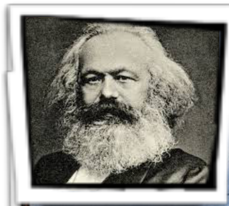
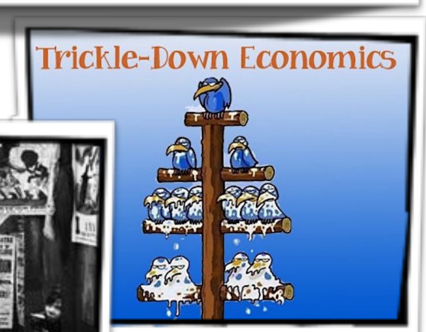
F. How to Get the Good Life? Part 2

The Rise of Marxist Communism



By 1850, the West gave birth to a new economic philosophy: Marxist Communism. By 1880, the industrial and capitalist revolutions were nearing 100 years of existence, and the generational effects were becoming clear. The promise of top-down wealth distribution was not the reality. On the local level, the factories and streets of western cities were the scene of abject poverty, disease, labor abuse, and horrendous living conditions. On the global level, the European and American countries were building imperial empires in Africa and Asia to extract cheap raw materials using near-slave labor, all while forcing them to purchase the European-made products. While there were success stories from this new liberal economy, the system was creating miserable lives for people all over the world. Into this reality, Karl Marx spoke out about the horrors of Economic Liberalism and Capitalist policies - presenting a different path forward.

To Marx, Economic Liberalism/Capitalism represented the exploitation of workers by the rich capitalist elite. A capitalist society is built by the elites of the industrial economies through the exploitation of the domestic poor: demanding cheap labor for long hours in unsafe conditions, extracting cheap natural resources from poor rural communities, and exploiting money through unfair trade agreements. As Western societies imperialized the world, natives of conquered lands had all their wealth removed and their livable-spaces taken from them. The natives were killed, taken into captivity, or driven into the least desirable regions. Most found themselves forced into indentured hard labor or slavery while becoming burdened with massive amounts of debt.



Marx believed there was a correlation between religion and industrial economic success. Marx saw the most successful countries in the Capitalist system were the ones with a Protestant Christianity foundation. This is because of the Protestants' emphasis on productivity: hard work produces Godliness, laziness was the devil's workshop. The work-driven Protestants in industrialized societies were in a better position to gain a market edge on other less work-driven cultures.

The high mass production and consumption of industrial capitalism had disastrous environmental consequences for colonized countries. For industries to be profitable, they must make a large quantity of goods. To make a large quantity of goods, the machines need to be fed an endless supply of resources. They extracted resources from the colonies for a very low price that were sent to the European and American secondary sectors to be processed into finished goods before being sold/sent back to the colonies. As the massive quantities of natural resources were stripped from the earth, conquered people were left to deal with the resulting waste, air and water pollution, deforestation, and environmental consequences (e.g. mudslides, erosion, etc). The high mass-consumption caused an unfathomable amount of trash and soon landfills were overflowing, further polluting the air and water.

Since the 1880s, Marxist and Neo-Marxists have promoted policies and development theories to counter the "evils" of capitalism. Marxists believe the rich need large number of people to be poor and STAY poor, so the rich can stay rich. Without a radical change the world will become a fixed system with the wealthy on the top getting richer, the poor on the bottom becoming more impoverished - with no hope of a better future.

Criticisms of Rostow

Since the 1960s, Neo-Marxists have had several criticisms about Rostow's Modernization Stages of Growth:

- **Euro-Centric Cultural Bias.** The first criticism is that liberal policies are extremely ethnocentric: The West is the Best. Rostow's Modernization is based on the historical path of development used by Europe and the USA; with a foundation in the Protestant Christian cultural value system of hard work. To play Rostow's "development game," a country must have money to build infrastructure and support industries. If a periphery society does not have a high GDP or easy access to a resource that can be quickly exported to amass wealth, they would need to borrow money. The loan would most likely come from the International Monetary Fund (IMF) and World Bank, who control the money (provided by Western banks) that the United Nations makes available to developing countries. The IMF requires the governments of developing countries to adopt Liberalist-Capitalist policies before they will issue a loan. Thus, the West created a system where poorer countries must adopt Western ideologies in order to receive money for infrastructure. This system dismisses the thousands of other cultures who believe in approaching life differently. Cultures that existed for thousands of years are now considered inferior and inconsequential compared to the industrial Western ideologies that have evolved over the previous 200 years. Modernization Theory claims the Western way should be the only way, forcing others to "develop" if they approach life differently.

- **Built in Inequality.** Rostow's Modernization promotes that inequalities between the rich and the poor are a natural law of life. It is unavoidable. More accurately, Rostow promotes this inequality as desirable and required for development. Any government interference in trying to redistribute wealth goes against the laws of nature and will hinder a country's attempt to develop. These actions are unjust, taking the hard-earned money of the rich and giving it to the undeserving poor.

  While seemingly logical on the surface, it begs the question: who said that the risks taken by the business owner are more valuable than the risks and efforts put forward by the worker? Why is one hour of the business executive's time worth thousands of times more than one hour of a worker's time? Why is the risk of renting property for 1 hour worth thousands of times more than one hour of a workers time? For example:

  Suppose an apartment owner in New York City has 396 apartments in one building. Each apartment rents for about $6000 per month. In terms of revenue that is: $2.37 Million per month, $79,200 per day, $3,300 per hour. Contrast these numbers to the worker who earns the minimum wage of $7.25 per hour. They earn $58 a work day (8 hours), $1,740 per month, $20,880 per year. That means one day of being an NYC apartment owner is worth three years worth of labor from the minimum wage worker. Even when taking into account taxes and repair costs, there is a large discrepancy in the numbers.

This wage and value discrepancy creates a fair bit of tension between the employer and the employees, the worker and the boss. Why should the person who owns the building make significantly more than the people who mined the ores that made the metals? Or the people who constructed the building? Without the contribution of the workers, the building would not exist. While pure equality is not possible, is it "naturally just" for one person to own five mansions and over a dozen cars while another person struggles to have something to eat or to provide a basic life for their children that live in the same country (or work for the same country)? What level of gap in inequality is acceptable and at what point does it become a problem? Or is this gap just the natural order of life that people have to learn to accept?

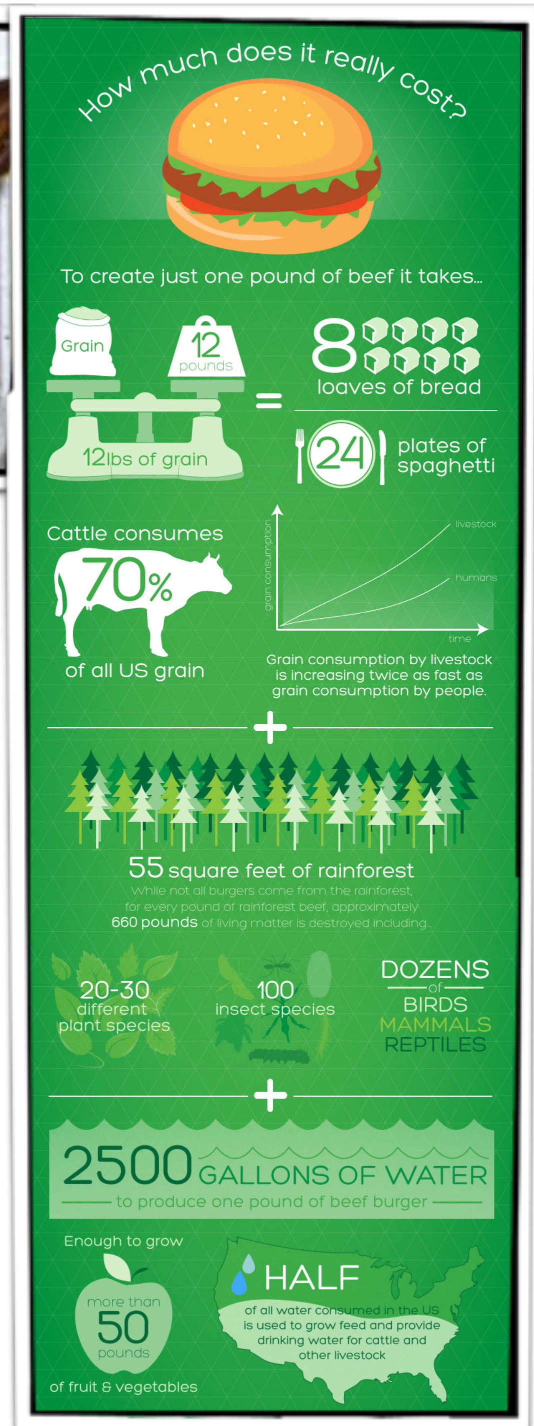
- **Free-But-Not-Fair Trade.** At the heart of laissez-faire capitalism is competition. In a competition, there are winners and there are losers. Yet, Modernization tries to promote that when there is competition in trade it will somehow benefit everyone. In reality, the competitions are fought by businesses seeking to win profit. The businesses in the most developed countries (MDC) have more tools and resources available to create more products, better-faster-cheaper than the other regions of the world. With free trade, there is no way a brand new company in the Least Developed Countries (LDC) can compete against the giants of the MDC. For example, a mega-farm in the USA with massive tractors and combines will always outproduce the farmer with a cow and a wooden plow. The miner with high-powered equipment and trucks will always outproduce the miners with pick axes and wheel barrows. Free Trade, like any other competition, favors the strong and ruins the weak. The weak become dependent on the strong, having to import goods from the "winners." This leads to people and countries going into massive debt for things they could otherwise not pay for… or the country just goes without those resources at all.

Both Americans.

Can they compete fairly?

- **Unsustainable Consumption.** Liberalism/Modernism needs consumers to consume for businesses to keep producing. People and governments need to buy products so that businesses can make more products, for people to buy more products… in an endless cycle. This drive for global high mass consumption is dangerous for the environment, especially with 7.5 billion people on the planet. Many of the resources modern societies rely on are limited. An increase in consumption of a resource will cause depletion of the resource. Also, mass consumption leaves behind massive waste. This takes the form of trash in landfills and in pollution that fills the air and waterways.

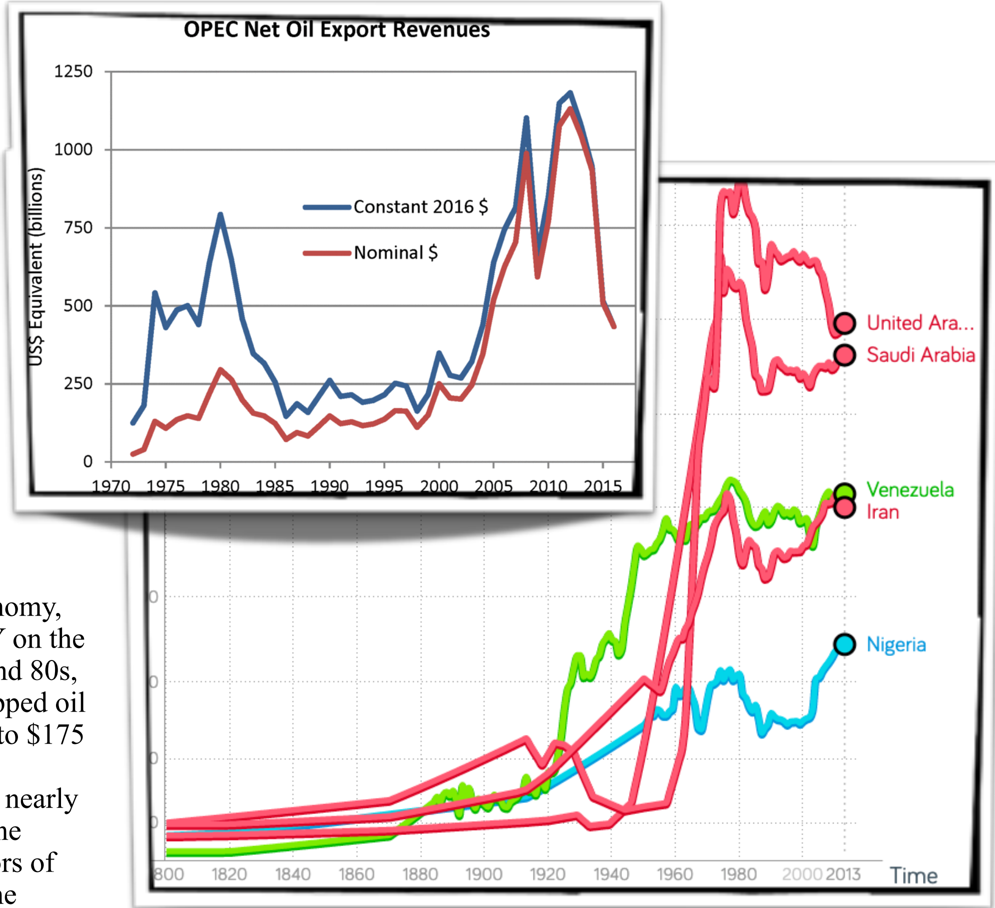
CASE STUDY: Gasoline and Beef. There are 330 thousand Americans. The average American uses 1 gallon of gas per day, resulting in using 330 thousand gallons of gas per day. China has 1 billion people, 70% of whom do not own cars (yet). If China buys into the American consumerist mindset, that means there will be 1 billion people driving cars, consuming 1 billion gallons of gas… per day. What impact will this have on the quest to drill and distribute crude oil? What impact will the extra burning of gasoline have on air pollution? Switching to food, it takes 2,500 gallons of water for a cow to create 1 pound of beef. Americans average 2.5 pounds of beef per week. That is 2,062,500,000,000 gallons of water per week used just for America's beef. If China was to match America's meat consumption, what strain would that put on the ecosystem near farms? How many more cows would need to be birthed and slaughtered? Where would all the extra cow manure go? Animal feces are already the number one air polluter on the planet, having a greater impact on climate change than cars and factories… combined. While consumption may be good for GDP indexes, it is very dangerous for creating a sustainable future for the environment.



- **Commodity Dependence.** When a country is working to increase its exports, it risks becoming commodity dependent. As previously stated, the LDCs (Stage 1 & 2) are defined by their lack of a secondary sector. To increase the country's GDP, the businesses work to find a natural resource - also known as a commodity - that provides them with a comparative advantage to export to the rest of the world. By increasing the export of these commodities, a society can increase its income wealth. The problem develops when the economy becomes dependent solely on the exports of these commodities, putting it at risk of collapsing when prices drop. When the prices are strong, their economy is strong.

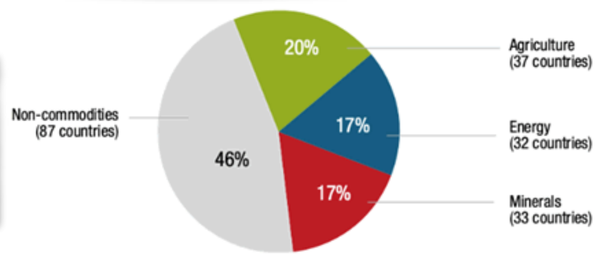

Saudi Arabia's Oil Industry

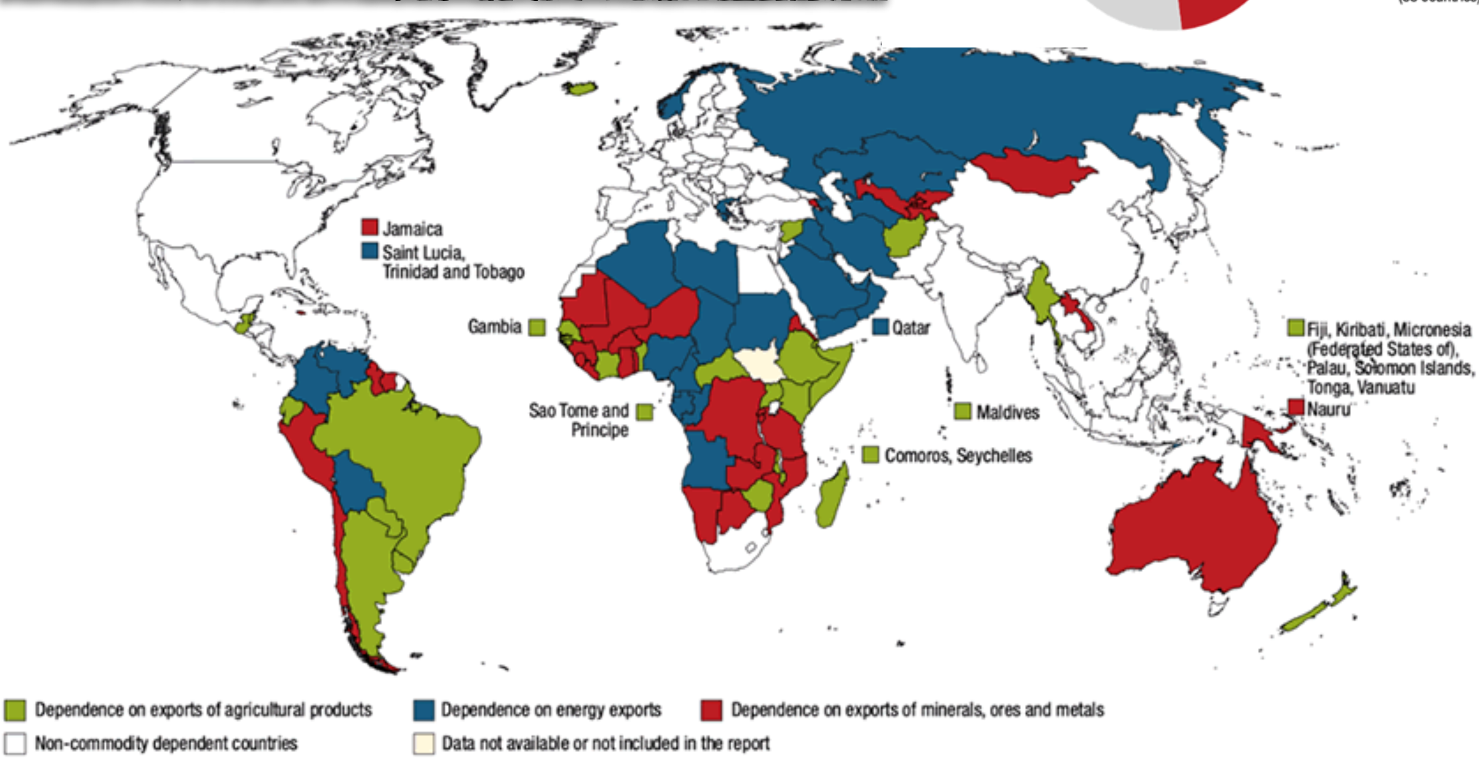
CASE STUDY: Energy Exporting Countries. Since the 1930s, the rapid increase in motorized vehicles has created a massive demand for crude oil (gasoline). Certain periphery societies - like Saudi Arabia, Nigeria, Iraq, Iran, UAE, Libya, and Venezuela - found their countries were in possession of a vast quantity of crude oil. Through the extraction and exportation of crude oil, these countries dramatically increased their GDP. As demand for crude oil increased, the price increased, rapidly expanding their GDP per capita. However, these societies had not diversified their economy - their whole economy, government, and services were based ONLY on the revenue from oil production. In the 1970s and 80s, there were a series of energy crises that dropped oil revenue from $750 billion per year in 1980 to $175 billion per year in 1985. The oil producing countries watched their countries nearly collapse. Because they were dependent on the single commodity, there were no other sectors of the economy to help buffer the impacts of the collapse or to aid in recovery. The price of oil did not “rebound" to $750 billion until the year 2010.

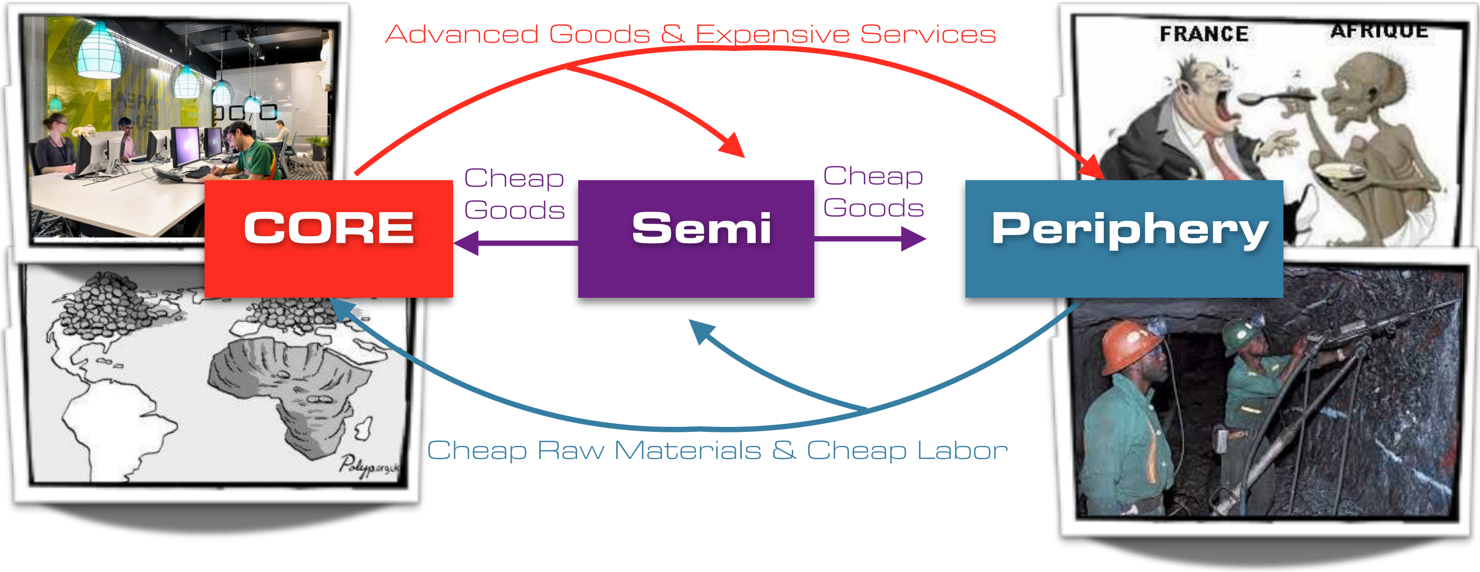


APPLICATION #1

Compare the Core-Semi-Periphery regions. What relationship is there between Commodity dependency & Development?





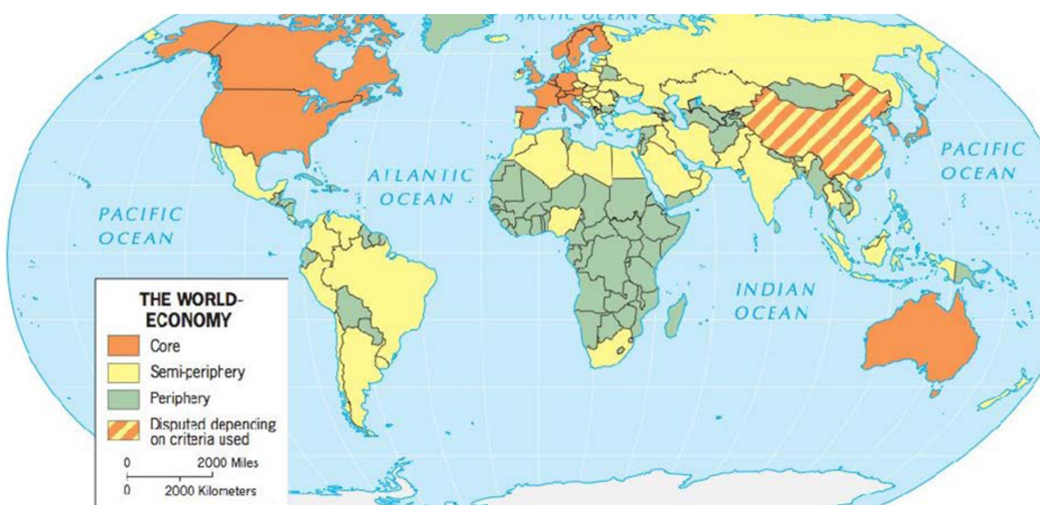


Theory #2: World Systems & Dependency Theory

If every action has an equal and opposite reaction, then Wallerstien's World Systems Theory is the opposing reaction to Rostow's Stages of Growth. Where Rostow focused on the growth of individual nations, Wallerstien looked at the globally interconnected world. Where Rostow promoted a path for individual countries to grow and improve, Wallerstien looked at the world's economy as being one giant fixed and unchanging system. While Rostow followed the principles of Adam Smith's economic liberalism, Wallerstien promoted a neo-Marxist world view: the world's economy had evolved into one giant interconnected and interdependent system that we fixed to keep the rich rich, and the poor poor.

In this system, there are three distinct levels, each serving a different role and interconnected function:

- **The Core.** The Most Developed Countries (MDC) make up the core of the global economy. They are the richest and most advanced societies that control the government, financial, educational, and transportation networks, as well as the most advanced industrial systems of the world. Being in control of every aspect of global life, the Core countries need access to cheap finished goods, cheap labor, and cheap resources to keep their businesses successful, their GDP high and their people wealthy.
- **The Semi-Periphery.** The Semi-Periphery societies have advanced enough to become industrialized, but still have a substantial amount of poverty. The semi-periphery provides cheap labor, and cheap goods and services to the Core countries. Their factories use low income labor to fulfill bulk orders of items like textiles and technology parts that need to be produced cheaply and in large quantities for the businesses in the Core. However, to fill this role, the Semi-Periphery needs access to an abundance of cheap raw materials, which are provided by the Periphery.
- **The Periphery.** The periphery is at the bottom of the food chain. Being the most impoverished and Least Developed Countries (LDC), they serve the needs of both the Semi-Periphery and the Core countries. The periphery bears the burden of the primary sector: extracting and exporting cheap raw materials using low wage labor. The few rich-elites who own the businesses in the periphery make business arrangements with the rich elites in the Semi and the Core to guarantee low resource prices and low worker wages. They ship this cheap raw material to the secondary sector in the Semi-Periphery and Core, where the material is manufactured into a finished product or advanced service.



Wallerstien World Systems

Because the periphery does not have a strong secondary sector, they have no choice but to purchase the goods and services from the Core and Semi-Periphery. Unfortunately, most of the major businesses in the periphery are owned and operated by multinational corporations whose headquarters are in the Core countries. This means that the wealth that is produced from extracting the raw materials does not stay in the periphery, but is instead collected by the businesses in the Core.

Cocoa bean farmer tasting chocolate for the first time. This chocolate bar costs more than 5 days of his wages.

According to Wallerstien, the international division of labor has built an interconnected and interdependent global economy to keep the rich "rich" and to keep the poor "poor." The Core countries became dependent on Periphery countries for cheap labor and resources during colonization. Thus, the Core countries DO NOT want the poor periphery countries to develop. Because the poor depend on the rich for advanced goods and services, the periphery must constantly pay money to acquire finished products and services they need to develop. However, the GDP in the periphery countries is so small, the periphery countries are constantly borrowing money from the Core. This puts the periphery into great debt to the Core, creating what Wallerstein refers to as Neo-Colonialism: giving the Core great control and influence over the government and economies in the Periphery. It is a trap the periphery may never escape from.

Theory #3: Structuralism

The Marxist-Socialists looking for an alternative path towards development created the Structuralist Economic Theory. Structuralists agree with Wallerstein - the rich build international trade to keep the rich… rich. However, they also agree with Rostow - it is critical to look at the national scale and focus on developing the country's industries. The secondary sector is the key to success since those who produce the goods will come to dominate the global economy. Countries with successful domestic industries increase their GDP per capita, increasing the government's ability to fund advanced education and health care, thereby putting their citizens on a path to a higher quality life. Structuralism promotes a strategy of developing and protecting domestic industries who hire domestic workers and provide benefits to local communities.

However, Structuralists differ in HOW to develop their industries: a government must protect and support their own domestic secondary sector. The goal is to provide a buffer or hedge of protection from the ruthless competition of international trade until the businesses are strong enough to compete with the best in the world.

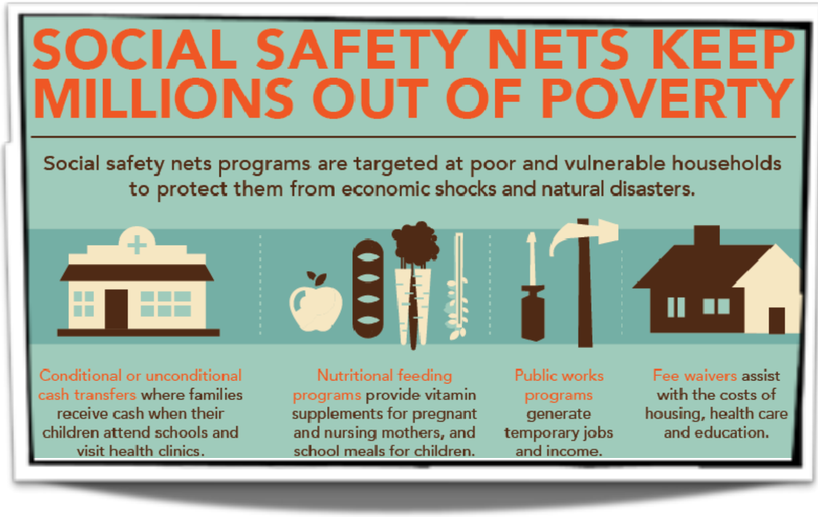
- **Protection.** When starting a new secondary sector, a government should protect the businesses from International Trade with tariffs and quotas. It is difficult to get new secondary sector businesses established when the international markets are already flooded with the cheap and efficient products being produced by experienced foreign companies. Governments can refuse to allow any foreign products to be imported, which has the immediate benefit of protecting the domestic secondary sector but has the downside of irritating and agitating other foreign countries. Governments can also use tariffs and quotas as a means of protection. This helps local businesses be competitive with product pricing while limiting the number of goods available from foreign countries.

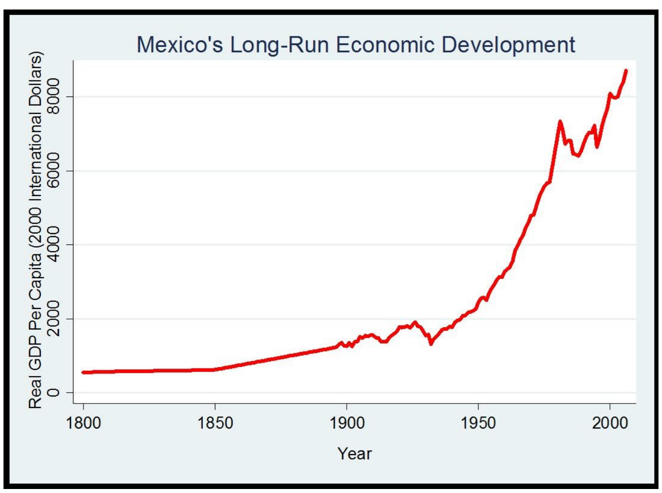
  CASE STUDY: Automobiles in the Cold War. The Ukrainian car company Zastava was a young company in the 1970s when Ukraine was trying to develop their own car factories. When Ford, BMW and Chrysler were celebrating their 50th year of production, Zastava was celebrating year 1. Ukraine used tariffs and quotas to limit car imports from the USA and Germany, protecting Zastava from international car companies that made cars better, faster, and cheaper. As a result, Zastava grew as a business, hired more Ukrainian workers, and helped contribute to the growth and success of the Ukrainian economy. Zastava would not have survived the competition with Ford, GM & BMW without government protection.

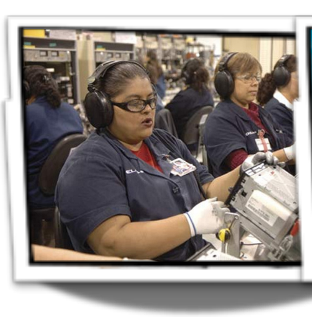
Zastava's Factory vs. Ford's Mustang

- **Support.** Because of the difficulties of starting a successful secondary sector, many new businesses need special support from their government. Governments can provide support through subsidies - tax money that is given directly to businesses. This money can be used to buy equipment or to help keep the cost of their product low. Governments can provide tax breaks or tax incentives, reducing the amount that businesses have to pay the government. Tax breaks allow businesses to keep more of their earnings to reinvest in their company's machines, facilities and worker salaries. Governments can create guaranteed contracts, promising the company that each year the government will purchase a certain amount of the business's products or services. Governments can also plan the economy. The government can say what is being made, how much of being made, and who is making it. Planned economies often choose which businesses will be successful and remove any competition. They believe it is better to have one well-funded company than five struggling companies.

Structuralist policies promote the idea that the Worker is the one who produces the product that creates the wealth, so the Worker is the one who is entitled to the wealth. Without the worker, nothing would be created, nothing would be sold, and no profit would be made. While the money ends up in the bank accounts of the business owner, it is the government's task to redistribute the wealth back to the worker. This takes the form of government policies aimed at providing social safety nets: free public education, reduced-or-free college tuition, free universal health care, paid maternity leave for new mothers, unemployment benefits, working condition laws/regulations, and child safety regulations. These systems are meant to improve the quality of life for all individuals in society, creating a foundation for them to create a reasonably stable, successful life. With appropriate protection and support, domestic industries can mature enough to compete successfully in the global economy.

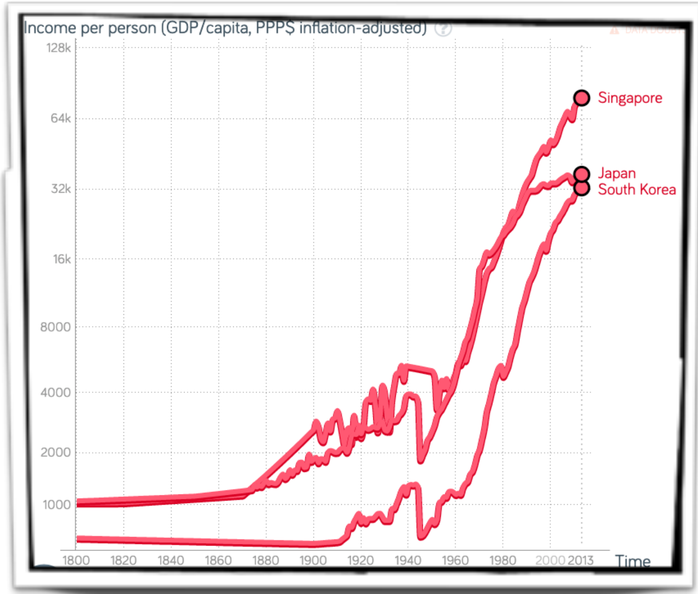






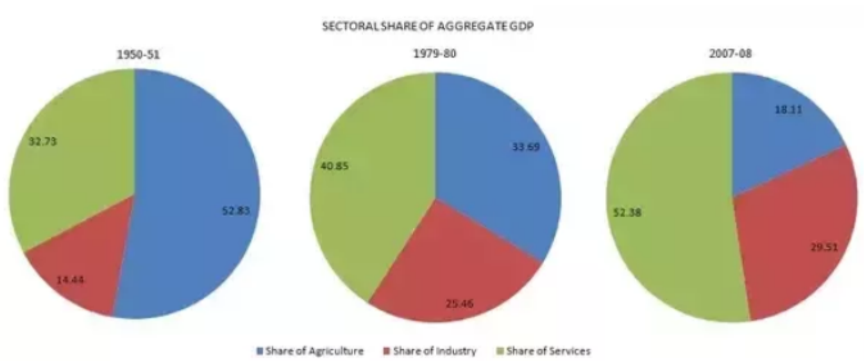
CASE STUDY - Part 1: Before WWII, Mexico (and most of Latin America) was dependent upon the USA which used its economic and production power to bully Latin America into unfair trade arrangements that suppressed their ability to develop. During WWII, America's economy turned its industrial capacity to fighting and winning the wars against Germany and Japan. Between 1940-1990, Mexico removed themselves from most global trade, focusing their tax dollars on supporting and developing local industries. Mexico built massive infrastructure projects (highways, trains, dams, electric power plants, etc). The government subsidized the creation of Maquiladora textile and machine parts factories while also investing in crude oil drilling companies. Between 1940-1990, Mexico's economy experienced rapid growth. In 1990, Mexico signed NAFTA and opened up trade with the USA. In those 50 years, Mexico developed, protected, and strengthened their secondary sector. Now, Mexico exports over $300 billion in goods to the USA each year. Top exports include cars, machinery, parts, and textiles. A similar story is found in the development of industries in Brazil and Argentina: using protections against international trade along with providing financial support to help create domestic secondary sector work, their growth as an energy exporter, industrial hub, and tourist destination was so rapid they were considered Latin America's Miracles.

CASE STUDY - Part 2: In Japan and the Asian Tigers, the government played a strong role behind the scenes; organizing, protecting and supporting businesses in the secondary sector. In Japan, the government forcibly closed down certain businesses, to limit competition between domestic Japanese companies. The government helped subsidize these select businesses so that their factories could make products at a cheaper cost, to increase sales on the global market. The government also subsidized the education costs so that the employees could become more skilled without debt. These Asian governments also put tariffs, or taxes, on imports, to make domestic goods cheaper than foreign goods. While the Asian nations chose to participate in the global trade economy, their rapid growth was strongly attributed to using structuralist principles to support the economy, while protecting the domestic businesses from foreign competitors.



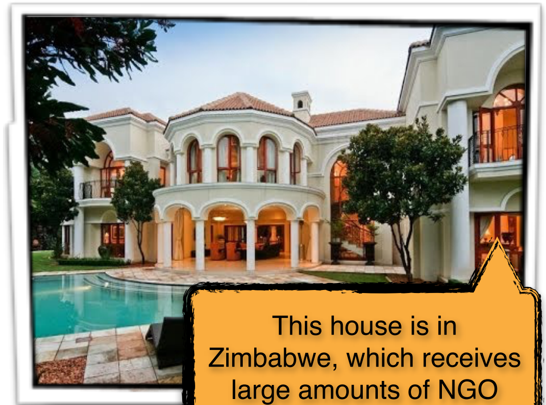
Marxist-Structuralist Critiques

- **Progress is Progress.** Neo-Marxists like to point to the seemingly stagnant, fixed nature of the global economy: rich and poor. Core and periphery. Critics point to the poor countries that have developed over the past 50 years, from extreme poverty to being on the verge of great success: Japan, China, South Korea, Nigeria, United Arab Emirates, Brazil, Mexico, South Africa… If the world is fixed, as Wallerstein and others proposed, then these countries would not have made the progress they have made. Since Wallerstein developed his theory, India progressed from a newly independent country in the 1950s with a large primary sector and immense poverty to becoming a critical technology giant by 2010.



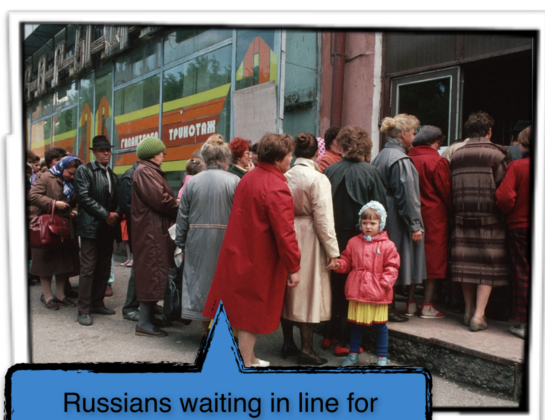
India's Economy: 1950-2008

- **High Taxes For All.** In a redistributive economy, there is a high tax rate for all citizens. In some structuralist-minded societies, like Denmark, taxes can be as high as 58%. That means for every $10 earned, $6 goes to the government, and $4 goes to the worker. That is a tiny portion of a workers' pay to actually be used by the worker for their own personal choices.
- **Inefficiency & Low Quality of Goods.** Competition breeds efficiency and eliminates unproductive waste. In a Structuralist model, a business that is inefficient may be protected by tariffs and quotas. These protectionist policies develop and protect businesses that may not function well. Just because a company can make products does not mean they make them well. In Eastern Europe, as well in Brazil, many products that required advanced manufacturing (like cars) were woefully behind their American or Japanese counterparts. The Eastern European products were renowned for constantly needing repairs; while being low-functioning when working properly. Time, money and effort is spent "recreating the wheel," and the people of the country have to live with inferior products.



This house is in Zimbabwe, which receives large amounts of NGO assistance for Extreme Poverty

- **Corruption.** With millions, if not billions, of government dollars being invested into businesses and services, it can breed an environment of corruption, or dishonest behavior, into society. On the lower levels of society, people try to take advantage of the government and "free handouts," causing people to not work as hard, be not as productive, or be less honest. On the highest levels, the temptation of having access to unfathomable quantities of wealth tempts people to transfer resources from government services into private bank accounts. Overtime, corrupt systems collapse under their own weight, and stifle the development of the non-elites in society.
- **Limited Wealth, Limited Progress.** While the Structuralist ideas have a strong appeal, there are some significant drawbacks. The first problem is that a country's development relies solely on its own financial resources. If a country has a small and impoverished population, it will have a small amount of financial resources to draw from. The lack of wealth and population size can hinder innovation and economic development. The second problem is that this approach can make neighboring countries unhappy because they have fewer customers to purchase exports. This tension can lead to tariffs and quotas being placed on YOUR exports, reducing the GDP. Many country's economies saw a reduction in their GDP because of reduced export sales when they adopted structuralist policies.



Russians waiting in line for bread and food during the final days of the USSR.

- **Inadequate Government Control.** The final criticism of the Structuralist theory is that governments cannot run complex economies. While government intervention has been shown to be helpful in protecting young industries in their first 5-10 years of industrialization, critics state that the government loses effectiveness as the economy becomes more complex. This plays into a larger social theme that structuralists lead societies away from democracies towards totalitarian states (monarchies, tyrants, dictators), stifling the freedoms of the people. The USSR had been a global superpower, but collapsed because of the inability of the dictator government to appropriately guide the economy in a complex, ever-changing world. If the country who had built its entire society around Marx's structuralists ideas and was attempting to diffuse it to all corners of the world could not do it well, how could anyone else? Their great experiment had failed under the weight of corruption and poor government leadership.

UPDATE the Theory Chart from 2d