

The Economic Crisis of the First World¹

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When the Soviet Union imploded, the nations of the First World – the United States among them – envisioned smooth sailing into the 21st century. There was much talk of a huge "peace dividend." This optimistic vision of what lay ahead has been severely eroded, if not shattered, by a variety of developments, including strife in Bosnia, Somalia, Haiti, and even within the Russian Federation. At the same time, there have been ominous economic problems, conflicts and challenges – the near economic wars, the on-going economic deterioration of Africa, crushing economic problems within the former Soviet Union, the economic stagnation of much of Western Europe, the Mexican debt crisis, high unemployment in Britain, France, and other allied nations, and deindustrialization and underemployment in the United States.

Indeed there are several crises facing the First World, including a moral crisis and a threatening crisis with rogue states with ambitious military agendas that aim at becoming nuclear-armed states. However, in this paper let us consider the economic crisis that in which the First World finds itself. In the United States, tremendous attention is devoted to economic issues, to topical issues, that is – tax and interest rates, housing starts, and similar matters. And a superficial prosperity in the United States causes us to divert attention from the long-range, deeper problems and threats. It is important to remember that in 1928 economists, and political and business leaders, didn't consider the possibility that America was on the brink of an economic collapse that would produce a deep depression until America entered World War II. Have we a clearer vision today?

¹ Editor's note: This article was first published in *Vital Speeches of the Day* (July 1, 1995), having been delivered by Dr. Harrigan at the Institute for the Study of Economic and Political Freedom of the University of Colorado on June 11, 1995. While the author is speaking of Americans and their interests, he makes it clear that he considers his remarks to apply equally to the peoples and nations of Europe.

Here and there one finds students of the world economy who warn of another enormous economic crisis with grim implications for First World societies and political institutions. One of these far-sighted economic observers is Sir James Goldsmith, the Franco-British financier. Two years ago, he began to voice ominous warnings. He said that in the case of Western Europe, with some 20 percent unemployed, "the critical mass is here for implosion and social upheaval and political instability on a global scale." He predicted that the Bolshevik revolution of 1917 will pale into insignificance when compared to this upheaval. And the situation in Western Europe has worsened since he issued that warning.

Now the United States hasn't this kind of unemployment problem, except in its inner cities. The overall unemployment rate for the nation as a whole has risen a bit, but *underemployment* has risen on a colossal scale. Millions of Americans have jobs that don't provide sufficient income to support a family – even with husband and wife working. And many of these millions don't have the benefits associated with the good jobs that existed in the decades after World War II.

Dr. Edward M. Lutwak of the Center for Strategic and International Studies in Washington has analyzed this problem. Dr. Lutwak has observed:

The problem in question is the unprecedented sense of personal economic insecurity that has rather suddenly become the central phenomenon of life in America, not only for the notoriously endangered species of corporate middle managers, prime targets of today's fashionable downsizing and re-engineering, but for virtually all working Americans except tenured civil servants – whose security is duly resented.

The reasons for the economic insecurity felt by millions of Americans are numerous and complex. A key element is exploding technology which has made many jobs as out-of-date as buggy-making. And this has made much employment temporary in nature, thereby endangering working people and their families who don't have advanced technical skills or the education to obtain such. But there are other powerful forces at work: and these forces have a tremendous bearing on Europeans as well as Americans. These

forces cause the displacement of European and American-made goods, wipe out jobs on both sides of the Atlantic, and produce the most terrible anxieties, as well as threatening, as Kevin Phillips has written, to cause the near descent of Europe and North America into Third World status.

It is important to reflect on the words of Sir James Goldsmith. In an article published in *The Washington Times*, November 27, 1994, Sir James said:

During the past few years 4 billion people have suddenly entered the world economy. They include the populations of China, India, Vietnam, Bangladesh and the countries that were part of the Soviet empire, among others. These populations are growing fast. In 35 years, that 4 billion is forecast to expand to more than 6.5 billion. The nations where those 4 billion live have very high levels of unemployment and those people who do find jobs offer their labor for a tiny fraction of the pay earned by workers in the developed world. That means that new entrants into the world economy are in direct competition with the work forces of developed countries.

This is a situation unprecedented in the history of the older industrial countries. China, for example, is directed in large measure at capturing the domestic markets of the Western countries and, thereby, acquiring hard Western currencies for their own purposes – for a massive military buildup in the case of China. Simultaneously, therefore, the Western countries are losing their internal markets on which their peoples depend and are financing new foreign military challenges. Europeans, chiefly the French, are increasingly mindful of this threat. But the United States is fixated on Third World countries as trading partners, not as a developing military threat. This kind of fixation is nothing new. Fifteen years ago, the great business interests of the United States were desperate and determined to sell the most advanced technological equipment to the Soviet Union – products such as super-computers and ball bearings for missile installations.

Blindness to the Crisis of the First World could cause us to descend precipitously along the road to instability and collapse. Sir James Goldsmith is not alone in sounding the alarm. There are other keen observers of the world scene who share Sir James's concerns.

One of these is Arnaud de Borchgrave, the Belgian-born writer and editor, who has written in warning:

By putting one's ear to the rail, one can hear the distant rumble of social upheaval...

Jobs are a global crisis. The 24 Organization for Economic Cooperation and Development nations – the world's wealthiest – now have a mind-numbing 35 million on the dole...

No one knows what the critical mass of unemployment is.

But when the legions of Europe out of work realize that no one seems to have an answer to the shed-jobs-to-cut-costs dilemma, the ingredients for a continent-wide social explosion will be in place. This is now known as the unacceptable force of capitalism.

He reported that 50 percent of Europe's unemployed have been made to feel unwanted for a year or longer.

In Europe there is anger and unrest associated with the unemployment. If one reads the London *Financial Times*, one gets an idea of the severity of the problems from Spain to Ireland and from Italy to Scandinavia. As European jobs are exported to Asia (one-third of Europe's steel comes from the Far East), powerful populist movements are growing – movements which insist on national identity, control of national borders against a flood of migrants and imported goods. These movements are strenuously opposed to what they see as economic and cultural homogenization which would level incomes worldwide for the benefit of financial interests.

On neither side of the Atlantic is there sufficient appreciation of the growing anger. And most commentators blithely ignore the problem. They look at the underlying economic problem in strictly economic terms, dismissing the human dimension. For example, an editor of *Kiplinger's Letter* has asserted that the U.S. is reindustrializing, not deindustrializing, observing that U.S. factories are producing goods more efficiently – more goods with fewer people. But that's precisely the point. Scores of thousands have been thrown out of work in the name of efficiency and global competition. The economic commentators are thinking of society in terms of the cost-price ratio, not in terms of people.

Part of the problem is that so many economic commentators

persist in employing euphemisms for very serious societal problems. One of the favorite euphemisms is "rationalizing" of business. This is how an important British press voice referred to the layoff of 6,500 workers by the Rolls-Royce company in Scotland. It is doubtful that it makes a worker and his family happier or more accepting if he is told that his livelihood is being "rationalized" out of existence, especially if the work is being shifted to Malaysia or another Far Eastern country. The Rolls-Royce announcement was greeted with "anger and dismay in Scotland." At the time of the Kobe earthquake, it was noted that among the damaged facilities was Caterpillar's tractor factory. The jobs at Kobe had been exported from Peoria, Illinois. "Downsizing" is another euphemism. In the last few years, IBM, Xerox, and many other industrial giants have been downsized, with scores of thousands of highly skilled workers – blue collar, white collar, and managerial – laid off. What's happening, in fact, is that the United States is being downsized. For generations, young Americans have been taught the virtues of self-sufficiency, hard work, cooperation, and loyalty. But these virtues are dismissed in an era of "rationalization" and "downsizing." They don't prevent giant enterprises from shipping jobs abroad. And national legislators seem blind to the problem or to the growing public anger at the abandonment of hard-working citizens, the type who made America.

E. F. McLaughlin has reported in *The Washington Post* that employment by America's Fortune 500 companies fell from 16 to fewer than 12 million in 1992. The job loss among smaller manufacturers has been equally severe.

More and more production is being shifted overseas. *The New York Times* reported on August 25, 1995, that there has been "explosive growth" in the number of Indian computer scientists working for American companies. They are paid a fraction of what Americans receive. Texas Instruments, for example, has a plant in Bangalore, India, for computer chip design operations. Jack Beatty of *The Atlantic* cites the devastating impact of offshore production on the American middle class. Social values – job and family security – are being sacrificed for higher profits by shareholders, and the economic interest of the few is being accorded a higher value than the stability of American society. Fewer and fewer Americans are covered by company pensions. Longterm employment is on the decline. Large corporations are trying to slough off scores of

thousands of employees. Labor analyst Harold Meyerson wrote in the *L. A. Weekly* that "the American economy's response to the globalization of markets has been to turn us into a nation of temps." The process is also at work in Europe. Daimler-Benz, Germany's largest company, is planning to shed a quarter of its work force. Philip Stephens, columnist for *The Financial Times* in London, recently wrote of the insecurity phenomenon, saying that "the middle class lifeplan has been tossed aside by the cold winds of global competition. Middle class people are being faced with short-term contracts instead of lifetime guarantees."

Euphemisms in the economic areas mask deeply disturbing phenomena. The March 31 issue of *Forward* pointed this out with great clarity. A column in that newspaper noted:

If an American company closes a plant here and ships its equipment to China, that will be called an 'export.' It will be an 'export' that will not add, but will subtract, jobs from America.

Another case: Component parts from America will be shipped to Mexico, to be assembled there and sold exclusively, by law, in America. The shipments in Mexico will be listed as an 'export,' although nothing was exported except American jobs that once assembled the product here.

Or another case: Component parts for a dishwasher or a car are imported from Third World countries. The labor in the parts makes up 80 percent of the labor in the completed product. When sold to the elite of some Third World country, the value of the finished product is listed as an 'export.'

And so we list as exports the export of jobs, the export of products we imported, the export of products that are never sold to another country. We figment these 'exports' to fictitious 'emerging markets' to conceal the fact that we are moving jobs out of America to other countries where manufacturers are using cheap – often child and slave – labor to make things, carrying the labels of American companies, to be sold in America.

The failure of mainstream European leaders to understand this anger is leading to political fragmentation. There is evidence of a growing divide in Europe. The *Financial Times* says this was reflected in the vote on the Maastricht Treaty, with the professional middle class in favor and "two thirds of working people against it." The glue

that held together the center-right parties is dissolving, in large part "under the impact of European integration and the worldwide move towards free trade," said the *Times*. The opponents of globalism and economic homogenization surely will become a powerful force on both sides of the Atlantic. The Perot movement of 1992 was an indicator of coming change. Much of the Perot message had to do with betrayal of the economic interests of ordinary Americans, those whom a writer for *Fortune* magazine (February 1995) referred to as "the have-less half of the middle class." The political explosiveness of the situation a few years hence should be apparent to every thoughtful citizen. Imagine the anger of a 45-year-old middle manager who has been "restructured" out of his job and the ability to pay his mortgage, make his car payments or send his children to college.

Americans and Europeans soon may begin to understand the price of the transnational "free market," the globalist vision of those who are contemptuous of the losers in their countries' populations and who seek the protection of the nations where they are headquartered but who disavow any responsibility to the interests of their nations. Where this leads one can't predict, but one recognizes a loss of living standard expectations on the part of many millions who are squeezed out in the game of globalist competition. These are citizens who are shoved to the margins, irrespective of the promises of Western democratic government. The prospects are dismal for many Americans and Europeans even as some elements in their nations profit enormously from globalism. In our time, greed overwhelms patriotism, as evidenced in the opposition to trade policies which would safeguard the economic well-being of millions of ordinary Americans who have lost or will lose their jobs.

Something is very wrong when a company decides to maintain only its head office and, possibly, its sale force in its home country, and transfers production to low-wage countries. I submit it's immoral to eliminate one's national work force and transfer production abroad. The argument has been that the losses will be made up in advanced products. But, as Sir James Goldsmith has noted, when the French signed a \$2.1 billion contract with South Korea for high-speed trains, it produced only 800 jobs in France. More and more aircraft contracts with Asian countries mean shifting large parts of the production process to those countries. The believers in the theology

of total free trade seek a worldwide market in goods, services, capital, and yes, labor. That means the hollowing out of American manufacturing enterprises. It means that U.S. workers have to compete with Chinese workers who earn twenty cents an hour.

The focus of the major financial interests is not on the United States, the American economy, or the needs of the American people. Indicative of this lack of focus, of an alternative focus, was a symposium held in May 1995 in China under the auspices of the *International Herald Tribune*, which is jointly owned by *The New York Times* and *The Washington Post*. The paper, to use its language, invited to China a "limited number of the largest multinational corporations with a stake in the future of the Chinese economy." It would be interesting to know the names of these multinational corporations, which are headquartered in the United States, where their investments are being made, and especially, how much is being invested in China and other Asian countries and how much in the U.S. Finally, what percentage of their goods manufactured abroad is sold in the American market? This is information that the American people need to know, which Congress is not trying to obtain for them.

The American people have paid a hellish price for this focus on the economic future of countries such as China, which are earning huge profits from penetrating the U.S. domestic market in order to challenge the United States. The price is not only in lost American jobs but stagnated communities, deteriorated wages, the drying up of small businesses, and dependence on export markets, meaning dependence on foreign regimes and their financial maneuvers. The greatest loss, of course, is America's economic sovereignty.

Those who defend globalization, despite these losses, argue that the United States can more than make up for them by training unskilled workers. But this training is not the answer to the problem of unemployment in Europe, or unemployment in the United States – the proliferation, that is, of jobs that don't pay enough to provide even a minimal standard of living. Even *The Economist* magazine, which is an ardent supporter of globalization, recognizes that "wages at the bottom are lower in America" than in Europe. And it admits that "training can even be the royal road to ruin." Those interested in so-called "rationalizing" of jobs can gain more advantage by eliminating jobs where there is demarcating of jobs based on skills rather than establishing frequent, costly job-training programs. And

the presentation of job-training as the magic bullet ignores the fact that employers prefer younger, supposedly more flexible workers than middle-aged workers who have lost their jobs through corporate "downsizing." In any case, what are so-called redundant workers to be trained for? America's global competitors aren't without skilled workers or brains.

It is politically fashionable to speak of "empowering" Americans, meaning restoring them to a condition of individual responsibility and local control – both worthy objectives. But the most important empowerment involves the restoration of their family values, moral values in the public environment, and economic empowerment. Over 15 years, they have lost economic power enjoyed by previous generations of Americans.

There are many who profess to believe in democratic principles and a moral approach to the organization of American society but who show disdain for the ordinary American. An example of this was an article by *Washington Post* columnist Richard Cohen (February 2, 1995) in which he lambasted popular opposition to the \$40 billion Mexican bailout. He declared that the people "aren't always wise." To be sure, it was their money, their credit, that was on the line. And so it is with the grand globalist economic schemes. That ordinary Americans suffer in the process seems to be of little concern to those who predict vast opportunities in so-called emerging markets such as China. But there's no reason to believe that the American people, apart from Wall Street investors, stand to benefit from a \$30 billion trade deficit with China.

The dark scenario I present here is not simply one person's vision. A Shell International Petroleum Co. economist, Peter Kassler, has presented a scenario called "Barricades" which envisions social and economic chaos under the GATT trade regime, with unrelenting job cuts and downward pressure on wages in industrial countries. *Business Week* (December 19, 1994) said that "potent opposition is growing against the politicians who would further weaken a nation's power to set its economic course."

It reported on the so-called "anxious class" on both sides of the Atlantic, noting that in Britain wages are stagnating and that nearly 90 percent of new jobs in the U.K. are part-time. In France, Sir James Goldsmith says, hard-nosed corporations press for lower wages at home or "rush to the Third World to exploit cheap labor."

The conditions described here constitute the so-called New World Order, the transnational world order. This New World Order already has played havoc with the lives of millions of Americans and Europeans. The existence of a \$150 billion trade deficit with Asia – for the United States, that is – is a feature of the New World Order and derives from the economic priorities of those who favor the transnational outlook. But this New World Order may go the way of other new world orders in the 20th century – the socialist, communist, and Nazi new world orders. And the struggle over the latest New World Order will focus on a variety of questions, involving what one writer (*Washington Post*, January 29, 1995) referred to as "intertwining forms of governance, ideology, cultural life, and the protection and distribution of goods" – and, I would add, morality.

As a civilization on both sides of the Atlantic, the First World has not found its way through this thicket of issues, forces, and problems. I suspect that it hasn't a great deal of time to repair the fabric of its civilization and also meet the economic challenges it faces, as well as deal with the internal stresses and anxieties – and anger – provoked by economic policies and tendencies. *Business Week*, a certifiable establishment journal, asserted (December 19, 1994) that if the U.S. doesn't find a way, "There could be hell to pay," a logical conclusion. If Americans and Europeans, the working people, don't get the rewards they believe they deserve, that their countries' striving over generations seemed to ensure, the result will be strife – revolution, that is, in one form or another. The anxiety level is rising, and if the standard of living is whittled away by runaway globalist policies, the backlash will be like nothing we have seen in the post-World War II history of the North Atlantic nations. What form it will take is unclear at this time. But it surely will occur. Precisely how the economic crisis will impact society in moral terms also remains in the realm of the unknown. One thing is certain: the peoples of the West will not simply accommodate themselves to diminished expectations and diminished results. And there will be a massive vote of no-confidence in the political and cultural leadership elites in the West who have steered us into decline, or who have been indifferent to the dangers and tolerated decline.

Dr. Winifred McClay, an historian at Tulane University, has written that need exists for a "consolidated or nationalized political and economic order." Such an order would overcome the

establishment notion that national sovereignty and economic independence are things of the past. It would put public policy in a new moral framework, a framework of respect for all Americans and American interests. How does America achieve a new nationalist, as opposed to a globalist, economic policy? The answer could be the subject of many lectures. But I submit that the essential first step is to defang the transnational multinational companies, the money power that increasingly holds the First World in thrall. And how can it go about defanging them? By restricting their operations, placing limits on those who are headquartered in the nations of the First World and seek the protection of those nations while rejecting any special loyalty to them. If they shift their manufacturing operations to low-wage Third World countries in order to sell their slave-wage-made goods in the American market, then let them be subject to penalties. In other words, strike at their profits. And the foreign-headquartered multinationals would be subjected to the same barriers employed by the Japanese when the latter protect their national economic interest. There is nothing radical about such an approach. It is what the U.S. supported when the Sherman Anti-Trust Act was written into law to block the operations of the monopolistic domestic cartels of the late 19th century. And I submit that the new policies of limitation would have the same moral purpose as the Sherman Act, which was passed to protect ordinary Americans from exploitation.

As a traditional conservative I regard problems of moral decline and economic threat as two faces of the same coin. I believe that in recent years, as a result of the emergence and power of the transnational corporations and the transnational globalist international organizations, the U.S. has departed from the ways prescribed by the U.S. Constitution and from the moral instructions as evidenced in the Preamble to the Constitution with its dedication of the U.S. system of government to the promotion of the general welfare. The U.S. needs a new emphasis upon virtue, authentic justice, recognition of shared experience and shared devotion to the common good – all that America is about, as the Founding Fathers ordained in the Constitution. And as a traditional conservative, who fears a post-constitutional America, I look for wisdom and understanding wherever I can find it – even in what may seem the most unlikely sources. I found evidence of it in a statement by

former Gov. Jerry Brown of California, not someone I have quoted favorably before. Interviewed by *Chronicles* magazine, a conservative intellectual journal, he said that the U.S. needs

enrichment of the community and real deconstruction of the workings of the global economy, global institutions – the central banks, the General Agreement on Tariffs and Trade, the World Bank, the multinational companies – and of the way in which our lives are being embedded in a runaway, large-scale corporate, global culture that is undemocratic, inhuman, and destructive.

What he said of the U.S. is true of the First World generally. The late Russell Kirk, the great conservative thinker, could have written these words. They are in the spirit of Edmund Burke and the Founding Fathers of America, and they provide the goals for the moral recovery, community strengthening, and economic safeguarding of the nations of the First World generally. If America and the other Western nations embrace this understanding, adopt this new direction for their national affairs, and wake to the need for a restoration of the moral virtue that characterized their civilization in the past, they should be able to overcome all the challenges we have entioned and reinvigorate the public and private order built upon the priceless heritage of the Western world.

The Changing Economic And Political Environment In The Gulf Monarchies¹

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For the last few decades the Gulf region has enjoyed an increasing strategic significance due to its growing share of world oil production and export. Moreover, two-thirds of the world's oil reserves are located in the Gulf. Thus, it is fair to state that the prosperity of world economy depends, to a great extent, on the regional security and political stability of the Gulf region.

Since independence, Gulf regimes have based their legitimacy on tribal heritage, religious appeal, family power, and abundant oil wealth. Tribes play the role of political parties and the distribution of socio-economic and political power reflects the relative weight of each tribe. Islam is the official religion in all the Gulf states and Sharia'a (Islamic law) is the basis of their legal systems. Most of the royal families have dominated their societies for a long time² and still hold the main positions in their systems including the head of state, crown prince, prime minister, as well as the main portfolios such as defense, foreign affairs and interior. Finally oil shocks in 1973, the Arab-Israeli war, and in 1979, the Iranian Revolution, put enormous wealth in the hands of the Gulf rulers.

This equilibrium provided Gulf regimes with a high level of stability in most of the 1970s and 1980s. However, beginning by the early 1990 these rules of the political process have been under pressure. There are growing signs of popular dissent. This diminishing consensus has not taken the shape of violent revolution, rather it has been embodied in a number of petitions signed by religious leaders

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² For a detailed history of these royal families see Gawdat Bahgat., "Regional Peace and Stability in the Gulf." *Security Dialogue*, vol.26, no.3, September 1995, p.86.