

The New World Order and its Old-New Instruments Prospects for Israeli Society

Shimshon Bichler &
Jonathan Nitzan

The New World Order

The New World Order, which first began to crystallize, slowly, during the various economic crises of the 1970's (such as the decline of US economic power relative to that of Western Europe and Japan, the collapse of the Bretton Woods Accords, which had guaranteed the supremacy of the US dollar, the fiscal crisis, etc.) became visible at the end of the 1980's. One of the main features of the New Order is the decline of the strong nation-state, one of whose functions was to regulate the local economy, and its replacement by an international system, a transnational corporate system. This system is characterized by the increasing role played by such global institutions as the World Bank, the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT) - all of which were established at the close of World War II and were intended to bolster US political-economic hegemony; now they are taking over functions previously handled by nation-states. The general process may be described as one in which the system of capital accumulation, guaranteed by the welfare state that emerged after the World War II - has been replaced by a system of international accumulation, in which the capitalist state no longer plays a crucial role. In the 1950's and '60's, the prevailing economic pattern in the developed states was one based on a small number of giant firms which cooperated with the central governments - and were helped by them - with regard to taxation policy, subsidies, defense, currency arrangements, and relations with organized labor. This system guaranteed continuous growth of local manufacture and exports. In the New World Order, the governments appear as a hindrance to the functioning of the capitalist system and the various arrangements of the welfare state as institutional constraints to the extraction of a normal rate of profit.

From this starting point we can understand the development of the principal strategy of the New World Order, which is designed to achieve two main goals:

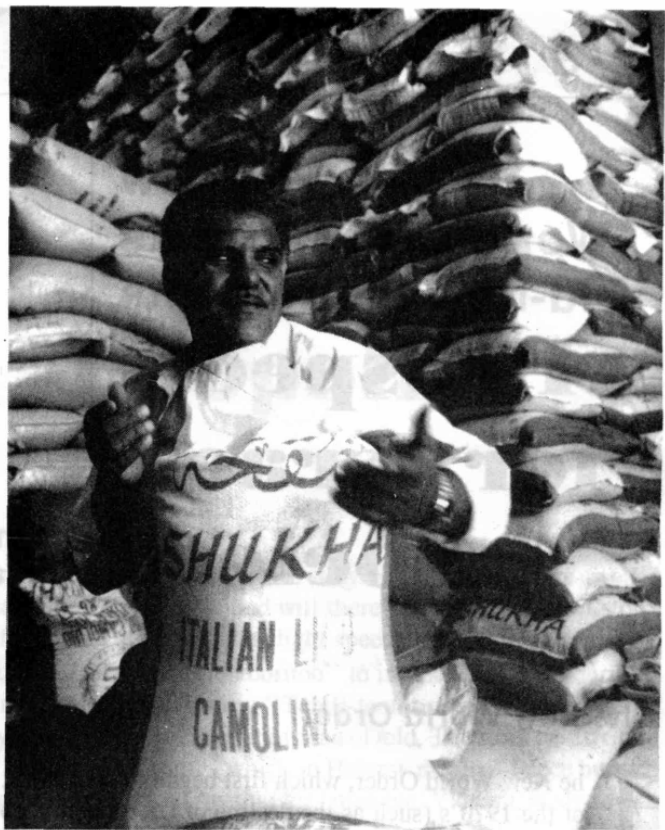
1. to reduce the costs of production, especially the costs connected directly or indirectly to wages. This is intended to break through the 'profit squeeze'¹ (the decline in the ratio of profits to wages) and was explicitly stated by J. De Larosiere, former chairperson of the International Monetary Fund (IMF): "Over the past four years [there] has emerged a clear pattern of substantial and

progressive long-term declines in rates of return to capital...This points to the need for a gradual reduction in the rate of increase in real wages over the medium-term if we are to restore adequate investment incentives;"²

2. to remove barriers to the activities of the transnational firms, especially the American ones. This requires a change in the institutional forms that had crystallized in the developed states of the center. "Increasing competitiveness," lowering the direct and indirect cost of labor, and above all, lowering the cost of the political legitimization of the process of accumulation - including spending on the maintenance of public order and social welfare - became the aims of corporate arrangements, labor laws, collective wage-agreements, environmental statutes and

Dr Shimshon Bichler is a lecturer of economics at Jezreel Academic College in Israel.

Dr Jonathan Nitzan is a professor of economics at Marianopolis College in Montreal, Canada.



Abu Aker, a small food importer, shows a sample of Italian rice.

regulations, and standards of public spending. Undoubtedly, since the fall of the USSR, the anxiety of the big capitalists has lessened, and thus the need for large outlays to guarantee legitimacy has declined.

The Rise of the International Capitalist Organizations

The main global institutions, established as part of the Bretton Woods Accords in the immediate post-World War II era, have had to alter their functions in accordance with the changed strategies of the 'New World Order.' [...] By the beginning of the 1980's it had become clear that the world debt crisis threatened to bring about the collapse of the international financial system. This led to an increase in the importance of the IMF, which became the primary instrument used to stabilize the financial system in which, since the collapse of the Bretton Woods Accords, the dollar was no longer the central international currency. The IMF would convey grants and very short-term loans to the undeveloped countries in order to finance the payment of [the undeveloped countries'] debts to the international banks. In turn, debtor countries were forced to accept the dictates of the World Bank with regard to strict 'stabilization programs,' accompanied by conditions and sanctions. In this period the IMF and the World Bank began to be, in effect, one organization, directly serving the interests of the big bank: with one branch of the organization financing emergency loans and the other dictating

stabilization programs, both amazingly similar. The common principle of all the programs was the effort to permit greater mobility to international capital and to lower the costs of production and labor for the transnational firms. These programs included: demands for devaluations of the local currency; cutbacks in public and governmental spending; opposition to budget deficits; reductions in subsidies to industry; a loosening of price controls; pressure to remove franchises from local monopolies, especially state-owned ones; liberalization of foreign trade, mainly by lowering tariffs and taxes, and removing regulations and limitations on exports; pressure to carry out extensive privatization of companies and governmental services; and pressure to cut back public sector welfare programs. The basic idea behind these programs was to take advantage of the financial difficulties [of the countries in the undeveloped sector] in order to break through the stagnation that had overtaken the economies of the center and the decline in the rate of profit extracted by the leading transnational corporations from the economies of the center, and to go over to new investments in new markets with cheap labor forces and penetrable political orders. This assured a double victory for the world 'big economy' as represented by the old-new international organizations. First, there was an improvement in the profit levels of the transnational corporations as a result of the facilitation of the penetration of markets that had been previously protected by political defenses. Second, heavy pressure was exerted on the labor market in

the US to the point of breaking organized labor and accepted norms of labor relations (in all the countries of the center, not just the US), because of the threat that capital would flee to the 'emerging economies.'

The third international instrument whose role has changed since the collapse of the Bretton Woods Agreement is GATT. GATT was established in 1948 by 15 founder-states. Since 1948, there have been eight rounds of talks on lowering tariffs and quotas; but since the seventh round of talks, held in Tokyo in 1979, the role of GATT has undergone a fundamental change. At this round the demand for 'non-tariff trade barriers' was raised. GATT was also transformed into an instrument to enforce the slow but steady erosion of social security and public health insurance programs in the developed countries, such as the United States, Britain, and Canada. In addition to the pressures GATT exerted to lessen and even eradicate the enforcement of environmental regulations and standards, it constitutes a threat to the fabric of society in the developed countries, and even more so in the undeveloped countries, through its inclusion of agricultural produce in the new agreements. This involves a rather aggressive chipping-away at the authority of the nation-state to regulate the balance between agricultural production for domestic consumption and production for export. In this case, the activities of GATT complement very well the 'stabilization programs' of the IMF and the World Bank, which force undeveloped countries with inflated debts to export food, to finance debt repayments to the international banks. Thus GATT has been turned into a third instrument - intimately connected to the IMF and the World Bank - administering financial supervision to guarantee the profits of the transnational firms.

The pinnacle of the New World Order - which could be more accurately called the 'transnational corporate order' - is NAFTA (North American Free Trade Agreement). NAFTA constitutes a model which threatens to be applied in additional areas of the globe, and which goes considerably beyond just being an international trade agreement. NAFTA takes off the gloves and not only deals with tariffs, but explicitly deals with free movement of capital, in particular of the big capital groups of North America - via pressure for the reduction of social spending and legal and trade union protection of wage standards, and by putting strain on the social organism as a whole - the small farmers on the periphery in particular - and

lowering the quality of the environment. As Ricardo Grinspun correctly stated: "The term 'free trade agreement' is a misnomer; a more appropriate name would have been 'free investment agreement.'"³

At present it would seem that the new strategy is succeeding, especially in the wake of the fall of the USSR, and the Gulf War. These are good times for the transnational firms, which are based in the US; the whole world has turned into one big capitalist system for their benefit.

Israel and the Middle East in the Era of the New World Order

With the collapse of the Soviet Union and the rapid capitalization of the 'emerging countries' in Asia, Latin America and Eastern Europe — Middle East governments were compelled to open their own economies to foreign trade and investments. Oil prices declined and the attention of the industrial countries has been diverted to countries like China, India, and Brazil. Under this New World Order, many Arab elites have realized they must join the global market or risk the specter of economic crisis and internal turmoil. Israel too was under similar pressure, emanating from the US and the international financial institutions since the mid-1980's.

Until the mid-1980's the Israeli economy was characterized by a tight oligopolistic structure in which capital accumulation by the largest domestic corporations was supported through a regimen of high military spending and rapid inflation. Since the late 1980's, however, it became increasingly evident that this economic order was no longer sustainable. The large corporations have grown 'too big' for the domestic market, and their reliance on high inflation and huge military budgets created a threat of fiscal crisis and macroeconomic collapse. In 1987 it also became clear that military exports from Israel bear high risks, since the world arms market had gone into a tailspin".

This massive structural economic change coincided with the 1987 outbreak of the Palestinian Intifada (uprising) which seriously undermined the Israeli power elite's self-confidence. By the late 1980's, these converging developments contributed to a significant drop in corporate profitability and a fundamental change in the Israeli elite's mood.

An alternative path, recommended by the IMF, was adopted by the Israeli elite and included

regional reconciliation and integration into the economy of the Middle East. This would benefit Israeli companies primarily because regional stability and the removal of the Arab boycott can open vast business opportunities outside the region.

This 'peace dividends' process also probably serves the interests of the US transnational corporations. Over the past decade, 1982-1992, investment by US-based multinational firms in the industrialized countries has yielded an average profit margin on sales of only 4.4% ~ compared with a 7% margin earned by their subsidiaries in 'emerging economies'. As a consequence, US direct foreign investment in these latter markets has now surpassed comparable investment in the developed economies. Thus, many Western companies expect that, in the wake of a regional peace settlement, the Middle East will offer similar returns, with intra-regional trade growing as fast as 50% per annum. Such figures may prove to be overly optimistic but they serve to explain current enthusiasm about the prospects of a 'peace dividend.' Since 1994, multinational companies from the US, Europe, and Japan, which have never before set up shop in Israel, have been actively courting the government and local partners for a piece of the 'peace action.' Israel is now viewed as a springboard to the 'emerging' Middle East — so much so that large multinational corporations find themselves competing with firms from newly industrialized countries, such as Korea and Taiwan, for which the Near East now offers an even cheaper production base.

Another factor underlying the current 'opening' is the perceived danger of Islamic fundamentalism. There is now an entire geographical region, stretching from Senegal in West Africa to Kazakhtan to Indonesia, consisting of 28 countries which are inhabited by over half a billion Muslims. Many in the west see this as representing a

potential threat to the Euro-American culture of 'Western civilization.' In this context, a successful market-oriented alliance between Israel and its pro-American Arab neighbors could offer an alternative model to that offered by Islamic fundamentalism. In addition, a pro-American axis, extending from Turkey, through Syria, Lebanon, Israel, Jordan and Egypt will create a significant wedge, thus separating the Muslim states of North Africa from those that lie east of the Persian Gulf. Such an axis is particularly important in light of the growing weakness of the Saudi regime, whose curtailed oil revenues make it increasingly vulnerable to external challenges and internal strife. So, on the surface, Israeli elites seem to be following the US transnational corporate policy.

Indeed, all the processes that have been underway in Israel since the end of the 1980's show that Israel has totally accepted the dictates of the IMF. The trade unions have been effectively dismantled, public services have been eliminated one by one, real wages are declining, and the share of capital in the national income has grown to an unprecedented degree. At present, income distribution in Israel is less equal than in any of the OECD group of developed countries, even without taking the population of the occupied territories into consideration. A process of privatization has been underway since the end of the '80's. At first, the process was justified as aimed at curtailing the number of subsidized state-owned military industries, but it soon became clear that all public enterprises were targets, including the most profitable: Israel Chemicals, the telephone and communications services, building companies, and the remaining state-owned banks. All this, together with the deliberate destruction of pension funds, and the 'freeing-up of the labor market' owing to the mass immigration from Russia - guarantees the victory of the transnational corporate order and its representatives in the international institutions. •

Endnotes

¹ B. Harrison and B. Bluestone, *The Great U-Turn - Corporate Restructuring and the Polarizing of America* (New York: Basic Books, 1988).

² D.C. Ranney, "NAFTA and the New Transnational Corporate Agenda," *Review of Radical Political Economics*, Vol. 25, No. 4(1993), 3.

³ R. Grinspun, "NAFTA and Neoconservative Transformation: the Impact on Canada and Mexico," *Review of Radical Political Economics*, Vol. 25, No. 4 (1993), 18.

⁴ Military contracts for Israeli companies fell from 5.7% of GDP a few years ago to 3.9% by 1993. (Israel Central Bureau of Statistics, 1993). According to data published by SIPRI, world military exports in constant 1990 prices dropped from 46 billion dollars in 1987 to 18.4 billion by 1992. Israel's stake in that trade fell to 66 million dollars in 1992. down from 408 million in 1987 (according to SIPRI, various years).