

FINANCIAL RESOURCES POLICY AND MANAGEMENT: WORLD ECONOMIC ORDER

Ramón Tamames

*Full Professor at the Autonomous University of Madrid, Spain; Jean Monnet
Chairholder, European Union, Spain.*

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Summary

In this article on financial resource policy and management: world economic order, we follow the path of globalization, that is to say, a progressive economic way taking into account environment all over the world. In that perspective, nowadays appears the concept of *New Economy*, as a part of a general framework where international economic organizations and multinational enterprises play an increasingly important role, alongside the planet superpowers: the USA, the European Union, and Japan, all of them having special responsibilities as the core of the advanced nations.

Against that general background, bionomics offers strong links between economy and ecology, to overcome present difficulties related to biosphere deterioration and the mass poverty in less developed countries. In that sense, a target to achieve is a new sustainable growth model, in which *Homo ecologicus* can design the methodological approaches to create better relations between mankind and nature. That means the necessity of respecting ecological equilibrium, so that a productive system and income distribution perform in better conditions for everybody. Principles that must be completed with a more efficient mechanism the deliverance of aid, by advanced nations to developing countries, i.e., setting of new conditionalities based on democracy, public honesty, and general awareness in favor of sustainable development and betterment of its social impacts.

Furthermore, to improve the new framework and to reach a more adequate international economic and financial order, it will also be necessary to reinforce global institutions, so that we can one day reach the real performing of a Government of the Biosphere. In that direction, an outline of a new organism—the United Nations Council for Environment Security (UNCES)—is offered, in the aim of coordinating present efforts by current institutions, and for developing new initiatives to foster sustained development.

Summing up, with a more accurate knowledge of reality, specific reforms, and the better use of international institutions, we could preserve, with increased results, the rights of coming generations, according to a new business and financial ethics that combines the productivity and profit spirit with two main principles to be observed: synchronic

solidarity with developing countries and diachronic responsibility regarding coming generations.

1. Globalization: Cycles and Inequalities

1.1 Fewer and Lower Barriers

In the current era of globalization, world economic and financial order is one of the main topics in any kind of survey relating international politics, economics, finance, and environment. As a matter of fact, globalization is nowadays one of the most used words to define current economic conditions, because the fact is that barriers to the interchange of all kinds of products and services have been deeply reduced. For example, customs duties are at their lowest level everywhere, and in the European Union, by far the biggest world trade block, the Common External Tariff (its acronym, TARIC), has diminished to an average two percent *ad valorem* (agriculture aside) since the Uruguay Round decisions were finally enacted (2000). And the same thing has happened to services and capital movements for which the great majority of obstacles have been removed.

Moreover, integration projects are gradually promoting not only new customs unions, free trade areas, preferential agreements, better regional infrastructures -so that all economic flows become easier-, but also monetary coordination going from currency boards in progress all over the world—through dollarization (or eurozation since 1999)—in a sustained and generalized trend to monetary unions, to stabilize international payments, and thus supply better guarantees to foreign investors.

1.2 A Non-synchronized Cycle

But the foreseen economic one world situation that favors business and transactions does not mean that economies are everywhere moving in a synchronized cycle, since there are great differences among the various groups of nations, and even inside each of them.

In other words, whereas the industrial North according to IMF officials is advancing on the basis of continuous institutional and structural reforms and new technologies, very bad conditions—as we shall see afterwards in a more detailed scope—still prevail in Russia and other states of the previous Soviet-system, not to mention the so-called Third World.

Definitely, business cycles are not synchronized. And probably this multi-case situation will continue to be normal in the medium- and long-term. Instead of income levels being reduced between most and least advanced countries, present figures will be maintained and may even show a bigger gap in the future.

1.3 Global Elite, Middle Classes, and Publicity

But different cycles do not prevent globalization from integrating consumer markets around the world, and opening new opportunities everywhere, including investment and

finance, and accelerating a constant flow of new products, in the context of a fierce competition with increasingly aggressive advertising.

As a matter of fact, local and national boundaries are breaking down in the setting of social standards and aspirations in consumption. As market research shows, it is possible to identify global elites and global middle classes who follow the same consumption styles, showing preferences for global brands. There are also global teens—some 270 million between 15 and 18 year-olds in 40 countries in 2000—inhabiting a global space, a single pop-culture world, soaking up the same videos and music, and providing a huge market for running shoes, t-shirts and jeans. What are the main consequences thereof?

First, a host of consumption options have been opened for many consumers, but many are left out in the cold, through lack of enough income, as pressures for competitive spending mount.

Second, protecting consumer rights to product safety and product information, has become more and more complex. Increasingly, new products with higher chemical content, such as foods and medicines, are coming on the market; and therefore, when information is not adequate, or safety standards are not strictly enforced, consumers can suffer; for instance, from pesticides that are poisonous, milk powder that is contaminated, etc.

At the same time, the consumer receives a huge flood of information through commercial advertising. An average US citizen, it is estimated, sees 150 000 advertisements on television in his or her lifetime. And advertising is increasing worldwide faster than population or income.

Worldwide advertising spending, by the most conservative reckoning, is now \$435 billion, and its growth has been particularly rapid in developing countries. In 1986 there were only three developing countries among the 20 biggest spenders in advertising. A decade later there were nine. And in spending relative to income, Colombia ranks first with \$1.4 billion, 2.6 percent of its GDP (1998).

2 New Economy: Myth or Real Success?

2.1 The Longest Prosperity Period

In the United States, the country has experienced during 1992/2000 the longest period of economic prosperity since the end of the Second World War, with an average of 4 percent in terms of GDP. Other aspects of the US economy are equally brilliant, with almost full employment of resources and less than 4 percent of jobless working population (lower than Japan, and the lowest level for 30 years). Being also most remarkable that the mentioned figure is far below what until a few years ago was considered as the NAIRU level (non accelerating inflation rate of unemployment, according to Milton Friedman), fixed at a mark of 5.5 percent of the working population.

During the last decade of the twentieth century, the US recovered its role of world economic locomotive. Therefore, if we are going to consider the US experience to some extent, it is not only as the significant horizon of the biggest existing economic power, but also as some kind of benchmarking, i.e. a reference for emulation by the European Union (EU) and other parts of the world.

2.2 Factor X

Obviously, the origins and the persistent strengths of growth in the US are a subject of passionate discussions among theoreticians, as far as they are dealing with a situation not previously described in conventional textbooks. In other words, what is happening cannot be judged according to already obsolete patterns, but by means of new and more imaginative approaches.

This is precisely what Alan Greenspan, the Chairman of the Federal Reserve System (the FRS, or the Fed), tries to clarify when he refers to the “X Factor” in the aim of offering a global explanation of the US economic success story since 1990. Mr. Greenspan views this X factor as a complex of various pieces—a rather exciting economic puzzle rather than a policies mix:

- First of all, comes the continuous and strong supply of new manpower at comparatively low wages for all kinds of activities; thanks, in great measure, to the big immigration flows coming from Hispanic American and Asian countries. This helps to restrict salary increases.
- Second, there are huge imports of commodities and other inputs at very low prices to consider, because of the rebated tariff following the already mentioned Uruguay Round; and also thanks to other reasons: The general deflationary trend prevailing almost everywhere—until 1999, when oil prices started to jump—and the dollar’s strong appreciation.
- Third, the deregulation policy initiated long ago (1980s) with Thatcherism and Reaganomics. Enterprises are looking—anyway, anytime, anyhow—for bigger market stakes, through all kinds of efforts, and investments, aimed to cut prices, always trying to raise productivity and improve their position in terms of international competitiveness.
- Fourth, much better financial opportunities after the long term fall of interest rates; only refrained since 1999, because of the already mentioned purposes of soft landing. Anyway, capital flows continue to enter massively in the U.S. from the rest of the world, to invest in industries and services; and—lately in a growing proportion—in financial markets. This is something that can be explained because of the interest rate spreads: 6.50 percent in the USA, 4.75 in Europe, and 0.5 in Japan (as November 2000).
- Fifth, the income rise in the US and the above-mentioned inflow of external capitals have contributed to generate huge market profits, especially along the equities boom, as reflected in the evolution of main indexes as Dow Jones of the New York Stock Exchange (NYSE) and Nasdaq. What certainly entailed a very strong enrichment effect (although others more pessimistically call it a financial bubble): a lot of people have at present the feeling that their personal or corporate wealth has

much increased, which in turn originates bigger investments that feed further GDP growth.

- Sixth, the great productivity gains, at an average 2 percent annually during the nineties, vis-à-vis only 1 percent in the 1980s. The main spring of that trend being the ubiquitous and accelerated introduction of new technologies, mainly in the fields of computers (hard and software), telecommunications, Internet; and also in aspects of management, like reengineering, human capital improvement, empowerment, benchmarking, total quality methods, leadership. And not the least, a better understanding by the great corporations of macro policies, international relations, environment, etc.

In summary, we may say that things have changed in the USA, so that the most enthusiastic observers of the so called X factor—or, enlarging the scope, the *New Economy*—are forecasting a very long cycle of prosperity. Even *sine die* according to the euphoric point of view of those who are announcing a new age. But of course, cycles are not going to disappear. Although they could become smoother because of the service sector prevalence, a healthier public sector structure, and the coordinated policies held in the international institutions.

3. The Different Behaviors of Nations

At the end of the year 2000, the main risk for world economy is centered on the fear of a possible outbreak of inflation; in the case that oil prices could climb permanently to levels higher than 30 US\$ per barrel. That is why soft landing policies try to prevent an excessive overheating of the economy.

3.1 Advanced Countries

In the USA since 1999, indicators show that prices are rising quickly; a trend that, as we have already seen, has been offset by the raising of interest rates in order to cool down the economy. In the case of the EU, a most important event—a real landmark in its economic history, as many observers stress—is contributing to the quest for simultaneous stability and growth: the definitive birth, on 1 January 1999, of the European Monetary Union (EMU). The Central European Bank (CEB) is currently conducting the common monetary policy of the 11 countries integrating the Eurozone, with consequences not yet fully available until 2002, when the Euro will become a real fiat currency.

Along the same line of conservative behavior, one must emphasize the importance of fiscal and banking measures adopted in Japan to overcome the financial difficulties which had been affecting the economy since the beginning of the 1990s. And while it is true that the Japanese have not solved everything, the fact is that measures have been put in place.

3.2 Russia

At this point we should remember that—breaking many of the globalization postulates—the Russian crisis of 1988 was a very difficult event, involving the Ruble's

devaluation and debt moratoria, not only for Russians themselves, but also for the rest of the world. Since the crisis it is true that improvements around the globe are in some ways reaching Russia—especially due to higher prices of oil and gas and the competitiveness effects of the Ruble's devaluation—but the core of the ex-Soviet Empire still shows many of the worst economic conditions in terms of market restrictions and lack of real business ethics. Additionally, there is still the residue of deep monetary instability and the most extensive lack of budget discipline.

Going deeper still, we can say that one of the main problems in the Russian economy (and society) was the systematic looting of the country's international reserves by the Mafia-like structure of the banking system, so that an estimated 100–150 billion dollars could be deposited in Switzerland and Cyprus, and a long list of other tax havens, instead of residing in the Central Bank's reserves.

3.3 Latin America

Globally speaking, the most difficult moment in recent times for economic stability came when it was thought that the Asian and Russian crisis would infect Brazil, where interest rates were over 40 percent at the end of 1998. Concerns were high over a subsequent Latin American domino effect: a series of devaluations that could have hindered any possible mid-term recovery. However, an international aid package was geared to help the largest South American country, with a total provision of \$41.5 billion, channeled by the IMF. Thus, for a few months, the Real, the Brazilian currency, was not devaluated, and the contagion did not progress further. And even if, in the end (May 1999), the Real's devaluation became inevitable—to adjust the successive exchange fixings to effective purchasing power—measures were already at work preventing further deterioration, except in countries like Ecuador and Peru, where political complications contributed to further deterioration.

3.4 The Third World

In the so-called Third World, many natural disasters appear from time to time darkening the general outlook. One such instance was hurricane Mitch in 1999 in Central America, which left a long and dramatic trail of destruction. And while there were many important displays of international solidarity which were translated into significant aid, there were few doubts as to the need of a special plan for the region, to include the cancellation of external debt and assure fresh capital flows to help to push the GNP up. In Africa, the situation can be even worse: war, hunger, disease, dictatorships, and corruption are common in most countries of the continent. And these problems are not going to be solved either in the short- or in the medium-term. In that sense, the South Africa Conference on AIDS of July 1999 showed the depth of a crisis which is not purely the dramatic extent of the disease, but also the negative synergy of many structural problems.

However, we could say that the world economy in general is much better form. In that sense we can remember Michel Camdessus' expressions (at a financial meeting in Madrid, 1999) when he criticized the “ominous predictions made by birds of ill omen” during the second phase of the Asian crisis. Contrary to the current gloomy predictions,

emerging countries that were harshly hit by turbulences (namely, the Asian tigers, or Singapore, Taiwan, South Korea, Thailand and Malaysia) have recovered in a very encouraging way. The case of China is also encouraging, given its path of reforms to become a member of the World Trade Organization (WTO).

Furthermore, we cannot be too pessimistic since international solidarity has improved. Financial assistance by advanced countries (in 1999 there were 25 northern industrialized nations participating in the aid packages organized by the IMF) has worked through a triple system: IMF's members fees raised, new amounts of special drawing rights (SDR) were issued, and the promotion of a very important increase in the participation of new accords in order to obtain larger loans (NABs) to help countries in the worst difficulties. But of course, we are not going to support the idea, either, that we are facing a rose-colored future. Many difficulties are to be overcome in a planet that in 1998 attained the figure of six billion inhabitants, of whom 2,400 million live daily on less than two dollars.

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Biographical Sketch

Ramón Tamames was born in Madrid in 1933. He studied at the French Lycée, the University of Madrid (law and economics), and was a pupil of Professors Meade and Sayers at the London School of Economics. He has written books on international and Spanish economy, ecology, and also on European contemporary history. He speaks Spanish, French, and German fluently, and has a certain knowledge of Italian, Portuguese, Catalan, and Russian. The main fields of academic activities of Prof. Tamames are related to Applied Economics, especially on Spanish questions (his book on this field, *Estructura Económica de España*, translated into French and English, is now in its 24th edition), structure and international economics, ecology and sustainable development, and politics and history. He is also in acquaintance with many European topics, and very specifically the Euro and the performance of the European Monetary Union. As an international expert, Prof. Tamames has worked with the Instituto para la Integración de América Latina (Institute for the Integration of Latin America, INTAL, a Division of the Inter American Development Bank), in the preparation of several reports on the cases of the Dominican Republic, Brazil, and the small comparatively less developed countries of the Latin America Free Trade Area (LAFTA). Prof. Tamames has also been a consultant to the United Nations Development Programme (UNDP), on the necessary arrangements for the improvement of the integration methods (LAFTA, Andean Community of Nations, Central American Common Market and CARICOM). At present, Ramón Tamames is full professor of Economic Structure at the Autonomous University of Madrid, and also a Jean Monnet Chairholder of the European Union. In 1992 he became an international associate of the Club of Rome, being one of the member of the Club's Delegation to the *Earth Summit*, Rio-92. In the political scenario, Prof. Tamames was an active participant in the Spanish democratic opposition to the previous authoritarian Régime of General Franco, and because of his activities he was imprisoned twice. He was elected a member of the Parliament in 1977 and he worked in the drafting of the present Spanish Constitution, of which he is the underwriter number 551. He has also been awarded a number of prizes, among them the 1996 Espasa Essay Award, the King James the Conqueror Economics Prize of 1997, and the Environment Recognition by the Regional Government of Castile and Leon. He is also an *ad honorem* Forest Engineer, by special Decree of King Juan Carlos I. Prof. Tamames is married to Carmen Prieto-Castro, a specialist in international relations, University of Madrid, and they have three children: Alice (1961), Laura (1962) and Moncho (1968). Among the hobbies of Prof. Tamames, it can be mentioned he is very fond of various activities: literature, mainly European and Spanish novels, having contributed himself to this field with the publication of two novels; classical music, with some specialization in the eighteenth century, being a member of the Association of Haendel House, London; nature, having visited various mountainous scenarios, rainforest areas (Amazon, Central Africa, South East Asia, etc.), deserts (Sahara, Syria, Central Australia, etc.), and the North Pole Regions (Greenland).