Economic Globalisation in a Broader, Long-Term Perspective: Some Serious Concerns

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I Introduction

The economic globalisation which increasingly characterises the world situation is a final stage of a two-century old growth process. In the 19th century, the world economy was already becoming more integrated through international trade and capital movements (see the World Economic Outlook, May 1997). From the middle of the 19th century until 1914, world trade expanded more rapidly than real output: 3.5 percent compared to 2.7 percent. This was a consequence of the reduction of effective import duties which decreased from 15% to 5% on average, and greatly reduced transportation costs (IMF, 1997: 112).

But the First World War and subsequent depression of the 1930s set back this integration process considerably. It was only after the Second World War, with the creation of GATT and its successive tariff rounds, that the integration process was again set in motion. Nevertheless, the share of exports in world output did not reach its 1913 peak again until 1970.

Capital movements were also important in the 50 years before WWI. For some countries, capital flows as a percentage of GDP were even larger before the First World War than after the Second World War. After the 1970s, however, the dispersion of real interest rates had again become so small by the dismantling of capital controls that capital markets were clearly linked together.

In light of this long-term view, we might wonder what is so special about recent developments. Have some new factors emerged which warrant the term ‘globalisation’ and all the attention focused on it?

The IMF mentions two major factors (IMF, 1997; 45-46):

1. New technological advances have strongly reduced transport, telecommunication and computer costs, so that national markets may

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1 This is a revised and expanded version of a paper that was prepared as an opening address for a FONDAD conference held on 18-19 November 1997 at the Dutch Ministry of Foreign Affairs.
be integrated more easily at a global level. In doing so, it has become efficient for a firm to locate different phases of production in different parts of the world. For example, the costs of a 3-minute telephone call New York-London came down from $188.50 in 1940 to $3.32 in 1990. And prices of computers have fallen much more sharply still.

2. Foreign direct investment plays an important role in this process. It also leads to intensive technological transfers. Thus we see that more and more companies become not only multinational, but global with their decisions relating to the world economy as a whole. The World Bank (1997) has found that approximately one-fifth of the world’s GDP is now produced in affiliates of multinational firms.

3. In line with all this, a larger part of the world and a larger number of independent countries are participating in this process of integration. This makes the process increasingly global, i.e. the whole world economy is linked together. Thus, while in the 50 years before WWI, capital flows went from Western Europe to the developing economies of the Americas and Australia and a few others in the context of colonial relationships and the gold-standard, capital movements now go to a growing number of emerging developing countries who are opening their economies to the world market. At the same time, a fundamental restructuring in former communist countries has begun as they shift from central planning to a market economy and increased openness to the world market. These developments are indeed creating an encompassing trade network around our whole world – a global system.

(However, in spite of the doubling of average real GDP per capita in developing countries (LDCs) from 1965 to 1995, there was no convergence with the industrial countries which achieved the same strong growth. And substantial differences evolved among the developing countries themselves. Some LDCs developed so rapidly that they are now being classified as newly industrialised countries. Many other lagged behind, however, and some actually fell back.)

Part of the explanation for this lack of convergence is the stagnation of Latin American countries as a result of the 1982 debt crisis. Their real per capita GDP increased only 0.5% over the whole 1979-1988 period, and it was still falling in 1989 and 1990. In general, one might expect more convergence because of the large potential for technological catching-up and lower capital-labour ratios which would result in a higher return on investments in developing countries. That this did not occur in all developing countries is primarily the consequence of the politics of LDC countries: their degree of openness to the world economy, macroeconomic stability, the extent of state intervention, government efficiency and the protection
of property rights. Thus, the quality of government has become a crucial factor. Globalisation accentuates the benefits of good governance and punishes bad governance.

The importance of these factors has become increasingly clear and is now more generally accepted. This is emphasised in the 1997 *World Development Report: The State in a Changing World*, where the importance of the quality of governance is the focus of the analysis. The implication is that as governments recognise the importance of the quality of government and begin to act accordingly, they will be able to join the fast-growth caravan. Indeed, this is what we are beginning to see in the 1990s.

The IMF sees the pace of globalisation quickening considerably now. From the mid-1980s, world trade has increased nearly twice as fast as world GDP. Developing countries have been involved more intensively in this growth process by increasing their share in world trade from 23% in 1985 to 29% in 1995. Inter-LDC trade also has increased. And the share of manufactures in LDC exports increased from 47% to 83% in this period, reflecting a rapid industrialisation process. This was made possible by a shift from protectionism to liberalisation. During this period, 33 countries shifted from relatively closed to open trading regimes (IMF, 1997: 72-73).

Private capital flows to developing countries also increased strongly – to more than 4% of their GDP in 1996. At the same time, there was an important shift from bank loans in the 1970s to foreign direct investment (FDI) and portfolio investment in the 1990s.

Thus, more countries are beginning to attain high growth rates. IMF data, for example, show that the number of Sub-Saharan African countries with GDP growth rates of 4% or more has increased from 14 in 1990 to 25 in 1995 (IMF, 1997: 91). In 1995, Botswana, Equatorial Guinea, Lesotho and Uganda reached GDP growth rates between 6 and 10 percent.

India has also achieved more rapid growth; 7% in both 1995 and 1996. The average annual per capita growth of all LDCs has accelerated to more than 4% annually from 1992 until the present (IMF, 1997: 137-138), and this is more than double the rate of advanced economies. Thus, globalisation is indeed spreading more widely, and is finally starting a movement towards convergence. The World Bank expects this process to continue so that the share of world real GDP for all developing countries would almost double from 15.7% in 1992 to 29.1% in 2020. Especially striking will be the increasing share of world GDP (from 7.8 to 16.1%) of the ‘big five’ countries of China, India, Brazil, Indonesia and Russia which have one-half of the world’s labour force (World Bank, 1997: 23).

This picture is completed by the gradual integration of the ex-communist or transition countries into the global economy. From 1990 to 1995, a
larger portion of their trade went to the Western world. Financial integration is also slowly making progress in these countries. Foreign investment in equities, which remained modest until 1995, surged in 1996 (IMF, 1997: 108). Real GDP which has been falling sharply during the transition, has now begun to increase again, with the Czech Republic, Poland, Romania and the Slovak Republic achieving rapid growth rates (p. 141).

So from this macroeconomic point of view, globalisation now seems to be developing in a positive and successful way. More countries are being embraced by it and are pushing forward to rapid growth. This, in turn, is reducing income differences between advanced and developing countries and should also diminish poverty in developing countries.

But, of course, this powerful and fundamental change in the world economy also raises some serious concerns.

II Globalisation and Unskilled Labour

The strong increase of trade between developing and advanced countries has caused a shift in the relative scarcity of production factors. Labour, and especially unskilled labour, has become more abundant in the advanced countries as developing countries increased their exports of low-skill manufactures. Indeed, there has been a decrease in demand for unskilled labour in advanced countries in the last 20 years. In the US, this has increased wage inequality, and even lowered real wages of unskilled workers since the early 1970s. In Europe, unskilled wages have been propped up by labour market institutions and here the relative abundance of unskilled workers has resulted in rising unemployment. In line with this, imports of low-skilled manufacturers from developing countries have been increasing rapidly.

These changes have also coincided with the rapid diffusion of computers in the workplace. This autonomous technological development displaces unskilled labour, and could also serve to explain the decreasing demand for unskilled labour in advanced economies.

What is the relative importance of these two factors? Intensive discussion of this question has taken place among economists. Many argue that the effects of growing trade should not be overestimated because they are statistically difficult to trace. The IMF concludes that the most convincing estimate of the portion of the increased wage dispersion which can be explained by trade with developing countries is 10 to 20% (IMF, 1997: 58). Wood argues that the impact of trade is about 20%. Among other points, he argues that technological progress is also influenced by trade. Low-wage competition often forces firms to find new methods of production.
which economise on unskilled labour. He also points out that trade in services has lowered the demand for unskilled labour in advanced countries through imports of shipping, tourism and key-punching services from developing countries (Wood, 1995: 67-68).

In addition, statistical studies show that when multinationals transfer parts of their production process to other countries (‘outsourcing), employment within industries – as compared to between industries – shifts towards skilled workers. Thus from 1979 to 1990, it was found that outsourcing accounted for 30.9% of the increase in the non-production wage share (‘non-production’ taken as a measure of higher skills) (Feenstra, 1996).

This unfavourable effect of globalisation on unskilled labourers in the advanced countries is a reason for serious concern in these countries. And while it often leads to negative commentary on the process of globalisation, it should not be an argument against globalisation. The other side of this effect is the favourable impact on unskilled workers, i.e. the poor, in developing countries. And the overall welfare gain in trade for the advanced countries should enable them, in principle, to compensate the unskilled for their weakened relative position. This could be done by better education and training and, if necessary, by subsidising those who are unable to follow the minimum required education and training courses. The difficulty lies in the fact that some advanced countries have already done so much to protect and increase the real disposable wage of the unskilled that it becomes complicated to design appropriate additional subsidies. Therefore, the advanced countries face serious adjustment problems in this respect.

III  The Volatility of Private Capital Flows

The growing importance of private capital flows to developing countries creates a serious risk of cyclical disturbances to the development process. These capital flows, and especially portfolio investment, can be highly volatile. In a period of expansion when prospects seem rosy, capital inflows can accelerate beyond the absorptive capacity of some countries. It can then become tempting for governments and private firms to borrow in international credit markets – sometimes even short-term and denominated in foreign exchange. In this way, a serious overinvestment situation can develop with a large deficit on the current account of the balance of payments.

The risks are different for the various forms of capital movements. They are somewhat limited for foreign direct investment. While FDI can fluctuate according to the economic prospects of a country and the psychology

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of investors, the capital is invested in real assets and cannot be withdrawn. Portfolio investment, which is playing an increasingly important role, can be highly volatile because of the psychology of investor expectations. And while individual investors can withdraw their money, net withdrawals are only possible insofar as domestic investors are willing to take over their shares, probably at lower prices. Thus, an inclination to withdraw portfolio investment will lead to falling stock prices, but will lead to a limited outflow of net capital from the country.

The greatest risks are created by short-term bank loans in foreign currency. While borrowers may count on their loans being renewed, it may not happen. If the confidence of the banks diminishes, they can request repayment; this will immediately cause a net-capital outflow on the balance of payments. The consequence of such a credit crisis, and the most appropriate remedy for it, will depend on whether the bank loans have mainly been given to the government or to the private sector. In the Latin American debt crisis of 1982, the government sector was the main problem. The IMF has adequately tackled this crisis by a combination of adjustment programmes under regular fund drawings with negotiated loan reschedulings by commercial banks.

The current credit crisis in East Asia has a very different character. It is mainly caused by short-term bank lending in foreign currency to a large number of local banks and businesses. These bank loans mainly served to finance private investment; not government deficits. It was a situation of overinvestment, stimulated by optimistic expectations in the climate of rapid economic development. Such a situation contains the seeds of a crisis. Sooner or later, over-optimistic expectations will be crushed. Bottlenecks may appear; profit margins may not fulfil expectations; over-optimistic investment projects may fail and – as a consequence of this or other disappointments – capital inflows will not increase but decrease, placing pressure on exchange rates which may already have become somewhat overvalued. This can easily undermine investors confidence to such an extent that foreign investors try to withdraw some of their money, leading to a stock-market crash in addition to the currency crisis. And as foreign banks then refuse to renew their short-term loans, a dramatic liquidity crisis will develop with numerous business failures as a consequence.

This kind of crisis has the same character as the classical overinvestment crisis at the upper turning point of many 19th century business cycles in the industrial countries. But developing economies run a greater risk in the present financial system. While in 19th century business cycles, overinvestment was mainly caused by a large expansion of internal bank credit, some developing countries also finance their investment boom through portfolio investment and bank credit from abroad.
These flows originate in international capital markets that are enormous in size compared to the LDC economies. Besides the large internal capital markets of the advanced countries, there is also the highly elastic supply of international credit in the unregulated Euromarket (Witteveen, 1995).

This market can create additional international liquidity just as money-creating banks within a country. Additional lending can always be financed through the Euro-dollar market because part of it will automatically be re-deposited while the rest, flowing back to the United States, can easily be attracted to the Euro-dollar market by a minimal increase in the interest rates. As I have previously explained, this lending in the Euro-market will not result in a capital movement out of the United States, but will result in international credit and liquidity creation (Witteveen, 1995: 423-424). This might have been an aggravating element in the current Asian crisis.

All of these factors give mass investment psychology enormous scope to cause capital inflows and outflows of a magnitude that can completely overwhelm the financial systems of these still relatively small economies. And it goes without saying that corruption or cronyism in government or in the banking system greatly increases the risk of overambitious and failed investments.

The IMF has acted with great courage and massive financial support to contain and solve the crisis, but its approach does not seem entirely suited to the particular character of this crisis. It has not been able to prevent dramatic currency depreciations, which make it practically impossible for many businesses to make the required repayments on their bank loans. The reason the IMF did not manage to arrange a rescheduling of bank loans is that they were unclearly scattered over a large number of borrowers. Neither was the disbursement of IMF financial support sufficiently adjusted to the repayment needs of short-term debt and speculative outflows. It was hoped that tough conditions of fiscal and monetary restraint and structural improvement in the financial system would restore market confidence and exchange rate stability. But instead market participants were frightened by the serious recessionary consequences of the liquidity crisis combined with restrictive IMF conditions. And, in fact, the apparently unforeseen recessionary consequences of the liquidity crisis became so severe that most of the restrictive measures prescribed by the IMF were unnecessary and worsened the down-turn.

The result was an extraordinary drop in the exchange rates of the affected countries, which made the liquidity crisis extremely serious, and left no alternative for debt rescheduling by the US Federal Reserve and other cen-

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2 The 1873 crisis in the US was quite similar to the present Asian crisis and had serious consequences because European investors pulled out their money (Bradford de Long, 1998).
Given these developments, the crisis is causing a serious recession, or even depression, with grave social problems resulting from business failures and rising unemployment. It will take a number of years to restart economic growth, and this will slow the convergence between advanced and developing countries that had just begun. We can hope that the painful IMF programmes will eliminate serious weaknesses in the economic and financial systems of these countries. Greater openness, competition and integrity, together with an improved quality of financial services and banking supervision, would provide better prospects for healthy and balanced growth.

Nevertheless, the question remains whether and how such painful disruptions of the development process can be prevented or limited in the future. These questions are now being explored and debated in different official gremia. One suggestion, which was proposed and put into practice after the Mexican peso crisis of 1994-1995, is to improve information. This is the easiest approach, but does not seem very effective. A great deal of information has already been available. Alexandre Lamfalussy noted that BIS data had fully signaled the worrisome increase of short-term debt in Asia; but these published warnings from the BIS were ignored (International Herald Tribune, 1998).

There also seems to have been confusion about the total stock of short-term debt of particular countries. The essential figure in this respect is net short-term foreign exchange debt of a country compared to its foreign exchange reserves. Comprehensive figures for this ratio should be calculated by all central banks and made publicly available.

But then, if warnings are ignored and short-term lending continues to grow dangerously, additional measures are needed to limit or prevent a crisis. Restrictive monetary policies should be focused on short-term credit flows. This could be done in the recipient as well as in the source countries. Central banks in the recipient countries could, for example, impose non-interest bearing foreign exchange deposits on additional borrowing with the central bank. At the same time, monetary policy in recipient countries should generally become more restrictive whereas part of the capital inflow should be sterilised. Central banks in source countries, on the other hand, could impose such foreign exchange deposits on further lending by commercial banks to the risk countries. These restraining monetary policies of both recipient and source countries should be internationally coordinated by the IMF and BIS. Such cooperation could create a nucleus for a more systematic surveillance system for international liquidity, where the focus should become more global, i.e. including the total increase of international credit and liquidity. This is becoming increasingly desirable.
As I have previously argued, the exclusive focus of central banks on their own money supplies is no longer sufficient in our internationally integrated financial markets (Witteveen, 1995: 429-430).

Finally, we can ask what the best future approach would be if a similar crisis would develop in spite of warnings and restraining policies. Two questions arise here.

First, should the IMF be able to act more forcefully against speculative capital outflows? We have seen how seriously exaggerated depreciations of a currency can dislocate the economic and financial system. To counter speculative outflows and maintain the exchange rate within a reasonable range, a larger part of the IMF's financial support should be immediately available on a sufficiently large scale, and not meted out gradually in successive installments. This could diminish the IMF's power to enforce correct performance under its conditions to some extent. But in cases where the problem emerges through capital outflows, there is often less need for restrictive measures. With respect to structural problems, strict conditionality should still be required, and part of the financial assistance should still be disbursed over time under performance criteria. Also, exchange rates should be a central concern of the IMF. In recent developments, the stability of exchange rates seems to have received insufficient attention.

Second, problems of repayment of short-term bank loans should be tackled at the same time. The international financial community could design an internationally accepted rescheduling mechanism – also for private bank debt – under the guidance of the IMF and related to IMF programmes. Such a mechanism would provide essential help in preventing a melt-down in currency markets while limiting the amount of financial assistance that would have to be made available by the IMF. It would also lead to a more equitable distribution of pain among debtors and creditors. This would, at the same time, eliminate or reduce moral hazard.

In this field, the global economy demands the creation of international institutions comparable to those we have within countries. There are essential tasks here for international monetary cooperation. Healthy further growth in the global economy will become increasingly dependent on this cooperation.

IV Tax Competition

The size and speed of international private capital is creating other problems for both advanced and developing countries. It leads to a kind of tax competition. The importance of foreign investment for economic growth and employment motivates governments to make their tax climate more

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attractive for foreign investors. This may lead to lowering or withholding taxes on investment income and corporation profits. There may also be pressure on countries with relatively high marginal rates of income tax to lower them. The inclination to lower these tax rates may be further strengthened because highly mobile capital and high-quality staff can more easily avoid or evade these taxes. Thus, as the IMF concludes, “globalisation will increasingly tend to cause tax systems to converge either through tax-harmonisation or via tax-competition across jurisdictions” (IMF, 1997: 70). The tax-sovereignty of countries will thus be eroded, and tax-regimes will become more favourable to investors and high-income earners and less favourable to wage-earners. From the point of view of income distribution, this may cause concern, even though part of these changes can be viewed as a necessary correction of overly redistributive tax-systems.

But the freedom of capital movements in general also creates a strong financial discipline. The risk of capital outflows will motivate governments to maintain the sound and sustainable fiscal and monetary policies that the IMF recommends and that financial markets expect. Failure to take these risks into account, has led to the financial crisis in Southeast Asia that is now unbalancing financial markets worldwide.

V Globalisation and the Environment

A more fundamental concern about rapid global growth of the world economy is its effect on the environment. We are painfully confronted with damage to the environment as a consequence of growth. Industrial and agricultural development produce a number of toxic substances which pollute our air, water and soil, and growing energy use produces CO₂ which may result in a warming of the atmosphere with dangerous climatic consequences. The advantages of growth in material welfare should therefore be evaluated against environmental deterioration.

Could we avoid such a painful choice because growth beyond a certain level reduces the environmental impact? This possibility has been discussed in the context of the green Kuznets curve, which is based on certain statistics that show a reduction in toxic or energy intensity per unit of GDP beyond a certain level of GDP per head.

Three reasons are seen for this effect:

1. Population growth would slow down as GDP per capita increases. This is a very long-term effect that would reduce the pace of growth to some extent, but not necessarily reduce toxic or energy intensity.

2. With increasing wealth, there will be a shift from manufacturing to services which have smaller environmental effects. This is what
Hettige, Lucas and Wheeler have measured in 1992. Indeed, they found an inverse U-shaped pattern for toxic intensity per unit of GDP due to the shift from industry towards lower-polluting services. But this effect cannot be strong enough to reduce total pollution since the manufacturing industry will continue to grow albeit at a slower rate.

3. The third effect of higher levels of GDP per head is that more resources would be available for environmental protection measures, and there would be greater willingness to use these resources for the environment. But this is not a firm technical relationship; conscious decisions are required.

This brings us again to the problem of the optimal evaluation of material growth against environmental damage. This evaluation is difficult, and there are various reasons why it tends to be strongly biased against the environment.

First, the forces for creating economic growth in a capitalist market economy are extremely strong while the effects of growth-creating decisions on the environment are not visible to individual decisionmakers. Forces leading to growth include:

- When a minimum level of welfare has been reached, there will always be a tendency to save a portion of GDP, and these savings will have to be invested.
- There will also be a tendency to improve technology and efficiency, so that productivity is increasing. This will generally require investment.
- Competition between firms forces them to maximise efforts in this direction. Standing still can place survival at risk.
- Even though governments see the effects of growth on the environment, they generally aim for the highest possible growth. They feel that they need additional resources to meet strong pressures in society for higher spending or lower tax rates. They also want full employment and realise that investment and growth are needed for this. Moreover, there is also a kind of competitive nationalistic spirit that does not want to see the country lagging behind in growth with respect to other countries.

Second, since deliberately slowing down growth in order to protect the environment is not a realistic option, the only possibility is to give higher priority to environmental measures compared to other needs, sometimes with growth-reducing consequences. This is also difficult. Additional tax revenues resulting from economic growth are not freely available for the environment. Growth creates many claims for increases in government spending, for example, for infrastructure which has to keep pace with economic activity.

Fortunately, the most effective environmental measures do not require
government spending but a restructuring of the tax system so that the environmental effects of different economic activities are integrated into the price mechanism by special taxes or possibly by auctioning emission permits. This would be an extremely efficient method since the price mechanism is the most powerful instrument for motivating and guiding both business firms and consumers to adjust their own choices, including the direction of their technology innovation. These pricing measures could even provide additional government revenues which could be used to lower other taxes.

But here we face another difficulty. Such taxes, for example on energy, will be strongly opposed by industries which fear that their competitive situation would be endangered. So it would be difficult for a country to undertake tax measures unilaterally since growth and employment might be harmed. Furthermore, other countries would benefit as the favourable effects of such measures spread beyond national borders. Such pricing measures can therefore only be introduced in a meaningful way through international coordination, and this requires difficult negotiations where the outcome will strongly be influenced by countries with the lowest priority for the environment, i.e. lower income developing countries whose need for growth is urgent in order to alleviate the poverty of their population.

We must conclude that globalisation tends to remain unbalanced and strongly weighted against the environment. Continuing economic growth and spreading it to a larger number of countries of the world will cause increasing damage to the environment. The cumulative effects of this damage may be difficult to restore.

What could and should be done to turn this dangerous development around? Clearly, international coordination is essential. The United Nations has made an encouraging start in the Rio de Janeiro conference on environment and development.

Excellent principles have been adopted in the Rio Declaration and a comprehensive list of desirable measures has been worked out. Follow-up conferences have been organised so that awareness of what needs to be done is strengthened and circulated more widely, but a great deal still needs to be done on implementation. The United Nations' report on the progress reached so far notes that the aim of reducing CO₂ emissions in 2000 to the 1990 level will only be achieved by very few countries (UN Commission on Sustainable Development). Low fossil fuel prices have discouraged alternative energy use, and financial commitments to a Global Environmental Facility have not met the target.

The urgent problem of reducing CO₂ emissions has now been seriously discussed. The agreement that was finally reached in Kyoto in December 1997 sets a target of reducing these emissions to 5% below the 1990 level.
in the commitment period 2008-2012. It hopes to achieve this without energy taxes although a system of trading emission rights would be introduced. But developing countries have refused to participate in this agreement. They still refuse to accept such obligations. In light of this slow and difficult progress in protecting the environment from the negative effects of globalisation, one might wonder whether it is right to push for further trade liberalisation which would stimulate world economic growth and, at the same time, sharpen international competition which could make environmental measures even more difficult.

A better approach would be to build certain environmental protection measures into new trade liberalisation agreements. The international debate is already moving in this direction. Trade and the environment are now firmly incorporated into the work programme of the WTO, UNCTAD and other organisations.

My suggestion would be to include in trade liberalisation agreements certain minimum levels of taxes or other restrictive measures on energy and trans-border pollutants. Liberalised access of exports to the world market should then depend on the observance of these minimal environmental measures. Such measures would not only promote a better world environment, but also be justifiable from a free trade point of view because it would create equal competitive conditions with respect to rules for trans-border effects. As part of such an agreement, some financial assistance from advanced countries to developing countries may be needed to make it easier for them to meet these environmental requirements.

Since an international consensus would develop in this direction, the IMF and World Bank could then go further in including environmental concerns in its consultations and in its conditional facilities with member countries. The focus of the IMF could be on environmental developments that would threaten the economic equilibrium in the future – as has already been done in a few cases with respect to forestry policies and fisheries managements; the World Bank should look at the effect of taxes and subsidies on trans-border environmental damage.

VI Spiritual Concerns

The capitalist market economy has proved to be the most powerful engine for economic growth. It is the moving force behind the present globalisation of the world economy. It is so strong because it uses the individuals’ desire for material gain in an optimal way, harnessing that egoistic desire within a competitive pricing system so that it leads to high long-term growth of welfare for the community under the necessary conditions of
stability, reasonable competition and flexible markets.

But at the same time, this system gives a strong impulse to these materialistic and egoistic inclinations. Material consumption has become a very tempting aim. Sulak Savaraksa, a prominent Buddhist thinker and activist, expresses a deep concern as he sees how Buddhist values of spirituality, harmony and friendliness have been turned around and completely overwhelmed by market capitalism in Thailand during his life-time (Savaraksa, 1992). People are captured by a feverish pursuit for higher material wealth that does not always improve the quality of life and is opposed to Buddhist virtues of sobriety and control of self-interest. He calls this 'consumerism' and sees it as a pseudo-religion which will be unable to give satisfaction and inner peace.

Similar concerns seem to lie behind 'Islamic economics', which aims to restructure economic thought and practice on the basis of fundamental Islamic teachings. As Timur Kuran (1996: 438) argues, its main purpose is not to improve economic performance, but to prevent Muslims from assimilating into the emerging global Western culture. In fact, economic performance is impeded because capitalist practices such as interest, insurance, speculation and indexing are considered un-Islamic.

Payment of interest on loans was also forbidden in medieval Christianity, but interest is of course an essential aspect of the capitalist system. In order to overcome this ethical objection of a whole epoch, capitalism needed support from religion, and as Max Weber has shown, this crucial support came from Protestantism and especially Calvinism (Weber, 1930). This was a paradoxical development, as Weber demonstrated in his masterful analysis, because Calvinism had a very ascetic spirit. But Calvin's desire to see God as high and perfect led to a theology of absolute transcendency of God, which separated man from God by an unbridgeable gulf. Since every possibility for man to come in contact with God was precluded, the only choice left to man was to turn his attention to the outer world. Thus, as Max Weber put it, “The Christian ascetic now left the monastery and strolled into the market place” (pp. 153-154). The doctrine of predestination was then developed in such a way that one had to believe in being chosen by God's grace. And working actively, work in a 'calling', was the most suitable means to attain this self-confidence. Action should “originate from the faith caused by God's grace” (p. 113).

Thus, a strong religious motive was created for the typical capitalist virtues of sobriety, hard work and capital accumulation. Interest came to be viewed as justified between traders – as distinct from the sphere of personal help.

This Calvinist spirit became highly influential in the Protestant world. In Roman Catholicism it was weaker since the mystical idea of inner con-
tact with the divine was kept alive in the monasteries. The influence of Protestantism and of Catholicism on economic growth has been statistically confirmed in two recent research papers. For the 1870 to 1979 period, Bradford de Long has found a striking ex ante association between growth of nations that seemed to have growth potential in 1870, and Protestant versus Roman Catholic cultures (Bradford de Long, 1988). And Alain Desdoigt captured an unanticipated structure in his projections of a religious dimension, by identifying Protestant and Roman Catholic groups of countries, with the former experiencing higher growth rates (Desdoigt, 1996).

After this subtle religious analysis, Max Weber then shows with the worldly success of this ascetic Calvinism, how the religious spirit vanishes as wealth increases. He quotes John Wesley who wrote, “I fear, wherever riches have increased, the essence of religion has decreased in the same proportion”. And Wesley continues, “but as riches increases, so will pride, anger and love of the world in all its branches”. He then concludes, “so, although the form of religion remains, the spirit is swiftly vanishing away” (Weber, p. 175).

Weber concludes that “today victorious capitalism, since it rests on mechanical foundations, needs its (religious) support no longer” (pp. 181-182). In the last two centuries, we have seen how capitalism gradually developed globally, overpowering very different religious cultures, as we have seen in the case of Buddhism.

Thus the world is caught in “a tremendous cosmos” of the modern economic order, ... which determines the lives of all the individuals with irresistible force”. “Perhaps”, Weber then adds almost prophetically, “it will so determine them until the last ton of fossilised coal is burned” (p. 181).

VII Conclusion

As we have seen, widening world economic growth indeed begins to create serious concerns – not so much of exhausting coal reserves, but of a dangerously deteriorating environment. The forces behind this growth are very strong. Of course, it still has positive effects in many developing countries where it is needed to reduce absolute poverty. But in the advanced countries and in emerging economies which achieve higher welfare levels, a shift in emphasis from material growth to the environment and the quality of life will become desirable and increasingly urgent. Can such a turnaround be achieved without a change in the spiritual and religious motivation of man? Max Weber wondered whether “at the end of this tremendous development entirely new prophets will arise, or there will be
a great rebirth of old ideas and ideals ...” (p. 182).

It is indeed encouraging that we can see the beginning of significant spiritual counter-forces at the present time. There is a growing dissatisfaction in Western culture with our materialistic and outward-directed life. There is a growing longing for spirituality. Meeting this need is an undercurrent of movements offering a path to meditation, to contact with the divine spirit, bridging that distance between God and man that became so “unbridgeable” in Calvinism. Buddhist and Hindu spiritual teachers, schools of yoga, transcendental meditation and other spiritual organisations encounter growing interest. A new focus on spiritual experience may also emerge in some Christian communities. Inayat Khan’s universal Sufi message reveals the inner unity and universal values of the great religions. This opens a path to the inner life for Western man. Thus, as the Western technological economic advance begins to impose itself top-down on Eastern culture, different forms of Eastern spirituality begin to change Western culture bottom-up and from deeper levels.

This could lead to a more balanced world situation, a new synthesis between Eastern and Western culture. A shifting focus from outer life to inner life, and the creation of a better balance between the two, would then lead to a greater preference for free time, shorter working weeks and earlier retirement so that people can devote themselves to spiritual and religious pursuits.

The greedy strife for higher material consumption would then abate. This would naturally slow down growth. It would also diminish over-ambitious and corrupt practices and increase the willingness of business firms to take the general interest of the community into account in their decisions.

Such spiritual developments take time. They always move slowly. But how much time do we still have before environmental damage becomes too severe and, perhaps, irreversible?

Governments and international institutions are limited in what they can do to promote these spiritual forces. They cannot be created by legislation. They have to grow in freedom from the depths of the human heart. But the education system and the media, especially television, have an enormous influence. There is an important task for the government in introducing or stimulating the introduction of universal spiritual values in education and in government-sponsored radio and television programmes. Governments could also take action with respect to the enormous amounts of consumption-stimulating advertising. Taxes on advertising expenditure could discourage it and provide a correction to the present exaggerated ‘consumerism’. There is also an economic argument in favour of such taxes because this kind of monopolistic competition, based on brand-name preferences created and maintained by advertising, is sub-optimal since it keeps
prices higher than would otherwise be the case. The proceeds of such taxes could then be used to create greater room for inspirational developments in the fields of art and education.

These measures could help to some extent, but fundamentally, the turn around has to come from the depths of man's being. Western individuals with their incredible scientific, technological and economic achievements in the outer world now have to find a better balance by learning to turn within to rediscover the enrichment, satisfaction and peace of the inner life.

References