The Century of the Emerging World

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Development with a Vengeance

By

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Translated from Romanian by Mălina Ciocea

Cambridge Scholars Publishing

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This book first published in Romanian by Comunicare.ro University Press, 2013
This edition first published 2017

Cambridge Scholars Publishing

Lady Stephenson Library, Newcastle upon Tyne, NE6 2PA, UK

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN (10): 1-4438-7316-0
ISBN (13): 978-1-4438-7316-1

To my wife, whose understanding and support
have made her the co-author of all my books

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PREFACE TO THE ENGLISH EDITION

I owe the readers of this work several explanations. The book being now translated into English was published in Romanian in late 2013. Important events and processes have happened since then. Obviously, it is beyond the scope of this book to give a full account of these changes. Two questions arise: has this analysis stood the test of time? And: do the changes share a common denominator? The answer is affirmative for this latter issue. The social and political consequences of the crisis have taken the form of discontent, whose potential cannot be ignored. Both Brexit and the US elections have shown that discontent has reached politics and is increasingly nationally-bound. The superpower of the 19th century, the UK, and the superpower of the 20th century, the US, have signalled that they are preoccupied with their own evolution. They seem to have requested the world's agreement to have this time for themselves, after having been focused on international problems for so long. *The internal agenda will be most prominent on the states' political agenda*. Great powers will reclaim their positions as the main actors of the international stage. Let us hope this will not translate into *state egocentricity*.

There has been a lot of talk about the rise of populism. Many explain the events above through populism. I am inclined to go with the words of Lawrence Summers, former Secretary of the US Treasury: "What is needed is a responsible nationalism—an approach where it is understood that countries are expected to pursue their citizens' economic welfare as a primary objective but where their ability to harm the interests of citizens elsewhere is circumscribed. International agreements would be judged not by how much is harmonised or by how many barriers are torn down but whether citizens are empowered."[1] With the spread of this new perspective, populism will be harnessed and combated. Those who will understand this commandment of the moment will win over their citizens.

It is the reader's privilege to form judgements about the arguments in this work. My main interest was to discuss the structural problems of developed society, which are crucial nowadays – whether we talk about financialization, state, elites, or development models.

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[1] Lawrence Summers, "Voters deserve responsible nationalism not reflex globalism", *Financial Times,* https://www.ft.com/content/15598db8-4456-11e6-9b66-0712b3873ae1.

The past few weeks have seen key economic actors (among whom, the President of the World Bank, the Managing Director of IMF, the Governor of the Bank of England) take a stand. Bankers around the world are genuinely concerned about the state of economy in the developed world, characterised by disappointing, modest growth, which, projected against the background of unequal distribution of revenue, creates *quasi-generalised discontent*. In the words of Christine Lagarde, "we see growth as too low for too long and benefitting too few."[2] The excessively unequal evolution of the world has reached the point where it affects development. The evolutions of the last decades require some examination. The time of neoliberalism, with its (almost) exclusive focus on monetarism, and disregard for the social dimension of development, seems to have come to an end. The actors mentioned above point explicitly to the necessity of rethinking the mix of monetary policies, fiscal policies and structural reforms, in order to have a more inclusive economic growth. Martin Wolf warns that "for now and the foreseeable future, we will remain in a world of monetary policy."[3]

The developed world is at a crossroads and is undecided about which way to go. It is difficult to inaugurate a new development track that uses the virtues of other tracks, to rethink the paradigm that kept this society going for the last decades. A four-decade period, that shone in the early 80s, marked by the triumph of neoliberalism, is coming to a close. A new synthesis is now needed. In the President Obama's last message to American economy, "A new future is ours to write."[4]

Will the 21st century belong to the emerging world? My book has started from this premise. In the meantime, other works[5] have underlined that, on the contrary, the American century is far from over. Still, my hypothesis is grounded in solid arguments. For instance, the Governor of the Bank of England, Mark Carney, pointed that the formerly significant gap between the emerging and the developed economies' growth rates has decreased in the last years.[6] In 2016 the average rate was above 4 percent

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[2] Transcript of IMF Managing Director Press Conference, October 6, 2016, https://www.imf.org/en/News/Articles/2016/10/06/AM16-TR100616-IMF-Managing-Director-Press-Conference.

[3] Martin Wolf, "Monetary Policy in a Low-rate World", *Financial Times*, September 13, 2016.

[4] Barack Obama, "The Way Ahead", *The Economist*, October 8-14, 2016.

[5] See, for instance, Joseph Nye Jr., *Is the American Century Over?* (Hoboken, New Jersey: Wiley and Sons, 2016).

[6] Mark Carney, "The Spectre of Monetarism", Lecture at John Moores University, 5 December 2016, https://www.bis.org/review/r161207d.pdf.

in the case of emerging economies and under 2 percent in the case of developed economies, which clearly shows that the emerging economies are catching up.

The two groups are led and symbolized by the US and China. US's quick recovery from the crisis has not ruled out real economic and social problems. The modernization process presents China with a lot of complex issues. These two countries' economic scope cannot be ignored, either. China's "proportion of the world GDP growth is 32 percent. That is, in 2015 the entire planet's output increased by $4.5 trillion, and $1.5 trillion of that was China alone—a trend repeated now for many years. Sure, the US has a larger GDP for now. But China's proportion of planet Earth's growth, like a car's ability to accelerate, is what wins the race. China is to economists as Ferrari is to automotive literati."[7]

This book offers a perspective from "the periphery" on contemporary phenomena. We can evaluate the modernity of various visions on development by the way they discuss periphery and its problems. Peripheries usually designate regions of lesser importance. I believe history teaches us about the importance of periphery. When periphery is in crisis, the metropolis cannot fare well. A valuable lesson in the context of globalization.

December 2016, Bucharest

[7] Chase van der Rhoer, "China's Economy is set to overtake the West", http://europe.newsweek.com/china-economy-set-overtake-west-529382.

THE CENTURY OF THE EMERGING WORLD

One can conquer an empire on horseback, but one cannot govern that empire from horseback

I first started thinking about writing this book when I learned the startling fact that the European Union has a *financial periphery*. Until then, I had believed in earnest that the very idea of a union excludes the idea of *periphery*. I was all the more amazed to discover that Italy is part of this periphery. Italy, a founding country of the single market, Europe's fourth economy. If so, when did Italy become a periphery? Was it before or after it joined the eurozone? The obvious answer is, afterwards. This is how I discovered the second paradox: not only does the Union tolerate and live with periphery, but it *produces* periphery; it generates and maintains it. Which is not only surprising but beyond understanding. In any case, this contradicts the Union's basic principles, which should encourage development, solidarity, cohesion, and so on.

As a person living in South-Eastern Europe, I could not stop asking: if Italy is a periphery, then where does this leave Romania, or the other countries in this part of Europe? Are we a periphery or the periphery's periphery? This is a question to ask in earnest – to know where we stand and how others (whether it is Europeans from the financial periphery or Europeans from the Union's core) look upon us. Some time (not very long) ago, we hoped to join the eurozone. This is becoming a distant prospect and from what we can see happening in this zone, it would probably be wiser not to join soon, assuming the European bodies would allow us to. If Italy cannot meet standards, how could we?

It is equally important to ask this question because it will allow us to foresee Europe's evolution as well. The Union has its own dynamics. The eurozone is increasingly becoming the "true" EU. Two "Unions" are being born: the eurozone, encapsulating most of the Union's energy, and the countries outside of the eurozone – some because they cannot join, some because they chose not to, and some that have not yet reached a decision. But there are some other transformations in the Union that we need to understand and make known. The core-periphery relationship, the euro crisis and the increasing gaps between economies within the Union and those at its top are various layers in a structural crisis that is pervading

Europe. They cannot be separated. One crisis influences another; solutions are reached by solving other interrelated problems. Each chapter in this book will address one such crisis. These overlapping crises have created a much more complex situation. We cannot keep each crisis on its own floor. The EU is a unitary construction, whose floors are intensively circulated. Crises overlapped and led to this crisis, which does not come to an end. My first choice for this book's title was, in fact, *Europe's Overlapping Crises*.

At one time, I realized that I could neither understand nor explain the European crisis if I did not first present the crisis of the *developed world*. And not only for the obvious reason that Europe is a very important part of this world and one of its symbols but also because I understood that the US crisis and European crisis share some traits. Both are financial in nature and appeared in the context of a growing trend towards the financialization of economic life. The banking crisis is at the core of these crises. Despite slight differences, things are strikingly similar: in the US the crisis emerged as a housing bubble, and in Europe as a "sovereign debt" crisis. The constant element and the real cause of these crises is the *banking crisis*. In fact, the "official" starting point of the crisis is the Lehman Brothers' bankruptcy in September 2008. America being America, public opinion focused on it, but in the meantime an event none-the-less spectacular happened in Great Britain. "By 2008, the Royal Bank of Scotland was not just Britain's biggest bank but the biggest in the world. Its assets, at £2.2 trillion ($ 3.5 trillion), were more than 150% of Britain's GDP"[1]. But it faced huge financial problems. The state gave 45,5 billion pounds, the equivalent of 70 billion dollars, to save the bank. Each Brit contributed 740 pounds (approx. 1,000 dollars). "Britain's banking sector moved from free-market to publicly owned overnight"[2].

Another essential argument in support of my thesis is that there is a lot of talk about post-crisis, reconstruction, relaunch, but Europe keeps to the background of this encouraging picture. Various analyses show that this year the US will recover dramatically. The main explanation lies in the fact that the US focused on bank recapitalization, troubled asset relief, and so on. Europe will continue to have negative growth this year; the main reason being that in Europe the banking crisis has not yet ended.

Consequently, I decided to divide our book into two main sections. The first discusses the crisis of the developed world and various processes and tendencies, such as financialization, the shrinking middle class, the

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[1] Mervyn King, "Leaving the Old Lady", *The Economist*, June 15, 2013.
[2] *Ibid.*

decline in the role of the elites, which all lead to the central question: can we still speak about the capitalist society as we understood it? Are transformations so profound that the capitalist society has changed identity? The second section of the book analyses Europe and the European crisis using the concepts developed in the first part.

I owe the readers an explanation for the title of the book. A civilization's decline starts from within. When did the developed world start crumbling? Paradoxically, with its victory in the Cold War. Last century's last decade was a prolonged celebration of victory, and like any spectacular event, it silenced other far-reaching processes. The first such process was China and Russia embracing capitalism. Two continental countries with a rich imperial history, both opening to the world with a sort of humility (in the case of China, because of 19th century events; in the case of Russia, because of their defeat in the Cold War), both with high stakes in this game (some of them transparent, some not). After Tiananmen, China had to confront the international chill and face isolation. The recovery signal came with Deng Xiaoping's tour to south China and the mantra he used at the time: *Getting rich is fabulous*! Which clearly spelt capitalism. China slowly made a full recovery. After a critical period of financial collapse, Russia recovered as well. Spanning two continents, with the same riches and geographical position but in a new attire, Russia has not changed its fundamentals. It may be the world's "poor power" but it will never be a lesser power. For this country, the territorial loss was hard-felt but Russia may well have liberated itself. In any case, the habit of judging Russia by common standards has failed again. Russia's rise is indisputable.

The second silent but far-reaching process is the rise of the emerging world as a whole. Along with the BRIC countries, a series of countries have shown dynamic growth: Indonesia, Saudi Arabia, South Africa, Mexico, Turkey, and others. *The emerging world*, in fact. The evaluations of various boards show that Germany is among the most dynamic economies in the world. A study initiated by OECD on the evolution of 42 countries by 2060 highlights something significant for this analysis: in the following 40 years, the German economy will grow, on average, 1 percent annually, which is the slowest growth among the 42 countries analysed. It is true that, as a developed country, Germany cannot have high growth rates but what is of interest here is the impact: the difference between Germany and these countries will decrease, while the position of the emerging world in the global economy will constantly be on the rise.

We do not wish to underestimate the huge historic event that was the end of the Cold War. We only want to point out that it was a turning point in history. The previous century's last years meant feverish preparations for a new start in full force.

The early 2000s started as a wild decade with unparalleled growth rates, which changed the world in a matter of years. In 2007, for instance, China's growth rate was 14.2%, India's 10.1%, Russia's 8.5% and Brazil's 6.1%[1]. The frontrunners and winners were the BRIC countries. At the beginning of the decade, the emerging countries' GDP share in world output was 38%; now this share is 50% (measured at PPP rate)[2]. And this share will grow, hailing a new political reality: *the emerging world century*. The rise of BRIC countries and of Asia in general has become a fact. We tend to overlook the impact of this growth rhythm *combined with size*, and how important it is that the emerging countries' platoon has been led by the world's most populated country and includes continental countries with a long history of regional or global leadership.

Striking in the last years of the decade, the crisis has been a test. A Supreme Court of the development process, the crisis passed judgement on the evolutions of the decade and of the period following the Cold War. The crisis gave passing grades to the BRIC countries, and emerging countries in general, which were all hit by the crisis but to a lesser degree. After 2009, they resumed growth. What did the crisis sanction? Firstly, excess: excessive gain, very closely related to extravagance; excessive speculation; we could even say excessive arrogance (taking gains for granted); and excessive inequality as well (American society is divided into two: the small group of the privileged and the remaining 99%, to employ the slogan used in Wall Street protests).

There were many other things that the crisis sanctioned in the evolution of developed countries. Probably the most important was the developed societies' indifference to their own future, which can be traced to accumulated debt, the frequently signalled decline of the general level of education, the state of infrastructure, the decrease in investment, the demographic decline, and so on. This means that the developed society has ceased to transfer the solid, verified premises of its development to future generations. It has even started *borrowing* from future generations, living at their expense, disregarding the effort they will have to make in order to pay the debts of previous generations. History, with its time-tested balanced view, cannot validate this lack of common sense. This is the great weakness of developed society: it has ceased to look to the future. Wasn't it to be expected that history would give an answer to a society that

[1] "When Giants Slow Down", *The Economist*, July 27, 2013.
[2] "The Great Deceleration", *The Economist*, July 27, 2013.

disregards historic evolution? This year, the growth rates of the emerging countries will decrease for the first time in many years – China will grow at approximately 7.5%, India at 5%. The average growth rate among emerging countries will be 5% – a low figure compared to previous years – but it will still be double the rate of developed countries, which means that they will contribute towards consolidating the relationship between emerging and developed countries.

The emerging world will become more important, and not only because of its faster growth rate. Jointly, China and India have 40% of the world's population. And the second echelon countries – Mexico, Indonesia, Turkey – have obvious advantages in this respect. On the other hand, we cannot underestimate the fact that they have accumulated an experience of growth, and are the guardians of strategies that have been confirmed by the crisis. In short, they have a chance to be successful. Analysists usually highlight the demographic advantage of these powers, which is correct because this is the advantage that allowed them to become global competitors. What is underestimated, even overlooked, is that their evolution was guided by strategy, which was in fact a return to the early model of capitalism, the tight union between the state and the market. These countries' development is a negative of the developed countries' evolution: developed countries have demographic problems, emerging countries have a demographic advantage; generally, developed countries diminished the role of the state while emerging countries emphasized this role in one way or another; developed countries face resource shortages while the emerging ones are usually rich in resources or have transformed the problem of resource finding into a component of external politics (the case of China). In other words, emerging countries are better equipped for the times to come and have remarkable potential to grow. They possess advantages that do not alter with the years or decades; that is why we believe that these tendencies are meant to last.

The first decade of this century must not be judged by exclusive reference to its transformations. This decade's changes have led to long-term tendencies. In time we will understand that we witnessed transformations we did not fully grasp, and changes that have given rise to new evolutions and a new balance of power. Long-term transformations build on a gradual accumulation, which is the engine of history. We find it difficult to identify the tendency because we pay no attention to its driver: the gradual, silent accumulation. Analyses discuss whether the 21st century will be an American one, or a Chinese or Asian century. We believe it will be the century of the emerging world. Indeed, Asia is this world's symbol. We still have to wait and see whether the symbol will speak in the name of this emerging world or will be only its most dynamic part, and acknowledged as such.

Here are some of the evaluations made by OECD, which support our statements.

> China will overtake the euro area by one measure of GDP around the end of 2013 and the US a few years later [by some estimations, in 2016], becoming the world's biggest economy. India is projected to surpass the euro area around 2032, while rising productivity and a relatively young population will also drive gains by countries such as Indonesia and Brazil[1].

With the rise of China and other actors comes the decline of traditional actors. This is something that we need to emphasize because we are often tempted to project everything on newcomers and their competitive advantages. The fundamental truth, however, is that decline can only be explained through the internal factors triggering that decline. The same body projects China's evolution in comparison with the main actors of the developed world: the US and the European Union (represented, in this case, by the eurozone).

> While China and the euro region each accounted for 17 per cent of world GDP in 2011, China's share will jump to 27.9 per cent in 2030 as the euro area's shrinks to 11.7 percent. That's a steeper decline than projected for the US, whose share will fall from 22.7 percent to 17.8 percent[2].

The more distant evolution is also instructive.

> China's contribution to GDP will be little changed in 2060, while the euro area's share will decline further to 8.8 percent, again more quickly than the US[3].

These events and tendencies are comparable, or possibly more significant, with the fall of the Berlin Wall or the fall of the Soviet Empire. They will contribute to the geopolitical rewiring of the world, which is difficult to envision right now. It is the most significant post-crisis geopolitical repositioning that was not produced by the crisis. It was foreseen in the decade we refer to, accelerated by the economic earthquake of these past years, and will be consolidated by less spectacular but constant future evolutions.

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[1] OECD Economics Department Policy Notes, No. 15, November 2012.
[2] *Ibid*.
[3] *Ibid*.

The planet's stability is fundamentally influenced by what happens on the Euroasian continent, the compact mass of land covering around two-thirds of the world, with 70% of the world's raw materials, with two-thirds of the world population, with a 60% share in world GDP. Stability in this part of the world means stability throughout the world. This is where last century's great conflicts started. We can now foresee a great, long-lasting imbalance on the Euroasian continent. In 2030, says Angus Maddison, Asia will account for 53% of the world GDP, and the West (Europe, the US and other developed countries) for a mere 33%.[1] If we leave the US aside, we will understand the magnitude of this imbalance. The European peninsula will become the less significant tip of the continent. This is the beginning of a new, great geopolitical game, where the West's fundamental problem will be its geopolitical relevance.

There are at least two consequences. First, the fate of the all-important trans-Atlantic trade agreement. Suffice it to say that, together, the US and the European Union account for almost half of the world GDP. This economic process carries geopolitical significance. The two most important powers of the developed world associate in order to maintain the liberal model worldwide. The unifying aim is not as much economic as it is political and geopolitical. The liberal political order needs to preserve a certain prominence. If it cannot preserve its global reach, it must at least preserve its prominence as a leader. In this context, it is fundamental for these powers to maintain trust and promote an active attitude: "What the US and EU need is a project to remind them of their shared capacity to shape even"[2].

The world's and Euroasia's new geopolitical data highlight the advantages of Russia's geographical position. Stretching over the two continents, Russia can take advantage of two geopolitical combinations, Europe and fast-evolving Asia. To quote an analyst, if Peter the Great were alive today, he would move the capital to Vladivostok. In other words, he would tip the balance towards Asia, and the Pacific, where most of the 21st-century history will be written. Europe should take this as an implicit warning.

In what follows, we will take a look at the major transformations that are less noticed and discussed. An analysis focused on countries, regions or continents, in ignorance of the bigger picture, has little chance of being true. In the words of Donald Sassoon, in the era of globalization, political

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[1] Angus Maddison, *Contours of the World Economy 1-2030 AD: Essays in Macro-Economic History* (Oxford: Oxford University Press, 2007), 314.
[2] Philip Stephens, "Transatlantic Free Trade Promises a Bigger Prize", *Financial Times*, February 15, 2013.

and historical analyses need to be globalized as well[1]. Global perspective is essential in an analysis of the evolution of the EU otherwise not only does the value of our opinions decrease but our analysis also loses its geopolitical compass – which, evidently, diminishes, if not annuls, the value of our approach.

[1] Donald Sassoon, Foreword to *Greece, Financialization and the EU: The Political Economy of Debt and Destruction* by Vassilis K. Fouskas and Constantine Dimoulas (London: Palgrave Macmillan, 2013), XVI.

Part I:

One World is Rising, Another World is Falling

CHAPTER I

THIS IS THE CRISIS OF THE DEVELOPED WORLD

1. Why isn't spring coming?

Come to think of it, there are two crises looming over Europe, and both are crises of development models. As one of the symbols of the developed world, Europe faces the crisis of the developed countries, similar to the one in the US, but it also faces the crisis of the European development model as it was envisioned when the Union was first born. Both are crises of the development model, which makes them all the more difficult because it is the fundamentals that need to be revisited, reframed and readapted. Given this inherent difficulty, we need to be quite understanding about Europe and its many problems.

The first part of this book discusses the complexity of the developed world crisis, which, in my opinion, is the first layer of what we call Europe's overlapping crises. It is essential to examine what happens on our continent in the light of what happens in the developed world. This crisis has often been dubbed a global one but on closer analysis we see that we are in fact the contemporaries of the developed world crisis. There is no other explanation for the fact that during this "global" crisis, some countries are developing at a fast pace: China, India, Brazil, Russia, South Africa, Turkey, Mexico. Analysts have emphasized that we are witnessing an economic and geopolitical shift from the West to the East, from the developed world to Asia. This shift cannot be explained by a global crisis. In fact, we will need to accept that it is the developed world that is experiencing a crisis, not the world as a whole. In the past five years, the developed world had negative or, at best, modest growth rates. The financial crisis hit the developed world the hardest – the emerging countries were less affected, got over this difficult moment and in a year exhibited impressive growth rates again.

In March 2009, Ben Bernanke declared that "spring is right around the corner." One of the US's most powerful personalities of all time, but especially during the crisis, the president of the Federal Reserve was talking to a very tense, if not panicked, America. Six months before, the Lehman Brothers had gone bankrupt, firms both big and small had closed down, there was a steep increase in unemployment and uncertainty was pervasive. All eyes were on the Federal Reserve. As Krugman says, there was another reason why this assertion spread so fast, apart from the fact that it gave hope to the millions of people who needed it badly – it resembled a line in a famous movie: *Being There* (1979). Asked about that moment's economic politics, the gardener, who passed for a wise man, answered: "As long as the roots are not severed, all is well and well will be in the garden… There will be growth in the spring"[1]. Our problem is: are the roots severed? If not, why isn't spring coming, or why is it taking so long to come?

Six years into the crisis, the situation is very much as Keynes described it in the 1930s: "a chronic condition of subnormal activity for a considerable period without any marked tendency either towards recovery or towards complete collapse"[2]. We can call it simply a recession, as Keynes does, or a slow recovery, a less significant growth of 1–2%; either way, the situation does not change much. Words cover imperfectly a reality that is becoming increasingly evident and worrying: developed society is stagnant, it cannot find its way out, and its relative decline cannot be denied any longer. Joseph Stiglitz talks about the American society as "an increasingly dysfunctional form of capitalism"; "it would be years – 2018 at the earliest – before the economy returned to full employment"[3]. Charles Kupchan also warns: "Western democracies have little choice but to engage in strategic economic planning on an unprecedented scale. State-led investment in jobs, infrastructure, education, and research will be required to restore economic competitiveness"[4]. There is not much choice and, besides, time is ticking away. Krugman even titled his book: *End this Depression Now*!

Is this an issue of deficient administration of the system and inefficient policies, or is this an inherent problem of the model? The question we want to answer is: has capitalism evolved so much, has it transformed so rapidly, that we are talking about a reality that no longer exists? Or, in

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[1] Paul Krugman, *End This Depression Now* (New York, London: W.W. Norton & Company, 2012), 3.

[2] John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (New York: Harvest/Harcourt, 1964 (1936), 249.

[3] Joseph E. Stiglitz, *The Price of Inequality* (London: Allen Lane, an imprint of Penguin Books, 2012), 1.

[4] Charles A. Kupchan, "The Democratic Malaise, Globalization and the Threat to the West", *Foreign Affairs*, January/February, 2012.

other terms, have developed societies strayed so far from capitalism's classic model that we are talking about two different realities? This is, in fact, our main hypothesis. We can explain the slow recovery from this perspective: treatment is being prescribed to a sick person who no longer exists, or who has little in common with what capitalist society represents today.

2. The US have won the war but lost the battle

We talk incessantly about the crisis but we forget that the crisis was triggered by something; that upstream there are a myriad of decisions, options, errors and delays that can cause disaster if not noticed at the right moment and met with an adequate answer. We apologise to the reader for the following presentation of the period before the crisis, in fact the years following the Cold War. It is our attempt to answer a question that seems to be on everyone's lips: how could this possibly happen? At the end of the Cold War, the US rejoiced unbounded dominance: in terms of reach (American power had no real rival anywhere in the world), instruments (economic, military, cultural power), and even prestige (at that moment, American power was fascinating because of the very alluring combination of economic prowess and democratic and cultural development). In no other time in history has there been such a dominant hegemonic power. To be so undoubtedly in possession of all instruments of power and then in fewer than 20 years face a crisis that questions the very position as global hegemon is a problem that cannot fail to intrigue, preoccupy and stimulate minds.

One explanation has to do with the winner's attitude – this time, the winner had not only won a confrontation but all the great conflicts of the 20th century. Ankie Hoogvelt's words suggestively synthesize the situation at the end of WWII and at the end of the Cold War: there were winners who lost everything, except victory, and there were losers who, eventually, won everything, except victory.[1] The countries that lost WWII (Germany and Japan) won the economic battle in the following decades, and by the end of the Cold War ranked second and third in the world's economic hierarchy. England won the war but lost the empire, and became one among many powers. So did France. The notable exception was the US, which won both WWII and the Cold War. There is one more significant difference: at the end of WWII, Great Britain was exhausted,

[1] Ankie Hoogvelt, *Globalization and the Postcolonial World: The New Political Economy of Development* (London: Palgrave, 2001).

the natural consequence of which was the end of its empire. The US came out unscathed from the Cold War and 97 months of continuous economic growth followed.

One explanation for what happened lies in the arrogance born from this triumph. In their impressive work, *Empires in the World History*, Jane Burbank and Frederick Cooper underline: "The past of empires displays the human costs of the arrogance of power – whether in the name of a great leader, a civilisation, or a people."[1]

This time arrogance came with a limitless trust in the neoliberal vision and encouraged not only idolatry of the American model but also an attempt to promote it anytime, anywhere as a veritable *development mantra*. The complex debate on development was replaced by a formula (that we could easily call a dogma). Edward Luce's confession is very instructive in this respect. President Clinton summoned Alan Greenspan, Larry Summers, Robert Rubin and Jeffrey Garten and sent them throughout the world to tell everyone what needed to be done. In fact, they were just handing out free copies of the standard handbook detailing the Washington Consensus. In utter embarrassment, Jeffrey Garten admits

> It didn't really matter where I was, the theme was the same. The constant message was that we had figured it out and you in China and you in Brazil and you in Germany don't have to reinvent the wheel. America is the model. All you need to do is be more like us... I feel genuinely embarrassed at how arrogant we were.[2]

More important than the attitude is what fed it: the acute feeling that evolution had reached a climax and would go no further, to mark the victory in the Cold War; the idea that everything would come under a one-of-a-kind, standard model. Yet, under all this simplicity, the idea is quite frightening. Obviously, this perspective could serve no one, not even its authors, who were promoting it through various channels. It seemed that history no longer needed everyone's efforts to continue its evolution, clearly not those of the nation at the top of the world order. This perspective could only trigger odd, counterproductive attitudes against the world's only superpower. History tolerates a lot but it is ruthless when faced with breath-taking arrogance. Gradually, it proves such vanity

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[1] Jane Burbank and Frederick Cooper, *Empires in the World History: Power and the Politics of Difference* (Princeton and Oxford: Princeton University Press, 2010), 459.

[2] Edward Luce, *Time to Start Thinking: America in the Age of Descent* (Boston, Mass.: Little, Brown, 2012), 258.

pointless and ridiculous. Twenty years later, the US is fighting a lot of problems, and predictions point to the moment when they will cease to be the world's economic leader. Where is that arrogance now?

We often say they lost a battle but not the war! What if you won the war – in this particular case, the wars – but lost the battle? It is the best metaphor we could find to describe the current situation in the US. But this is not just a battle among others – it is the final battle, which should have taken advantage of the results of previously won confrontations. Forty years of utter resolution ended in premature relaxation. The fruits were not yet reaped but the winner failed to organise things in light of his values, interests and options. The winner always decides, starting from his own interests. The problem is that this time around what followed served neither the winner's nor the world's interests. We speak of the world because there will always be a correlation between the winner's wishes and what the others can deliver. This relationship guarantees peace and the lasting international arrangements. Why wasn't this significant point reached? What happened along the way?

A superpower fails for more reasons than mere arrogance: instruments of power, policies and options, among other favourable factors, have to converge in order to trigger a decline. Before analysing them, let us discuss one more detail, which is at the crossroads between psychology and economic policies.

Was there a peace treaty marking the end of the Cold War? There was a battle – one without weapons, to be sure, but still a battle, which had its winners and losers. History teaches us that any such battle ends with a treaty marking the end of the conflict and the conditions for peace. This time, peace was not what it was supposed to be: the losers did not know what and how much they had to pay. Nor did the winners explicitly claim damages. That was why a classical treaty was not needed. Yet what followed cannot be understood beyond the scope of this "treaty," which may have taken the form of a document or just an idea in the minds of the winners. What did the winners have in mind? We can only suppose.

From this perspective, we may say that the winners wanted *the world's "fullest" liberalization*: this time, the losers were not vassals to a power but to the neoliberal doctrine. As this doctrine was illustrated by America, we can say that American interests were served. In the words of Susan Strange, "globalization is nothing but polite party talk for what in fact is a process of Americanization."[1] What the winners wanted was for the world

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[1] Peter J. Katzenstein, ed., *Anglo-America and Its Discontents: Civilizational Identities Beyond West and East* (Abingdon: Routledge), 222.

to embrace the neoliberal doctrine embodied by the Washington Consensus. At its core it was the doctrine of free exchange.

3. The "ideological" America tamed the pragmatic America

Tens of volumes and analyses were written about the Washington Consensus.[1] For the purposes of this book, we will refer to its economic implications and the economic approaches recommended to countries around the world. In the early 90s, its seduction and fervour in many countries can be explained as such:

> The Washington Consensus derived its appeal from a simple narrative about the power of globalization to lift developing nations out of poverty. But rather than promote the mixed, pragmatic strategies that China and others had employed in order to develop domestic industrial capabilities, advocates of this narrative stressed the role of openness to the global economy.[2]

According to the same American author, this trend climaxed in 1995 when Jeffrey Sachs and Andrew Warner, professors at Harvard at the time, published an article claiming that a country's development is *solely* associated with its openness towards international trade and financial flows, an idea that can be translated as: *open your borders and you will develop*! Dani Rodrik's most important critique about the Washington Consensus is that it associates development solely to low tariffs and trade liberalization, with no emphasis on what he calls "development's internal constraints" – the state of education, the health of the population, the level of debt, infrastructure development and political stability.[3] This is the most difficult part of the development process. Development is always the fruit of a country's own effort while taking advantage of a favourable context.

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[1] The term was launched in 1989 by John Williamson and referred to measures that should have been applied by countries in Latin America that had opted for reform and modernization. Initially, it recommended ten types of reforms, with an emphasis on deregulation, financial and trade liberalization, and so on. According to Dani Rodrik, the doctrinal traits became visible later on when the "Washington Consensus was transformed into a more doctrinaire approach, a mantra for the uber-liberalizers" (Dani Rodrik, *The Globalization Paradox: Why Global Markets, States, and Democracy Can't Coexist* (Oxford: Oxford University Press, 2011), 164.

[2] *Ibid.*, 164–65.

[3] *Ibid.,* 171.

The fundamental error in the Washington Consensus is that *it cuts away economic development from the internal preparation for development.* It even invites a type of passivity, with a tint of ideology: you do not even have to strive, globalization works for you!

It is significant that after several trips to Africa, Sachs revised his viewpoints and emphasized the need for a country to train its workforce, improve infrastructure, and so on. Undoubtedly, the strongest answer came from the various regions of the world that had adopted other development models. Asia opted for the so-called "export-oriented model" – the early solid establishment of high performance industries that could be competitive on the world market. Brazil, Mexico and Turkey all embraced this model. "Import-substituting industrialization" used internal markets to stimulate demand and imposed high tariffs to allow industry to develop and use the country's economic advantages.[1]

Nowadays, the Washington Consensus meets with decreasing compliance. The important countries, the ones making visible progress, did not follow this model. This is not only "a declining brand" but an unreliable one under the pressure of two equally important factors: the "disappointing" results it generated where applied and the successful economies of countries that opted for other development models.

Then, what did America target? We cannot ignore that the world's ample liberalization turned developed countries, America especially, into winners. In other words, why need a peace treaty talking about (precise, quantifiable) "damages" and obligations? Although not written down, the winner's advantage was consistent and came "naturally"; we are even tempted to say it came "in a civilized manner," without treaties or pacts, by virtue of accepting the vision of free trade as a development engine. What could be more modern and attractive?

We cannot ignore that liberalization involved the advantage for the winner by merely lowering tariffs. Delocalization, the transfer of important production capacities to developing countries with low labour costs, which became a possibility precisely because of these low tariffs, was also profitable. Liberalization involved large scale privatization at a low price. The IMF loans required the privatization of important assets.

If we refer to the Romanian experience in these last 23 years, we could say that reforms visibly diminished the country's development potential. In the early 90s, Romania had no debt and had an active, well-trained workforce in industry, energy and agriculture, all of which recommended it for a constant flow of foreign investment. Nowadays, these advantages

[1] *Ibid.*, 168–70.

have dwindled following a visible deindustrialization process, an amassing of debts and the lack of vision regarding the country's evolution. Privatization was often an opportunity to transfer assets from the state to private hands, after which the assets were stripped. Probably the most relevant indicator of the country's current situation is that Romania does not have its own bank but nonetheless has opted for capitalism. Capitalism without capital…

Going back to our initial question: how could the US reach this critical situation, strained by the crisis, its development model under critical scrutiny, its international prestige visibly diminished? We cannot possibly explain what happened if we do not bear in mind that at the beginning of this period, America had a series of consolidated options, so consolidated, in fact, that they could be taken as *ideological options*. In the context of victory, with the US as the sole remaining superpower, such visions and beliefs had the chance to develop uncensored. America ceased to be the America of which so much was expected. "Ideological" America tamed pragmatic America. In the following chapter, we wish to dwell on one of the gains preceding the crisis.

CHAPTER II

NEOLIBERALISM:
THE RISE AND FALL OF AMERICA

We cannot begin to comprehend everything that happened in the US and around the world without referring to the dominant ideology of the developed world over the last 35 years, namely neoliberalism. Openly embraced by Great Britain and the US, under the rule of Margaret Thatcher (1979) and Ronald Reagan (1980), respectively, neoliberalism became the dominant trend in the Anglo-Saxon world; because the US was the superpower of the capitalist world, neoliberalism had a considerable impact on contemporary society as a whole. The very start of the crisis in the US was a result of the process of deregulation, of changes in the relationship between state and market and production and consumption (with the market and consumption growing prominent) – all strong points of the neoliberal doctrine.

In Michael Meacher's opinion, the neoliberal doctrine generated a new type of capitalism, *the neoliberal capitalism*, now experienced by the developed countries.

> The essential characteristics of this system are the freeing up of markets to operate in as nearly wholly untrammelled a manner as possible, the deregulation of finance, shrinking the state to the minimum role compatible only with security and defence of the realm, privatisation of all industry and services outside this tiny central state core, and empowerment of the private sector as the driving force directing all aspects of economic and financial governance.[1]

Nowadays, neoliberalism has come to embody a paradox, a fact supported by the following assertions. In Joseph Stiglitz's words, "September 15, 2008, the date that Lehman Brothers collapsed, may be to market fundamentalism (the notion that unfettered markets, all by

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[1] Michael Meacher, *The State We Need: Keys to the Renaissance of Britain* (London: BiteBack Publishing, 2013), 83.