Challenges of globalization V

1. Two ways democracies die (Levitsky and Ziblatt, 2018)

- Democracies may fall quickly and spectacularly, immediately and evidently, through military power and coercion. Examples of democracies dying at the hands of men with guns, who seize power violently: Argentina, Brazil, Chile (1973), the Dominican Republic, Egypt (2013), Ghana, Greece, Guatemala, Nigeria, Pakistan, Peru, Thailand (2014), Turkey, Uruguay.
- Democracies may be broken from within by elected leaders, generally slowly and imperceptibly. In this case, presidents or primer ministers used the power legally obtained to erode or subvert the rules that allowed them to come to power, taking steps towards authoritarianism. When the subversion process consolidates, democracy ends replaced by autocracy with a façade of legitimacy. The country is still nominally a democracy (elections are held, democratic institutions continue to exist, the rule of law on the surface remains intact, elected leaders claim to act in the name of democracy and democratic ideals), but the substance of democracy has vanished. The crossing of the line separating democracy from autocracy goes unnoticed to most people. Examples of democracies dismantled by elected governments without having to put tanks on the streets: Georgia, Hungary, Nicaragua, Peru, the Philippines, Poland, Russia, Sri Lanka, Turkey, Ukraine, Venezuela.
- "The tragic paradox of the electoral route to authoritarianism is that democracy's assassins use the very institutions of democracy—gradually, subtly, and even legally—to kill it." De-democratization does not tend to be sudden, but incremental.

2. What makes democracies strong

- What makes democracies strong and healthy is not the lack of political figures with autocratic leanings, but having tools (like political parties) preventing them to gain enough power or, ultimately, having the most relevant political leaders oppose and reject anti-democratic inclinations.
- "Democracies work best—and survive longer—where constitutions are reinforced by unwritten democratic norms. Two basic norms have preserved America's checks and balances in ways we have come to take for granted: mutual toleration, or the understanding that competing parties accept one another as legitimate rivals, and forbearance, or the idea that politicians should exercise restraint in deploying their institutional prerogatives (…) Leaders of the two major parties accepted one another as legitimate and resisted the temptation to use their temporary control of institutions to maximum partisan advantage. (…) The weakening of our democratic norms [toleration and restraint] is rooted in extreme partisan polarization (…) And if one thing is clear from studying breakdowns throughout history, it's that extreme polarization can kill democracies."

Levitsky, Steven; Daniel Ziblatt (2018): *How democracies die*, Crown, New York.

3. De-democratization (*Homeland*, Season 7, Episode 12)

"When we think of democracies dying, we think of revolutions, of military coup d'etats, of armed men in the street. But that's less and less how it happens anymore. Turkey, Poland, Hungary, Nicaragua, The Philippiness. Democracies now die when we're not looking, when we're not paying attention. And the end rarely comes in an instant, but arrives slowly, like twilight. And at first, our eyes dont' notice."

4. Two futures for American capitalism (Alan Nasser, 2018, pp. 1-2)

"either ongoing repressive austerity for working people, or a society constituted by a shift from private to public investment, a much-shortened work week, and a vast increase in household income, enabled in large part, as was the case during the Second New Deal, by large-scale government employment (…) I contend that the present historical conjuncture, properly diagnosed, points to its own prescription: a democratic socialist polity as successor to a capitalism that has, like living organisms, exhausted its potential for nonpredatory growth. Capitalism's life can be prolonged only at the expense of democracy and of material and psychological security."

Nasser, Alan (2018): *Overripe economy: American capitalism and the crisis of democracy*, Pluto Press, London.

5. How capitalism ends (Alan Nasser, 2018, pp. 225-226)

"The evidence indicates that American capitalism, and, by implication, every industrially mature capitalist society, reaches a critical developmental stage. At that point the kind of real-economic growth that brings secure employment and living standards to the majority, much less to every working household, slows down. What comes to predominate is financialized growth, where such economic growth as there is is sustained by bubbles, which bring with them working-class austerity and precarity, social dislocation and a resulting repressive State. It is increasingly clear that *capitalism and democracy are incompatible*. There emerges the need for economic and political democracy. Economic democracy has never existed under capitalism and political democracy is in conspicuous decline. Some form of socialist democracy is the order of the epoch."

Nasser, Alan (2018): *Overripe economy: American capitalism and the crisis of democracy*, Pluto Press, London.

6. A cure for capitalism (Richard Wolff, 2012)

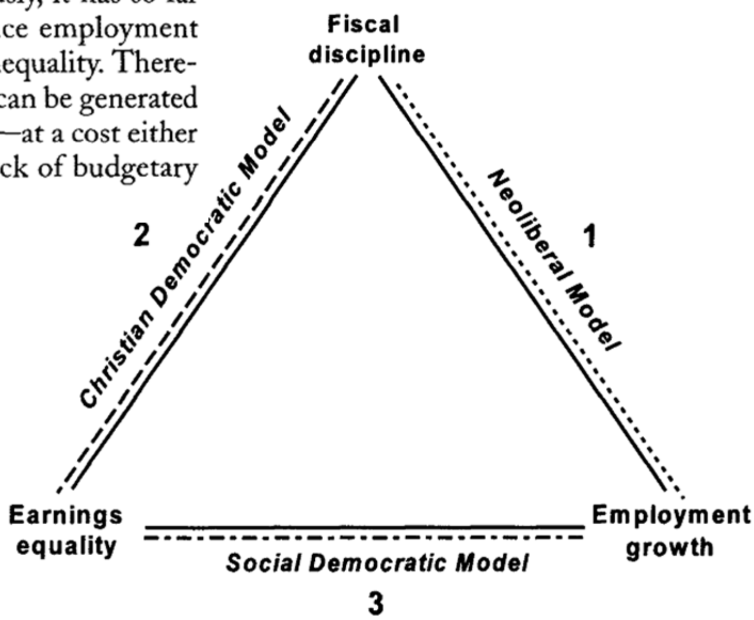
"… moving beyond the internal organization of capitalist enterprises toward a specific, democratic alternative organization of production is the way forward now. Not only does a transition to worker-directed enterprises offer better prospects for preventing future crises, it also entails solutions for a host of related problems that have long defined capitalist societies."

Wolff, Richard (2012): *Democracy at work: A cure for capitalism*, Haymarket Books, Chicago.

7. The trilemma of the service economy (Torben Iversen, Anne Wren, 1998)

In contrast to the globalization literature, this paper argues that the most important change in the advanced liberal democracies over the past three decades has been the transition from an economy dominated by (exposed) manufacturing production to one dominated by (sheltered) services production.[4] Borrowing from portions of the emerging literature on the postindustrial society, the paper develops a political-economic model of the service economy which implies that governments and nations confront a three-way choice, or "trilemma," between budgetary restraint, income equality, and employment growth. While it is possible to pursue two of these goals simultaneously, it has so far proved impossible to achieve all three. Private service employment growth can be accomplished only at a cost of wage inequality. Therefore, if wage equality is a priority, employment growth can be generated only through employment in the public services sector—at a cost either of higher tax rates or of borrowing (both implying lack of budgetary restraint).

Iversen, Torben; Anne Wren (1998): "Equality, employment, and budgetary restraint: The trilemma of the service economy," World Politics 50, 507-546.



8. The political will trilemma (Nacho Álvarez)

"… en los países periféricos de la zona euro no parece viable satisfacer al mismo tiempo las exigencias de la ciudadanía, las exigencias de las élites nacionales y las exigencias financieras internacionales (cristalizadas en las normas de Bruselas). Hay que elegir y descartar, al menos, uno de estos tres vértices (o, en este trilema, incluso dos)."

"… in the peripherical countries of the eurozone it does not appear possible to satisfy, at the same time, the demands by the people, the demands by national elites and the international financial demands (as expressed in Brussels' norms). A choice must be made and discard, at least, one of the three demands (or, in the present trilemma, even two of them)."

Álvarez, Nacho (2018): "Pedro Sánchez y el trilema de la voluntad política", https://ctxt.es/es/20180905/Firmas/21589/pedro-sanchez-unidos-podemos-austeridad-deficitreforma-fiscal-dani-rodriknacho-alvarez.htm

"En países con débiles regímenes fiscales, como los países periféricos de la eurozona, una expansión fiscal que permita reconstruir los derechos que las políticas de austeridad se han llevado por delante, y ampliar otros nuevos, ha de financiarse con cierto déficit público –anatema para Bruselas–, o con cargo a una reforma tributaria, que necesariamente debe descansar sobre las élites del país, dado que en estas latitudes las clases medias y populares ya soportan buena parte de la carga tributaria (…) Gobernar es elegir, decidir si (…) se atenderán las exigencias de las élites del país, las de la tecnocracia de Bruselas o las de la mayoría social. El gobierno italiano ha elegido chocar con Bruselas."

"In countries having a weak fiscal structure, like the eurozone peripheral countries, a fiscal expansion aimed at rebuilding rights devastated by austerity policies, and expanding new ones, must be debt-financed –a capital sin for Brussels– or tax-financed. The latter option would require a tax reform, the burden of which shall fall on the country's elites, since in these countries the middle and lower classes already bear a heavy tax burden (…) Governing means choosing, decide which demands will be served: the country's elites', the Brussel technocrats' or the social mayority's. The Italian government has chosen to clash with Brussels."

9. Lines that the rise of the internet has blurred (John P. Carlin, 2018)

- The line between peace and war (cyberwarfare). "War, over recent decades, has increasingly become the province of lawyers, especially as so many modern adversaries—from al-Qaeda to ISIL—are not clearly defined nation-states. Lawyers review proposed drone and air strikes, sit in the room as covert raids are approved, and provide detailed instructions to officers and soldiers in the field about when they can shoot and when they should hold fire." "…the internet has delivered nations—and non-nation groups—the ability to engage in actions that appear to step well past the line of peace but fall short of actual war."
- The line between public and private. "… national defense has been the sole province of the government itself (…) Yet, online, most of the responsibility for protection falls to private companies."
- The line between nation-state and individual. "Today, weapons of mass destruction can be deployed online by individuals even accidentally—the first 'internet virus,' the Morris Worm, was unleashed by a graduate student who didn't understand the destruction his program would cause. Terror groups, hacktivist groups such as Anonymous, and 'patriotic hackers' can today unleash tools and disruptions online that a few decades ago would have been the sole capability of the world's most powerful nations."
- The line between physical and virtual. "Cyberspace today includes a complicated set of parts: physical hardware (the computers and infrastructure that run networks), software (the code that runs on computers), and information (the data created and saved inside that software and hardware). Each part impacts the others and would cease to be useful without the full constellation. With today's technology—and even more so in the future—it's difficult to tell clearly where the physical world ends and the virtual begins. Money today exists almost entirely virtually, with cash a rarity—and the rise of cryptocurrencies like Bitcoin presage an era when there is no physical money at all."
- The line between domestic and international. "The internet has allowed instant access to far corners of the globe, allowed people sitting at their desks in one country to chat via video with people a continent away, and given anyone with internet access the ability to reach as many readers or viewers as the New York Times or CNN. This trend has provided all-new challenges to governments and nation-states (…) The person on the other end of a cyberattack could be a teenager down the street, a terrorist overseas, or a military officer in uniform at a desk in an adversary's capital—and you often don't know which it is until you've solved the case."
- The line between what is worth and what is not worth protecting. "Our government used to have a very clear understanding of what secrets it was trying to keep (…) it has primarily focused on military secrets, the work of the intelligence agencies, and diplomatic efforts around the globe. Yet we've seen in the last decade the weaponization of information in places we never considered a 'national secret': the internal communications of a political party, the seemingly boring old personnel records of government employees, the health insurance details of millions of Americans, and, even, the Amazon shopping list of a movie executive."

"The internet, a tool that was once created to help the US government survive a war, has now become a central point of global tension and a lurking threat to our daily lives."

Carlin, John P.; Garrett M. Graff (2018): Dawn of the code war : America's battle against Russia, China, and the rising global cyber threat, PublicAffairs, New York.

10. A grim picture of artificial intelligence (Kai-Fu Lee, 2018)

"When we scan the economic horizon, we see that artificial intelligence promises to produce wealth on a scale never before seen in human history—something that should be a cause for celebration. But if left to its own devices, AI will also produce a global distribution of wealth that is not just more unequal but hopelessly so. AI-poor countries will find themselves unable to get a grip on the ladder of economic development, relegated to permanent subservient status. AI-rich countries will amass great wealth but also witness the widespread monopolization of the economy and a labor market divided into economic castes.

Make no mistake: this is not just the normal churn of capitalism's creative destruction, a process that has previously helped lead to a new equilibrium of more jobs, higher wages, and a better quality of life for all. The free market is supposed to be self-correcting, but these self-correcting mechanisms break down in an economy driven by artificial intelligence. Low-cost labor provides no edge over machines, and data-driven monopolies are forever self-reinforcing.

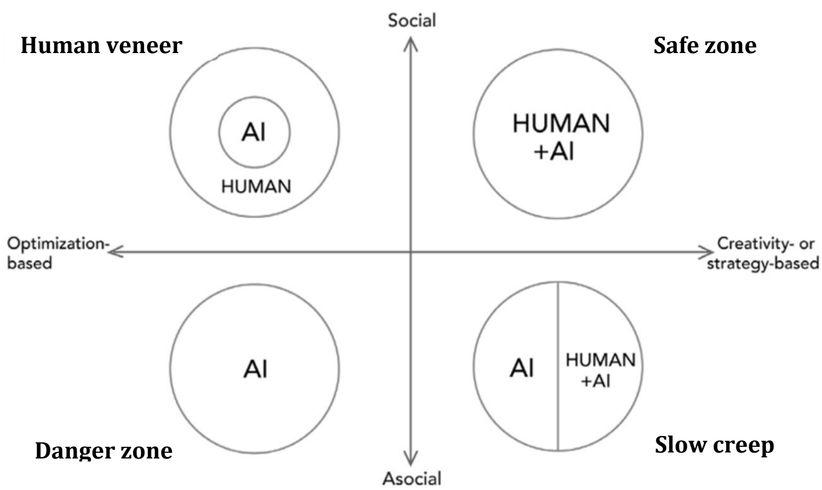
These forces are combining to create a unique historical phenomenon, one that will shake the foundations of our labor markets, economies, and societies. Even if the most dire predictions of job losses don't fully materialize, the social impact of wrenching inequality could be just as traumatic (…) AI risks creating a twenty-first-century caste system, one that divides the population into the AI elite and what historian Yuval N. Harari has crudely called the "useless class," people who can never generate enough economic value to support themselves. Even worse, recent history has shown us just how fragile our political institutions and social fabric can be in the face of intractable inequality."

11. Solutions for AI-induced job losses (Kai-Fu Lee, 2018)

- Retrain workers (skill dimension of the labour market). "Those advocating the retraining of workers tend to believe that AI will slowly shift what skills are in demand, but if workers can adapt their abilities and training, then there will be no decrease in the need for labor."
- Reduce work hours (time dimension of the labour market). "Those advocates of reducing work hours believe that AI will reduce the demand for human labor and feel that this impact could be absorbed by moving to a three- or four-day work week, spreading the jobs that do remain over more workers."
- Redistribute income (compensation dimension of the labour market). "The redistribution camp tends to be the most dire in their predictions of AI-induced job losses. Many of them predict that as AI advances, it will so thoroughly displace or dislodge workers that no amount of training or tweaking hours will be sufficient. Instead, we will have to adopt more radical redistribution schemes to support unemployed workers and spread the wealth created by AI." In the universal basic income proposal the government pays everyone in a country a fixed income stipend. In the guaranteed minimum income proposal only those below a certain income level receive a stipend. "Funding for these programs would come from steep taxes on the winners of the AI revolution: major technology companies; legacy corporations that adapted to leverage AI; and the millionaires, billionaires, and perhaps even trillionaires who cashed in on these companies' success."

12. Human–AI coexistence in the labour market (Kai-Fu Lee, 2018)

"While AI handles the routine optimization tasks, human beings will bring the personal, creative, and compassionate touch. This will involve the redefinition of existing occupations or the creation of entirely new professions in which people team up with machines to deliver services that



are both highly efficient and eminently human (…) We expect to see the upper-left quadrant ("Human Veneer") offer the greatest opportunity for human-AI symbiosis: AI will do the analytical thinking, while humans will wrap that analysis in warmth and compassion. In that same chart, the two quadrants on the right-hand side of the graph ("Slow Creep" and "Safe Zone") also provide opportunities for AI tools to enhance creativity or decision-making, though over time, the two left-side AI-centric circles will grow toward the right as AI improves. A clear example of human-AI symbiosis for the upper-left-hand quadrant can be found in the field of medicine."

Lee, Kai-Fu (2018): *AI superpowers: China, Silicon Valley, and the new world order*, Houghton Mifflin Harcourt, Boston.

13. Two roads to modernity (John Micklethwait and Adrian Wooldridge, 2009)

"Ever since the Enlightenment there has been a schism in Western thought over the relationship between religion and modernity. <u>Europeans, on the whole, have assumed that modernity would marginalize religion; Americans, in the main, have assumed that the two things can thrive together</u>.

This schism goes back to the modern world's two founding revolutions. The French and American Revolutions were both the offspring of the Enlightenment, but with very different views of the role that religion should play in reason's glorious republic. <u>In France the *révolutionnaires* despised religion as a tool of the ancien régime. By contrast, America's Founding Fathers took a more benign view of religion</u>. They divided church from state not least to protect the former from the latter (…)

<u>It now seems that it is the American model that is spreading around the world: religion and modernity are going hand in hand</u>, not just in China but throughout much of Asia, Africa, Arabia and Latin America. It is not just that religion is thriving in many modernizing countries; it is also that religion is succeeding in harnessing the tools of modernity to propagate its message. <u>The very things that were supposed to destroy religion—democracy and markets, technology and reason—are combining to make it stronger</u>."

Micklethwait, John; Adrian Wooldridge (2009): *God is back: How the global revival of faith is changing the world*, Penguin Press, New York.

14. Old power vs new power: stock vs flow (Jeremy Heimans and Henry Timms, 2018)

- "<u>Old power works like a currency</u>. It is held by few. Once gained, it is jealously guarded, and the powerful have a substantial store of it to spend. It is closed, inaccessible, and leader-driven. It downloads, and it captures.
- <u>New power operates differently, like a current</u>. It is made by many. It is open, participatory, and peer-driven. It uploads, and it distributes. Like water or electricity, it's most forceful when it surges. <u>The goal with new power is not to hoard it but to channel it</u>."

"Thanks to today's ubiquitous connectivity, we can come together and organize ourselves in ways that are geographically boundless and highly distributed and with unprecedented velocity and reach. <u>This hyperconnectedness has given birth to new models and mindsets that are shaping our age</u> (…) That's the 'new' in new power (…) <u>The future will be a battle over mobilization</u>. The everyday people, leaders, and organizations who flourish will be those best able to channel the participatory energy of those around them—for the good, for the bad, and for the trivial."

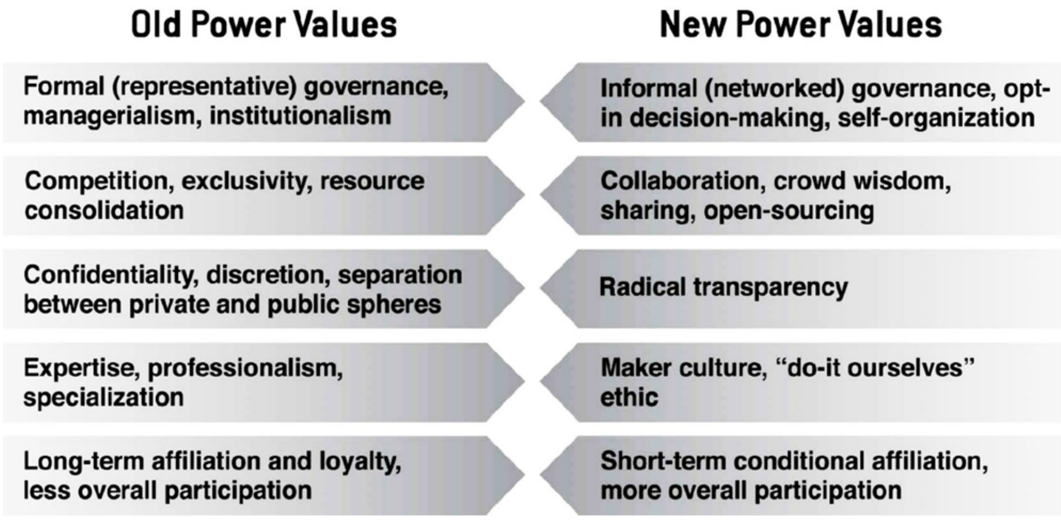
- "<u>An ACE idea</u>: An idea designed so that the crowd will take hold of it and spread it. It is *actionable* because it is designed to make a user do something, *connected* because it makes a user feel part of a like-minded community, and *extensible* because it is structured with a common stem that encourages its communities to alter and extend it."

"New power is here to stay and is, in many sectors, ascendant. In the right hands, it is doing wonders: the crowd-sourced drug trials; the fast-growing movements in the name of love and compassion. Yet in the wrong hands, as we see with ISIS or the growing hordes of white supremacists, these same skills can be enormously destructive."

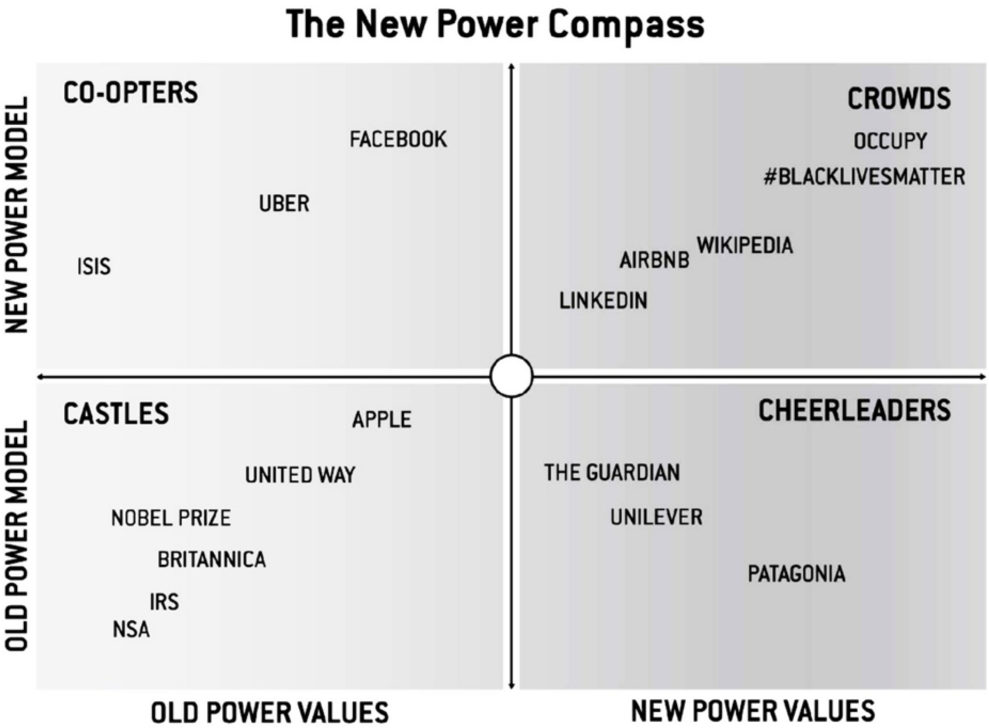
Heimans, Jeremy; Henry Timms (2018): *New power: How power works in our hyperconnected world—and how to make it work for you*, Doubleday, New York.

15. The two mindsets in today's world and the new power compass (J. Heimans and H. Timms, 2018)

"The twentieth century was built from the top down. Society was imagined as a great machine, intricately powered by big bureaucracies and great corporations. To keep the machine humming, ordinary people had critical, but small and standardized, roles to play (…) Yet the rise of new power is shifting people's norms and beliefs about how the world should work and where they should fit in. The more we engage with new power models, the more these norms are shifting. Indeed, what is emerging—most visibly among people under thirty (now more than half the world's population)—is a new expectation: an inalienable right to participate."



The two mindsets doing battle in today's world: formal vs. informal governance; competition vs. collaboration; confidentiality vs. radical transparency; experts vs. makers; long-term vs. transient affiliation.



"The horizontal axis tracks the values of an organization: whether it exhibits new or old power values. The vertical looks at its model: whether it is a new power model designed and structured to encourage mass participation and peer coordination or an old power model that asks us to do little more than comply or consume."

16. The rise of data-rich markets: data-driven vs money-based markets (Thomas Ramge, 2018)

"To do their magic, markets depend on the easy flow of data, and the ability of humans to translate this data into decisions—that's how we transact on markets, where decision-making is decentralized (…) Until recently, communicating such rich information in markets was difficult and costly. So we used a workaround and condensed all of this information into a single metric: price. And we conveyed that information with the help of money."

"Price and money have proved to be an ingenious stopgap to mitigate a seemingly intractable challenge, and it worked—to a degree. But as information is compressed, details and nuance get lost, leading to suboptimal transactions (…) For millennia, we tolerated this inadequate solution, as no better alternative was available. That's changing. Soon, rich data will flow through markets comprehensively, swiftly, and at low cost. We'll combine huge volumes of such data with machine learning and cutting-edge matching algorithms to create an adaptive system that can identify the best possible transaction partner on the market. It will be easy enough that we'll do this even for seemingly straightforward transactions.

Conventional markets have been highly useful, but they simply can't compete with their data-driven kin. Data translates into too much of an improvement in transactions and efficiency. Data-rich markets finally deliver what markets, in theory, should always have been very good at—enabling optimal transactions—but because of informational constraints really weren't (…) The benefits of this momentous change will extend to every marketplace.

The key difference between conventional markets and data-rich ones is the role of information flowing through them, and how it gets translated into decisions. In data-rich markets, we no longer have to condense our preferences into price and can abandon the oversimplification that was necessary because of communicative and cognitive limits (…)

There is a gold rush just around the corner, and it will soon be in full swing. It's a rush toward data-rich markets that deliver ample efficiency dividends to their participants and offer to the providers a sizable chunk of the total transaction volume. The digital innovations of the last two decades are finally beginning to alter the foundations of our economy. If done well, market-driven coordination greased by rich data will allow us to meet vexing challenges and work toward sustainable solutions, from enhancing education to improving health care and addressing climate change. Gaining the ability to better coordinate human activity is a big deal (…)

The rise of a market in which a substantial part of the transactional process is automated, and the decline of the firm as the dominating organizational structure to organize human activity efficiently will uproot labor markets around the world (…) A shift from finance to data capitalism will question many long-held beliefs, such as work as a standardized bundle of duties and benefits."

Mayer-Schönberger, Viktor; Thomas Ramge (2018): *Reinventing capitalism in the age of Big Data*, Basic Books, New York.

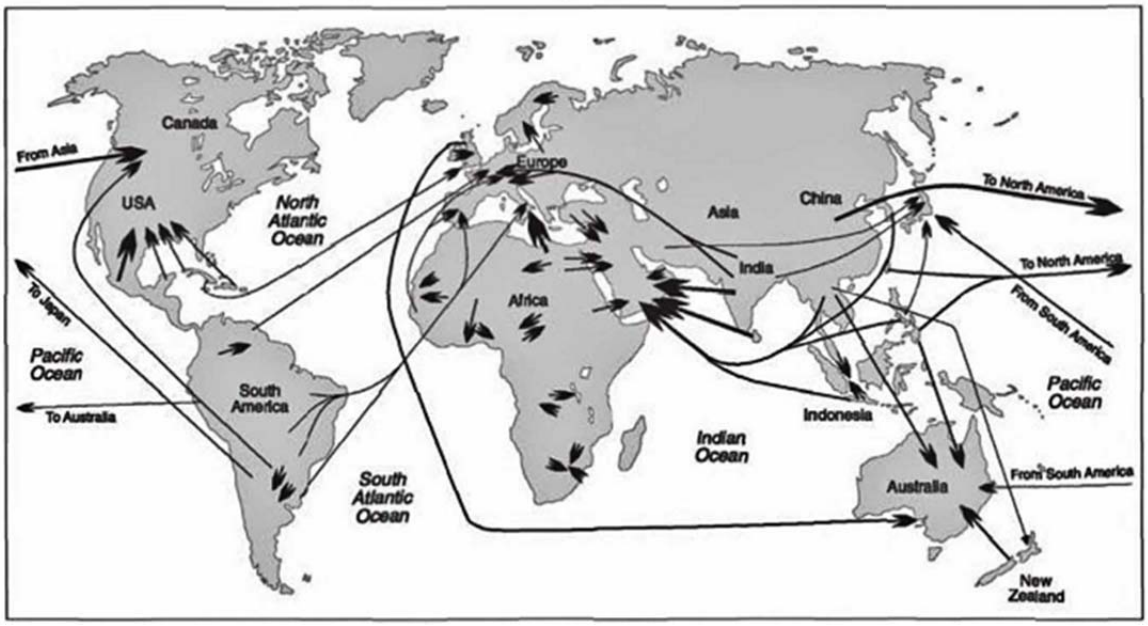
17. Will money ever become obsolete? (*The Orville*, Season 1, Episode 11)

"It [money] became obsolete with the invention of matter synthesis. The predominant currency became reputation (…) Human ambition didn't vanish. The only thing that changed was how we quantify wealth. People still want to be rich, only now rich means being the best at what you do."

18. General tendencies in international migration (Castles et al. 2014, pp. 16-18)

"International migration is part of a transnational shift that is reshaping societies and politics around the globe. The old dichotomy between migrant-sending and migrant-receiving countries is being eroded –if this dichotomy was ever valid at all. Most countries experience both emigration and immigration (although one or the other often predominates)."

- Globalization of migration. More countries participate in international migration. Immigration countries receive migrants from varied source countries.
- Reversal of dominant migration flows. European countries have been, for centuries, sources of emigration. Since World War II, European countries have become a major pole of attraction for emigrants. The Gulf region has emerged as a new global migration destination.
- Multiple types of migration. Most countries experience many types of migration: labour migration, refugees, family reunion…
- Proliferation of migration transition: countries traditionally being sources of migrants become countries receiving migrants (Dominican Republic, Mexico, Morocco, Poland, South Korea, Spain, Turkey…) and others turn from being immigration to emigration countries (some countries in Latin America).
- Feminization of labour migration.
- Growing political salience and impact of migration. International migration has become a factor affecting international relationships, national security policies, domestic policies…



Major migratory flows since 1973 (Castles et al., 2014, p. 11)

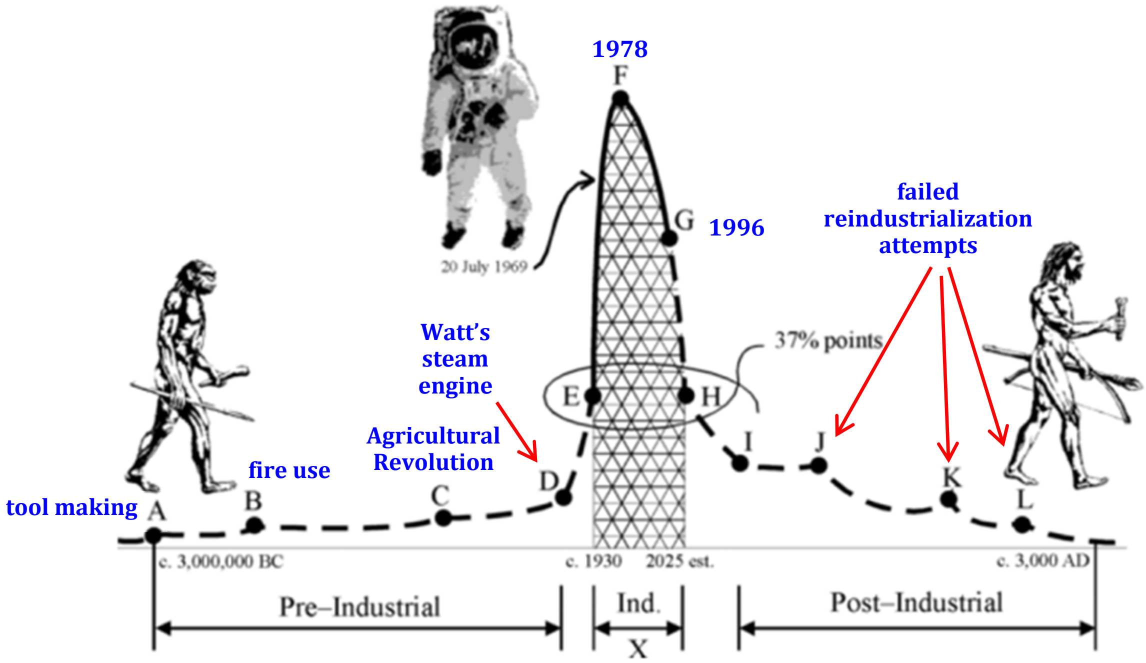
Castles, Stephen; Hein de Haas; Mark J. Miller (2014): *The age of migration: International population movements in the modern world*, Palgrave Macmillan, Basingstoke, UK.

19. The Olduvai theory of industrial civilization (http://www.hubbertpeak.com/duncan/olduvai.htm)

The Olduvai theory of industrial civilization holds that industrial civilizations last around one century. The variable that determines the rise and fall of an industrial civilization is energy production per capita.

"The Olduvai Theory states that the life expectancy of industrial civilization is approximately 100 years: circa 1930-2030. Energy production per capita (e) defines it. The exponential growth of world energy production ended in 1970... Average e will show no growth from 1979 through circa 2008... The rate of change of ewill go steeply negative circa 2008... World population will decline to about two billion circa 2050... A growing number of independent studies concur..."

Richard C. Duncan (2005-2006): "The Olduvai Theory. Energy, population, and industrial civilization," The Social Contract, Winter 2005-2006.



20. Rodrik's (2018, ch. 10) new rules for the global economy

- 'Markets must be deeply embedded in systems of governance.' Markets are not self-regulated institutions: for proper functioning they need the support of other institutions (courts, legal systems, regulators, social insurance, redistributive taxation, infrastructure, public investment in R&D…). This applies to global markets as well as national markets.

- '<u>Democratic governance and political communities are organized largely within nation-states, and are likely to remain so for the foreseeable future</u>.' 'The quest for extensive global governance is a fool's errand, both because national governments are unlikely to cede significant control to transnational institutions and because harmonizing rules would not benefit societies with diverse needs and preferences.' 'When international cooperation does "succeed," it typically codifies the preferences of the more powerful states or, even more frequently, of international corporations and banks in those states.'
- '<u>There is no "one way" to prosperity</u>.' Since 'the core institutional infrastructure of the global economy must be built at the national level, it frees up countries to develop the institutions that suit them best.' Regulations that cover labor markets, corporate governance, antitrust, social protection, and even banking and finance differ considerably in prosperous societies: US, Europe, Japan… 'The most successful societies of the future will leave room for experimentation and allow for further evolution of institutions over time. A global economy that recognizes the need for and value of institutional diversity would foster rather than stifle such experimentation and evolution.' The prosperity game never ends.
- '<u>Countries have the right to protect their own regulations and institutions</u>.' 'The recognition of institutional diversity would be meaningless if nations were unable to "protect" domestic institutions.'
- '<u>Countries do not have the right to impose their institutions on others</u>.' 'The recognition of institutional diversity would be meaningless if nations were unable to "protect" domestic institutions.' 'Nations have a right to difference, not to impose convergence.'
- '<u>The purpose of international economic arrangements must be to lay down the traffic rules for managing the interface among national institutions</u>.'
- '<u>Nondemocratic countries cannot count on the same rights and privileges in the international economic order as democracies</u>.' 'What gives the previous principles their appeal and legitimacy is that they highlight democratic deliberation—where it really occurs, within nation-states. When nation-states are not democratic, this scaffolding collapse.' 'These principles support a different model of global governance, one that would be democracy enhancing rather than globalization enhancing.'

Rodrik, Dani (2018): *Straight talk on trade: Ideas for a sane world economy*, Princeton University Press, Princeton, NJ.

21. Hegemonic war (Robert Gilpin)

A hegemonic war is a military conflict often involving the transition of great power hegemony in the presence of a contrasting perception of the power status: the hegemonic power feels its power to be waning, whereas the rising power feels its power accumulating. Examples: Rome vs Carthage (3rd century BC); Pesian vs Ottoman empire (16th century); Catholic kings vs Protestant princes (up to the Thirty Years' War); Habsburgs vs France (end of 17th and 18th centuries); Britain vs France (1756-1815); Britain vs Germany (end of 19th century).

22. Lebow's (2010, pp. 92-96) six propositions on the causes of warfare

- '<u>The most aggressive states are rising powers seeking recognition as great powers and dominant great powers seeking hegemony</u>.' 'This pattern reflects the importance of victory in war as the principal means historically of gaining international standing.'
- '<u>Rising powers and dominant powers rarely make war against each other. When they do, rising powers are allied with at least one great power</u>.' 'Rising powers are most likely to make war against a great power when that power is temporarily vulnerable and preferably as part of a larger coalition.'
- '<u>The preferred targets of dominant and rising powers are declining great powers and weaker third parties. They also prey on great powers who are perceived as temporarily weak, preferably in alliance with other great powers</u>.' 'If great and rising powers do not generally attack one another, their obvious targets are weaker third parties. Wars against them represent a cheap and seemingly low-risk means of demonstrating military prowess and of gaining additional territory and their resources. Once great but now seriously declining powers are also attractive targets for rising powers as defeating them has been considered more honorable and impressive than victories over much weaker third parties.'

- ‘So-called hegemonic wars (i.e. those involving most, if not all, of the great powers) are almost all accidental and the result of unintended escalation.’ Hegemonic wars is not the means by which dominant powers or challengers to dominant powers try to attain hegemony. They instead attach weaker states and declining great powers expecting the conflict to remain localized and limited. It is when other states come to the aid of the attacked parties that the conflict could escalate into a hegemonic war.
- ‘Unintended escalation and miscalculation of the balance of power have deeper causes than incomplete information.’ War is not the consequence of lack of information. Even in the presence of full information, there are strong motives to go to war, like standing, anger and honour. Honour seeking leaders, or leaders lacking standing, are less sensitive to risks (and to warnings of risks): their evaluation of a situation is not limited by rational (non-emotional) considerations.
- ‘Weak and declining powers not infrequently initiate wars against great powers.’ ‘They act primarily for reasons of revenge. They are particularly sensitive to their honor and standing as they have once been great powers. They are readily angered by predatory attacks on them, especially those that result in loss of territory and standing, and seek revenge. They almost inevitably lose these wars.’

Lebow, Richard Ned (2010): *Why nations fight: Past and future motives for war*, Cambridge University Press, UK.

23. The Thucydides trap

“What made war inevitable was the growth of Athenian power and the fear which this caused in Sparta.” (*History of the Peloponnesian War*, Thucydides)

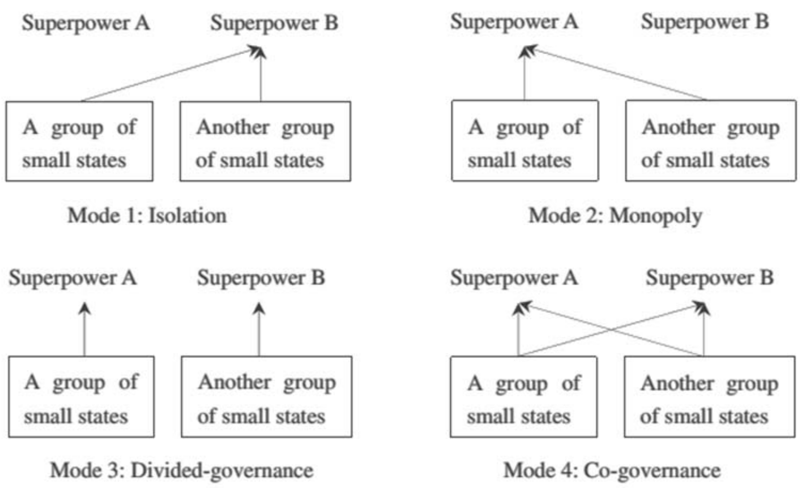
24. A paradox of dominance? (John G. Glenn, 2016)

If the global contest for dominance is a zero-sum game, then the resources used by the rising powers are no longer available to the lead states to maintain or expand their dominance. In fact, the economic system created by the dominant powers is used by the challengers to rise: when the profit opportunities become scarce in the lead economies, it becomes an attractive option to invest abroad and that helps less developed economies to develop and close the gap with the richer ones. As it is cheaper to produce in poorer economies, these economies could develop easier and faster by selling their production in the leading economies. Thus, the initial leadership of some economies is accompanied by convergence of the rest of economies.

“The paradox of power for the USA is therefore that the very economic system that has propelled it on to the world stage also contains within it the potential seeds of its own destruction.” Glenn (2016, p. 2)

Glenn, John G. (2016): *China’s challenge to US supremacy: Economic superpower versus rising star*, Palgrave Macmillan, London.

25. Sino-US interaction: Thucydides trap, Churchill trap or co-ruling? (Yang Yuan, 2018)



“The ‘Thucydides trap’ is in a large part an induction of historical experiences on great power politics. In the contemporary era, however, there is small risk of all-out war between a rising power and a hegemonic power. By contrast, the ‘Churchill trap’, whereby the superpowers fall into a long-term confrontation reminiscent of that between the US and the Soviet Union during the Cold War, presents a genuine risk and one that should be taken far more seriously (…) there is a third type of great power relationship between the two poles, which I call ‘co-ruling’, whereby rather than being geographically demarcated according to their respective ‘spheres of influence’, the two superpowers jointly lead all or most of the small and medium-sized countries in the system.”

Yang Yuan (2018): “Escape both the ‘Thucydides Trap’ and the ‘Churchill Trap’: Finding a third type of great power relations under the bipolar system,” Chinese Journal of International Politics, 1-43.

26. Matt Ridley (2010) on the modern global economy

"To explain the modern global economy, then, you have to explain where this perpetual innovation machine came from. What kick-started the increasing returns? They were not planned, directed or ordered: they emerged, evolved, bottom-up, from specialisation and exchange. The accelerated exchange of ideas and people made possible by technology fuelled the accelerating growth of wealth that has characterised the past century."

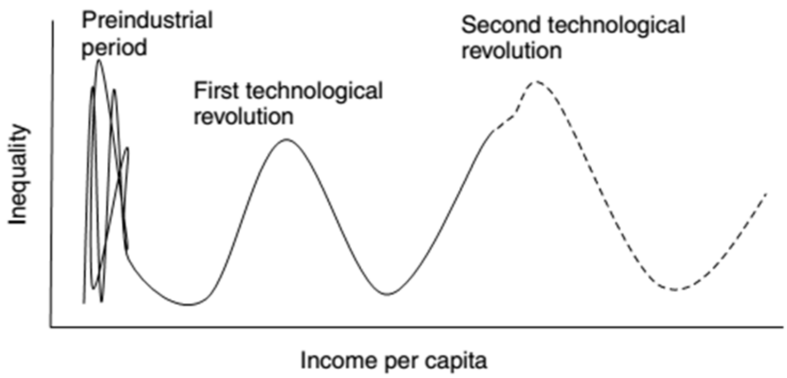
"Innovation is like a bush fire that burns brightly for a short time, then dies down before flaring up somewhere else. At 50,000 years ago, the hottest hot-spot was west Asia (ovens, bows-and-arrows), at 10,000 the Fertile Crescent (farming, pottery), at 5,000 Mesopotamia (metal, cities), at 2,000 India (textiles, zero), at 1,000 China (porcelain, printing), at 500 Italy (double-entry book-keeping, Leonardo), at 400 the Low Countries (the Amsterdam Exchange Bank), at 300 France (Canal du Midi), at 200 England (steam), at 100 Germany (fertiliser); at 75 America (mass production), at 50 California (credit card), at 25 Japan (Walkman). No country remains for long the leader in knowledge creation (…) Why must the torch be passed elsewhere at all? (…) The answer lies in two phenomena: institutions and population. In the past, when societies gorged on innovation, they soon allowed their babies to grow too numerous (…) or they allowed their bureaucrats to write too many rules, their chiefs to wage too many wars, or their priests to build too many monasteries (…) or they sank into finance and became parasitic rentiers."

Ridley, Matt (2010): *The rational optimist: How prosperity evolves*, HarperCollins, New York.

27. The Kuznets curve (or hypothesis)

The Kuznets curve is the conjecture (by Simon Kuznets) relating the level of economic inequality with the level of real income. Graphically, it takes the form an inverted U: for low income levels, inequality is low; as income grows, inequality increases; and, from some sufficiently high income level on, inequality decreases. However, the recent experience of the advanced economies shows that inequality need not decrease with development.

28. The Kuznets wave (or cycle)



The Kuznets wave is the conjecture (Branko Milanović) that there are waves of alternating increases and decreases in inequality in time (as income increases).

- Before the Industrial Revolution inequality undulated around a fixed average income level (in a Malthusian cycle the source of the fluctuation in inequality is demographic: an income rise lower inequality and triggers a population increase among the poor; in the presence of a decreasing marginal productivity of labour, a larger population leads to a reduction in productivity and a fall in income, which increases inequality and moderates population growth).
- The Industrial Revolution made possible a sustained growth of income and also an increase in inequality. First, because higher incomes create the potential for more inequality. Second, because structural changes in the economy (urbanization, rising importance of the industrial sector) drove up inequality. Inequality eventually decreased when the supply of more educated workers increased and economic policies responded to pressures to correct the uneveness of the distribution of income (the welfare state). Military conflicts and political revolutions (themselves often consequences of excessive inequality) also contributed to the reduction in inequality. The 'Great Leveling' refers to the reduction in inequality in the richer countries between 1945 and 1980.
- A new technological revolution affected the rich countries in the 1980s (digital revolution) by widening income disparities. The new technologies rewarded the more skilled workers, pushed up the return to capital and made the less skilled worker suffer the strong competition from China and India. The service sector increased in importance, with many of the new jobs not requiring much qualification and being badly paid. Moreover, pro-rich economic policies tended to be universally adopted.

Milanović, Branko (2016): Global inequality: A new approach for the age of globalization, Harvard University Press, Cambridge, MA.

29. How to reduce inequality

Extreme inequality can be solved through the tax system. The mechanisms involved in the first reduction were increased taxation, social transfers, hyperinflation, nationalization of property and wars. Globalization makes more difficult to raise taxation on capital income: it is harder to tax a mobile capital. The rich are also resistant to the application of redistributive measures (neoliberalism and trickle-down economics). And one of the characteristics of globalization is that the winner takes all.

30. Piketty's *r* > *g* theory of inequality: the fundamental force of divergence

The symbol r stands for an average rate of return on holdings of wealth over long periods (average return of stocks, corporate bonds, savings accounts, government bonds, real estate, other financial assets…). The symbol g is the GDP growth rate and can be interpreted as the average speed at which incomes in a economy grow. Piketty's theory (the fundamental inequality of capitalism) is that inequality increases when r grows faster than g. With $r > g$, wealth grows more than income; and as wealth is distributed more unequally than income, a faster growth of wealth with respect to the growth of income contributes to an increase in inequality: the rewards to the owners of wealth are larger than the income that, on average, generates the economy.

$$Y = W + P$$

aggregate income = salaries + profits

$$r = \frac{P}{K}$$

rate of return = profits / capital

$$K' = K + I$$

capital tomorrow = capital today + investment

$$I = s \cdot Y$$

investment = savings rate · income

$$Y' = (1 + g) \cdot Y$$

income tomorrow = (1 + income growth rate)· income today

Let $\alpha = \frac{P}{Y}$, $\beta = \frac{K}{Y}$ and $Y = \frac{Y}{L} \cdot L$, where L is population and $\frac{Y}{L}$ is average productivity. Therefore, $g \approx \lambda + n$: income growth is approximately equal to productivity growth plus population growth. As $r = \frac{P}{Y} \cdot \frac{Y}{K}$, it follows that $r = \alpha/\beta$ or, equivalently,

$$\alpha = r \cdot \beta$$

which Piketty calls "the first fundamental law of capitalism". Moreover,

$$\frac{K'}{Y'} = \frac{K + I}{Y'} = \frac{K}{Y'} + \frac{I}{Y'} = \frac{K}{(1+g) \cdot Y} + \frac{s \cdot Y}{(1+g) \cdot Y} = \frac{1}{1+g} \cdot \frac{K}{Y} + \frac{s}{1+g}.$$

At a stationary state, $\frac{K\prime}{Y\prime} = \frac{K}{Y} = \beta$. Hence, solving for β, it is obtained Piketty's "second fundamental law of capitalism" or dynamic law of accumulation:

$$\beta = \frac{s}{g} \approx \frac{s}{\lambda + n}$$

A falling share $\frac{W}{Y}$ of wages in income can be interpreted as a rise in inequality: capital gets an increasing larger portion of income. From $Y = W + P$, $1 = \frac{W}{Y} + \frac{P}{Y} = \frac{W}{Y} + \alpha$. As a result,

$$\frac{W}{Y} = 1 - \alpha = 1 - r \cdot \beta = 1 - \frac{s \cdot r}{g} \approx 1 - \frac{s \cdot r}{\lambda + n}.$$

The above equation indicates that the wage share $\frac{W}{Y}$ decreases (inequality goes up) when:

(i) the savings rate s rises;

(ii) the rate of return r rises;

(iii) the rate of growth λ of labour productivity falls;

(iv) the rate of growth n of population falls; or

(v) the rate of growth g of the economy declines (this is a combination of (iii) and (iv)).

31. Forces of convergence and divergence of market economies

With a constant s, the dynamics of inequality is explained by the evolution of the private rate of return r on capital and the rate of growth g of income. Having $r > g$ implies that wealth accumulated in the past grows faster than income (and wages). That capital tends to expand itself more rapidly than the economy is the principal force of divergence (inequality). The diffusion of knowledge and skills is a powerful force of convergence (and social stability).

Globalization seems to have favoured so far the forces of divergence: the narrowing of income inequality between countries has been relatively small (look at the Earth at night: light = prosperity; darkness = poverty).

32. Piketty's claims

- The growth (or contraction) of an economy's wealth-to-annual-income ratio ($\beta = K/Y$) is the quotient s/g between the net savings (the accumulation rate) and the economy's growth rate.
- Wealth is eventually concentrated in the hands of a small group: the larger β, the more unequal the distribution of wealth.
- An unequal distribution of income is the consequence of an unequal distribution of wealth: the privileged small group will steer political decisions on their behalf, to prevent the rate of profit from falling.
- The privileges of the small group will be preserved through inheritance.
- When wealth is inherited, the small privileged group will possess great influence (politically, economically, socioculturally) that will most likely be exercised to the detriment of the majority.

"The process by which wealth is accumulated and distributed contains powerful forces pushing toward divergence, or at any rate toward an extremely high level of inequality (…) It is possible to imagine public institutions and policies that would counter the effects of this implacable logic: for instance, a progressive global tax on capital. But establishing such institutions and policies would require a considerable degree of international coordination." (Piketty, 2014, p. 27)

Piketty, Thomas (2014): *Capital in the twenty-first century*, Belknap Press, Cambridge, MA.

Dickens, Edwin (2015): "Piketty's Capital in the Twenty-First Century: A review essay," Review of Political Economy 27(2), 230-239.

López-Bernardo, Javier; Félix López-Martínez; Engelbert Stockhammer (2016): "A Post-Keynesian Response to Piketty's 'Fundamental Contradiction of Capitalism'," Review of Political Economy 28(2), 190-204.

33. A new country: Richistan

"(In the US) The rich weren't just getting richer; they were becoming financial foreigners, creating their own country within a country, their own society within a society, and their economy within an economy. They were creating Richistan." There are four classes in Richistan.

- **Lower Richistan**. Some 7 million households with net worth $1-10 m. "Most of them are welleducated, work-a-day professionals: corporate executives, doctors, lawyers, bankers, designers, analysts and money managers. More than half their wealth is derived from income, with another third coming from investment returns. In an increasingly global, hightech, finance-oriented economy, Lower Richistanis have benefited from the growing demand for highly educated workers and rising pay at the top."

- **Middle Richistan**. It includes more than 2 million households, with net worth between \$10 m and \$100 m. "Most Middle Richistanis make their money from salaries, small businesses or investment returns. As you move from Lower to Upper Richistan, however, the number of entrepreneurs and business owners starts to increase. Middle Richistan has twice as many entrepreneurs as Lower Richistan, showing that the surest path to big wealth is starting your own company and selling it."
- **Upper Richistan**. It includes thousands of households, with net worth at least \$100 m. "Most made their money by starting their own companies and selling them, although CEOs and money managers (especially hedge funders) are rapidly joining the ranks. The lives of Upper Richistanis have become incredibly complicated. To run them, they're creating 'family offices'—large companies dedicated entirely to serving a family's day-to-day needs, from investments and legal work to travel plans and hiring house staff (…) When you live in Upper Richistan, your entire philosophy of money changes. You realize that you can't possibly spend all of your fortune, or even part of it, in your lifetime and that your money will probably grow over the years even if you spend lavishly. So Upper Richistanis plan their finances for the next hundred years."
- **Billionaireville**. With 13 inhabitants in 1985, it had more than 400 in 2006. "The personal lives of billionaires are more like companies. Their homes are like hotels—sprawling campuses with their own logos, purchasing budgets and legions of staff. Ask a billionaire for his or her bank statement and you'll get a five-level flowchart of interlocking subsidiaries, holding companies, investment funds and foundations."

Frank, Robert L. (2007): *Richistan: A journey through the American wealth boom and the lives of the new rich*, Crown Publishers, New York.

34. Globalization is an asymmetric process (leading to differentiated outcomes)

Rich countries are in a better disposition to rip the benefits of globalization. The preconditions for the success of globalization are more likely to are more easily satisfied by the rich countries: physical, educational and social infrastructure (transportation networks, human skills, trust, political institutions…). These preconditions are also necessary to produce high-reputation goods (positional goods: trade in services, decommodified goods, currencies), the type of goods that are becoming increasingly important to benefit from globalization. Reputation is the key competitive factor in a globalized economy and is not subject to the traditional analysis based on comparative advantages. There is an entry cost to benefit from globalization that the poorer countries cannot pay. In view of this, globalization seems to bestow its benefits asymmetrically, delivering disproportional trade benefits to the richer countries.

35. The new poverty trap of current globalization

This trap is the result of lacking adequate physical infrastructures, capital stock, educational achievement, appropriate institutions, governance skills and ability to control the domestic macroeconomic fundamentals in the presence of free flows of international capital. It also contributes to the trap the enforcement of an institutional international order that favours the rich: transformation of global competition into positional competition (more importance of the trade in services and decommodified goods) and legal architecture that reinforces the leaders in the positional competition (protection to intellectual property rights and to the free mobility of capital).

36. Two views on the benefits and costs of globalization

Critics: globalization has exploited people in developing countries, caused massive disruptions to their lives and produced few benefits in return. Supporters: reductions in poverty achieved by countries which have embraced integration with the world economy, with China and India being the current poster-countries of such success.

Yotopoulos, Pan A.; Donato Romano (eds.) (2007): *The asymmetries of globalization*, Routledge, London and New York (especially chapter 10: "What have we learned about globalization?").