

Global Power Structure

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Anybody following the world events in the last couple of weeks would have noticed that the Global Power Structure is changing. The USA is still the largest economy, but history has shown that countries lose their power when their domestic economy declines. A system based on capitalism needs the consumer to facilitate a strong domestic economy, which in turn generates the ability to collect taxes that make a country strong. Presently, large sovereign debts not only weaken many countries, but also endanger the world economy.

Since the eighties most of the gains in productivity have gone to the top 1%, of the population, while the bottom 20% are worse off than ever. The middle class, by now having two wage earners per household, has only barely kept up with inflation. While a fair distribution of wealth is more socially just, more importantly, gross income disparity leads to economic destruction and is unsustainable. The mechanism of destruction is simple:

Money in the hands of the rich does little to stimulate the economy.

The Republicans and the right in the USA like to characterize the rich as “job creators”. However, the opposite is true. The extremely rich hoard their wealth in securities and financial derivative investments and other secondary markets. Little of this wealth finds its way to companies that create jobs. Most of it buys paper wealth, traded from one rich person to another, representing nothing. The middle class and the poor, on the other hand, spend what they have locally and stimulate the economy. But when the majority has less and less to spend and the rich get richer more of the nation’s wealth becomes mired in the phantom economy created by Wall Street. The economy deprived of fuel sputters and stalls.

The consumers’ ally in stimulating the economy is the government they elect. Government spending goes directly to health, education, roads, utilities, and public works and, yes, even the military. The government acts as the ultimate consumer and economic stimulant especially during times of private sector failure, like the recession. The government also acts as an agent of wealth redistribution and thus of economic growth by spreading wealth to those most likely to spend on local goods and services. Under Ronald Reagan’s presidency, the largest across-the-board tax cuts and deregulations in American history were introduced. These measures were supposed to encourage entrepreneurship and limit the “drag” of social spending. What followed was a time of strong economic growth, which was supposed to trickle down and “lift all boats”. Unfortunately, with the weakened progressive tax system the newly created wealth went to the rich and the disparity of wealth widened. With an active effort to

destroy the unions, the balance of power weakened even more and wages stagnated and with it tax revenues.

Right from the beginning the culture in America emphasized strong self-reliance and individual responsibility. As early as 1880 Mr. Conwell, an American preacher, argued: "To secure wealth is an honorable ambition and is one test of a person's usefulness to others. I say get rich, get rich....Ninety-eight of a hundred of the rich men of America are honest. That is why they are rich... I sympathize with the poor, but the number of poor who are to be sympathized with is very small. To sympathize with a man whom God has punished for his sins, is thus to help him when God would still continue a just punishment."

This philosophy of greed helped to concentrate the American wealth in a few hands, which made it relatively easy to influence public opinion and the electorate. Money can sponsor university professors and think tanks espousing theories first formulated by economists at different times and circumstances. Adam Smith, who championed competition and self-regulating markets, had no concept of multinational companies with budgets and power larger than many a country. The Austrian economist August Hayek, just having experienced fascism and what too much power in the hands of government can do, advocated less government, which has now morphed into "All government is bad." Milton Friedman did not like taxes and government, but his most influential theory was "that the world runs on individuals pursuing self-interest with rational decisions". The advertising industry ignored him and capitalism flourished with ads strictly appealing to emotions, ignoring rational thought.

David Ricardo, who objected to the Corn Laws when high taxes were put on imported corn even though not enough corn could be produced at home, first championed free trade, the mantra of modern economics. It makes perfect sense abolishing tariffs to facilitate mutually advantageous trade where each country does what it does best. Free Trade and a reduction in tariffs can expand the market and further economic development. However, recent trade deals have been a perversion of a sound idea by guaranteeing corporations unrestricted access to all markets and preventing governments from effectively regulating corporate behavior, thus allowing corporations to overrule local laws. Free Trade deals become especially questionable with countries that have undervalued currencies and more "flexible" labour laws and environmental rules. They can and have destroyed well-paying domestic jobs.

As the tax base declines so does the strength of a country. It is reasonable to assume that, unless the USA solves its internal problems, it will lose its international influence and power, and a country or countries with sound domestic economies will be the new leader.