy is to look at some of the exceptions to the rule, the so-called outliers. Let us begin with the occurrence of affluence and semi-democracy or authoritarian rule – the Gerschenkron idea of economic nationalism with a developmental state.

Negative Exception I: Singapore

The success story of this city-state on the peninsula of Malaysia has been told many times. The official version appears in the memoirs of Lee Kuan Yew, who ruled Singapore as prime minister for much longer than the average presidency. His *From Third World to First* (2000) describes not only the economic miracle that pushed Singapore to a national income per capita on par with that of the US, but it also indicates, in a subtle way, the firm grip on power of the ruling elite in the People's Action Party (PAP). Today it is the son of Lee Kuan Yew who rules Singapore.[5]

The quite remarkable, and sustained, economic growth in post-independence Singapore is reflected by Singapore's strategic location at the crossroads of the ASEAN region. Most ASEAN countries have also experienced sustained high growth rates, to Singapore's advantage. As labor intensive industries have moved from Singapore to other ASEAN countries, they have been replaced by a regional reliance on Singapore for more technologically sophisticated products and services. There are some important factors behind Singapore's success.

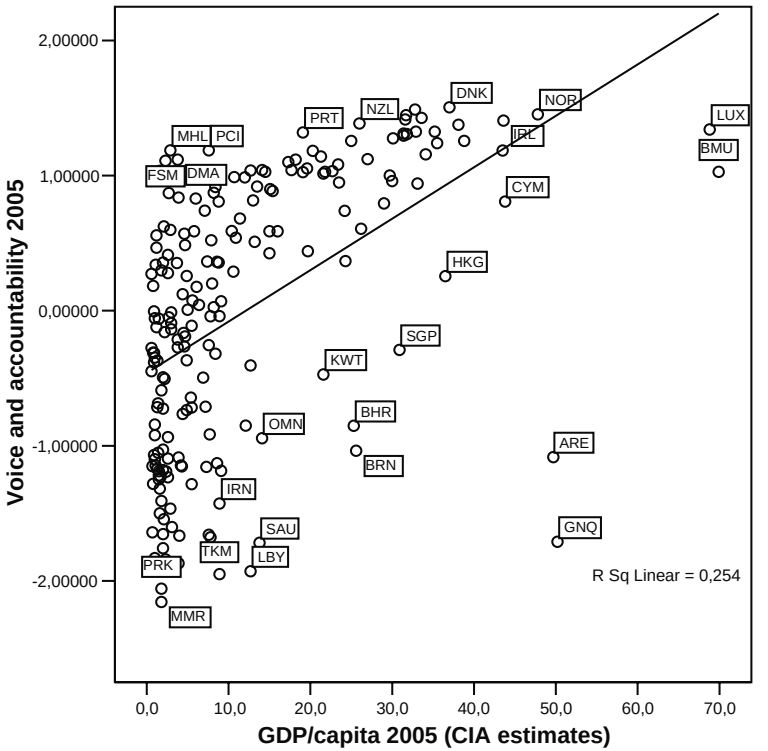

Figure 4.1 Affluence and democracy

Source: World Bank, 2006.

Singapore is typically singled out as the model of planned development. Lee Kuan Yew promoted a high rate of national savings by means of the creation of a *Central Provident Fund*, as Singaporean employers and employees were obliged to contribute jointly up to 40 percent of salaries to a pension fund. It should be pointed out explicitly that social policies have ensured that all Singaporeans would benefit from economic growth. When the PAP came to power in 1959, most Singaporeans lived in squalid housing. Singapore now has a high home ownership rate, due to the activities of the Housing Trust and the ability of people to fund mortgages by borrowing from their contributions to the Central Provident Fund. A comprehensive education system was built up, which delivered the skilled workers needed to sustain high rates of economic growth. Yet, Singapore also regards itself as a leader in promoting economic freedom and openness.

It is undeniable that the government in Singapore is very much in control. The PAP has made it difficult for an opposition party to challenge its power. The Internal Security Act brought in by the British has been used against those who are considered a threat to the state. Western observers and a growing number

of Singaporeans consider the government to be paternalistic and, at times, authoritarian. Yet, the government enjoys wide popular legitimacy thanks to its delivery of clean government and its impressive social and economic achievements over the past 30 years.[6]

The Singaporean government tried to develop a national identity. In the first instance, this meant weaning Singaporeans away from too close an attachment to communist China. Language policy was a key part of this search for a Singapore identity. In the 1960s the emphasis was on the need for people to learn Malay and English. As the economy became less dependent on Malaysia, and as China became less of a threat and more of a source of pride, policy shifted towards the promotion of Mandarin instead of regional dialects. Recently the emphasis has turned to ensuring the survival of regional dialects, alongside Mandarin and English.

Today Singapore is by far the most prosperous nation in Southeast Asia, aside from the tiny rentier state – Brunei. It could be seen as a modern Confucian state, with a strong ideology of people's duties towards the state; having a meritocratic elite in the form of PAP; and the Lee family ruling it. The state claims the right to influence family size and the nature of personal relationships as well as to determine the structure of the economy. It directly controls large sections of the economy and through a government owned investment fund impacts upon Singaporean companies and is the owner of huge assets overseas. At the same time the government champions free enterprise, welcoming foreign multinationals and nurturing its own multinational corporations, for instance scoring high on the global index of economic freedom.

The government encourages capitalist economic activity and rewards individual ability and achievement. A puritan state, with state controlled local media, censorship of foreign media and concern about restricting western cultural influences, characterizes the PAP. Its geographic location as a hub is important in the global economy as well as in a growth triangle with Malaysia and Indonesia, where it views itself as the economic centre.

Singapore is close to the Gerschenkron ideal-type of a developmental state. Singapore is as affluent as the EU on a per capita GDP basis, but it fails to endorse democracy fully, according to the Lipset logic. The Singapore government now worries about national identity, with repeated campaigns focussing on one or other aspect of the national ideal. It is in the process of rediscovering its past, in part, for tourist reasons.

Negative Exception II: The Muslim Rentier *States*

The combination of traditional rule – through the Emir, King or Sultan on the one hand and economic development in the Persian Gulf on the other – has been analysed under the concept of the *rentier* state. It suggests a basic cause of the lack of rule of law and representative democracy, namely the incredible economic rents from oil and gas exploration. Since there are no or few taxes, what would be the sense of having representative institutions and popular contested elections?[7]

The United Arab Emirates (UAE) is a federation of seven states formed in 1971 by the then Trucial States after independence from Britain. Although each state – Abu Dhabi, Dubai, Ajman, Fujairah, Ras al Khaimah, Sharjah and Umm al Qaiwain – maintains a large degree of independence, a Supreme Council of Rulers made up of the seven emirs, who appoint the president and the cabinet, governs the UAE. Before oil was discovered in the 1950s the UAE's economy was dependent on fishing and a declining pearling industry. But since 1962, when Abu Dhabi became the first of the emirates to begin exporting oil, the country's society and economy have been transformed. The late Sheikh Zayed, ruler of Abu Dhabi and president of the UAE at its inception oversaw the development of the emirates, channelling the oil revenues into health care, education and infrastructure.[8]

The oil industry has attracted a huge influx of foreign workers who, together with expatriates, now make up more than three quarters of the population. The country's growing business sector and its tourist industry has fuelled a construction boom with billions of dollars being pumped into hotels and skyscrapers in cosmopolitan Dubai. The UAE is considered as the most liberal country in the Gulf, with several cultures and beliefs tolerated, more or less. Yet, it is the only state in the region not to have any form of elected bodies: no taxes, no representation. There is thus little evidence of the Lipset mechanism here: more economic affluence, more democracy. The two rulers of Abu Dhabi and Dubai are attempting an incredible economic experiment, building an advanced society upon the *Gastarbeiter*. Will the UAE be stable?

Positive Exceptionalism: India

The success of democracy in India in the post-war period is bound to raise doubts about the Lipset model. How can it be that such a poor country can have sustained democracy with only one minor exception, namely Indira Gandhi's two-year emergence powers rule? If one poor country can succeed with stable democracy, then why not other poor countries (such as neighboring Bangladesh and Sri Lanka)? Allowing for several exceptions, the Lipset model would no longer score high as a statistical probability.

One may wish to search for the factors that compensate for the negative implications of poverty in India. One could find such supporting forces in the culture of India as well as in its institutional-set up. A third hypothesis, which is not acknowledged in official India, is historical legacy, especially British colonial rule. Let me discuss these hypotheses one by one.[9]

Culture India is characterized by high fractionalization in terms of both ethnicity and religion. In general, cultural heterogeneity is conducive to conflict and violence. And India has experienced both strong religious and ethnic tensions. Yet, it has not threatened democracy in India in a serious manner.

India harbours several religions and many ethnicities. The Muslim community is one of the largest in the world, comprising both Sunnis and Shi'as. Buddhism is gaining ground among the casteless and Christians are numerous, especially

in Southern India. Many languages are spoken in India, including the three big ones: Hindi, Tamil and Bengali.

The question of the consequences of religious conflict among communities has surfaced in the rise of Hindu nationalism – *hindutva.* One of two big political parties – the BJP – is linked with this nationalist movement, which attempts to make Hinduism the core of the Indian nation. However, whatever support there may be for Hindu nationalism within the BJP, it is not a practical option for India, whose constitution safeguards religious tolerance and neutrality.

In reality, ethnic and religious heterogeneity is so extensive in India that it paradoxically becomes a support for democracy, endorsing variety. Hinduism presents a myriad of different sects that defy any central coordination in the form of the concept of coherent church. In addition, there is the large Sikh community in mainly Punjab, promoting a new world religion of their own making. The violent conflict between New Delhi and Amritsar during the 1970s and 1980s underlines how impossible it is for the central government to attempt to control in detail the events in the provinces.

It is not necessary to go back into Indian history, as Sen does,[10] in order to find evidence for the peculiar link between cultural heterogeneity and political tolerance. Akbar may have been an open-minded adherent of religious tolerance, or his efforts may be described as failed syncretism. In any case, a few Mughal rulers were far less tolerant. And the 1949 split up of colonial India saw an unprecedented escalation of religious violence. Yet, it is true that cultural fragmentation in India is so extensive that only rule of law inspired religious tolerance will work.

Institutional context The political institutions of India exemplify *thick* institutionalism, meaning that they provide for a complicated web of political bodies, checking each other and restraining the centralization or monopolization of power. Thus, India has both federalism and legal review. Indian federalism has on the whole worked well, enhancing regional autonomy and political decentralization while curbing centrifugal tendencies. The supreme court of India has evolved into a major bastion for rule of law, checking the constitutionality of Indian politics on several occasions. At the same time, Indian politics runs with a strong Westminster bent, as the election system is majoritarian and government is parliamentary, focussing upon the Premier. Secessionist movements have been accommodated within the federalist dispensation and minority groups have secured support from the judicial authorities. At times, the federal government has taken over the running of a few provinces, but besides the emergency period in the 1970s, rule of law has not been undone for any longer period of time.

Attempting to account for India's impressive democracy record, A. Lijphart has suggested that its political system harbours the consociational model.[11] According to him, there are two ideal-types of democracy: Westminster on the one hand and consociational or consensus on the other hand. His basic thesis is that Westminster democracy performs worse than consociational democracy. Thus, the success of Indian democracy must be due to the fact that it is, on the whole, closer to the latter model than the former.

This is not a tenable position, in my view. Most of the characteristics of Indian democracy are Westminster, reflecting the colonial legacy of the country. Thus, India is a majoritarian parliamentary democracy, focusing power in the office of the Prime Minister. It is true that India also harbours federalism and legal review, but these consociational features mellow the Westminster framework rather than replace it.

The crux of the matter is how to evaluate the British legacy in India: a positive or negative political tradition? Indians celebrating the 1857 Sepoy mutiny, which led to the end of Mughal rule, would bet on the latter, but is it really true that today's India did not inherit the spirit of British rule of law?

Legacy Although several Indian scholars hesitate to mention it, I would dare to suggest that British colonial rule has affected, in a positive manner, the prospects of rule of law in South Asia. It is true that the Indian state reached independence from the British, but at the same time the strong reliance upon rule of law in British colonialism left an unmistakable imprint upon the new democracy. After indirect rule starting with Clive of India after the Battle of Plassey in 1757, the British attempted to govern India on the basis of legality and some form of co-determination. Although Nehru had to spend many months in prison, he was always treated under the precepts of the law, surviving to become the first Premier of free India. Indian colonial rule contrasts sharply with the Spanish domination in Latin America or Portuguese rule in Africa.

Conclusion

Asia has become the factory of the world as a result of globalization. With economic output expanding every year, income and wealth has increased phenomenally in East Asia and South East Asia. The advent of South Asia in the global economy underlines the economic dominance of Asia even more. Yet, democracy and rule of law is not strongly entrenched in Asia besides Japan, South Korea and India. The model adhered to is that of economic nationalism, or the developmental state: Emphasis on market share over profit, protection of fledging domestic industries and discipline, focus on foreign technology transfer, large government bureaucracy, alliance between the state, labor and industry, prioritization of economic growth over political reform and legitimacy through performance has led to affluence without democracy fully endorsed.

It is true that Taiwan has taken huge steps towards democracy. It is also true that Hong Kong would wish to have local government democracy under Chinese sovereignty. But firm democracy is hardly a realistic option or strong probability for China, Myanmar, Vietnam and Laos, or Pakistan or Singapore, Thailand or Malaysia. Democracy is also unstable in several Asian countries including divided Taiwan, struggling with its political identity, as well as Indonesia, Bangladesh and Sri Lanka.

The affluence model, i.e. the Lipset theory about close links between the economy and the polity, is no longer strongly corroborated in most recent data like

the impressive WB file *Governance*. As globalization pushes up late industrializers into the club of rich countries, so the connection with democracy weakens. New rich Asian countries have put affluence before democracy in their priorities – the developmental state. Superrich Arab countries have a cultural legacy that does not cherish democracy – the Koranic religion. However, there are also some poor countries that deviate from the Lipset model, succeeding to stabilize their democratic political system despite immense poverty. This is especially true of India – the largest democracy in the world today.

The sharp rise in energy prices as well as the increase in the price of primary materials – metals, corn, wheat, oil – result in a global redistribution of wealth, from rich countries to certain developing countries. This transfer is hardly accompanied by a wider enforcement of human rights. Thus, when OPEC countries move up into the set of rich countries, they do not adapt the system of democratic governance of the advanced countries. The same holds for Africa when, finally, the primary resources of some of these countries provide them with decent revenues.

Notes

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Chapter 5

Globalization Ripping Poor States Apart: Why Hobbes may have been Just about Right

Introduction

One can divide the states of the world into three sets: the stable democracies, the stable autocracies and the instable states. Political instability has become a chronic predicament in a quite substantial number of countries, which the international community does not know how to handle. This new and rising kind of political instability is to be found in poor countries.

Chronic anarchy amounts to the Hobbesean predicament, as identified in the most powerful of English texts in political theory: *Leviathan* (1651). It may result from civil war or from anomie, but its typical consequences stem from the role of the dominant players in chronic anarchy, namely the warlords.

Warlordism surfaces in poor countries with ethnic or religious cleavages. Tribalism offers a source of warlordism. Once the warlords appear, they are very difficult to get rid of, as they nourish themselves upon crime, theft, drugs and sometimes child soldiers. A large part of central Sub-Saharan Africa, from Liberia to Uganda and the Great Lakes, as well as the Horn of Africa with Sudan, has experienced warlords, which is also true of Central Asia, especially Afghanistan. In fact, warlords often emerge where there is civil war, as in Colombia and Nepal, even in revolutionary or separatist movements.

Life of Hobbes

Thomas Hobbes was born in Malmesbury in 1588 and educated at Oxford University, which at that time was a centre of nominalistic Scholasticism. 'My mother gave birth to twins, myself and fear', said Thomas Hobbes at a later stage in life. His father was the Vicar of Westport, Gloucestershire, well-known unfortunately for his quarrelsome nature. Thomas Hobbes was raised by his uncle Francis, who was a wealthy man and contributed to maintain his nephew Thomas at Magdelan Hall in Oxford. Hobbes led a sheltered boyhood. At Oxford Thomas disliked Aristotle's philosophy. In 1608, he graduated as a bachelor of arts. Thereafter, he became companion and tutor to the eldest son of Lord Cavendish and maintained a lifelong connection with the family. As tutor for a

noble English family he had opportunities for travel. Thus, in Florence he came into contact with the legacy of Galileo as well as Gassendi, and in France he knew Mersenne, a friend of Descartes, who induced Hobbes to write his critical observations on the *Meditations* by Descartes. He also met with Francis Bacon and Ben Johnson.

Hobbes' interest in classical studies resulted in the translation of Thucydides' *History of the Peloponnesian Wars* in 1629, in which Hobbes read of perils of civil war. Hobbes' patron Lord William Cavendish died in 1628, necessitating the need for another pupil. While on a journey on the continent, he developed a passion for geometry, planning to use the geometrical method to demonstrate his principles. While on tour, he was invited from Paris to teach the young Earl of Devonshire, William Cavendish, the son of his late patron. His reputation as mathematician later fetched him the position to instruct the Prince of Wales.

The French clergymen found his views on papacy in *Leviathan* insulting. The House of Commons ordered in 1666 that all the works of Thomas Hobbes to be studied to check its atheistic flavour. When he passed 90, he had a controversy with the Royal Society, which excluded him.

When the struggle between Parliament and the King broke out, he supported absolute monarchy and was forced to retire to France, where he lived for ten years. Granted an amnesty, he returned to England in 1651 to be reconciled with Cromwell. When Charles II, whom Hobbes had tutored, ascended the throne, the King granted a pension to his former teacher.[1]

Hobbes wrote one great philosophical work, which he divided into sections and published at three different times: *De cive* (*On the Social and Political Organism*), a work that was further developed and later published under the titles *Leviathan*, *De corpore* (*On the Body*), and *De homine* (*On Man*).

Accountability and Firmness in the Modern State

Fukuyama suggests that the international community pay more attention to failed state building in the Third World (Fukuyama, 2005). The construction of a state, or modern government, took considerable time in Western Europe, but it has been taken for granted that late modernizing countries, such as the former European colonies, would be able to set up stable independent states relatively easily, given the existence of a model – the nation-state – to adopt. This belief has proven wrong, failing to recognize the difficulties in state building in several countries after the Great War.

A number of concepts have been introduced in order to capture state failure in Sub-Saharan Africa. These concepts first targeted the spread of corruption and the lack of a proper bureaucracy in African states. Thus, there was talk about *prebendalism* and *cleptocracy*. Then the concepts began to target large-scale criminal activities such as money laundering and illegal diamond trafficking. A *predatory state* was put on the table. Finally, there is the recent recognition of warlordism, which, when it occurs with infant soldiers spells total anarchy or breakdown of law and order.

The World Bank has taken a much-needed initiative when funding a big research project upon the modern state (www.govindicators.org). If state and market are the two chief coordination mechanisms in the world around year 2000, then the latter has been more explored than the former. Thus, the economies of the countries of the world have been researched in great details, which is also true about global or international markets. The World Bank project 'Governance Matters V' takes a huge step towards filling lacunas in the empirical knowledge of the states of the world, launching an enquiry into the many aspects of political stability 1996–2005.

As the World Bank project focussed upon political instability, it may be consulted when resolving a key puzzle in comparative politics theory, namely: How is weak democracy or lack of rule of law related to general state weakness? Analytically, there are four possibilities:

	Strong state	Weak state
Democracy	US	Sri Lanka
Dictatorship	China	Pakistan

The concept of political instability covers both the failure of a state to stabilize democracy and the occurrence of anarchy, civil war and corruption in a dictatorship. One would wish to have tools that allow one to analyze the occurrence of democracy on the one hand and the occurrence of political instability on the other hand. The World Bank data offers such tools.

Below I will employ this huge information source on the modern state, covering more than 200 governments in the early twenty-first century in order to show how the democracy-dictatorship distinction relates to aspects of political instability.

World Bank Data: Governance Indicators

'Governance Matters V: Governance Indicators for 1996–2005', by D. Kaufmann, A. Kraay, and M. Mastruzzi (2006) reports on the latest update of the worldwide governance indicators, covering 213 countries and territories, measuring six dimensions of governance: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption. The scope of the study is encompassing, covering all units called 'states', even when they are extremely tiny in terms of population or merely semi-independent units. The depth of the enquiry is unprecedented, using a huge data set about many features of government, collected from available data sources in the world, including the rankings of many country experts. The effort in arriving at reliable information about modern government on a global scale appears from the list of research papers done for the project by D. Kaufmann.[2]

Methodologically, speaking the WB governance project employs an inductive research strategy. Kaufmann, Kraay and Mastruzzi present the newly updated

estimates of six dimensions of governance covering 209 countries and territories for five time periods: 1996, 1998, 2000, 2002 and 2004. These indicators are based on several hundred individual variables measuring perceptions of governance, drawn from 37 separate data sources constructed by 31 different organizations. The authors assign these individual measures of governance to categories capturing key dimensions of governance and use an unobserved factor component model to construct six aggregate governance indicators in each of the four periods. In other words, they employ factor analysis of a large number of indicator scores to derive six dimensions of governance. They are:

- voice and accountability, (va);
- political stability and absence of violence (ps);
- government effectiveness (ge);
- regulatory quality (rq);
- rule of law (rl); and
- control of corruption (cc).

Now, as is well-known in any inductive research design, like advanced methods of factor analysis, the basic categories do not speak for themselves. They have to be interpreted in the light of theory. Consider the category named 'Rule of Law' in the World Bank study. This list of indicators mixes two entirely different concepts: the enforcement of laws and regulation on the one hand (principle of legality), and the independence, neutrality and strength of the judiciary in protecting citizens (autonomy of courts or tribunals). Countries may score high on the first concept but low on the second, such as rich Arab countries like Oman, UAE and Kuwait or a South East Asian country like Singapore.

The difficulty here is the validity of the interpretation. The concept of rule of law covers much more than legality or the autonomy of courts. *Rule of law* harbours the idea that governmental authority is to be legitimately exercised, i.e. only in accordance with written, publicly disclosed laws adopted and enforced in accordance with established procedure and a constitution. The idea is the opposite to arbitrary governance. In continental European legal thinking, rule of law is associated with a *Rechtsstaat*. According to Anglo-American thinking, adherence to the rule of law commonly includes a clear separation of powers, legal certainty, the principle of legitimate expectation and equality of all before the law. I will concentrate upon five aspects of political stability-instability below, as it is not clear what the category (r1) stands for.

Political Stability Concept

Political instability, its occurrence and conditions, is, in my view, as interesting to research as democracy. Countries do not fall neatly into a sharp separation between stable democracies and stable autocracies. There is a set of countries that are neither in one of those two sets, and this class of countries is increasing. To state the point concisely: Hobbes is still highly relevant today, as countries fail and

tumble into the Hobbesian predicament. Viewing the disaster that the invasion of Iraq has unintentionally led to, one may certainly raise the question whether, as Hobbes suggested, autocracy is not better than anarchy, at least some times.

Understanding political instability and its conditions, one may wish to unpack the concept and look at its different manifestations in the various parts of the world. What would a model look like that would account for overall country differences in political instability? In reality, there is no such thing as political instability. Instead there are many forms of political instability and they tend to have very different manifestations. Today, one may wish to identify the following types of political instability:

- corruption and government inefficiency: malfunctioning of either ministers or bureaux, enriching themselves at the expense of the population;
- coups d'etat: the overthrow of the legally created government with the replacement of it by military leaders and a state of emergency;
- civil war: two or more disciplined armies fight over the control of the state territory;
- warlordism: parts of the country are outside the control of government, being ruled informally by one or several war lords;
- infant soldiers: the regular army of the country is challenged in certain areas by gangs of infants, often led by petty war lords;
- anomie: a general breakdown of law and order, manifested in looting and interpersonal violence between citizens in general;
- anarchy: the war of all against all, meaning that armies are no longer fully disciplined but may attack civilians as well as that rebels resort to indiscriminate violence against ordinary citizens, who are no longer safe;
- genocide and racial violence: big scale atrocities against racially defined or constructed minorities.

In all of these forms of political instability, these are the common core of a collapse of good governance as well as the deviation from rule of law, minor or major ones. Yet, what is most important is the *differentia specifica*, meaning that it matters much which type of instability a country suffers from. For example, corruption in Arab countries is something miles apart from warlordism and infant soldiers in Sierra Leone and Uganda. Similarly, the anarchy in Somalia differs much from the genocide in Rwanda. A promising research strategy could be to look at these types of political instability separately and try to isolate some of their main conditions and consequences.

Aspects of Political Stability

When one captures a lot of information about a phenomenon like the modern state, then it is unavoidable to embark upon a strategy to compress the data. When many indicators deliver scores that go together, then one may try to find an underlying or latent concept that is manifested in the data. According to the

World Bank study, governance has six such dimensions. Table 5.1 shows how they relate to each other for the year 2005.

There are two major findings from Table 5.1. First, it is the case that all six dimensions correlate to a considerable degree with each other. But, second, it also holds true that voice and accountability (va05) is less connected with all the other aspects of political stability. I will argue that democracy (voice and accountability) should be separated from state strength or firmness (government effectiveness + regulatory quality + control of corruption + absence of political violence). This distinction appears promising when understanding political instability around the world.

Political instability may of course occur in both democracies and dictatorships. Thus, there may be lots of corruption and low governmental effectiveness in both democracies and dictatorships. And the opposite also holds. Thus, both democracies and dictatorships may display state strength or firmness, meaning high government effectiveness, regulatory quality, control of corruption and absence of political violence. Yet, there may be interaction between democracy and political stability, as revealed in probabilities. I will try to identify these probabilities by first looking at all the countries of the world and then examine an area where political instability has surfaced recently, namely the South Pacific area.

Mapping State Variations Globally 2005

The indicator of voice and accountability (va) may be taken as a proxy to democracy. Figure 5.1 shows that democracy promotes political stability meaning absence of violence or deaths from political violence according to the World Bank data indicator (ps).

Figure 5.1 shows some interesting countries that fall outside of the general trend, both above and below the regression line. Figure 5.2 shows how government effectiveness relates to democracy and dictatorship.

One may speculate whether political stability is a function of democracy, or whether it is the case that political stability promotes democracy. Support for a link between democracy and government effectiveness is to be found in Figure 5.2. The various aspects of political stability, removing voice and accountability as well as rule of law, co-vary to a very high degree in Figure 5.3 and Figure 5.4.

Figure 5.4 offers a coherent view of state firmness globally, as governmental effectiveness and absence of corruption interacts to provide an almost one-dimensional picture.

On the contrary, Figure 5.5 offers a warning to any belief that democracy (va) and state firmness (ps+qe+rq+cc) is the same thing. Several countries score high on state strength but low on voice and accountability. There are also countries that score high on democracy but only medium on state firmness.

A general model of political instability covering some of the types of instability listed above would have to be estimated from data assembled from a large set of countries. The conditions of coups d'etats and corruption as well as anarchy

Table 5.1 Cross-tabulation of governance dimensions

		cc05	ge05	ps05	rl05	rq05	va05
cc05	Pearson correlation	1	0.95**	0.75**	0.949**	0.898**	0.745**
	Sig. (2-tailed)		0	0	0	0	0
	N	204	204	203	204	203	204
ge05	Pearson correlation	0.95**	1	0.732**	0.937**	0.958**	0.768**
	Sig.(2-tailed)	0		0	0	0	0
	N	204	210	207	208	203	208
ps05	Pearson correlation	0.75**	0.732**	1	0.814**	0.718**	0.705**
	Sig. (2-tailed)	0	0		0	0	0
	N	203	207	213	207	203	207
rl05	Pearson correlation	0.949**	0.937**	0.814**	1	0.906**	0.775**
	Sig. (2-tailed)	0	0	0		0	0
	N	204	208	207	208	203	208
rq05	Pearson correlation	0.898**	0.958**	0.718**	0.906**	1	.802**
	Sig. (2-tailed)	0	0	0	0		0
	N	203	203	203	203	203	203
va05	Pearson correlation	0.745**	0.768**	0.705**	0.775**	0.802**	1
	Sig. (2-tailed)	0	0	0	0	0	
	N	204	208	207	208	203	208

** Correlation is significanta the 0’.01 level (2-tailed).

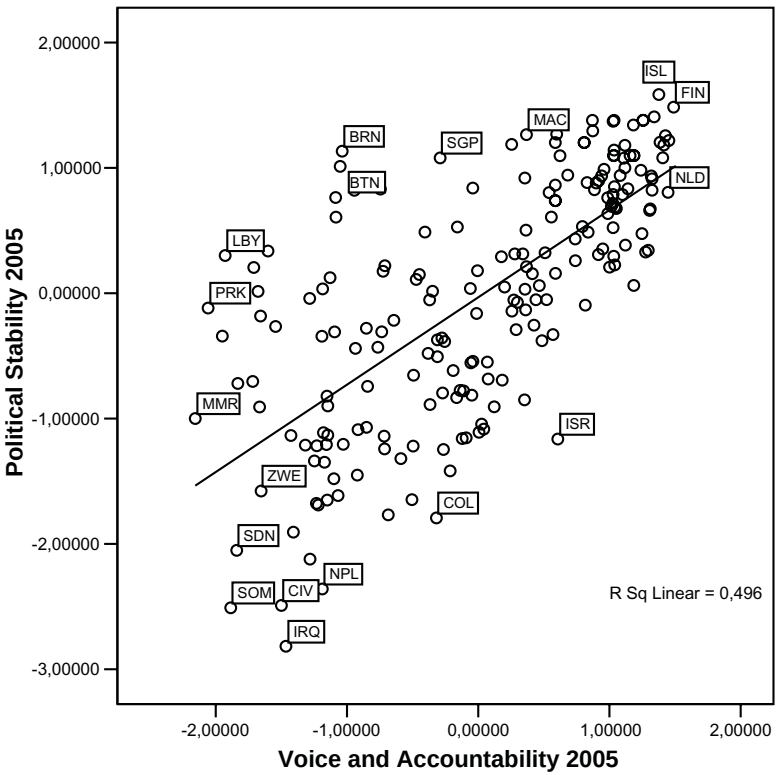

Figure 5.1 Political stability against voice and accountability

and anomie should be identified in a cross-comparative approach where country specific circumstances or contingencies are discarded as much as possible. The only methodology that can achieve that is the statistical approach. The large scale World Bank project on political instability offers the opportunity of employing statistical modelling in order to specify what is general and what is unique about instability in one country. I will first estimate a general model of political instability and second examine the Pacific Islands with this model.

General Causes of Political Instability

The availability of the World Bank Data Set allows one to test a set of comparative hypotheses about the conditions for political instability. Drawing upon the literature on consociational democracy, and the consolidation of democracy,[3] while taking into account the Weber insistence upon the role of religion, one may test a global model, predicting political stability (ps) from affluence (GDP), ethnic

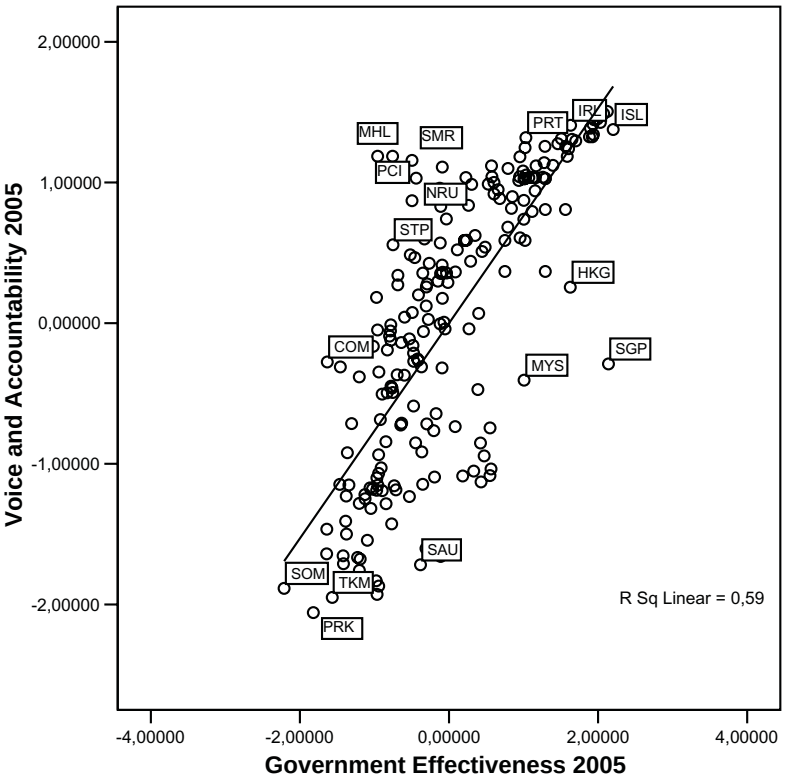

Figure 5.2 Voice and accountability against government effectiveness

fragmentation (ethnies), religious fragmentation and size of Islam. One could also include a factor like drug trafficking or the age of an independent state.

Table 5.2 Regression Analysis: Global Political Instability Factors[4]

Factors	Beta	t	Sig
Ethnicity	–.222	–3.070	.002
Islam	–.450	–3.584	.000
Religion	.118	2.080	.039
Affluence	.457	7.472	.000

R^2 (Adjusted) = 0.428.

The goodness of fit is surprisingly high, the model capturing 50 percent of the global variation in political stability as the occurrence of political violence. It is, as shown above, strongly connected with state weakness. Poverty has the strongest

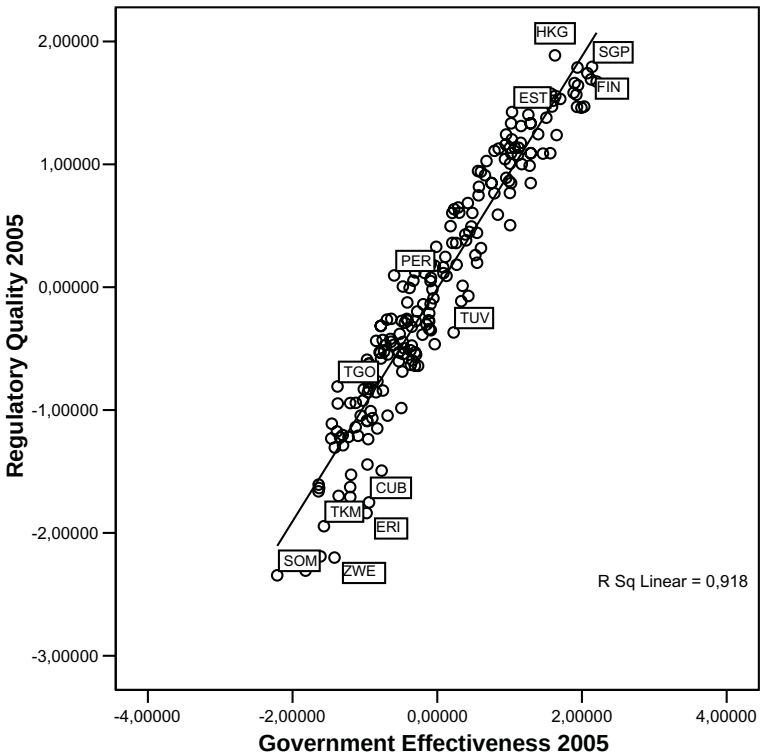

Figure 5.3 Government effectiveness against regulatory quality

impact, followed by Islam and ethnic fragmentation. Religious fragmentation does not play a negative role in this model. The conclusion is that one should focus upon poverty and ethnicity when searching for the general conditions for political instability in the Pacific region, as the size of the Muslim communities is small.

The Pacific Scene

The unique feature of the Pacific Islands states is that there are indigenous societies facing the difficult task of transforming their tribal communities into viable nation-states. Thus, they must overcome ethnicity as the struggle between ethnies and arrive at compact nations, defending a set of common interests in an ever-globalizing world. No other indigenous societies are in that position, since indigenous groups around the world are not in a majority, except in the Pacific.

Political instability in the Pacific area has become a major concern in the attempts to govern the process of globalization. One may employ the World Bank project for the systematic analysis of political instability in the region, using quantitative indicators, which is preferable to the variety of case study impressions. One may draw upon the huge World Bank study of political stability

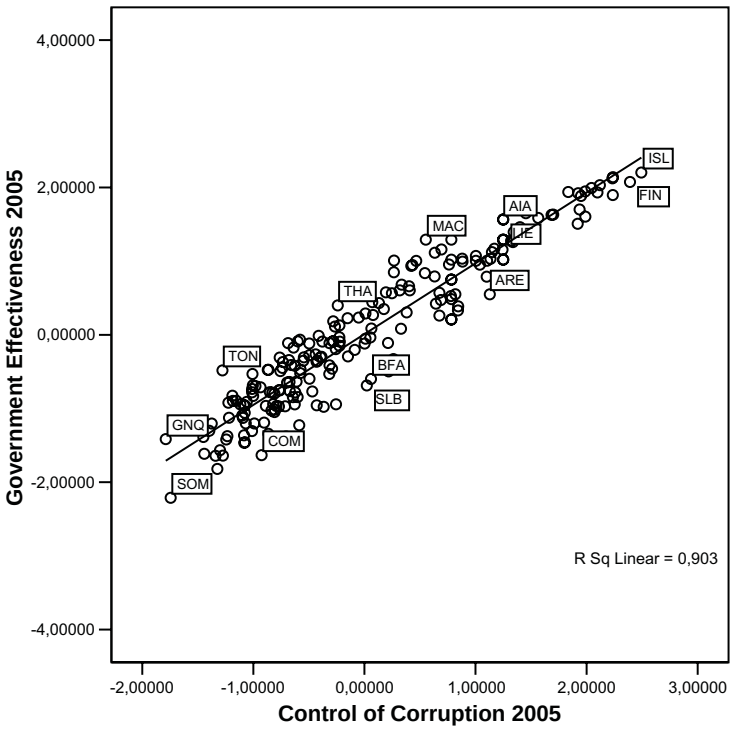

Figure 5.4 Government effectiveness against control of corruption

in 210 countries when suggesting a model that could account for the recurrent occurrence of political instability.

Based on the insights from institutional economics, one may wish to emphasize that Third World countries cannot achieve a sustained rate of economic development without firm institutions and a stable government. The link between economic and politics is underlined by the World Bank, promoting good governance in poor countries. The rules of the market economy cannot be enforced when the enforcer – government – is itself corrupt or inefficient. The emphasis in political economy upon politics comes in two versions, one underlining a strong state that is not necessarily committed to democracy and another linking economic progress with the respect for human rights.

This theme – the requirement of political stability for development – is highly relevant today, as the evolving process of globalization puts the institutional setup of many Third World countries under pressure. When a country has difficulties positioning itself successfully in the global economy, then its government and public institutions come under extreme pressure. Thus, one finds several poor countries succumbing to anarchy, anomie, civil war and the new power of warlords.

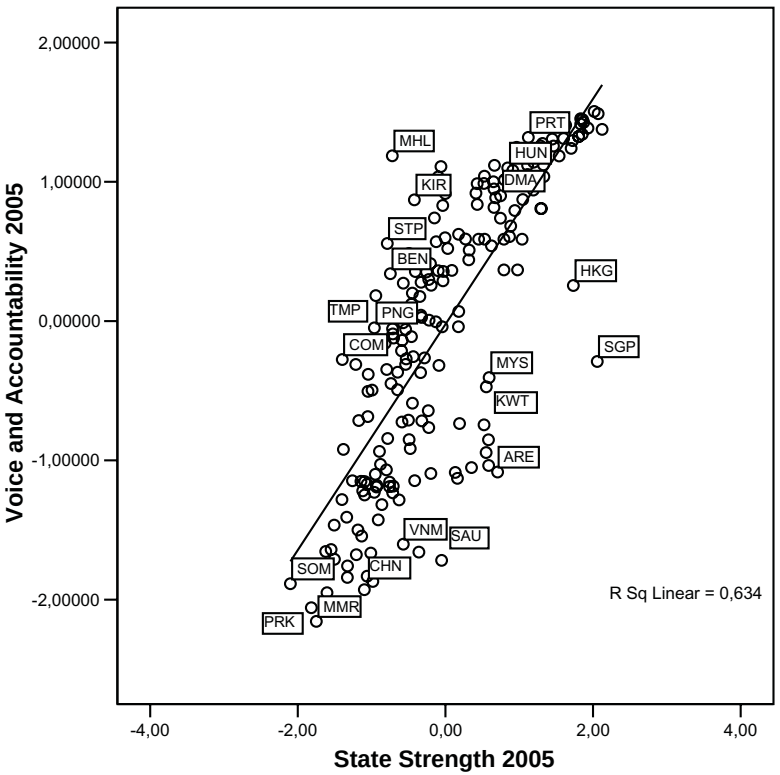

Figure 5.5 Voice and accountability against state firmness

The Pacific may be the next area to fall into the dismal trap of political instability and economic decline. The impact of this Hobbesian syndrome on Central Africa is well documented, and one also finds it in a few Caribbean states such as Haiti. Since several of the Pacific Islands states belong to the LDCs, the emerging political instability is most worrisome. When, in addition, political instability surfaces in the median affluent country of Fiji, then one must start enquiring into the sources of political instability in the Pacific. This is especially an important research task for the independent states, i.e. the countries in the Pacific that are not linked with either France or the US.

Let me employ the World Bank analysis of global political stability for mapping political instability in the Pacific. The political turmoil in several of the independent Pacific states has attracted much attention globally, as one attempts to understand why globalization translates into *coups d'etat* and anarchy in this part of the planet.

Table 5.3 has the World Bank data for the 16 Pacific Forum member states with regard to the year 2005. The difference in these relative scores between the two advanced countries, Australia and New Zealand, on the one hand and the

remaining Third World countries is stark and encompassing. Few of the Pacific states come close to Australia and New Zealand on any of these aspects of political stability, as the general implication of affluence upon political stability works itself out in the Pacific as elsewhere.

Five major empirical findings stand out from Table 5.3, comprising lots of information into relative scores:

1) political instability manifests itself in several characteristics that tend to go together;
2) a few Pacific countries score better than the others, namely the smaller ones: Samoa, Tuvalu, Marshall Islands, Federated Micronesia and Kiribati;
3) all Pacific states perform badly on the output side of government, i.e. public administration, including corruption, government effectiveness and regulatory quality; state strength or state firmness is missing in the Pacific;
4) political instability (ps) as the massive loss of civilian lives has chiefly occurred in PNG and the Solomon Islands;
e) in Tonga, political instability takes mainly the form of a lack of clean public administration.

It should be emphasized that all the three bigger countries in the Pacific – Papa New Guinea, Fiji and Solomon Islands – display political instability in the form of low voice and accountability (va), besides scoring low on all measures of state strength. This Melanesian Negative constitutes a major drag on the region.

One may separate the scores on democracy (voice and accountability) on the one hand and state firmness on the other hand (government effectiveness, control of corruption, regulatory quality). What bodes badly for the prospects of economic development in the Pacific are the low scores on the output aspects of government, i.e. the quality of public administration.

Figure 5.6 shows how democracy (voice and accountability) relates to state firmness (control of corruption + regulatory quality + government effectiveness) among the Pacific countries in the total set of countries in the world. Instead of a Pacific arc of instability, there is a major difference between the good guys and the bad guys. The crux of the matter is that the tiny states perform much better than the big states, with the exception of Kingdom Tonga.

First and foremost it is the scores on state firmness that are low in the Pacific. On average, they are lower than the democracy scores. The two dimensions of political stability – democracy and state firmness – go together very much among the countries of the world, but the scores on state firmness tend to be lower than those on democracy in the Pacific. This holds true especially for the three bigger countries in the Pacific. What, then, accounts for political instability in Melanesia?

In general, political instability surfaces in countries that are poor, ethnically or religiously fragmented, dominated by Islam, or have sharp income inequalities. For the Pacific, after the period of European colonialism, it is first and foremost poverty and ethnicity that are conducive to political instability. Of course, each

Table 5.3 Aspects of political stability in the Pacific (Pacific Forum Islands States), according to the World Bank scoreboard (+2–−2)

Country	Code	va05	ps05	ge05	rq05	cc05	R105
AUSTRALIA	AUS	1.324	0.821	1.884	1.582	1.950	1.805
COOK ISLANDS	COK			0.233			
FIJI	FJI	0.177	0.291	–0.089	–0.350	–0.600	–0.251
KIRIBATI	KIR	0.870	1.379	–0.496	–0.984	0.218	0.762
MARSHALL ISLANDS	MHL	1.186	1.098	–0.957	–0.773	–0.429	–0.271
MICRONESIA	FSM	1.109	1.077	–0.089	0.190	–0.280	0.724
NAURU	NRU	1.030	1.098	–0.440			0.833
NEW ZEALAND	NZL	1.386	1.205	1.897	1.662	2.236	1.948
NIUE	NIU			–0.440			
PALAU	PCI	1.186	1.098	–0.757			–0.071
PAPUA NEW GUINEA	PNG	–0.049	–0.814	–0.958	–0.855	–1.075	–0.919
SAMOA	SAM	0.623	1.097	0.350	0.011	0.175	1.093
SOLOMON ISLANDS	SLB	0.272	–0.054	–0.687	–1.046	0.022	–0.899
TONGA	TON	–0.159	0.528	–0.483	–0.687	–1.278	0.453
TUVALU	TUV	1.035	1.379	0.226	–0.369	–0.151	1.204
VANUATU	VUT	0.598	1.269	–0.329	0.053	0.261	0.529

Note: The scores are based on a massive data inventory of all kinds of variables, aggregated and standardized into relative scores between +2 (high) and −2 (low).

Source: www.govindicators.org.

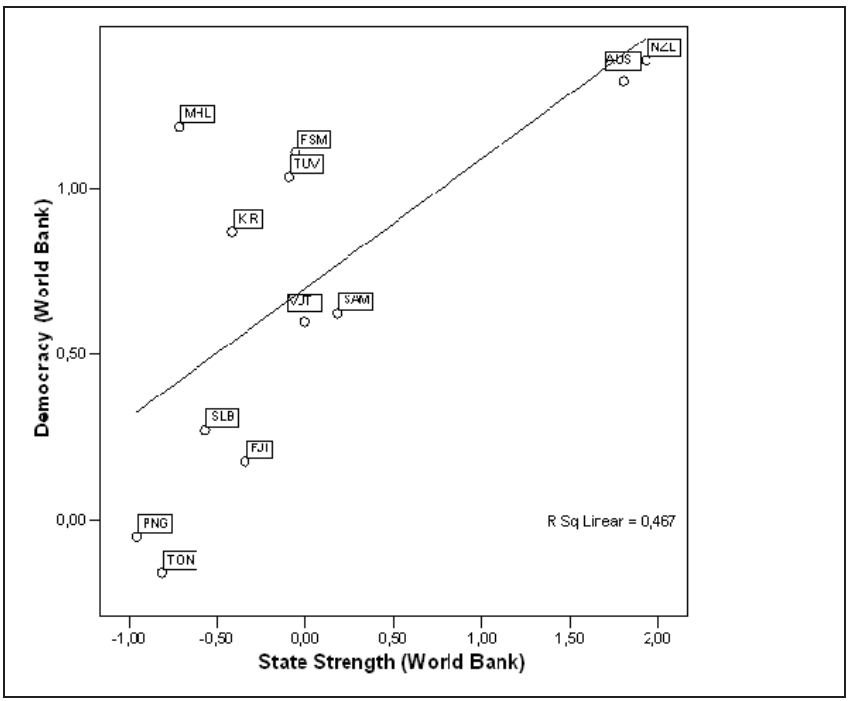

Figure 5.6 Democracy and state firmness

country has its specific constellation of social forces, reflecting their past as well as the struggle among the political elite.

Several Pacific scholars have contributed with case studies on Pacific islands states, from either the economic or political point of view. Whereas economists debate economic viability, meaning capacity to reduce poverty, political scientists target ethno-nationalism. To mention just a few names: Duncan, Robertson, Naidu, Hughes, Kabutaulaka and Fingleton.[5]

Affluence

A link between the level of economic development (GDP) and democracy has been much researched. What has never been confirmed is a proposed link between democracy and the rate of economic development (economic growth/year). Interestingly, some democracy scores for a few Pacific countries are higher than expected, given a general relationship between GDP and democracy. How to account for the fact that several small island states perform better then the three big Pacific states, although their GDP per capita differs little, or may even be smaller? Figure 5.7 shows this in detail. Why do Samoa, Tuvalu and FSM perform better on democracy than PNG, Solomon Islands and Fiji?

One may argue that Samoa, FSM and Tuvalu perform above the expected score, given the general implication of poverty. But then it also holds true that

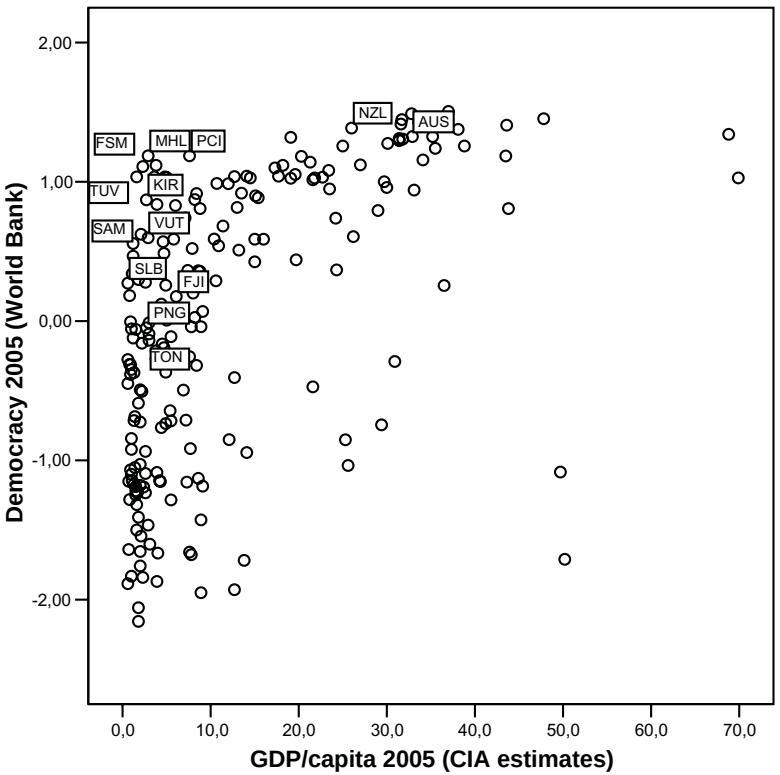

Figure 5.7 The Pacific Scene: GDP/capita and democracy

PNG, Fiji and Solomon Islands underperform. Given a general link between democracy and state firmness, one expects that poverty reduces state firmness or strength in the Pacific. Again, one observes that the scores for the three bigger states in the Pacific are low, even when one tales the impact of poverty into account. Why is there state weakness in the bigger Pacific states?

Ethnicity

Although poverty is an important factor in accounting for state weakness in the Pacific, other forces are at play also. I would suggest that ethnicity is the most important additional factor. The concept of ethnicity includes a host of factors that comprise social units like clans, tribes, ethnies and nations, whether these are real or imaginative. Ethnicity as a social force works itself out independently of whether it is seen as natural or constructed. The history of an ethnic group is as important as its myths.

The combination of ethnic cleavages and poverty has brought havoc to Sub-Saharan Africa. If the Pacific states fall into the same poverty-ethnicity trap, then

the prospects for development look grim. When ethnic diversity translates into the ethnic conflicts around key economic opportunities, then it spreads a poison that can have the most terrible impact upon social capital. Ethnic conflicts in the Pacific have been rather cost-some, to say the least for the big Melanesian states.

The conflicts among ethnies in the Pacific are multilayered. There are both tensions between the historical groups in the Pacific – Polynesians, Melanesians and Micronesians – all having their distinct languages, and tensions within these indigenous societies among tribes or clans. Finally, there is the ethnic divide between two cultures or nations in Fiji, the natives and the Indians.

The Pacific has little of religious cleavages. This is a Positive, whereas the ethnic cleavages constitute a sharp Negative. One may speak of failed nation building, but in today's global world it is multiculturalism that matters. Why cannot the Pacific countries view themselves as multicultural societies and try to capture the positive sides of multiculturalism?

When poverty is married with ethnic struggle, then ethnicity becomes a major hindrance to development. Thus, one arrives at circular causation, poverty reinforcing ethnicity and ethnic cleavages sustain poverty, etc.

Uncompleted Nation-Building

State weakness translates in the Pacific into profound policy problems in relation to the environment, reflecting unachieved nationhood. Thus, soil is a major source of ethnic conflict, given the special nature of traditional land rights in an indigenous society. As land rights (private, communal, state) are contested and not fully enforced, the land question constitutes a major obstacle to economic development.

The question of land ownership hinders land use for productive purposes. It is an aspect of the general problem of how to employ environmental resources so that they deliver sustained results in the long run. When government is weak, then it fails to protect the rent from environmental resources. It may even participate in short run looting of the environment, as with logging or over fishing. In Fiji for instance, an incredible amount of daily littering threatens its tourism industry, so vital for its position in the global economy. To understand the link between successful nation building and environmental protection, it is enough to compare Fiji with Singapore, where littering constitutes a most grave public offence.

The Pacific islands resemble Walter Lewis' dual economies, i.e. a poor majority of the population lives from an inefficient agrarian sector while a rich minority is occupied in the service sector. There is little of industrial activity in the Pacific besides some mining. The economies are extremely open according to the Impex measure, meaning that huge imports provide most of the necessary goods for living. They are paid through exports focussing on a small set of products (goods or services) where the Pacific Islands enjoy their economic niches. These extremely important export goods and services are somehow derived from the use of the environment. Thus, environmental policy-making is of utmost importance in the Pacific. These countries should target the potentially high rents from the

sustainable management of environmental resources, focusing upon e.g. ethanol, tuna and fresh water production, besides tourism.

The Pacific Islands states are the only examples of indigenous peoples setting up modern states in the post-colonial period, where they are the principals. In the rest of the world, the indigenous peoples have had to accept a minor political role, if not constant discrimination as weak minorities. Thus, the Pacific Islands states have to combine the tribal nature of indigenous societies with the requirements of modern states. And this sets up the very difficult problem of finding a trade-off between modernity and tradition, universalism and particularism.

The modern state offers a mechanism for the resolution of the tensions deriving from tribalism, namely rule of law focussing upon the national assembly. Somehow tribal loyalties must be overcome in a process of nation building. The only viable mechanism steering that process is the representative body of the entire nation, Parliament. Hassall has expressed the fear that Parliaments in the Pacific are reduced to the role of mobilizing ethnic divisions in search for short-term rents.[6] However, the national assembly is the only means of achieving nationhood, meaning that its integrative role will have to prevail over its rent-seeking function. The big Melanesian countries may wish to try consociational democracy, bringing all conflicting factions on board in order to coordinate among vital interests.

Ambiguous Prospects for Africa

For reasons that are not entirely clear, globalization seems to weaken the state in Africa at the same time as it strengthens governments in East and South East Asia. For some countries like today China and India, globalization offers a long awaited opportunity to strengthen the country, increasing affluence and empowering government. For other countries, globalization operates the other way around, weakening government and impoverishing the country.

Yet, Africa is finally helped by the global scarcity in resources, especially in oil, minerals and food. China has begun penetrating Sub-Saharan Africa in its quest for securing its immense need for food and resources. Global resource scarcity, driven by the advent of giants like China and India on the global markets for all kinds of primaries, raises the prices for African exports. At the same time, political instability lingers on. The most paradoxical example is Zimbabwe, where President Mugabe seeks Chinese support for his devastating policies. The one time freedom fighter has pushed his country to the brink of disaster by irrational policies.[7]

Democracy scores for South Africa are now quite high: How is this to be explained? Testing social, economic, cultural and institutional models of democracy, a combination of institutional and political culture factors seems relevant. Civil society is an important factor conducive to democratic vitality in the RSA. The position of the ANC in the Republic of South Africa (RSA) is an interesting example of a dominant party. In comparison with similar cases in Mexico and Taiwan, the position of the ANC is based upon electoral mobilization and not state monopolization. However, in the long run any position as dominant party poses a risk for democracy, especially if the surrounding conditions do

not fully support democratic stability. To understand what must change in many African countries, one may look at the RSA more closely.

Predicting Democracy Scores for RSA

What sustain democracy in the RSA? Identifying the factors that support democracy in South Africa helps understanding its absence in the rest.[8]

The aim of the model estimations presented in Tables 5.4 to Table 5.5 is to test how well different models may predict the democracy score for South Africa. Predicting the democracy score for RSA does not necessarily mean that the model with the best general fit also produces the best prediction for RSA. What we look for is what impact different factors may have upon consolidating democracy in South Africa. What is the impact of social and economic factors, institutional factors and political culture factors?

We start by looking at how well different models capturing social and economic factors may predict the democracy score for RSA in the period between 1995 and 2003. From Table 5.4 we may establish the predicted scores go from 5.74 to 8.25 against an observed score of 9.25.

The model (1) with the lowest predicted democracy score includes income distribution, religious and ethnic fragmentation. These structural factors are disadvantageous in the South African case. Yet, a model (3) covering human development and Protestantism only increases the predicted with one unit. As a matter of fact, it is model (5) that includes all the structural variables that arrives at the predicted score closest to the observed democracy score. Thus, social and economic factors cannot fully predict the observed democracy score for South Africa. Still it is the case that from a model including social and economic factors we may expect a moderate democracy score for RSA.

There is thus a prediction deficit, and our next step is to test the predictive powers of institutional factors – see Table 5.5. The models tested there predict democracy from a set of favorable political institutions. However, favorable institutions in the RSA have to work themselves out while also taking into account the dominant position of one party, the ANC. As stated above, a dominant position for one party is all the time and everywhere a NEGATIVE for democracy.

The predicted scores vary from a low 6.41 to a high 9.43. The models (1 and 2) with the lowest predicted scores include the presence of a dominant party (=size of the largest party). As soon as we eliminate this variable from the models tested the predicted democracy scores increases. In fact, we may arrive at a model (5) where the predicted score is higher than the observed score – it includes the presence of proportional representation and parliamentarism. There is thus no doubt that institutional factors are important for predicting democracy for a country like the RSA.

The main political institutions of RSA have certainly been framed against an authoritarian regime. Thus, they include PR, a strong Parliament, a constitutional court, an Ombudsman and political decentralization to the nine regions of the country. When compared with other constitutions, the South African constitution

Table 5.4 Predicting democracy scores for RSA: economic and social forces

Predictors	Coefficients	(1)	(2)	(3)	(4)	(5)	(6)
Income distribution	Coeff	–0.012	–	–	0.037	0.038	0.036
	t-stat	–0.51			1.79	1.97	1.82
HDI 2001	Coeff	–	–	7.892	9.437	9.006	9.327
	t-stat			7.73	8.28	8.27	7.42
ELF	Coeff	–2.416	–3.316	–	–	–	0.560
	t-stat	–2.87	–3.92				0.62
Protestants	Coeff	–	0.060	0.047	–	0.041	0.039
	t-stat		4.46	4.36		3.91	3.68
Rel Fragment	Coeff	1.772	1.235	–	–	–	0.463
	t-stat	1.72	1.26				0.57
Constant	Coeff	7.526	6.300	0.104	–1.618	–1.781	–2.364
	t-stat	7.53	11.80	0.14	–1.16	–1.35	–1.59
Adj rsq		.068	.201	.386	.374	.451	.443
N		117	147	142	119	118	117
Dem score	Observed	9.25	9.25	9.25	9.25	9.25	9.25
	Predicted	5.74	6.28	6.93	7.03	7.89	8.25

Note: Coeff = unstandardized regression coefficients; t-stat = corresponding t-statistics; Adj rsq = adjusted r square, or explained variance of the model; N = number of countries included in the analysis; observed score = the democracy score based on the Freedom House normalized index; predicted score = predicted democracy score arrived at from the corresponding regression model.

Sources: See Table 5.7.

Table 5.5 Predicting democracy in South Africa: institutional factors

Predictors	Coefficients	(1)	(2)	(3)	(4)	(5)
Lgst party	Coeff	–0.064	–0.064	–		
	t-stat	–9.29	–9.39			
Elect syst	coeff	1.153	1.138	2.134	2.122	2.340
	t-stat	4.14	4.13	6.56	6.56	6.25
Ombudsman	coeff	1.032	1.027	1.627	1.607	–
	t-stat	5.34	5.36	7.07	7.12	
Parliam RSA = 0	coeff	0.677	–	–	–	–
	t-stat	2.06				
Parliam RSA = 1	coeff	–	0.791	1.615	1.594	2.680
	t-stat		2.46	4.07	4.05	6.35
Federalism RSA = 1	coeff	–	–0.412	–	–	–
	t-stat		–1.12			
Federalism RSA = 0	coeff	–0.236	–	–0.225	–	–
	t-stat	–0.65		–0.49		
Constant	coeff	8.476	8.464	3.547	3.540	4.415
	t-stat	14.97	15.14	14.18	14.21	17.50
Adj rsq		.722	.727	.554	.557	.399
N		143	143	143	143	143
Dem score	Observed	9.25	9.25	9.25	9.25	9.25
	Predicted	6.41	7.41	8.69	8.86	9.43

Source: See Table 5.7.

displays ambiguity on two aspects, namely the structure of the executive and the nature of the state. The president is elected by Parliament but serves as both head of state and leader of the government. He/she can be removed from office by a vote of no confidence in Parliament. Is this presidentialism or parliamentarism? It is difficult to say, which is why we classify RSA as either presidential or parliamentary in Table 5.5. There is extensive political decentralization in South Africa, as the regions have their own assemblies, premiers and budgets. But is this federalism? We doubt so, but have classified the RSA in both ways in Table 5.5.

In their thorough examination of presidentialism in *Presidents and Assemblies: Constitutional Design and Electoral Dynamics* (1992) Shugart and Carey entirely bypass the presidency in the RSA, which was actually created before the making of the new constitution after the fall of Apartheid.[9] Here, we have an interesting example of strong presidentialism without direct election of the president. Shugart and Carey identify three criteria upon strong presidentialism:

1) popular election of the chief executive;

2) the terms of the chief executive and assembly are fixed, and are not contingent on mutual confidence;
3) the elected executive names and directs the composition of the government.

The RSA deviates from these criteria, as 1) and 2) are not fulfilled. However, the powers of the South African president are truly impressive – an institutional heritage from the earlier constitution of RSA.

Finally we move from political institutions to political culture. In Table 5.6 we use a few indicators on political culture, such as the strength of civil society in a set of countries, in order to establish how generally speaking a variation in civil society strength impacts upon the level of democracy – civil society strength being measured with a number of various indicators. In addition variables capturing perceived corruption, social capital and gender equality are included in the models tested.

The models tested in Table 5.6 differ in one respect from the previous models. The number of countries included is lower due to the availability of data although for all models data for South Africa is included. As displayed in Table 5.5 the predicted democracy scores for RSA goes from 7.22 to 8.47. The model (1) with the lowest predicted score only includes civil society related variables, whereas the model (5) with the highest predicted scores includes civil society, social capital and gender equality. Yet, it is the case that this model also predicts a lower score than the observed one. Political culture in its various manifestations is conducive to consolidating democracy in the RSA, but they alone cannot predict the high-observed score for the country.

Political culture, especially civil society in RSA, is important to a considerable extent. Two variables – number of NGO:s and interpersonal trust – are strongly and positively related to democratic stability in general. They also help stabilise democracy in the RSA, reducing the democratic deficit considerably. The organization of civil society is conducive to softening the dangers of the dominant position of the ANC in the polls. After all, the roots of ANC include the free associations in the private sector.

Democracy in Africa

The consolidation of democracy in South Africa is vitally important for the future of democracy in the entire African continent. Today the RSA scores are very high on the standard democracy indicators. At the same time there is one political party that has strengthened its grip on power in election after election to such an extent that it now has a dominant position. There are two major bulwarks against a possible deterioration in the rule of law in the country, we suggest. First, there is the *institutional framework*, which reduces the democratic deficit when only affluence and perceived corruption is taken into account. Second, there is the *civil society carpet* of free associations, from which ANC actually stems, helping considerably in stabilizing democracy. Political culture in South Africa reinforces democratic vitality, but more of competition in the party system would certainly help stabilizing the new regime so that any 'sultanistic' deviation, which has

Table 5.6 Predicting democracy in South Africa: political culture

Predictors	Coefficients	(1)	(2)	(3)	(4)	(5)
Perceived corruption 2003	Coeff	–	–0.071	–0.734	–	–
	t-stat		–0.46	–6.35		
Female parliamentary representation 1998	coeff	–	–0.020	–0.000	–0.006	0.045
	t-stat		–0.97	0.00	–0.28	1.52
Number of NGOs around 2000	coeff	0.002	0.001	–	–	0.001
	t-stat	4.17	1.91			4.29
Trade union density in the 1990s	coeff	0.032	0.013	–	–	–
	t-stat	2.21	1.10			
Civil society work force	coeff	0.058	0.018	–	0.062	–
	t-stat	0.64	0.25		1.13	
Social capital: Interpersonal trust 1990-95	coeff	–	0.033	–0.032	0.051	–0.043
	t-stat		1.84	–1.64	3.37	–0.021
Constant	coeff	3.917	6.817	12.499	7.142	5.376
	t-stat	6.67	4.49	11.37	19.61	10.26
Adj rsq		.626	.605	.536	.531	.394
N		35	28	57	28	57
Dem score	Observed	9.25	9.25	9.25	9.25	9.25
	Predicted	7.22	7.68	7.80	8.13	8.47

Source: See Table 5.7.

hurt many African countries badly after independence was won from European colonialism, is made completely improbable.

Conclusion

Globalization favors certain countries – the globalizers with strong sustained economic growth and trade liberalization. It disfavors other countries that fall behind. They may fall prey to warlordism, which is the most severe form of political instability. The much talk about democracy waves risk diminishing the attention that should be given to political instability. Various forms of instability like anarchy, anomie, civil war, *coups* and warlordism is spreading around the globe

Table 5.7 South Africa: variables, indicators and data[11]

Abbreviation	Description	Sources
Civil society	Civil society organization workforce as share of economically active population	Salamon et al., 2003
Dem score	The Freedom House scores have been added and normalized so that a low degree of democracy scores 1 and a high degree of democracy scores 10	Freedom House, 2004
Elect syst	Election system as a dummy variable where 1 = proportional systems and 0 = non-proportional systems	Reynolds and Reilly, 1997; Rose, 2000
ELF	Ethno-linguistic fragmentation index	Alesina et al., 2002
Federalism	Federalism as dummy variable where 1 = federalism and 0 = non-federalism	Watts, 1999
HDI 2001	Human development index	UNDP, 2003
Lgst party	Estimated size of the largest party at an election as a percentage of the total vote	Vanhanen, 2000
Lngnp/capita 2002	Natural logarithm of GNP/capita in US $ expressed as purchasing power parities	CIA, 2004
Number of NGOs	Number of non-governmental organizations 2000	UNDP, 2002
Ombudsman	Occurrence of the Ombudsman institution as a trichotomous variable with higher scores for an early institutionalization	International Ombudsman Institute, 1999
Parliam	Parliamentarianism as a dummy variable where 1 = parliamenatarism and 0 = non-parliamentarism	Derbyshire and Derbyshire, 1999
Perceived corruption	Perceived corruption where higher scores indicate less corruption and lower scores more corruption	Transparency International, 2003
Protestants	Percentage of the population estimated to adhere to the Protestant creed	Barrett et al., 2001
Rel Fragment	Religious fragmentation index	Alesina et al., 2002
Social capital	Percentage of sample in a country expressing interpersonal trust 1990–1995	Inglehart et al., 2000
Trade union density	Trade union membership as percent of non-agricultural labor force 1995	UNDP, 2002

and whole countries may be almost destroyed by the consequences of political instability. Besides democracy and autocracy, there is a third predicament, the Hobbesean situation of lawlessness, warlordism and the fight of all against all. Can international coordination diminish political instability?

J. Diamond has launched the thesis that major environmental changes lie behind the disappearance of entire societies. He finds evidence to this effect with the Easter Islands, the Mayas and the Viking settlements in Greenland.[10] Could it happen on a global scale, meaning that by the year 2100 mankind could have considerably reduced itself, as several societies will exhaust themselves? One could search among the LDCs for candidates of societal disasters. Basically, it boils down to excessive political instability as with a few African countries suffering from warlordism and anarchy such as Somalia or civil war like Sudan, Democratic Republic of Congo and Ivory Coast. Or one may warn about certain countries in the South Pacific, failing to contain political instability.

Notes

1 On Hobbes, see http://plato.stanford.edu/entries/hobbes-moral/, Tom Sorell (ed.) (1996), *The Cambridge Companion to Hobbes*, Cambridge: Cambridge University Press.

2 http://web.worldbank.org/WBSITE/EXTERNAL/WBI/EXTWBIGOVANTCOR/0,,contentMDK:20771032~menuPK:1976990~pagePK:64168445~piPK:64168309~theSitePK:1740530,00.html.

3 J.E. Lane and S. Ersson (1997), *Comparative Politics*, Cambridge: Polity Press; A. Lijphart (1980), *Democracy in Plural Societies: A Comparative Exploration*, New Haven, CT: Yale University Press; L. Diamond (2008), *The Spirit of Democracy: The Struggle to Build Free Societies Throughout the World*, New York: Times Books; L. Diamond (1996), *Prospects for Democratic Development in Africa*, Stanford, CA: Hoover Institution Press.

4 On ethnic fragmentation, see J.D. Fearon (2003), 'Ethnic and Cultural Diversity by Country', *Journal of Economic Growth*, Vol. 8, No. 2: 195–222; on religious fragmentation see www.stanford.edu/~wacziarg/downloads/fractionalization.pdf., on the proportion of Muslims see data from Barrett et al., 2001 See also D.L. Horowitz (2001), *Ethnic Groups in Conflict*, Berkeley: University of California Press.

5 See articles such as R. Duncan and S. Chand (2002), 'The Economics of the "Arc of Instability"', *Asian-Pacific Economic Literature*, Vol. 16, pp. 1–9; J. Fingleton (ed.) (2005), 'Privatising Land in the Pacific: A Defence of Customary Tenures', Canberra: Australia Institute (Discussion Paper 80); S. Gosarevski, H. Hughes and S. Windybank (2004), 'Is Papua New Guinea Viable *with* Customary Land Ownership?', *Pacific Economic Bulletin*, Vol. 19, No. 3: 133–136; T.T. Kabutaulaka (2001), 'Beyond Ethnicity: The Political Economy of the Guadalcanal Crisis in Solomon Islands', in State, Society and Governance in Melanesia Working Paper 01/; V. Naidu (2007), 'Coups in Fiji: Seesawing Democratic Multiracialism and Ethno-nationalist Extremism', in CID's magazine, *devforum*, 26, February; R.T. Robertson and A. Tamanisau (1988), *Fiji: Shattered Coups*, Annandale, NSW: Pluto Press; R.T. Robertson and W. Sutherland (2001), *Government by the Gun: The Unfinished Business of Fiji's 2000 Coup*, Annandale, NSW: Pluto Press and London: Zed Books.

6 Hassall, G. (2007), 'Good Governance and Political Developments in the Pacific: *Can existing concepts and institutions deliver security?*', presented at *Models of Regional Governance for Pacific Island States: the Future Architecture of Pacific Regionalism*, University of Canterbury, Christchurch, New Zealand, 25–27 May 2007.

7 On Africa development and globalisation, see: Vishnu Padayachee (ed.) (2006), *The Development Decade?: Economic and Social Change in South Africa, 1994–2004*, Cape Town: HSRC Press; D. Offiong (2001), *Globalisation: Post-Neo-Dependency and Poverty in Africa*, Nigeria: Fourth Dimension Publishing.

8 See J.-E. Lane and S. Ersson (2007), 'South African Democracy', in *Commonwealth and Comparative Politics*, Vol. 45, April: 219–240.

9 Matthew Soberg Shugart and John M. Carey (1992), *Presidents and Assemblies: Constitutional Design and Electoral Dynamics*, Cambridge: Cambridge University Press; Shugart and Carey, 1992: 19.

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PART 3
Coordination Hopes

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Chapter 6

Logic of International Coordination: The Wicksell Approach to Political Cooperation among States

Introduction

One major problem in global governance is the specification of decision-making rules for international coordination of all the states of the world. Various organizations use different decision-making rules and the properties of these rules may be compared systematically in terms of the power index approach. The power index solution concept of *n*-person games (Banzhaf) may be employed to display a basic problem in global governance, viz. the fundamental *trade-off* between *state veto* on the one hand and the capacity of the organization or groups of states to act, meaning its *decisiveness* on the other hand. Thus, when states coordinate through the setting up and running of international organizations, then they face a trade-off between having own control over the organization and the capacity of the organization to act. States make this trade-off in different ways depending upon the nature of the international organization, as they reflect upon what is most important, viz *own control* or the *capacity* of the group *to act* – a model choice anticipated by Swedish economist Knut Wicksell.

Life of Wicksell

Wicksell was born in Stockholm in 1851. He lost both parents at a young age, his mother died when he was only six years old and his father died when he was 15. His father was a successful businessman and real estate broker, which allowed Wicksell to enroll at the University of Uppsala in 1869 to study mathematics and physics. He received his first degree in two years, but continued in graduate studies until 1885 when he received his doctorate in mathematics. For much of his adult life, Wicksell depended on small inheritances, grants and a small income from public lectures and publications. When, in 1886, he was awarded a major grant, he began to pursue economics seriously. Having financial support, Wicksell travelled to universities in London, Strasbourg, Vienna, Berlin and Pairs. Wicksell returned to Stockholm in 1890. Economics instructors were required to have a formal degree in law, which forced him into freelance writing and lecturing.

Lecturing at Uppsala University, Wicksell attracted attention for his advanced opinions about labor, alcoholism and prostitution and for advocating birth control. His first work in economics, *Value, Capital and Rent*, published in 1892, went largely unnoticed. However, in 1896, he published in Swedish his much discussed *Studies in the Theory of Public Finance*, applying the ideas of marginalism to progressive taxation, public goods and other aspects of public policy, suggesting his famous unanimity rule of public decisions.

Wicksell had taken a common-law wife, Anna Bugge, in 1887, although he found it difficult to support his family on his irregular positions and publications. He was unable to gain a chair as a professor until he was awarded a law degree. He returned to the University of Uppsala where he completed a four-year law degree in two years and subsequently became an associate professor at that university in 1899. The next year he became full professor in economics at Lund University.

His image as a radical social reformer did much to attract the attention of the press and the Young Socialists with whom he sympathized. But his rejection of Marx and Marxism limited his popularity. After a lecture in 1908 satirizing the Immaculate Conception, Wicksell was briefly imprisoned for two months. Eight years later, in 1916, Wicksell retired from his post at Lund and took a position at Stockholm advising the government on financial and banking issues. In Stockholm, Wicksell associated himself with future economists of the well-known so-called 'Stockholm School'. Wicksell died in 1926, while writing a final work on the theory of interest.

Wicksell laid out marginal productivity theory – the theory that the payment to each factor of production equals that factor's marginal product in an exposition that was superior at that time. Wicksell pointed out that an efficient allocation of resources is not necessarily just, because the allocation depends crucially on the distribution of income, which may be unjust. Wicksell made contributions to future macroeconomics, formulating a coherent version of the quantity theory of money (monetarism), as he initiated the conversion of the old quantity theory into a full-blown theory of prices. The Stockholm School of Economics, which Wicksell supported, used his insights and developed a version of macroeconomics, which resembled later Keynesian economics in several ways.[1]

Decision-Making in Global Governance

Governments acting as the representatives of the states of the countries have increasingly found international or regional organization an advantageous mechanism for coordination (UN, WB, IMF, EU, NAFTA, ASEAN, MERCOSUR). Since World War II the proliferation of multilateral decision-making mechanisms indicates the profound transaction cost saving reasons for governments to set up and run international and regional organizations. At the same time governments maintain their capacity to act bilaterally. To the state, participating in international and supra national organizations offers the advantage of managing complex reciprocities through *institutionalization and*

universalization, i.e. creating and enforcing regulations applicable in the same way to all members.

A key concept in international relations theory is that of interdependency or reciprocity. Its relevance to the understanding of state interaction has only increased during the last twenty years. International organizations offer mechanisms for handling state reciprocity, especially in a globalized world. Whether one emphasizes the EU approach to global interdependencies as institutionalization, or the policy of persuasion of a hegemon,[2] it is still the case that international or regional organizations offer the main arenas for managing global interdependencies. What, then, is the logic of their decision-making?

Following the basics of public international law one would expect governments to insist upon respect for state sovereignty, meaning that the regime put in place is founded upon the consent of the government – *auto regulation*, which entails unanimity in decision-making *ex ante*. However, governments realize that unanimity is not transaction cost minimizing *ex post*. Thus, there arises the basic trade-off in international organizations: efficiency in group decision-making against member's veto. Below this dilemma is analyzed for a selection of international regimes in order to show how this trade-off may be done in various ways for groups of states. To analyze the trade-off between own control and group capacity I employ a powerful tool in *n*-person game theory, namely the power index approach. Coordination among actors can be modelled by *n*-person games. The actors in intergovernmental organizations such as the United Nations, the International Labour Organization, the International Monetary Fund and the World Trade Organization would be interested in finding the best solutions for them and at the same time secure the organization against inefficiency in the form of indecisiveness or stalemate. Typically, international organizations or regional coordination mechanisms consist of *n* players, or voters, who are interested in making common decisions. The logic of such *n*-person coordination varies with the use of alternative institutions for voting. In the present systems of international/intergovernmental organizations we find a whole range of coordination mechanisms based on voting, which offers an interesting opportunity to analyze the variety of mechanism design. One finds quantitative voting and qualitative voting as well as all kinds of aggregation rules from simple majority over qualified majorities to unanimity. The implications of the use of alternative coordination mechanisms in a voting game may be spelled out by using a voting power index.

Methodology

International organizations provide governance for the world through decision-making in councils where member states have representatives. The proliferation of international organizations in recent years makes it urgent to understand how these supranational bodies operate. Using the metaphor of multi-level governance that has emerged recently I will concentrate upon the understanding of decision-making within public bodies that are placed above the conventional

states. Whatever such bodies do and accomplish, they must make decisions of one kind or another. What are the essential features of this decision-making resulting in international governance in the period of globalization?

First, there is the notion of representation and actor. Second, there is the notion of aggregation and collective choice. Thirdly, there is the necessity of voting upon preferences. From these three general elements of any *n*-person setting, one may derive the peculiar nature of international governance. In an interactive *n*-person setting searching for a collective decision certain conditions must hold in order to apply the tools of game theory deriving the outcome of interaction from the preferences of the players. These conditions are not particularly demanding meaning that international organizations and regional coordination mechanisms may satisfy them.

Governments Representing States Constitute Actors

The people who come to these bodies are public persons, meaning that they act on behalf of something called the 'state'. There is agency, meaning that these people act on behalf of someone else and thus binds his/her principal though his/her actions for the future. In international relations theory there is a fundamental ambiguity whether the actors are governments or states. However, it does not present a fatal difficulty. Typically, the governments act on behalf of a state, which is an entity that lasts longer than a particular government, which in turn outlasts people who may always be replaced. The agency nature of the behavior of people participating in the boards of international organizations is apparent in the preferences, which are put on the table. They concern social objectives linked with the principal that the agent represents and they may not entirely be the preferences of the agent. However, given this agency nature of international coordination, it is clear that there are actors expressing choice preferences out of which a collective choice may be extracted somehow.

Preference Aggregation

The players participating in international organizations have different interests that they bring to the floor of decision-making. One may label these decisions with a variety of terms: *accords*, laws, *directives*, *recommendations* and *policy*. Whatever notation is employed for the collective decisions of the group, it is clear that the outcome of the deliberations of the international organization is a function of the preferences of the choice participants. The decision of the group will reflect the preferences of the players, comprising various combinations, trade-offs and compromises. The preferences of the governments representing the member states include both narrow interests and the global views that the government in question is a spokesman for. This way of looking at international organizations underline choice and the evolution of a path of choices over time. It also involves that international organization can change policy deliberately, as a reflection of alternative preferences gaining ground with the players.

Looking at international organizations as a group of players engaged in chiselling out a collective choice from amongst the individual preferences leads by entailment to the essential question: How are decisions made? If there is widespread agreement among the players, or if one player has the role of a hegemon, then this question is not so relevant. There will be discussion ahead of a decision, but there is only one likely outcome of deliberations where most, if not all, players consent. However, this is not a likely situation within large international organizations. Small groups of states can be cohesive, using bargaining to reach a common position. Big groups will reflect diversity of opinions and make use of voting.

Necessity of Voting

The relevance of voting increases with the size of the choice group. As the number of participants increases beyond, say, a dozen, the group must dispose of some mechanism for deciding the outcome, given the preferences of the players. It is transaction cost reasons that make voting of such paramount importance in cooperative *n*-person games. Economists tend to underline bargaining when a group is about to make a decision. Political scientists, however, tend to focus upon voting as the key choice mechanism. To some extent this difference reflects two different views on social life, one emphasizing the variable sum concept and another underlining the zero-sum concept of a game. When analyzing international organizations one can employ both perspectives, but I would insist that the voting scheme is basic and influences any bargaining process, whether voting actually occurs or not.

Coordination in a group with several players can take the explicit form of direct voting according to a choice mechanism and an aggregation rule. Or coordination can follow from negotiations among the players, striking a deal ahead of any voting. However, such deals will be based upon the *implicit voting power* of the individual member states, meaning that it will be derived from the voting mechanism that has been institutionalized. Thus, direct voting power is often the first concern and the power to negotiate is derived from that – indirect voting power.

A voting mechanism contains two elements: (1) the assignment of votes to the choice participants: qualitative or quantitative voting; (2) the identification of an aggregation rule clarifying the majority needed in order to arrive at a *YES* vote: *simple majority* (SM), *qualified majority* (QM), and *unanimity*. This rule of aggregation entails also the condition for a *NO* vote. Groups tend to identify these two elements even when they almost always engage in unanimity decision-making.

A voting mechanism occurs typically in any group with a membership size of at least five or six voters. Voting mechanisms can have a wide variety of structures depending upon the assignment of votes and the identification of the decision-making rule. The implications of alternative voting mechanisms are best analyzed with the power index approach, which looks upon voting as a game of coalition building where each player attempts to be *decisive* for the outcome, turning an

undecided decision into *yes* or *no*. Maximizing his/her power, a player would want to have as many votes as possible. And he/she would want to maximize either the *power to change* or the *power to block*, which two cannot be maximized jointly (see the power measures below).

The application of the voting power index may employ the so-called Penrose-Banzhaf approach. It incorporates several statistics, where two are highly relevant for regional and international coordination: (1) group decisiveness or how many coalitions out of all possible coalitions result in an *acceptance* (yes) of a given proposal (a joint *yes* vote). This is maximized under simple majority. Further, we have (2) the individual power to block, i.e. how often a player can *turn down* a decision by her/his negative vote (a joint *no* vote). This is maximized under unanimity or the veto scheme.

Below a number of international organizations are compared from the perspective of voting power. First, one power index is presented and a few objectives towards it.

The Notion of Voting Power

The power index method for analyzing behavior in a group of players of larger than two actors results in a few key mathematical parameters, which will be presented briefly below. No attempt is being made here to state these deductively or in a formally concise manner – this has been done by several scholars.[3]

A general solution concept to games of group decision-making where the outcome is restrained to 1 (winning) and 0 (loosing) is the power index. The group of size >2 has a formal institution for deciding the outcome with voting. A power index measures the individual voting power of a player in decision-making. Voting power is the capability of a player (voter) to be decisive in a voting session, whether this player is a single person or an organized entity, comprising several people voting with the same preferences. Basically, the power index score is an *a priori* measure that summarizes the outcomes of all possible plays of a game in a few parameters such as group decisiveness, individual blocking power and the Penrose-Banzhaf power score or the Shapley-Shubik score. As a calculus without interpretation it covers all 2^N possible coalitions and their outcomes, where N is the number of players. Whereas the SS power index is derived from the so-called Shapley value of a game, the Penrose-Banzhaf index is obtained from the so-called characteristic function of a game, especially the capacity of a player to cast the decisive vote: YES or NO, which decides the social choice outcome.[4]

Cooperative game theory, *n*-person games, has been used for decades to model voting behavior in decisive groups of more than two actors, i.e. *n*-person games that are so-called *simple games*. A voting game is basically a cooperative zero sum game with only two outcomes: acceptance of a given proposal voted over, or rejection of said proposal. Thus, voting is viewed as a coordination mechanism, which transforms the problem of coordination to that of scoring a *winner* (acceptance of a proposal) by means of a rule aggregating the preferences of each participant. Further, given a proposal to vote over, the voters form either supporting or

opposing coalitions. The total value the game, the payoff, is subsequently assigned to the *winning coalition*, while the *losing coalition* gets nothing.

The members of such a decisive group may be represented by the set $N = \{1,n\}$, then a *yes*- or *no*-vote by its members divides the group into two coalitions: the set S of *yes*-voters and the set $N\backslash S$ of *no*-voters. Such binary *yes*/*no* voting in a group of n members will result in different bipartitions. Conditional on well-defined *decision rules*, e.g. simple majority or qualified majority, the *yes*-coalitions S are either *winning* or *losing*. Together with the distribution of votes among the members the decision rule makes up the structure of a decisive group, e.g. a political assembly. Formally, we may use the notion of (c, w) where c is the decision rule and w is the individual number of votes. With payoff normalized to 1 and 0 we may define simple games by the so-called *characteristic function*. By the (0–1) normalization, the characteristic function provides a tool to count the winning coalitions of a voting game. A general solution concept to these voting games is the power index, which measures individual voting power in a decisive group, a political assembly, where voting power is the capacity of a voter to be critical in a voting session. A voter is critical in a coalition S, if she/he either by leaving the coalition turns it from winning to losing (type (a) swings), or, by joining the coalition turns it from losing to winning (type (b) swings). By the duality of voting games, it is evident that the number of type (a) and type (b) swings are equal. Hence, the *Banzhaf score* may be calculated using either of these two functions (Banzhaf, 1965). Evidently, the total number of individual swings, the number of coalitions where voter i is critical, equals twice the Banzhaf score. Now, assume that individual voting under long sequences turns out to be stochastic, that is, a member of the decisive group casts her/his *yes*/*no*-vote with equal probability. Thus, a probability model obtains where each coalition S will be equally likely with probability .

Thus, based on this probability model and the characteristic/indicator function, a measure of voting power states the individual voter's expected likelihood of being decisive in a political assembly, the *Banzhaf power index* (Banzhaf, 1965):

$$ß_i = \frac{\eta_i}{2^{n-1}} \qquad (1)$$

The Banzhaf power index is the quota between the number of coalitions where voter i is critical (individual swings) and the number of possible coalitions. A second measure of individual voting power is Coleman's *power to prevent action*, which measures a voter's *probability of blocking* (Coleman, 1971):

$$\theta_i = \frac{\eta_i}{d} \qquad (2)$$

This individual capacity to block is given by the share of winning coalitions d that voter i is able to block (swing), that is, the quota between the number of coalitions where voter i is critical and the number of winning coalitions. Lastly, we consider another measure by Coleman: the *power of the group to act*. This is

a measure of a political assembly's efficiency, or the *probability of decisiveness*, obtained by the share (frequency) of winning coalitions:

$$\partial = \frac{d}{2^n} \qquad (3)$$

Allowing only decision rules in the range 0.5 and 1, that is, between simple majority and unanimity, the probability of decisiveness has its maximum value of 1/2 under simple majority rule and its minimum value equal to $1/2^n$ under the unanimity decision rule. In other words, the probability of decisiveness is a measure of a political assembly's efficiency, its collective capacity to be decisive. The Banzhaf index may be expressed as a function of the two other measures, that is, as twice the product of the probability of decisiveness and the individual probability of blocking:

$$ß_i = 2\partial\theta_i \qquad (4)$$

In the following analysis of international assemblies we will return to how these power measures are interrelated. However, the main effect is a strong trade-off between the individual capacity to block and the assembly's efficiency, a trade-off that the Banzhaf power index captures. Thus, absolute blocking power implies via a very low probability of decisiveness a low power index.

Voting power is critically dependent upon the institutions employed for decisions in groups. Thus, the basic theoretical lessons include that a dispersed distribution of votes may make small players dummies, qualified majority rules increase blocking power but decrease group decisiveness. Finally, unanimity presents all players, whatever their size, with the same blocking or veto power, but results in little overall voting power. Voting power measures pinpoint that power depends upon the decision structure and, furthermore, that voting power is not proportional to the distribution of votes.

The Objections to a priori *Voting Power*

There has been a prolonged debate over the so-called power index method since the mid 1990s when it was first applied to the decision-making process of the European Union.[5] Two issues are at the core of this debate about the pros and cons of the power index method for analyzing group decision-making and alternative institutions for interaction in *n*-person interaction: (1) Which power index to employ?; (2) Is there a fundamental problem concerning the validity of the power index approach?

Perhaps the second problem is the most basic one, as one would wish to know the criticism against any power index before one reflects over which index to employ. The first problem boils down to a choice between the Banzhaf index, or the Penrose-Banzhaf-Coleman approach on the one hand and the Shapley-Shubik approach on the other hand. Since Banzhaf models voting in a group or legislative assembly as players voting YES or NO to various proposals and

counter proposals, whereas Shapley and Shubik model the same voting process as sequences of YES votes, we strongly prefer the former approach to the latter. In the Shapley-Shubik model it makes a difference whether one votes YES before or after the other players, whereas in the Penrose-Banzhaf-Coleman model it only matters whether a player says YES or NO whenever he/she may choose to do so. We believe the Banzhaf model assumptions are more correct about political assemblies than the Shapley-Shubik model assumptions.

The general scepticism concerning the applicability of a power index has been expressed in several ways, but they may be versions on the same main theme, namely: Power index scores state modalities, not realities. This point is expressed in the following ways where the power index score is said to:

1) be based upon an equiprobability with coalitions that is not empirically founded;
2) be calculated with players having no preferences over outcomes;
3) bypass bargaining between players;
4) take into account coalitions that could not possibly be formed;
5) model merely the form of an *n*-person game and not the actual content of it;
6) be based on a solution concept, which is outside of the so-called Nash program.

A clear statement of the power index concept – its calculus and its interpretation – can meet or rebut these counter-arguments, however. The test of a formal theory lies with its utility in understanding and predicting empirical phenomena. Thus, there is little usefulness in arguing about the truthfulness of model assumptions, as emphasized by Milton Friedman. It is the power of a theory to grasp essential features of a complex reality out there that counts the most when evaluating a formal system, meaning we must look at the interpretation of real power index scores for e.g. groups such as international organizations.[6]

Coordination Mechanisms in Global Governance

Interestingly, international organizations offer a menu of coordination mechanisms where all kinds of alternatives exist. Thus, there is the veto mechanism of the Security Council on the one hand and the simple majority mechanism in European Parliament on the other hand. The EU has employed different qualified majority schemes. In the WTO each player counts for one, whereas in other international organization such as the IMF and the EU there is quantitative voting. The ECB employs still another alternative where a subgroup of players – the experts – may prevail. Let us look at each mechanism before we do a comparative assessment. One may actually, in the world of international organizations, find examples of almost all conceivable kinds of coordination mechanisms.

One-State-One-Vote

When an organization employs unanimity, then it is well known that transaction costs will sooner or later start souring. The capacity to block will be 1 for each player meaning that any positive decision must bring all the players on board. But each player then has an incentive to withhold his/her support as long as possible in order to extract maximum benefits in the last round of negotiations leading up to all players saying *yes*. Thus, with a large group of players, the probability of decisiveness will be extremely low, as there will only be one winning coalition in the entire set of coalitions. International organizations such as WTO, ILO and IWC employ less demanding decision rules like two-thirds or three-quarters majority – see Table 6.1.

Table 6.1 One-state-one-vote intergovernmental organizations

	Members *N*	**Decision rule**	**Banzhaf Index**	**Capacity to block**	**Probability of decisiveness**
World Trade Organization (WTO)	146	2/3	0.000015	0.35	0.000021
World Trade Organization (WTO)	146	3/4	0.00000000034	0.51	0.00000000033
International Labor Organization (ILO)	174	2/3	0.0000045	0.34	0.0000065
International Whaling Commission (IWC)	49	3/4	0.00025	0.52	0.00024

The World Trade Organization generally makes its decisions by consensus; however, when consensus is not possible, WTO employs two different decision rules, two-thirds and three-quarters of votes. With an assembly size of 146, a qualified majority of two-thirds results in fairly high capacity to block, meaning a 35 percent chance. However, the Banzhaf power score and group decisiveness are both very low. With a qualified majority rule of three-quarters the probability of group decisiveness and the individual Banzhaf power scores are extremely low, while the blocking power of each player is quite large, 50 percent chance. How, then, does the WTO deliver its important coordination of world trade, its regulation and harmonization? The answer is to be found with the preferences of the players. Although the game varies with the particular constellations of

preferences at one time or another, one may conclude that the players participating in the coordination of world trade issues have thus far had a rather strong consensus to deliver a body of rules common to all, which each and everyone could accept. This has started to change though as the WTO takes on more controversial issues where the players have more divergent views.

The ILO has 174 member states and its organization consists of the General Conference of representatives of the Member States, the Governing Body, and the International Labour Office, which is controlled by the Governing Body. The General Conference of representatives is the decisive body of ILO and employs a decision rule of a qualitative majority of two-thirds of the votes cast by the delegates. The number of votes cast must be at least half of the delegates present at the conference. Table 6.1 has the Banzhaf power index measured under the assumption of 100 percent attendance at the conference (n = 174), where we observe a low individual power index as well as an almost equally low probability of decisiveness. Consequently, we observe a relatively high capacity to block.

The International Whaling Commission (IWC) organizes the states, which adheres to the International Convention for the Regulation of Whaling of 1946. Currently IWC has 49 member nations, each represented by a commissioner. Decisions within IWC are normally done by annual meetings on a one-man-one-vote basis and with decision rule of three-quarters qualified majorities. Again in Table 6.1, we find that even in this rather small organization, the three-quarters majority results in low Banzhaf and low decisiveness measures, while the blocking capability is more than 50 percent. Let us contrast these IGOs – WTO, ILO and IWC – with a mechanism that uses the simple majority scheme, the European Parliament and the European Central Bank.

Simple Majority

The European Parliament has a coordination mechanism similar to most legislative assemblies. Like national assemblies it employs two classical rules in representation theory, namely one-man one-vote, and simple majority voting (Corbett, Jacobs and Shackleton, 2000). The use of these two institutions guarantees a high probability of decisiveness in Parliament. In an assembly of an odd number of voters, simple majority voting will split the set of possible coalitions into two equal parts, the winning and the blocking coalitions. Hence, the probability of decisiveness will be equal to 0.5 and, furthermore, the individual Banzhaf power will be equal to the individual blocking power. However, with an even number of voters, simple majority results in an actual decision rule of 50 percent of all votes plus one. Thus, the proportion of blocking coalition will be larger than the proportion of winning coalitions, which implies that decisiveness will be less than 0.5. The old European Parliament had an even number of voters, 626, which, with simple majority rule, results in a probability of decisiveness approximately equal to 0.5 (0.484) with Banzhaf power and blocking capacity both equal to 0.03. The present Parliament with 732 delegates implies a negligible reduction in the individual power measure – see Table 6.2.

Decisiveness is approximately 0.5 and differs only from this value because there is no pivotal member that splits the voters in two equal groups. When the number of voters is odd there is a pivotal member that splits the voters into two equally sized sets and the number of possible winning coalitions will equal the number of possible losing coalitions, which implies a probability of decisiveness equal to 0.5. Hence, with simple majority the efficiency of an assembly voting will be robust to any change in size.

Furthermore, in Table 6.2 we observe rather minor changes in the power measures. Thus, even the individual member power scores are robust to changes in size. This robustness in the different power measures under simple majority decision rule becomes even more evident when we compare these results with those of the IGOs in Table 6.1, with WTO and ILO having the same decision rule of two-thirds. Given this decision rule, augmenting an assembly's membership of 146 (WTO) to 174 (ILO) results in a substantial decrease in Banzhaf power and decisiveness, while the capacity to block is close to constant. As observed above, a shift of decision rule of two-thirds to one of three-quarters (WTO) implies large reductions in both Banzhaf power and decisiveness, while capacity to block increases. Tripling an assembly's votes from 49 (IWC) to 146 (WTO) with this decision rule (three-quarters) has an even more devastating effect on Banzhaf power and decisiveness, while capacity to block is close to constant.

However, the members of the European Parliament rarely if ever vote as a single member on a state basis since its formal organization is such that the elected members sit in political groups of similar national political parties. The current European Parliament has seven such groups as shown in Table 6.3.

The three largest groups should be well known from their national counterparts: the *European Peoples Party and European Democrats* (EPP-DE), the *Party of European Socialists* (PES), and the *European Liberal, Democrat and Reform Party* (ELDR), i.e. the Christian Democrats with the British and Nordic Conservatives, the Socialists, and the Liberals.

In Table 6.3 the political groups as well as the non-attached members are listed with power measures calculated under the assumption that the group members vote as one block, not representing national interests. It pays to enter a coalition. We see that the main party families have very different voting power reflecting their size. A block has more voting power than individual members, which is attractive from a strategic point of view, especially if the individuals share the same preferences in the block.

The European System of Central Banks (ESCB) consists of the European Central Bank (ECB) and the national central banks of the EU member states (the NCBs). The Euro system is the ECB together with the NCBs of states that have adopted the Euro. The ESCB is responsible for monetary policy with the primary objective of price stability in the Union, that is, in the so-called euro zone part of the Union. Three decision-making bodies govern the ESCB: The Governing Council, The Executive Board and The General Council. The Governing Council consists of the euro zone central bank governors (12), and the Executive Board, which consists of a president, a vice president and four other elected members, see Table 6.4. The General Council (the Extended Governing Council) consists

Table 6.2 Voting power in the EU Parliament 1986–2009

	1986		1995		2004		2009
Country	**Votes**	**Banzhaf**	**Votes**	**Banzhaf**	**Votes**	**Banzhaf**	**Banzhaf**
Germany	81	0.368	99	0.405	99	0.422	0.414
UK	81	0.368	87	0.351	78	.317	0.312
France	81	0.368	87	0.351	78	0.317	0.312
Italy	81	0.368	87	0.351	78	0.317	0.312
Spain	60	0.298	64	0.259	54	0.213	0.210
Netherlands	25	0.081	31	0.108	27	0.105	0.104
Belgium	24	0.081	25	0.090	24	0.094	0.092
Greece	24	0.081	25	0.090	24	0.094	0.092
Portugal	24	0.081	25	0.090	24	0.094	0.092
Denmark	16	0.060	16	0.058	14	0.054	0.053
Ireland	15	0.056	15	0.053	14	0.051	0.050
Luxemburg	6	0.009	6	0.021	6	0.023	0.023
Sweden			22	0.079	19	0.074	0.073
Austria			21	0.075	18	0.070	0.069
Finland			16	0.058	14	0.054	0.053
Poland					54	0.213	0.210
Czech Republic				24	0.094	0.092	
Belgium					24	0.094	0.092
Slovak Republic					14	0.054	0.053
Lituania					13	0.051	0.050
Lettland					9	0.035	0.034
Slovenia					7	0.027	0.027
Estland					6	0.023	0.023
Cyprus					6	0.023	0.023
Malta					5	0.019	0.019
Roumania					33		0.127
Bulgaria					17		0.065
Sum	518	2.219	626	2.438	732/782	2.932	3.076

of ECB President and ECB Vice President and the governors of all member states' central banks.

Naturally, the responsibilities of these three decision making bodies vary a great deal from the mere advisory and consultative functions of the General Council to actual monetary policy-making of the Governing Council. More specific, the Governing Council (the Euro system) is responsible for the definition and implementation of the monetary policy of the euro area. The Executive Board

Table 6.3 Voting power of the EU Parliament: sixth term: 2004–2009

Political groups and national political parties		Members	Banzhaf index	Capacity to block
EUL/NGL		41	0.114	0.114
Greens/EFA		42	0.117	0.117
PES		200	0.324	0.325
IND/DEM		37	0.098	0.099
ALDE		88	0.310	0.311
EPP-DE		268	0.676	0.678
UEN		27	0.074	0.074
NA: Samoobrona RP	(pl)	6	0.022	0.022
HZDS	(sk)	3	0.010	0.010
Liste H-P Martin	(at)	2	0.007	0.007
Nezávislí	(cz)	1	0.003	0.003
DUP	(uk)	1	0.003	0.003
Independent. Party	(uk)	1	0.003	0.003
Front National	(fr)	7	0.026	0.026
Vlaams Blok	(be)	3	0.010	0.010
Nuovo PSI	(it)	2	0.007	0.007
MSI Fiamma tricolore	(it)	1	0.003	0.003
Lista Mossulini	(it)	1	0.003	0.003
FPÖ	(at)	1	0.003	0.003
Sum		732	1.815	
Decisiveness			0.498	

Note: Political groups: EPP-DE: Group of the European People's Party (Christian Democrats) and European Democrats PSE: Socialist Group in the European Parliament ALDE: Group of the Alliance of Liberals and Democrats for Europe Greens/EFA: Group of the Greens/European Free Alliance EUL/NGL: Confederal Group of the European United Left – Nordic Green Left IND/DEM: Independence/Democracy Group UEN: Union for Europe of the Nations Group NA: Non-attached Members

is responsible for the day-to-day management of the ECB, which is to implement monetary policy according to decisions and guidelines made by the Governing Council, and to execute powers delegated to it by the Governing Council.

The general mode of decision-making is one-man one-vote and simple majority. The president has tie-breaking (casting) vote. The same mode of decision-making applies to the Executive Board. A different mode of decision-making is relevant for certain decisions relating to the capital of the ECB, the key for capital subscription and foreign reserve assets to the ECB. For such decisions the votes of the Governing Council are weighted according to NCBs'

Table 6.4 The European Central Bank

	Governing Council		Executive Board	
Members	**Votes**	**Banzhaf Index**	**Votes**	**Banzhaf Index**
President*	1	0.371	1	0.625
Vice President and Executive Board members (4)	1	0.175	1	0.250
National Central Bank representatives (12)	1	0.175		
Sum	18		6	
Decisiveness		0.500		0.500

* The President has casting vote.

shares in the subscribed capital of the ECB. The Executive Board has no votes (zero weights) in such decisions. Furthermore, the decision rule in these decisions is double qualified majority with two-thirds of the subscribed capital as well as half the number of shareholders.

Summing up, via their central bank governors, the member states decide on capital size and allocation of money income and net profit/losses, while the Governing Council proper decides on the monetary policy of the Euro zone. From Table 6.4 it is obvious that the ECB president and the Executive Board expert members exercise great influence on monetary policy.

Qualified Majority: Which Form?

The evolution of coordination in the chief decision making body of the Union – the Council – is truly interesting from the point of view adopted here, namely the tension between group decisiveness and the individual capacity to block. Let us look at how things stand after the enlargement in 2004. The EU employs a mechanism that combines quantitative voting with qualified majority – qualified and double qualified majorities.

Table 6.5 shows the distribution of votes onto the member states. The weight to be given each member has been a major issue in each reform of the structure of decision making, where each member state tries to get as much votes as possible, because it affects their voting power scores. The member states can maximize their general Banzhaf score or they can target their blocking power. If they opt for the first, then they would choose simple majority (SM) – see Table 6.5.

The SM mechanism outlined in Table 6.5 is, however, not employed in the Union. The reason for this is that the individual blocking power is considered as too low, opening up for too many possibilities of having too put up with a negative

Table 6.5 The European Council, according to Nice 2004–2015 (with possible extensions)

		Simple majority			Qualified majority						Double qualified majority					
		Banzhaf Index			Banzhaf Index			Capacity to block			Banzhaf Index			Capacity to block		
State	Votes	2004	2007	2015	2004	2007	2015	2004	2007	2015	2004	2007	2015	2004	2007	2015
Germany	29	0.229	0.223	0.189	0.055	0.044	0.034	0.767	0.771	0.752	0.032	0.030	0.022	0.715	0.726	0.708
UK	29	0.229	0.223	0.189	0.055	0.044	0.034	0.767	0.771	0.752	0.032	0.030	0.022	0.715	0.726	0.708
France	29	0.229	0.223	0.189	0.055	0.044	0.034	0.767	0.771	0.752	0.032	0.030	0.022	0.715	0.726	0.708
Italy	29	0.229	0.223	0.189	0.055	0.044	0.034	0.767	0.771	0.752	0.032	0.030	0.022	0.715	0.726	0.708
Spain	27	0.218	0.212	0.181	0.052	0.042	0.032	0.728	0.733	0.714	0.030	0.028	0.021	0.683	0.690	0.674
Poland	27	0.218	0.212	0.181	0.052	0.042	0.032	0.728	0.733	0.714	0.030	0.028	0.021	0.683	0.690	0.674
Netherlands	13	0.145	0.140	0.131	0.027	0.022	0.017	0.379	0.384	0.374	0.019	0.017	0.013	0.429	0.423	0.417
Greece	12	0.140	0.135	0.128	0.025	0.020	0.016	0.350	0.356	0.346	0.018	0.017	0.012	0.416	0.405	0.398
Czech Republic	12	0.140	0.135	0.128	0.025	0.020	0.016	0.350	0.356	0.346	0.018	0.017	0.012	0.416	0.405	0.398
Belgium	12	0.140	0.135	0.128	0.025	0.020	0.016	0.350	0.356	0.346	0.018	0.017	0.012	0.416	0.405	0.398
Hungary	12	0.140	0.135	0.128	0.025	0.020	0.016	0.350	0.356	0.346	0.018	0.017	0.012	0.416	0.405	0.398
Portugal	12	0.140	0.135	0.128	0.025	0.020	0.016	0.350	0.356	0.346	0.018	0.017	0.012	0.416	0.405	0.398
Sweden	10	0.130	0.125	0.121	0.021	0.017	0.013	0.293	0.298	0.290	0.017	0.015	0.011	0.383	0.365	0.362
Austria	10	0.130	0.125	0.121	0.021	0.017	0.013	0.293	0.298	0.290	0.017	0.015	0.011	0.383	0.365	0.362
Slovakia	7	0.115	0.111	0.110	0.015	0.012	0.009	0.207	0.210	0.204	0.015	0.012	0.010	0.336	0.306	0.305
Denmark	7	0.115	0.111	0.110	0.015	0.012	0.009	0.207	0.210	0.204	0.015	0.012	0.010	0.336	0.306	0.305
Finland	7	0.115	0.111	0.110	0.015	0.012	0.009	0.207	0.210	0.204	0.015	0.012	0.010	0.336	0.306	0.305
Ireland	7	0.115	0.111	0.110	0.015	0.012	0.009	0.207	0.210	0.204	0.015	0.012	0.010	0.336	0.306	0.305
Lithuania	7	0.115	0.111	0.110	0.015	0.012	0.009	0.207	0.210	0.204	0.015	0.012	0.010	0.336	0.306	0.305

Table 6.5 cont'd

		Simple majority			Qualified majority						Double qualified majority					
		Banzhaf Index			Banzhaf Index			Capacity to block			Banzhaf Index			Capacity to block		
State	**Votes**	**2004**	**2007**	**2015**	**2004**	**2007**	**2015**	**2004**	**2007**	**2015**	**2004**	**2007**	**2015**	**2004**	**2007**	**2015**
Latvia	4	0.100	0.096	0.100	0.009	0.007	0.005	0.119	0.121	0.117	0.013	0.010	0.008	0.288	0.246	0.247
Slovenia	4	0.100	0.096	0.100	0.009	0.007	0.005	0.119	0.121	0.117	0.013	0.010	0.008	0.288	0.246	0.247
Estonia	4	0.100	0.096	0.100	0.009	0.007	0.005	0.119	0.121	0.117	0.013	0.010	0.008	0.288	0.246	0.247
Cyprus	4	0.100	0.096	0.100	0.009	0.007	0.005	0.119	0.121	0.117	0.013	0.010	0.008	0.288	0.246	0.247
Luxembourg	4	0.100	0.096	0.100	0.009	0.007	0.005	0.119	0.121	0.117	0.013	0.010	0.008	0.288	0.246	0.247
Malta	3	0.095	0.092	0.096	0.006	0.005	0.004	0.088	0.091	0.088	0.012	0.009	0.007	0.272	0.226	0.226
Romania	16		0.145	0.135		0.027	0.021		0.467	0.455		0.020	0.015		0.484	0.469
Bulgaria	10		0.125	0.121		0.017	0.013		0.298	0.290		0.015	0.011		0.365	0.362
Croatia	7			0.110			0.009			0.204			0.010			0.305
Macedonia	4			0.100			0.005			0.117			0.008			0.247
Turkey	29			0.189			0.034			0.752			0.022			0.708
Decisiveness		0.4	0.4	0.36	0.036	0.028				0.023	0.022	0.020				0.016

Note: The *Nice Treaty* with quantitative voting requires: 1) qualified majority: 74 percent of the votes plus possibly 62 percent of the member states' populations; 2) double qualified majority: 1) plus the requirements of 2/3 of the member states. The *Lisbon Treaty* has only qualitative voting and requires 1) qualified majority: 55 per ent of member states and 65 percent of their populations; 2) double qualified majority: 72 percent of member states and 65 percent of their populations.

Table 6.6 The European Council, according to Lisbon

		QM: 55% of members and 65% of population						QM: 72% of members and 65% of population					
		Banzhaf Index			Capacity to block			Banzhaf Index			Capacity to block		
State	**Population**	**2004**	**2007**	**2015**	**2004**	**2007**	**2015**	**2004**	**2007**	**2015**	**2004**	**2007**	**2015**
Germany	82.2	0.157	0.203	0.158	0.780	0.789	0.725	0.024	0.011	0.008	0.721	0.692	0.653
UK	59.8	0.116	0.150	0.119	0.574	0.585	0.547	0.020	0.009	0.007	0.603	0.611	0.587
France	59.5	0.115	0.150	0.119	0.572	0.582	0.545	0.020	0.009	0.007	0.602	0.610	0.586
Italy	57.8	0.113	0.146	0.116	0.561	0.568	0.533	0.019	0.009	0.007	0.596	0.605	0.582
Spain	40.3	0.086	0.106	0.089	0.429	0.415	0.407	0.017	0.008	0.007	0.534	0.557	0.545
Poland	38.7	0.084	0.102	0.087	0.418	0.399	0.399	0.017	0.008	0.007	0.531	0.555	0.540
Netherlands	16.0	0.056	0.059	0.050	0.280	0.232	0.230	0.015	0.008	0.006	0.470	0.506	0.488
Greece	10.6	0.050	0.048	0.042	0.248	0.188	0.192	0.015	0.007	0.006	0.456	0.496	0.478
Czech Republic	10.3	0.049	0.048	0.041	0.246	0.186	0.190	0.015	0.007	0.006	0.455	0.495	0.477
Belgium	10.3	0.049	0.048	0.041	0.246	0.186	0.190	0.015	0.007	0.006	0.455	0.495	0.477
Hungary	10.0	0.049	0.047	0.041	0.246	0.183	0.188	0.015	0.007	0.006	0.455	0.495	0.477
Portugal	10.0	0.049	0.047	0.041	0.244	0.183	0.188	0.015	0.007	0.006	0.454	0.495	0.477
Sweden	9.0	0.048	0.045	0.039	0.238	0.175	0.181	0.015	0.007	0.006	0.451	0.493	0.475
Austria	8.1	0.047	0.043	0.038	0.233	0.168	0.175	0.015	0.007	0.006	0.449	0.491	0.474
Slovakia	5.4	0.043	0.037	0.034	0.216	0.146	0.155	0.014	0.007	0.006	0.443	0.486	0.469
Denmark	5.3	0.043	0.0375	0.033	0.215	0.145	0.155	0.014	0.007	0.006	0.442	0.485	0.469
Finland	5.2	0.043	0.037	0.033	0.214	0.144	0.154	0.014	0.007	0.006	0.442	0.485	0.469
Ireland	3.8	0.041	0.034	0.031	0.205	0.133	0.144	0.014	0.007	0.006	0.439	0.482	0.467
Lithuania	3.7	0.041	0.034	0.031	0.205	0.132	0.143	0.014	0.007	0.006	0.438	0.482	0.466

Table 6.6 cont'd

		QM: 55% of members and 65% of population						QM: 72% of members and 65% of population					
		Banzhaf Index			Capacity to block			Banzhaf Index			Capacity to block		
State	**Population**	**2004**	**2007**	**2015**	**2004**	**2007**	**2015**	**2004**	**2007**	**2015**	**2004**	**2007**	**2015**
Latvia	2.4	0.039	0.031	0.029	0.197	0.122	0.134	0.014	0.007	0.006	0.435	0.480	0.464
Slovenia	2.0	0.039	0.030	0.028	0.194	0.118	0.131	0.014	0.007	0.006	0.435	0.479	0.464
Estonia	1.4	0.038	0.029	0.027	0.191	0.113	0.127	0.014	0.007	0.006	0.433	0.478	0.463
Cyprus	0.7	0.037	0.027	0.026	0.187	0.108	0.122	0.014	0.007	0.006	0.432	0.476	0.462
Luxembourg	0.5	0.037	0.027	0.026	0.185	0.106	0.1207	0.014	0.007	0.006	0.431	0.476	0.461
Malta	0.4	0.037	0.027	0.026	0.184	0.105	0.120	0.014	0.007	0.006	0.431	0.476	0.461
Romania	22.4		0.073	0.060		0.286	0.276		0.008	0.006		0.519	0.500
Bulgaria	8.1		0.043	0.038		0.168	0.175		0.007	0.006		0.491	0.474
Croatia	4.7			0.033			0.150			0.006			0.468
Macedonia	2.0			0.028			0.131			0.006			0.464
Turkey	65.3			0.134			0.615			0.008			0.612
Decisiveness		0.101	0.128	0.109				0.016	0.007	0.006			

decision in the Council. As noted above, under simple majority rule, the Banzhaf voting power score is equal to the individual capacity to block, as simple majority is neutral in relation to the status quo. The probability is the same that there will be a decision which changes the status quo as that it will confirm the status quo. The EU has never accepted this neutrality between the power to change and the power to block. Thus, it favors various qualified majority (QM) schemes that give members more blocking power than individual capacity to be decisive.

Table 6.5 also shows two such coordination mechanisms used by the EU. Qualified majority under the Nice regime means that in the EU 74 percent of the votes are quantitative voting, which reduces group decisiveness but increases the individual power to block quite substantially. The EU also employs another decision rule, namely double qualified majority, which entails that in addition to receiving the 74 percent majority the winning coalition must also include two-thirds of the member states. This additional clause is employed in relation to certain decisions, and it strengthens the blocking power of the medium large or small member states. However, it also reduces group decisiveness further. Actually, the double qualified majority rule does not favour the large member states. It hinders them from making a coalition and thus dominating the Union. The population rule that demands support of 62 percent of total population has the effect that no decision can be made without support from at least two of the four large states, Germany, Britain, France and Italy.

Table 6.5 shows that the probability of decisiveness will be sharply down in the new Union and how restrictive the double qualified majority rule will be upon the future Union, as the probability of decisiveness is even lower. With so few winning coalitions in the EU, positive decision-making will have to be based upon common preferences. Only 2.2 percent of the possible coalitions would be winning, meaning that commonalities in the preferences would have to lead the players toward the making of any of these few winning coalitions.

The Dublin regime or the new EU Treaty 2007 outlines an alternative QM scheme, which changes the voting power parameters radically – see Table 6.6. According to the new regime, the EU Council will vote qualitative but with a sharp population requirement of 65 percent. In addition to QM there will also be double qualified majority. The power scores become more balanced with the Dublin regime and better reflecting the population differences between the member states.

Here, one may wish to consider Table 6.7, which shows how decisiveness has been reduced up to the Dublin constitution, which increases group decisiveness, at least for the QM scheme.

The Nice regime implies a real danger for deadlock and decision inertia. The EU employs quantitative voting on a minor scale. Let us look at the unanimity voting in the Security Council of the United Nations as well as the IMF that employs quantitative voting on a major scale.

Table 6.7 Decisiveness in the EU Council 1958–2009

Year	QM	DQM
1958	0.219	0.203
1973	0.147	0.137
1981	0.137	0.115
1986	0.098	0.093
1995	0.078	0.070
2004	0.035	0.026
2004 (NICE)	0.036	0.022
2010 (NICE)	0.026	0.017
2015 (LISBON)	0.109	0.006

Quantitative Voting

As responsible for the stability of the currencies of the world, the IMF is an extremely powerful international organization. To whom is it accountable? The IMF Board votes according to two schemes, both combining quantitative voting with qualified majority. Table 6.8 shows the voting power scores for the key member states under the two schemes. Voting power in the IMF is linked with financial contribution to the organization. It is the managers of the IMF who lends this money to governments in member states. Coordination in IMF secures complete control to the member states that take the risks involved in the IMF lending through a highly skewed distribution of voting power in combination with an emphasis upon blocking power. The IMF can get things done, because the key players, the lending nations, have an almost complete control over the decision-making in the mechanism. And the borrowing countries are dependent upon the support of the IMF.

The outcome of heavy quantitative voting in combination a strong qualified majority voting requirement is to provide for huge differences among the member states in voting power scores and in addition almost complete blocking power for the dominant members. The situation is the same for the IMF Board of Governors. Both boards face, however, the risks emanating from a low degree of group decisiveness due to the high-qualified majority clause. One may wish to point out that the World Bank is run according to a similar scheme. The World Bank is basically a cooperative with the member states as shareholders. The number of shares a country has is based roughly on the size of its economy. The US is the largest single shareholder, with 16.41 percent of votes, followed by Japan (7.87 percent), Germany (4.49 percent), the UK (4.31 percent) and France (4.31 percent). The rest of the shares are divided among the other member countries.

In the debate about governance and globalization, it has been stated that the IMF and the WB must be reformed so that the dominance of the 'occidentals' is reduced (Stiglitz, 2004). The best way to do this is simply to reduce the voting

Table 6.8 The IMF Executive Board

Members	Country votes	70% majority		85% majority	
		Banzhaf Index	Capacity to block	Banzhaf Index	Capacity to block
United States	371743	0.106	0.989	0.001	1.000
Japan	133378	0.061	0.572	0.001	0.902
Germany	130332	0.060	0.560	0.001	0.895
France	107635	0.050	0.467	0.001	0.817
United Kingdom	107635	0.050	0.467	0.001	0.817
Belgium	111696	0.052	0.484	0.001	0.833
Netherlands	105412	0.049	0.458	0.001	0.808
Spain	92989	0.043	0.405	0.001	0.750
Italy	90968	0.042	0.397	0.001	0.738
Canada	80636	0.037	0.352	0.000	0.675
Iceland	76276	0.035	0.334	0.000	0.647
Australia	72423	0.034	0.317	0.000	0.622
Saudi Arabia	70105	0.033	0.307	0.000	0.606
Indonesia	69019	0.032	0.303	0.000	0.597
Nigeria	69005	0.032	0.303	0.000	0.597
Egypt	64008	0.030	0.281	0.000	0.563
China	63942	0.030	0.280	0.000	0.562
Switzerland	61827	0.029	0.271	0.000	0.547
Russia	59704	0.028	0.262	0.000	0.534
Brazil	53422	0.025	0.235	0.000	0.481
Iran	53247	0.025	0.234	0.000	0.478
India	52112	0.024	0.229	0.000	0.469
Chile	43395	0.020	0.191	0.000	0.400
Equatorial Guinea	30749	0.014	0.135	0.000	0.292
Sum	2171658				
Decisiveness			0.053		0.0007

disparities in the various boards, increasing the votes of Third World countries. The allocation of votes is based upon a formula that has not changed since the setting up of the Bretton Woods institutions. The newly rich countries in Asia – South Korea, Singapore and China – are badly underrepresented, given the size of their economies.

The Veto Principle

Coordination in international organization can be done in different ways. An international body may change its decision rule depending upon the matters to be decided upon. One basic principle when linking voting rule with issues is that coordination in *n*-person games requires more of qualified majority the more sensitive the issues tend to be *unanimity* – the Wicksellian idea. Wicksell's idea is applied in the UN Security Council (SC) by its well-known *Great Powers unanimity* voting rule: *the veto rule*. In the less important procedural matters the Council employs qualitative voting with a qualified majority decision rule of 3/5 (no veto powers); concerning issues of international peace and security the council employs a voting rule with veto power to the five permanent members: China, France, the Russian Federation, the United Kingdom and the United States. These members can block any action or decision, which has often resulted in a deadlock.

Modelling voting in the UN Security Council can be done by a so-called mixed ternary-binary model, because, in addition to cast a *yes* or *no*/*veto* vote, the voters also have the option of *abstention*. However, for the non-veto members abstention is synonymous to a *no*-vote, hence, the choice of a mixed model where the ternary part reflects the three options of the veto-holders: *yes*, *veto* and *abstention*. The binary part is the standard simple voting game with only two options: *yes* and *no.* Table 6.9 has the power index scores for a ternary-binary model of the Council.

Table 6.9 UNSC: the Great Power unanimity-voting rule

	Binary model		**Ternary/binary model**	
	Banzhaf Index	**Blocking capacity**	**Banzhaf Index**	**Blocking capacity**
Permanent members	0.052	1.000	0.078	1.000
Non-permanent members	0.005	0.099	0.024	0.302
Decisiveness		0.026		0.040

* The Penrose-Banzhaf absolute voting power scores.

This veto capacity, together with the notion that the Council no longer can be considered as representative of the international community, has stimulated a debate for a reform. Thus, three central issues on Security Council reform include: (1) an expansion of SC according to the actual geopolitical situation, (2) an overhaul of its decision rules and (3) increased transparency of its working methods. Accordingly, one recent plan among several reform proposals suggests an expansion of the Security Council to 24 members. However, in neither of these plans will new member gain veto power and the present permanent member

all keep their veto power. So the veto rule is in no way abolished, as it will be contained to the present five permanent members.

Based on the binary simple voting model, we may now calculate the different power measures for the present SC and a future reformed Council with 24 members. The qualified decision rule is in both versions rounded three-fifths of total votes. Table 6.10 presents the obtained measures given procedural matters with no veto power, while Table 6.11 shows the same measures with veto power. Comparing the two, we observe that introducing veto rule in this assembly reduces the probability of decisiveness to less than a tenth of the original values.

Table 6.10 UN Security Council: procedural matters

	Members	Decision rule	Banzhaf Index	Capacity to block	Decisiveness
Present SC	15	9	0.183	0.092	0.304
Reformed SC	24	14	0.136	0.068	0.270

In the reformed Council there would, however, remain enormous power differentials, because the veto principle is to be retained – see Table 6.11. In addition, decisiveness would go down in an enlargement with a change of the unanimity rule.

Table 6.11 The UN Security Council: The Great Powers unanimity-voting rule

	Present		Reformed	
Members	Banzhaf Index	Capacity to block	Banzhaf Index	Capacity to block
Veto-holders*	0.052	1.000	0.042	1.000
Non-veto-holders**	0.005	0.099	0.005	0.123
Probability of decisiveness		0.026		0.021

* The present 5 permanent members: the United States, the United Kingdom, and the Russian Federation. France and China.

** The present non-permanent 10 members, while 19 in a (proposed) reformed SC.

In Table 6.11 we observe only minor changes in the power measure due to the additional nine members. Hence, some decisive power has been shifted over from veto-holder to non-veto-holders. The well-known effect of individual veto power remains, i.e. the voting power of veto-holders is close to ten times greater than the power of the non-veto-holders.

Table 6.11 exemplifies the Wicksellian idea applied on the 15 members Security Council. In the not so important procedural matter the Council employs

qualitative voting with a qualified majority decision rule. However, in the issues concerning war and peace in the world the Council operates its well-known *veto* rule, the *Great Power unanimity* rule, under which the five permanent members can block any action or decision. Introducing *veto* rule in this assembly reduces the probability of decisiveness to less than a tenth of its original value, as Table 6.11 shows.

Beyond Wicksell

Speaking generally, governments when setting up an international coordination mechanism have to take three considerations into account:

1) blocking power of a member state;
2) decisiveness of the entire group;
3) power differences between the member states.

If blocking power was the only consideration, then unanimity will be employed. If decisiveness were the main consideration, then simple majority would be used. Finally, if governments want to recognize differences between states in terms of size and economic power, then quantitative voting should be used instead of qualitative voting. Now, when setting up a coordination mechanism, then governments have a range of constitutional options about how to mix the aggregation rule with the attribution of votes. As long as the coordination mechanism does not employ unanimity, there are several combinations of voting rules and the number of votes cast possible. Thus, either qualified majority or a clear variation in the number of votes cast can safeguard the blocking power of a big state. Since decisiveness is maximized with simple majority voting and decisiveness is the same as the capacity of the group to act, it may be preferable to safeguard the blocking power of big states through the use of quantitative voting schemes, as with the IMF and the EU Council.

International organizations do no longer adhere to the conception of state sovereignty – unanimity voting (the veto principle). It is true that some organizations such as the ASEAN, MERCOSUR and the UN Security Council employ the veto mechanism, but several other organizations use various voting regimes, which may be compared with the power index approach in a systematic fashion.

Big states may legitimately demand that their size be recognized in global governance. Thus, quantitative voting occurs often, as with the WB, the IMF and the EU. Any reform of these institutions may attempt to arrive at more balanced power differences among the member states. All states have an interest in rendering a minimum level of decisiveness to the group, while also safeguarding some blocking power to the member states. Thus, international organizations tend to focus upon QM, i.e. alternative schemes of qualified majority. These two decision-making mechanisms in groups – quantitative *versus* qualitative voting – and simple majority *versus* qualified majority – may be designed in a variety of

ways, which matter for global governance. Wicksell focused upon blocking power and neglecting changing power or the power to act.

Conclusion

International relations display increasing interdependencies and reciprocities. Governments may handle global interdependencies through setting up and supporting international organizations. State reciprocities will then be managed through decision-making in an *n*-person setting. This form of coordination may offer transaction cost advantages to bilateral interaction. Thus, coordination in *n-person games* may be done through voting within the IGOs. The logic of such coordination may be spelled out by means of an analysis with the power indices. The structure of the game is determined by the aggregation rule and the assignment of voting rights. One may wish to add the preferences of the players to the solution of the game, but any such attribution of preferences is ad hoc. And one cannot take for granted that the players vote sincerely and in relation to one single dimension.

Coordination in an *n*-person game occurs in the global governance of IGOs. The key question is the place of the unanimity requirement, derived from the principle of state sovereignty. When it is relaxed, then interesting games ensue. Some IGOs maintain a very restrictive qualified majority clause in order to protect state sovereignty, or the blocking power of the players. These organizations can only take decisions when there is considerable agreement in the preferences of the players. Other organizations have relaxed the unanimity principle considerable, reflecting an ambition to empower these mechanisms at the expense of the blocking power of the players. Governments may be prepared to support international organizations when their power differences are reflected in the voting mechanism, i.e. moving to quantitative voting may make it easier for governments to relax the unanimity principle which is so strongly entrenched in public international law. It is hardly a surprise that two capable organizations, the EU and the IMF, operate according to the logic of power derived from quantitative voting while refraining from unanimity.

Notes

1 On Wicksell, see http://www.dallasfed.org/research/ei/ei0401.html; see also K. Wicksell, (1967), 'A New Principle of Just Taxation', in R.A. Musgrave and A.T. Peacock (eds), *Classics in the Theory of Public Finance*, New York: St Martin's Press, 72–118.

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5 *Journal of Theoretical Politics*, special issue on voting power, 1999; M. Hosli and M. Machover (2004), 'The Nice Treaty and Voting Rules in the Council: A Reply to Moberg (2002)', *Journal of Common Market Studies*, Vol. 42, No. 3: 497–521, September 2004.

6 M. Friedman (1966), *Essays in Positive Economics*, Chicago: University of Chicago Press.

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Chapter 7

Balassa, Regional Organization and Economic Convergence in the EU Club of States

Introduction

Regional integration agreements would make economic sense, if there were real positive outcomes connected with them. The EC or the EU has aimed at economic integration through setting up a thick regional regime involving EU law, the internal market and the *monnai unique*. What does it all amount to in reality?

Can we find real economic convergence, meaning equalization of economic affluence, first over Western Europe and then over Central Europe? This chapter reports upon clear evidence in favour of economic convergence in both the EC club (Western Europe) and the EU club (Western and Central Europe), at the same time GDP has expanded considerably. Economic convergence has spilled over into quality of life, although the equalization of the country human development scores has not progressed equally fast. Economic convergence has been fuelled by a sharp rise in economic openness, especially for intra EC or EU trade. The success of the economic EU project compensates a great deal for the stalemate of the EU political project after the negative votes on the draft constitution.

The key model for approaching regionalism is that of Bela Balassa (1982). He argued that there was a logic or inherent necessity in regionalization, meaning that all regional blocks would sooner or later end up in the same category as the EU. This is probably wrong, as the EU is more unique than a model to adapt generally.

Life of Balassa

Bela Balassa (1928–1992) wrote prolifically on international economics. His life is but a reflexion of the forces that shaped the destiny of many European intellectuals in the twentieth century, finding refuge in the US from totalitarianism. Balassa was educated as a young man at a Cistercian Gymnasium in Budapest, which gave a good enough basis for performing well at university, where he started out in political science but ended up in economics. His training in statistics made him suitable for work in the planned economy that the Hungarian Communists put in place after World War II with the help of the USSR. However, repression

struck out against Balassa, being deported for belonging to a 'particular social or political background'. He survived the deportation and came back to the centre when the Revolution was proclaimed in 1956, being active both in a ministry and teaching economics at the university.

When the Russian troops took over Budapest, Balassa left just in time to escape to Austria. A post-graduate grant from the Rockefeller Foundation opened the way to Yale University, where he completed a PhD in just two years. Balassa found his niche – International Economics – dividing his time between being professor at John Hopkins University and consultant with the World Bank. It is in the latter role that he came to publish a long list of country studies, analyzing and advising various governments about trade policy and development. Balassa early endorsed trade liberalization against the prevailing opinion at the World Bank, where the ideas of Myrdal, Prebisch and Singer were much in vogue. Thus, Balassa helped paying the way for the fundamental change in World Bank policy towards liberalization and the Washington Consensus. He lived long enough to see Hungary returning to the Western democracies, although his final years were marred by cancer. His major work is his book on regional integration, which anticipated the strong surge in regionalism around the globe.[1]

Regional Blocks

The political EU project has lost some of its steam after the aborted draft constitution. In the first years of 2000 we witness a comeback for the nation-state in Europe, as the electoral support for populist parties and nationalist movements has increased in several member countries. If any new constitutional project is at all feasible, then it will only be a mini project. Yet, the EU stands strong in comparison with all other regional groups of states. No other regional organization even comes close to the achievements of the EC and EU in bringing about real economic integration. To prove this statement, I will enquire into two forms of economic convergence: GDP convergence on the one hand and human development (quality of life) convergence on the other hand.

The EC or EU project, unfolding for 50 years now, does not undo the political differences among its member states. It is a union of nation-states, not a federation of regions of a new state. Thus, the constitutional differences between member states will never be undone. Various constitutional models have strong legitimate legacy in the European block of states: Westminster, federalism, Konkordanz, Scandinavian minority coalitions and corporatism, semi-presidentialism, regionalism, Austrian proporz, which may also be found in the new EU democracies in Central and Eastern Europe. Institutional convergence in EU since 1990 has targeted the accomplishment of rule of law as well as the market economy. Different constitutional set-ups may achieve rule of law, which is the political essence of the EU.

Economically, the EU has far more coherence than each of the other regional organizations like NAFTA, ASEAN, MERCOSUR, SADC and SAARC. This relatively high compactness comes, I would suggest, from the success of its

economic project, namely to promote economic development for the entire group, lifting the poorer member countries without destroying for the richer ones. The economic goals of the EEC or EU have always been given a prominent place in policy-making. Although economic policies consist of many different measures, the overall ambition has always been to raise affluence within the member states. Thus, the development of GDP or national income as well as economic growth is central to the assessment of economic success in the EU club of states.

One may describe economic integration in various ways looking at trade, foreign investments, real or financial economic integration, etc. One may follow the argument from *Law and Economics*, stating that law decides the size of the market first and foremost. Thus, one would have to put a major emphasis upon the erection of EU law as a prerequisite to economic integration. Of course, the creation of the EURO was perhaps the most spectacular sign of economic integration, setting up the so-called Euroland with *la monnaie unique*. Or one could focus upon the dynamics of trade and foreign direct investments (FDI). Yet, one would also wish to know whether economic outcomes such as affluence and well-being also display the forces of integration.

One basic framework for analyzing real economic outcomes is convergence theory stating that when countries with different levels of GDP interact during a long period of time, then the GDP differences will grow smaller. Alternatively, one may phrase the basic model of economic integration in the following way: Economic growth in EU land will be negatively related to the level of GDP. This framework for analyzing GDP and GDP growth has been explored recently in much detail (Barro and Sala-i-Martin, 2004) and it will be applied onto EU land below. The same kind of model could also be applied to the human development indicator with yearly scores handed down by the UNDP. If economic growth deals with the increase in output, then the human development index deals directly with well-being.

The New Regional Organization: Incentives, Rules and Constitutional Implications

Regional organizations have been mushrooming at the turn of the century. Regional organization is attractive, because it offers flexible responses to the challenges of globalization. However, the uncertainty with regional organization is endemic, as governments tend to postpone or renege on ambitious plans for regional organization, not knowing what the implications would be from far-reaching regionalization. When a regional organization engages in a common market project, then the question of the ratio of benefits against costs becomes so highly relevant that constitutional decision-making is called for. A new structure for economic regulation must be designed and enforced, the consequences of which spill over into other state regulations. A regional trading block must devise and run a minimum of common institutions in order to qualify as an organization. In a maximum approach, a regional organization takes over public competences from the participating nation-states. Regionalism is on its way to becoming a new

interdisciplinary field in the social and economic sciences. This article stresses real agency, as regional blocks may be created for the mere purpose of political symbolism.

Regional organization above the level of the nation-states is very popular with governments in the early twenty-first century. The pace of regional organization will probably pick up speed after the failure of the so-called Doha round with the WTO and its global approach – multilateralism. One can now speak of a set of regional blocks of states that engage in certain activities that were earlier run by the nation-state. Most of these have promised more in the years to come, but it is a typical feature of these new regional organizations that their ambitions outpace what they can deliver.

There are different modes of regional organization, which depend upon the nature of the treaties signed between the governments of states. They range from a mere discussion forum to a compact monetary union. They may start out as a simple cooperative mechanism and end up being a coordination mechanism that impinges upon the constitutions of member states. Thus, one may raise the question: When does regional organization call for constitutional regulation?

Regional Organization and Incentives

Regional organization is intimately linked with the incentives of the governments. It is these interests that lead the governments of states into various modes of regional organization. The economic interests behind regional blocks cannot be doubted, given the global emphasis upon trade and trade liberalization. It is when governments take further steps beyond the Free Trade or Preferential Trade Agreements that they have to clarify what interests they aim at pursuing in terms of a specific organization. Regional organization comes with costs that have to be picked up by the participants, who also need to take into account the risks involved. When regional organization replaces state organization, then the participant governments need to be well aware of the benefits and the costs.

Bilateral regulation of reciprocities between states may appear as extremely transaction cost heavy. But multilateral regulation may not always be possible due to conflicts among major sets of countries in the world. Thus, regional organization offers a promising mode of handling the interdependencies among countries that the ongoing process of globalization throws up. But once it is actually done, then it may have constitutional implications and it certainly comes with a cost bill. Public organization deals with competences, rights and duties. When regional organizations multiply, then the pertinent question is: What competences do they handle? My argument is that the more compact the regional group of states becomes, the more it calls for some form of constitutional regulation.

An attempt has been made to theorize regions as a new emergent level of macro organization of societies, displaying 'regionness' as well as 'actorness' (Hettne, 2005). The difficulty involved is that such an approach to regionalism could defy the principle of *methodological individualism* for the social sciences. The actors participating in the new regionalism are *inter alia* governments, representing

the states of the world. They support regional arrangements when the benefits outweigh the costs. Regions are not actors in themselves but emerging aggregates of human beings. Thus, regionness varies much depending upon how compact regional integration or regional organization tends to be. And, similarly, actorness varies considerably, as only a few regional organizations possess supranational bodies. Economic blocs as regional organizations include free trade areas and customs unions with preferential trade agreements somewhere in between. A trade bloc is established through a trade pact (or pacts) covering different issues of the economic integration. However, 'regionness' and 'actorness' surfaces only when a common market is established.

Regionalism is often modelled as an impersonal process of change, forcing the nation-states to give up sovereignty and establish new forms of public organization. Thus, one speaks of 'imperatives', 'functional necessity' and major 'social transformation', as if regionalization is on par with urbanization or industrialization. I believe this is incorrect. Regional organization is fundamentally a principal-agent phenomenon. Governments as the principals agree to set up, instruct, pay and monitor agents to handle certain tasks for them. They do this mainly because the total gain to the states or countries they represent is larger than the total costs. As long as TB > TC, they will continue to push for deeper and deeper regional integration, but once TB < TC, the process of regional organization will come to a halt.

Regional organization promises benefits but it also incurs costs. Thus, the participating governments will consider the ratio: benefits/costs. If this ratio is larger than 1, they may decide to go ahead. Benefits and costs involve both short-run and long run considerations. Economic benefits and costs will be given much attention, but also so-called intangible benefits and costs may be involved. Two key principles may be identified:

1) *Pareto improvement*: the regional group as a whole must bring forth a better ratio of benefits/costs for its members as a collective than no regional organization at all. Thus, changes of the status quo which does not increase benefits/costs for the group as a whole should not be done (group rationality).
2) *Nash rule*: every member of a new regional organization will demand that sooner or later the new organization improves its benefits/costs ratio. This can be done through compensation from the other members. But a member that loses out cannot stay in the new group, even if the first principle is fulfilled (individual rationality).

Regional organization is often inherently instable, because member states are not always convinced that the total benefits of it will make them a winner. Thus, regional organization tends to proceed under much uncertainty, as single member states reconsider their obligation to the group, fearing the promises of future benefits may not be forthcoming for their sake. It is not enough that regional organization involves a Pareto improvement in relation to the SQ, as each member state needs to be convinced that it will benefit, sooner or later.

Regional Organization Versus Regional Integration: The Economic Approaches

Regional organization ranges from a trading block, a loose FTA or PTA, to a common market with a monetary union attached to it.[2] It exists to the extent that expressed ambitions by governments at regional meetings are really put into practice. It is often not easy to tell how far real the ambition to create a compact regional organization has proceeded. It is not merely a matter of poverty, over stated ambitions and lack of transparency. Also the achievements of the Gulf Cooperation Council (GCC) are difficult to judge for an outsider.

There is no self-evident manner in which the planet is to be divided into a set of regions. Countries may be part of several regions and regions may overlap considerably. A region is a geographical concept. It may exhibit homogeneity due to culture or economics. Economic processes of regional integration have attracted much interest in the rapidly swelling literature on 'regionalism'. A number of regionally based trade blocs have emerged recently to promote trade between member states through trade liberalization measures.

One may wish to make a distinction between regional integration and regional organization. The first form of regionalism would consist of real economic outcomes that make countries within the same region more interdependent: trade, investments, and migration. The second form of regionalism would consist of public organization such as agreements between governments, the setting up of common institutions and the making of federal arrangements. Although these two forms of regionalism may go together in reality, they are conceptually different phenomena.

Regional economic integration refers to the growing and deepening size of the market, making two or more countries interpenetrate in terms of goods and services, jobs and capital. It is to a large extent a spontaneous process of social change – resulting in a spontaneous order. Regional organization results from deliberate action, aiming at the realization of plans and ambitions with governments. The latter may promote the former, but the success of regional organization is a probability phenomenon.

From an institutional point of view, there is a clear variation in the modes of regional organization. It is worth an explanation, but it is not enough to rely only upon economic theory. The key economic approaches to regionalism do not really address the key issues in institutionalization and constitutionalization respectively of regionalism.

The present day variation in regionalism goes beyond the simple Balassa framework for the analysis of the *dynamics of regional organization*: from the free trade area to political federation over the monetary union. The theory of monetary unions or the Mundell model of *optimal currency areas*, is not clear about what its implications are for a region of states. If an optimal currency area requires labor mobility, then it leads to the common market. *De facto* currency areas seem to arise more from the collapse of the local currency than from explicit macro economic considerations about how an area will react to so-called shocks, i.e. unanticipated economic adjustments that cause high unemployment. When regional organization is deliberately designed to provide regional public goods,

then the relevant theory about regional facilities is to be found in the so-called *club theory*. Regionalism today tends to proceed according to the Bergsten model logic of *open regionalism* instead of the old framework of closed regionalism, favored especially by the ECLAC and the EC, raising the Viner-Meade objection that trade diversion could be larger than trade creation.[3]

From a political science perspective, the crucial question concerns: When do states cross the borderline where regional organization is not merely just another free trade treaty but takes on constitutional implications?

Regional Institutions and State Regalia: The Constitutional Approach

A state operates with certain typical characteristics. Regional organization becomes an alternative to state organization when one or several of these characteristics are moved from the state level to the regional organization. The more this is done, the stronger the demand for a constitutional regulation of regional organization. Let me call these state characteristics: *regalia*. To the set of regalia belong *inter alia*:

- passports and embassies;
- taxes;
- army;
- police;
- money;
- higher education;
- environmental management;
- social security and unemployment.

The state operates a number of bureaux or agencies in order to provide these regalia. Since their provision requires institutions, there will normally be a constitution that instructs about how institutions can be created and changed. The state would identify its citizens, provide for law and order, pay public services with at least partially taxation, constitute the monetary authority, run higher education and research in the best interests of the country, survey its land and natural resources as well as help the needy.

Now, regional organization may be low keyed, not touching these regalia. Sometimes regional organization is merely a discussion forum between governments. Or it involves merely a trade agreement. Sometimes regional organization involves more, much more at time. When a regional organization takes on one or several of the regalia, then constitutional regulation will become relevant. Let me below develop this theory in relation to real life examples of regional organizations.

Basic Modes of Regional Organization

There are several outlines of or schemes for *modes* of regional organization to be found with the many regional blocks of states.[4] But it is far from certain that there is a corresponding institutional reality. Although decisions may have been made about plans of regional organization, the implementation of such schemes tends to be slow and open to many reversals. Yet, it would be fruitful to survey the new political units with *regional blocks of states* in order to pin down what they are doing. In, for instance, Africa there are a large number of regional organizations, but not all of them are actually operating ones, as some of these free trade areas or common markets in Africa remain only promises or projects. It is impossible to achieve much in terms of states coordination regionally when the governments involved are not in control of their own territories.

A regional organization is NOT the same as a mere free trade agreement, although it may include that. One motive for setting up a regional organization is clearly economics, but a regional organization would include more than a mere contract to liberalize trade among a set of states. Typical of a regional organization is that it takes over certain government tasks from the nation-state. The crucial question is to pin down which these competences tend be. There are so many bilateral trade agreements and some of them do not imply that state competences are to be handed over to a regional organization somehow. A regional organization includes at least a discussion forum, where the governments of sovereign states meet on a regular basis to deliberate common problems. Often regional organizations devote much time to spectacular conferences, merely to show a façade of unity where there is division and conflict. Yet, a regional block of states must devise and run a minimum of common institutions in order to qualify as an organization. Setting up a continuous scheme for round of talks between sovereign states do require some planning and information gathering that commit governments to collaboration and the coordination of efforts.

If the creation of a regional forum for continuous information sharing and debate on issues is the starting-point of regionalization, then one may distinguish between alternative modes of regional organization depending on how the set of competences is identified:

1) Politics: A Regional Forum;
2) Policies: Regional Facilities;
3) Economics I: Trading Blocks or Customs Union;
4) Economics II: Currency Areas;
5) Economics III: Common Markets;
6) Federation: Common defence.

I would wish to argue that the list above results in an increasingly complex coordination mechanism, requiring some form of constitutional recognition. Regional cooperation may be discussion and information sharing, the running of a common facility, or various forms of economic collaboration. A common market is the most demanding form of regional economic organization, as it requires

much in terms of public regulation as well as dispute settlement. A federation would entail that the regional organization becomes a new state, replacing the existing ones, but no regional organization has gone so far.

The Regional Forum

Governments are increasingly attracted by the idea of a FORUM, i.e. a regular meeting place for rounds of talks about common problems. This amounts to a minimum level of organization, involving a small secretariat with the resources necessary to hold meeting once or twice a year and engage in information gathering. The secretariat may only possess some intelligence resources, such as collecting data, preparing reports and disseminating information, but its planning may have a large impact upon future events.

The FORUM may look innocuous, but it could serve basic political interests such as clarifying defence and foreign policy issues among states in tensions. One example comes readily to one's mind: the SAARC, covering Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka. Although created already in 1985, it only put in place a free trade area from 2006 (SAFTA). How could such a regional organization really work, given the Kashmir problem between Pakistan and India, as well as the internal turmoil within Nepal and Sri Lanka? War torn Afghanistan has been accepted as a member, and unruly Iran has also expressed interest in joining. Could that really work? It depends on what the real objectives are in regional organization. Promoting peace and avoiding war is no small ambition, especially if some of the governments involved have nuclear capacity.

Debating issues of conflict between states and governments may promote peace. Although a long round of regular meetings may not resolve the fundamental conflicts, at least military confrontation is avoided. The longer this period of instable peace lasts, the more one may hope that the worst outcome can be avoided. Such purposes of debating thorny issues between states may comprise not only the question of war and peace but also migration, border controls, transnational crime and the spread of deceases. Many of the regional organizations today are merely FORA, meaning that governments meet and sign letters or treaties of intentions in various fields, like the Pacific Forum in Suva.

The FORUM model is also attractive when the goals of regional cooperation are mainly cultural ones. Governments may wish to identify a common culture or historical legacy for a number of states, despite all economic differences between them. Culture would deliver the cement of cohesion for a regional block, especially if economics creates divergence among the countries involved. Here, the regional efforts in the Muslim civilization come to mind: the Arab League and the Organization of Islamic Conference, focussing upon Islam and its cultural roots in the Arab civilization.

Another example of regional organization as the forum would be the ASEAN, although it also displays the ambition to stronger forms of regional integration. The ASEAN regularly conducts dialogue meetings with other countries and an organization, collectively known as the *ASEAN dialogue partners* during the

ASEAN Regional Forum (ARF). The ARF is an informal multilateral dialogue of 26 members concerned with security issues in the Asia-Pacific region. The ARF met for the first time in 1994. An ideal-type example of a FORUM is the APEC, covering the entire Pacific Ocean area with the exception of the small island states there. The Asia-Pacific Economic Cooperation is only a forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region. APEC operates on the basis of non-binding commitments, open dialogue and equal respect for the views of all participants. Unlike other multilateral trade bodies, APEC has no treaty obligations required of its participants. APEC has 21 members, which account for approximately 40 percent of the world's population, approximately 56 percent of world GDP and about 48 percent of world trade. APEC, established in 1989, has worked to reduce trade barriers across the Asia-Pacific region. Its vision is the 'Bogor Goals' of free and open trade and investment in the Asia-Pacific by 2010 for industrialized economies and 2020 for developing economies. Yet, the outcome of the APEG is a combination of open and shallow regionalism.

The FORUM may simple serve as a tension reduction mechanism between states, pushing issues further into the future without resolving much. Or the FORUM may set the framework for regional planning, having a huge impact upon the member states' governments. It may be highly successful in setting the agenda for several governments, enhancing common plans towards for instance global warming and environmental degradation. The FORUM may also be a façade that creates an illusion of regional cooperation and understanding. Take the example of the Commonwealth of Independent States, which replaced the Soviet Union. What has come of this FORUM is the plan of the EurAsEC: in 1995 Russia and Belarus created a customs union, which Kazakhstan and Kyrgyzstan later joined. Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan signed the treaty creating the Eurasian Economic Community in 2001. One objective is to develop a full-scale customs union and common economic space and another objective includes harmonization of customs tariffs. It is difficult to tell whether there are any real outcomes of the CIS or its offspring.

The FORUM is politics, often *high* politics. But regional organization may also be low politics, or the implementation of a set of common facilities serving educational, health or communication policies.

Regional Facilities

The pooling of country resources to set up regional organizations within a public law framework is hardly anything new. It has been done in the past outside of the regional integration ideology that is now so strong in all parts of the world with the possible exception of Japan and China. Such regional facilities offer a springboard for further integration, underlining that economies of scale play a major role in organization. The set of regional facilities is a broad one, including: common airline, common university, common space exploration policy, common air navigation policy, common cultural institutions and common sports and leisure activities.

Both rich and poor regional organizations operate one or another regional facility. From a club theory point of view, the tiny states of the world would have most to gain from offering regionally based services. Take the case of CARICOM for instance (Bulmer-Thomas, 2001). The Caribbean Community and Common Market or CARICOM was established by Barbados, Jamaica, Guyana and Trinidad and Tobago in 1973, replacing the 1965–1972 Caribbean Free Trade Association (CARIFTA), organized to provide a linkage between the English-speaking countries of the Caribbean following the dissolution of the West Indies Federation. A Revised Treaty of establishing the Caribbean Community including the CARICOM Single Market and Economy (CSME) was signed 2001. The CARIOM now has 15 small states as members. It operates a large number of common facilities, such as e.g.: Caribbean Disaster Emergency Response Agency, Caribbean Food Corporation (CFC), Caribbean Environment Health Institute (CEHI), Caribbean Agriculture Research and Development Institute, Caribbean Development Bank (CDB), University of Guyana (UG) and the University of the West Indies.

CARICOM also uses economies of scale in diplomatic mission, for instance, one ambassador serving all 15 small states in Brussels and Geneva. The partners to a regional group may of course use private organization too, setting up joint-stock companies in the economy. However, economic organization is mainly orientated towards facilitating trade and may go so far as the setting up of a community, i.e. a single market.

Economics I: FTAs and Customs Unions

Economic incentives count for a lot when setting up a regional organization. It is first and foremost trade that looms large in regionalization, as fundamental trade theory promises considerable benefits if trade is liberalized. Countries that attempt to capture the benefits from trade liberalization constitute themselves as trading blocs, whether it is a FTA or a customs union or something in between. A number of countries have set up secretariats in order to implement free trade agreements: FTAs or PTAs. Such a secretariat would define rules and interpret rules with regard to the FTA or a preferential trade agreement. Managing a free trade area involves so-called facilitation measures, but FTAs or PTAs would not need to have any special common institutions such as a judiciary: police and court. All countries have some bilateral trade agreements, but they would require some special institutions for their enforcement only when a group of states with more than five or ten member states.

The difference between an FTA and a customs union is blurred when countries operate a preferential trade agreement. A Preferential Trade Area gives preferential access to certain products from certain countries, by reducing tariffs, although not abolishing them completely. A free trade area is a designated group of countries that have agreed to eliminate tariffs, quotas and preferences on most goods between them. To avoid evasion through re-exportation the countries use so-called *Rules of Origin*, where there is a requirement for the minimum extent of local material inputs and local transformations adding value to the goods.

Such rules may actually be used as trade policy, restricting imports. The principal difficulty with customs unions is the *Jacob Viner* balance between trade *creation versus* trade *destruction*, which may turn negative. There are so many FTAs or PTAs that they cannot be enumerated here. They require only a minimum level of organization, such as for instance the Lome-Cotonou Agreements between the EU and the African, Caribbean and Pacific states (http://en.wikipedia.org/wiki/Trade_blocks).[5]

A customs union is a free trade area with a set of Common External Tariffs. The participant countries set up common external trade policy, but in some cases they use different import quotas. The purposes for establishing a customs union include besides economic efficiency closer political and cultural ties between the member countries. A customs union is established through trade pacts: Southern African Customs Union, East African Community, Gulf Cooperation Council, Mercosur, Central American Customs Union, Economic and Monetary Community of Central Africa (CEMAC), West African Economic and Monetary Union (UEMOA) and Andean Community (CAN).

A customs union needs to have some administrative capacity tied to it. Thus, the common framework of tariffs and quotas needs to have surveillance. However, there is hardly any need for common political institutions, as these trade tasks can be handled through delegation to some agency at arm's length from the different governments.

Regional trading blocks may include some phoney organizations, meaning paper ones. One may distinguish between a number of regional organizations depending upon how strong they integrate the various country economies. Often regional organizations have ambitions but the implementation tends to be projected into the future. Thus, one may question the existence of the following trade blocks:

- AEC (African Economic Community): Although supported by several African regional organizations like ECOWAS, COMESA, ECCAS, IGAD, SADC and UMA, the progress achieved in their respective regions in the implementation of the AEC has not been big.
- COMESA: The creation of a sub-regional economic community with a PTA was decided in 1978, beginning with a sub-regional preferential trade area, which would be gradually upgraded over a ten-year period to a common market until the community had been established. The PTA Treaty envisaged its transformation into a Common Market: the Common Market for Eastern and Southern Africa, COMESA, in an agreement signed 1993.
- CSN (*Comunidad Sudamericana de Naciones*): a continent-wide free trade zone that will unite two existing trade organizations – Mercosur and the Andean Community – eliminating tariffs for non-sensitive products by 2014 and sensitive products by 2019 (now called UNASUR).

Although these are trade pacts, endorsed by regional organizations, most of it comes in the form of plans and ambitions. Regionalism in Sub-Saharan

Africa appears to be problematic when it comes to the actual enforcement of agreements.

Economics II: Monetary Unions

Monetary unions can be found in many regions: Economic and monetary union of the Caribbean Community (CARICOM), Economic and Monetary union of the Economic Community of West African States (ECOWAS), Economic and monetary union of the East African Community (EAC), due in 2009, Economic and monetary union of the Gulf Cooperation Council (GCC), due in 2010, Economic and monetary union of the Southern African Development Community (SADC), due in 2016, Economic and monetary union of the South American Community of Nations (CSN), due in 2019, Economic and monetary union of the African Economic Community (AEC), due in 2028.

De facto monetary unions arise whenever two or more countries use the one and same currency. There have been several currency unions between countries not having a common market: e.g. the CFA franc BEAC, the CFA franc BCEAO and the CFP franc. Actually, a monetary union does not need a common Central Bank or a common facility issuing legal tender. It is enough that one country merely adopts the currency of another country. Sometimes countries use two currencies, the national official one and a shadow foreign currency. For instance, the United States dollar is used in Palau, Micronesia, the Marshall Islands, Panama, Ecuador, El Salvador, East Timor, the British Virgin Islands and the Turks and Caicos Islands. The Australian dollar is used by Kiribati, Nauru and Tuvalu and the New Zealand dollar is used by Niue, the Cook Islands, Tokelau and the Pitcairn Islands.

Yet, it is true that when countries formally set up a monetary union, they also construct some money issuing authority. Thus, for example the OECS supports a central bank, as most OECS members-states adhere to the Eastern Caribbean Central Bank (ECCB) monetary authority. This regional central bank surveys the financial and banking integrity of the Organization of Eastern Caribbean States economic bloc of states in order to maintain the financial status of the Eastern Caribbean dollar (EC$). The British Virgin Islands do not use the Eastern Caribbean dollar as their de facto native currency. The East Caribbean dollar is used by Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts, Nevis, Saint Lucia, Saint Vincent and the Grenadines. The South African rand is legal tender in South Africa, Swaziland, Lesotho and Namibia through the Common Monetary Area.

Economics III: The Common Market

A common market means a quantitative leap in comparison with the FTA and customs union. Here, common institutions must be set up in order to handle the administration of the rules of the regional group. A common market can only be erected, if it handles all questions relating to product acceptance and product comparability. This will require court action in settling disputes. A currency area

will need a Central Bank being responsible for the supply of common currency and well as setting the interest rates in the area, but the organizational requirements of a common market go much further.

The common market requires far-reaching economic regulation in order to define how goods, services, capital and labor can move over borders. A typical sign of a common market is the regional passport that abolishes border controls. If the market were big, then economic regulation would need considerable regulatory resources besides a judicial organization that can settle ensuing disputes. There may be such a sizeable need for administrative capacity to handle a common market, that this replaces the nation-state. Regulatory tasks will have to be transferred to a regional organization of some sort.

A single market poses a great organizational challenge. The rules of economic activity will have to be defined for a number of states having different regulatory traditions. Various strategies may be employed: harmonization: different rules will be made similar; mutual recognition: each state accepts the rules of another state reciprocally and new legislation: a body of new regulation is created.

It is well known that harmonization takes time, as it is transaction costs heavy. Mutual recognition is quicker, but it may not cover all aspects of the new common market. Finally, legislation requires new institutions such as a legislative body as well as a judicial body.

One of the typical problems encountered in setting up a common market is the creation of a common passport. It is easy to promise but harder to arrive at in reality. The free movement of persons implies a common passport, but migration is a sensitive state issue. It is when regional organization takes on such a scale that the nation-state is mirrored in new bodies – legislative, executive and judicial – that regionalism becomes a substitute for the nation-state. It is the creation of a common market that calls for a structure of new political bodies and new agencies.

Constitutionalization of Regional Organization

The more complicated and compact the regional organization becomes, the more relevant is a constitutional regulation. Thus far, only the EU has attempted a full-scale constitutional codification of regional treaties among member states' governments. However, several regional blocks have set up institutions whose operations have constitutional relevance.

How much new regional organization is required depends upon the size of the single market. But even small common markets like CARICOM and OECS have had to set up new public bodies in order to deal with the implications of a common market. Thus, we find in the Caribbean:

1) The executive comprises a rotating prime ministerial Chairmanship of CARICOM (Head of CARICOM), the CARICOM Secretary General (Chief Executive) and the CARICOM Headquarters secretariat (Chief Administrative Organ). There is also a quasi Cabinet of individual Heads

of Government who are given specific responsibility or portfolios for overall regional development and integration.

2) The Council consists of Ministers responsible for Community Affairs and any other Minister designated by the Member States in their absolute discretion. It is one of the principal organs (the other being the Conference of the Heads of Government) and is supported by four other organs and three bodies: The Council for Finance and Planning (COFAP), The Council for Trade and Economic Development (COTED), The Council for Foreign and Community Relations (COFCOR), The Council for Human and Social Development (COHSOD).
3) The Legal Affairs Committee provides legal advice to the organs and bodies of the Community. The Budget Committee examines the draft budget and work programme of the Secretariat and submits recommendations to the Community Council; The Committee of Central Bank Governors: provides recommendations to the COFAP on monetary and financial matters.
4) The Caribbean Court of Justice (CCJ) acts as the original jurisdiction for settlement of disputes on the functioning of the Caribbean (CARICOM) Single Market and Economy (CSME), as well as serving as an appellate court of last resort for member states which have severed their country's ties with the Privy Council in London, United Kingdom. The CCJ is based in Port of Spain, Trinidad and Tobago.

In addition, there are new structures that comprise the Caribbean Community (CARICOM) such as for instance the CARICOM Heads of Government, comprising the various heads of Government from each member state. Moreover, there is a standing committee of ministers, as ministerial responsibilities cover specific areas, for example the Standing Committee of Ministers responsible for Health will comprise of Ministers of Health from each member state. The secretariat of the Caribbean Community is located in Georgetown, Guyana. Running these operations results in costs that must be covered somehow.

Also for the much smaller OECS, we find new regional bodies, political or administrative:

1) The Secretariat consists of four main Divisions responsible for: External Relations, Functional Cooperation, Corporate Services and Economic Affairs. These four Divisions oversee the work of a number of specialised institutions, work units or projects located in six countries – Antigua/Barbuda, Commonwealth of Dominica, St Lucia, Belgium, Canada, and the United States of America.
2) The Eastern Caribbean Supreme Court (ECSC) today handles the judicial matters in the *Organization of Eastern Caribbean States*. When a trial surpasses the stage of High Court in an OECS member state, it can then be passed on to the ECSC at the level of Supreme Court. Cases appealed from the stage of ECSC Supreme Court will then be referred to the jurisdiction of the Caribbean Court of Justice (CCJ).

RTAs, Institutionalization and Constitutionalization

The explosion in the number of regional trade agreements during the last decade raises not only economic questions about the compatibility of increasing regionalism with the multilateralism of WTO. Open regionalism may actually be more in conformity with the classical ideal of global free trade and factor movements than old regionalism, focussing on Prebischian import substitution as well as shallow integration. From the point of view of politics and administration, the new regionalism replaces shallow integration with deep integration. Thus, some RTAs lead to more than trade or customs unions.

Deep regional integration emerges with the establishment of the common market and the monetary union attending it. The qualitative leap occurs here, as the enormous difficulties that regional organizations such as the CARICOM, OECS, CACM and GCC have experienced show. Only the EU so far has mastered the organizational challenges that a common market and a monetary union pose. It is no surprise that the EU attempted to create a constitution, as it has progressed further than any of the other regional organizations in *deep integration*.

Constitutionalization in relation to regional integration becomes an option when governments create a common market and a monetary union. The process of rule making, rule application and rule adjudication needs to be formalized and entrenched in a predictable manner in relation to so-called *ordnungspolitik* and the implications of supranationality be addressed and solved somehow.

Yet, constitutionalization is far from an automatic process that is released once regional integration goes beyond a certain point. Country legacies matter, as adherence to a civil law tradition is more prone to engage in an attempt constitutionalization than adherence to a common law family. Three issues are of particular concern, where institutionalization may not be enough:

1) the recognition of a supreme court for adjudicating disputes about the rules for the common market;
2) the establishment of a central bank for the monetary union;
3) the clarification of competences between the regional bodies and the national ones.

These pressing issues in processes of regionalization can be handled by merely institutionalization, focussing upon some vague principles like e.g. the sovereignty of the ECJ, the independence of the ECB and the flexibility of subsidiarity. Yet, in a long-run perspective constitutional codification would become increasingly relevant in order to establish what these notions entail.

The threshold between institutionalization and constitutionalization would, I suggest, be found in between the common market and the political federation, i.e. with setting up an economic union. It requires the elaboration of fiscal, monetary and environmental policies with great impact upon taxation and employment. It presupposes a list of intergovernmental bodies and perhaps some supranational ones as well. And the relationships between these bodies and civil society would call for a clarification of patterns of influence and even democracy.

As long as the union bodies are weak and ill defined, institutionalization may be sufficient. However, as the regional organization grows to maturity with *deep* integration, one may conjecture that the demand for constitutionalization will increase. As a matter of fact, affluence is a nice predictor of the level of transparency of institutions, the EU scoring high while the Andean community, the CACM and the ECOWAS score low.

The new phenomenon of regional organization harbours an interesting variety in public organization. There are now many regional organizations, at least on paper. One may expect that some of them achieve a more firm structure in the decade to come. Countries may be members of several regional organizations, especially when it is only a matter of trading blocks. Regional organization replaces the state to some extent only when a common market is set up. Monetary unions require a central tender issuing authority when it is not a case of simply using another country's money. Constitutionalization becomes a relevant option when member states move to set up an economic union with deep integration.

The next decade will show which regional organizations are durable and whether some of them really achieve a community, i.e. a common market with the four freedoms: goods, services, capital and labor. When a common market is set up, then new institutions will be created, some of which may call upon constitutional recognition, such as for instance a tribunal monitoring the harmonization of the common set of rules for the economy and the various markets. The more compact the regional group of states tends to be, the more relevant the call for constitutionalization becomes. Thus, the competences of intergovernmental or supranational bodies need to be defined in a transparent manner and the role of civil society in influencing policy-making be identified.

EU Institutions: Economics and Politics

The EC or the EU may be looked upon as a club of countries, engaged in a project to secure peace amongst themselves and promote economic expansion in each member state. In order to accomplish these objectives the member states have set up and run certain institutions and policies. The EU is a club of nation-states, which entails that there is a limit to overall convergence among the member states. Thus, culture and political institutions differ and will remain different for a long time to come.

Yet, in order for economic integration to work, there must be a basic institutional set-up, namely any set of rules that enhance the rule of law as well as the market economy. The listing of the EU member states below (Table 7.1) brings out how they now all converge upon rule of law in politics and the market institutions in the economy. High scores on the Freedom House Index indicate respect for rule of law; high scores on the Fraser scale indicate the enforcement of the institutions of capitalism. As may be seen, the Central European countries coming out of Leninist-Stalinist institutions for state and the economy have adapted extremely quickly to the institutional revolution of 1989–1990.[6]

Table 7.1 Rule of law and market economy among EU member states

EU Member	Rule of law: Freedom House scores		Market economy: Fraser Institute Index of Economic Freedom	
	1993	**2005**	**1996**	**2005**
Austria	10.00	10.00	7.0	7.7
Belgium	10.00	10.00	7.2	7.4
Cyprus	10.00	10.00	6.1	6.6
Czech Rep.	9.25	10.00	5.9	6.8
Denmark	10.00	10.00	7.4	7.7
Estonia	7.75	10.00	5.3	7.8
Finland	10.00	10.00	7.5	7.6
France	9.25	10.00	6.8	6.9
Germany	9.25	10.00	7.5	7.5
Greece	8.50	9.25	6,2	6.9
Hungary	9.25	10.00	6.2	7.4
Ireland	9.25	10.00	8.2	7.9
Italy	8.50	10.00	6.5	6.6
Latvia	7.00	10.00	4.6	6.8
Lithuania	8.50	10.00	4.7	6.8
Luxembourg	10.00	10.00	7.5	7.8
Malta	10.00	10.00	6.4	6.7
Netherlands	10.00	10.00	7.8	7.7
Poland	8.50	10.00	4.8	6.1
Portugal	10.00	10.00	7.2	7.1
Slovakia	6.25	10.00	5.1	6.6
Slovenia	9.25	10.00	4.7	6.3
Spain	9.25	10.00	7.0	7.2
Sweden	10.00	10.00	7.1	7.3
UK	9.25	10.00	8.2	8.1

The political regimes of the EU member states vary considerably in terms of institutions for election, the national assembly, the executive and the judiciary. These differences do not, however, alter the basic fact that EU land harbors *rule of law* to a very high extent, comparatively speaking. There is less variation in the institutionalization of the market economy, as countries have to accept private property, labor rights, integrity of contracts and joint-stock companies linked to bourses in order to qualify for EU membership. The planned economies of Central

and Eastern Europe choose different strategies when introducing the key market institutions, but today all of them display high scores for both rule of law and the respect for the basic rules of the market economy. The EU has contributed to this institutional convergence by linking EU membership to the respect for rule of law and the market institutions, which has no counterpart with the other regional blocks of states. Table 7.2 shows that the economic institutional differences within EU land are now minor ones (Heritage Index of Economic Freedom):

Table 7.2 Market economy scores 1995–2005

	1995	2005
Austria	2.09	2.09
Belgium		2.13
Cyprus		2.84
Czech Rep.	2.43	2.31
Denmark		1.76
Estonia	2.45	1.65
Finland		1.90
France	2.35	2.63
Germany	2.20	2.00
Greece	3.20	2.80
Hungary	2.93	2.40
Ireland	2.20	1.70
Italy	2.63	2.28
Latvia		2.31
Lithuania		2.18
Luxembourg		1.63
Malta	3.44	2.28
Netherlands		1.95
Poland	3.51	2.59
Portugal	2.85	2.44
Slovakia	2.83	2.43
Slovenia		2.64
Spain	2.49	2.34
Sweden	2.68	1.89
United Kingdom	1.80	1.75

Note: Low scores indicate the enforcement of the rules of the market economy (2006 Index of Economic Freedom).

Actually, some Central European countries now score better (lower) than a few West European ones, when it comes to economic freedom, i.e. unrestrained conduct of market operations in many fields. Institutional convergence is by no means a minor achievement, but what counts at the end of the day is real economic performance, i.e. the size of GDP and its distribution, which has a profound impact upon the quality of life.

Economic Convergence: Club Convergence

Economic integration among countries can be analyzed in two ways. According to the simple but highly abstract Solow model of economic growth, taking into account only capital, labor and technology, two countries would converge on the same level of affluence in the long run, all other things being equal (Solow, 2000) This conclusion that poor countries will catch up and rich countries will mature follows from the law of diminishing returns. However, the *ceteris paribus* clause is difficult to motivate, as all countries may not reach their balanced natural growth path. When economic integration is approached as a *club* phenomenon, then a number of factors that affect real economic integration are taken into account, in the short or long term.

A club of states – a region as it were – may achieve high levels of economic integration through trade, FDIs, migration, common institutions, growth stimulating policies, common currency, etc. The EC (15 members) and the EU (25 members) are examples of club integration, where a number of forces have been active in fostering economic integration, based upon common economic expansion for some 40 years. Economic integration, based upon real convergence of economies in a club of states, may be more or less successful, meaning equalizing country affluence. It is always an empirical question whether economic convergence works as the founders of regionalism hopes when setting up a club. Here, we will ask whether the EC and the EU displays so-called *Beta convergence* or *Sigma convergence*, which entails that the GDP differences among the club members have been reduced during the period of club membership. In our view, trade is a most powerful link in economic integration among countries and thus we will enquire into how trade in the club has developed since the 1960s.

The focus upon outcomes must be essential in the emerging new field of social science study, called 'regionalism'. Regional agreements among the governments of states, with or without civil society, are one thing, while real regional integration among member countries being another thing. Regional cooperation may take on the charming face of overlapping contracts as well as flexible geometry in identifying the so-called 'region'. But all this is just paperwork and mere talk at nice conferences. What interests the social scientist at the end of the day is true implementation, meaning that regional cooperation produces real life outcomes that enhance integration among member countries in terms of economics or politics for instance. Two key measuring rods of implementation in regionalism would no doubt be economic convergence in affluence and well-being on the one hand and peace and political stability on the other hand.

The Hypotheses

Standard neo-classical growth theory may be employed to understand the force of convergence in a set of countries. One may investigate the occurrence of convergence or divergence in any set of countries, whether they interact much or not, whether they are part of any regional institutions. However, when a regional set of countries set up a club of states, then the enquiry into convergence becomes highly relevant for policy: Does regional organization enhance convergence? Adding the creation of regional economic institutions to the growth equation takes us into the new endogenous growth theory when searching for the factors that would enhance convergence.[7]

Basically, the Solow standard growth models entails that economic output would be driven by capital investments (positive), labor expansion (positive) and technology change (positive). As an economy reaches its so-called steady state, only technology improvement impacts positively upon growth. Convergence between countries in terms of affluence may thus occur if investments in poorer countries have higher returns than investments in richer countries, or if investments are considerably higher in one set of countries than in another, or if technology changes occur more often in one set of countries than in another. This is all exogenous growth theory, as capital, labor and technology are given. Endogenous growth theory enquires into how country factors may explain technology development.

In the classical growth model, economic differences between countries will be equalized over time, merely due to the law of diminishing returns. Since economic development is looked upon as driven by capital, labor and technology and the first two factors obey the law of diminishing returns over time, only technology shocks can affect a major shift in growth rates. This kind of absolute convergence is, however, not quite relevant to an analysis of the EC or EU – a regional integration agreement. The concept of conditional convergence is a richer one, taking into account the many factors that impact upon economic growth, such as trade, foreign direct investments, institutional reforms, currency areas, etc. If one looks at one regional integration agreement (= RIA), namely economic integration in first Western Europe (EU15) and then in Central and Eastern Europe (EU25), then convergence would be driven by more factors than the classical ones identified by Solow's narrow model. Thus, we have in a broad approach to economic convergence:

1) activities, institutions and policies that enhance *investments* in the poorer countries;
2) activities, institutions and policies which improve the economically active part of the population; the *labor force*;
3) activities, institutions and policies that changes the *technology* used in the poorer countries.

One may assume that EU enlargement has an impact upon all these three major factors. How strong is then real economic convergence?

When countries with huge differences in economic affluence start interacting, then mainstream economic theory predicts that the mature economies will grow slower than the developing economies. Thus, rates of economic growth will tend to be negatively regressed upon levels of GDP.

The Data

In order to analyze economic integration in the EU, I will make use of a series of data on GDP and human development. These data are available for the EC or EU member states on a yearly basis from a number of reliable sources. One may calculate the yearly change rates on the basis of the country information. We will use three data series for the changes in gross domestic product and one data series for the HDI.

It may be pointed out that the two scales used here, one ratio scale for GDP and one interval scale for human development, have somewhat different properties. Whereas the GDP differences may be analyzed as absolute ones, the differences in the HDI are to be considered as merely relative ones. How the scores on human development are scaled is arbitrary and differences between low and high scores indicate merely less and more. Below we are interested in the overall development of national income as well as quality of life, i.e. it is the trend that matters.[8]

Methodology: Beta Convergence and Sigma Convergence

For a club of states one would wish to know whether there is a process of equalization of national income or not. First and foremost, the governments of the member states of a club would like to see regionalization promoting absolute economic growth. Second, the member states would like to have a sustained process of economic development that equalizes the country differences in affluence. Probably, there is a clear order of preference among these two goals among most member states' governments, as the first objective – positive economic growth – is considered more important than the second – a more egalitarian distribution of affluence in the club. Convergence theory with its two basic concepts – Beta convergence and Sigma convergence – allows us to measure the achievement of both these objectives.

Convergence in economic terms would show up as confirmation of the model that regresses economic growth for a time period $t_n - t_0$ in a set of countries upon the GDP at time t_0. Thus, we have the following model:

$$\text{Economic Growth } (t_n - t_0) = f(\text{GDP}t_0),$$

where the function f would be negative. The stronger the negative value of the parameter, the more there would have occurred of economic convergence. The same model logic would apply to the HDI-scores.

One may actually use the various enlargements of the EC or the EU as the selection criteria for the countries to be included in the various regression analyses. Thus, one would have one set of 15 countries, probing whether there

was convergence going on between 1960 and 1995. One could also have one set of 25 countries in order to investigate the extent of convergence between 1990 and 2005. Such an approach would take into account the possible effect of various EC or EU support policies towards the countries with a lesser GDP.

Growth in GDP

Let us look at the evidence systematically. It seems natural to start with GDP and economic growth, first for the 15 EU countries and then for the 25 EU countries. I will use all three kinds of data concerning GDP and economic growth. I start with the AMECO (Annual Macro-Economic Database) data, then proceed to employ the PWT (Penn World Tables) data and finally the IMF (International Monetary Fund) data.

Ameco

Figure 7.1 presents a broad overview of the developments since 1960, indicating a strong negative relationship between affluence and average economic growth. This is strong evidence in favour of convergence in economic output for the member states entering up until 1995.

Has this very clear convergence trend has maintained itself for the last decade? i.e. after the major enlargement of the Union in 1995. Figure 7.2 has the answer. It shows again a negative interaction between the key variables, meaning convergence is taking place, although not with the same force.

One must remember that the situation with regard to the larger club – EU25 – is radically different as the extension was made as late as 2004. However, increasing economic interaction between Western and Eastern Europe preceded it, as the extension has been promised for a long time. Figure 7.3 shows that the larger club also holds that convergence.

PWT

A very long series of data on economic development in Western Europe is offered by PWT data. Figure 7.4 shows a most significant trend towards economic integration, marked by strong convergence. It is clearly the case that high average economic growth is to be found with the poorest countries, relatively speaking. This convergence trend holds for the entire period 1950–1990.

Interestingly, the same strong convergence trend is not to be found in data about a more recent time period. In Figure 7.5 one even notes a slight concave curve, as the average growth rate increases slightly among the most affluent countries.

If convergence is not occurring in the same manner during all of the time period of the EC or EU, then what is taking place during the most recent years? The IMF data may be used to analyze in depth the nature of economic development since 1980.

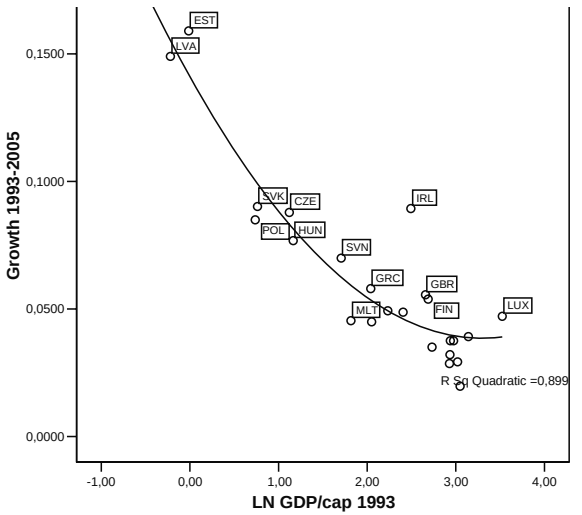

Figure 7.1 Beta-convergence: economic growth 1960–1991 (EU15) (AMECO-data)

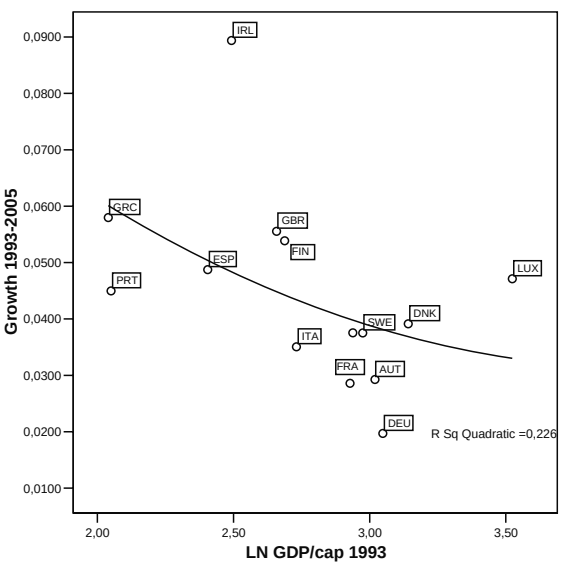

Figure 7.2 Beta-convergence: economic growth 1993–2005 (EU15) (AMECO-data)

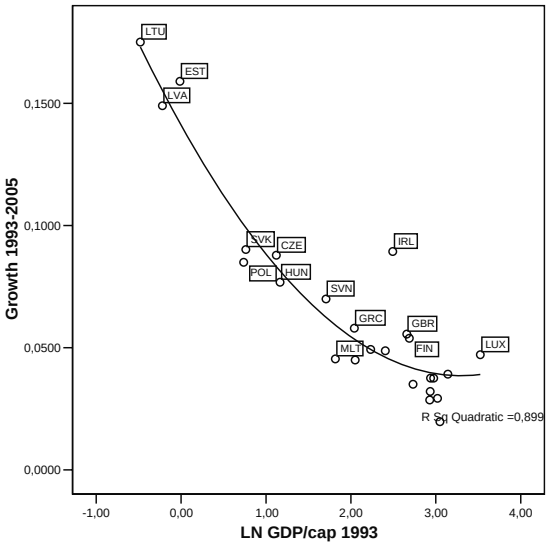

Figure 7.3 Beta-convergence: economic growth 1993–2005 (EU25) – (AMECO-data)

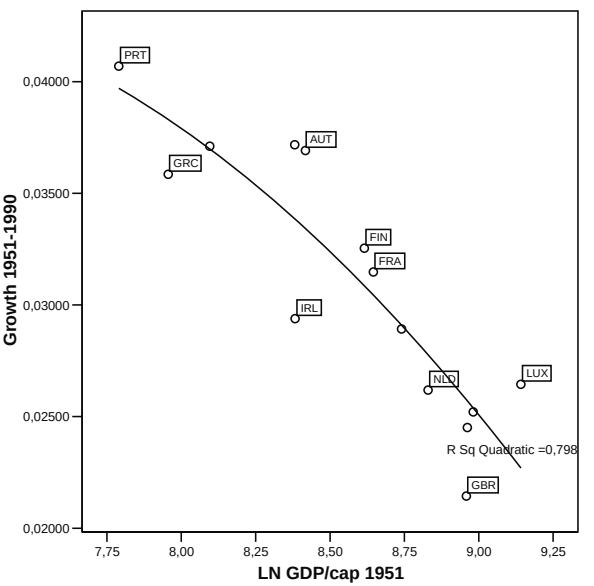

Figure 7.4 Beta-convergence: economic growth 1951–1990 (EU14) (PWT-data)

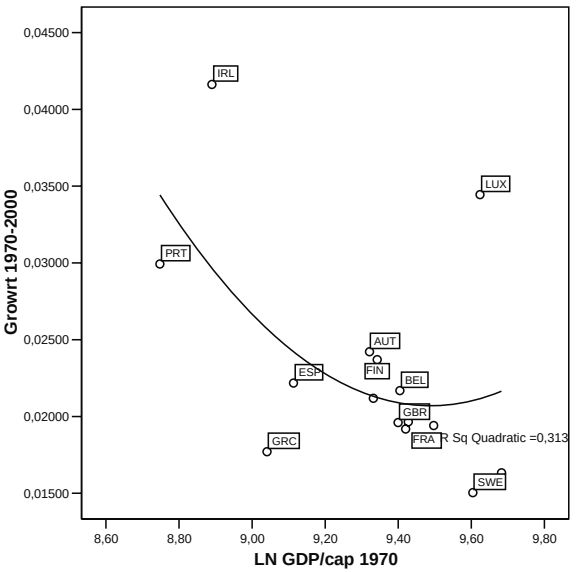

Figure 7.5 Beta-convergence: economic growth 1970–2000 (EU15) – (PWT-data)

IMF

The IMF data may be employed both for the smaller club of EU15 and a larger club – here EU25, as the availability of data is restricted to this set. What Figures 7.6 and 7.7 show is that convergence occurs also in the most recent decades, but the strength of economic equalization among countries is far from pronounced.

Yet, when we consider the larger set of EU countries EU25, then Figure 7.7 indicates that convergence is very much going on. This equalization of affluence, first in Western Europe and now all over Europe – West, Central and East, is a major outcome of the EU project. It means that economic integration in the EU zone is not merely a matter of law but also an economic fact.

One may supplement the analysis above of Beta convergence with an analysis of an examination of so-called Sigma convergence. Whereas Beta convergence maps the overall trend between affluence and economic growth, the Sigma convergence data shows how much inequalities have been reduced between countries. The Sigma convergence data refer to the variation in GDP at a certain period in time. Thus, lower CV (CV = coefficient of variability) scores indicate convergence over time. Figure 7.8 shows clear Sigma convergence for the smaller EU club.

Figure 7.9, describing the situation during the last two decades, indicates the pattern described above, namely strong convergence among the member states of the enlarged EU but decreasing convergence among the smaller club of member states.

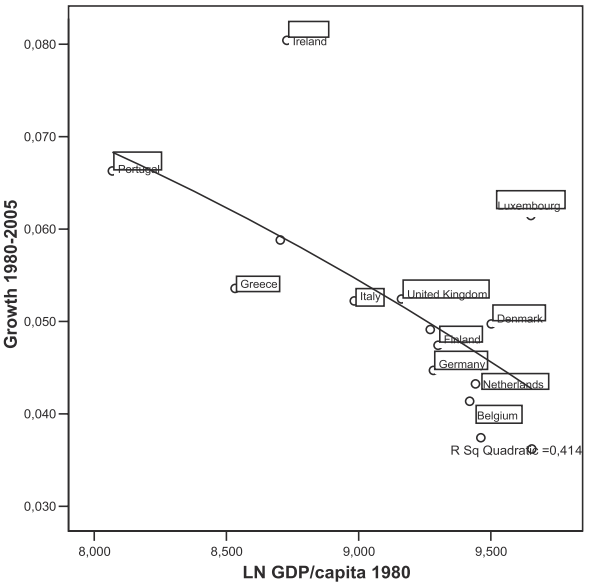

Figure 7.6 Beta-convergence: economic growth 1980–2005 (EU15) – (IMF-data)

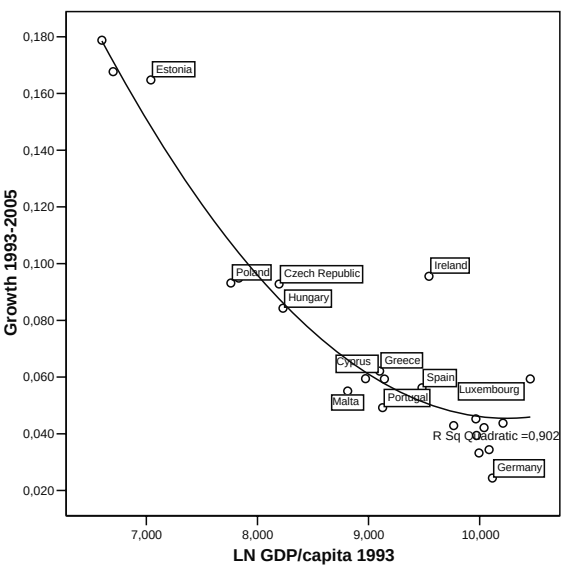

Figure 7.7 Beta-convergence: economic growth 1993–2005 (EU25) – (IMF-data)

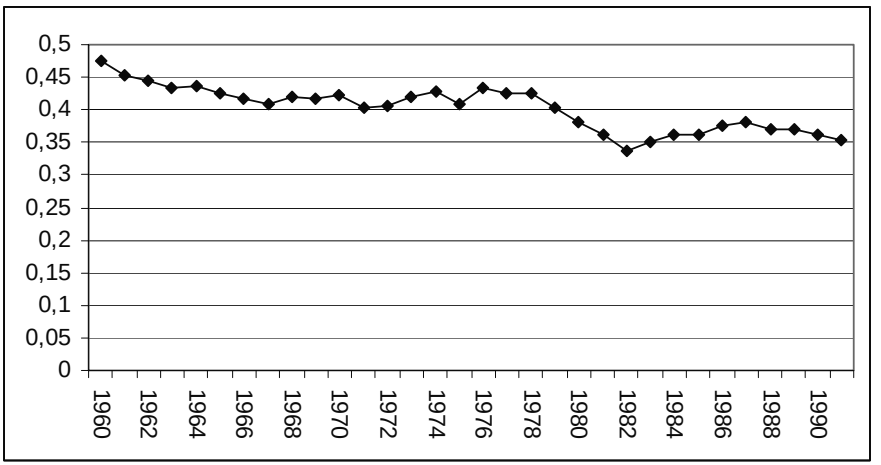

Figure 7.8 Sigma-convergence (CV): economic growth 1960–1991 (EU15) – (AMECO-data)

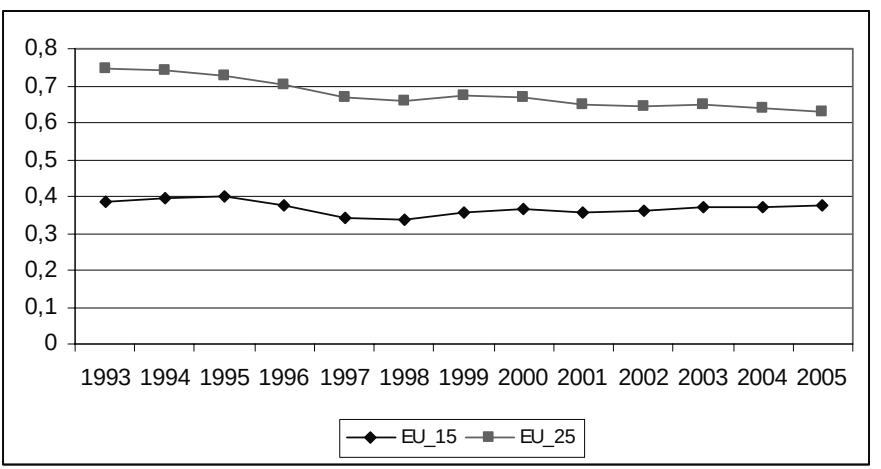

Figure 7.9 Sigma-convergence (CV): economic growth 1993–2005 (EU15 and EU25) – (AMECO-data)

Evidently, economic interaction across Europe helps especially the poorest countries in lifting their GDP. After a certain level of GDP has been reached, the convergence trend is no longer equally strong, meaning that economic growth need not equalize completely. Considerable growth rates may also occur with a few mature economies.

Trade: Intra Trade Openness

Country affluence is closely linked with trade, as most rich countries have open economies. When a country is characterized by a sustained process of economic growth, then the country will experience an increase in exports and imports. The index on economic openness (imports + exports/GDP) taps the connectedness of a country with other countries, the world economy as well as its neighbourhood club of countries.

The purpose of the EC and the EU has been to promote economic expansion first and foremost through facilitating trade. Thus, the most fundamental measures of the club include the removal of tariffs and quotas. To enhance free and fair trade the club has moved on from trade policy to consider all kinds of hindrances to trade, such as country technical regulations and social dumping practices like the lack of environmental protection. Even the introduction of the single currency can be motivated at least partly from a trade enhancement argument. Now, what are the real outcomes?

I will enquire into the growth of openness in the EU land from 1960 and onwards. The key question is whether country openness has increased as a result of the creation and consolidation of the EC or EU club. We will look at two measures of openness: total openness and intra EC or EU openness. The difference between the two measures is that the latter only takes into account the trade between club members. Surely, then, the EC – 15 members – and the EU – 25 members – have paved the way for an increase in economic openness? Let me first look at total trade, i.e. trade of EC or EU member states with anyone in the world economy.

Figure 7.10 presents the growth in openness for the 15 EC countries between 1960 and 1990 in relation to the degree of openness of these economies in 1960. When the EC was initiated, the general degree of openness was low, higher for the core of the EC and much less for most of the members that entered in the 1970s or 1980s.

However, all EC member states have experienced a rise in openness. This increase in openness is especially strong for the inclusion of the backward Southern economies: Spain, Portugal and Greece. Table 7.13 presents the overall picture for the 25 EU members, where openness in 1993 has doubled compared with 1960. Again, it is the new member states that have experienced the largest increase in openness between 1993–2005, i.e. Eastern Europe – see Figure 7.11.

These two figures give strong evidence of economic expansion driven by trade, displayed in an ever-increasing openness of the economy. The next two figures

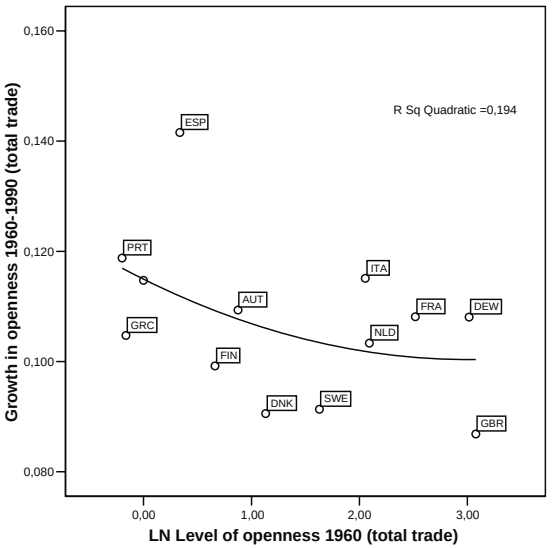

Figure 7.10 EU15: growth in openness 1960–1990 versus level of openness 1960 (total import and export)

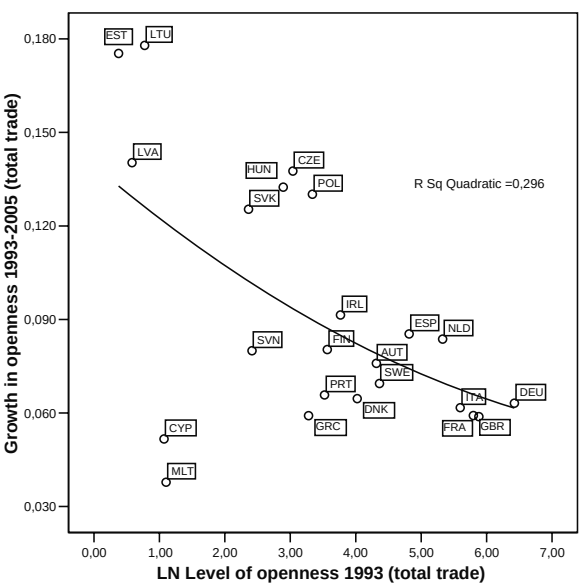

Figure 7.11 EU25: growth in openness 1993–2005 versus level of openness 1993 (total import and export)

add convergence to this picture of expansion, as it deals only with trade among member states of the EC or the EU – intra trade.

In a club of states economic integration will show up as the growth of intra trade imports and exports. If the increase in trade among member states in the club is pronounced, then the openness scores of these economies will increase. Figure 7.12 shows the situation for the EC club of states, where intra trade openness is lower than total openness.

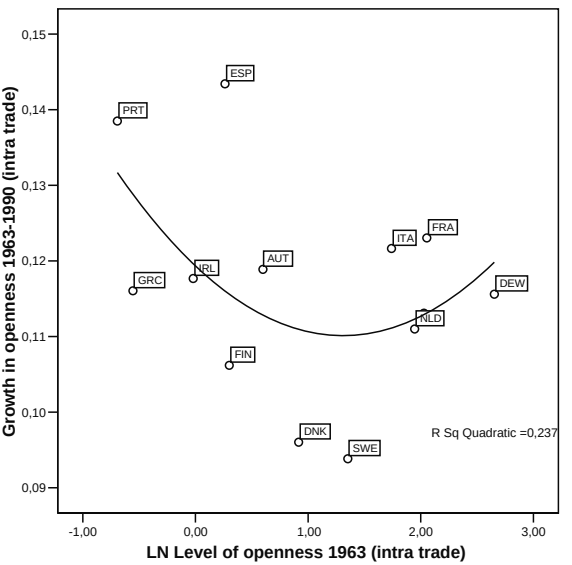

Figure 7.12 EU15: growth in openness 1963–1990 versus level of openness 1960 (intra trade import and export)

Intra trade has been fostered by the creation of the EC. It is not only the new Mediterranean member states that have sharp rises in openness for their economies between 1963 and 1990. Also the core members like France and Italy have experienced expansion in their trade with other EC member states. After a prolonged process of trade expansion, the overall score on economic openness will jump, as Figure 7.13 shows. In 1999, openness for some EU member states has more than doubled since 1963.

Again, it is the new member states that benefit the most from intra trade expansion. In the EU intra trade is very high in relation to total trade. And the economic integration works itself out also in trade, as it is the newly entrant members that experience the quickest rise in intra trade openness.

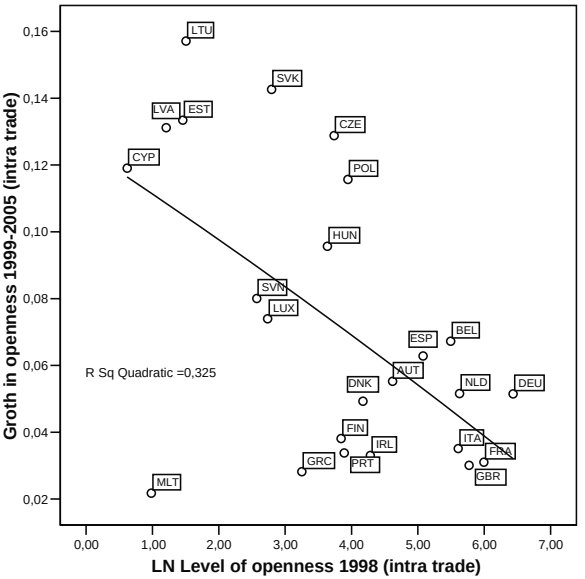

Figure 7.13 EU25: growth in openness 1999–2005 versus level of openness 1999 (intra trade import and export)

Quality of Life

The equalization of national income in the EU zone is most powerful evidence in favour of the regionalization of the state. Regional clubs of states may accomplish both higher levels of affluence and lesser differences in country affluence by setting up and running regional coordination mechanisms. If it is true that law determines the size of the market, then creating legal integration in a region may offset a powerful expansion of the GDP in the member states. According to convergence theory, such an economic expansion will reduce the differences in national income. What, then, would that mean to the average citizen or person living in the EU zone? Let us examine an indicator upon the quality of life – the Human Development Index. Figure 7.14 and Figure 7.15 present a first view on the development of quality of life for the smaller EU club as well as the larger EU club.

There is a pronounced trend towards equalization of the quality of life among EU member states when data about the smaller club is examined. For the larger EU club the pattern is not at all that of simple convergence, as the convex curve in Figure 7.17 indicates.

It seems to be the case that a major equalization in quality of life condition has not yet occurred in the larger EU club. Perhaps the simple reason is that the process of economic integration has still to work itself out fully for the poorest nations in EU zone? It takes time for growing affluence to trickle down to the

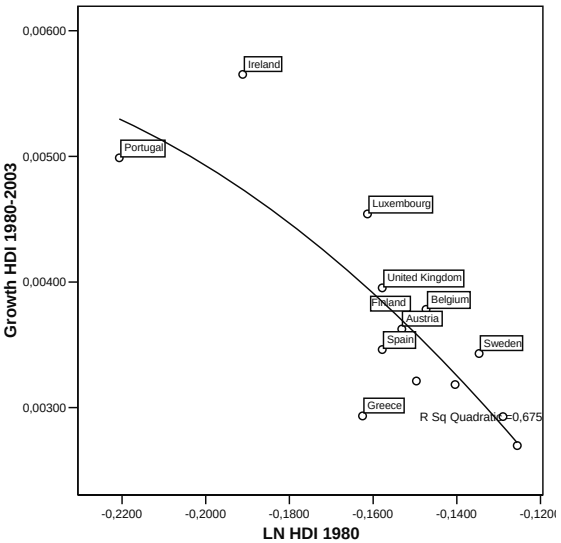

Figure 7.14 Beta-convergence: HDI growth 1980–2003 (EU15)

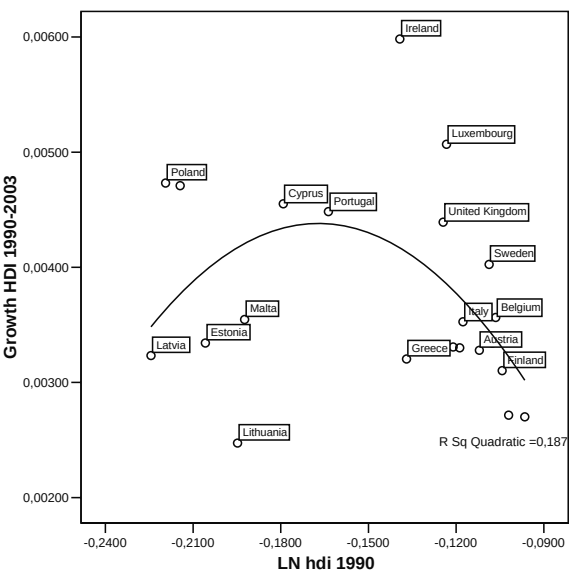

Figure 7.15 Beta-convergence: HDI growth 1990–2003 (EU25)

ordinary citizen in the form of not only higher purchasing power but also a better standard of life, as measured by education, health and life expectancy.

Let us verify this picture concerning the HDI data by looking at Sigma convergence. Figure 7.16 has the data. One may establish that the differences in quality of life first increased in the larger EU club but then decreased considerably. In the smaller EU club there has occurred a clear convergence in the quality of life.

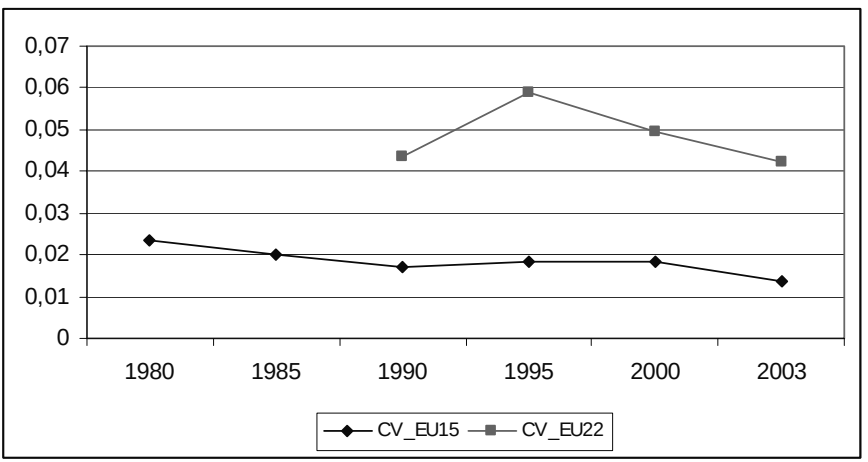

Figure 7.16 Sigma-convergence (CV): HDI 1980–2003: CV for EU15 and EU25

Conclusion

One may describe economic integration in various ways looking at trade, foreign investments, real or financial economic integration, etc. One basic aspect is whether there is a *CATCH UP* process taking place as the economies of a club expand. Growth theory entails that economies mature over time, which involves the possibility that poorer countries may shrink the gap in relation to richer countries. The CATCH UP process will though be strengthened when there is a club of states that set up a regime (institutions or law) in order to promote trade, FDIs and migration. This framework for analyzing GDP and GDP growth has been employed by e.g. Barro and Sala-i-Martin.[9]

Catch up implies that when countries with huge differences in economic affluence start interacting, then the mature economies will grow slower than the developing economies. This equalization force is valid for the EU countries, first and foremost for the narrow club of EU15 but also for the larger club of EU25, though not as sharply. Moreover, the different levels in quality of life also display a trend towards equalization.

Membership in the EU club works like a giant stimulus to rapid economic development by integration through institutions, trade and investment. Table 7.3 brings out that the most dynamic countries, economically speaking, in the EU are the late comers and EU membership matters in addition to the Solow general maturing effect or the quickness with which trade can be expanded.

Table 7.3 Economic growth 1993–2005 and level of GDP, trade in 1993 and year of joining EU (ln)

Independent variables	Coefficients	t-stat	Coefficients	t-stat
LN GDP 1993	–.034	–6.28	–0.034	–6.72
LN trade 1993	–.001	–0.221	–0.005	–1.31
LN Year Join EU	–	–	–1.056	–1.81
Constant	0.135	16.91	8.169	1.84
RSQ adjusted	0.833		0.850	

The convergence effect, as evidenced here, goes a long way towards explaining the compactness of the EU regional project, compared with all other regional agreements in the world. If the EU project really equalizes affluence while at the same all the economies grow, then it offers a superior model for regionalization, compared with the NAFTA approach or the ASEAN framework.

Real economic convergence gives no doubt coherence to the EU project, increasing the compactness of the group. No other regional organization can show evidence for the same outcome: economic growth and increased equality among member states. I suggest that more of openness in trade has been a major factor behind this success, but certainly also the large-scale redistribution through the social funds of EU has contributed to the outcome.

Could the EU project be replicated elsewhere? It is true that a few of the regional organizations say they wish to have a compact economic community with possibly a monetary union, like the GCC, the ASEAN and the Mercosur. But realities do not match such ambitions.

Notes

1 On Balassa, see (1989), *American Economist*, Vol. 33, No. 1: 16–23.

2 B.A. Balassa(1982), *The Theory of Economic Integration*, Westport, CT: Greenwood Press.

3 On regionalism, see e.g. C.F. Bergsten (1997), 'Open Regionalism', *The World Economy*, Vol. 20, No 7: 865–888; G.A. Calvo, M. Obstfeld and R. Dornbusch (eds) (2004), *Money, Capital Mobility, and Trade: Essays in Honor of Robert A. Mundell*, Boston: MIT Press; T. Sandler and J. Tschirhart (1980), 'The Economic Theory of Clubs: An Evaluative Survey', *Journal of Economic Literature*, Vol. 18, No. 4: 1481–1521; R. Cornes and T. Sandler (1996), *Theory of Externalities, Public Goods, and Club Goods*, Cambridge: Cambridge University Press.

4 K.O. Hall (2003), *Re-Inventing CARICOM. The Road to a New Integration*, Kingston: Ian Randle; K. Hall and D. Benn (2005), *Caribbean Imperatives. Regional Governance and Integrated Development*, Kingston: Ian Randle; V. Bulmer-Thomas (2001), *Regional Integration in Latin America and the Caribbean: The Political Economy of Open Regionalism*, London: University of London; M. Beeson (2006), *Regionalism and Globalization in East Asia: Politics, Security and Economic Development*, Basingstoke: Palgrave Macmillan; B. Hettne (2005), 'Regionalism and World Order', in Farrell et al.: 269–286; M. Farrell, B. Hettne and L. van Langenhove (eds) (2005), *Global Politics of Regionalism*, London: Pluto Press; U. Fasano (2003), *Monetary Union Among Member Countries of the Gulf Cooperation Council*, Washington, DC: International Monetary Fund; W.A. Fawole and C. Ukeje (eds) (2006), *The Crisis of the State and Regionalism in West Africa: Identity, Citizenship and Conflict*, Lagos: Council for the Development of Social Science Rese; J.E. Meade (1955), *The Theory of Customs Union*, Amsterdam: North Holland; J. Ravenhill (2002), *APEC and the Construction of Pacific Rim Regionalism*, Cambridge: Cambridge University Press; J. Viner (1950), *The Customs Union Issue*, New York: Carnegie Endowment for international Peace; E.J. Lincoln (2004), *East Asian Economic Regionalism*, Washington: Brookings.

5 See http://en.wikipedia.org/wiki/Free_trade_area, http://en.wikipedia.org/wiki/Trade_blocks, http://en.wikipedia.org/wiki/Single_market, http://en.wikipedia.org/wiki/Economic_and_monetary_union.

6 Rule of law = Freedom House scores of freedom transformed into one score where 10 = Freedom and 1 = No freedom (Freedom House 2005); Market Economy = Fraser Institute index of economic freedom (Gwartney and Lawson, 2005).

7 On economic convergence, see: Robert J. Barro (1999), *Determinants of Economic Growth: A Cross-country Empirical Study*, Cambridge, MA: MIT Press; Robert J. Barro and Xavier Sala-i-Martin (2004), *Economic Growth*, Cambridge, MA: MIT Press; G.E. Boyle and T.G. McCarthy (1999), 'Simple Measures of Convergence in Per Capita GDP: A Note on Some Further International Evidence', *Applied Economic Letters*, Vol. 6: 343–347; G.E. Boyle and T.G. McCarthy (1997), 'A Simple Measure of β-convergence', *Oxford Bulletin of Economics and Statistics*, Vol. 59: 257–264; Carl-Johan Dalgaard and Jacob Vastrup (2001), 'On the Measurement of σ-convergence', *Economic Letters*, Vol. 70: 283–287; Freedom House (2005), *Freedom in the World 2005: Civil Liberties and Political Rights*, New York: Rowman & Littlefield, data available at: http://www.freedomhouse.org; James Gwartney and Robert Lawson (2005), *Economic Freedom of the World: 2005 Annual Report*, Vancouver: Fraser Institute, data available at http://www.freetheworld.com/download.html; Stephan Heichel, Jessica Pape and Thomas Sommerer (2005), 'Is There Convergence in convergence Research? An Overview of Empirical Studies on Policy Convergence', *Journal of European Public Policy*, Vol. 12: 817–840; Heritage Foundation: *2006 Index of Economic Freedom*, Washington, DC; Nazrul Islam (2003), 'What Have we Learnt from the Convergence Debate?', *Journal of Economic Surveys*, Vol. 17: 309–362; Damien Neven and Claudine Gouyette (1995), 'Regional Convergence in the European Community', *Journal of Common Market Studies*, Vol. 33: 47–65; Joakim Persson (1997), 'Convergence across the Swedish Counties, 1911–1993', *European Economic Review*, Vol. 41: 1835–1852; Saso Polanec (2004), 'Convergence at Last? Evidence from Transition Countries', *Eastern European Economics*, Vol. 42: 55–80; Xavier Sala-i-Martin (1996), 'The Classical Approach to Convergence Analysis', *The Economic Journal*, Vol. 106: 1019–1036; Robert M. Solow (2000), *Growth Theory: An Exposition*, New York: Oxford University Press.

8 AMECO Database (Annual macro-economic database); available at: http://ec.europa.eu/economy_finance/indicators/annual_macro_economic_database/ameco_en.htm; HDR Database (Human Development Report 2005); available at: http://hdr.undp.org/statistics/data/; IMF Database (World Economic Outlook Database); available at: http://www.imf.org/external/pubs/ft/weo/2006/01/data/index.htm; PWT Database (Penn World Tables version 6.1); available at: http://pwt.econ.upenn.edu/php_site/pwt_index.php.

9 On the catch up hypothesis, see: M. Abramovitz (1986), 'Catching up, Forging Ahead, and Falling Behind', *Journal of Economic History*, Vol. XLVI/2; W. Baumol, 'Productivity Growth, Convergence and Welfare: What the Long-Run Data Show', *The American Economic Review*, Vol. 76; R. Barro (1991), 'Economic Growth in a Cross Section of Countries', *The Quarterly Journal of Economics*, Vol. 106; A. Boltho and G. Holtham (1992), 'The Assessment. New Approaches to Economic Growth', *Oxford Review of Economic Policy*, Vol. 8, No. 4; E. Denison (1967), *Why Growth Rates Differ: Postwar Experience in Nine Western Countries*, Washnigton, DC: Brookings;N. Gemmel (1996), 'Evaluating the Impacts of Human Capital Stocks and Accumulation on Economic Growth: Some New Evidence', *Oxford Bulletin of Economics and Statistics*, Vol. 58, No. 1; B. Heither (1993), 'Convergence, the Tax-State and Economic Dynamics', *Review of World Economics*, Vol. 29; R. Nelson and E. Phelps (1996), 'Investment in Humans, Technological Diffusion, and Economic Growth', *American Economic Review*, Vol. 56; *World Economic Outlook*, 'The Postwar Economic Achievement', 1994;J. Zagardo (1991), 'Worlwide Convergence of Productivity Levels: Recent Empirical Evidence', *Business Economics*, Vol. 26.

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Chapter 8

Global Rule of Law? Kelsen was Contradictory about the Nature of Public International Law

Introduction

Today there is intense debate about global governance and its possible contribution towards the general goals of humanity: peace, prosperity and ecological balance. If global governance could be made workable, then it may take on various challenges, such as for instance the energy-environment conundrum, the spread of nuclear weapons technology and plutonium as well as the poverty-instability problematic among the least affluent 49 or 50 countries of the world.

Yet, global governance stumbles onto a few major difficulties. Firstly, how are decisions on policy to be made, given the existence of some 200 independent states? The governments of the countries of the world may come together in international or regional organization. They may be supplemented by non-governmental organization, or an international civil society. But states will guard their sovereignty, which entails that decision-making must be consensual, meaning hard to arrive at.

Secondly, whatever decisions international organizations may come to at the end of the day, they are not automatically enforced. On the contrary, the governments of states may neglect them as they find their national interests at peril. Conflicts among states could be handed over to the World Court, but this requires that the parties to the conflict accept to do so. What, then, is the prospect for an international legal order, delivering a body of rules that could guide mankind towards the said objectives of humanity?

In this chapter I will discuss the problematic of public international law in a world populated by Hobbesian states, with governments safeguarding so-called national interests. As a reference point, I will use Kelsen's theory of law, whose contradictions well illustrate the difficulty inherent in a global rule of law system.

Kelsen and the Twentieth Century

In 1971, the Austrian government founded the Hans Kelsen Institute in Vienna to celebrate his 90th birthday. It houses his original writings and maintains this

cultural heritage. The Institute, for instance, produced the first edition of *General Theory of Norms* in 1979. Kelsen was no doubt a giant in jurisprudence, where his publications discussed all the major themes in politics and law of the twentieth century. Not only his scientific activity but also his entire life reflected major events in this century that experienced such a huge hiatus between power, law and morals. The question that I will raise here concerns a minor aspect of his jurisprudence, namely whether his general theory of law is in agreement with his special theory of democracy on the one hand and his special theory of public international law on the other hand. Whereas his writings on domestic affairs as well as his writing on international affairs strongly supported rule of law conceptions, his philosophy of law, expounded in his *Pure Theory of Law* and *General Theory of Law and State* (various editions), rejected completely rule of law conceptions as well as their implications. How come?

His Life

Hans Kelsen was not only a very great jurist; he was a man of exceptional personal qualities who overcame many obstacles and setbacks in an eventful life rich in change and challenge. Kelsen was born in Prague 1881. At the age of three, his family, of German-speaking, Jewish and middle-class origins, moved to Vienna, where Kelsen pursued his academic studies. In 1906 he was awarded a doctorate in law. Although Kelsen was resolutely agnostic, he converted to Catholicism in 1905 in an attempt to avoid integration problems and ensure that his ambition to lecture at a university would not be jeopardized by his Jewish background. In 1911 Kelsen qualified as a teacher in public law and philosophy of law at the University of Vienna with his first major work, *Hauptprobleme der Staatsrechtslehre*.

During World War I, Kelsen acted as adviser to various ministers. In 1918 he became associate professor of law at the University of Vienna and in 1919 he was made full professor of public and administrative law. The next ten years constituted a highly rewarding and stimulating period of teaching and research. Many of his students became important legal theorists, including Merkl, Verdross, Kaufmann, Sander, Voegelin, Ross, Eisenmann, Legaz y Lacambra and Weyr, forming the cultural movement '*Wiener Schule*'. Politically, he continued to remain neutral, choosing not to become involved with any special political party, although it is considered by many that he sympathized with the Social Democrats.

The year 1919 he was entrusted with the task of drafting of the new Austrian Constitution. Adopted in 1920, this document has remained unchanged in its fundamental principles right throughout this century. Kelsen gave primary importance to one particular aspect of the new Constitution, namely the legal review with the Constitutional Court. In 1921 Kelsen was appointed member of the Austrian Constitutional Court. He was, however, dismissed from the Court in 1930 for political reasons. Despite the fact that Austria's administrative authorities permitted remarriage in Catholic Austria, the lower courts considered these dispensations invalid. Led by Kelsen, the Constitutional Court overturned these rulings, but in the final score the Christian Social Party won the case. The severe political attacks on Kelsen made him move to Cologne, where he

taught international law at the university, focusing in particular on a new area – positive international law. In 1931 he published *Who should be the guardian of the constitution?* – a reply to Carl Schmitt. He also delivered two lectures for the World Court in The Hague, the first in 1926 and the second in 1932.

As the Nazis seized power in 1933, the situation at the University of Cologne meant that Kelsen was simply removed. Together with his wife and two daughters, he left for Geneva in autumn 1933 to start at the Institut Universitaire des Hautes Etudes International. Concentrating largely on international law, Kelsen wrote on themes like the transformation of international law into state law, the revision of the Covenant of the League of Nations and customary law. In 1934 his *magnum opus Reine Rechtslehre* appeared which will be commented upon below. Convinced that Switzerland would be involved in World War II, Kelsen left in 1940 for the United States. Sixty years of age, with a poor knowledge of English, with no certainty regarding his future, Kelsen embarked on a new career.

In 1940–1942, Kelsen delivered at Harvard Law School the renowned Oliver Wendell Holmes Lectures, published in 1942 as *Law and Peace in International Relations*. In 1942, with the support of jurist Roscoe Pound, who considered Kelsen to be one of the leading jurists worldwide, he became visiting professor at the University of California, Berkeley, in the Department of political science. For the period 1945–1952 he was full professor, becoming an American citizen. At Berkeley Kelsen found a calm environment conducive to productive activities, largely focused on his teaching in international law. He published prolifically during this period, including *Peace through Law* (1944) and the *General Theory of Law and State* (1945). In 1945 he became legal adviser to the United Nations War Crimes Commission in Washington, with the task of preparing the legal and technical aspects of the Nuremberg trial. Kelsen devoted considerable attention to issues relating to the maintenance of peace and international cooperation, especially in relation to the Charter of the United Nations. He wrote several studies on the Security Council, examining questions of membership, organization and the legal status in general, sanctions and the functions of the Organization. This research culminated in the publication of *The Law of the United Nations* in 1950. This major publication was reprinted several times until 1966. In 1952, he published his seminal work, *Principles of International Law*, a systematic study of the most important aspects of international law, including international delicts and sanctions, reprisals, the spheres of validity and the essential function of international law, creation and application of international law and national law. Kelsen died in Berkeley 1973 at the age of 92 years, leaving behind almost 400 books and articles. When publishing so prolifically, the question of consistence in the message naturally arises.

Kelsen's Pure Theory of Law

The use of the word 'pure' in relation to legal theory may be surprising, but Kelsen's basic idea about jurisprudence is that it must be purified from irrelevant concerns or unnecessary elements. This is the *epistemological thesis* that he pursues most vigorously in *Reine Rechtslehre*. It involves the rejection of the rule of law

perspective, associated with the idea of a *Rechtsstaat*. Let me quote from the last edition of this, in order to eliminate any uncertainty about his complete discard of rule of law as the basis for legal theory:

1) the basic norm '… may be just or unjust; it may or may not guarantee a relative condition of peace within the community established by it. The presupposition of the basic norm does not approve any value transcending positive law' (p. 201);
2) 'in this way the state is transformed from a bare fact of power to a legal institution justifying itself as a community governed by law (*Rechtsstaat*). To the same degree that a religious-metaphysical justification of the state becomes ineffectual, this doctrine of the state as a community governed by law must become the only possible justification of the state' (p. 285).

The ambition to purify jurisprudence from irrelevant considerations led Kelsen to discard entirely the rule of law approach to law, in German jurisprudence called *Rechtsstaat*. A theory of law cannot include the *Rechtsstaat* ideas, because also authoritarian regimes constitute law. Thus, jurisprudence must be neutral in relation to alternative political regimes. A theory of democracy may well cover the *Rechtsstaat* but jurisprudence is not democratic theory. To offer rule of law concepts as the general foundation for jurisprudence entails a confusion of morals and science – the *Is* and the *Ought*. When Kelsen is regarded as a legal positivist, then it is his insistence upon the separation between moral evaluation and scientific inquiry that is at stake. What, then, is the object of study of jurisprudence?

Kelsen's Theory of the Norm

Kelsen combines this *epistemological thesis* about the value-neutral nature of jurisprudence with an *ontological thesis* about the nature of law, i.e. the legal order. He suggests that a legal order is made up of first and foremost norms, i.e. a set of norms in a hierarchical order moving from the particular to the general.

This is not the place to enter into a lengthy discussion of Kelsen' theory of norms, which is highly contested among legal scholars and philosophers. It seems to render a preponderant importance to the enactment of written rules to the exclusion of other elements in law, such as for instance the interpretation and arbitration of judges. Somehow norms in a legal order enter an almost complete and logical system, where ambiguity and contradiction would be minimized. Moreover, Kelsen held that legal norms have both validity and efficiency as well as that these two properties are not the same. This is again a position that has led to a considerable debate, most people tending to reject the distinction between validity and efficiency.

What needs to be emphasized here is the peculiar Kelsen idea of a basic norm. In his view, only by assuming a basic norm can the validity to the entire legal order be salvaged. If each norm is to be deduced from a higher norm, then one must assume a fundamental norm that so to speak starts the entire deductive chain in law. This starting-point is the basic norm, but it is merely an assumption or fiction.

This sounds strange or even awkward from the point of view of legal positivism. What could this basic norm be and how is it related to the epistemological thesis and its sharp distinction between morals and jurisprudence?

The basic norm transfers normative validity upon the entire system of norms that make up law. Yet, it is not in itself valid, as it is a mere assumption. What could be this be? One must ask. On closer inspection, it appears that the basic norm is a high-powered moral principle. Kelsen suggests as one example the basic norm for international law – the *civitas maxima*, but he also employs other ones in his theory of the state, especially the democratic state.[1]

Can this *ontological thesis* about a moral principle being the foundation of law be reconciled with the *epistemological thesis*? I very much doubt this.

The First Contradiction: International Law

Kelsen was highly instrumental in vindicating the monist position about the nature of international law through his constant critique of the dualist position. International law has primacy over municipal law, as the latter derives its validity from the former. International law defines what a state is and thus the latter cannot come before the former. Kelsen definitely comes down on the side of the legal tradition that argues that the international community takes precedence over state sovereignty. Kelsen entirely denies the validity of the concept of state sovereignty, but these and other issues in the theory of international law will not be discussed here.

Instead we are looking for the basic norm of the entire fabric of public international law. Kelsen suggests that it is the universal norm of peace that is the starting-point of the systems of norms that make up this law. He finds this assumption not so much in Grotius's approach as in Christian Wolff's idea of *civitas maxima*. Given this basic norm, state sovereignty must bow to the need of banishing war, as the use of force among states should be governed by the international community. Kelsen wrote about issues in international law over a long period, but his basic perspective on the nature of this law did not change. Thus, he favoured a strong United Nations after World War II in order to prevent future aggressions among states.

Yet, is this jurisprudence or morals? The *civitas maxima* is not merely an assumption. It is a moral statement that is supposed not merely to discover the nature of international law but to direct its future course of development. Kelsen not merely analysed international law but set goals for its development. There is more than one way to approach public international law. Kelsen's framework is as much based upon morals as jurisprudence, but this is not allowed following his pure theory of law.

Kelsen's approach to public international law may be contrasted with that of his adversary in the political and legal debates during the interwar years, Carl Schmitt – see Table 8.1.

Development during the twentieth century have made the model of Kelsen more plausible that that of Schmitt.[2] However, the invasion of Iraq in 2003 can

Table 8.1 Two ideal-type approaches to public international law

Kelsen	Schmitt
Monism between all law	Dualism between international law and state law
International rules are law	They are recommendations
The international community prevails	State sovereignty is the basis
Peace is the ultimate objective	National strength is the goal of the state
Complete international adjudication	No international adjudication

be seen as a reminder of the fact that Kelsen's model is to a considerable extent a moral one, as realities still fail to match his model completely.

The Second Contradiction: Municipal Law

However much Kelsen stressed the primacy of international law ahead of municipal law, he still regarded the law of states as the most achieved form of a legal order. His positivist leanings led Kelsen to emphasize law as the enforcement of norms with the use or threat of sanctions – the efficiency of a legal order. International law may arrive at this positivistic stage later on when it receives efficiency. At the moment, international law is an unachieved form of law, like customs.

Kelsen maintains his epistemological and ontological theses when it comes to domestic law or municipal law. Thus, any law is law as long as it is enforced by sanctions. This entails to Kelsen that law and state are the same, since the state operates by means the laws it enforces. Be that as it may, what is to be underlined here is that Kelsen pays great attention to the democratic state, although it is merely one type among several kinds of states or legal orders. How is that to be motivated, given the argument about pure jurisprudence?

In fact, Kelsen did not have much to say about the democratic state in his works on pure jurisprudence. But he published a long list of books and articles on the mechanisms of democracy, offering profound insights into the institutions of the executive, legislature and the judiciary. Just as he professed a strong preference for peace as against state sovereignty in international relations theory, so he endorsed fully the democratic regime in constant argument with the adherents of authoritarian rule, especially German Carl Schmitt.

Kelsen develops in these polemical books and articles a profound analysis of the nature of the democratic regime. Thus, he defends on pragmatic grounds the institutions of a democratic regime: parliamentarianism, party governance, legal review and decentralization. His position may be said to be close to the idea of a Social Democratic regime, but he refrains from any employment of the ideal

of rule of law, rejecting also in these works the *Rechtsstaat*. But on which basic norm is the democratic regime to be founded?

Ambiguity of Public International Law

International law is much discussed, but its ambiguity has not been well understood. Its construction has been evolutionary rather than intentional. And it mixes the protection of mankind with the safeguard for state interests. Lately, it has also started to take into account the environment and ecological concerns.

Does international law matter, or do states regularly violate it with impunity? If international law is of no importance, then why do states devote so much energy to negotiating treaties and providing legal defences for their actions? In turn, if international law does matter, why does it reflect the interests of powerful states, why does it change so often, and why are violations of international law usually not punished? International law matters but it is less powerful and less significant than public officials, legal experts, and the media believe. International law is to a large extent a product of strong states pursuing their vital interests on the international stage. It does not always pull states towards compliance, but invite them to renege when its import is contrary to their interests, and the possibilities for what it can achieve are limited.[3]

It follows that many global problems are simply unsolvable. This has important implications for debates about the role of international law in the foreign policy of the US and other nations. International law is an instrument for advancing national policy, but one that is precarious and delicate, constantly changing in unpredictable ways based on non-legal changes in international politics. Thus, Kelsen's effort to replace international politics with international law rest on unjustified optimism about international law's past accomplishments and present capacities.[4]

Between Kelsen and Schmitt: PIL as State Interests

One may regard Kelsen's normativism and Schmitt's machevellianism as two extreme views upon the relevance of public international law (PIL) for the interaction between the governments of the world. The growth of PIL after World War II, regulating more and more aspects of international interdependencies, including increasingly the rights of non-state actors, makes it imperative to arrive at an understanding of the nature of this type of law.

J.L. Goldsmith and E. Posner (2007) have launched a theory of PIL that suggests a third solution in between Kelsen and Schmitt:

> We have argued that the best explanation for when and why states comply with international law is not that states have internalized international law, or have a habit of complying with it, or are drawn by moral pull, but simply that states act out of self-interest (p. 225).

This is a definitive anti-Kelsen position, but it also deviates from Schmitt, because Goldsmith and Posner underline cooperation and coordination as the strongest self-interests behind the emergence of customary PIT and the making of PIT. Thus, PIL is still a positive asset for the international community and not merely a hindrance in the fight against '*Feindschaft*'. Yet, the Goldsmith and Posner rational choice theory of PIL is problematic, especially when they deny that states are morally bound by the rules of PIL. They state:

> This argument's assumption, an assumption that permeates modern international law scholarship, is that states have a moral obligation to comply with international law. In this chapter, we argue that this assumption is wrong. Our claim is not that states should not follow international law, but that they have no moral obligation to do so. A state's instrumental calculus will usually counsel in favor of international law compliance, at least with respect to treaties that the state entered into self-consciously. But when the instrumental calculus suggests a departure from international law, international law imposes no moral obligation that requires contrary action (p. 185).

The proposition that Goldsmith and Posner defend, namely (NO) States have no moral obligation to follow PIL, is hardly derivable from their scientific approach, i.e. a rational choice interpretation of states as real actors. Although they underline that their theory is a 'positive' one, meaning that it deals with the IS and not the OUGHT, the proposition (NO) is clearly a normative one. Whether there exists moral obligations in a fundamental philosophical sense is, as is well-known, a very contested matter, both in ethics and in jurisprudence. But it seems extravagant to deny that the international community is bound together by normative conceptions, which are 'considered' binding by most of its government and NGO members.

Even if one fully accepts rational choice theory as the starting-point for understanding PIL, the conclusion (NO) will not follow. Institutions would tend to be forthcoming that maximize the total benefits for the choice participants, in an evolutionary application of rational choice principles to for instance problems of coordination. But if these rules could be broken at any time by anyone merely because their self-interests dictate that in a short-run perspective, then PIL would collapse, sooner rather than later.

Kelsen's whole jurisprudence was based on the Marburg school assumption that norms are valid in an absolute sense. He derived this validity, which Goldsmith and Posner deny PIL, from a mere assumption ('Als Ob'), i.e. the basic norm, which was a necessary presumption. Yet, one does not have to endorse this extreme version of normativity in order to reject (NO). It is enough to recognize that most governments of the world consider their states morally bound by PIL. Thus, PIL is a legitimate order in the sense of Max Weber, although not an entirely effective one meaning a high probability of respect or enforcement.

Conclusion

Two giants in legal thought fought out their differences both in scriptures and in life, namely Hans Kelsen and Carl Schmitt. Although Schmitt scored an easy win when the Nazis took over in Germany, Kelsen carried the final victory, as democratic Germany was restored after the disaster. These two major scholars in political and legal theory did not only fight it out in books and academic journals. They also interacted in life, Kelsen promoting Schmitt to a professorship at Cologne University and Schmitt refusing to lift one finger to help his benefactor when the catastrophe arrived. Kelsen was right about democracy offering a better regime than Schmitt's dictatorship. He was also correct about the need for international law to restrain state sovereignty, especially when a government were to accept a theory of the 'enemy' like Schmitt's.

Yet, did Kelsen offer a coherent and value-neutral analysis of international law and the democratic regime, when refusing to take into account the idea of rule of law and its implications domestically and externally? It seems that value premises were smuggled in in any case, such as the moral endorsement of *civitas maxima* for international law and the *Rechtsstaat* or parliamentary democracy for national law. These value premises are highly attractive candidates for basic norms that validate either international law or municipal law, but they do not amount to value-neutrality. Kelsen's analysis of public international law (PIL) was highly idealistic, as the events in the early twenty-first century indicate, the US-led invasion of Iraq lacking a basis in public international law.

Kelsen's legal philosophy was much influenced by his early studies of public international law (PIL). As PIL is different from national law in several aspects, Kelsen faced the difficult problem of how to reconcile these two legal systems within one theory of law. His basic approach to law – the pure theory – attempted a sharp distinction between legal norms on the one hand and moral norms on the other hand, restricting jurisprudence to the analysis of only legal norms: legal positivism. However, when he analysed these two legal systems – international law and municipal law, then he introduced strong moral norms. Thus, the PIL was interpreted with the Wolff notion of *civitas maxima* and democracy was approached by means of notions from the *Rechtsstaat*.

Underlining jurisprudence as scientific and not moral reasoning, Kelsen wanted to purify law from religious and moral elements. Yet, his idea of norms comprised the idealistic notion that a norm, whether in PIL or in a country constitution, possessed a validity in itself that is independent of its actual enforcement, or efficiency. Thus, jurisprudence is despite legal positivism a normative enterprise, namely to figure out how the system of norms that make up a legal order can be deduced from a basic norm. But from where comes the validity of this basic norm (*die Grundnorm*) that transfers legal legitimacy to all other norms in the legal system? Kelsen's hypothesis is that this basic norm behind international law or national law is merely a supposition or assumption, i.e. a fiction, or perhaps a moral assumption? If the starting point of jurisprudence, the choice of the basic norm, is such an arbitrary one, then perhaps a pure theory of law is unfeasible?

Notes

1 On Kelsen, see http://www.ejil.org/journal/Vol9/No2/art11.html. The only complete biography published was written by his former student and assistant Rudolf Aladár Métall: *Hans Kelsen, Leben und Werk* (1969). For a summary, see H. Kelsen (2005), *Pure Theory of Law*, Clark, NY: The Lawbook Exchange.

2 On the relation between Kelsen and Schmitt, see e.g. C.M. Herrera (1997), *Théorie juridique et politique chez Hans Kelsen*, Paris: Editions Kim; *Théorie générale des normer de Hans Kelsen*, Presses Universitaires de France – PUF; Édition**:** 1st edn (1 August 1996); *Hans Kelsen : Ecrits français de droit international de Charles Leben*; *Doctrine Juridique*, Paris: Presses Universitaires de France – PUF (26 September 2001).

3 R. Cooper (2004), *The Breaking of Nations*, London: Atlantic Books; R. Kagan (2003), *Of Paradise and Power: America and Europe in the New World Order*, New York: Atlantic Books, New Ed. edition; R. Keohane (2002), *Power and Governance in a Partially Globalized World*, London: Routledge; R. Keohane and J.S. Nye (2000), *International Relations Theory: Power and Interdependence*, London: Longman.

4 Jack L. Goldsmith and Eric A. Posner (2007), *The Limits of International Law*, New York: Oxford University Press..

PART 4
Fundamentalism and the Global Open Society

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Chapter 9

Epistemology for a Global Open Society: Popper and Derrida Endorsing a Critical Society

Introduction

Elements of the idea of an open society can be found within the works of several philosophers. Yet, this idea was made most specific in the twentieth century. One finds it both in so-called analytical philosophy, with Popper, and in continental philosophy, with Derrida. I will argue that the concept of an open society, or critical society is broader than that of democracy. It should be attractive also to civilizations that look upon Western democracy with sceptical reservations.

I will render a short account of the main ideas of these two philosophers in the twentieth century in order to find out how they advocated an open or critical society. Both of the philosophers examined below offered a set of systematic arguments as a foundation for an open or critical society, albeit entirely different ones. Let me show how both arrived at the same conclusion from different starting-points, one coming from analytical philosophy and the other coming from continental European philosophy.

In this chapter, I will focus upon belief. The theory of belief belongs to theoretical philosophy. Why is an open society most suitable for promoting the truthfulness of beliefs, i.e. the capacity of understanding?

Popper

Karl Popper argued that critical rationalism in politics entails *piecemeal social engineering* in an open society. For Popper, politics like philosophy begins with an effort to solve problems. Policies are improved through a process of creative conjectures and inter subjective criticism, a process that requires the development of arguments as boldly as possible. For this process to work, politics must operate within institutions based upon fundamental individual liberties. Thus, government intent on rational change allows for a plurality of views to be considered in the marketplace of ideas. Yet, the full consequences of Popper's political philosophy can only be drawn in a *global open society*, based upon the Internet and rule of law.

His Life

Popper (1902–1994) was born in the cultural centre of the western world at that time: Vienna. His parents of Jewish origin brought him up in an intellectual atmosphere. His father was a lawyer by profession, but he also took an interest in the classics and in philosophy. His mother introduced him to music and he even contemplated a music career. In 1919 he became involved in left-wing politics, joined the Association of Socialist School Students as a Marxist, although quickly disillusioned. He studied the psychoanalysis of Freud and Adler as well as listened to a lecture that Einstein gave in Vienna on relativity theory. The critical possibility in Einstein's theory impressed Popper, because Einstein's equations had implications that could falsify it.

Popper took a PhD in philosophy in 1928 and was qualified to teach mathematics and physics in secondary school in 1929. At that time, the Vienna group was the dominant philosophical group in Vienna from its inception in 1928 with Schlick, Carnap, Neurath, Kraft, Hahn and Feigl – logical positivism. The principal objective of the *Vienna Circle* was to unify the sciences and eliminate metaphysics by showing that metaphysical propositions were '*meaningless*'. Logical positivism had as its chief tool a theory of knowledge, inspired by the early Wittgenstein. Popper stayed away from the *Vienna Circle* maintaining his emphasis upon theory and facts, also when analytical philosophy developed towards language philosophy with the late Wittgenstein. Popper rejected logical positivism and its theory of meaning as verification from the very outset.[1]

In 1937 Popper started teaching at the University of Canterbury in New Zealand, where he remained during World War II. The *Anschluss* in 1938 prompted him to include social and political philosophy in his writings. In 1946 he moved to England to teach at the London School of Economics, where he became professor of logic and scientific method at the University of London in 1949. He retired in 1969.

Theory of Knowledge

To Popper, knowledge consists basically of theories and he looks upon them as always being in competition for our acceptance. Theories are the kinds of beliefs that describe the world out there – scientific realism. And Popper looks upon theories dynamically, as knowledge growing through elimination by falsification through facts. *All knowledge is provisional, conjectural and hypothetical*, from which follows the emphasis upon falsification: One can never finally prove our scientific theories, but one can provisionally confirm or conclusively refute them. The idea of falsification as more basic than verification is employed by Popper in two theories, first the demarcation hypothesis and second the concept of verisimilitude.

Demarcation The central problem in the philosophy of science is, according to Popper, that of demarcation, i.e. of distinguishing between science and what he terms 'non-science', e.g. metaphysics. The insistence on the primacy of 'pure' observation, as the initial step in the formation of theories, is misguided.

Observation is selective and theory-laden. Popper rejects the view that induction is the characteristic method of scientific investigation and inference, substituting *falsifiability* in its place. For Popper, a theory is scientific only if it is refutable by a conceivable event. Every genuine test of a scientific theory, then, is logically an attempt to refute or to falsify it, and one, genuine, counter-instance could falsify the whole theory. Every genuine scientific theory is prohibitive, as it forbids, by implication, particular events or occurrences. As such it can be tested and falsified, but never verified.[2]

Popper's theory of the growth of human knowledge proceeds from problems and attempts to solve them. The formulation of theories, if they are to explain anomalies with respect to earlier theories, must go beyond existing knowledge and requires a leap of the imagination. In a deductive procedure, conclusions are inferred from a tentative hypothesis. These conclusions are then compared with relevant statements to determine whether they falsify or corroborate the hypothesis. A theory is scientific if and only if the class of so-called basic statements relating to it can be divided into the class of all those basic statements with which it is inconsistent, or which it prohibits – this is the class of its potential falsifiers, and the class of those basic statements with which it is consistent, or which it permits, i.e. those statements which, if true, corroborate it. But what is a *basic statement* with Popper?

Comparing the new theory with existing ones allows one to determine if it constitutes an advance. If its explanatory success matches that of the existing theories and, additionally, it explains some hitherto anomalous phenomenon, or solves some hitherto unsolvable problems, it constitutes an advance. Testing a theory involves the empirical application of the conclusions derived from it. If such conclusions are shown to be true, the theory is corroborated. If the conclusion is shown to be false, then the theory is falsified.

What Popper was looking for was a criterion on the truthfulness of a theory or hypothesis. He found one plausible candidate for such a negative criterion with *falsifiability*. But it only works when the hypothesis is falsified as a matter of fact. What to do when this is not so? And can one hypothesis be falsified merely by itself without its links to other hypothesis? Popper then suggested *verisimilitude*, which would be a positive criterion. But it does not work.

Verisimilitude Popper argued in 1934 that experience cannot *determine* theory, as it shows which theories are false, not which theories are true. Popper employed Tarski's reformulation of the correspondence theory of truth. But in *Conjectures and Refutations* (1963) he framed the new concept of '*truthlikeness*' or '*verisimilitude*', besides falsifiability.[3] A theory's content is the totality of its logical consequences, to be divided into two classes: the 'truth-content' of a theory is the class of true propositions which may be derived from it, on the one hand, and the 'falsity-content' of a theory, on the other hand is the class of the theory's false consequences. A 'good' scientific theory has a higher level of verisimilitude than its rivals, but it does not entail truth. Science is interested, in Popper's view, in theories with a high informative content, because such theories possess a high predictive power and are consequently highly testable. The more *improbable* a

theory is the better it is scientifically, because the probability and informative content of a theory vary inversely – the higher the informative content of a theory the lower will be its probability. Thus, the hypotheses of special scientific interest are those with high informative content and consequentially a low probability, which nevertheless come close to the truth.

It is not possible to question every aspect of a theory at once. Popper terms the existing knowledge at any time: the '*background knowledge*'. This is *not* knowledge in the sense of being conclusively established. Nevertheless, it is clearly not possible to question both the theory and the background knowledge at the same time. But which is most basic?

Political Philosophy: 'Holism' and 'Historicism'

As one can eliminate theories, which are false, Popper underlines the importance of the critical spirit to science. Critical thinking is the very essence of rationality. Only by critical thought can we eliminate false theories. For Popper, the activity of problem solving is typical of social and political organization as it employs science. *The Open Society and Its Enemies* in two volumes from 1945 advocated the search for knowledge, the value of questioning authority, and criticism and self-criticism as tools of freedom. Popper argued that education and training should empower one to be autonomous, to be able to cope with situations and to make choices. Popper's books in political philosophy aroused much debate. Thus, e.g. Strauss and Vogelin, political philosophers deeply immersed in Plato and Hegel whom Popper attacked, vehemently opposed Popper. Yet, e.g. philosopher Gellner published several pieces on Popper's thought organizing the conference in Prague, one year after Popper's death, to celebrate the fiftieth anniversary of the publication of *The Open Society.*[4]

Popper fought what he called 'historicism' and 'holism', as he argued that such prophecies were a threat to the open society, as for instance Nazism and Soviet-style totalitarianism. Holism argues that human social groupings are greater than the sum of their members and that they may act on their human members shaping their destinies, subject to their laws of development. Historicism is the belief that history develops necessarily according to certain principles. The link between holism and historicism is that the holist believes that individuals are essentially formed by the social groupings to which they belong; while the historicist holds that we can understand such social groups only in terms of their laws of development. The historicist doctrine of the social sciences states that the social sciences should make predictions about the social and political development of man, and that the task of politics, once the key predictions have been made, is, in Marx's words, to lessen the 'birth pangs' of future social and political developments. It leads to centralized governmental control and the imposition of large-scale social planning.

Yet, since any human social grouping is no more or less than the sum of its individual members, what happens in history is the largely unplanned and unforeseeable result of the actions of such individuals. Popper holds that history does not evolve in accordance with laws, that in the absence of such laws

unconditional prediction in the social sciences is an impossibility and that there is no such thing as historical necessity. Large-scale social planning is indeed a recipe for disaster.

The open society requires that it is possible for the individual citizen to evaluate critically the consequences of the implementation of government policies, to be abandoned or modified in the light of critical scrutiny. In an open society, the rights of the individual to criticize policies will be formally safeguarded and upheld, undesirable policies would be eliminated in a manner analogous to the elimination of falsified scientific theories.

Social policy-making parallels precisely the critical testing of theories in scientific investigation. *Piecemeal social engineering* would be the central mechanism for social planning towards the achievement of specific goals at a time. One could monitor the situation to determine whether adverse unintended effects of intentional actions occur, in order to correct and readjust when this proves necessary – resilience.

The state should concern itself with the task of progressively formulating and implementing policies designed to deal with the social problems which actually confront it, with the goal of eliminating human misery and suffering to the highest possible degree. The positive task of increasing social and personal happiness, by contrast, can and should be left to individual citizens, who, unlike the state, have at least a chance of achieving this goal, but who in a free society are rarely in a position to systematically subvert the rights of others in the pursuit of idealized objectives. In an open society, piecemeal social engineering goes hand-in-hand for Popper with *negative* utilitarianism, i.e. the attempt to minimize the amount of misery, rather than, as with positive utilitarianism, to attempt to maximize the amount of happiness. Differences between people on social policy will be resolved by critical discussion and argument rather than by force.

The future evolution of human history is likely to be influenced by new knowledge. Yet, Popper holds that one cannot determine what new knowledge will be forthcoming. Although the future certainly holds new discoveries or revolutions in the growth of human knowledge, it is impossible to predict which they will be. An implication of the logic of the growth of knowledge is that it is impossible to predict the future development of human history. Human history will, at least in part, be determined by new knowledge.

The Crititique

Popper's philosophy enjoyed an early success, but later on criticism indicated that falsificationism, with all its apparent merits, might fare no better in the final analysis than verificationism. Science makes progress towards the truth through the falsification and corroboration of theories. The question of the consistency of Popper's theory of knowledge focuses upon whether its potential falsifiers are actual falsifiers. If a theory is to be genuinely testable, and thus a scientific one, it must be possible to determine whether or not the basic propositions that would, if true, falsify it, are actually true or false. To Popper, *basic statements* are open-ended hypotheses, as they have a certain causal relationship with experience, but

they are not determined by experience. Thus, they cannot be verified by experience. The idea of *basic* statements results in two difficulties:

1) Basic statements are not justifiable by our immediate experiences, but are accepted by an act, a free decision. However, this amounts to a refined form of conventionalism. It implies that it is a matter of convention whether it is accepted that a potential falsifier is an actual one. It seems difficult to reconcile this with Popper's view that science progressively moves closer to the truth, conceived of in terms of the correspondence theory of truth = reality.
2) The demarcation idea hinges on critical tests, which either conclusively falsify a theory, or give it a strong measure of corroboration. Yet, I. Lakatos for instance flatly denies that there are critical tests, in the Popperian sense, in science. Falsification of a high-level scientific theory is never brought about by an isolated observation or set of observations. Such theories are highly resistant to falsification. They are falsified, if at all, within the elaborate context of the research programmes associated with them gradually grinding to a halt, with the result that an ever-widening gap opens up between the facts to be explained, and the research programme themselves – the *Duhem-Quine thesis*.[5]

The statements required to bridge the gap between theory and basic statements – 'auxiliary hypotheses' are general rather than particular. When the prediction turns out to be false we have no way of knowing whether this is due to the falsity of the scientific law *or* the falsity of the auxiliary hypotheses. One tends to assume that it is the latter, which is why scientific laws are so highly resistant to falsification. Science makes progress towards the truth through the falsification of theories. But what is falsified: a theory, auxiliary hypotheses or basic statements?

Moreover, defects in Popper's new concept of verisimilitude were uncovered. The conditions specified by Popper in his accounts of both qualitative and quantitative verisimilitude for comparing the truth- and falsity-contents of theories can be satisfied only when the theories are *true*. In the crucially important case of false theories, however, Popper's definitions are formally defective. Popper viewed an improbable theory, which had withstood critical testing as one the truth-content of which is great relative to rival theories, while its falsity-content would be relatively low. In the case of a false theory t_2, having excess content over a rival theory false t_1, both the truth-content *and* the falsity-content of t_2 will exceed that of t_1. With respect to theories, which are false, therefore, Popper's conditions for comparing levels of verisimilitude, whether in quantitative and qualitative terms, can never be met.[6]

Legacy of Popper

Popper delivered both theoretical philosophy trying to establish how scientific theories are tested and practical philosophy stating the case for an open society. To him there was a clear connection between his theory of the growth of knowledge and his rejection of what he called 'holism' and 'historicism'. However, one need not accept the falsification approach or the ideas of historicism and holism as

the only basis for an open society. Many different arguments may be claimed in favour of the open society, Popper's theoretical and practical philosophy only being two such arguments.

Popper's epistemology has one distinctive advantage: It is not based upon a theory of language. Popper deals with hypotheses and facts, outlining how these two entities interact in an epistemology that attempts to define what is truth and growth of knowledge. His approach can be compared with that of the early or late Wittgenstein, who had considerable influence upon twentieth century philosophy.

It is often underlined that the 'early' Wittgenstein presented a philosophy entirely different from the 'late' Wittgenstein. Yet, Popper could accept neither of the two Wittgenstein. His first approach led to logical positivism, which Popper rejected. And his second approach stimulated the view upon science as a set of metaphors, analogies or allegories. The late Wittgenstein contributed no doubt to the critique of Popper, as his insistence upon language games also influenced the philosophy of science. Thus, the growth of knowledge was no longer described as a linear process towards truth, but as *Gestalt switches*, which occurred as researchers changed their approaches, i.e. languages. All theories comprise concepts which are theory laden: How can alternative theories be evaluated in terms of a common basis – protocol sentences with the early Wittgenstein, or basic statements with Popper.[7]

Yet, Popper's basic insistence that theories and facts ought to be primary and language secondary in any epistemology is, in my view, definitely correct. Adhering to objectivism, I prefer talking about social science theories as hypotheses about the external world and not merely as alternative languages. And the place of facts, or empirical data, in evaluating hypotheses is equally crucial. The tension between subjectivism and objectivism, between language games and severe tests of hypotheses was a recurrent theme in twentieth century philosophy.[8]

The falsification criterion has one advantage and one disadvantage. Positively, it provides a test on beliefs in two ways:

1) Is the belief falsifiable?
2) Has the belief actually been falsified?

Both these questions are crucial in the conduct of inquiry. Negatively, falsification is not more important or relevant than verification. The Popper idea of a fundamental asymmetry between falsification and verification is not tenable. But falsifiability is a most relevant criterion when evaluating beliefs.

Beliefs are key elements in action. Whenever human beings do something on the basis of reflection, and not merely by tradition or emotion, then beliefs guide action. This is true of both theoretical action, like research, and practical action, like economics or politics. Popper introduced a criterion on beliefs with a claim to be accepted as true, namely that they be scrutinized in an effort to falsify them. Although falsification is important when evaluating beliefs, it may be the case that the criterion of falsification does not solve a number of thorny epistemological questions in the philosophy of science. It may not be more useful

than the criterion of verification in the huge web of beliefs, where some are sometimes verified and others sometimes falsified. But, in general, beliefs would be truer in an open society aiming at falsification. Finally, it may be pointed out that Popper's conclusion about piecemeal social engineering is much in agreement with Wildavsky's notion of resilience.

Derrida

It would be entirely wrong to link up the idea of an open society with only analytical philosophy, or Anglo-Saxon thought. In Continental European philosophy in the twentieth century, one meets several major efforts at linking epistemology and the pursuit of truth with a society that is orientated towards innovation and criticism. As a matter of fact, in Continental philosophy the link between knowledge and society is more thoroughly underlined than in analytical philosophy. Analytical philosophy tends to put the emphasis upon understanding, whereas Continental philosophy underlines reason.

In both modernist and post-modernist thought, one encounters a philosophy that is both theoretical and practical. The same is true of structuralism and post-structuralism. Here, I will concentrate upon Derrida, because he has touched upon the major currents in twentieth-century European philosophy. His conclusion about a society, namely that any pretence to establish an ultimate system of thought has to be deconstructed, is quite in agreement with the idea of an open society. This conclusion may be worth more than the somewhat abstruse system Derrida built up in order to arrive at his message for the twenty-first century: *la deconstruction comme critique*.

Jacques Derrida had a strong impact on intellectual life around the world in the late twentieth century. He came into prominence in America with his critical approach of *deconstruction*, endorsed in philosophy and linguistics. Derrida's deconstructionist works are integrally related to the philosophy of postmodernism. Foucault, Baudrillard, Lyotard and Derrida share the idea that the challenge of philosophy is how to conceive of modern political or economic institutions in relation to the requirement of social justice. Derrida's deconstructionism questions the self-evident character of basic dichotomies: legitimate/illegitimate, rational/irrational, fact/fiction, or observation/imagination.

His Life

Derrida (1930–2004) grew up in El-Biar, Algeria, moving to France in 1949 to advance his secondary education. Algerian administrators expelled him from his lycée, zealous to implement the anti-Semitic quotas set by the Vichy. In 1952, Derrida was a student at the École Normale Superieure (ENS), where he studied under Foucault and Althusser. After studies at the Husserl Archive in Leuven, Belgium, Derrida became a lecturer there. Derrida taught philosophy at the Sorbonne between 1960 and 1964. From 1964 to 1984, he taught at the

École Normale Superieure. Beginning with his 1966 lecture at Johns Hopkins University, at which he presented 'Structure, Sign, and Play in the Discourse of the Human Sciences', he held a series of visiting and permanent positions, particularly in American universities. During the last decade of his life, Derrida became preoccupied with religion, arguing that religion is impossible without uncertainty. Whether conceived of as Yahweh, as the father of Jesus Christ, or as Allah, God can never be fully known or adequately represented by imperfect human beings. Derrida's later work examines themes such as: inheritance, tradition and invention.[9]

Derrida and Saussure: Post-Structuralism or Post-Modernism

Derrida appears profound, as the reading of him takes a lot of time, but his basic ideas constitute a mixture of current continental philosophies. Thus, his notion of language is inspired by Saussure's semiotics, while his conception of deconstruction draws upon Heidegger as well by Nietzsche's criticism of tradition and Rousseau's idea of autobiography. Derrida's first project is an investigation of 'the ideality of the literary object' in the late 1950s, expressing Derrida's major philosophical inspiration, namely German phenomenology. Husserl studied the possibility of ideal objects and situated them within language, given the intersubjectivity of a common world. Husserl rejected positivism as empiricism extolling facts over theories, whereas Derrida searched for the 'origins' in language, according to Saussure's holistic approach. Structuralists endorsed Saussure's ideas about the prevalence of synchrony over diachrony, the arbitrary nature of the link between signifier and signified, the conception of language as a holistic system made up of differential tokens. In this theory of the sign there are 'only differences', according to Saussure. Derrida stands at the crossroads between phenomenology and what used to be called *structuralism* in Europe during the 1960s. Structuralism dealt with the human sciences (i.e. linguistics linking up with anthropology, psychoanalysis and sociology).

In 1966, Derrida presented a paper on French structuralism, which thus became familiar to scholars in the US, particularly in the departments of French and Comparative Literature. Derrida had offered papers critical of structuralist scholarship as early as 1963. Derrida's lecture praising structuralist accomplishment delivered reservations concerning its internal limitations. Structuralism was at the stage of turning into 'post-structuralism', and the conference proceedings were published in 1970 as *The Structuralist Controversy*.

Derrida equates philosophical problems with textuality, stressing that writing is an experience that leaves a trace that can survive without the presence of its author. Writing, being more real than talking, leads to a deeper understanding of the paradoxes clustering around the notion of 'presence'. At the same time as the text tends to subvert or exceed the author's intended meaning thanks to a complex functioning of metaphors, tensions, or distortions between layers of sense, it also holds true that *deconstruction* confirms the notion that there is 'nothing outside the text'. Moreover, it involves an ethical or political questioning of boundaries. It invites a continuously plural language, as 'one must speak several languages

and produce several texts at once' (*Margins* 135). And writing implies an endless autobiographical unveiling ('Circonfession').[10]

Derrida states that deconstruction continues a dialogue involving a post-Kantian critique with implications for the politics of a different Europe – *The Other Heading*. Derrida rejected any interpretation of 'deconstruction' as destructive criticism, deploying a nihilistic critique of institutions, hierarchies and values. He stated that 'deconstruction is not negative'. The term was meant to transcend Heidegger's notions of *Abbau* and *Destruction.*

Theory of Knowledge

Knowledge to Derrida is inextricably linked with language. Thus, a theory of knowledge is by entailment a theory of language – Saussure's theory of language is basic for his epistemology. Derrida continues a line of thought, which begins with Nietzsche and Heidegger, entailing a radical repudiation of Platonism and its apparatus of philosophical dichotomies. In a passage in *The Twilight of the Idols* from 1889, Nietzsche describes 'how the "true world" became a fable', contrasting the True World of Reality with the World of Appearance, created by the senses. The characteristic expressions of this other-worldliness include the binary oppositions: true-false, original-derivative, unified-diverse, objective-subjective. What Heidegger called 'Platonism' or 'metaphysics', Derrida calls 'the metaphysics of presence'. The tradition of *binary oppositions* has invaded all areas of life and thought, including literature and its criticism, which is why the task to unravel these oppositions, including the cultural life that they structure, is vital.[11]

Derrida even invented a terminology (*trace*, *différance*, *archi-écriture*, *supplement*) to capture the ineffable, the silent, and the enduring. Yet, Derrida's terms express his admiration for the proliferating, the elusive, the allusive and the ever self-recontextualizing. Derrida freed himself from Heidegger's sentimental pastoralism and nationalism, which led the latter to Nazism. Derrida broadened Heidegger's preoccupation with method into a technique that could be applied to almost any text, past or contemporary, literary, or philosophical: '*deconstruction*'. Deconstruction is the technique by which the 'accidental' features of a text are interpreted as betraying or subverting, its purportedly 'essential' message. Derrida looked upon Heidegger's attempt to express the ineffable as merely the latest vain struggle to break out of language by finding words taking their meaning directly from the world, from non-language. This is doomed, because language is nothing but differences. Words have meaning only because of contrast-effects with other words. 'Red' means what it does only by contrast with 'blue', 'green', etc. 'Being' also means nothing except by contrast, not only with 'beings' but with 'Nature', 'God', 'Humanity'.

Deconstruction as a Method

The basic tenets in Derrida's theory of deconstruction involve the following:

1) language is the primary human activity ahead of thinking and acting;
2) language has a subtle structure comprising tensions, hidden meanings and complexity;
3) language suggests differences that get translated into or reflect advantage or domination.

Thus, Derrida's project is threefold, first vindicating a specific theory of language, then showing that language permeates everything and finally indicating how the differences in language support social hierarchy.

Derrida criticizes Western Philosophy from the pre-Socratics to Heidegger: Philosophy would like to deliver its complete system meaning the end of philosophy. Rejecting this, Derrida published three books in 1967, namely *Speech and Phenomena*, *Of Grammatology* and *Writing and Difference*, which outline the deconstructive approach to reading texts.[12] Deconstruction seeks to show that the possibility of presence within any contextual language is in constant 'play' and 'differs' continuously in relation to something else, leaving only a 'trace' of the subject/object. Derrida introduced words such as 'trace', 'presence', 'difference', 'deconstruction', 'logos' and 'play' into the lexicon of contemporary discourse. Saussure's structuralist linguistics displays a system of differences without positive terms, from which Derrida derived the implication that there is an unconceptualizable, unperceivable dimension in language making difference itself the prototype of Western metaphysical thought. Such a conception of difference is not brought into language through any concept, common sense or given identity. It is the deferral of difference – *différance. Différance* is a term Derrida coined in 1968 in response to structuralist theories of language.

Psychoanalysis was seminal for Derrida. Although Derrida is often regarded as the progenitor of deconstruction, he has insisted that the term came to him through Heidegger. Heidegger's thought is indispensable to Derrida's, but this should not be taken to mean that the two are very similar. The guiding insight of deconstruction is that every structure – be it literary, psychological, social, economic, political or religious – that organizes our experience is constituted and maintained through acts of exclusion against the differences that are typical of both language and life. Exclusive structures become repressive. Reminiscent of Freud, Derrida insists that what is repressed does not disappear but always returns to unsettle every construction. Repressive structures have grown out of the Western intellectual and cultural tradition. By overcoming patterns that exclude the differences that make up life Derrida delivers a message with political implications: Repressive structures should be undone by recognizing differences in our social systems.

The Critique of Derrida

Derrida's philosophy has stimulated a new practise of literary criticism. Yet, the deconstructive agenda also expresses the old claim of philosophy to be the first of all academic disciplines, uniting all while delineating what is proper to each. The crux of the matter is that beyond literary criticism, Derrida's work has been

controversial. Analytic philosophers have disputed his work with some going so far as to regard his work as non-philosophical or pseudo philosophy, even a few dismissing it as charlatanism. The understanding of Derrida's work has clearly suffered from the difficulty of penetrating Derrida's texts, many of which are written in a style that does not resemble conventional philosophical prose, including polylogues and parallel texts presented in varied page layouts. Some of Derrida's critics have looked upon deconstruction as resulting in a radical and dangerous relativism.

Derrida's supporters have argued that his harshest detractors do not take his work in its proper difficulty as philosophy, rather using it as a straw-man in the name of e.g. Enlightenment values. Several critiques have taken their cue from the controversy that arose with Searle over Derrida's reading of John Austin in 'Signature Event Context'. Derrida was the first to argue that Searle's criticism is written from ignorance of his work. When, in 1992, the University of Cambridge awarded an honorary doctorate to Derrida, 20 philosophers, including Quine and Marcus, protested the award, maintaining that Derrida's work did not meet common standards of clarity and rigor. Derrida's claims have been the subject of hostile criticism – also from Derrida's fellow philosophers, e.g. Habermas in Germany.[13]

Derrida's deconstruction amounts to a *reductio ad absurdum* about realism, i.e. the claim that our language is given content by the world. Derrida would be a kind of linguistic idealist: 'There is nothing outside the text'. Derrida believes that our use of language is never constrained by a non-linguistic world, as we cannot experience an object apart from its corresponding word. Is there a non-linguistic, non-semiotic, non-constructed world, which exercises constraint on what we say and how we organize, differentiate and codify? Realist philosophers think that the causal influence of the environment upon linguistic behavior supports the claim that bits of language 'corresponds' to something non-linguistic. Analytic philosophers debate whether the existence of causal relations between language and non-language suffices to give a sense to the notion of 'correspondence between language and reality' – see the work of Davidson and Kripke.[14]

Why believe that science includes 'metaphysical bonds that have borne on its definition and movement from its beginning'? The natural sciences have made possible post-metaphysical knowledge. The fact that language is a system of differences does not eliminate the distinction between presence and absence. The system of differences is precisely a system of presences and absences. Abandoning the specifically metaphysical quest for univocity through confrontation with a non-linguistic referent – what Derrida calls 'the *telos* of language' – does not entail the abandoning of the every-day distinction between relatively univocal and relatively ambiguous uses of words. Derrida claims that transparent truth and absolute values elude our grasp. It is no doubt vital to recognize the limitations and contradictions in the beliefs and norms that guide actions, keeping them open to constant questioning and continual revision. There can be no ethical action without critical reflection, but *deconstruction* entails much more than *la critique*.

Arguments and the Relevance of the *Critique*

Something cannot be true if it is not capable of being stated openly and submitted to a critique. This is the *publicity norm* with Immanuel Kant. It is more correct than many of the more intricate philosophical ideas that Kant launched. It is, so to speak, the basic norm of his entire philosophy. Governments must respect it both in internal affairs and in international matters.

People act on the basis of beliefs. And beliefs can be influenced through argument. Thus, the free flow of arguments, back and forth, is inherent in the rational process of decision-making in an open society. When a belief is sheltered, then it cannot be true. Arguing means trying to influence other people by opening up their minds to whatever facts or circumstances may change their opinion. The open flow of arguments forms the elements of a process that enhances the public good of eliminating wrong beliefs.

Argument and belief are inseparable. We justify our beliefs through argument. And arguments invalidate beliefs. Beliefs are either true or false, in principle, but how to know? Reply: through arguments and the competition between them. Even if final true knowledge about something is unattainable, all beliefs being subject to scepticism, then the battle between arguments allows us at least to come closer to the truth. The logic of argument is the dialectic process of thesis – antithesis, i.e. argument pro and argument contra. Arguments form a logical structure though which some arguments support or invalidate others. The process of argument is suggesting statements in favour of a position and challenging other statements, rebutting the position. Beliefs without argument would be pure faith, or mere accidental opinions, i.e. fads.

An argument may confer upon a belief a certain degree of validity, making the belief more probably true. Similarly, a counter-argument reduces the validity of the truth claim of a belief, making it less likely that it is true. Arguments may form whole chains of arguments pro and counter at different levels or orders. Thus, one argument may be a counter argument against a pro argument, etc. Human beliefs are subject to two kinds of errors: *Type I Error*: rejecting wrongly a belief when it is in fact true; *Type II Error*: accepting wrongly a belief when it is in fact false.

Pessimists are most inclined to commit the type I error, whereas optimists run the risk of committing the type II error. Only arguments can help us stay away from both kinds of errors. When arguments are lacking, then we are bound to make a type II error when clinging to our beliefs. When we listen to counter arguments, then we can be guided away from making the type I error. Beliefs are part of all forms of conduct. The more our beliefs are backed by sound arguments, the better we will act, all other things equal. This applies also to governments when they set up coordination schemes and cooperate in supranational bodies or intergovernmental mechanisms.

Responding to the challenges of globalization, governments will have to get access to knowledge about options and their consequences. Beliefs about e.g. energy resources and the state of the environment will shape actions at the national, regional and international levels. This action emphasis of information

is to be found especially with the philosophy of pragmatism. The adherents of pragmatist philosophy were among the precursors of the open society. Peirce (1839–1914) developed the principles of pragmatic theory as a formal doctrine. James (1842–1910) was the key figure in promoting the widespread influence of pragmatism during the 1890s and early 1900s. Dewey (1859–1952) developed the instrumentalist aspects of the doctrine linking science and education with an open society. Pragmatism holds that truth is modified as discoveries are made relative to the time, place and purpose of inquiry. And pragmatism holds that knowledge contributes to the choice of human values.[15]

Pragmatism as a philosophy claims that the truth of a proposition is measured by its practical outcomes. Thought is an instrument supporting the aims of human beings. Truth surfaces in either deductive reasoning from a priori grounds or inductive investigation in the form of empirical verification of hypotheses. Present day pragmatism offers epistemological foundations for a philosophy of the global open society. Thus, Quine (1908–2000), suggested a neo-pragmatist theory of knowledge, pointing out that the sciences constitute webs of beliefs, where outer layers support inner layers, or core beliefs. Rorty (1931–2007) argued that theories are ultimately justified by their instrumentality, i.e. the extent to which they enable people to attain their aims.

As a matter of fact, one finds elements of these notions of openness and critique in widely different philosophies, analytical as well as hermeneutical. The global open society is endorsed by any epistemology or theory of action, which underlines the following:

1) publicness: society is to be governed under maximum openness meaning that all kinds of decisions can be criticized and their motivation has to be stated explicitly (except for security reasons);
2) scientific freedom: universities and schools will be under no dogma in the pursuit of knowledge, fettered by no religion or political ideology;
3) respect for values: the state will take a neutral stance towards the diversity of values in society including religion, only endorsing the minimum set of norms that guarantee a rule of law regime.

I have examined two main philosophies of the twentieth century in order to uncover how entirely different theories of knowledge entail the very same conclusion, namely the open society.

Conclusion

I have made these two short enquiries into Popper and Derrida to show that the open society can be arrived at along entirely different roads of thought. My sympathy with regard to the two philosophers lies perhaps somewhat more with Popper, whose ambition to be clear when writing down his ideas is inversely related to the abstruseness of Derrida. Yet, both were champions of the open society, as

their philosophies, however different, ended up in the same conclusion, i.e. critical argument as the foundation of a free society.

It is fascinating to see how both came to the same conclusion from entirely different starting-points. Human understanding requires an open society where beliefs are continuously scrutinized and subjected to critique – call is falsification or deconstruction. Theoretical philosophy delivers very different systems of thought, but when it comes to enhance the truthfulness of beliefs only critique in an open society will achieve that goal. Popper and Derrida came to the very same conclusion albeit from entirely different philosophies. Whereas Popper was a modernist, expressing an unreserved belief in scientific progress based upon a model of the growth of knowledge, Derrida's postmodernism leads him towards scepticism about the pretence of theories as well as the presumption of truthfulness with scientific theories, besides a great appreciation of culture.

Postmodernism under the leadership of the French poststructuralists and the adherents of the late Wittgenstein may now have seen its best days. The complete concentration upon language or language games, so typical of postmodernism, following the conception of language as a closed holistic system, consisting of endless differences – Saussure's theory, appears too restrictive an approach in epistemology. Somehow theoretical philosophy will always be preoccupied with the eternal distinctions between subject and object, thought and reality as well as true and false. They just cannot be transcended.

A major analytical philosopher and a major continental philosopher arrived at the conclusion that only criticism can develop our beliefs. Today the task of philosophy, in my view, is to support the open society globally. Such a strategy would be the best one when mankind is facing great challenges to its survival and standard of living as *homo sapiens*. Without constantly improving understanding, the odds would be poor indeed to find proper responses to the challenges of globalization such as e.g. the ecological aspects of the global village. How could, for instance, a hydrogen economy be made feasible without new knowledge about the technology to be safely used in order to replace the petrol dependency?

Notes

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11 For some books by Derrida, see e.g (2001). *Writing and Difference*, London: Routledge; *Of Grammatology*, Baltimore, MD: Johns Hopkins University Press (1998); *Dissemination*, London: Continuum (2004); *The Other Heading: Reflections on Today's Europe*, Bloomington: Indiana University Press (1992).

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14 On Davidson, see Donald Davidson (2006), *The Essential Davidson*, Oxford: Oxford University Press. On Saul Kripke, see e.g. A. Ahmed (2007), *Saul Kripke*, London: Continuum, G.W. Fitch (2004), *Saul Kripke*, Stocksfield, UK: Acumen Publishing.

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Chapter 10

Human Values in the Global Open Society: Weber and Habermas on Respect for the Values Diversity

Introduction

In the world of knowledge, it is argument, counter-argument and criticism that promote progress. Thus, the quantity and quality of information must be highest in an open society, all other things equal. What, then, about values? Action has always two components, beliefs and values, information and goals.

Values constitute the core of practical philosophy. In an open society, people will choose their values and be responsible for the place of values in the conduct of their lives. People are bound to disagree concerning values, but the values they adhere to are theirs by choice. In an open society, there would be an insistence upon the personal aspect of values, stemming from choice.

In this chapter, I will follow two different arguments in practical philosophy that end in the same conclusion, namely that only an open society can harbour values fully, promoting individual ethical responsibility. Reason guides us when choosing actions, focusing upon how our means accomplish our goals as well as upon how the accomplishment of goals leads to a variety of outcomes. In an open society, each person will be responsible for his/her values. Rationality in action derives from deliberations about means and ends as well as from communication among persons.

Weber

A philosophy of values may focus upon how people commit themselves to the ends of action. Max Weber delivered a couple of articles where he launched the position that values, especially ultimate values, are more based upon choice than reason. Let me outline how he built up his position as well as what the consequences would be for the social sciences and society.

His Life

Weber was born in Erfurt, 1864, the eldest of seven children of Max Weber Sr and his wife Helene Fallenstein. His younger brother Alfred was also a sociologist

and economist. Weber grew up surrounded by politics, as his father was high civil servant and received prominent scholars and public figures. In 1882 Weber enrolled in the University of Heidelberg as a law student, but he also studied economics and medieval history. He served in the German army in Strasbourg. In the fall of 1884 Weber enrolled at the University of Berlin, later as a junior barrister in the Berlin courts and finally as a Dozent at the University of Berlin. In 1886 Weber passed the examination for 'Referendar', i.e. the bar examination in (American legal system). He earned his doctorate in law in 1889 with *The History of Medieval Business Organisations*. Weber completed his 'Habilitationsschrift': *The Roman Agrarian History and its Significance for Public and Private Law* in 1991.

In 1888 he joined the 'Verein für Socialpolitik', an association of German economists affiliated with the *Historical School* but interested in social problems. In 1890 the 'Verein' decided to examine 'the Polish question', meaning the influx of foreign farm workers into eastern Germany as local laborers migrated to Germany's rapidly industrializing cities. Weber wrote a large part of its results dealing with agrarian economics, failing, however, to understand the economic logic of the politically sensitive labor migration.

In 1894, Weber was appointed professor of economics at Freiburg University, before accepting the same position at the University of Heidelberg in 1897. Weber's inaugural lecture in Freiburg constitutes the low mark in his career, the aggressiveness of the talk signifying growing mental imbalances. He resigned as a professor in the fall of 1903 after a few years of mental illness.

As Weber had, however, accepted a position as associate editor of the *Archives for Social Science and Social Welfare*, he began to publish seminal papers in this journal, e.g. *The Protestant Ethic and the Spirit of Capitalism* (1904) that laid the foundations for his theory of religion and the development of economic systems. During the First World War, Weber served for a time as director of the army hospitals in Heidelberg. In 1918 Weber became a consultant to the German Armistice Commission at the Treaty of Versailles and to the commission drafting the Weimar Constitution. From 1918, Weber resumed teaching, first at the University of Vienna, then in 1919 at the University of Munich, where he headed the first German university institute of sociology. He died in 1920, with most of his books being published posthumously thanks to the efforts of his wife.[1]

Theory of Action and Scientific Objectivity

Weber wrote a couple of articles on methodology which, together with his theory of action as intentional behavior, states a coherent social science methodology, outlining elements towards a practical philosophy. He links his basic view on the nature of social action with an epistemology underlining the implications of taking social science seriously. Thus, Weber examined key issues in the epistemology of the social sciences: 'meaning of objectivity', 'value neutrality' and 'scientific vocation'. These are challenging themes for a scholar who was at the time involved in the enquiry of the economic consequences of the world religions, especially for the rise of modern capitalism. In his research, Weber never hesitated to embark on the most sensitive topics in the social sciences and he did not try to abstain

from making value judgments. But his epistemological position entailed a sharp separation between fact and value.[2]

Weber's argument may be outlined as follows: An action that is intended involves goals. The goal may be analyzed as a chain of means and ends, being linked together in a goal hierarchy. Thus, an action is a means to an end, which in turn is a means to a further end, etc. Weber separates between two kinds of rational actions, the first being orientated to a goal whatever the consequences, and the second involving a calculation about the best possible means to the achievement of a goal. His analysis of the means-end hierarchy applies to the second type of rationality, where calculation plays a major role.

If there were no goals and only means in the means-end hierarchy, then it would all come down to calculation. Thus, reason would dictate the choice of an action by offering the most effective means. However, this involves an *infinite regress*, as otherwise the means-end chain must end somehow in some *ultimate* goal. Weber singles them out as the values of action. Since these objectives come last in the means-end chain, they have to be derived by another method than calculation. Weber claims that they come not from reason but from emotion and volition.

From this distinction between means and ends, calculation and values come two ideas, which are of special interest from the point of view of an open society:

1) the individual responsibility for the choice of ultimate goals, or values;
2) the respect of the scientific analyst for the values of the people whose actions he/she is studying.

From these two principles, based upon the separation between facts and values, or reality and morals, follow the emphasis upon objectivity and its equation with value-neutrality. As a matter of fact, Weber launched a most elaborate theory about the place of values in scientific research, rendering it a most important role in guiding the conduct of inquiry. His position is far from neglecting values, as one may believe.

Let me look shortly at the debate surrounding Weber's methodology, especially his articles that were posthumously collected in his *Wissenschaftslehre*.[3] To pin down his theory of reason, facts and values one needs to separate the following questions:

1) Can reason establish the validity of values?
2) Can scientific inquiry prove the validity of values?
3) Should scientific inquiry be free of values?
4) Do values guide scientific inquiry?

Weber launched a methodology that said NO to (1) and (2) and (3) while saying YES to (4). The debate on Weber concerns his coherence in holding and propagating these various positions.

The social scientist could never eliminate the influence of values upon the analysis of facts. On the one hand, ultimate values could not be justified

'scientifically', that is through value-free analysis. On the other hand, when a value had been established, then a social scientist could conduct a value-free investigation into the most effective means of bringing about the established end. Objective comparisons among societies could be made once a particular angle or value had been established, acknowledged, and agreed upon. Ultimate values could not be evaluated objectively, but social problems could be scientifically resolved, once a perspective or value had been established.

In his infamous 'The Nation State and Economic Policy', he sets a precedent for this pattern while unveiling a justification for his perspective, as the inaugural lecture presented to him an opportunity to present the 'subjective' standpoint from which he judges economic phenomena.[4] He maintains that the examination of hard data such as economic facts was subject to the influence of a perspective determined by values. When Weber prescribes what should be done to deal with the problem on Germany's eastern frontier, his perspective is: 'the standpoint of the German people', i.e. a nationalist standpoint.

As soon as political economy offers value judgments, Weber says, 'it is tied to the particular strain of humankind (*Menschentum*) we find within our own nature. The economic policy of a German state, and, equally, the criterion of value used by a German economic theorist, can therefore only be a German policy or criterion'. The subjectivity of value-orientations could be separated from the objective evaluation of events, as values stand above the subject matter: 'The truth is that the ideals we introduce into the subject matter of our science are not peculiar to it, nor are they produced by this science itself'. For Weber, it is less important what another analyst's core values are than whether he clarifies them for the benefit of both himself and his audience. Weber criticizes those scientists who often 'unconsciously allow the starting point for our analyses and explanations of economic events to determine our judgements of these events'. The relationship for Weber between value-free analysis and value-driven moral action resurfaces in Weber's discussion of the ethics of commitment and the ethics of responsibility.

Weber held the social scientist's values to be subjective, as it was impossible to justify ultimate values scientifically. Values were derived from the metaphysical commitments within one's general outlook. Does Weber's discussion of value orientations entail ethical relativism: Value orientations are essentially subjective and conflict among them cannot be rationally resolved? Nietzsche's perspectivism implied that interpretation is necessarily mediated by perspective, making analysis unavoidably laden with biases: presuppositions and values. Weber builds on Nietzsche's perspectivism but maintains that objectivity is still possible after a particular focus has been selected. For the social sciences, value determines perspective and influences the facts chosen for analysis, but once those decisions are made, the social scientist is bound by the principle of objectivity. Value orientations determine the analyst's perspective. To Weber, there is no 'objective' scientific analysis of culture or 'social phenomena' independent of special and 'one-sided' viewpoints. Expressly or tacitly, consciously or unconsciously, facts are selected, analyzed, and organized for expository purposes. But once a political

position – a value or perspective – has been established, the scholar must respect the ideal of objectivity and follow its consequences.

Clarification of the values is a prerequisite to objective analysis of facts, always with a particular purpose or value in mind. The criterion of objectivity can be applied to social and economic theories only after a distinct value orientation has been established. When establishing a value prior to analysis, the social scientist is making decisions of basically a political nature.

The Critique of Weber

The debate on Weber's methodology has focused upon two issues.

Firstly, one may raise the question whether Weber had a basic theory of ethics in mind when he launched his epistemology of the social sciences in general and, in particular, his concepts of ethical neutrality and scientific objectivity. More specifically, one may question whether his argument about the choice of values entails some specific theory about ethics, amounting to so-called non-cognitivism. Did he reject the role of reason in moral argument?

Weber was well acquainted with Kantian epistemology and ethics, comprising a sharp separation between pure and practical reason, understanding and action. Did his position on the epistemology of the social sciences entail a break with basic Kantian notions? His theory of ultimate values would limit the capacity of reason in delivering choices among ends meaning that ultimate values are more a matter of choice or commitment than reasonable principles.

Secondly, scholars disagree about Weber's political views. He is variously described as 'radical', 'German imperialist', 'social democrat', 'left' and 'liberal'. On the one hand, it is argued that Weber before his mental break-down was a right wing nationalist, especially in his inaugural speech at Freiburg, but that after he recovered in 1904 he adopted a version of social liberalism. On the other hand, it is claimed that Weber had one and the same political outlook, liberal nationalism if not German imperialism. Mommsen suggests that Weber actually advocated plebiscitary democracy, focussed upon the popular legitimacy of a 'Fuehrer' as well as that his methodological position on values and science expressed a strong influence from the Nietzschean nihilism.[5] Admitting that it is always dangerous to read into a period an interpretation of what came after, one would be interested in finding out whether there is any evidence in Weber's own writings that supports this undemocratic interpretation of him. The best source of collection of Weber's own political views is his *Political Writings*.

Weber never developed an explicit normative political theory. Yet, Weber endorsed several values, which may be extracted from his key publications in economics, politics and the sociology of religion. As a matter of fact, Weber spread value statements all over his work. Thus, he has several so-called value premises, which influenced what he was searching for. Weber's own standpoint concerning his ultimate values is influenced by his key concern: 'the quality of human being in any given economic and social order'. Sometimes, his standpoint is nationalistic. And in yet other essays, it champions individual liberty. His most basic commitment was rationality and modernization. Weber often contributed

to the political debate in Germany, although he never claimed that he stated true values.

Weber propagated political values when publishing on issues in German politics.[6] He took three stands:

1) *Nationalism*: Weber argued that Germany had a national destiny. And he linked it with global power. His clear allegiance to the German nation did not comprise elements of radical nationalism typical of fascism. Moreover, one finds no evidence for any kind of racism or irrationalism in his political writings, although his inaugural lecture at Freiburg had an aggressive tone, partly based on an erroneous analysis of the so-called Polish question or migrant workers. Unlike Simmel, he did not express exaggerated nationalism during World War I.
2) *Parliamentary democracy*: Weber advocated both democracy and parliamentarianism for Germany, as a solution to its constitutional problem of adapting its monarchy to twentieth century political forces. It is true that he favoured the direct election of the president, according to the Weimar Constitution. But this does not constitute evidence to the effect that Weber was in favour of what is called 'Fuehrer' democracy.
3) *Market economy*: Weber rejected the possibility of a socialist economy, in e.g. Russia as a solution to the problems inherent in the large-scale provision for the economic needs of the population. As also large capitalist firms must employ the bureaucratic mode of organization, a socialist economy would result in a giant and inefficient bureaucracy.

Given these three basic tenets that may be established from Weber's political writings, it seems unwarranted to claim that Weber was a forerunner to the German disaster in the 1930s. Weber sometimes spoke with strong nationalistic ethos, but he never advocated any other political regime than parliamentary democracy. His nationalism mellowed over time, as it is his inaugural lecture on the Polish immigration that is dramatic in tone, and besides incorrect from a pure economic point of view.

Weber and Moral Diversity

Weber's theory of ultimate values runs against the so-called Scanlon principle for the conduct ethical argument but it seems in tune with ethical facts. The Scanlon principle claims that a norm is ethically correct when no one could *reasonably* reject it. The key is, of course, the reason that confers validity upon ethical norms. Who's reason? Moral facts point towards diversity of ethical opinions, between which conflict seems to make any reasonable solution impossible. I will argue that Weber's position is more illuminating when it comes to understanding ethical conflict than Scanlon's theory. Let me quote from Scanlon's *What We Owe to Each Other* (1998),[7] which offers an approach that is distinctly different from Weber's, arguing that moral or ethical principles can be shown to be 'reasonable' – a position defended by other scholars such as e.g. J. Rawls and B. Barry. Scanlon states:

> What is distinctive about my version of contractualism is that it takes the idea of justifiability to be basic in two ways: this idea provides both the normative basis of the mortality of right and wrong and the most general characterization of its content. According to contractualism, when we address to our minds to a question of right and wrong, what we are trying to decide it, first and foremost, whether certain principles are one that no one, if suitably motivated, could reasonably reject. In order to make the content of my view clearer I need to say more about the ideas of justifiability and reasonable rejection on which it rests. This is the aim of the chapter. (p. 189)

Scanlon emphasizes that 'reasonable' does not stand for rationality according to the rational choice approach and its focus upon utility maximization. The Scanlon idea:

> I have said that an act is wrong if it would be disallowed by any principle that no one could reasonable reject. (p. 189)

is closer to Kantian or universalist/deontological approaches to ethics, underlining the norms that any viable social group must come to agreement upon. It is the individual in the group who decides to accept or reject norms – contractualism although conceived as a fiction (*als ob*). Scanlon says:

> The version of contractualism that I am defining does not take this form. Its first aim is to provide a unified account of the subject matter of this part of mortality and of its normative basis. This account also has some clear substantive implications: the rational it offers for taking 'justifiability to others on grounds they could not reasonably reject' as the central idea of the mortality of obligation support definite conclusions about the grounds of reasonable rejection: it rules out certain considerations and identifies others as definitely relevant. (p. 218)

Now, what Western principles about morals and justice could not, for instance, an Islamist reject? Of course, a neofundamentalist could reject all Western principles – and they do. Scanlon's criterion only works if the emphasis is put on 'reasonable'. What, then, could not an Islamist reasonable reject among Western principles? Monogamy? Death penalty? Equality between men and women? Of course, an Islamist can reasonable reject these principles, because the Holy Koran does not support them. Reasonableness is so vague a notion that it eliminates only foolishness and contradictory principles. It cannot be employed to decide the clash over ultimate values. Scanlon writes:

> Mortality is not the only subject in which there are persistent disagreements about reasons. Disagreements about which of several competing scientific hypotheses is best supported by the available evidence, for example, often persist even among enquiries that are experts in the field. Further evidence may determine which of these hypotheses was correct, but the disagreements about reason – about which hypotheses the more limited body of evidence in fact supported – may continue, especially when the inquiries are committed to different scientific or methodological programs. Persistent disagreements about right and wrong have a similar character: they are disagreements about how complex sets of conflicting reasons should be understood and reconciled,

> and they are most likely to persist when people's differing interests and commitment lead them, in different ways, to concentrate on certain of these reasons (and on certain ways of understanding them) and to neglect others. (p. 358)

Weber argued forcefully that scientific argument and its criticism had an objectivist foundation, where claims about truth or falsity could be decided in a value-neutral way. Questions about ultimate values, or ethical principles, like the clash between Western values and those of Salafists, are not to be decided in the same way, as they involve commitment and choice.

I am convinced that questions about ultimate values, such as nationalism, libertarianism and egalitarianism, cannot be resolved on the basis of reasonable principles, as Scanlon would have it. In continental social sciences and philosophy, there is actually a long tradition that claims that ultimate values are 'subjective', which never was fully acknowledged or taken into account in Anglo-Saxon philosophy.[8]

This is not the place to enter into a long analysis of what this subjective theory of values amounts to. Suffice it to say that Weber and Kelsen propounded this standpoint in several of their major publications. A recent adherent of this position would be Posner, who has argued that moral diversity is difficult to reconcile with a rational approach to ethics. When people are in conflict about ultimate values, then who is unreasonable?

Habermas

Habermas builds a philosophy of action on the basis of insights into the social sciences. Thus, he proceeds mainly from practical philosophy, drawing little upon the natural sciences and theoretical philosophy. Habermas was well read on Kantian epistemology, but he attempted to combine Kantian notions with modernist ideas in twentieth century thought. Habermas arrives at the conclusion about an open society in an entirely different way, compared with Weber. Instead of arguing that ultimate values are beyond reason as with Weber, Habermas targets validity in ethics and social action. Thus, he presents a general theory about validity as rationality in discourse, which covers morality and values in society. Habermas has developed specific notions such as the conception of the public sphere and the concept of communication as action. But they boil down to the idea of rationality through collective action in the form of discussion and deliberation, which may guarantee validity for the norms that are to be used in a just society.

His Life

Jürgen Habermas, born 1929 is a member of the second generation of the *Frankfurt School*. From 1949 to 1954 he attended the universities of Göttingen and Bonn, receiving his doctorate in philosophy with a dissertation on F.W.J. Schelling. In the mid-1950s he oriented himself in the Marxist tradition, where

his interest in critical theory led him in 1956 to Frankfurt, as he entered the Institute for Social Research. He directed the Max Planck Institute for Research into the Living Conditions of the Scientific-Technical World from 1971. In 1983, he returned to Frankfurt as a professor in the Department of Philosophy.[9]

The Public Sphere

The Structural Transformation of the Public Sphere (1962) starts Habermas's interdisciplinary research. The concept of the public sphere goes beyond both the state, i.e. official power, and the economic structures of civil society. The 'public sphere' is the realm where opinions are exchanged between private persons unconstrained by external pressures. Its function is to mediate between society and state, as it is the arena in which people organize and formulates public opinion. The Middle Ages had no public sphere, but rather a limited sphere of representation of feudal authorities. Only in the eighteenth century, with the breakdown of religious hegemony and the rise of the middle class, did a public sphere emerge. The liberal model of the public sphere, in which private individuals and interests regulate public authority and in which property owners speak for humanity, is transformed during the nineteenth and twentieth centuries into a realm in which reasoning and formulation of public opinion rests with the entire population. The public sphere would require its own epistemology.[10]

Epistemology

The Theory of Communicative Action from 1981 develops Habermas' notion of communicative rationality along intersubjective lines. Habermas maintains that modernity must be fulfilled, affirming the Enlightenment values of emancipation and progress. Habermas' notion of modernity stems from Hegel, who posited subjectivity as the key for comprehending the modern world. The progressive neo-Hegelians, like Feuerbach and Karl Marx, continued the project of modernity in the form of social critique, whereas the young conservative faction, inspired by Nietzsche, abandoned reason favouring nihilism. Habermas posits intersubjectivity as a way to avoid the dilemmas inherent in the 'subjectivity-objectivity' conundrum. Instead of the isolated subject confronting the objective world, Habermas considers human beings in dialogue with each other. This form of collective action – the dialogue – becomes the foundation for both truth validity and emancipatory social thought. Instrumental reason may have achieved hegemony in the modern world in the form of bureaucracy and capitalism, but communicative reason transform societies into genuine democracies.

Habermas offers both a theory of language and a unified theory of validity that comprises truth in beliefs as well as morals. The concept of a man/woman as a symbol-using animal with language looks upon human beings as actors with autonomy and responsibility. It expresses the intention of universal and unconstrained consensus, according to Habermas in *Knowledge and Human Interests* (1985). Thus, the resulting 'ideal speech situation' entails a validity claim. However, it will be conducive towards validity only when certain conditions are

satisfied. The 'ideal speech situation' requires 'fair play' in dialogue. All participants should have an equal opportunity to participate: the right to assert, defend or question any factual or normative claim not constrained by status differences or 'one-sidedly binding norms'. The participants in an ideal speech situation must be motivated solely by the desire to reach a consensus about the truth of statements and the validity of norms. Thus, in an 'ideal speech situation' the participants must have *communicative competence*. Communicative competence implies communication in accordance with fundamental rules, no matter in what language or context the utterances occur.

Habermas's epistemology is impossible to understand without his emphasis upon the *discourse* that transpires in ideal speech situations. Reason among people in a group becomes the key tenet of establishing truth claims, meaning validity. When constraints on the free exchange of ideas such as differences in status, power and authority are lifted, discourse between individuals with good faith would permit them to reach a consensus about truth as well as the validity of norms. Thus, truth or validity resides within the open community deliberating upon the issues at stake. Habermas distinguishes between three kinds of discourse: theoretical, moral-practical and aesthetical. But he employs one and the same concept of validity for all truth claims in these three discourses.

Let me employ the interpretation by Finlayson in order to formulate Habermas's principle of reasonable validity slightly more precisely:

> (H) For any utterance or norm p: if p is valid, then p is amenable to rationally motivated consensus.

(H) is the outcome of Habermas' discourse theory, from the above 'pragmatic presuppositions' including that all people with the competence required is allowed to participate in the discourse with whatever he/she deems appropriate for the topic. But is (H) unproblematic in itself? If we follow the idea of moral diversity, as with Weber, can the principle (H) settle moral dissensus? People and groups have all the time different conceptions about the just, the good and the rational. Can we be sure that when there is no consensus, then there is no statement or norm that is valid?

Habermas sharpens his validity concept in relation to moral norms. Thus, he suggests (H′):

> (H′) A norm is valid if and only if the foreseeable consequences and side effects of its general observance for all could freely and jointly accept the interests and value-orientation of each individual affected.[11]

Yet, (H′) seems to result in moral truisms that would be so innocuous as not to raise any opposition with anyone. Is that moral validity? (H′) underlines consensus, whereas (H) also requires rational consensus. Perhaps consensus would be forthcoming towards a norm, if all people were reasonable, as the Scanlon criterion on validity demands? (H′) pushes the question of validity in the direction of the process of deciding whether to adopt a norm or not. Yet, if

there is no consensus, whether people are reasonable or not, then is the validity of norms impossible?

Political Philosophy: 'System' and 'Lifeworld'

Habermas complements his theory of validity in ethics with a distinction between 'lifeworld' on the one hand and 'system' on the other hand. The concept of lifeworld may be traced back to Husserl, who opposed it to the rational world of science. Thus, it stands for both spontaneity and appearance. The concept of system may be linked with Weber and his theory of the 'Entzauberung der Welt', although Habermas is hesitant to the emergence of steering systems, such as the market economy and the modern state. He favours the lifeworld as the basic source of morality and humanity.

Habermas employs his moral theory to state centre-left political recommendations. His stances on key political issues in Germany or globalization go beyond both the German right and the left. Habermas criticized the conservative nature of tradition. In order for emancipation to occur, the ability to reflect upon heritage is crucial. Habermas posits communication free from domination as the regulative principle for an open society – the so-called lifeworld. He criticises Gadamer for ignoring the place of power and hegemony in what Habermas calls 'the system'. The political implications contained in Gadamer's affirmation of 'authority', 'tradition' and 'the classical' are contrasted with Nietzsche and Foucault. They looked upon knowledge and power as being intimately linked, as for instance with Nietzsche and his notion of reason as the will to instrumental power.[12]

The concept of *Lifeworld* is almost as special with Habermas as with Heidegger, referring to what is truly natural among ordinary people, undisturbed by scepticism and scientific doubt. *Legitimation Crisis* (1971) questioned the legitimacy of the values in modern capitalist society, but Habermas did not advocate a socialist solution, rejecting dialectical materialism.

Values and Personal Responsibility

Argument helps improving beliefs. Thus, the free flow of arguments is vital in society. Yet, action consists of two components, beliefs and values. Arguments sharpen the commitment to values in several ways, but argument is not the same as commitment. Arguments strengthen or weaken beliefs. Arguments make values more or less attractive. Yet, people choose their values by commitments.

Theoretical philosophy or understanding is of equal importance as practical philosophy, harbouring a theory of the good, the beautiful and the just. A global open society must not only admit the possibility of cultural diversity but also endorse that people are free to choose the values they wish to cherish. The value-orientations of ordinary people guide them as to which actions are desirable to them. People have different goals in their lives. Beliefs help them find the means to the realization of the goals. Yet, the choice of basic objectives is based upon

commitment, or will. People can will bad values, however they cannot make wrong beliefs true.

In an open society, people will be given a large leeway in choosing their values. Liberty is typical of a global open society. Values have to be chosen under a norm of personal responsibility, as pursuing values have definitive consequences. Not all values can be allowed to be acted upon or played out in society, such as for instance when other people are threatened by racist or intolerant values. There will be competition among values, meaning that people will display different value-orientations. They will wish to protect certain values in their private sphere as well as see their values prevail in the public sphere. A society with rule of law will go a long way towards protecting private values and guarantee that there is competition between public values.

Thus, an open society provides citizens with a set of immunities, i.e. certain rights that are undisputable, such as privacy, personal integrity, *habeas corpus*, etc. This personal liberty allows people a large scope of choice about how to structure their lives, choosing for themselves the values they wish to pursue.

However, an open society will have a government that is running a public sector, common to all citizens. There will be differences in opinions about what the public sector should do, which partly stem from differences in values. An open society offers mechanisms for resolving such value conflicts in a peaceful manner, including voting, representative institutions and judicial ones.

Values will count both in the private sphere and in the public sphere. Privately, people will choose the values that will conduct their lives. They can do so within a large margin in an open society, in so far as they do not infringe upon the values of other citizens. Publicly, they will offer support for alternative values that define the common good, with a view towards having a fair chance of influencing others when it comes to the collective choice of values in the public sphere.

People are committed to their values, whether in the private or public sphere. One chooses the values that one wishes to pursue in life. Values and action are intimately connected. Reason no doubt guides a person a lot when it comes to making choices about values. Reason clarifies the consequences of alternative values as well as the coherence among them. However, given that information, the selection of values is still a choice – a commitment in Kierkegaard's sense.[13] Thus, an open society underlines the individual responsibility for the pursuit of values in alternative actions.

Diversity of Values

The task in constructing a moral theory for the emerging global society is confronted by the necessity of handling an extreme variation in opinions about the good and the bad, the just and the unjust as well as the beautiful and the ugly. When there is a lot of moral diversity, then attempts at arriving at a so-called overlapping consensus about justice will be very difficult. One should be very sceptical about the prospects for a theory of moral universalism to succeed in establishing a *thick* overlapping consensus among the civilizations of the

world. Moreover, this approach with its strong inclination to search for one set of norms that would transcend ethnic and religious diversity is starting from an implausible starting-point.

Moral universalism cannot cope with the stylized facts about ethics, namely that people and groups have not only different opinions about morals but also tend to run into conflict with each other about what justice entails. Conflict about justice is much more widespread than consensus. A theory about the global open society must accommodate the basic predicament of diversity among cultures, civilizations and communities concerning what is good and just, which e.g. R. Posner underlines in his books on law and jurisprudence.[14]

There exists no criterion with which to decide moral conflicts. One has debated at great length whether utility (benefits/costs) or reasonable principles of equity (fairness) could hand down universal moral judgements with a claim that all people must accept the norms arrived at. It is more plausible and practical to start from the Posner assumption about moral diversity or conflict and then move towards whatever mutual understanding is feasible. Countries and civilizations will have to bargain about the compromises that will be necessary when a set of common rules for cooperation and the resolution of conflicts are to be laid down in coordination among state. Procedures for arriving at mutual understanding will be more important than any general or universal criterion on justice or the good and the bad.

Conclusion

In a global open society, moral diversity will prevail. There will be an overlapping consensus about only a few universal norms of ethics, such as openness, tolerance and the need for discourse. However, a complete theory of the good and the just according to a universalist philosophy is not on the table. The conflict over values within and between societies is a basic moral fact. The likelihood of unanimity on fundamental values in the globalization process is small, if not completely excluded. Criticism of belief is to be balanced with the respect for personal values. In an open society, opinions in morals and aesthetics will always be personal ones, especially the *ultimate values*. Each individual has an inalienable right to his or her opinions in moral questions, i.e. to think them through, state them publicly and face responsibility, but never impose them upon others. Thus, one finds this emphasis upon the personal responsibility for values with Max Weber, but also with Jürgen Habermas. Weber and Habermas shared an interest in post-Kantian philosophy, but they took the Kantian foundations of ethics in entirely different directions. Yet, both underlined the free commitment to values in an open society.

Practical philosophy examines actions in order to evaluate them in terms of ethics and aesthetics. Reason investigates the moral norms and values that man and woman accepts for the conduct of their actions. In an open society, reason will be collective, resulting from the free communication of arguments for and against various values, as Habermas has underlined. Yet, reason cannot prescribe

the acceptance of ultimate values. They belong to the free will of a person, only claiming responsibility when he/she accepts them as guiding his/her actions. The position of Weber on ultimate values is, in my view, the correct one. The global open society cannot await consensus on ultimate values. Different civilizations have various ultimate values. A global open society calls for free communication and debate among the civilizations of the world, as suggested by Habermas, but there is little hope for unanimity on ultimate values.

I wish to underline the position of Posner, stated in his many books on law, economics and politics, arguing that high profile theories of morals and justice will not solve the problem of diversity of values. The process of globalization meets with a variety of evaluations, from full endorsement to complete rejection. At the end of the day, this diversity of values cannot be reduced to a common denominator in terms of a true theory of justice, as ultimate values are at stake, following the approach by Weber. Yet, the open debate between the civilizations of the world is absolutely essential, although communication may not vindicate the validity of one specific set of ultimate values.

Notes

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2 S.P. Turner and R.A. Factor (2006), *Max Weber and the Dispute Over Reason and Value*, London: Routledge; H.H. Bruun (2007), *Science, Values and Politics in Max Weber's Methodology*, Aldershot: Ashgate; J.A. Ciaffa (1988), *Max Weber and the Problems of Value-free Social Science: A Critical Examination of the 'Werturteilsstreit'*, Lewisburg, PA: Bucknell University Press.

3 C. Wright Mills and H.H. Gerth (eds) (1998), *From Max Weber: Essays in Sociology*, Routledge; M. Weber (1988), *Gesammelte Aufsätze zur Wissenschaftslehre*, UTB, Stuttgart; M. Weber (1978), *Selections in Translation*, Cambridge: Cambridge University Press; M. Weber (1949), *The Methodology of the Social Sciences*, New York: Free Press.

4 'Der Nationalstaat und die Volkswirtschaftspolitik', in M. Weber *Gesammelte Politische Schriften*, pp. 7–30, available at http://141.89.99.185:8080/uni/professuren/e06/a/a/ha/PS.pdf.

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6 M. Weber (1988), *Gesammelte Politische Schriften*, UTB, Stuttgart; M. Weber (1994), *Weber: Political Writings*, Cambridge: Cambridge University Press.

7 T.M. Scanlon (1998), *What We Owe to Eact Other*, Cambridge, MA: Belknap Press.

8 See A. Brecht (1968), *Political Theory*, Princeton, NJ: Princeton University Press and W. Kymlicka (2002), *Contemporary Political Philosophy. An Introduction*, Oxford: Oxford University Press for an analysis of the position on values among major European social scientists.

9 On Habermas, see e.g. A. Edgar (2006), *Habermas: The Key Concepts*, London: Routledge; W. Outhwaite (1996), *The Habermas Reader*, Cambridge: Polity Press; S.K. White (ed.), *The Cambridge Companion to Habermas*, Cambridge: Cambridge University Press; A. Edgar (2005), *The Philosophy of Habermas*, Stocksfield, UK: Acumen Publishing.

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11 James Gordon Finlayson (2005), *Habermas: A Very Short Introduction*, Oxford: Oxford University Press.

12 F. Nietsche (2007), *Twilight of the Idols/Antichrist/Ecce Homo: WITH Antichrist AND Ecce Homo* (Wordsworth Classics of World Literature), Ware, UK: Wordsworth Editions; Friedrich Nietzsche (2003), *The Genealogy of Morals*, Dover Publications; Michel Foucault (1991), *The Foucault Reader: An Introduction to Foucault's Thought*, Paul Rabinow (ed.), London: Penguin Books Ltd.

13 See e.g. H.V. Hong (2000), *The Essential Kierkegaard*, Princeton: Princeton University Press; Joakim Garff (2004), *Sören Kierkegaard*, Munich: Hanser, Carl GmbH + Co.

14 See e.g. R.A. Posner (1993), *The Problems of Jurisprudence*, Harvard University Press; (2002), *The Problematics of Moral and Legal Theory*, Cambridge, MA: Harvard University Press; (2005), *Law, Pragmatism and Democracy*, Delhi: Universal Law Publishing Co. Ltd. On high profile moral and legal theory, see J. Rawls (1993), *Justice et democratie*, Paris: Seuil.

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Chapter 11

The Problem of Religious Fundamentalism: Why No Spinoza in the Arab Culture Despite Averroes?

Introduction

Much of the future energy resources that are easily available – oil and natural gas – are located in the Muslim civilization. But the plain truth is that this civilization is on a different course than the other civilizations of the world. The chief problematic of the Muslim world is the relationship between the secular and the sacred, the state and religion, government and the sect – in one word: the course of modernization. How the struggle over religion is settled in the Muslim countries will affect global prospects for the economy and peace.

There is cause for pessimism about the resolution of the question of religion in several Muslim countries. The tensions over the religion of Muhammad are deep-seated and prone to violence. Thus, there is not only the split between the Sunnis and the Shi'as, but also the powerful emergence of Islamic fundamentalism with the Muslim Brotherhood.

Thus, to the uncertainties about global energy supply will be added the politics of religion in Muslim countries. There is nothing in the Koran that entails all this turmoil, as what matters in religion is the interpretation of the text. In Islam there was no one, besides Averroes, on a par with Baruch Spinoza, outlining a modernist interpretation of the Holy Scripture of Jews and Christians.

The rise of religious fundamentalism – in Islam, Hinduism, Christianity and Judaism – breaks the seminal trend towards secularization that has been characteristic of world events during the nineteenth and twentieth centuries. It does not help mankind confront the problems of the twenty-first century. On the contrary, it adds fanaticism to the basic questions of energy and environment.

The rise of religious fundamentalism posits a major challenge to the achievement of a global open society. The various forms of religious fundamentalism question not only the place of reason in ethics and aesthetics, but they also reject the notion of rationality through communication. At its extreme, religious fundamentalism denies the personal responsibility for the choice of values, rejecting tolerance and the freedom of religion. Religious fundamentalism may contain a call for the elimination of the secular sphere, reverting towards theocracy or caesaropapism.

There exist various forms of fundamentalism, from Islamic fundamentalism to Hindi nationalism over fundamentalism in Protestantism and Judaism. Without doubt, it is Islamic fundamentalism that can challenge the global open society most effectively, since Islam is the biggest single religion. Islamic fundamentalism entails a rejection of the basic principles of a global open society, namely the criticism of beliefs and the personal responsibility in the choice of values.

Religious freedom is a *sine qua non* in a global open society. This principle is not in itself a threat to Islam or the integrity of Muslim society. Most Muslim societies have different religious communities, within Islam and outside of Islam. There is nothing in *The Koran*, which excludes religious tolerance, especially in relation to the so-called People of the Book. Yet, Islamic fundamentalism requires religious homogeneity in Muslim societies: Islamization. This sets up a major tension in the global society, as the call for religious intolerance is not in agreement with the emphasis upon human rights in the international community.

Life of Spinoza

Spinoza was born at Amsterdam in 1632 and he died at The Hague in 1677. He belonged to a family of Jewish merchants of moderate means, comprising his father Michael and his mother, Michael's second wife, Hana Debora. In 1641 Michael married a third wife, Hester de Espinosa. The family probably had some connection with the little town of Espino in Spanish Galicia, and with a celebrated Marrano family there, 'Espinosa'. The Marranos were Spanish Jews compelled to conform outwardly to Christianity. Baruch made rapid progress in Hebrew and the study of the Talmud with his teachers, especially Rabbi Saul Levi Morteira. Subtle methods with the Talmud trained him in reasoning by analogy for becoming a rabbi. The moral teaching of the Haggada had a permanent influence upon his code of living. He studied Jewish writers, like Maimonides and Gersonides, and the writings of the Arabian philosopher Al-Farabi.[1]

As orthodox Jews looked upon Spinoza with suspicion, he devoted himself to Descartes overcoming scepticism to create his own system. After the death of his father in 1654, Spinoza had to teach in the private Humanistic school belonging to an ex-Jesuit and freethinker. He perfected his Latin and continued to enquire into St Augustine, the Stoics, Scholasticism, the philosophy of the Renaissance and especially Hobbes.

Spinoza frequented freethinking Christians, especially the Mennonites. In 1656 he was formally expelled from the Jewish community and soon afterwards from Amsterdam. Spinoza supported himself as a very skilful grinder of lenses, where his work commanded good prices. About 1660 he retired to the village of Rijnsburg near Leyden, which still keeps the little house in which he lived, having a fine library. While at Rijnsburg he received reports of the lectures of the professors of philosophy of Leyden, brought to him by students of the university.

Spinoza's acquaintances increased, being esteemed as a great Biblical critic and mathematician and having the reputation of possessing a fine political sense

by e.g. Jan de Witt. Huygens interested himself in Spinoza's lenses. But when Spinoza published *Tractatus Theologico-politicus*, the Church councils and synods of Holland took energetic measures against this work, which appeared anonymously in 1670. From 1670 Spinoza lived at The Hague. He declined a call to a professorship at Heidelberg but his endeavour to publish his system of ethics in 1675 failed, owing to the opposition of his enemies. Spinoza took disappointments stoically. He began a political treatise which was left unfinished at his death – the last section on democracy – he passed away peacefully in the presence of a friend physician.

Spinoza was a frugal and unselfish man. Union with God, as he conceived of the Deity, i.e. as a thinking and infinite, necessarily existing, immanent cause of all existence, and love for this Being were to him the highest of all things. His way of living could not be simpler, it was only for books that he spent relatively large sums. The virtues he praised and practiced: were control of the feelings, equability of spirit, loyalty and industry, moderation and devotion to the truth.

Spinoza combined his enquiry into the eternal problems of philosophy with an interest in issues of immediate social relevance, such as *Tractatus Politicus* (A Political Treatise). It has been stated that Spinoza in the Treatises anticipated modernity as well as democracy.[2] I would say that he dealt a decisive blow against religious fundamentalism.

Spinoza expressed his philosophy in a form patterned on Euclid's *Elements*. Thus, each of the five books of Spinoza's *Ethica Ordine Geometrico Demonstrata (Ethics)* (1677) is composed as a sequence of propositions, each of which is deduced from those that came before.[3] Spinoza's determinism implied that genuine freedom comes only with knowledge of what it is that necessitates actions. Recognizing the influence of desire, human beings should strive for the peace of mind that comes through an impartial attachment to reason. Spinoza stated '*All noble things are as difficult as they are rare*'.

The Theological Treatise: Outlining Modernity

Spinoza rejected anthropomorphic conceptions of God as both logically and theologically unsound, proposed modern historical-critical methods for biblical interpretation and defended political toleration of alternative religious practices.

According to Spinoza, the Holy Scriptures of the Old Testament are not without error and are not inspired in the strict sense. They do not teach us with certainty as to the nature of God and His characteristics, but only concerning obedience to God, piety and love. Consequently, the text of the Bible can never come into conflict with philosophy and civil law.

Spinoza believed that the basic ideas of his view of the world were to be found among the old Hebrews, in Christ and in St Paul. His conception of the original Christianity stemmed from his acquaintance with latitudinarian Christians, who emphasized the moral life, not dogma. He regarded the *Antitrinitarians* as the most genuine Christians, but he also found traces of his philosophy in the writings of

Christian mystics. Arabian and Jewish philosophy of religion and old rabbinical exegesis were Spinozas' sources as well as little-known Jewish heretics and obscure Christian writers of his own time.

His basic definition of the good: 'The highest good of the mind is knowledge of God and the highest virtue of the mind is to know God': formed the foundation of his ethics. To Spinoza, God and nature were essentially identical. Any proposition concerning the physical is, then, a proposition about the nature of God. For Spinoza the new physical sciences were, by and large, coterminous with theology. This position would be reiterated by Newton and the deists, who argued that understanding the rational workings of the universe would also mean understanding the intentions of its creator, God. Spinoza's argument for religious moderation was, however, not based on an inalienable right for human beings to choose whatever religious thought might appeal to them.

His political theory or his ideas about the state prevented such a principled endorsement of religious freedom: it is only in the State that justice and law, injustice and transgression are conceivable. The individual, in order to be able to live according to reason, must surrender his rights to the political community. He/she must obey the government in everything, even against his/her reason and conviction, unless a command contradicts universal feeling, as the murder of parents. Freedom of thinking and speaking, however, cannot be forbidden by the State. Such a prohibition would endanger the state, because it is not enforceable. Thus, Spinoza upholds only a partial freedom of conscience. On the other hand, the government has the right to supervise the external practice of religion. As a matter of fact, Spinoza endorsed state control over religion in order to avoid theocracy. Was, then, Spinoza a democratic theoretician? The reply depends upon how his political treatise is interpreted.

The Political Treatise: Anticipation of the Principal-Agent Perspective

Like Hobbes, Spinoza believed that human action was fundamentally mechanistic. Human actions resulted from two things: the external environment and internal passions. The relationship between the environment and the passions in human action was a mechanistic relationship, as all human actions could be explained in terms of laws of self-preservation: The drive that animates human beings is the effort to preserve themselves and their own autonomy in relation to external things. One area of human activity is free from the influence of the external environment and human passions, namely rational thought. The more thought is disengaged from the external world and human passion, the more abstract thought is, the more free the individual. Human freedom, for Spinoza, existed only in abstract thinking. It seems as if his determinism, i.e. his philosophical ontology, rules out the freedom of the will. Is a person free to the degree that he rationally decides what ends are in his interests?

Spinoza follows Hobbes in the derivation of government from society. Human beings pursue self-preservation, as they strive:

1) to know things by their primary or first causes;
2) to control one's passions (or to acquire virtuous habits); and
3) to live one's life in safety, security, and physical well-being.

The means of attaining the first two reside in the nature of man and the laws of human nature. Politics applies to the third classification, because the means to insure security of life or conservation of the body implies the need for a society of government. Since human beings cannot preserve themselves in isolation, they form societies by which the individual 'right' is subsumed under a 'common right'.

The state of nature or natural condition is characterized by the primacy of the individual. In the natural state, the only 'wrong' that a human being can commit is an action that results in his or her destruction or downfall. Civil society arises when men recognize the advantages of society with respect to the enhancement of their power as individuals. In a society in which all persons live by the direction of reason there will be no need for a political authority to restrict people's actions. Unfortunately, human beings do not always live under the guidance of reason. A state is necessary in order to guarantee that individuals are protected from the unrestrained forceful pursuit of self-interest on the part of other individuals. As the purpose of the state is the security of individuals, Spinoza draws the conclusion that morality is not the concern of the state. Government is devoid of normative principles. The state comes into being, because social order or peace is a necessary condition for safety, i.e. as restraining the exercise of individuals' power of self-preservation. Individuals turn to the state as a mechanism for their self-preservation, not in order to set up an agreed upon contract to safeguard natural rights and duties.

Society enforces its common right on the individual through 'dominion' by the multitude (democracy), by a select few (aristocracy), or by a single individual (monarchy). The concepts of right and wrong, justice and injustice are only established when the common right is articulated through dominion, i.e. when a ruler asserts something as right or wrong. In nature there is no right or wrong, as the only law is nature itself. Spinoza argued that democracy is the best way to balance individual and common right, since it more closely guarantees that the beliefs of the multitude will correspond with the beliefs and actions of the dominion.[4]

People desire a stable political community to provide a substantial degree of personal freedom particularly regarding freedom of religious expression. Spinoza argues that the security and stability of society is enhanced by freedom of thought. Individuals exercise their judgment by natural right and no one, including the state, has the power to command the thoughts of another person Freedom of thought may be limited only when it directly obstructs the main purpose of the state. It is permissible to express different and conflicting opinions up to the point of defiance of all law and order (i.e., sedition). It is acceptable to speak against particular state actions but not against the state's right to make and enforce laws.

Spinoza preferred democracy to monarchy as the best form of government. But his argument does not amount to an endorsement of human rights, supported

by natural law. Instead, he proceeds from the Hobbesean predicament of war of all against all to warrant a social contract that sets up government. It is true that he suggested that democratic power was the best political foundation for the realization of individual freedom, but his argument is pragmatic. Firstly, democracy distributes power with respect to public affairs as widely as possible. Second, democracy mirrors the state of nature, as it recognizes the differences among individuals. Finally, it is proper to treat all citizens as equals because the power of each, in regard to the entire state, is negligible. In reality, he anticipates a principle-agent foundation for democratic government. His main idea is that political agents (kings, nobility, presidents) are less prone to look mostly after their own interests when they are recycled constantly through the entire *demos*.

Spinoza's argument for freedom of thought is pragmatic and not principled, stating that freedom of thought and speech must be sustained. No one can control or limit another person's thoughts. He adds that it is risky for the state to attempt to exercise control over speech, as it is impossible to accomplish. In addition, Spinoza contends that freedom of speech must be allowed in order to express the natural differences among men.

Can Spinoza be regarded as the first true democratic theoretician in Western political thought? On the one hand, his political treatise rested unfinished at his death, with the crucial final section on democracy in limbo. On the other hand, he endorsed religious freedom pragmatically. Interestingly, Spinoza maintained that a threat to freedom comes from church ministers employing fear and superstitions to gain and to keep power. Religious leaders may wish to use politics as a means for resolving theological disputes or for seeking dominance. Clergy may advance claims as a means to divide government and pave the way to their own ascendancy to power. Religion is a major source of the world's problems as religious claims and doctrinal differences often intensify into religious wars. Legislation of beliefs was a major source of religious schisms. Schisms emerge from efforts of authorities to decide through law the intricacies of theological controversies. Spinoza focussed upon the danger to public stability from the existence of a diversity of religious sects and the transfer to the state of powers concerning ceremonial rites of worship, such as in religious fundamentalism.

Summing Up

Spinoza's great importance, in my view, is his vindication of the idea of double truth, that of science and that of faith, saying that the moral lesson to take from the Bible is to obey God. He interprets religion to mean the love of one's neighbor as oneself. The law of God entails only love of God and His commands. Faith does not involve the necessary acceptance of beliefs that cannot possibly be true. Religion cannot be allowed to dominate society, but inward worship of God must be exempt from the authority of the state, as inward piety belongs exclusively to the individual.

Averroes: The Missing Link in the Islamic Civilization

Today one often meets the concept of *Jahiliyyah* or *jahalia* in Islamic discourse. It means 'ignorance of divine guidance' or 'the state of ignorance of the guidance from God'. What it refers to is the condition the Arabs found themselves in pre-Islamic Arabian society, i.e. before the revelation of the Koran to the prophet. Metaphorically, it stands for any time when the Arab or Muslim world does not adhere strictly to the precepts of the Holy Scripture. The concept of *jahalia* should be contrasted with that of modernization, endorsed by Muslim philosopher Averroes**.** Medieval Islamic scholar Ibn Taymiya was the first to use the term to describe backsliding in Muslim society. In the twentieth century, Maududi wrote of it and Sayyid Qutb popularized the term in his influential *Milestones*, saying that the Muslim community has been extinct for a few centuries.[5] For an alternative to *jahalia* in present day Muslim debate, one should turn to the philosophy of Averroes.

His Life

Ibn Rushd or Averroes was a genius of encyclopaedic scope. He spent a great part of his fruitful life as a judge and as a physician. Yet, he was known in the West as *the grand commentator* on the philosophy of Aristotle, whose influence penetrated the minds of Christian Ecclesiastes in the Middle Ages, including St Thomas Aquinas. Averroes was born in Cordova, Spain in 1128 CE. Both his father and grandfather were prominent judges. His family was well known for scholarship. He studied religious law, medicine, mathematics and philosophy. Contributing to medicine, law, philosophy and religion, his historical mission is thought to have launched the notion of *double truth* in the Islamic civilization.[6]

Ibn Rushd was invited to the Movahid Court at Marrakech to help in establishing Islamic educational institutions and to help in translating, abridging and commenting works by Aristotle in 1169 CE. Ibn Rushd was appointed a judge or *Qadi* in Seville at the age of 44 when he translated and abridged Aristotle's book '*de Anima*' (Animals). Later he was transferred to Cordova, where he spent ten years as judge writing commentaries on the works of Aristotle including the *Metaphysics*. He was later called back to Marrakech to work as a physician for the Caliph there.

Ibn Rushd mastered faith and law, which qualified him for the post of Qadi, but he was also keenly interested in philosophy and logic. He tried to reconcile philosophy and religion. He was deeply interested in medicine as well, like Ibn Sina (Avicenna). That Averroes was a deeply religious man appears from the depth of his knowledge of the Qur'an and Prophetic traditions: Islam aims at true knowledge, which is knowledge of God and of His creation. Practical knowledge covers two branches: (1) jurisprudence, which deals with the material or tangible aspect of human life; (2) the spiritual sciences, which deal with matters like patience, gratitude to God, and morals.

Ibn Rushd had a profound influence on European thought, until the beginning of modern philosophy and experimental science. He wrote three commentaries

on the works of Aristotle. Ibn Rushd wrote many books on the question of theology, where he tried to use his knowledge of philosophy and logic. It is not surprising then that his works greatly influenced European religious scholarship. In medicine, Ibn Rushd has expounded on various aspects of medicine, including the diagnoses, cures and prevention of diseases. In Astronomy, he wrote a treatise on the motion of the sphere. His book on jurisprudence has been held as the best book on the Maliki School of Fiqh. His most important work was written in response to al-Ghazali's work.

Averroes argued that metaphysical truths appear under two forms: philosophy and religion, where religion is the simplified and allegorical form. These two forms of appearance are not to be thought of as contradictory, but his theory was regarded as a theory of 'double truth'. Averroes attitude was that religion was principally useful where it gave rules of ordinary people. He rejected that there had been any creation and believed that the world had no beginning. But behind everything is God, the one who brings everything into reality, the one who sustains everything. The idea of double truth has been mocked as cynicism, but its relevance appears today in a clear manner, as it is the only way to counteract the rise of salafism in the Muslim civilization.

Averroes was recognized as the *Commentator of Aristotle*, contributing thereby to the rediscovery of the Master, after centuries of near-total oblivion in Western Europe. He was thus instrumental in framing Scholasticism and influenced, in due course, the European Renaissance of the fifteenth century. He made detailed commentaries on Aristotle, with a defence of his philosophy against the attacks of those who condemned it as contrary to Islam. He also tried to construct a form of Aristotelianism, which cleansed it, as far as was possible at the time of neo-Platonic influences. Ibn Rushd was the best versed of Arab philosophers in Aristotelian philosophy after Al-Farabi (870–950). He adopted Aristotle's 'reasoning by analogy' and found it suitable for rational deduction, inference, prosecution and judgement, not only in issues of life but also in religious affairs including the realization of God and he applied rational reasoning to theology.

Ibn Rushd rejected the teachings of Al-Ghazali (1059–1111), whose ideas had been dominating the thinking of strict religious scholars for half a century. He refuted Al-Ghazali's two books 'Confutation of Philosophers' and 'The Populace's Abstinence From Scholastic Philosophy' in a book titled 'Confutation of the Confutation'. The gist of Averroes is: the Koran contains a divine order to use rationality to pursue knowledge. Any suppression of the mind, therefore, would be a clear violation of this order. It is the scholar's rational faculties that constitute his/her means of doctrinal reasoning. Therefore, the mind is the ultimate tool of knowledge, prepared as it is by God to deduce his presence and to reason in earthly matters as well. The main stance of Averroes – the possible combination of revealed truth and truth as reason – has not been developed further in Muslim thought. On the contrary, Ibn Rushd is often considered a heretic, in both Sunni fundamentalism and within twelver Shia.

Arab philosophers were often charged with infidelity and sentenced to death, prison or exile like Ibn Sina. To circumvent the court's equating philosophy with infidelity, Arab philosophers created the term 'scholastic theology' to describe

a broad sector of Islamic philosophy. Also Ibn Rushd was tried and sentenced to exile, his books to be burned. Yet, the Caliph issued an amnesty for him. Ibn Rushd stayed away from political provocations until he died in Marrakech in 1198, where he is buried.

Taymiyyah: Islamic Fundamentalism

The most general approach to Islamic fundamentalism is that of *Salafism*. Salafis idealize an uncorrupted, pure religious community know as the Salaf. The first three generations of Islam (Arabic: *Salaf*): Muhammad, his companions, and the followers of the companions from the earliest generations of Muslims, express the essential Islamic life. Their Sunnah, or practice, together with The Koran, presents an infallible guide to life, as innovations are forbidden. 'Salafism' depicts a school of thought that takes the pious ancestors (Salaf) of the patristic period of early Islam as exemplary models. Most puritanical groups in the Muslim world are Salafi in orientation. Salafism is not a sect per se but describes a simplified version of Islam, in which adherents follow a few commands and practices. Wahhabism (Saudi Arabia) is a particular orientation within Salafism, close to the Hanbali School.

Salafism is usually traced back to Ibn Taymiyyah (1263–1328). He was a Sunni scholar born in Harran, located in what is now Turkey, close to the Syrian border. As a member of the legal school of Ibn Hanbal, he sought the return of Islam to its sources: the Qur'an and the Sunnah, i.e. the prophetic tradition of Muhammad. Ibn Taymiya held that much of the Islamic scholarship of his time had declined away from the proper understanding of the Qur'an and the Prophetic example (sunna). Islamic faith must be revived by the understanding of 'true' adherence to '*Tawhid*' (oneness of God), eradicating beliefs and customs foreign to Islam, rejuvenating correct Islamic thought. Taymiya not only launched the idea *Jahaiya,* but he also suggested that *Jihad* may be employed against political leaders who did not practice the ethics of the Koran. This use of *Jihad* as *tyrannocide* with Taymiyyah was taken up by modern Islamist Faraj in his book *The Neglected Duty*.[7]

Islamic revival can only come through the purging of foreign influences from the religion on the emulation of the practice of three early generations. Particular emphasis is given to monotheism – (*tawhid*), condemning many practices as polytheism. It may be added that Salafis believe that venerating the graves of Islamic prophets and saints, as within Shi'ism to be *shirk* (polytheism). Moreover, Salafis reject scientific theology based on classical Greek philosophy (Plato and Aristotle) as an import foreign to the original practice of Islam.

Salafism differs from reform movements in the 1970s and 1980s in the Muslim civilization, by rejecting not only Western ideologies such as socialism and capitalism, but also the entire paraphernalia of the Occident: Western economics, constitutions, political parties and social justice. Muslims should refrain from Western activities like party politics or protests, even if possible to give them an Islamic slant. On the contrary, Muslims should devote themselves to Islamic

activities, particularly *dawah* (summon) and *jihad* (holy war). Salafis advocate *sharia* rather than politics. Salafis are divided on the question of adherence to the four recognized schools of traditional legal interpretation (*madh'habs*), as Salafis can follow any madh'hab: the Maliki, the Shafi, the Hanbali, or the Hanafi. There are several different salafist groups today, including Islamists, neo-fundamentalists, traditionalists, terrorists – Arabs, non-Arabs and also Western born or naturalized Muslims.

The most penetrating analysis of the diversity among Muslim fundamentalist groups is that of Olivier Roy in *Globalized Islam*.[8] He states:

> Neofundamentalism refers to an imaginary ummah, beyond ethnicity, race, language and culture, on that is no longer embedded in a specific territory. Geography is as irrelevant as history. Nowhere is there a country where state and society are ruled only by the true precepts of Islam. The failure of political Islam has also alienated many neofundamentalists from the political scene in the Middle East. (2004: 272–3)

Thus, neofundamentalism turns into a global challenge to the postmodern society, which adheres to personal autonomy in the sphere of values and scepticism about beliefs.

Jewish Fundamentalism

Orthodox Judaism is characterized by the belief in the divine origin of the Torah i.e., that the five books of Moses were literally given by God to Moses. Orthodox rabbis tend to describe the Torah as being one long quote from God himself. Streams of Judaism aside from Karaism believe that the Old Testament cannot be understood literally or alone, but rather must be read in conjunction with additional material known as the oral law, contained in the Mishnah, Talmud and subsequent legal codes. Yet, one opinion in the Babylonian Talmud recorded in laws of Blessings states that every statement was given to Moses on Sinai, which would imply that each law within the vast literature of Jewish legal codes is regarded as sacred and infallible.[9]

However, Orthodox Jews apply different gradations of holiness:

1) laws of Torah origin come from God directly;
2) laws of Rabbinic decree in order to better enforce Torah law: these laws are held to be created by the rabbis and could be divinely inspired;
3) Rabbinic decree for its own sake.

Judaism harbours two conflicting notions of 'Torah from Heaven' (the divine component) and 'The Torah is not in Heaven' (the human component). These tensions help to characterize denominations which have become commonly associated with them. The various positions within Orthodox Judaism tend towards minimizing the human contribution to Jewish law, custom and thought. This minimizing approach affects how rabbinic texts of the Talmudic period are

read, raising questions such as: Are the texts literally or historically true? Is the text itself divinely inspired? May one question the accuracy of its transmission? The further the minimalist approach is taken, the more it becomes appropriate to call it 'fundamentalism'. Reform Judaism and Conservative Judaism may be said to oppose fundamentalism in the sense that, 'The Torah is not in Heaven', i.e. the human component, is the dominating position within their current ideologies.

Many of the Israeli settlement leaders are associated with Jewish fundamentalists who support the concept of 'Greater Israel'. People in this group represent a fringe of Israeli society, albeit well organized as e.g. Rabbi Yisrael Ariel, formerly the rabbi of Yamit in the Sinai, and now of the Temple Institute of the Old City. In his view, Jews should not conquer the land of Israel, but if they do come to control it, they are forbidden to give it up.

Christian Fundamentalism

Christian fundamentalism is a religious orientation, rather than an organized movement. Fundamentalists have been active in teaching multiple viewpoints of the origin of humans in the science classrooms of public schools in the US. Fundamentalists have aligned themselves with the Christian Right, advocating prayer in public school, displaying the Protestant version of the Ten Commandments in public and taking up home schooling for religious reasons.

Christian fundamentalism arose within American Protestantism in the late nineteenth and early twentieth century among conservative evangelical Christians, who actively affirmed a 'fundamental' set of Christian beliefs: the inerrancy of the Bible, the virgin birth of Christ, the doctrine of substitutionary atonement, the bodily resurrection of Jesus and the authenticity of his miracles. The Christian fundamentalist movement was a united effort within conservative evangelicalism, but it evolved during the early-to-mid 1900s towards separatism. American evangelist Dwight L. Moody (1837–1899) and British preacher and father of dispensionalism John Nelson Darby (1800–1882) propounded ideas and themes carried into fundamentalist Christianity. Theologian Cyrus I. Scofield represented fundamentalism's antagonism to figurative interpretation, especially used by liberal opponents to deny basic elements of the Christian faith, such as the virgin birth or the bodily resurrection of Christ. Through the so-called *Scofield Reference Bible* dispensationalism gradually gained strong adherence among fundamentalists.

Fundamentalists reject that the Pentateuch was composed and shaped by many people over centuries and they assert that Moses was the primary author of the first five books of the Old Testament. The formulation of American fundamentalist beliefs at the Niagara Bible Conference (1878–1897) and in 1910 at the *General Assembly of the Presbyterian Church* comprise 'five fundamentals':

1) inerrancy of the Scriptures;
2) the virgin birth and the deity of Jesus;

3) the doctrine of substitutionary atonement through God's grace and human faith;
4) the bodily resurrection of Jesus;
5) the authenticity of Christ's miracles (or, alternatively, his premillenial second coming).

Many Evangelical groups may be described as 'fundamentalist' in the broad sense, who do not belong in the 'Fundamentalist Movement' in the narrow sense. Many Evangelicals believe in the doctrine of Biblical inerrancy, a basic issue of difference in the Fundamentalist-Modernist controversy a century ago. The original Fundamentalist Movement broke up along various lines within conservative Evangelical Protestantism: Neo-evangelicalism, Reformed and Lutheran Confessionalism, the Heritage movement and Paleo-orthodoxy.

Fundamentalists have been vocal in support of the pro-life movement, which opposes abortion, human cloning, physician-assisted euthanasia and embryonic stem cell research. They have spoken against political measures intended to legalize same-sex marriage or relax sodomy laws. Some fundamentalists prohibit moderate consumption of alcohol and tobacco, dancing, mixed bathing, gambling, or engaging in secular cultural activities such as watching movies or listening to rock and roll music as well as prohibit women from wearing pants or men from having long hair in the hope to protect their souls from corruption and call the world to salvation and holiness, by their example and 'testimony'.[10]

Hindu Fundamentalism

Indians, who believe that the Hindu civilization was suffering a long decline, claim as fundamentalists that the solution to that problem is the recovery of a glorious Hindu past.[11] The origins of Hindu religious nationalism are quite recent considering that the history of Hinduism spans 4,000 years. V.D. Savarkar's *Hindutva* (literally 'Hinduness') was published in 1923, but the ideas of this book go back to the beginning of the nineteenth century. European Orientalism profoundly influenced Hindu fundamentalism. The idea of India as the cradle of civilization is found in Voltaire, Herder, Kant, Schegel, Shelling, Hegel and Schopenhauer. Hindu fundamentalists were flattered by Aldus Huxley's idea of the Perennial Philosophy and its mystic monism, originally found in the Upanishads. Theosophist Annie Besant claimed that Hindu notions including nondualism, non-violence, renunciation, meditation and tolerance were needed for the salvation of Western societies. In the 1870s there was a concerted effort on the part of English theosophists to merge with the Indian Arya Samaj (Society of Aryans) as part of Annie Besant's vision of a World Federation of Aryans.

Before Arya Samaj there was the Brahmo Samaj (Society of Brahma, the Hindu Creator God) founded in Calcutta in 1828 by Rammohan Roy, who, preserving the idea of Vedic authority developed a modernist approach to Indian identity and nationhood. Developments within the Bengal Renaissance led to a view of Hindu supremacy and exclusivity. Rajnarain suggested that the Hindu

Motherland could have no place for Muslims, as their religion was alien to India. India's religion should be a cultural Hinduism based on the Upanishads but allowing for the mediation of the one true God by means of the traditional idols. At the same time, the Brahmo Samaj proposed reform on the elements that had tarnished the image of Hinduism: caste and untouchability, widow remarriage and child marriage.

Dayananda Saraswati founded Arya Samaj in 1875 in Bombay, now renamed Mumbai because of Hindutva. Dayananda claimed that the Aryans originated in Tibet, a hypothesis that the Nazis tested by sending Ernst Schaefer and Bruno Beger on two expeditions there in the 1930s. While in Tibet the Aryans, according to Dayananda, purged themselves of inferior people (identified as the *dasyus* in the *Rigveda*) and then spread to the rest of the world. In India, they established the *Hindu Golden Age* described in the *Ramayana* and the *Mahabharata*. This great age came to an end with the Bharata War, the beginning of which is described in the *Bhagavad-gita*. Hindu civilization went into a long decline exacerbated by the pacificism and nihilism of sects like Buddhism and Jainism.

Dayananda saw the Aryans as paragons of strength and virtue, being the world's first monotheists. He argued that only the Vedas and the Upanishads have religious authority. He saw the Vedas and Upanishads as the literal Word of God and as infallible text Dayananda launched attacks on traditional Hindus, Jains, Sikhs, Christians, and Buddhists. Dayananda believed that the subjugation of women came with the decline of Hinduism, a social ill that needed corrected. He also spoke out against the thousand plus subcastes (*jati*) that divide Indians according to specific vocations.

Chandranath Basu coined the term *Hindutva* (Hinduness), which concept turned Hindu nationalism in a conservative direction. In 1892 he published *Hindutva – An Authentic History of the Hindus*, which defended traditional Hindu ritual such as: caste, restriction of women's education and civil rights, and the maintenance of male authority. B.G. Tilak was instrumental in inventing devotionalism centered on the elephant god Ganesha to compete with the Muslim festival of *Muharram*. Hindu nationalists in the state of Maharastra created a new division between Muslims and Hindus The Ganesha festival in Bombay a huge one. Tilak resurrected King Shivaji, who was by far the most successful Hindu warrior king against the Mughal Empire during the seventeenth Century. Hindu fundamentalists admire Shivaji's courage and ruthlessness against the Muslims. Tilak instigated celebrations honouring Shivaji – the beginnings of the communal conflict that was to increase in the up until today. Tilak used the *Bhagavad-gita* to justify Shivaji's campaigns against the Mughals.

There is also Sikh fundamentalism, which flared up in a most spectacular manner in the Amritsar events in 1984. Indira Gandhi had the army attack the Golden Temple with its terrorists, for which she had to pay with her life.[12]

Summing Up

Religious fundamentalism presents a major challenge to the philosophy of a global open society. In societies where religious fundamentalism become officially accepted and endorsed by the government, an open society will not be able to operate. At the same time, one cannot issue a global prohibition against religious fundamentalism – Muslim, Hindu, Jewish or Christian, as it would be a flat contradiction of the principle of religious freedom that is crucial in an open society.

It is up to each and every society to decide upon the norms that it will cherish. Religious fundamentalism can only be defeated by the very methodology of an open society, meaning acceptance of the critique of basic ideas and debate upon their consequences. Only an understanding of religious texts along the line offered by Spinoza would lead to both the endorsement of religious freedom and the vindication of religious dignity.

Forms of religious fundamentalism share the idea that religious truth takes precedence over the normal canons of understanding and reason. A man of wisdom – a *Buddha*, has once handed down religious truth to mankind in the form of divine revelation or as a fundamental insight. The message can be taken literally, which tends to result in fundamentalism. Or these sacred texts – the Bible, the Koran, and the Hindu songs, and the Pali Canon or Theravada scriptures – can be received by means of Spinoza's approach.

Tractatus Theleologico-Politicus (1670) contains a most compelling rejection of not only Jewish or Christian fundamentalism but also all forms of fundamentalism, such as Muslim or Hindu fundamentalisms. Spinoza links the status of theology to politics in a most convincing manner, arguing that religious hierarchy and doctrine are closely linked with political ambitions aiming at domination and rulership. His theory of religious belief comprises two positions:

1) reason and religious belief are two different things;
2) religious belief cannot be unreasonable.

Using these two principles, Spinoza argues for an entirely different way of reading the sacred texts, which upholds reason while at the same maintains respect for faith.

Conclusion

In order to protect the balance between reason and faith, Spinoza argued that religious faith is piety and obedience to the Law as revealed in a sacred text. Reason prevails in all other aspects, including:

1) scriptures are written in a historically given context, which may be researched through exegesis in order to uncover the origins of various texts in e.g. the Old and New Testament or the Koran;

2) miracles cannot be taken literally;
3) God's words are given to each and everyone and they cannot contradict reason.

Both Jews and Christians accused Spinoza of atheism. However, although 'Spinozism' may stand for pantheism or atheism, Spinoza himself was certainly pious. His approach to the Scriptures marked the beginnings of research into the origins of texts related to the Bible – an immense work of interpretation with archaeological ramifications. Spinoza's principle is valid in relation to any religious text. It does not destroy the religious contents of a Holy text, but serves the purpose of finding its essence, namely faith and the pious observance of God's commands.

The Muslim civilization possesses one great scholar who approached the problem of truth and religious belief in the same way as Spinoza, namely Averroes. However, his balance between the secular and the sacred, between reason and faith as well as between the daily world of senses and the ultimate world after death, Muslim fundamentalism rejects.

A global open society must endorse John Locke's theory of tolerance – see *A Letter Concerning Toleration* (1689).[13] It seems that the principle of tolerance entails within Muslim political thought some form of atheism or apostasy, meaning a rejection of Islam, which is of course not the case. The closest one can come to a theory of religion along the lines of Spinoza is with Averroes. A common theme throughout their writings is that there is no incompatibility between religion and philosophy, or faith and reason, when both are properly understood.

Notes

1 On Spinoza's life, see http://plato.stanford.edu/entries/spinoza/, http://www.newadvent.org/cathen/14217a.htm, Richard H. Popkin (2004), *Spinoza*, Oxford: Oneworld Publications; Steven Nadler (1999), *Spinoza: A Life*, Cambridge: Cambridge University Press. All of Spinoza's written pieces are contained in M.L. Morgan (ed.) (2002), *Spinoza: Complete Works*, Indianapolis: Hackett.

2 Rebecca Goldstein (2006), *Betraying Spinoza: The Renegade Jew Who Gave Us Modernity*, New York: Random House.

3 J. Thomas Cook (2007), *Spinoza's 'Ethics': A Reader's Guide*, London: Continuum; S. Hampshire (1976), *Spinoza*, Hardmondsworth: Penguin.

4 Etienne Balibar (2008), *Spinoza and Politics*, London: Verso.

5 On salafism, see http://en.wikipedia.org/wiki/Salafi. Adnan A. Musallam (2005), *From Secularism to Jihad: Sayyid Qutb and the Foundations of Radical Islamism*, Greenwood Press. See also Nicholas F. Gier, *The Origins of Religious Violence*, Moscow, ID: University of Idaho.

6 On Averroes, see http://en.wikipedia.org/wiki/Averroes; Roger Arnaldez (2000), *Averroes: A Rationalist in Islam*, Notre Dame, IN: University of Notre Dame Press.

7 On the link between Ibn Taymiyyah and modern Islamists, see G. Kepel (2005), *The Roots of Radical Islam*, London: Saqi Books; G. Kepel (2006), *The War for Muslim Minds: Islam and the West*, Cambridge, MA: The Belknap Press.
8 Olivier Roy (2004), *Globalized Islam: The Search for a New Ummah*, London: C. Hurst & Co. Publishers; Olivier Roy (2007), *The New Central Asia: Geopolitics and the Creation of Nations*, London: I.B. Tauris.
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Conclusions

Introduction

As it is impossible to anticipate the future, a strategy in relation to the *Juggernaut* of globalization must be based on resilience, meaning the capacity of social systems to fight back when faced with difficulties or adverse outcomes. On this point Wildavsky was correct, as stated at the beginning of this book. However, Wildavsky was wrong when interpreting the signs of a coming global environmental crisis as superficial.

The key problem of the twenty-first century will be the energy-environment conundrum that is now gaining force, day after day. On the one hand, energy prices will go up as the cheap fossil fuel resources are depleted, hindering the alleviation of world poverty. On the other hand, environmental degradation will continue, as resource scarcity increases the demand for raw materials. The energy-environment conundrum does not contain its inherent solution, meaning that higher energy prices would reduce pollution. On the contrary, as oil is depleted, it is likely that more coal will be burnt.

Evidence about the dismal effects of environmental degradation arrives more and more frequently, contradicting the Wildavsky cornucopian perspective. Thus, climate change is occurring amidst accelerating pollution of water, destruction of rainforests and elimination of habitats for endangered species. The full size and consequences of the energy-environment conundrum are impossible to predict exactly.

Driving the energy-environment conundrum to its extreme is the powerful economic forces in the global market economy. As China and India arrive as full participants in the global economy, the pressure upon the resources and the environment of the planet will become so great that they unleash huge changes for the countries of the world. Economic forces constitute the *Juggernaut*, as economic incentives are unstoppable.

Fewer Degrees of Freedom

The theory of resilience implies that incentives must be given a prominent role when designing future policies. This is all the more necessary as global coordination among some 200 governments is not easy, if it is achievable at all. Thus, only incentives for individual actors can lead to proper responses to the challenges that globalization poses. Thus, when the price of oil goes up, the search for alternatives starts. When environmental degradation becomes excessive and costly for many people, then collective action may be taken in reversing pollution trends. These powerful incentives are to be found with companies, private or public, as well as

with billions of consumers or citizens. No government action can substitute for these incentives. Thus, a decentralized approach is the only viable one.

There is no assurance that humanity will find a major alternative source of energy to replace its dependency upon fossil fuels. Whether this will happen in the twenty-first century depends upon ingenuity and luck. What governments can do is to refrain from making things worse both by reducing pollution at home and coordinating environmental protection abroad. Although governments cannot plan positive future scenarios, they can reduce the probability of negative future outcomes by counteracting e.g. various forms of environmental degradation.

The crux of the matter is knowledge. It is not stored in any central data bank from which a possible world government could retrieve enough information to embark upon a master plan for the global future. Knowledge is a decentralized asset, spread out over millions of individuals at various locations. Somehow innovations will no doubt be made, but whether they provide a new source of cheap energy that is environmentally friendly is an entirely open question. Any science policy that attempted to discover a solution to the energy-environment conundrum would be a waste of money, as innovations cannot be predicted or planned for, as Popper emphasized. The philosophy of resilience merely entails vigilance and a constant search for new ideas when confronted with challenges. If little can be done on the energy side, because the invisible hand of the global market determines it, then more is achievable on the environment side.

Higher Energy Costs

The twenty-first century will face a constant energy shortage. As more and more oil producers reach their Hubbert peaks, the growing demand for energy will be met first and foremost by new technologies in relation to other fossil fuels, i.e. natural gas and coal. Much may be done in order to get petrol out of coal, but the search for energy will also target nuclear power and bio fuel. Energy prices will go higher until there is a technological breakthrough allowing for easy access to an abundant source of energy such as hydrogen. Governments and the oil companies will be much preoccupied with the danger of permanently high energy prices and their impact upon the economy. In the worst case, global living standards may have to decline, including much less air traffic and tourism.

The energy squeeze will be most keenly felt by developing countries, especially the least developed countries in the world. It is difficult to imagine what a system of energy transfers from rich to poor countries would look like, but the energy shortage may have dramatic consequences for the goal of reducing global poverty – the so-called Millennium Development Goals of the United Nations. Energy is needed everywhere in developing countries, for communication, water provision, agriculture, etc.

The energy squeeze will put the global market economy to a tremendous test. Can spontaneous coordination in the market deliver entirely new solutions to the problem of energy shortage? The oil producers and the global oil companies have made incredible profits on high energy prices, but there no guarantees that

they will be transformed into the appropriate investments in new future capacity for retrieving energy from sources other than oil.

Global Environmental Coordination

The governments of the countries of the world could work in collaboration with the civil society of the international community to attempt to reduce environmental degradation by piecemeal policies, targeting a variety of sources of pollution. This does not amount to anticipation, but would be in complete agreement with resilience. It is actually astonishing that no body for environmental coordination exists with a status similar to other global coordination mechanisms like, for example, the World Bank, the World Health Organization and the International Labour Organization. Yet, environmental coordination is difficult to achieve, given the reneging option.

Ecology will be of utmost importance in policy-making during the twenty-first century. It will enter decision-making as an equal partner to economic profitability. But will real outcomes confirm the status of environmentalism in public discourse? Thus far, attempts to come to grips with the greenhouse effect have failed. If CO_2 emissions (as well as other greenhouse gases) are as dangerous as the pessimists believe, then environmentalism would have to trump economic profitability, which is hardly likely to occur.

Against the *Juggernaut* of economic globalization, there is the possibility of a global open society. There is no guarantee that the progress of the *Juggernaut* will not crush this open global society, but let us imagine a utopia where the latter can restrain the former.

Environmental Decision-Making: Resilience and Learning

Take the case of ethanol. Can it be massively produced and thus can replace oil to a considerable extent? Studies showing the benefits of ethanol in combating climate change have often not taken into account changes in land use worldwide, if ethanol from corn becomes a solution favored by governments and the market. Ethanol produced from sugar canes is more efficient.

Farmers, who are under economic pressure to produce bio fuels, will increasingly plow up more forest or grasslands, thus releasing much of the carbon formerly stored in plants and soils through decomposition or fires. Globally, more grasslands and forests will be converted to growing the crops to replace the grains lost when US farmers convert land to bio fuels. What are the consequences for the greenhouse effect? A rush to developing bio fuels, especially ethanol from corn and cellulosic feedstock such as switch grass and wood chips, is seen by many as a substitute for gasoline. President Bush's energy bill in December 2007 mandates a sixfold increase in ethanol use as a fuel by 2022. The new 'green' fuel, whether made from corn or other feedstocks, has been widely promoted as a key to combating global warming. Burning it produces less carbon dioxide, the leading greenhouse gas, than the fossil fuels it will replace.

During the recent congressional debate over energy legislation, lawmakers frequently cited estimates that corn-based ethanol produces 20 percent less greenhouse gases in production, transportation and use than gasoline and that cellulosic ethanol has an even greater benefit of 70 percent less emissions. It is argued that these analyses were, however, one-sided, counting the carbon benefits of using land for bio fuels but not the carbon costs of diverting land from its existing uses. A key consideration should have been made, namely to include land use changes that increase greenhouse gas emissions. Corn-based ethanol, instead of reducing greenhouse gases by 20 percent, could increase it significantly. Bio fuels from switch grass, if they replace croplands and other carbon-absorbing lands, could increase the greenhouse gas emissions by 50 percent.

The energy-environment conundrum can only be tackled by debate and research, as Popper and Derrida would have it, in a global open society.

Essential Elements of a Global Open Society

Let me first attempt to unpack what a global open society would consist of. I only wish to identify the core elements of such a global open society, i.e. the chief characteristics that would make such a society possible. It would link up people around the world, irrespective of their nationhood or adherence to a civilization. And it would use the globe's communication network, the Internet. No country can stop the flow of information in this global network. It breaks down all attempts at controlling the flow of information. The universities in the countries of the world play a key role in allowing the free flow of ideas, resulting in all kinds of criticism.

Universities

Universities are in free communication around the world. It is already a fact that the idea of an organization committed to the search and dissemination of knowledge has been accomplished in all countries around the world. This is a major start for a global open society.

The rise of universities as the most prestigious institutions in each and every country was a major development in the twentieth century. It testifies to the seminal place of science – research and teaching – in all societies. It is of course true that universities differ widely from one country to another in resources and achievements. Yet, no country denies the relevance of the idea of a university.

Scholars communicate with each other in all the universities of the world. This is a vital starting point for a global open society. Scholars and students also visit foreign universities on a large scale. Nowhere is the open nature of scientific communication denied in principle. In reality, things are different, as some governments control or at least try to control university activities. It is an urgent task for global governance to insist upon respect for the ethos of the university as a global common institution and conception.

Universities have become centers of the postmodern society. They are not only huge employers of people, but they also tend to dominate debate and the dissemination of knowledge. The university institutions are globally recognized and tend to meet with global recognition, meaning that people can go from one to another and expect many of the same practices.

Internet

The marvellous achievement of creating a global network of communication and information, accomplished in just 30 years, can only reinforce the role of universities and colleges in society. The system of emails has enormous consequences for a global open society, making contacts much less costly, much less controllable and much more convenient. The sharing of new findings and results is instantaneous. Entire books can be emailed to students as well as manuscripts to publishers. The system of information search navigators makes incredible amounts of scientific information available globally.

The Internet may, of course, be employed for violent ends, such as terrorism. Or it may be used for criminal purposes, such as child pornography. Yet, in an overall assessment, the Internet benefits peace more than war, cooperation more than conflict. It is the *autobahn* of the global open society.

The evolution of the Internet system has many consequences for society as well as for politics. It strengthens society, especially what is called the civil society. And it enhances communication among like-minded people all over the globe. It weakens government in the sense that control over citizens becomes much more difficult. However, it also promotes good governance by helping governments communicate with citizens, sharing information.

Free Migration

Being able to move from one country to another, from one continent to another, or from one civilization to another, is another essential component in a global open society. If borders stop people from crossing into other countries, then people are not free and countries not equal. When a country seals itself off, like Myanmar or Saudi Arabia, then the motive cannot be anything other than to hinder or remove open dialogue and insight.

Opening up borders enhances a healthy competition between governments, where people can move to countries, which better respect their rights, forcing other countries to change for the better. Countries may wish to restrict immigration for obvious reasons, but they should not be allowed to close borders. Thus, the obligation to have a work permit does not rule out openness, as tourists and refugees can enter a country, even when work permits are enforced, such as in Switzerland.

Free movement of people across borders is both an end in itself and a means to the promotion of other essential elements in a global open society. Where there is free movement, universities are strengthened; and free movement puts the spotlight upon the human rights record of a country.

Rule of Law

Political regimes that accomplish rule of law appear to be more stable or more durable than any other political system. If indeed political evolution favors the rule of law regimes, then globalization presents the challenge to confirm this regime type in global political coordination. One may interpret much of international governance as an attempt to create a kind of global rule of law framework.

Goldsmith and Posner may be almost right when in *The Limits of International Law* (2005) they argue that much of international law merely ratifies existing relationships, and thus that it has little independent normative force. Recent efforts to replace international politics with law and judicial process are not warranted in an examination of the past accomplishments of international law. Yet, increased global political coordination may help to bring about an international community orientated towards a global open society run by means of basic principles amounting to a rule of law regime. Public international law could be employed for other purposes than narrow state interests, such as the protection of the environment and human rights. Let me discuss the desirability and feasibility of global rule of law.

The concept of rule of law is a complex one, as it cannot be equated merely with democracy. Rule of law comprises principles for both internal and external politics. It focuses upon legality, the respect for constitutions, the observation of promises and agreements and the employment of established procedures. It is linked with constitutionalism, both domestically and intergovernmentally.

Different civilizations may wish to approach rule of law somewhat differently. It cannot be equated with Western democracy. However, rule of law would have a common core of principles, such as:

- respect for constitutions;
- enforcement of human rights;
- international law trumping national law;
- free movement of people;
- unlimited use of the Internet; and
- arbitration in state conflicts.

Globalization makes these principles desirable for the planet, but it does not make their acceptance or enforcement more likely.

The aim of global rule of law is to protect the integrity of human beings, as the basic objectives of mankind cover not only domestic law and order but also international peace between governments. The connection between domestic rule of law and international rule of law is evident in Kant's political philosophy. When human rights are protected within the country, then it is more probable that its government pursues a peaceful policy in relation to other countries.

It is interesting to relate Woodrow Wilson's 14 principles to the present administration in the US. Wilson was evidently deeply concerned about global rule of law – thus he has been ridiculed as naïve. Yet, his ideas will receive the

recognition they deserve, especially when contrasted with the new American ideas about hegemony.

Public international law has been developed to such an extent that it is possible to outline what global rule of law would entail. Yet the difficulty is the enforcement of the principles of international law. The regionalization of the world may help in bringing down the number of players who need to coordinate in respect of rule of law. Yet, there is no guarantee that the governments of the countries of the world will succeed in creating and upholding a global rule of law regime. International coordination is fraught with difficulties.

Since almost all states of the world are members of the UN, their governments are under the obligation to respect the UN's human rights instrument. What states have assented to, their government should simply respect. There is no need to export Western democracy all around the world, as enforcing human rights globally would suffice.

In a global open society, certain civil and political rights are essential. I am referring to the so-called negative human rights: thought, religion, conscience, opinion, printing, *habeas corpus*, etc. These rights are entailed in the notion of an open society. They can be respected globally, if only the UN can convince governments to respect their commitments.

The *Juggernaut* in an Open Global Society: Is Global Environmental Balance Possible?

Utopian thinkers have, from time to time, dreamt about a society without violence where human beings can claim a set of rights that enhance the respect for humanity. Only today, with the emergence of the basic features of the global open society, is this dream feasible. When countries are linked through a vast net of communications, through huge movements of people and the respect for international law, then the prospects for eternal peace could not be better.

However, improved information and quicker dissemination will not automatically resolve the basic problematic that the *Juggernaut* leads to: the energy-environment conundrum. Cheap energy is running out while at the same time the global environment is breathing less and less well. The progress of the *Juggernaut* may leave a trail of state conflicts, ecocrimes or ecocides and humanitarian disasters as it rolls along the twenty-first century.

Although the technological advances in e.g. computer science and genetic biology may continue to be stunning and revolutionary, it still holds that the twenty-first century will be plagued by energy shortage. The price of energy will keep going up, having very adverse impact upon development and the environment. As oil dries up, natural gas will be exploited to a maximum. But also coal will be increasingly used to produce electricity and fuel for transportation. The pressure upon the global environment will be enormous.

Will mankind go back to earlier plans of using nuclear power on a massive scale? It depends upon technological breakthroughs. Photovoltaic (PV), for instance, could be a technology that helps in the approaching petrol shortage for

sure. PV converts light directly into electricity. Due to the growing need for solar energy, the manufacture of solar cells and solar photovoltaic array has expanded strongly in recent years. Roughly 90 percent of this generating capacity consists of grid-tied electrical systems. These PV installations may be ground-mounted (and sometimes integrated with farming and grazing) or building-integrated. Financial incentives have supported solar PV installations in many countries, meaning that the tax payer has to share the burden. But it is too early to tell whether PV could be employed in huge installations, for example in the Sahara.

If no major breakthrough comes in the area of energy, then global living standards will be unsustainable. And any economic retrenchment will fall hardest upon the already poor. This means that several countries in Africa, the Caribbean and the Pacific are at great risk from the consequences of the energy-environment conundrum. Although China and India may close the gap to the super-rich world, other Asian countries will fall behind, like Pakistan, Afghanistan, Indonesia and Myanmar. The shrinking energy resources may become the cause of state conflicts, or even collisions between entire regions of governments.

Energy and environment will be the two major issues in this century. However great advances are made in other areas of science, the energy problematic may constitute the *Juggernaut* that rolls over countries in an unstoppable way, resulting in scarcity, shortages, conflict and poverty.

A Century of Shortages

The twentieth century was characterized by extreme waste of everything: resources, people and space. As there was plenty of everything, it could all be wasted quickly. This holds for oil with engines becoming ever bigger, racetracks ever faster and ownership of fast cars ever wider. It has long been said that if the millions in China and India were to consume petrol like a normal family in the US, then reserves would become depleted sooner rather than later. This also holds for people, as two giant wars led to immense losses in human beings. The last century was characterized by great social experiments, with capitalist democracies being challenged by right-wing fascism or left-wing communism in extremely costly real-life experiments, with hundreds of thousands, or millions, perishing from ideological purity, fanaticism and ruthlessness of elites. The twentieth century involved looking at Mother Nature in a highly instrumental way, not refraining from measures with heavy environmental impact, like massive irrigation, flooding of huge areas and logging of entire forests. Only late in the twentieth century century did the decision rule of always examining the environmental impacts become entrenched in national policy-making.

The twenty-first century will, as a result, inherit the fundamental problem of shortages, especially of basic resources, energy and commodities. Thus, energy will be expensive until such time that there is a breakthrough towards the employment of a new cheap energy source such as, for instance, solar power or hydrogen power. Shortages will also be typical of the supply of food, partly as a result of the energy shortage. For the fight against poverty, this is a bad omen. Countries will increasingly collide over the allocation of resources in shortages.

The arrival of China and India with their billions of inhabitants, besides other populous emerging economies like Brazil, South Africa and Mexico, will make the shortages more acute and lead to political consequences.

Energy shortages translate automatically into higher process for all kinds of energy, as the price of oil pulls any substitute along the same path. Thus, electricity prices rise even when no oil is used to produce it. The consequences for the global poverty problem are not difficult to imagine. Both the disparities between rich and poor countries and the disparities between the rich and the poor groups within a country will increase. Poor countries like the 50 LDCs will have to spend more of their income upon energy, reducing the resources necessary for development. And the energy rich countries will face an even more favorable *bonanza*, some of them being able to handle this curse while other are submerged into corruption and dissipation of rents. Within countries, the working and middle classes will come under pressure, as they must spend more and more upon getting the energy they need to maintain their lifestyle.

Will the energy shortages result in global economic depression? The capacity of markets to adapt will be crucial. Energy must be handled in a different way, removing all forms of '*gaspillage*'. And new forms of energy retrieval must become economically defensible sooner rather than later. But the future of energy-consuming industries like the car industry looks bleak. And a reduction in economic activity based upon cheap energy may set off several consecutive global recessions.

An Ecology Century

As energy become less and less abundant in a cheap and easily accessible form, the pressure upon the global environment will increase. People will not reduce their activities or change their lifestyles merely because the price of energy goes up. On the contrary, they will try to defend their level of affluence by all means possible, including a more exploitative use of environmental resources. Once oil is in short supply, natural gas will be exploited to its limits, and then only coal is left among the cheap fossil fuels. Burning more coal will have drastic consequences for global climate change.

Fresh water will come up as a critical shortage resource. Global warming leads to the expansion of desert areas around the globe, also making fresh water more expensive. The impact upon the global environment can only be negative, as all kinds of living species fight over access to dwindling water resources.

If it took 50 years from the ecological revolution in the 1960s – *Silent Spring* by Rachel Carson in 1962 – then all responsible governments today accept that all public policies may have an ecological impact assessment tied to it. This holds especially for the employment of various forms of energy. It is no longer a question of the economy *or* the environment. Both must be involved in the making and implementation of public policies. This holds for Los Angeles, struggling with its immense dependency upon the automobile, just as much as for rural India, where poverty and resource scarcity push people to infringe ever more upon the habitat of endangered species.

Can global environmental policies halt the greenhouse effect and rescue some of the great animal species from extinction? I doubt it. Global coordination is difficult to accomplish within the present system of states and international regimes. Evolution will tell whether in 2100 mankind faces a new planet Earth with no huge ice caps and fewer plant and animal species. Regionalism may promise some prospects but, as seen in Latin America, Mercosur can do nothing about the elimination of the *Amazonas* – a policy of monumental stupidity by the various Brazilian governments. Perhaps the proud South Pacific islands states, which won independence only recently, will sink partly or wholly under sea water level, while Australia with its enormous coal and iron production refuses to participate in global coordination to reduce the greenhouse effect?

The Energy-Ecology Conundrum with a Vengeance

One must pose the question whether there is, within the energy-environment conundrum, some form of feedback mechanism that can compensate for the negative impact of cheap energy on the environment. If energy becomes more expensive, will that not lessen the ecological burden? The answer is NO, because increasingly numerous human beings will keep using up the energy resources of the world, even as the price goes up. When oil is depleted, then the time has come for natural gas and ethanol. As natural gas is used up, then only nuclear power and solar energy remains as major sources of heating and electricity besides the option of hydrogen, which may not come true in terms of the advanced technology required for its massive use. The risks of nuclear energy are well-known and no solution is in sight for the problem of storing the waste for hundreds of years.

As energy shortages run up, humanity simple turns to cruder forms like coal and wood, thus increasing the ecological pressures even more. The environment would benefit from a lower level of economic activity, but that is only a realistic outcome when there is a global economic downturn of major size. Should there be a 1929 economic crisis again, then the UN's Millennium Development Goals would be completely unachievable.

Higher petrol prices will not undo the energy-environment conundrum, because there will always be enough people with money to create strong demand for this most efficient, transaction-cost minimizing and fungible energy source. Higher oil prices lead to distributional consequences, such as poor people facing increasing difficulties in feeding themselves, as the example of the recent price increase for cooking oil, like palm oil, amounting to a 70 percent increase shows.

The food price index of the Food and Agriculture Organization of the United Nations, based on export prices for 60 internationally traded foodstuffs, climbed 37 percent last year. This was on top of a 14 percent increase in 2006. Few crops illustrate the now emerging problems in the global food chain as well as palm oil. Cooking oil may seem a small expense for families in rich countries, but it is an important source of calories as well as a major cash outlay for families in poor countries. The implication for the global economy of turning massively to bio fuels

is clear. Bio fuels accounted for almost half of the increase in worldwide demand for vegetable oils last year, representing 7 percent of total consumption of oils.

The price of petrol will go as high as the production cost, at which point it makes no more sense to burn oil for retrieving energy. It is true that there is sometimes a giant finding of a new oilfield, like the Tupi area outside Brazil. It may cost some $20 billion to develop, as the deeper one has to drill, the more costly it gets. With the Tupi field, Brazil's 12.2 billion barrels would increase to 17.2 billion, putting the country ahead of Mexico with 12.9 billion. Given its ethanol industry, the Brazil's prospects are much better than most countries facing the coming global energy shortage. However, the Tupi field is not comparable with the Kashagan field in northern Caspian Sea. One of the larger discoveries of this decade, it is estimated that the Kashagan field has reserves from 9 to 16 billion barrels of oil. The field is offshore in a harsh environment, where sea ice is present in the winter, with temperatures from –35C to 40C. Production is expected to begin in 2011 at the earliest, later than the initial plan date of 2005. However, the total cost of exploring this field is estimated at more than $100 billion, providing some 2 percent of global oil supply. As the price of oil climbs, one may turn to substitutes, but they will not be cheap.

The price mechanism can only solve the energy-environment conundrum, if it stimulates new technology to come up with path breaking innovations for new energy sources that are more ecology friendly. Otherwise, rising fuel prices merely feeds global inflation that constitutes a threat to economic stability, redistributing income from the energy weak to the energy strong. While the ruling elites in countries like Saudi Arabia and the United Arab Emirates invest in incredibly costly projects, families in many Third World countries cut back consumption because they cannot afford cooking oil.

The crux of the matter is that the Planet Earth is running out of cheap and efficient energy, given the incredible demand for fossil fuels, not only from a growing world population, but also from emerging economies like China and India where more and more people wish to imitate more or less the lifestyle of an average American or European. Perhaps the most tragic case is that of the energy rich Third World countries where the economic rent is dissipated, be it corruption, embezzlement or merely the Dutch disease.

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