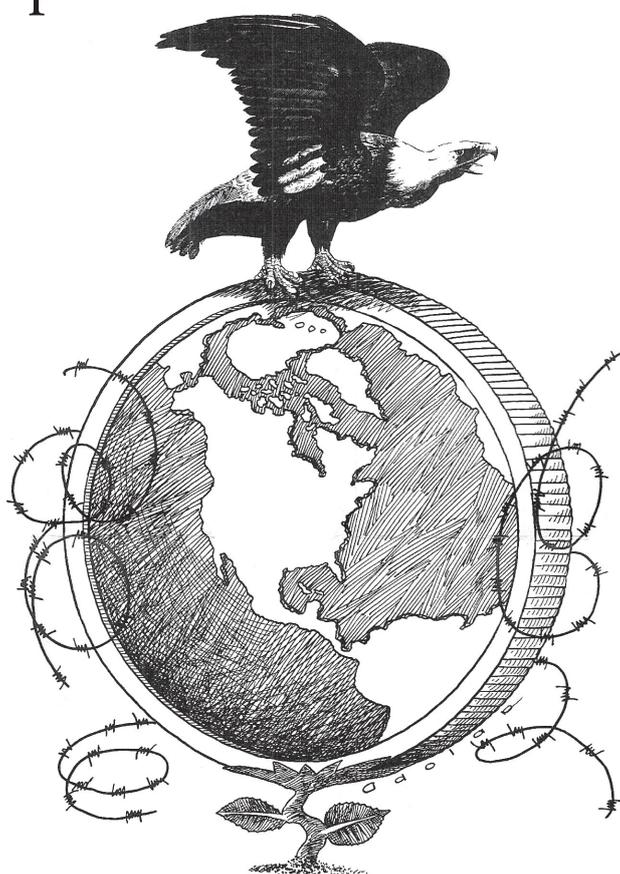




Trade, Power and the Future

Rubens Ricupero



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“Without stability there is no salvation” 15



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1. Trade, Power and the Future

Rubens Ricupero

We live in a peculiar age, a sudden end to confrontation between great powers, without peace treaties or international conferences to reorder the world. There no longer is room for more grand designs and projects for universal redemption like the League of Nations or the United Nations. Moreover, we see dissonance between competition and multipolarity in the world economy and the concentration of strategic military power in a single country.

The Cold War has ended. It ended not with a conquest by the victors, but with the collapse of the defeated, opening the way for unification of the world market. We would not exaggerate by saying that the political effects of the collapse of the Berlin Wall are overshadowed, in terms of the future, by its economic impact on the infrastructure of production.

The shock waves sent across Europe by that event swept away the barriers that separated the centrally-planned economies from the rest of the world, destroying COMECON and incorporating, one after another, the ex-socialist countries into the IMF, the World Bank and, after negotiations still incomplete in some cases, GATT. Since China already had begun its rapid entry into global markets through trade, we are concluding a radical change in the division between centrally planned and open market economies. As each day passes, we see shrinkage of the space still occupied by statist economies like those that crystallized in socialist nations during the Cold War.

The market economies, and the Bretton Woods institutions (plus GATT) that regulate them, advance quickly now to complete the work of unifying markets on a global scale, a task begun by the great European discoveries of new navigation routes to the Indies and the Americas. A consequence of the economic and social changes bred by the end of feudalism and the cultural revolution of the Renaissance, the Vasco da Gama era of Asian history arose, according to the Indian historian K.M. Panikkar, from colonial exploitation to carry out a forced cultural uniformity and growing interpenetration and integration of the great civilizations. In fact, as Charles Boxer wrote in *The Portuguese Seaborn Empire*, the clearest feature of the history of human society before the Portuguese and Spanish voyages of discovery was

the dispersion and isolation of the different branches of humanity.

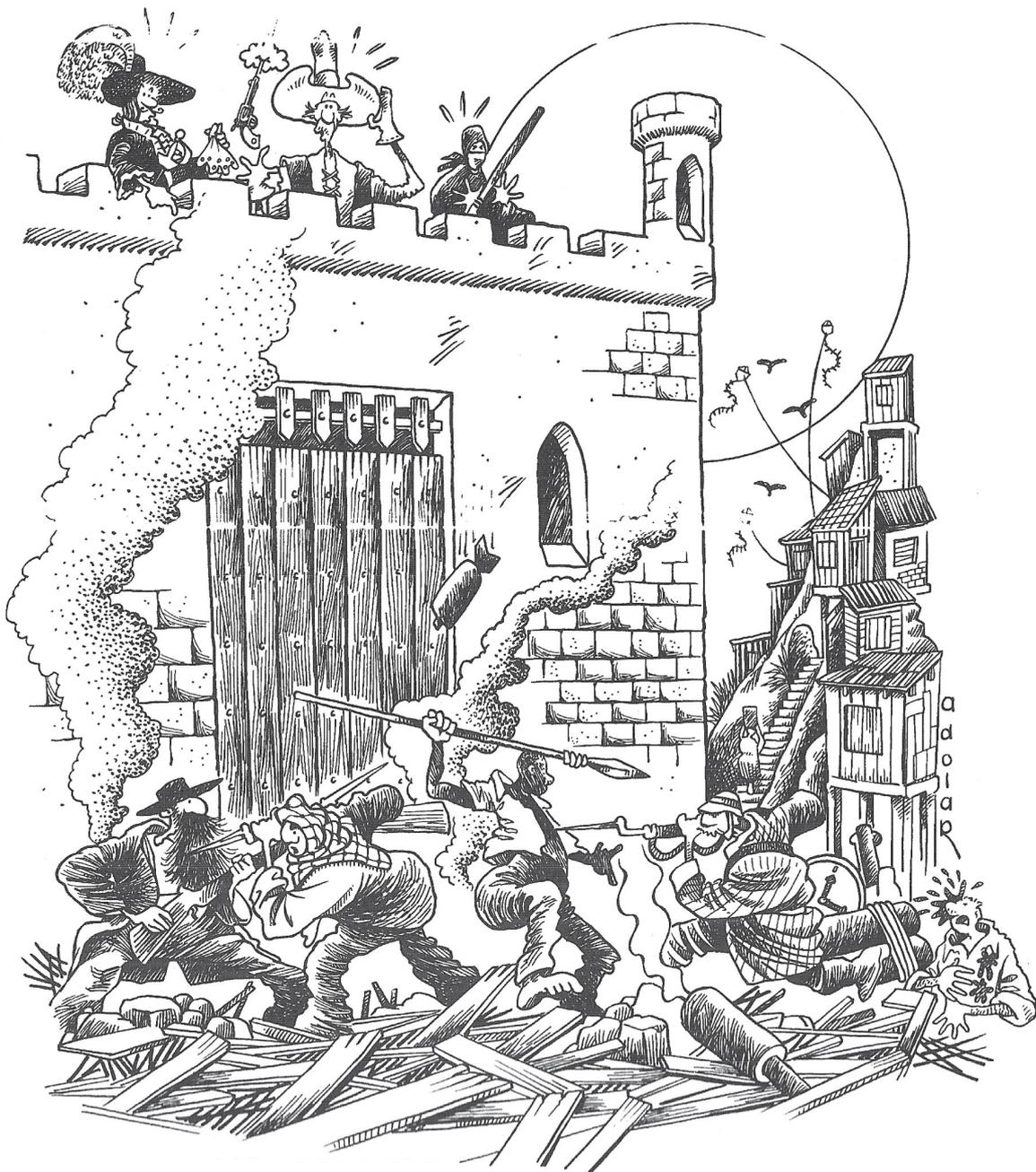
In this sense, unifying of the productive infrastructure of trade most likely will influence the future more decisively than changes in the strategic military domain. This hope rests above all on the globalization of the world economy, manifesting itself in geographical shifts in production, in the integration of markets and the concentration of investments, financial flows and technology among the three regional cores of the world economy: the United States, Europe and Japan.

Production of many goods and services are distributed geographically today among different countries according to the logic of cost. One initial effect of the globalization of production is that it corresponds to the give and take inside big corporations, the inter-office trading between the headquarters and its subsidiaries, or between subsidiaries. The more globalized manufacturing industries are also those with greater dynamism in driving the growth of international trade: motorized vehicles and equipment, non-electric machinery, chemical products and electric/electronic equipment. A second effect lies in the tendency to unify the norms and standards of companies with operations in countries with different legal regimes. If economic trends lead toward integration, laws and institutions governing services, intellectual property, competition, the environment, product standards etc., become more and more subject to efforts at international harmonization.

This is called deep integration, different from shallow integration. Deep integration means harmonization of different national laws and standards in areas previously considered part of domestic jurisdictions, such as services, intellectual property and investments, meeting strong resistance before the launching and completion of the Uruguay Round. Shallow integration merely applied to border restrictions such as tariffs, quotas and other quantitative barriers traditionally applied at the border for imported goods.

GATT's recently concluded Uruguay Round was the first major series of international negotiations to embrace these two types of integration. It was able to incorporate rules for investment and the commercial effects of patents in the new multilateral trade

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organization just created. From this point of view, the Round became a kind of enormous constituent world assembly that adopted, for over 110 countries, norms to regulate, at this turn of the century, the quick march toward formation of a unified world market for goods, services and factors of production, with the least amount of discrimination possible in relation to the geographic origin of production or consumption.

This outcome emerged from the logic of recent history. Predictions of the Uruguay Round of GATT negotiations ending in an apocalyptic fiasco were hollow and superficial. Disagreements over such relatively minor issues such as how many tons of subsidized wheat France can export or of how much rice Japan must import would not destroy, on the eve of realization, the dream of a unified market now made possible by the collapse of socialism. But it is unlikely that development

of the world market will be defined exclusively in years to come by any of the chemically pure alternatives envisaged by some specialists: (1) continuation of GATT as in the past; (2) fragmentation of the world economy into trading blocs; (3) domination by managed trade through discrimination, or (4) emergence of a GATT system, or super GATT, that is more deeply integrated.

It is more plausible to imagine a future multilateral trading system not contrasting radically with what has been evolving up to now. As now, it will be the sum or coexistence of these four dimensions. We will see a gradual emphasis on aspects shaped by globalization of the once-national economies and by unification of markets that in the past created reserves for import-substitution. There will be a permanent dialectic tension between these elements. First and foremost, this tension confronts the imperatives for uniformity demanded by

regionalization and/or globalization with the persistence of national attitudes in the decisions of parliaments and executives. The rhythm of these two movements do not coincide, causing clashes between tendencies for economies to become less national and more regionalized or globalized, on one hand, and reaffirmation, in decision-making, of national sovereignty which is the basis for the political organization of States. This problem assumes a higher profile in continental nations with weaker vocations for regional or global integration, such as Russia, China, India and Brazil.

We do not foresee, as a danger on the horizon, the improbable nightmare of a world trading system fragmented into exclusive and closed blocs. What cannot be excluded is consolidation of the middle-aged regional forms of integration such as the European Union or even incipient ones like NAFTA, without them necessarily becoming isolated and self-centered fortresses.

The same prospects confront managed trade. As in the past, it will continue to be a preferred way of dealing with conflicts caused partly by a political need to protect certain domestic sectors, and by the inability to do so legally by tariffs or GATT regulations. In these cases, we will continue to see expedients like organization or ordering of markets and voluntary agreements to restrict exports, all part of the imaginative arsenal in the gray area of trade diplomacy. These are the most harmful expedients in trade policy, owing to their discrimination, lack of transparency, and affront to the principle of the Most Favored Nation, one the basic pillars of GATT.

In regional blocs as in managed trade, the relatively successful outcome of the Uruguay Round strengthens the multi-lateral system and reduces pressure for closed or discriminatory regional alternatives. We thus close a triangle. One leg of the triangle is formed by

globalization of production and another by unifying markets. The third leg is the tendency to concentrate direct foreign investment in three core areas: the United States, the European Union and Japan. Between 1983 and 1989 these investments rose at the extraordinary rate of 29% per year, or three times export growth and four times the increase in world production. In these same years the developed economies raised their share of world investment flows from 75% to 83%.

The three core areas generate roughly 70% of inflows and 80% of outflows of direct foreign investments. The pattern of distribution of these resources clearly reflects the domination of each core over an area of geographic influence in its respective hinterland. The United States dominates the Western Hemisphere (excepting Brazil and one or another southern country, where European investments are still greater). The European Union overshadows others in Eastern Europe and Africa, as does Japan in Asia. At the same time, investments tend to pull in financing, trade flows and the technology transfers behind them, as in relations between Mexico and the United States.

This regional investment pattern increasingly links developed cores and developing economies. However, the most significant part of the flows of foreign investment is consumed by developed countries in their respective economies or by the increase in the already voluminous stock of capital exchanged between the three core areas. This is more than enough reason to question prospects of a trade war between them.

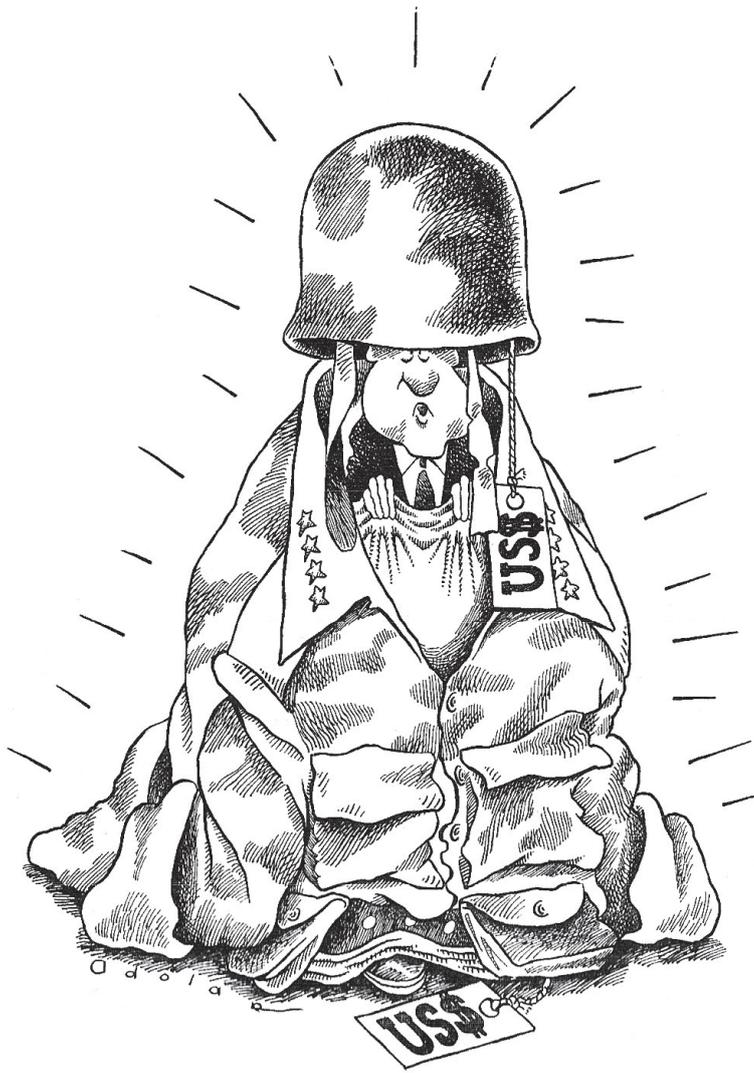
We thus see the three prominent elements of the current panorama: globalization of production, unification of markets and regionalization of investments in an ever more integrated economy on a planetary scale, dominated by three advanced cores.

2. Imbalance between military and economic power

The current situation is strange to us because of the imbalance between economic and military power. The reality of distribution of economic resources among world powers, when compared with distribution of military strength, is as distorted as a funhouse mirror in an amusement park.

For the first time in a long while, both conventional and nuclear arms, as well as their delivery systems to reach any point on the globe, are concentrated disproportionately in American hands. This concentration is greater now than even in the short interval

between 1945 and 1949, before the detonation of the first Soviet atomic bomb, when the U.S. had a nuclear monopoly and overwhelming economic and financial superiority. At that first stage of development of atomic arsenals and strategy, what still really counted was conventional power. This the Soviets had in full, in the formidable Red Army. When Truman carried out an accelerated demobilization of American forces, Stalin was fully willing to use it, threatening and pressuring Europe, Berlin, Prague and Venice.



Notwithstanding the recent cuts in the defense budget and the closing of military bases, there is no way of comparing what we see today with events of that era. The Pentagon still commands crushing superiority in four areas: (1) the quality and quantity of nuclear arms; (2) the complete panoply of strategic vectors intercontinental missiles, bombers, and especially the Polaris missiles carried on nuclear submarines; (3) sophisticated conventional weapons, as demonstrated in the Gulf War (4) efficient and costly logistics of projecting this power at great distances. The military power of western allies, such as the French or the British, do not account for much in comparison to this. China is still in its growing stages. On a smaller scale, the Russians and the Indians maintain much of their physical stock for the time being, even as they suffer from the implosion of the USSR. However, physical assets do not always mean real capacity to mobilize this theoretical potential. Until when will the Russians be capable of modernizing and renovating its prematurely senile arsenal? We will not even consider for now the daunting challenge of competing with the Americans in

the continuous perfection of not only strategic weapons but also the latest conventional arms. Even in the most optimistic hypotheses, it will be long before Moscow returns to the role it played in the 1970s.

The new asymmetry comes from the end of the bipolar system of the Cold War, with the collapse of one side and the liquidation of its military alliance. After over 40 years of bitter competition with the United States and NATO, the USSR and the Warsaw Pact abandoned the game and left the field to its victorious rivals. Instead of dispersing, as is customary at the end of great conflicts, the Western Alliance stuck together owing to the uncertainty that hangs like a cloud over Russia's horizons.

The splendid isolation of the Americans at the pinnacle of power is neither usual nor frequent. Its durability, nevertheless, depends on factors yet to be defined. For example, nothing indicates what immediate dangers of disunion threaten the Atlantic Alliance, whose greatest problem now seems to be how to manage the eagerness of the central and eastern European countries to join in mass. No signs appear of creation of rival alliances. Those who would like to reinforce their authority (i.e. Russia and China) are incapable of generating the level of economic surplus needed to cast a shadow over the United States. The most

likely prospect for restoring a some strategic balance is still the European Union which, however, seems still far from the dream of a common foreign policy, further still from a political integrated defense system that could even minimally counterbalance the Americans.

Although unusual historically, the situation at hand does have a chance of surviving the Cold War for some time. In this interval, it is producing some substantial effects. As long as the present circumstances prevail, at least in the military-strategic area, we cannot deny that we live in a unipolar system in which the U.S. commands clear hegemony. Even an improbable union of its potential adversaries could not form a counterweight.

All this said, we must explore the extent to which this strategic hegemony can dispense with the financial and legitimizing support of third parties and to what point the domestic problems and public opinion will put real and tangible limitations on the uninhibited use of U.S. military power.

If the United States no longer possesses the incomparable economic superiority that the temporary circumstances of World War II gave it for some time, its

weight in nearly all economic and international financial affairs is still decisive though not unilateral.

Notwithstanding the prognoses of decline in the 1980s, the U.S. economy continues to show robust vitality. As in the early 80s, the United States is today the first of the leading advanced nations to come out of recession. Its expansion has accelerated in the last few quarters. The annual growth rate, although moderated, has been influential, given the scale of an economy of six trillion dollars. Some structural indicators of competitiveness and productivity have reversed the recent tendency to decline. Also, the Executive is beginning to confront great macroeconomic imbalances, such as the double deficit of the budget and current account, with therapy that, while gradual, is already producing effects. The United States has recovered its position as the world's leading exporter, regaining the edge lost in many areas of services and manufacturing in the mid-80s. Today its economy is much more dependent on foreign commerce than it was 30 or 40 years ago. Its integration with the world economy is an important factor to counterbalance the internal pressures in Congress in favor of unilateral trade policies. The big banks overcame both the deficit and the savings-and-loan crises, to once again appear in the top places in international financial rankings. The surge of the dollar and the New York stock market whenever international political crises disturb the sensitive nerves of investors serves as a reliable thermometer, showing that the markets do not fool themselves about the fundamental stability and solidarity of the U.S. economy.

One of the most suggestive indicators of these qualities is the capacity to create jobs, in contrast to the greater rigidity and persistent high unemployment in European labor markets. One cannot, however, ignore the low quality and pay of many of the new jobs (most being in the service area). The extended working day, the degradation and misery that affect the ghettos and minorities in decaying inner cities. Despite racial and social problems, it is hard not to be impressed by the dynamism and openness of a society that can absorb continuous waves of foreigners from the most contrasting ethnic origins, with much less trauma than

in Europe. This dynamism led the Census Bureau, a year ago, to review all past demographic projections. It had predicted that the American population would stop growing by the year 2000. Now the Bureau announces that the country's population will keep growing to 350 million (against 250 million now) by the year 2050, beyond which it makes no further estimates. Among the main factors explaining the increase (such as the rise in fertility), is immigration. The country will absorb 900,000 legal and illegal immigrants per year in the next decade!

These facts and trends confirm the vitality of the country and its economy. In no way do they nullify the reality that other financial-economic centers have appeared in the world. Nor is it possible for the United States to continue to support the huge burden of a military budget the size of Brazil's GDP and simultaneously to generate enough surplus to reconstruct its social and economic infrastructure and to maintain its productive and competitive capacity.

Upon recognizing and precipitating the fall of the Soviet Union and liquidating the arms race, Gorbachev offered the Americans a providential way out that neither the Bush nor the Clinton administrations wasted time in exploiting. This means a foreign policy built on two central pillars: economic recovery and reconversion of defense industries. These goals are tied to and condition each other. In order for the economy to recover, Clinton must reduce the budget deficit by cutting Pentagon expenses or the continued growth of its spending. He hopes to accomplish this through cutting the number of troops stationed abroad, the closing of military bases, and drastic reductions in orders for military hardware. He must do this to maintain the belief that the country will stay free from permanent economic decline.

In short, the United States continues to be extremely powerful in almost all aspects of economic life. However, its power is far from absolute and even less self-sufficient. In the distribution of economic resources that, among other factors, determine relative power, the world is decidedly and increasingly multipolar. Everything indicates that this reality is here to stay.

3. The United States and the sharing of power

The international system that we see replacing the bipolarity of the Cold War is not as unipolar as it is commonly said to be, unless military power becomes the single defining element. This approach would be justified only if we believed that conflicts between sovereign States were always settled by military power. The strategic American hegemony would prevail in this case, separated from economic limitations or of the ethical-political legitimacy make this apparently arbitrary capacity to exterminate any adversary more theoretical than real.

The Gulf War showed that, even in conflicts important to its global interests, the United States needs economic support from third parties, the blessing of United Nations resolutions and the subordinate participation of its Allies. Sharing the burden of imposing the new order is not a matter of choice but of imperious necessity. Without it, nothing would have allowed the relief provided by the end of the dispute with the Soviets. Washington would continue to be threatened by an engagement beyond reason, inhibiting economic recovery. The Americans may feel compelled at times to act on their own. Nevertheless, such actions are becoming so uncommon that, some time ago, when pressured to give a justifiable cause for unilateral action, one senior defense official only could in babble: "Well, in the case of invasion of United States territory..."

American public opinion is wary of intervention in conflicts like those of Somalia and Bosnia, even in company of its Allies. This deep reluctance, which we cannot underestimate, compounds real economic limitations. This is why the U.S. government failed to achieve a minimum of credibility with its frequent



and unavailing threats against the Serbs. Zbigniew Brzezinski once defined the foreign policy of the Clinton Administration as "limited internationalism, with minimum and indispensable engagement."

Under normal circumstances, the multipolar distribution of technological and economic resources sooner or later would find its equivalent in the balance of military power. Theoretical capacity to develop arms and delivery systems depends on political motivation to make this potential a reality. Hegemonic power would decide whether to tolerate or encourage such development. The will of

governments and of public opinion in advanced countries to take this step separates the economic-technological means from military reality.

The United States seems to accept and even encourage Japan, and on a smaller scale Germany, with its power diluted in the European Union, to take on greater responsibilities (and financial burdens) in defense of themselves and areas of their influence. This encouragement does not reach the point of wanting others, even allies, to become their strategic equal (as stated in a Pentagon study toward the end of Bush's term, later censured). The United States starts a movement that may be very hard to turn around, sponsoring the entry of two other economic giants into the Security Council, pressuring them to take part in peacemaking operations, by increasing their military presence in their respective peripheries. Moderating the pace of this process is the reluctance of the Japanese and Germans to embark on a course that has brought them disaster in the past. By abandoning the economic advantages

of the American umbrella, they would face the living fears of their neighbors, constitutional obstacles and cultural resistance in peoples with little enthusiasm for militarization and a more active international role.

In the mid-1980s Professor Richard Rosecrance defined two international systems: One was the bipolar strategic confrontation, led by the rival superpowers with their enormous territorial bases. The second was that of the Trading States, committed to the fulfillment of their prosperity through peaceful commercial means, not by the conquest and control of territory. Now that one of the two poles involved in the military dispute has collapsed, ending the Cold War, we face difficulty in fusing the two systems.

A more complex international system is formed by the pieces of this mosaic, with a certain dualism, within a greater tendency toward multipolarity, a sui-generis kind of multipolarity, owing to the presence and special character of the leader. Students of international systems always argue that one of the main differences between bipolarity and multipolarity is the role of a leader in the first (two blocs, two antagonistic alliances, each with its own leader) and the absence of a leader in the second. Now, since one of the alliances of the previous system has survived, and owing to U.S. strategic hegemony, the United States is more equal than others in the new system, inclining toward multipolarism, yet obeying U.S. leadership.

A second explanation of the uniqueness of the present power configuration is the way a relative balance is sought or established. In traditional thought, the balance emerges from specific weight of member countries. The number of principal actors determines whether the configuration is unipolar, bipolar, or multipolar. We suppose that each of the main actors is a first rate player in every fundamental area of power: financial-economic, political, technological, and military. However, the actors in these configurations vary in their capacities: Those that stand out in economic and technological strength (such as Japan) may not excel in military power. Equilibrium will be created by a complex game in which the players counterbalance each other in competition by different means (financial dependency weakening strategic hegemony, for example). The peerless advantage of the United States in this game is that it has the unique capacity to compete in all areas: military strategy (Gulf

War, Somalia), financial-economic (G-7, G-5, FMI, World Bank, GATT), technology (Star Wars, space exploration), political-diplomatic (United Nations, Middle-East negotiations, Angola Peace Commission).

This superiority enables the United States to act as catalyst of coalitions to manage crises such as the Gulf War, the Somalia operation, and multinational efforts for economic rescue of Russia and other ex-members of the USSR. In these cases Washington's initiative is indispensable. There are no other volunteers. When the Americans so desire, things happen, as in the reaction to the Iraqi invasion of Kuwait. When they hesitate, discussions drag on and remain inconclusive, as in the Serbian aggression against the Bosnian Muslims. The United States is not all-powerful, as demonstrated in Somalia, Bosnia and Haiti (up to now). However, without it or against it, others can do little.

Aside from leadership, a remnant of the time of bipolar alliances, another hallmark of the present situation is the frequent recourse to multilateral processes to mobilize, for American initiatives, greater legitimacy and more forms of action. What the United States needed for this was ever-closer alignment of policies, first Soviet, then Russian, for arguments developed by the State Department in the Security Council where, beyond greater Chinese unpredictability and some sporadic difficulty with the Russians or other members, it has not been difficult to obtain the legal coverage needed to avoid resorting to unilateral operations such as those against Libya and Panama.

Manipulation of the Security Council is complimented and reinforced by skillful use of the soft power mechanism. This gives the United States and its allies in the International Monetary Fund, the World Bank and the bodies controlling the exports of double-use technology the ways of subordinate aid or mere access to certain supplies in obedience to certain standards in economic management, the environment, human rights, etc.

This vast panoply of instruments ranges from blunt and brutal to the most subtle and indirect. They enable the makers of American foreign policy to refine, according to circumstances, the efforts by which they seek to mold the clay of change at this century's end, giving it order and form where possible.

4. 30,000 nuclear warheads make a difference

The main beneficiary of the present power structure is the United States, which is strongly interested in avoiding harmful change. The nostalgic myth of the American Revolution as a revolutionary force, the folk memory of Woodrow Wilson's ideal of Good Neighbor Policy persuade Americans that it would be unjust to call its politics a defense of the Status Quo. However, it would be exaggerated to consider the effects of this policy as revolutionary or reforming in the most varied scenarios, from the pacification of the civil wars in Central America to acceptance of limited changes in the membership and procedures of the United Nations Security Council.

There was a time when the 1968 intellectuals advised Washington to facilitate the inevitable revolutions in the Third World. Nevertheless, the United States learned the hard way in Iran and Nicaragua that the leftist or fundamentalist revolutionaries eventually become its enemies. This taught American leaders a realism not too different from Europe's ways of thinking.

In no other continent has this realism been carried out with the vigor and cruelty applied in Latin America, region par-excellence of American hegemony and theater of its latest unilateral interventions: Grenada and Panama. Three lines of action guided Washington's efforts to control and guide events: the containment of conflicts and revolutions in Central America and the Caribbean; the end of South American military regimes, and solution of the foreign debt crisis by sponsoring economic and trade reforms, culminating in NAFTA and a hemispheric project for free trade under the aegis of the United States.

Panama and Nicaragua eloquently show the progressive toughening of U.S. policy. During the first few weeks after the Sandinist revolution the State Department gave some support to ease the transfer of power in Nicaragua. Disenchantment and frustration, however, did not delay in poisoning increasingly hostile relations with the new regime, repeating, incidentally, what happened 20 years ago with the Castro revolution. From Reagan on, the Americans were to resort to the most drastic clandestine measures. These continued until the Sandinists gave up power, in a way like the one followed by the USSR and other socialist countries. As to the Isthmus, what is equally clear is the evolution of a flexible attitude to accommodate Torrijos in the Canal Pact negotiations toward the armed intervention against Noriega, taken to prison in the United States in an episode reminiscent

of the Roman Triumphs. Negotiations to pacify the El Salvador guerrillas follow a similar pattern, with pressure for democratic and moderately reformist regimes. It is too early to predict the outcome of these reforms. Nevertheless, judging by what has been happening until now, Nicaragua, El Salvador, Panama and Guatemala show scarce signs of disposition or capacity by the new leaders to confront the structural problems causing the Central American drama. Less apparent still are signs of the U.S. government's desire to give them sufficient backing to do so.

The democratization of the South American regimes certainly must have had some encouragement from Washington but was, in essence, the product of internal developments. When some countries were threatened by relapse into military rule, the Americans have not hesitated in showing disapproval. However, whenever the movement, albeit unconstitutional, calls for controlling inflation and promoting market reforms, as in Peru with Fujimori (and in Russia with Yeltsin), the U.S. official explanation invariably finds a way to adjust democratic principles to pragmatic demands of realism.

Throughout the painful decade of the foreign debt crisis, first the Federal Reserve and then the Treasury Department never lost control of the situation. Treasury, through the Baker and Brady plans, dominated not only debt politics but also the arbitrary policy toward a Latin America enfeebled by the chronic hemorrhage of debt payments that left it at the mercy of the conditionality and pressures of multilateral agencies and other creditors. The joint effect of the lost decade and of the trauma of dictatorship were similar, in some ways, to the devastation inflicted by the war upon countries like Germany and Japan, destroying institutions and shaking prejudices and beliefs so as to clear the way to begin anew. Sunk in the shipwreck of the debt crisis were Cepal's theories, the model of industrialization by import substitution, and the central role of the State as promoter of development. Replacing these old beliefs was a new array of stabilization by macroeconomic adjustment, opening of markets, economic liberalization and destatization. The reconstruction of the Latin American economy will be crowned with something unthinkable a decade ago: the incorporation of Mexico into an enormous market integrated of North America, a prelude to something bigger, a free trade zone reaching from Alaska to Patagonia.

Theater of the United States' most significant successes in systemic reforms, Latin America simultaneously revealed the limits inherent to this effort, even in its immediate surroundings. The unexpected warning provided by the peasant uprising in Chiapas came at a time when the Mexican and U.S. governments were still celebrating NAFTA's approval and was compounded by the unexplained murder of the official candidate to succeed President Carlos Salinas. These warnings remind us of the lesson of Chesterton that there is one constant in history: bottomless unpredictability, its inexhaustible capacity to play tricks on us, to surprise us with dilemmas and deceit. The sudden reversal of neoliberal adjustment in Venezuela, followed by violent outbursts and military uprisings; the Fujimori *autogolpe* in Peru; the social unrest in Argentina, and the prolonged Brazilian crisis, a never-ending transition, are additional reminders that, as Kant said, the "warped wood of humanity can not be used to build anything entirely straight."

Who would have thought, for example, that tiny Haiti, with nearly bottomless dependence and poverty, could defy United Nations pressure and the American fleet up to this very instant? Somalia already has taught us that, beyond a certain limit, the fact that there is nothing to be lost in terms of privation and misery can complicate instead of ease the task of those who try to impose rationality on Mogadishu (as was tried a century ago in the Canudos massacre, in the back country of the Brazilian Northeast.)

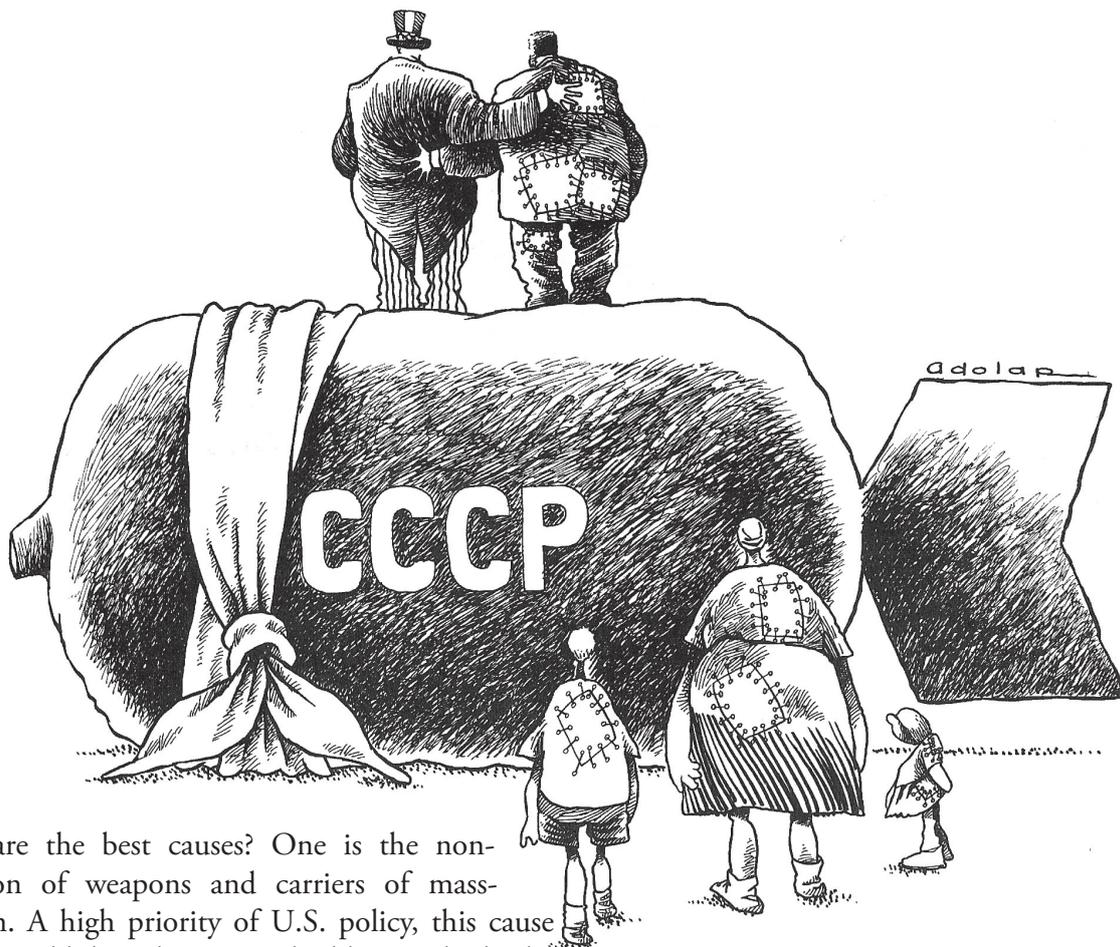
Could it be that the phenomenon of Cuba's persistent defiance long after the fall of the powerful Soviet Union is not of the same nature? Monument to voluntarism or anachronism of the Cold War, the island sounds a sour note at the American celebration, a last gunshot honoring the *Internationale*, an uncomfortable survival of past confrontations at a moment when world restructuring is sought.

The international debt crisis having ended, at least officially, the work of the IMF and World Bank is being reoriented to convert them into instruments of accommodating the entrance of Russia and other ex-socialist nations into the capitalist system through therapeutic adjustment interim like that used with developing countries. Aside from being able to employ the expertise of these agencies, this approach economizes on direct contributions from the U.S. Treasury and channels third party resources toward achieving this major U.S. policy goal. Meanwhile, countries like Brazil, maintaining a negative cash flow with the World Bank for years, have been reimbursing much more than the sums received in recent loans. There was another episode of this kind in which we were forced to

contribute toward the same objective. This was use of the Paris Club to impose upon us and the other creditors a 50% write-down of Poland's public debt. Brazil's debt problem was denied the same treatment under the pretext that Poland was a special case and no precedent should be established. Under pressure from the U.S. Treasury, whose Secretary actually publicly scolded the IMF Managing Director, Michel Camdessus, the Fund shows extraordinary understanding and tolerance, unthinkable in its dealings with Brazil, when faced with Russia's repeated failures to meet commitments for fiscal adjustment. As I had the occasion to tell Under Secretary of the Treasury Lawrence Summers, Brazil has much in common with Russia. We have the same (if not more) population, a larger economy, now that part of Russia is dismantling and experiencing comparable socio-political problems in the transition from one economic model to another, with similar political and social swings. The only difference is that Brazil does not have 30,000 nuclear warheads.

The survival of this formidable arsenal defines Russia as U.S. diplomacy's number one priority. It brings the politicians in Washington to conceptual acrobatics worthy of the Cominform in defending the democratic nature of the Russian army's shelling of Parliament and the imprisonment of its leaders. Many countries understand and share the goals of consolidating the current regime in Moscow, avoiding the rise of right-wing nationalists or unreconstructed communists, easing the transition to a market economy capable of giving suffering Russians the prosperity they deserve, and consolidating peaceful and democratic Russian behavior to block the return of the Cold War's nuclear terror. They do not, however, justify the procedures that have been used in the manipulation of objective truth and in the selective and discriminating use of the multilateral financial agencies.

This is not merely a question of ethics or academic debate about historical truth. We note that distortion of reality still exists, even after the end of the Cold War. The use of the double standard, favoring some over others, raises the question of whether or not the new order is much better than the old. Power continues to serve the interests of the great. Their ideas of standards, though well-intentioned and desirable in themselves, serve to reward some and punish others, not for trying to violate the freedom and peace of others but for being recalcitrant in adopting certain patterns. All this feeds, reinforces and justifies continuing aspiration toward a global process of decision-making that is more egalitarian and democratic.



What are the best causes? One is the non-proliferation of weapons and carriers of mass-destruction. A high priority of U.S. policy, this cause suffers in credibility due to a double standard: the indulgent silence in relation to Israel, the anemic, almost symbolic reaction to old South Africa's apartheid, in contrast to the severity inflicted upon North Korea, Iran, and even Brazil. We are puzzled when the United States threatens to decide unilaterally to recommence the atomic tests, without giving any sign of renouncing its increasingly useless nuclear arsenal. At the same time it promotes unlimited extension without modifications in the Non-Proliferation Treaty.

Neither the present and latent instability and violence of the Russian political process nor the alarming electoral results allows us false illusions about how volatile the current situation is. The phantom of relapse that would bring back the worst of Russian tradition disturbs the sleep of the leaders of the ex-Soviet republics and the ex-members of the Warsaw Pact. They would like to scare away the ghost by joining NATO, which seduces by refusing for fear of offending Russia's sensitivity and winds up provoking what it wants to avoid.

The malignant force of nationalism that threatened to set fire to the Balkans has been confined to a few focal points in Bosnia, Armenia, Azerbaijan and Georgia. If the explosions do not exceed these limits, they may serve as a protective barrier for these two earthquakes, artificially repressed by Stalin and Tito, instead of a precursor of a more general tendency. There thus would

have been some exaggeration in identifying nationalism as the most plausible candidate to replace the Cold War's ideological dispute. This forecast could still come true, especially if the destructive ammunition of nationalism were to be reduced by the nuclear power of a Russia following the disastrous path of Germany in the 20's and 30's, pushed into desperation and irrationality by problems somewhat like those of Russia today. After all, the Balkan nationalism that helped bring about World War I did so only by its linkage with the great powers. U.S. diplomacy would find one more reason in this historic precedent how important Russia's stabilization is.

The hypothesis of a Russian government combining extreme nationalism with nuclear arms can cause great fear owing to the capacity to spread destruction and ruin with military technology still in Moscow's hands. In such an event, however, the limited ideological attraction of this kind of nationalist adventure could not match the kind of universal appeal once embodied in the communist movement. This consequently could not produce a challenge capable of shaking the present hegemonic stability and offer a viable alternative. Such a challenge is most likely to emerge from the economic and social vulnerability of the situation at hand.

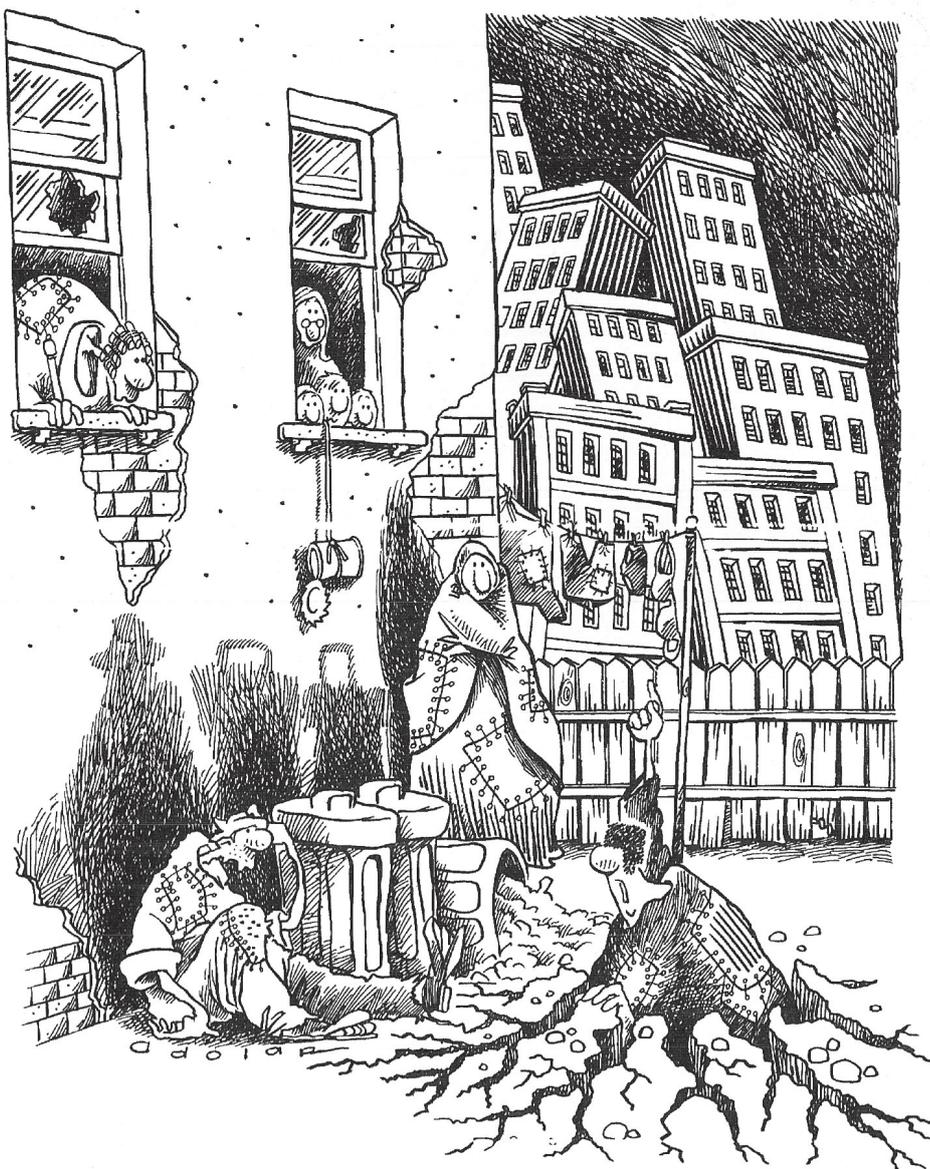
5. A structure built on sand?

It was neither the West's military pressure nor oppressed peoples' nationalism nor the genuine aspiration toward political, cultural and religious freedom that finally led to collapse of Marxist socialism and did away with the USSR and its entourage. What dealt the fatal blow was the socialist economy's failure to keep up with the competition military equality with the United States and to prosper at the same time, providing quality goods and services for societies aspiring toward patterns of western consumption.

In the euphoria celebrating the end of the Cold War, much was said about a democracy with a market economy as a binomial magical formula, a universal panacea. Alternate forms of economic and political organization were not expected for the now or the future. Nevertheless, when the party was over, uncertainty soon arose over chances of finding not only the path to riches in the market economy for some, but also the key to prosperity and employment for all if not the greatest possible number.

These doubts sprout from two main sources: awareness that over the past 20 years the industrialized economies have not been able to quicken their slow pace of growth beyond rates far below their productive potential, as well as from persistence and rise in unemployment to ever more worrisome levels.

None of the causes frequently cited, such as cyclical recessions, the oil scares, excessive presence and intervention of the State, sufficiently explain the sluggish rate of growth. Even with capitalism's Glorious Revolution, under Thatcher and Reagan, with privatization, deregulation and reducing State influence, western economies grew in the 1980s almost as slowly as in the 1970s and as once again at present. The bucket of cold water that German reunification cast upon hopes for faster economic growth after conclusion of the Europe 92 project, along with Japan's



unexpected economic and political crisis, only darken the horizon even more. When Japan broke all records for production and exports, the world economy could accommodate its expansion by also growing by 5% a year. How can we now absorb the continuing growth of the Asians, particularly the dizzy pace of the Chinese, if the industrialized economies languish at annual growth rates of 2% to 3%? Notwithstanding the conclusion of the Uruguay Round, up to when will it be possible to maintain the rules developed by Adam Smith and David Ricardo for a western-dominated trade, at the moment that the Asians learn to play the game better than those who invented it? Shall we not fear that Americans and Europeans will discriminate against the apparently unbeatable Orientals in order to protect their markets and standards of living?

What makes discrimination and protectionism respectable is the increase in unemployment in advanced economies. When in early 1993 the number of unemployed in the OECD reached 32 million, an official statement of the French government stressed that liberalism in world trade was not a sufficient goal, arguing that, with unemployment in Europe exceeding 10%, opening of markets should be guided in such a way as to avoid devastating effects on employment. The Europeans worried that, upon emerging from each successive recession, unemployment settled at a higher level, indicating a bigger share of structural unemployment. In certain areas of Britain there are adults over the age of 30, married, with children, that never held a steady job. Blame for Europe's lesser capacity to provide jobs is arguably given to the labor market rigidity through excessive job protection and barriers to dismissals as a way of firms adjusting to the cycle. The President of the United States proposes a summit meeting on unemployment with the other OECD nations. The worst news is that, in order to compete with Asians, productivity must be improved, which generally means less jobs. Even in Japan, the guarantee of a lifetime employment has become a thing of the past. Improving this situation would depend on a significantly more rapid growth that even today has frustrated all expectations and forecasts.

The Achilles heel of the triumphalism of 1989-90 is not democracy but economics. Far from assuring prosperity for all, an economy of double exclusion emerges. Internally, exclusion operates through unemployment and discrimination against immigrants and refugees. Externally, it manifests itself through trade protectionism and by the mechanisms that perpetuate underdevelopment.

Despite some successes in the struggle for development, their number is not impressive yet, almost all restricted to a certain cultural and geographic area. Prescriptions for success are diversified, with no formula of having universal validity. The risks of economic shocks in Poland and Russia, the outbursts of disorganized

violence in Venezuela, and the Indian revolt in Chiapas raise questions concerning the prescriptions of the multilateral agencies.

Not that the discredited economics of socialism solved the unemployment problem, as communists liked to boast. What it did was give a false sensation of full employment through redundancy and labor hoarding, swelling the enterprises' payrolls and making the economy inefficient and unproductive. The truth is that no form of organization of production has been capable yet of solving the dilemma of giving all men useful and remunerative work while guaranteeing the productivity and efficiency needed to maintain high living standards. We once imagined a future when advanced societies would resolve the impasse through planned leisure, with reduced working hours and spare time devoted to study, culture and sports. Unfortunately, even in the country where these visions emerged, a recent study conducted by a Harvard researcher proves that the average working hours of Americans rose in the past 20 years, while average income stagnated or fell. As for leisure, the privilege still belongs to the same idle classes as always.

We cannot deny that in democracy and market economy, the market leaves something to be desired, even though a better and viable alternative has not come to light. Even social democracy was abandoned by the Swedes, its most loyal practitioners for many years. Thus we return to the starting point of Marxist utopianism. If utopianism today appears to be dominated by those who, for ecological reasons, urge radical changes in the lifestyle of western societies, tomorrow may see other alternative proposals to organize economy and society. To avoid this, the market must overcome its present limitations of employment and internal and external exclusiveness. This failing, it is inevitable that new ideologies or renovated old ones invert the tendency toward convergence and renew the dialectical game that certainly would interfere with the dream of privileged domination that would, today as yesterday, deter history's progress and permanently freeze its special moment of supremacy.

6. Without stability, there is no salvation

Norman Gall

At the ceremony installing him as Brazil's new Finance Minister, Rubens Ricupero, President of the Fernand Braudel Institute of World Economics, spoke words of warning that have been the message of our Institute since it was created in 1987: "The absolute priority now is combating inflation. Without stability there is no salvation. Without stability there can be no social program, nor any chance to correct the social and economic injustice that continue to be bred every day by inflation. Without stability there are no global or regional trade schemes that we can use to our advantage.

Ambassador Rubens Ricupero, whose essay on Trade, Power and the New World we publish in this issue of *Braudel Papers*, was a leader of the small group of economists, businessmen, journalists and public officials who created the Fernand Braudel Institute of World Economics. Their concern about the cumulative impact of self-destructive policies causing some countries to fade out of the world economy led our Institute to develop a program of research and public debate on the civilizational problem of chronic inflation. Our Institute was named for Braudel because the French economic historian was a founder of the University of Sao Paulo in the 1930s and because his work celebrates the power of the market in centuries of human development. The rationale for our work on chronic inflation is contained in Ricupero's warning: seeing arguments against inflation as a conservative cause, we developed a great indulgence toward inflation.

"Due to nostalgia for the Golden Age of the 1950's and the error of seeing arguments against inflation as a conservative cause, we developed a great indulgence toward inflation. We do not see that the inflationary growth of the 1950s was the seed that yielded the painful crisis of the 1960s, interrupting the democratic process. Neither do we see that only the rich and powerful manage to prosper with inflation, while the poor are left with the shrunken remnants of degraded salaries. Is it mere coincidence that we are the country of both chronic inflation and unequal income distribution? Beyond aggravating the incessant conflict over distribution, devastating our public health system, annihilating all that was done to improve public education, reducing salaries of public employees to humiliating levels and dismantling the State, inflation now attacks the country's soul: its moral values and aspirations. We are neither

better nor worse than other peoples that suffered similar trials. As in Berlin and Vienna in the 1920s, inflation in Brazil also rewards speculation and buccaneering, robbing human beings of their dreams of the future and enslaving them to an immediatism without horizons, weakening all the values of work, savings and moderation, leading inevitably to public and private corruption and to the moral rot of society".

A group of researchers from the Fernand Braudel Institute of World Economics saw the consequences of prolonged moral rot and chronic inflation when we visited Russia during the political realignment that followed the constitutional referendum and parliamentary election of last December. The collapse of communism in Russia and Eastern Europe is as important to the world in the late 20th Century as the Great Depression was to the early 20th Century. It is as challenging to the theory and practice of economic policy as was the Depression of the 1930s. Beyond their global implications, events in Russia bear specific meaning for Brazil because chronic inflation in both countries aggravated problems of modernization in federalism, public health, mortality, financial transfers and corruption.

Mortality in Russia rose by 20% in 1993, following a 7% increase in 1992. Mankind rarely has experienced mortality surges on this scale, associated in the past with wars, plagues and famines. The surge in adult mortality may be part of a more general implosion of urban populations, especially in Latin America and Africa. Most cities have made commitments to provide huge subsidies to their inhabitants in the form of cheap water, food, transportation, health care, heat and rent either free or at prices far below the cost of supply. Subsidies like these have sucked in more migrants, swelling the size of cities, bankrupting their governments and starving them of resources needed to maintain basic services. The decay of urban water systems in Latin America under pressures of scale and prolonged decapitalization led to a cholera epidemic in the early 1990s that has reached 21 republics. Subsidies in Russian cities underlie the fragility of survival systems and public finance. Until recently, rents had been frozen since 1928. In St. Petersburg, the population pays only 2% of housing maintenance costs (including heat, gas, water and sewage), which helps to explain the deterioration of apartment buildings in most Russian cities. Since 1990 per capita health spending

in St. Petersburg fell from only \$3 to \$1. The city's weakened economy supports 1.2 million pensioners in a population of 5 million. Half the city's labor force works in a dwindling military-industrial complex, with half of its employees now on unpaid leave. Another 600,000 people are students or work at research institutes. It is no wonder that the magnificent capital founded by Peter the Great on mud flats at the edge of the Gulf of Finland three centuries ago is losing population. Last year there were twice as many deaths as births. Since 1988 the birth rate in St. Petersburg fell by half while deaths rose by 20%. Demographic surveys report two abortions for each live birth. Many women die of botched abortions. When I asked a friend about the low birth rate, she snapped: Who can afford a baby carriage?

The mortality crisis of the Russian population raises still broader issues. At the end of the 20th Century, mankind is struggling to overcome the threat of institutional failure in managing problems of scale in the size of enterprises, cities and nations. Institutional failure under pressures of scale threatens relapse into

more archaic forms of civilization and mortality. Fear of relapse is driving a shift in the politics of communities from a political economy of entitlements, or acquired rights, to a political economy of survival. The shift is only beginning and its implications are coming slowly into view. In many countries, from Russia to Peru, from Brazil to Nigeria to Egypt and India, in great cities from New York to Rio de Janeiro to Budapest, St. Petersburg, Detroit and Los Angeles, the main task of economic policy in coming decades will be regeneration. Searching for humane outcomes, many governments will seek to preserve civilized cooperation in managing complex societies. Some communities will sustain and speed their development, mastering higher levels of knowledge and organization, while others sink deeper into disease, violence and confusion. To meet this challenge, the Fernand Braudel Institute of World Economics held an international conference on *Governability: The Political Economy of Scale*, with the support of the United Nations, in Sao Paulo, Belo Horizonte Fortaleza and Salvador during the week of May 9-13.