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A VISION OF THE NEW ORDER

Myron J. Frankman  
McGill University

Myron J. Frankman is a professor in the Department of Economics, McGill University, 855 Sherbrooke St. W., Montreal, Que. H3A 2T7. This paper was completed while he was Professeur Visiteur at the Centre d'Etudes en Administration Internationale (CETAI) of the Ecole des Hautes Etudes Commerciales, Montreal.

Good morning. I'm sorry, I didn't mean to startle you. Allow me to introduce myself. I am Dr. Ruben Sabio of the Potosi Chapter of the Bolivian Academy of Arts and Letters. I shall be explaining to you the changes that have occurred. Although you've only slept for nine years, a short time as these episodes go, in that brief interval the millennium has arrived. No, not the chronological one, for it is only 1999, but rather the social, political and economic millennium. In some ways life hasn't changed. The daily hustle-bustle is still with us. We still have disputes to resolve. Raising children is still a challenge. Always will be. But now, at least, the little ones are all well fed, even here on the Bolivian altiplano. We still have quarrels about local budgets and zoning regulations. No one expected a Utopia and we sure don't have one, but no one is nostalgic for the bad old days. Of course, the romanticized old days is quite another matter or rather business. Our harvest festival, with its colorful Indian ceremonies, attracts many tourists and the resulting revenues provide an extra measure of discretionary expenditure for our region. And our language schools for local and foreign students of Aymara are always filled to capacity.

How it came about is a subject of heated debate. In truth, although it is contrary to our local claims, I believe that it was a consequence of a conjunction of things; different reasons in different places, but who am I to say? After all, five of our local scholars are doing doctoral dissertations on this very topic. For us and many others in the Third World, it was exasperation with the debt problem — there had to be a different way.

For many of the industrialized countries, the frustration centered on the limitations on effective national action resulting from globalization of economic activity. The necessity to compete with low cost imports brought the welfare state under attack in all of the industrialized countries. Thorstein Veblen put it very well when he observed that nationalism was the tool of the vested interests, while the well-being of the common person was aligned with global unity. <sup>1</sup> In fact, more and more of the vested interests saw the pecuniary advantages to be gained from a global perspective and they, too, abandoned nationalism as bad business. <sup>2</sup> Fortunately humanity was able to seize the day and make the necessary reforms before it was too late.

Agreement was reached for a new Bretton Woods conference, but a funny thing happened along the way. Like glasnost and perestroika in the Soviet Union, once a snowball begins rolling downhill, control is lost. Environmental activists approached their governments and insisted that the interconnectedness of e-

economy and environment required that the agenda be broadened. Indeed, the survival of life on this planet required more than the recommendations of finance ministers and central bank presidents. As it turned out, virtually everyone was heard. In the year preceding the initial global summit, discussions were virtually endless: teach-ins, town meetings, radio talk shows, conferences — every imaginable format in every corner of the globe.

Two of the changes on which consensus was reached long before the summit even took place were for the establishment of a system of global taxation and for a single world currency — not a centrally created reserve asset like the SDR, but a circulating currency which would replace all national monies. You may recall that well over a century ago John Stuart Mill had observed that only the current state of barbarism led nations to insist, to their own disadvantage and that of their neighbors, on maintaining separate currencies. <sup>3</sup> In the early 1990s, the perpetuation of that barbarism was judged collectively to be intolerable.

Under the old order, the erratic behavior of foreign exchange markets reached the point at which exchange rates no longer served a useful role in guiding resource allocation. Rather than providing a reliable signal for production choices, exchange rate variability became a resource-absorbing activity in and of itself. No major corporation was without a large foreign currency division, corporate officers often spent as much time debating exchange rate strategy as they did output and pricing decisions, and exchange dealers sprang up like mushrooms in the principal cities of the world. It was a giant casino with a daily volume of foreign exchange transactions in the late 1980s which was well over one hundred times my country's annual gross domestic product.

Politics always makes strange bedfellows. The broad support for various changes took everyone by surprise. Few, it would seem, saw any point in continuing the divisive nation-based arrangements. Even the international private banks joined the bandwagon. Despite their inflated profits, their officers had suffered chronic insomnia for years over debt exposure and exchange rate volatility. When the banks saw the prospect of no longer being harassed by the Lilliputians (for that is how they viewed the nation-states), they worked out far larger debt writedowns than had previously been offered, as a concrete indication of their stake in the proposed reforms.

A conceptual key to the introduction of global taxation and income redistribution was the notion of the common heritage of humankind. Not, however, the 1970s version of the common heritage, which was limited to *res nullius* — the property of nobody. In the very forum in which the notion of common heritage was being frequently invoked in those years, a great sea grab took place assigning resources not in proportion to need, but rather in proportion to length of coastline and the richness of the resources located there. <sup>4</sup>

As territorial claims were extended in one way or another, the notion was rethought: a moment's reflection would tell us that virtually the entire world

we live in is based on a common heritage: written and spoken language, the food we eat, the clothes we wear, the very thoughts we think, not to mention the technological building blocks in the machines that surround us. The notion of common heritage doubtlessly had been applied primarily to seabed resources as a domain over which prior claims of sovereignty and property rights had not yet been established. But property rights themselves are part of our common heritage. The historical accident of national boundaries having been drawn should not justify denying to the bulk of the world's population a share in the monetary gains resulting from the harnessing of our common heritage.

Once the perspective was broadened, our common heritage appeared to be ubiquitous: international public goods, among which are peace, freedom of the seas and an open trading system, were also spoken of as part of our common heritage. <sup>5</sup> And Pablo Neruda acknowledged another dimension of the common heritage, when he spoke of his indebtedness to Walt Whitman. <sup>6</sup> We are all indebted in a myriad of ways and we all derive gain by standing on the shoulders of others.

With the acceptance of the notion of the common heritage, came the heritage dividend, a guaranteed income under a different name: a share of the profits derived from the application of our "joint stock of knowledge." One-third of the dividend was specifically earmarked for the provision of basic needs to the lowest strata of the income distribution.

Intellectual limbo was already well-populated by dozens of proposed global taxes, dating all the way back to the late- nineteenth century. <sup>7</sup> These were dusted off and discussed with enthusiasm and several were eventually adopted, among them taxes on transactions which benefit directly from the existence of international order.

As important as the idea of the common heritage was to the organizational changes that were introduced, the sense of our having a very much threatened common future <sup>8</sup> served as a rallying point for the intense grassroots pressures for change. The concern that there might well be no future for life on Earth led to a challenge to all assumptions and a reexamination of all institutional arrangements. "We've always done things that way" was no longer an effective response to the quite persistent demands for a saner society. Paradoxically, there was both conservatism and revolution. Perhaps, after all, the proper answer to the question "either/or" is always "both/and." Many traditions were preserved and invigorated, while others were rescued from disuse. Practices that were essentially benign were generally unchallenged, while those which gave a sense of purpose, place, or fulfilment were promoted.

Sovereignty? What a cruel joke that was under the old order. We were, as the saying goes, free to be poor: the nation, that is, and most of us individually. You know what monetary sovereignty meant for us? We knocked nine zeros off our currency between 1960 and 1985. Some record, don't you think? We were

free to impose exchange controls and watch helplessly as capital left the country illegally in amounts that more than offset increases in export earnings, foreign aid, private investment inflows, and borrowing. We were free to have massive devaluations, which substantially raised the local currency price of imported foodstuffs and capital goods.

Little good it did us to have a distinct currency. In the older order our currency, the boliviano, enslaved and impoverished us. The very idea that nations have equal capacities<sup>9</sup> blinding us to the enfeeblement that the symbols of so-called sovereignty produced. Giving up monetary policy was a blessing for us. There is indeed little that we need to achieve that can't be achieved with fiscal measures or with administrative action.<sup>10</sup> Think about it: California was said to be the world's sixth largest economy and yet it had no currency, no central bank and no monetary policy. So why should Bolivia, Gabon, and Papua-New Guinea have central banks? Indeed, why should the United States and West Germany in today's world? The original rationale for the existence of the multi-bank U.S. Federal Reserve System as opposed to a single central bank was that there was to have been regionally differentiated monetary policy. The possibility of cable transfers made that a dead letter even prior to the inauguration of the system. Similarly, today's instantaneous world-wide communications combined with financial markets on which the Sun never sets cried out for an end to separate currencies and the pretence of monetary independence.

The elimination of central bank printing presses and currency devaluation brought us stability. It knocked most of the props out from under the rent-seeking society. Some years ago an estimate was made that the windfall gains flowing from administrative controls amounted to one-sixth of Turkey's national product.<sup>11</sup> I haven't seen the estimates being prepared by the many researchers participating in the writing of the economic history of the old order, but I wouldn't doubt that the share in Bolivia was at least double that. If one is looking for a key to understanding the extreme skewing of the income distribution and for what kept us poor, that is certainly an important element.

Part of the proceeds of the new global taxes earmarked for Bolivia were set aside for remaining debt payments. Even so, we received at the onset of the new system the net equivalent of \$250 per head, which was almost one-third of our previous per capita income. We already receive through international revenue transfers far more per capita than we had ever been able to raise before through taxes.

One important feature of the new order is that those countries whose governments had not been chosen by free elections have their transfers reduced by one-half. The funds held back become available for gradual disbursement once democratic practices are established. That approach was based on the European Community's practice of insisting on democratic elections as a prerequisite for membership. Would that the United States had been so unequivocal about democracy overseas as the world now is, thanks to the European example.

I hope that I am not conveying the impression that the heavy hand of uniformity and centralization descended on the face of the Earth. Quite the contrary: from many different quarters came variants of what the European Community called the "principle of subsidiarity," i.e., functions should reside at the lowest level at which they can be efficiently performed. You know, of course, that our own government in La Paz, like so many in Latin America, tried with great frustration and little success to manage everything. In fact, as I've intimated, it rarely had a sufficient respite from chronic foreign exchange crises to give much attention to other pressing matters. Today, regional and local governments, with taxing powers as well as transfer receipts, are responding directly to the needs of the people.

One example to illustrate my point about diversity. When all is said and done, home is where the heart is: although we always supported, to no avail, proposals for braindrain taxes, we much prefer to have our trained and skilled Bolivians back at home. As democracy, stability, and hope grounded in events came to Bolivia, many of our compatriots returned, much enriched financially and in experience. At first they were something of a pain, with their computers and FAX machines. They complained bitterly about the frequent power failures and inadequacies of the telephone network. Indeed one distinguished Bolivian physicist conditioned his return on being able to maintain his global network of colleagues. With the help and prodding of those who returned, we have jumped to the technological frontier.

Which brings me to jobs. Curious how warped our old viewpoints were. By regarding the nation as the unit of analysis, all problems had to be "resolved" within the context of the nation state. Resolved? — a curious notion. What is resolved by subsidizing smokestack industries? We were burdening ourselves financially, the acid rain was destroying our forests and the spent fuel was warming the earth. For what? A handful of jobs. Don't misunderstand me, people have to be active, involved, self-actualized, and, let us not forget, adequately compensated. And they are now. Of course the public sector — local, regional, national and international — is a major employer. Right here in Potosi, we have several thousand people with new jobs in oral history projects, in compilation and interpretation of Aymara folksongs and legends, in environmental monitoring and cleanup, in restoration and animal habitats, and in the architectural and technical studies necessary for opening our major theme park: the Spanish colonial silver mines. Imagine, visitors will be able to descend into the mines in mule-drawn carts and actually chip away a piece of ore containing silver.

But I digress. In fact, employment in marketed services continues to grow every year: publishing, local radio and television, the arts, information services, professional sports all absorb large numbers. We have creased to be obsessed with jobs in industry, with the tax competition between countries that went with it. Why worry if the world 'chooses' to produce all of its VCRs in Japan or Malaysia? 12 If we can share in the profits from that activity, it certainly

is no loss to us. We focus instead on income levels and on human satisfaction. Work is very much still with us, but we have tried to minimize drudgery and toil.

By taking steps to abandon arrangements that had heretofore been thought of as essential to national sovereignty, we paradoxically enhanced sovereignty rather than weakened it. We are free now to cultivate our differences and even profit handsomely from them. The quest to replicate within our national boundaries the industrial structure of Great Britain or even Belgium has given way to the celebration of individual creativity. Tax funds that were previously given away to attract high-cost, low-volume uncompetitive industries are now available for health care and for cultural and educational activities, among other things. People are now able to resolve many of their own problems at the village level. For us, the new order has truly brought what previously seemed inconceivable: self-reliant development in an integrating world. So you see, I don't have any nostalgia for the bygone ways.

## Notes

1. Thorstein Veblen (1919) *The Vested Interests and the Common Man* (New York: B.W. Huebsch, In.). Karl Marx, as well, had no use for nationalism: "...the protective system of our day is conservative, while the free trade system is destructive. It breaks up old nationalities and pushes the antagonism of the proletariat and the bourgeoisie to the extreme point. In a word, the free trade system hastens the social revolution. It is in this revolutionary sense alone, gentlemen, that I vote in favour of free trade." Marx (1848) "On the Question of Free Trade," *The Poverty of Philosophy* (Moscow: Foreign Languages Publishing House), p. 245.
2. "U.S. Businesses Loosen Link to Mother Country," *The New York Times* (May 21, 1989), p. 1.
3. "So much of barbarism, however, still remains in the transactions of the most civilized nations that almost all independent countries choose to assert their nationality by having to their own inconvenience and that of their neighbours, a peculiar currency of their own." John Stuart Mill, *Principles of Political Economy*, 5th London ed. (New York: D. Appleton & Co., 1865), II, 176.
4. As William Cline has pointed out, the creation of exclusive economic zones represented yet another extension of property rights, quite inconsistent with the notion of the common heritage. Cline "Resource Transfers to the Developing Countries: Issues and Trends" in Cline, ed. (1979) *Policy Alternatives for a New International Order: An Economic Analysis* (New York: Praeger Publishers), p. 343- 44.
5. Charles P. Kindleberger (1986), "International Public Goods Without Inter-

national Government,” *American Economic Review* , 76 (March), 7- 8.

6. Pablo Neruda in James Cockroft and Dale L. Johnson, eds. (1973) *The Chilean Road to Socialism* (Garden City: Anchor Press), pp. 140-41.

7. Myron J. Frankman (1989) ”The Idea of International Income Redistribution: Intellectual History and Status Report,” McGill University, Department of Economics Working Paper no. 9/89 (May 1989). For detailed estimates of likely proceeds of various proposed taxes, see Eleanor Steinberg and Joseph A. Yager with Gerard M. Brannon (1978) *New Means of Financing International Needs* (Washington, D.C.: The Brookings Institution).

8. World Commission on Environment and Development [the Brudtland Commission], *Our Common Future* (New York: Oxford University Press, 1987).

9. Fariborz Nozari (1970) *Unequal Treaties in International Law* (Stockholm).

10. *The Economist* (”The ecu nationalists,” February 18, 1989) puts it more colorfully: ”...by denying the printing press, monetary union would forbid fiscal recklessness of the Latin American sort...governments would still be free to tax and spend as they judged best, and to run budget deficits...subject only to the need to finance these by borrowing rather than by the printing of money. That is more than enough sovereignty for any finance minister. If Mr. Lawson [Britain’s Chancellor of the Exchequer] wants more, he should say what he plans to do with it.” (p. 13).

11. Anne Krueger (1974) ”The Political Economy of the Rent- Seeking Society,” *American Economic Review* , 64 (June), 291-303.

12. A paraphrase of John Stuart Mill: ”If Manchester, instead of being where it is, were on a rock in the North Sea (its present industry nevertheless continuing), it would still be but a town of England, not a country trading with England; it would be merely, as now, a place where England finds it’s convenient to carry on her cotton manufacture.” Mill, II, 256.

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