

TWO OPPOSED FUTURE WORLD SCENARIOS:

A NETWORK OF SMALL AND MEDIUM-SIZED AUTONOMOUS NATIONAL AND REGIONAL UNITS -

OR THE DEREGULATED “FREE-FLOW”-WORLD OF THE TRANSNATIONALS?

- **deregulation and liberalism - and the language of Orwell’s “1984”**
- **economy as an inexact science in dire need of experimentation which is denied**
- **what is inevitable and what is not in the globalization process? What is it to be “modern”?**
- **what is economic national sovereignty? Must it inevitably be rescinded?**
- **controlling capital flows, should we? And if we ought to, can we?**
- **the world a 100 years from now - one world government?**
- **a theory of “democratic distance”, and why small is beautiful**

Keynes, J. M., 1933:

“I sympathize with those who would minimize, rather than with those who would maximize, economic entanglement among nations. Ideas, knowledge, science, hospitality, travel -- these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible and, above all, let finance be primarily national.”

(Keynes, Collected Works, Vol. XXV, p. 149).

“Freedom of capital movements...assumes that it is right and desirable to have an equalization of interest rates in all parts of the world. It assumes, that is to say that if the rate of interest that promotes full-employment in Great Britain is lower than the appropriate rate in Australia, there is no reason why this should not be allowed to lead to a situation in which the whole of British savings are invested in Australia, subject only to different estimations of risk, until the equilibrium rate in Australia has been brought down to the British rate. *In my view the whole management of the domestic economy depends upon being free to have the appropriate interest rate without reference to the rates prevailing in the rest of the world. Capital controls is a corollary to this.* (- my emphasis, T.A.)

My comment: Both the above quotations are calls for national economic policies which differ from what is allowed today. Practicing such policies in one or several countries, is of course an example of what I mean by “experimenting”, when the most of the world follows the neoclassical recipe.

Macroeconomics is a very inexact science. A science being inexact is in general no big problem: The science of literature f.inst., is also very inexact, but deep disagreements between different schools are just spice in the dish, and has no important negative consequences.

But macroeconomy is not only descriptive. It is also a science for real-time control of dynamic systems, and extremely important ones at that. Consequences of large errors in control strategies are severe.

Now what do you do when

- your discipline is fairly “inexact”**
- different schools persist in deep disagreement, similar to what you find in religion**
- the science concerns itself not only with observation and explanation, but also control of dynamic systems**
- these systems are very complex**
- these systems are very important**

The answer is that your science is in extreme need of EXPERIMENTING, or it will not be a science, and it will also be dangerous!

Now, if I were to implement a control strategy for, say, a DC electric servo motor, this is a control problem where the system may be fairly exactly modeled mathematically, and thus predicted successfully through computer simulation.

But even with *such* a system, one will not let a new control solution loose on the market before trying it out on some real electric motors in the lab.

Back to macroeconomics: The necessary road to better economics is to establish PILOT AREAS to try out alternative solutions.

And since we are talking macro here we have to use existing COUNTRIES - not firms - as laboratories.

(- as opposed to micro, where different firms may be considered to some degree to satisfy the need for laboratory experimenting: Even if nearly all of them do the same rat race capitalist experiment again and again, one has exceptions such as the Mondragon cooperatives)

Consider the process of acceptance of scientific breakthroughs in the natural sciences. What is very often demanded by the scientific community in a given field to really be convinced of a radically new theory, is not more theoretical argument, but a working model/experiment/demonstration. Therefore I find the demand for alternative economic working experiments, quite appropriate. They must be tested in the same way that other scientific theories, ideas and proposals are. It is impossible to say precisely how alternative solutions will work a priori, especially when the science is inexact.

And the convenient “laboratory” for alternative macroeconomics is the small or small/medium sized country.

Now, the last couple of paragraphs are, while true, naive in the sense that the powers-that-be won't allow it: One is simply not allowed to try alternative macroeconomics, except if the experiment follows strict liberalist principles

(- then it really isn't a true experiment any more since it has been tried so often already that the outcome is fairly easy to predict).

If the experiment follows strict liberalist principles, however, you may “experiment” the entire world to death with hardly any opposition. This is explained as bad-tasting protracted, but oh so necessary “medication” to get the economy going (see next page).

If the experiment doesn’t follow strict liberalist principles, however, world capitalism has a sort of “campus police” that roams the labs, smashing alternative setups, or more often simply denying such experiments at the outset. This Campus police is a large, compound force, consisting of sub-units called “WTO”, “NAFTA”, “EU”, “IMF”, “WB”, “G8”, “U.S.” etc...

IF - I repeat IF - my analysis of “the dismal science” is correct, and as long as the following is denied, isn’t the question of the right of countries to uphold and enhance national economic sovereignty of the utmost importance, not only for political activists, but ALSO AS A TOPIC FOR ACADEMIC ECONOMISTS?

MOSCOW HOMELESS RAVAGED BY COLD, HIGH ALCOHOL USE MOSCOW

Los Angeles Times January 12, 1996

A grim new barometer of freedom has come into existence in the Russian capital this winter -- a daily count of homeless drunks found dead from the cold.

At least 320 Muscovites have frozen to death on the capital's mean streets since November and 800 others have been hospitalized for exposure, said Igor F. Nadezhdin, spokesman for the Moscow Department of Health Care.

The soaring tolls are blame on a particularly harsh winter coinciding with the first cold season in which it is no longer a crime to be a drunk or a vagrant.

But in a country where social services have been knocked out of existence by economic crisis, there is now virtually no public assistance for the city's estimated 300,000 homeless.

...

The problems of homelessness and vagrancy have only worsened, however. Russia's economic transition has created more unemployment, and a lucrative property market has pushed many of the poor out of their homes.

...

The sudden rise in deaths among the Moscow homeless is attributed by police to the closure of the mandatory treatment centers and the lack of a viable alternative to take care of the capital's army of drunks.

...

WHAT IS INEVITABLE AND WHAT IS NOT?

Buzzwords:

“Globalisation”, “internationalisation”

These things are inevitable (excepting WW3 or total collapse):

- **Scientific advance, increase in productivity**
- **Increase in the average level of education and knowledge**
- **Increase in communication facilities (“smaller world”)**
- **Increase in global human and cultural interaction**

These are (albeit with minor negative side effects) positive phenomena! So far so good.

BUT: Also put in the same “inevitable” category by the pundits: “We may like it or not, but we had better understand that this is the way it has to be”

- **Outlawing of national macroeconomic instruments (concerning trade, capital flows, foreign takeovers, etc.)**
- **foreign ownership and control, TNC’s getting mightier in all countries.**

But these things are NOT inevitable, they are deliberately chosen.

-Advances in research, communications, cultural exchange, and economies of scale too (when needed), are all perfectly feasible based on regional autonomy combined with extensive global cooperation!

In fact, these things will progress better without the above two “inevitable” points!

Let us look at two cases...

Case 1: CAPITAL CONTROLS?

Any country implementing capital controls (and not only in the sense of a Tobin tax on flows, but also on administrative regulation of capital exports, as in Norway before 1990) will in a modern world be “experimenting” in the sense that today’s elite consensus is that everything but *laissez-faire* policy is unfeasible.

I emphasize “unfeasible”: Some admit that “even if capital controls do have some merit, they are simply not possible in a modern computer-connected world where you may move cash across the borders in a microsecond”, or something like that.

Thus their *theory* is that the world being “modern” makes capital controls *impossible*: “Today’s conditions are so radically different from earlier”, etc.

That is the consensus. It includes nearly all mainstream and even many non-mainstream economists.

But it is incorrect!

SO THEN, HOW MAY CAPITAL FLOWS BE CONTROLLED IN A MODERN WORLD??

Assuming a fairly modern country (communication-wise), Capital Controls *are technically feasible, it is only a question of political will.* It will be possible for the Central Bank to effectively control the transactions of banks and other institutions which are licensed to trade money.

This control may be done electronically, since any transaction where domestic currency (DC) are traded for foreign currency (FC) or vice versa - regardless of the nationality and location of the buyer or seller - must necessarily, sooner or later, involve a movement from one account to another inside or between *licensed and domestic* banks.

Therefore, and because of the tools made available in a modern electronic world, Central Bank logging and control of all trading may be implemented, as an on-line automated process, so transgressions from banks/traders would very likely be discovered, under penalty of the license to trade being withdrawn.

Now, is that a credible threat?

Yes, because any trader that wants to be in business have to have a license, since your presence in the market must be published to attract customers.

So far so good: Traditional DC/FC exchange may be very effectively monitored, in fact more effectively than ever before, and therefore also effectively taxed, which of course should be done to curb speculation (as proposed by f.inst. Tobin)

Any attempt at avoiding control by *encryption* not authorized by the central bank, will of course be immediately discovered by the automated on-line surveillance system, considered a transgression, and punished accordingly.

Therefore the availability of advanced encryption algorithms does not at all weaken the feasibility of effective control of cross-border flows.

One cross-border flow, however, that will to some unavoidable degree be exempt from control, is loading your Mercedes with bills and driving over the national border. Such attempts, however, can never amount to a large share of total cross-border cash flows for a nation.

A more serious circumvention problem for the above proposed control scheme, is capital flows camouflaged through intra-firm trade with fictitious prices. Therefore effective C.C. in a modern world also depends on this being controlled.

Case 2: A PROGRESSIVE, NATIONAL BUT NON-CHAUVINIST TRADE REGIME (AN “ALTERNATIVE WTO/GATT AGREEMENT”):

- **subsidies and trade barriers for domestically consumed agricultural products allowed.**
- **no export subsidies allowed for ag or industrial products. (technically the problem with subsidized ag products can be solved by subsidizing agriculture regardless of domestic consumption or export purpose, but levying an export tax canceling out the subsidies if the products are exported)**
- **trade restrictions allowed against imports of a specific product when own production of the same good for domestic use is near extinction (this must be codified).**
- **trade restrictions against imports from a country which has a chronic and significant trade surplus vs your own country are allowed, and may be used until some approximate trade balance is reached.**
- **trade barriers allowed against exporters who do not adhere to elementary rights concerning unions, health regulations, minimum wages etc.**
- **national control on capital flows, national legislation against foreign takeovers (not exactly in the category "trade policy", but I include it here since it is crucial..)**

(cntd.)

Case 2 (cntd.): A PROGRESSIVE, NATIONAL BUT NON-CHAUVINIST TRADE REGIME (AN “ALTERNATIVE WTO/GATT AGREEMENT”):

- **Cross-border cooperative agreements between firms should substitute for takeovers. Thus international cooperation in research, production and marketing continues, economies of scale are upheld when useful, but fundamental control is at all times kept in the participating firms and countries, and capital controls can't be circumvented.**
- **Trade in -- and exchange of -- information and knowledge should be encouraged, which implies that recipes are exchanged instead of goods where technically feasible. Licensing is an example of such policy. This minimizes transport and is conducive to decentralized production and a diversified industry in most countries.**
- **bilateral agreements on imports favoring selected developing countries, trying to ensure in the agreements that the income benefits the producers, and not the elite in said countries. (I am aware that such conditions to some degree contradicts my national sovereignty principle.)**
- **Gifts and support freely given, or zero-interest loans and investments to developing countries. Forgiveness on most debt and interest on earlier loans.**

**From economy to politics:
100 YEARS IN THE FUTURE
- ONE WORLD GVT.?**

First: This is *bad control engineering*. A large control system must have decentralized control loops to function.

THE ALTERNATIVE - A NETWORK WORLD

A future united world organized as a collective of numerous autonomous regions, as opposed to a “world state”.

The region size shall be bounded upwards by the criterion that persons who are delegated authority should be easily accessible and accountable to any citizen in the region in question. The number of inhabitants in a given region would then probably be in the range from the hundreds of thousands (and maximally) to approx. 10 million. This means that this future world will probably consist of hundreds, possibly more than a thousand such regions

Regions will then cooperate extensively on an equal basis, but a region may not - except in extreme circumstances - be coerced from the outside.

THE BREWERY BILLIONAIRE ALFRED HENRY HEINEKEN'S "EUROTOPIA":

- **Europe decentralized into 75 small and medium-sized nations: Essex, Poznan, Transylvania, Catalonia, ...**
- **France = seven nation states, UK = nine**
- **< 10 million inhabitants per state**
- **Politically sovereign states on "domestic issues", but**

- **Common currency, foreign and defense policy. Confederation.**
- **Presumably the "freedoms" of the Rome Treaty: Capital flows, goods and services, people.**

THIS WILL NOT FUNCTION!

INSTEAD: POLITICAL AND ECONOMIC SOVEREIGNTY.

Then:

Any decision concerning a region must either

- be taken as a majority decision inside the region,**
- or if the matter impacts several regions -**
- as a *voluntary* multi-region agreement together with other concerned regions, made in local region clusters and up to a “world council”, a reformed UN.**
 - in extreme cases may a region cluster or the U.N. intervene against a region, but the decision must be made with a very qualified majority, and be up for renewal at short intervals.**

BUT WON'T THIS LEAD TO CHAOS, AND WARS AND CONFLICTS SIMILAR TO RWANDA AND YUGOSLAVIA?

No, because autonomous regions will behave (at least *fairly*) decently and mostly go for compromise and consensus on inter-regional conflicting issues, even if they know nobody can coerce them, if things have stabilized and

- **trade and capital flows are domestically controlled, which means that the domestic economy is essentially *controllable*. This means a minimum of economic safety and predictability, and is conducive to a population with (in an average sense, that is) decent and rational behavior.**

- ***democratic distance* (abbr. *DD*) is small.**

DD is a “metric” that expresses the aggregate impact of factors that decides the degree of public influence over the rulers. It increases with:

- **population size (as I have made a point out of),**
- **geographical distance,**
- **class differences/maldistribution,**
- **undeveloped communications,**
- **illiteracy, etc.**

ON THE USE OF COERCION IN A SOCIETY:

In general, gvt. on any level of course implies (a threat of) coercion in the final sense.

But if you have a low DD, it will be more acceptable for those who must yield in a conflict. And if it comes to that: whether it is physical coercion (police), or milder forms, the *legitimacy* of coercive measures among the public at large is stronger, the lower the DD.

What bearing does DD and the legitimacy of coercive measures then have on the need for autonomy for regions, and the principle of minimal coercion on levels above the regional?

- It is that coercive measures used on a world level (against f.inst. a specific region/country) are extremely difficult to employ with satisfactory results, because they are considered illegitimate by the population(s) that must yield, as opposed to self-imposed measures taken by representatives within a medium-sized/small, fairly democratic country.

Since coercion is more unacceptable to the population the larger the DD, one simply has to solve problems on a world level through other means

“How far can this go? Will it really be possible to construct an international society on something like the Third World model, with islands of great privilege in a sea of misery -- fairly large islands, in the richer countries -- and with controls of a totalitarian nature within democratic forms that increasingly become a facade?”

“...Or will popular resistance, which must itself become internationalized to succeed, be able to dismantle these evolving structures of violence and domination, and carry forth the centuries-old process of expansion of freedom, justice, and democracy that is now being aborted, even reversed? These are the large questions for the future”

- Noam Chomsky (Z Magazine, December 1993)