Economics of Regions and Countries

Dyrehaugen Web Notebook

2023-12-11

Contents

1

Economics

Economics is a broad issue. Here we look at the economics of particular regions or countries.

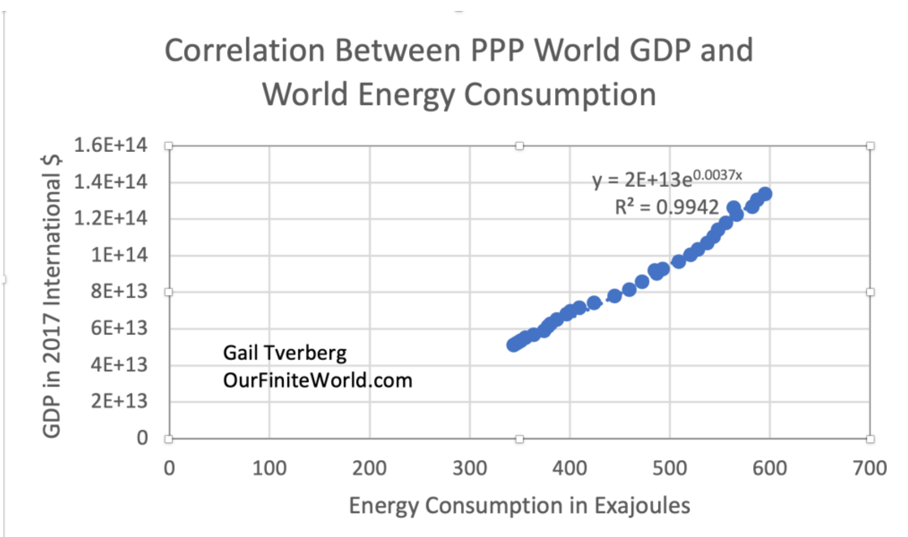
2

World Economy

Tverberg

> In physics terms, the world economy is a dissipative structure, just as all plants, animals and ecosystems are. All dissipative structures have finite lifespans, including the world economy.

The economy is something that grows through the "dissipation" of energy. Examples of dissipation of energy include the digestion of food to give energy to humans, the burning of fossil fuels, and the use of electricity to power a light bulb. A rise in world energy consumption is highly correlated with growth in the world economy. Falling energy consumption is associated with economic contraction.



Tverberg (2022) Why No Politician Is Willing to Tell Us the Real Energy Story

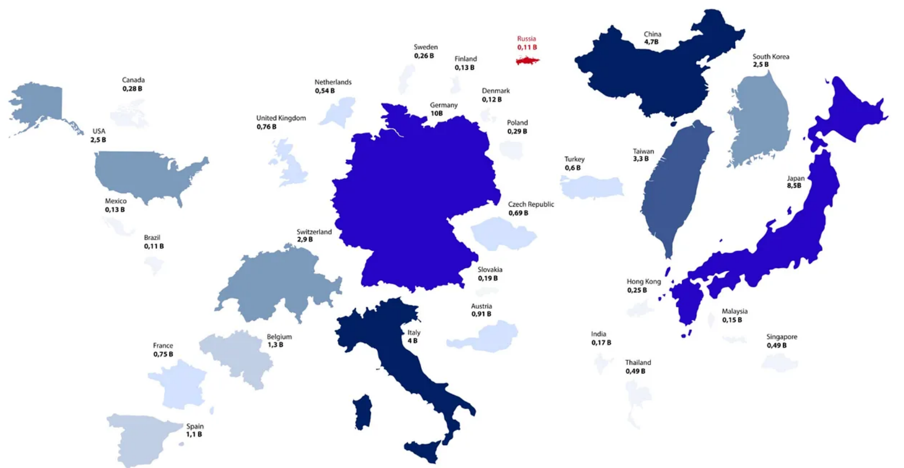
Shizawa (1996) Economy as Dissipative Structure (pdf)

2.1 Historic Performance

2.2 Who makes the machines that make machines?

Tooze

4. Figure M. Global distribution of machine tool exporters, 2019



Source: Gardner Intelligence. The World Machine Tool Survey, 2021

Tooze (2023)

3

Ocean Economics

Tooze

3 million wrecks

The glitter of deep-sea treasure has lured adventurers since time immemorial, and most have ended up poorer instead of richer. There are about 3 million wrecks in the ocean, an unharvested bounty worth untold billions of dollars, but getting to them can be dangerous, difficult and ruinously expensive. Recently, though, advances in underwater technology have opened up swaths of the ocean floor to exploration. Beyond gems and cultural treasures are rare minerals, oil, gas, battery metals and creatures unknown to science—all outside the reach of any state regulator that might constrain an eager entrepreneur. In the deep-sea gold rush that's resulted, what matters most is getting there first. Right now, the only ones with the resources to join in are corporate interests and wealthy individuals whose goals may or may not be aligned with the rest of humanity. The Originator is the most prolific of them all—the most successful shipwreck hunter in modern times, perhaps in all of history. His name is Anthony Clake, and he's a 43-year-old hedge fund executive who rarely leaves dry land..

Tooze (2023) 3million wrecks

4

World Military

4.1 Nuclear Arms Race

Cirincione

We are in a new nuclear arms race. Every nuclear-armed state is building new nuclear weapons. Some - like North Korea, China, India and Pakistan - are increasing their arsenals. Some, like the United States and Russia, are replacing every one of their existing weapons and considering vastly increasing their arsenals. Two nuclear-armed states - Russia and Israel - are in major wars that risk the use of their weapons. None are proposing new measures to restrict, reduce, let alone eliminate, these weapons.

For the past few years, the United States and Russia have actively dismantled many of the key nuclear guardrails, including treaties that prohibited certain kinds of nuclear weapons and provided transparency into their arsenals of 5,000+ nuclear weapons each.

Dangers from nuclear weapons are increasing. Government and active public support for reducing and eliminating those weapons is decreasing.

Cirincione (2023) Practical steps to reduce nuclear dangers

5

Africa

Opalo

A two-decade slump in regional growth rates

Talk of "Africa's lost decade" is becoming common again, with evidence from stagnant or declining per capita incomes in African states amidst the ongoing global economic slowdown, the region's fiscal squeeze, and a two-decade slump in regional growth rates (see figure below). Two dozen African countries are currently in or nearing debt distress as of June 2023 — with Chad, Ghana, and Zambia already in default. While many of these countries face a liquidity rather than a solvency crisis, the current high interest rate environment and their inability to access credit markets mean that they lack the means to buy themselves time to grow out of their high debt/GDP ratios.

In 2022 the region spent 31% of total government revenues to service debts.

African states are slated to keep paying relatively higher interest rates for sovereign debt on account of their low credit ratings.

In per capita terms, growth in the region has not increased since 2015. In fact, the region is projected to contract at an annual average rate per capita of 0.1 percent over 2015–25, thus marking a lost decade of growth in the aftermath of the 2014–15 plunge in commodity prices.

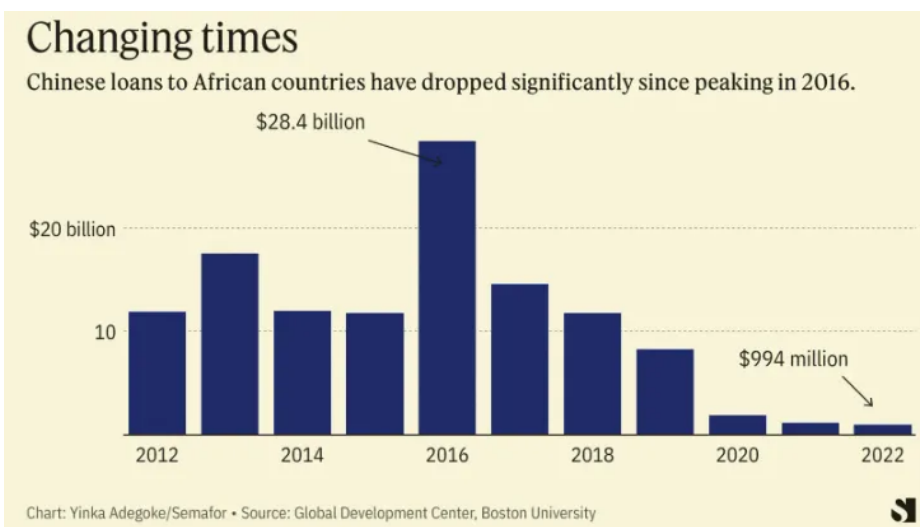
Unless African governments reorient their economies towards job-intensive economic growth, as opposed to low-productivity agriculture and job-scarce extractives, it is likely that the downward trend in growth rates will persist for the foreseeable future. Two important factors explain the slowdown in growth rates. First, the region's economies — including leading giants like Nigeria and South Africa — continue to be heavily reliant on commodity exports with little to no value addition.

Consequently, any weakening of demand or price declines are likely to translate into slower growth. Commodity sectors also typically lack strong direct multiplier effects on the rest of the economy. There are only so many jobs you can get out of an oil rig or copper mine once they are built and running; and agriculture without domestic value addition gets you very little mileage.

African economies have historically struggled to create wage jobs. In the medium term, African economies are projected to generate a mere 3 million formal sector (i.e. wage) jobs against the over 10 million youth who enter the workforce each year. Wage earners account for a mere 16% of the African labor force, with the vast majority of workers confined in low-productivity agriculture or the informal sector. This situation seems to be getting worse. As shown below, labor productivity is declining across Africa.

It is also a gut-punch reminder that the much-needed policy reforms since the 1990s focused almost exclusively on macroeconomic stability from the perspective of monetary and fiscal policy institutions while paying little attention to labor productivity and the need to reduce the rates of informality in African economies. Indeed, a fair amount of development interventions continue to double down on expanding informality as a remedy to policy failures.

One shiuld resist the temptation to see the current economic cycle as a reflection of the *disastrous long decade between 1980-1994*. Back then, nearly two decades of commodity-fueled growth gave way to dwindling export earnings, closed credit markets, fiscal crises, collapse of government spending on essential public goods and services, and significant erosion of hard-won improvements in human welfare. Many of the policy responses offered back then made things worse. For example, shrinking already small governments weakened African states. Some states — like Liberia, Somalia, and Rwanda — simply collapsed. It took China's economic rise and the associated commodity boom to knock African states onto a growth path.



Chinese lending to African governments has dwindled to a trickle, relatively speaking. The international commercial debt markets are too expensive for nearly all African states, forcing many to turn to domestic borrowing that is crowding out credit to the private sector and throttling economic growth. Meanwhile, multilateral lenders are stretched and unable to provide the amounts of concessional loans African countries need to weather the current storm without savage cuts on public spending. Add to this mix declining forex earnings from commodity exports and currency depreciations and you have several countries that are struggling to service their foreign public debts.

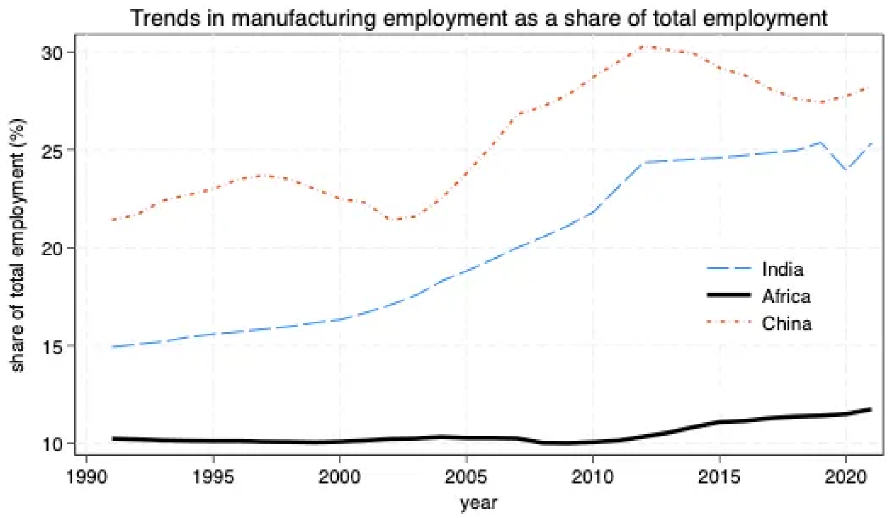
Most African countries are facing liquidity and not solvency crises — to be blunt, they just did a poor job of managing their debt servicing/maturity timetables and got caught by the timing of multiple global shocks (COVID, anti-inflation rate hikes in major economies, Chinese slowdown, and the war in Europe). Therefore, the immediate solution for countries that are distressed but have not yet defaulted should be to buy them more runway. Second, while there is a need for greater revenue collection and rationalization of expenditures in many African states, such efforts should not make things worse.

Intensified tax administration must be accompanied with policy reforms to improve the business environment, especially for small and medium domestic firms. Similarly, any cutbacks on spending must not erode the hard-won gains made in education attainment, health, and poverty reduction since the 1990s. Despite the concentrated indebtedness in specific countries like Chad, Ghana, Zambia, and others, the regional debt/GDP ratio is a very low 24%.

Nigeria and South Africa — which combined make up 46.3% of the region's total economic output (and 24% of the population) — will grow (2022-2023) at a meager 3.1% and 0.95%, respectively.

> There is a need to focus on jumpstarting growth in Nigeria and South Africa as anchors of regional economic dynamism.
>
> Intra-Africa trade should be a core part of the answer.
>
> African workers are becoming less productive, a situation that requires urgent attention from policymakers.

The ongoing decline in output per worker suggests rather dismal returns to all the investments in human capital, physical capital, and managerial capacity over the last two decades. The apparent stall in productivity gains is likely due to the region's inability to cultivate sustained job creation in the manufacturing sector. While manufacturing output in Africa is certainly on the rise, the associated expansion in wage employment has been painfully slow.



The political economies of most African states militate against the growth of jobs-heavy domestic manufacturing.

The combination of legitimacy-starved incumbents with a tenuous hold on power and weak state capacity has historically made it difficult for African political elites to (1) protect their own property rights and (2) separate the political and commercial lanes among elites, a move that is critical for crafting successful industrial policies. African elites' struggle to protect their own property rights, even while in power. With a few exceptions, most elites seldom accumulate easily visible and attributable wealth — for example through the ownership of productive large firms that generate mass employment. The dominant mode of accumulation is to secretly stash wealth abroad or hoard millions of dollars in cash outside of the banking system.

Under the circumstances, the region has historically been hostile to would-be independently successful businesspeople. Such businesspeople tend to be viewed by incumbents as potential political challengers that ought to be cut to size. Notice that the fusion of lanes makes it difficult for elites to specialize in either business or politics, resulting in a region full of mediocre politicians and politically-dependent mediocre businesspeople (this is not to say that there are no genuinely brilliant businesspeople in the region who succeed despite their governments).

To deal with this intra-elite impasse, many countries ended up with systems for accommodating migrant "middleman minorities" and foreign investors in critical sectors like agriculture, mining, finance, and fast-moving consumer goods. However, despite non-trivial investments in manufacturing capacity and decades-long rootedness, such commercial elites often lack the political resources (i.e. electoral and institutional influence) to significantly shift individual countries' industrial policies in the direction of jobs-focused growth strategies. Indeed, many of these investors wisely cope with tenuous property rights regimes wherever they operate by domiciling their firms (and profits) in foreign jurisdictions with stronger institutions; and mostly focusing on trade facilitation with little domestic value addition.

All this to say that addressing Africa's productivity slump will require structural reforms to entrench elite property rights in a manner that promotes domestic commercial revolutions in the region. In addition to being in a position to positively influence industrial policy in the direction of mass job creation and anchor foreign direct investments, investors with socio-political skin in the game are also less likely to run away with their capital during economic downturns.

Opalo (2023) There is an urgent need to unlock labor productivity in African economies

5.1 African corridors - Global Gateways

Tooze

Colonialism in Africa worked, until the Berlin Conference of 1884-5, largely through the identification of key corridors for trade whose control guaranteed access to commodities for the controlling power. Now the EU, and above all Germany, seek strategic corridors in Africa for access to key energy transition resources. In English, thanks to Claudia Baranzelli et al:

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The paper has two interconnected bodies. The first one deals with mineral resource indicators and
Africa Strategic Corridors, in a broader context of Africa-
EU partnership. The second strives to understand how such Strategic Corridors are also mineral co
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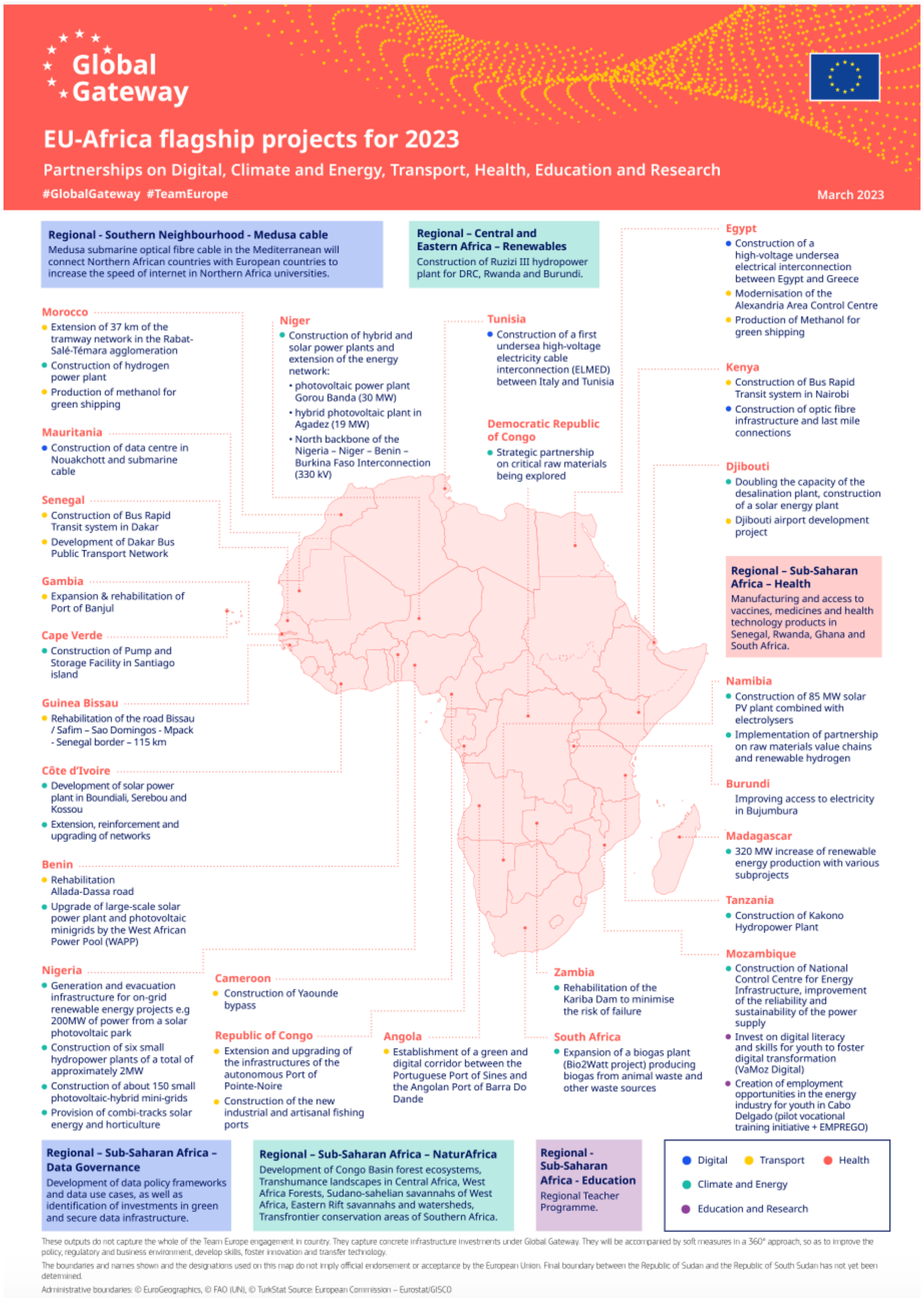
Strategische Korridore Afrika

Quelle: Vereinfachte Darstellung von EU-Kommission 2022 (Creative Commons Attribution 4.0 International license)

Tooze (2023) African corridors, Gazan homes, examining incomes, the AI divide & Habermas

German Trade and Invest (2023)

5.1.1 EU Global Gateways

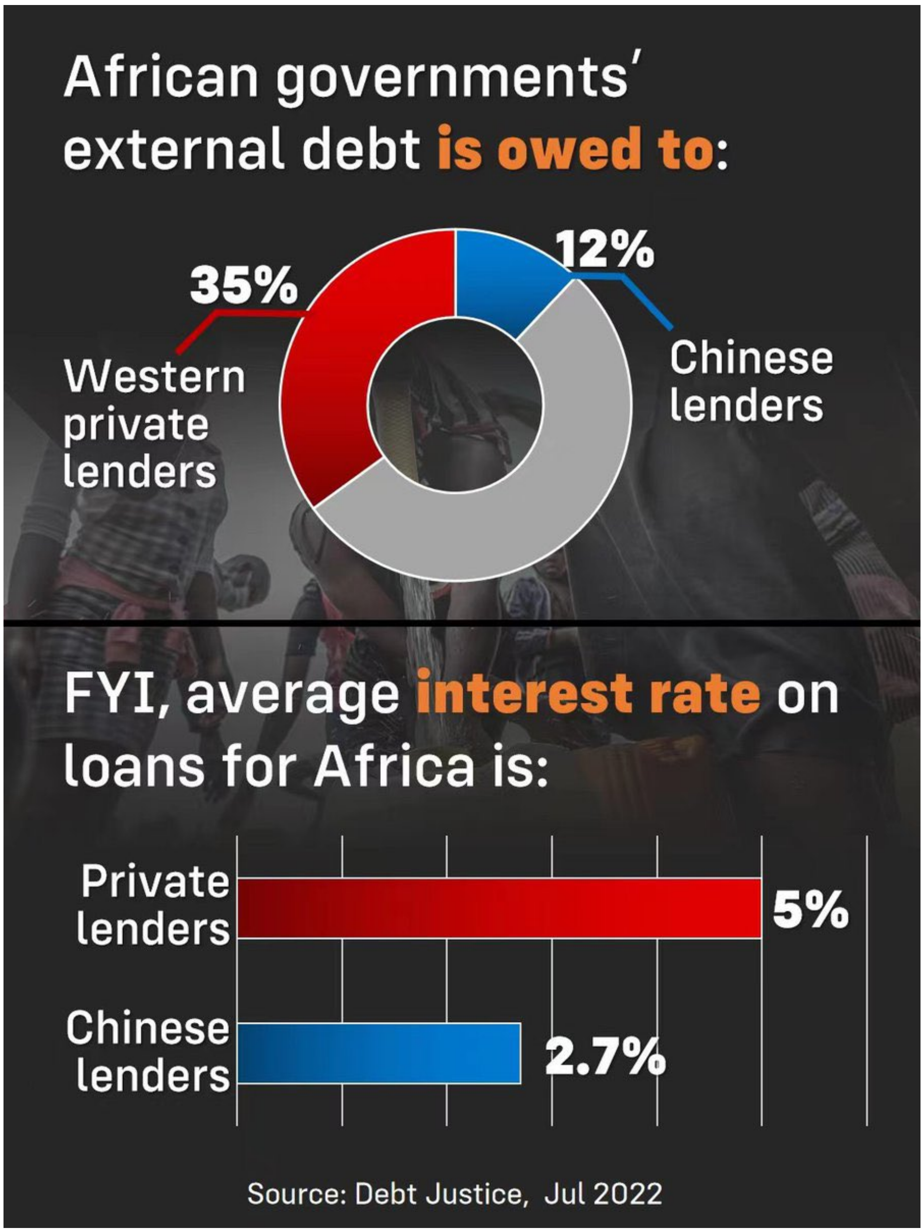


Bohne (2013) Etikettenschwindel »Global Gateway«

5.2 Africa's debt

Roberts

China is not a particularly large lender to poor countries compared to Western creditors and the multi-national agencies.



Roberts (2023) Sri Lanka's debt trap and the vultures

5.3 Mining

Radley

In the 1960s, newly independent African governments asserted sovereignty over their metal and mineral resources, in a reversal of their prior colonial exploitation by European mining corporations. In this excerpt from his new book Disrupted Development in the Congo: The Fragile Foundations of the African Mining Consensus, Ben Radley shows how transnational corporations have once again become the dominant force assuming ownership and management of industrial mining projects. Radley argues this latest reversal has taken place through a three-stage process grounded in a misguided reading of African economic stagnation from the mid-1970s onwards. Recent mining code revisions in several countries have been heralded by some as marking a new era of resource nationalism. Yet the new codes remain a far cry from the earlier period of resource sovereignty. The first three chapters of the book can be downloaded for free here.

Stage one: Blame the African state

Misguided African state intervention and government corruption were put forward as primary causal explanations, to the exclusion of other factors.

The point is to emphasize that successful adjustment will be elusive unless Africa s vulnerability to external factors is recognised. Such a recognition will serve in rethinking the form and content of Africa s structural transformation. Failure to account for such factors, even as one corrects for internal policy errors, can frustrate attempts at change and condemn them to involuntary reversal.

By downplaying the external and foregrounding the internal, the result is an analysis and diagnosis that lays the blame firmly on the state management and ownership structures underpinning national developmentalist ambitions in the 1960s and early 1970s, to the exclusion of external shocks and trends in the global economy.

Stage two: Liberalize and privatize

The World Bank told African governments to abandon any notion to use mineral resources to serve social priorities or developmental priorities and give up the running and management of minerals and mineral wealth to transnational companies.

Prior to the rise of China as an alternative source of resource-linked finance, and with many African countries still unable to access international capital markets, the Bank was able to exert significant influence through these grants and loans to implement its strategic vision for how mining should be organized and managed, as laid out in its 1992 Strategy for African Mining report:

Giving overall priority to capital-intensive, foreign-owned mining.

With the regulatory framework overhauled, foreign investment was unleashed to seek out fresh opportunities. Mining exploration in Africa increased from 4 per cent of total mineral exploration expenditure worldwide in 1991 to 17.5 per cent in 1998, and overall mining investment in Africa doubled between 1990 and 1997. The start of a commodity supercycle in 1999 gave fresh impetus to this activity. In 2004, the $15 billion invested in mining in Africa represented 15 per cent of the total of mining investment worldwide, up from 5 per cent in the mid-1980s and putting the region third globally, behind Latin America and Oceania. From 2002 to 2012, a period spanning most of the supercycle, mineral exploration spending in Africa rose by more than 700 per cent, reaching $3.1 billion in 2012.

The sweeping changes in African mining policy in the 1980s and 1990s were aimed at attracting FDI and increasing exports, in which they have been successful. Total FDI inflows into African least-developed countries rose fourfold from an annual average of $1.7 billion in the 1990s to $6.8 billion in 2000 to 2005…the bulk of which was directed to mineral extractive industries.

The dramatic increase in FDI growth since the 1990s has altered the composition of these economies, which have become increasingly dependent upon FDI as a source of development financing, and this level of dependence is greater today relative to other country groups and regions.

Stage three: Criminalize African miners

One final stage was required before transnational mining corporations could move front and centre. This involved dealing with the on-the-ground reality that, for many incoming transnationals, their prized deposits were already occupied by African miners involved in a wide range of labour-intensive forms of mining. Most commonly associated with gold and diamonds, labour-intensive African mining is also involved in the production of silver, copper, cobalt, tin, tantalum, iron ore, aluminium, tungsten, wolframite, phosphates, precious and semi-precious stones, and rare earth minerals, among others. Globally, labour-intensive mining has been estimated to contribute up to 30 per cent of total cobalt production, 25 per cent for tin, tantalum, and diamonds, 20 per cent for gold, and 80 per cent for sapphires.

Labour-intensive African mining has grown significantly since the 1980s to directly employ millions of workers across the continent, driven by three factors. First, the crisis of African agriculture has led to an increasingly important role for off-farm employment. Second, the decline of state-led national developmentalism and the collapse of welfare provisioning under the weight of structural adjustment during the 1980s exerted significant strain on the productive and reproductive capacity of rural African households. Third, rising commodity prices, especially during the supercycle of 1999–2012, pulled people towards the sector, where there were often higher wages and profits to be made than locally available alternatives.

Despite the sector's importance to rural employment, African miners have typically been cast by the World Bank, African governments, and parts of the scholarly literature as ‘primitive’, ‘basic’, ‘inefficient’, ‘rudimentary’, and ‘unproductive’ (in contrast to the ‘efficient’, ‘modern’, ‘complex’, and ‘productive’ mining corporation).

As a result, labour-intensive African mining has been peripheral to mining development strategies on the continent. Criminalized by policy frameworks unless they submit to a set of procedurally complex, bureaucratically burdensome, and financially costly demands to formalize their activities, and cast as illegally encroaching on a concession once it has been assigned to a corporation, African miners have time and time again been forcibly displaced from their sites to make way for the construction of corporate-led industrial mines. Often financed by the incoming corporations themselves, and echoing violent colonial practices of the past, displacement has frequently taken place as government military-led ‘sweeps’.

These dynamics recall Marx’s description of primitive accumulation, or Harvey’s (2004: 74) reconceptualization of this as a continuous process of accumulation by dispossession, involving ‘the commodification and privatization of land and the forceful expulsion of peasant populations, conversion of various forms of property rights into exclusive private property rights, and suppression of rights to the commons’. Forcibly displaced and removed from the best deposits, African miners are restricted to working in less productive areas.

Recolonialization

With the African state framed as corrupt and mismanaged, and African miners as inefficient and unproductive criminals, the path was cleared for the en masse arrival of transnational mining corporations, across a far wider group of countries than was the case during the colonial period (when most mineral deposits remained unknown to foreign capital, particularly in West Africa). From Glencore and Pengxin in the DRC and Emirates Global Aluminium in Guineau, to Cluff Minerals and Etruscan Resources in Burkina Faso and Shandong Iron in Sierra Leone, to AngloGold Ashanti and Acacia Mining in Tanzania and Rio Tinto in Madagascar – the list goes on – foreign corporations dominate today’s landscape.

Recent Push-backs

Recent mining code and policy revisions led by African governments such as Tanzania, the DRC, Sierra Leone, and Malawi have begun to push back against this dominance, taking inspiration from the Africa Mining Vision, a framework developed by the African Union in 2009 to deepen the linkages between foreign-owned mining and national economies and strengthen government capacity to negotiate with and leverage developmental benefits from foreign mining corporations.

The mining industry and some scholarship has been quick to herald these revisions as marking a new era of resource nationalism. As a Bloomberg article proclaimed in 2019, ‘The fight between miners and African governments is just getting started’. Changes to date are yet, however, to provide a fundamental challenge to the dominant model of capital-intensive, foreign-owned mining industrialization on the continent. They remain a far cry from the earlier period of 1960s and 1970s resource sovereignty to which the discourse on resource nationalism alludes.

Radley (2023) The three-stage process through which African resource sovereignty was ceded to foreign mining corporations

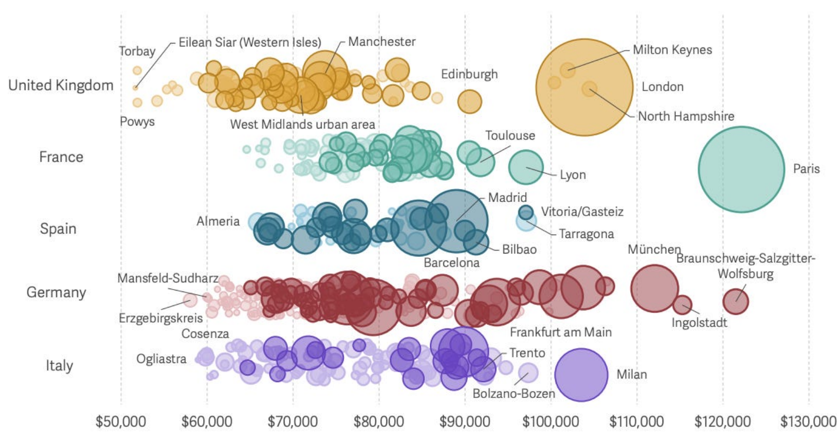
6

Europe

Tooze

Figure 33: The UK's large cities are further behind the capital than in France

Gross value added (GVA) per worker by country and area: 2018



Notes: PPP adjusted. Spatial units are a combination of OECD metro regions and NUTS3 for non-metro regions. Metro areas are shown in darker bubbles in the figure. Bubbles are proportional to the number of workers in each region. Gross value added (GVA) is the value of a unit's outputs less the value of inputs used in the production process to produce the outputs.
Source: Analysis of OECD, Regional Economy Database.

Tooze (2023) Chartbook 252 Broken Britain

6.1 Innovation

Smith

If Europe does decide to protect its car industry, what might it do? Tariffs on Chinese-made cars are one option, of course, but they come with several obvious limitation. First of all, their impact will be limited by exchange rate adjustment; the yuan will simply depreciate against the euro to at least partially offset the tariffs. Also, tariffs don't do much to help European carmakers become more competitive in the export markets they used to dominate. The fact is that Chinese-made EVs are mostly just better than European-made ones right now, and tariffs aren't going to change that.

In order to address these issues, Europe would need more than tariffs. It would need an equivalent of the U.S.' Inflation Reduction Act — a major program of production subsidies, not just for EVs themselves but for the batteries and the mineral processing facilities necessary to make them. Europe would also need to simplify and slash some of the overgrowth of regulation that it has piled up around the auto industry over the last few years. And it would need to subsidize R&D in the EV sector more heavily.

And another important step would be something Europe has shied away from doing in recent times: encouraging startups. It's no coincidence that Tesla, a startup automaker, was able to run rings around the stodgy old giants of GM and Ford, with their deep reliance on legacy markets and legacy technology. Europe has no Tesla; if it really wants to compete with China, it needs at least one.

In other words, if Europe is going to save its car industry, it's going to have to finally leave the comfortable stasis it has slipped into over the last few decades. That stasis, driven by regulation and complacency, was never really sustainable; as soon as old tentpole industries like auto manufacturing were hit by external shocks, the whole system was inevitably going to creak and crumble.

Europe lucked out for a long time — the internal combustion engine maintained its dominance, and Chinese demand hungrily hoovered up German-made cars. But the shock came, in the form of the shift to EVs, and now the long, easy daydream is over. Europe's leaders can choose to meet the challenge, or they can hold more meetings and issue more empty rhetoric. Incidentally, that's the same choice that's facing them on a great many fronts right now.

Smith (2023) Car Wars

7

Latin America and the Caribbean

Purcell

While the exploitation of domestic working class forms the quantitative bulk of surplus value appropriated by capital, it is inflows of extraordinary profits paid by capital and workers consuming raw materials in the form of ground rent which is the foundation for the specific qualitative modality taken by the valorisation of capital in South America. An important upshot of this insight is that labour does not need to operate at the world average levels of productivity. The transfer of ground rent from the rent-bearing sector, via state policies, permits the 'normal' valorisation of capital at the world average market rate of profit in the otherwise backward spaces of the national economy. As a result, capital does not follow its world historical necessity to develop the forces of production while still valorising at the average rate of profit through the appropriation of ground rent. This is the tragedy of capitalism and development in South America which *renders capital impotent*, restricting valorisation to the small scale of internal markets and negating the historical potential of the South American working class.

The limited development potentialities of these national territories is rooted in the global inflow of extraordinarily large masses of social wealth in the form of differential ground rent. This explains why capital has not had to reckon with landed property (as happened in South Korea, for example) as a barrier for its accumulation. Instead, capital has been able to valorise at the average world market rate of profit by appropriating a portion of ground rent and leaving another portion that reproduces the landlords as a class. So, far from simply being a source of cheap raw materials extracted by global capital – where the numerous accounts of neo-extractivism start and finish – these national spaces are determined as sources of ground rent recovery by global industrial capital. Especially when fragments of global industrial capital locate a portion of manufacturing in the domestic market for the valorisation of technologically obsolete capital in world market terms. The extent to which various centre-periphery frameworks have incorporated ground rent in their analysis, as many of the authors show, has been limited in methodological and theoretical terms. Subsumed under nebulous concepts like 'unequal exchange' or more recently 'extractivism', ground rent is rendered indistinguishable from other forms of 'economic rent' extraction through finance, digital platforms, institutional organisation, and the like.

Purcell (2023) Impotent Capital

7.1 Industrialization and Fascism

Arboleda

Theoretical breakthroughs on the existing nexus between global capitalism and political authoritarianism. The book Modernization and Authoritarianism by Guillermo O'Donnell, published in 1973, is a well-known classic on the subject. In this landmark text, O'Donnell draws a link between the process of endogenous industrialization in Latin America and the construction of the technical cadres and bureaucracies that would later design and manage the repressive apparatus of authoritarian regimes – a mode of political rule that he termed bureaucratic authoritarianism. In a 1968 book titled Socialismo o fascismo [Socialism or Fascism], Brazilian sociologist Theotônio Dos Santos reconstructed the Marxian category of Bonapartism to analyze the 1964 coup against the João Goulart's government in Brazil and the specific forms of authoritarianism that it gave rise to. At that time, Dos Santos interpreted fascism more in terms of a future threat to the region than as an already materialized reality.

The oligarchy and the capitalist classes remained subordinate to foreign capital and to US imperialism. For this reason, the nationalist character of these authoritarian regimes did not have the same logical and discursive consistency of its European counterparts.

Arboleda (2023) Palestine and the Meaning of Global Antifascism

8

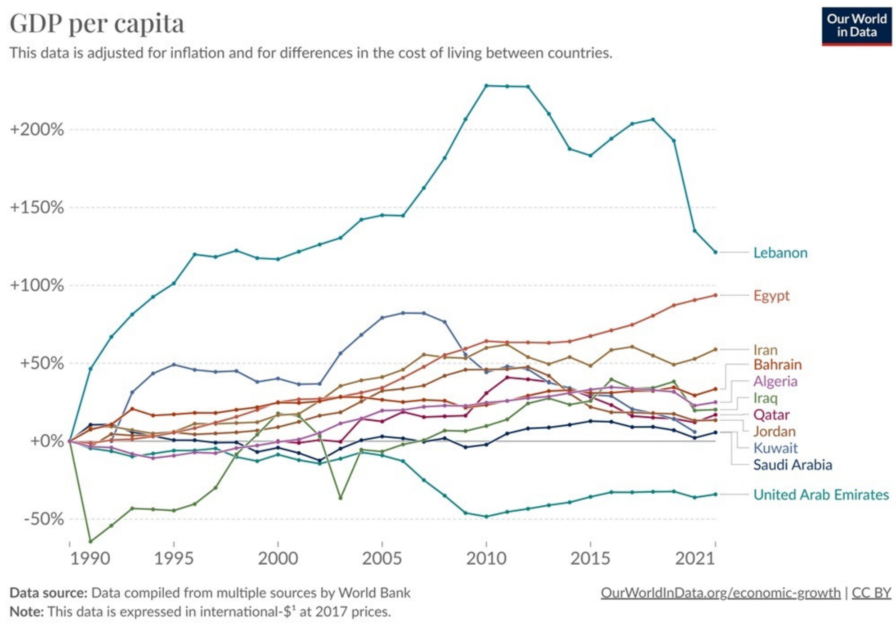
The Middle East

Smith

There are legitimate fears that the Israel war will lead to the ethnic cleansing of Palestinians — or that in the longer term, Palestinians will ethnically cleanse the Israelis. Such fears are well-founded; mass expulsion and brutalization along ethnic and religious lines has been commonplace in the Middle East for many decades now. Israel itself is largely populated not with the descendants of European refugees from the Holocaust, but by the descendants of Middle Eastern Jews who fled campaigns of violence in Muslim countries in the mid-20th century. Syria's government was so brutal in part because the ruling Alawite minority fears a genocide if it loses power. The Yazidis were massacred and enslaved by ISIS. Much of the Iraq War was actually just Iraqi Sunni and Shia ethnically cleansing each other from various regions and neighborhoods of the country. Saddam Hussein famously brutalized the Kurds. And so on, and so on.

Why the Middle East has become a land of war is a complex story. The meddling of outside powers like the U.S. and Russia certainly exacerbated things. The curse of oil, which gave some Middle Eastern countries money to fight with without being forced to develop strong institutions, has a lot to do with it. And of course religion is a factor.

Middle East has been trapped in a bad equilibrium for many years now, where rulers live in the lap of luxury while the impoverished masses focus on sectarian conflict and vengeance. Except for Israel and Turkey, the economies of the region are generally stagnant.



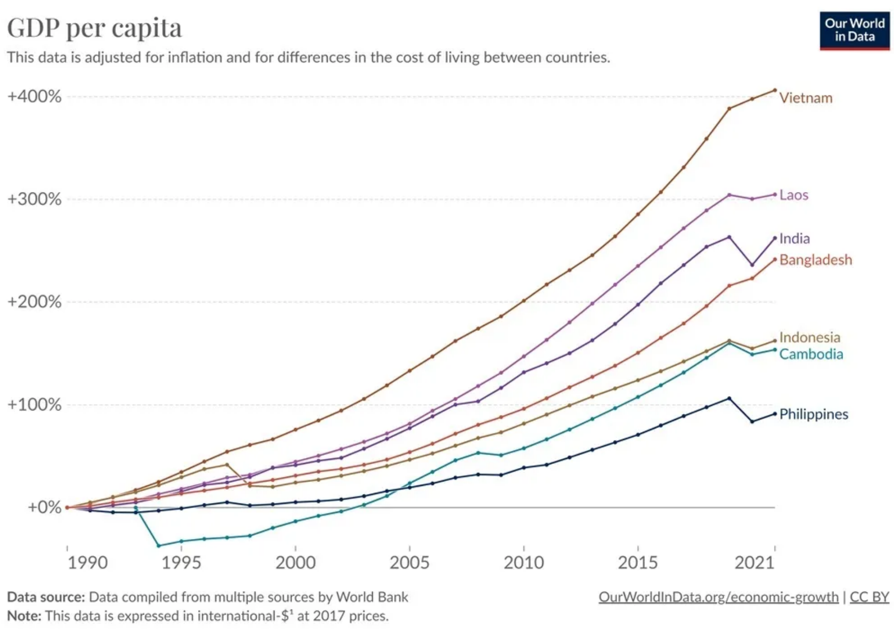
Smith (2023) Asia is much more important to U.S. interests than the Middle East

9

South East Asia

Smith

South and Southeast Asia are now the world's great growth center. These countries are heaving two billion people out of poverty in an episode of industrialization exceeded only by China's recent accomplishments.



Smith (2023) Asia is much more important to U.S. interests than the Middle East

10

EU European Union

Ehnts

Ein Gruppe von ÖkonomInnen hat ein europäisches Manifesto publiziert. Ein Blick darauf zeigt, dass die EU und insbesondere die EU aktuell makroökonomisch dysfunktional sind und es neuer Regeln bedarf. Wie sind diese Regeländerungen einzuschätzen?

Ehnts (2023) Ein Blick auf das europäische Manifesto (Blanchard et al.)

VoxEU

Seven key elements that could form the basis for a new political contract capable of re-establishing trust, strengthening solidarity, boosting the Union's ability to act in the interests of all its citizens, and enhancing the global role of the EU.

The long-lasting war in Ukraine and the deepening of the conflict between the US and China are the defining moments of our time. A new world order is in the making and, if the EU remains a half-baked construction, it will not play a role in shaping it. The US and China are economic and political areas, the EU is not. A third global actor would make the international system more stable. The EU should strive to give multilateralism a new chance and avoid a pure logic of power in international relations which would make everyone worse off.

EU's current socioeconomic, institutional, and, ultimately, political model is not sustainable.

Dependence on external demand, the gradual drift away from the technological frontier, the risk of losing the leadership in the fight against climate change, a stagnant demography, and the progressive undermining of social cohesion are calling into question the main tenets of the European economic and social model.

Institutionally, a decision-making process that only produces notable advances during major crises – and is subject to decision-reversal when the pressure abates

– is inconsistent with the need to project a coherent stance domestically and globally.

Two persistent conflicts are stretching the political fabric of the EU to the limit: (1) the traditional 'North-South' conflict of interest along the solidarity/responsibility dimension; and, compounding this, (2) an 'East-West' conflict of values along the integration/national sovereignty dimension.

A useful starting point is identifying the avenues *not* to be pursued. The denial of the climate challenge, the short-sightedness of a rear-guard mercantilism, the temptations of technological protectionism and withdrawal from international value chains, the sirens of demographic autarchy, and the outsourcing of defence and security would be tantamount to the demise of the EU and its irrelevance in global governance.

Nationalism is contrary to the national interest, that member states' national sovereignty is ineffective unless it is redefined in terms of European sovereignty, and that the supply of European public goods is crucial to satisfy national demands for economic, social, and political security.

Reaching the technological frontier will require mobilising private and public resources that no member state can do alone. To effectively pursue the green, digital, and artificial intelligence transitions, we need to complete the Banking Union and to operationalise the Capital Markets Union to allocate public and private resources to projects that are 'long in ideas and short in collaterals'.

A new relationship between the EU and Africa will have to be established.

A new articulation between national policies (horizontal coordination) and between the national and the EU level (vertical coordination). We could label this evolution a '*gradual and pragmatic federalism*'.

With the centralisation of the supply of vaccines, the setting up of the NextGenerationEU recovery plan, the coordination of national energy policies, the 'Fit for 55' climate measures, and the joint programmes to support Ukraine, a new EU multilevel governance system has come to the fore. What has emerged is a complex web of relationships between the member states and the Union -[with] strengthening of uncertainty and instability due to reliance on one-off resources - [and] attempt to build ad hoc processes to replace the lack of legal and institutional competences.

EU will need to equip itself with a combination of a stable regulatory framework and adequate budgetary powers. Long- lasting open work streams such as Banking Union and Capital Markets Union should be brought to a positive conclusion, overcoming the sterile debate on risk sharing versus risk reduction. Over two decades after the launch of the euro, the goal of achieving Fiscal Union has to be put on the table.

Flexible ways to allow isolated dissent not to become a veto, whilst at the same time protecting the dissenting member from the effects of the decision.

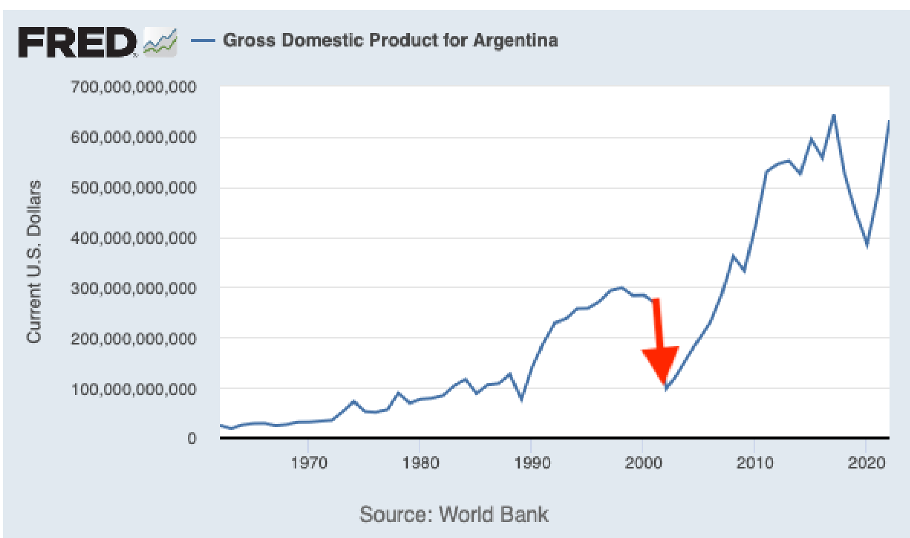
VoxEU (2023) The European Union at the time of the New Cold War: A Manifesto

11

Argentina

Ehnts

Last time Argentina experimented with a $-backed currency, it crashed the economy. Unemployment and poverty skyrocketed. A Job Guarantee Program was created to alleviate these social ills and it did.



Argentina traditionally has a lot of inflation, so it's a good place to look for evidence; this is also probably why it produces so many great macroeconomists.

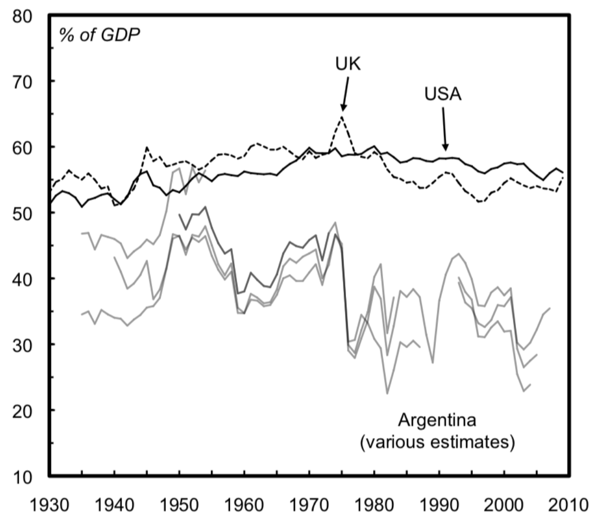


Figure 5 Employees' share of GDP in Argentina, Britain and the United States

Roberts

Dollarisation would also mean immediate recession and slump. It would have to start with a massive devaluation of the domestic peso monetary base. In a very optimistic scenario, if Argentina received a loan of say \$12 billion from the IMF and used \$5 billion as a reserve for the banking system and \$7 billion to dollarise the monetary base, the domestic peso monetary base would still have to be reduced by nearly 400%. Argentine salaries (then in US dollars) would become among the lowest globally and poverty would rise to unprecedented levels. And Argentina is already in a recession with real GDP expected to drop by around 2% this year. So either way: peso or dollar, Argentine households would pay the price in living standards.

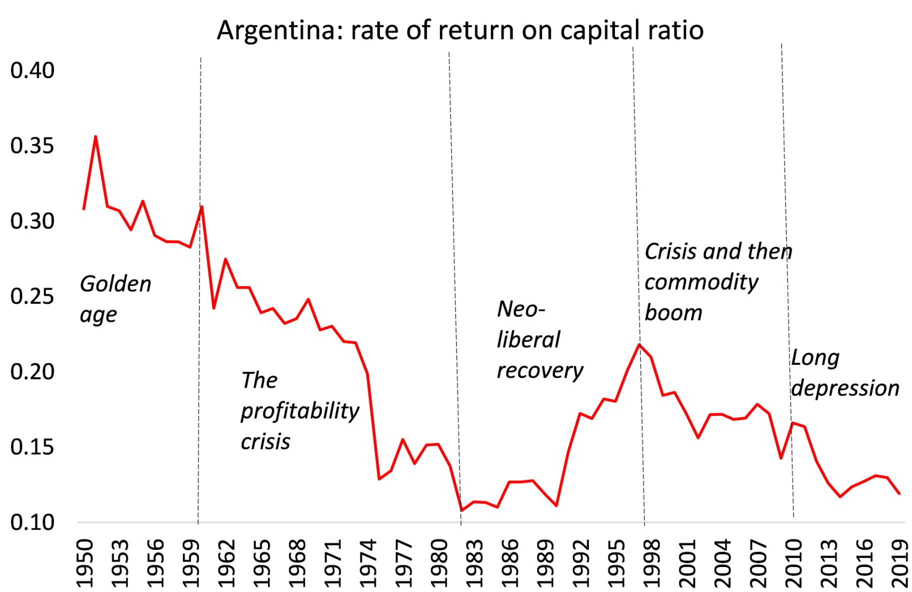
Dollarisation means that economic policy would be in the hands of US Federal Reserve and dollar foreign investors. National monetary policies would be basically abandoned. Countries issuing their own currency can allow it to depreciate to improve exports and domestic production at least in the short term. But a dollarised economy must go down with any global recession. A strong US dollar also means high export prices for a dollarised Argentina, making it more uncompetitive in world markets – unless labour costs are reduced by wage cuts or by faster productivity growth that keeps unit labour costs low.

Why has Argentina got into an inflationary spiral for decades interspersed with debt crises and slumps? Part of the answer is that Argentina never industrialised like East Asia, or even Brazil. The Peronist governments failed to get Argentine capitalists to invest in productive sectors, despite Argentina's plentiful natural resources and an educated workforce. The number of formal jobs in the private sector has barely grown in more than a decade, and more than half of employed Argentines work either off the books or for the state. Instead, there was reliance on agriculture which provided cheap food for the 'Global North'. Agriculture is subject to the vagaries of the weather and dominated by a few agro multinationals.

Argentina's per capita GDP is today almost the same as it was in 1974, with the additional problem of inequality between the rich and the poor being considerably greater.

The imbalance in Argentina's economy is revealed by its high dependence on agricultural exports to get dollars. Over half of exports are from agricultural goods, way more than other LA economies, while the share of manufacturing exports is tiny. Directly or indirectly, Argentine agriculture employs only two million people, or 14% of the working population and contributes only 10% of GDP. Yet for every $10 Argentina banks through exports, nearly $6 comes from agriculture. Without agricultural exports, Argentina would garner scarcely any foreign currency.

Argentina's capitalists have not invested productively because the profitability of doing so has been so poor. Here is the track record of the profitability of Argentine capital from the World Profitability Database.



After the post-war golden age, Argentine capital suffered the same downward track in profitability from the 1960s to the early 1980s that all the major economies did. Then there was the neo-liberal recovery period, which ended with a major currency and debt crisis in 1999. That was briefly resolved by devaluation, debt default and slump. The commodity boom of the 2000s helped the economy along for a while, but when that ended in 2010, the fall in underlying profitability reasserted itself.

Mainstream economists see the solution in fiscal austerity, high interest rates, privatisation and 'deregulated markets – traditional neo-liberal policies. They argue that without this, dollarisation would not work. So basically, they advocate a slump and a further reduction in real wages to boost profitability.

Peronism has failed to deliver on economic expansion, a stable currency and low inflation. But it has also failed to deliver on ending poverty and reducing inequality. Argentina's official poverty rate rose to 40.1% in the first half of 2023.

Desperation has driven many Argentines to consider a 'libertarian, anarcho-capitalist' as president. If this were to happen, it will be going down another blind alley. Argentina's capitalist economy will continue to fail.

Roberts (2023) Argentina election: from peso to dollar?

Roberts

The most infamous and successful example of this strategy was by Paul Singer's Elliott Management which managed to extract $2.4bn out of Argentina in 2016 from the right-wing Macri government. In paying Elliott off, Macri was then able to get the biggest ever IMF fund deal in history, designed to ensure that government's position in office for a long time – although that payout was squandered and the Macri government fell. The debt crisis goes on in Argentina.

Roberts (2023) Sri Lanka's debt trap and the vultures

11.1 Critique of Milei

The Dangers of Javier Milei's Economic Program in Argentina

As economists from around the world who are supportive of broad-based economic development in Argentina, we are especially concerned by the economic program of one of the candidates, which has become a major issue of discussion in the national election. Given Argentina's frequent financial crises and recurring bouts of very high inflation, a deep-seated desire for economic stability is completely understandable. However, while apparently simple solutions may be appealing, they are likely to cause more devastation in the real world in the short run, while severely reducing policy space in the long run.

Javier Milei's economic proposals are presented as a radical departure from traditional economic thinking. However, we believe that these proposals, rooted in laissez-faire economics and involving contentious ideas like dollarization and significant reductions in government spending, are fraught with risks that make them potentially very harmful for the Argentine economy and the Argentine people.

The economic vision underlying these proposals supposedly advocates minimal government intervention in the market, but actually relies heavily on state policies to protect those who are already economically powerful. Reductions in tax rates and public spending push many essential goods and services away from public provision to private commercial providers, which enriches them but reduces the access of ordinary citizens, especially the poor. The proposal for dollarization aims to replace the Argentine peso with the US dollar as domestic currency. Both ideas may seem appealing in their simplicity and promises of a quick fix to control inflation and instability. But they do not recognize major economic realities. The laissez-faire model assumes that markets work perfectly if the government does not intervene. But unregulated markets are not benign—they reinforce unequal power relations that worsen inequality and hinder the application of key developmental policies—including industrial, social, and environmental policies. In Argentina as in most other countries with complex economic structures and challenges of income and asset inequality, inflation, and external debt, the need is for nuanced and multifaceted policies that recognize the needs of different social groups. Markets are also prone to failures, driven by externalities (when all benefits or costs cannot be ascribed to individual agents) and information asymmetry (when some players on a market know more than others). The 2008 global financial crisis showed that inadequate market regulation can have disastrous consequences. The experience of the Covid-19 pandemic provided more evidence of the need for public intervention.

Argentines are all too familiar with the pain of laissez-faire economics that have been imposed by international lenders like the IMF, which have in the past increased poverty and economic insecurity and inhibited the country's development. The program proposed by Milei would create more socio-economic inequality by reducing the role of the state in redistribution and social welfare. A major reduction in government spending would increase already high levels of poverty and inequality, and could result in significantly increased social tensions and conflict. Milei's idea of drastically cutting taxes while reducing public spending would significantly reduce the ability of the state to meet the social and economic rights of citizens. Meanwhile, further reductions in government tax revenues would aggravate the fiscal crisis.

Similarly, dollarization seems to offer a solution to Argentina's chronic inflation problem, and could be tempting when the value of savings and the ability to consume are both decimated by runaway inflation. The current shortage of foreign exchange reserves would make the initial conversion rate of peso to dollar so high that it would generate further inflation. This means a decline in real wages, such that the subsequent reduction of inflation would be achieved by a major fall in the labor share of national income, putting the burden of adjustment on working people. Dollarization also implies the long-run impossibility of building monetary sovereignty. Here too, Argentina's past experience with proto-dollarization (the currency board arrangement of the 1990s) created a brief illusion of stability, but adversely affected the real economy. It generated unemployment and real income losses for workers—and eventually led to an even bigger crisis in 2001 because of the fiscal and monetary constraints of the peso-dollar peg.

In short, Javier Milei's dollarization and fiscal austerity proposals overlook the complexities of modern economies, ignore lessons from historical crises, and open the door for accentuating already severe inequalities. As Argentina navigates its complex economic landscape, it is crucial to approach policy making with balanced, empirically grounded strategies that are not only appealing in the short run but also sustainable, equitable, and enabling in the long run.

Open letter (2023) The Dangers of Javier Milei's Economic Program in Argentina

11.2 Dollarization

Ocampo

Some have argued that a debt default, not dollarization, is the solution to Argentina's problems, and others, paraphrasing Ecuador's former president Rafael Correa, have claimed that adopting the dollar would be the equivalent of a monetary suicide. What is missing from most analyses is common sense and an understanding of Argentina's history and its current predicament.

The first fact that needs to be understood is that the Argentine people have already chosen the dollar as their preferred currency. According to several estimates, Argentines have more than US$200 billion in dollar bills stashed away in safe deposit boxes at banks or at home "under the mattress". In comparison, peso denominated M3 held by the private sector amounted to less than US$50 billion. This discrepancy reflects spontaneous dollarization. However, due to Soviet-like FX regulations buying and selling dollars is considered a crime. For obvious reasons, nobody in Argentina wants to hold pesos (in the last four years the peso has lost 95% of its value). This not only makes it very difficult for policymakers to stabilize the economy but also imposes significant deadweight costs on society (the round-trip spread in the free FX market averages 3%).

Some economists claim that by adopting the dollar as legal tender, Argentina will lose a) substantial revenues from seignorage, b) the ability of the central bank to act as lender of last resort, and c) the ability to cushion external shocks with FX policy. The reality is that a) seignorage was lost long ago due to spontaneous dollarization, b) the central bank is insolvent and the main debtor of the banking system, therefore is unable to act as lender of last resort, and c) in Argentina FX policy has never been used to absorb shocks but rather to repress inflation. As to monetary policy, it has only served to foster instability. In 43 out of 46 years in the period 1945-1991 and in 20 out of 22 years in the period 2002-2023 Argentina had an annual inflation rate higher than 10%. No other country matches this track record.

Economists have long known that it is impossible for an economy to grow with high, persistent and volatile inflation. Keynes famously attributed to Lenin a dictum that he wholeheartedly agreed with: the best way to destroy the foundations of a capitalist society is to debauch its currency. With few exceptions, this is what Argentine policymakers under civilian and military governments have done since WWII.

Two hundred years of Argentine monetary history prove that the only periods of lasting stability occurred when the national currency was pegged to an international standard. And the experience of 2001 shows that a currency board would be very easy to reverse, therefore not credible.

The whole reason why tying to a major currency would be an advantage to Argentina is that precisely that it would prevent them from following bad domestic monetary policies.

By eliminating inflation rapidly, it would provide political support for a program of structural reforms.

Ocampo (2023) The Case for Dollarization in Argentina

12

Bahrain

Tooze

Bahrain - the weakest link in the Gulf?

In 2011 Saudi Arabia and the UAE sent troops to Bahrain after unrest in the country. This marked the beginning of a more assertive foreign policy in the MENA region that later culminated in an ill-fated military intervention in Yemen and a boycott of Qatar. Bahrain is a crucial ally and client state of Saudi Arabia, which fears growing influence of Iran among the Shiite majority population of the country. Bahrain's economic stability is important for its political stability. It is closely connected to oil prices, Saudi transfers, diversification efforts and economic reform.

Tooze (2023) Chinese internet, tricks of debt & a surprising Freud

13

Burkina-Faso

Alenda

Dependence

Dependence is linked to the country's international insertion, marked by both political and economic relations of domination with the industrialized countries of the "center", and is reflected in unequal economic specialisations and unfavourable terms of trade. However, 'dependent' countries have followed varied trajectories, which need to be analysed in their context, as dependency is not black and white.

In West Africa dependency is mainly based on rentier-type economic regimes. A rent is defined as obtaining income without contributing to the production of additional goods and services. In a paper dedicated to the situation in Burkina Faso, we have sought to understand a very specific historical case, representing an important rentier economy that was also well integrated into the global economy. We have sought to combine dependency and regulation theories to understand the stability of such a rentier economy. Let's explore the economic history of Burkina Faso.

Following decolonization, a post-colonial model was put in place, based on an export economy mainly steered by the cotton industry. The newly-independent state replaced the French administration, enabling the elite to exploit raw material rents.

Inherited from colonization, the system created a division between a class of urban wage earners – with legal rights – and the great mass of rural workers (80% of the population), for whom customary rules applied. The Mossi nobility, which controls cotton production in the center and east of the country, has inherited an important role and contributed to the formation of the Burkinabe state. However, in the West of the country, the majority of cotton growers come from various acephalous or segmented societies, escaping the influence of traditional chiefs. The Catholic Church is also an important actor. It retains its coveted position as a training institution for the elite, a position it already held during colonization. The state organized the economy in such a way as to guarantee the rent, thereby curbing all other attempts at accumulating capital. Through this strategy, competition was organized into a monopolistic regime.

The organization of production and foreign trade forced the country to import equipment, food and petroleum products. The economy remained marked by a structural trade deficit characteristic of dependency. In the 1960s, the model went into crisis due to climatic and economic factors, becoming even more pronounced in the 1970s. Monetary and economic policies varied, correlating with the frequent changes in government leadership that marked this early period, indicating an unbalanced rentier regime, with a compromise that is not stabilized yet between the different actors (owners as receivers) of the rent.

Sankara

The revolution of the Sankara regime marked an important transition, with a reconfiguration of rent redistribution and an upheaval of institutionalized compromises, illustrating the gradual instability of the regulatory system since independence. In 1983, Upper Volta became Burkina Faso. Sankara re-established budget contraction and introduced a policy of self-adjustment, coupled with protectionism important public investment, especially dedicated to rural development. The Sankara period marked an evolution in several areas. Trade unions and traditional chiefs, deemed responsible for the backwardness of rural areas, were sidelined or even repressed, in favour of the peasantry, whom the new regime sought to turn into a revolutionary class. However, tensions built up in the highest spheres of power, undermining the already uneasy legitimacy of formal institutions. The unions gradually began to unite again. International pressure supported the discontent of the former political coalitions left behind by the Sankarist regime.

Compaoré

In 1987, following Sankara's assassination, power passed to Compaoré, who prepared to overhaul the state and the economy. The new economic policy formulated in 1991 emphasized liberalization. With this new policy, Burkina Faso embarked on an active policy of international gains. This led to the development of export resources, due to the significant growth of Foreign Direct Investments through a deliberate strategy on the part of the government, which is also focusing on new forms of income – those generated by democratic openness and compliance with international standards of good governance. The State is developing marketing techniques to maximize its rents. Decentralization was also introduced in the 1990s, in line with international recommendations. For Burkina Faso's government, it provided additional space for the accumulation of resources, through the flow of foreign aid to local projects. Thus, the new growth regime does not represent a profound structural break, but rather an exacerbation of rentier tendencies, with a diversification of resource sources.

It is actually indicating an accentuation of dependency, in return for international gains and new sources of income for the ones involved in rent gains. The clientelist mode of resolving redistributive conflicts stabilized the regime when Compaoré remained in power from 1989 to 2014, implying a continual increase in the number of rent recipients to make it work. Compaoré thus re-established coalitions in power before Sankara, in a new configuration. For this, the cotton sector was not fully liberalized, contrary to the recommendations of the World Bank. On the external front though, there is a close link between the government and its technical and financial partners. The Compaoré regime's status as a good pupil in the implementation of the international financial institutions' recommendations and conditionalities has enabled it to maximize its rents.

Despite the country's dependence on international trade (since decolonization, it has been confined to the production and export of low-value-added primary resources) and monetary structure (since the CFA franc is still running), the particular form of the Burkinabe state, combining the constraints of good governance and clientelist practices, helps to perpetuate this form of dependence, which benefits a small part of the population, to the detriment of all its citizens. The regime changes over time but is maintained. Although it is integrated into international trade and suffers its effects, Burkina Faso cannot be qualified as a passive periphery. Through its political elites, this country has pursued active strategies to obtain international resources, which have repercussions on the forms of production and employment.

Alenda (2023) Combining dependency theory and the regulation school: Understanding economic rents in Burkina Faso

14

China

China basically destroyed every idea western intellectuals had about economic growth and development. Practically nobody admits how embarrassing this is for economists and political scientists.

administrations. Local governments embrace capitalism, advance policy innovations, and compete to produce economic results. Under Mao, the bureaucracy was ossified and doggedly anticapitalist. But, today, as one Chinese official declared with a dash of irony, "Our nation cares about businesses. In fact, I feel that no capitalist state can match our devotion to the capitalist sector."[34]

For mainstream political economists, China's great transformation—both economic and bureaucratic—is intriguing but also troubling.[35] In *Why Nations Fail*, Acemoglu and Robinson struggle to make sense of China's rise. According to them, growth is preconditioned on the establishment of nonextractive and inclusive institutions, essentially, democratic institutions. But even today China is not a democracy. National elections are barred. Members of the judicial and legislative bodies are handpicked by the ruling party. Extractive practices are still rife in parts of China. During the early phase of reforms, there

was no formal protection of priva
erty rights.

In defense, Acemoglu and Robin
mise that sooner or later, China'
growth will run out of steam.[36] Y
if growth slows, which is expected
economy that reaches middle-inc
tus, the burning question remai
did China come *this* amazingly fa
reply is that "a critical juncture,"
Mao's death, followed by Deng's
to build a reform coalition, turne
around. Furthermore, they claim,
under extractive institutions was
because an extremely poor cou
China had plenty of "catching up
Finally, they sum up: "Some luck is
cause history always unfolds in a
gent way."[37]

Luck, of course, influences any o
But assigning three decades of su
economic and institutional rema
luck is hardly satisfying. Moreover,
countries have ample room for "c
up," so why didn't they catch up
China did?

(Yuen Yuen Ang)

I think Acemoglu's focus on democracy and non-extractive institutions is a bit of outlier in the growth lit, which mostly would contend that China's high levels of average human capital and physical capital investments should lead to substantial growth.

I think China actually is democratic and non-extractive at the local level, something that Acemoglu misses by focusing on national stuff. A big part of the post-Mao reforms was turning local development over to local governments and making them accountable for performance.

To be honest China since Deng Xiaoping has followed the Fredrich List- Alexander Hamilton form of political economy. They are following the same policies from Meiji Japan and Imperial Germany.

Twitter Thread

Godfree Roberts (Writes 'Here Comes China' Newsletter)

When Mao stepped onto the world stage in 1945 his country was convulsed by civil war, Russia had taken Mongolia and a piece of Xinjiang, Japan still occupied three northern provinces, Britain had taken Hong Kong, Portugal Macau, France pieces of Shanghai, Germany Tsingtao, and America dominated the opium trade.

In 1949 China was agrarian, backward, feudalistic, ignorant and violent. Of its four hundred million people, fifty-million were drug addicts, eighty percent could neither read nor write and life expectancy was thirty-five years. Peasants paid seventy percent of their produce in rent, women's feet were bound, desperate mothers sold their children in exchange for food and poor people, preferring slavery to starvation, sold themselves. U.S. Ambassador John Leighton Stuart reported that, during his second year in China, ten million people starved to death in three provinces. The Japanese had killed twenty-million and General Chiang Kai-Shek wrote that, of every thousand youths he recruited, barely a hundred survived the march to training base.

By 1974 Mao had doubled the population, doubled life expectancy, reunited, reimagined, reformed and revitalized the largest, oldest civilization on earth, modernized it after a century of failed modernizations, liberated more women than anyone in history and ended thousands of years of famines. A strategist without peer, political innovator, he was a master geopolitician and a Confucian peasant, under crushing embargoes Mao had grown GDP by 7.3 percent annually and left the country debt-free.

Harvard's professor of Chinese Studies, John King Fairbanks, summarized[1] his legacy: "The simple facts of Mao's career seem incredible: in a vast land of 400 million people, at age 28 with a dozen others to found a party and in the next fifty years to win power, organize, and remold the people and reshape the land–history records no greater achievement. Alexander, Caesar, Charlemagne, all the kings of Europe, Napoleon, Bismarck, Lenin–no predecessor can equal Mao Tse-tung's scope of accomplishment, for no other country was ever so ancient and so big as China. Indeed Mao's achievement is almost beyond our comprehension". [Fairbanks, The United States and China].

Looking back through the lens of economic habits, practices, stats and reports, we can impute the scale of Mao's achievement. He's called the founder of modern China because he designed and laid the foundation on which the economy and civil society rests. In doing so, he rejected, for example, the Soviet practice of building gigantic, centralized industrial facilities in the name of 'efficiency' and instead created the most decentralized (to this day) economy on earth. And that's less than 1% of his foundational role.

These three articles examine each of Mao's most famous campaigns:

http://www.unz.com/article/mao-reconsidered/?highlight=mao

http://www.unz.com/article/mao-reconsidered-part-two-whose-famine/

http://www.unz.com/article/the-great-proletarian-cultural-revolution/

(Comment to https://branko2f7.substack.com/p/four-historico-ideological-theories-628)

Tooze

This China that we are casually generalizing about, is a state whose population is the same as that of North America, South. America and all of Europe put together, under almost 80 years of uniquely transformative rule by a historically unique and still dynamic political party that directly inherits the DNA of the revolutionary era and self-consciously orientates itself towards avoiding the fate of the only regime to which it can, at a pinch, be meaningfully compared, namely the Soviet Union.

Tooze (2023) Whither China? Regime impasse

14.1 In transition - neither socialist nor capitalist

Roberts

If China is capitalist like any other capitalist state, how can we explain China's phenomenal economic growth and rise in prosperity? I thought capitalism could no longer develop the productive forces for the world's periphery – are they not held back by imperialism and the contradictions of capitalist production? No other peripheral capitalist economy, not even India, has grown like China – none of the other BRICS have done so. So does China's (capitalist?) success mean that we must revise Marxist theory on capitalism; or is China not capitalist after all?

Since 1949, there has been no slump in output or investment in China (on the contrary); while the major capitalist economies suffered slumps at regular intervals and the peripheral economies are in continual crisis. China did not have a contraction in the Great Recession or in the pandemic slump despite then applying a severe and long-lasting lockdown. So there is something different about China – in our view, it is the state-led economy with planned investment that curbs the operation of the law of value and the anarchic role of the market forces within the country and outside. For us, China is not socialist, but nor is it capitalist (yet) – it is neither black nor white, but in a transition – but a transitional economy that cannot proceed to socialism, surrounded as it is by imperialism and not having workers' democratic control. So any transition cannot be resolved.

Does it matter what it is? Yes, because China's economic rise is an indicator of the power of collective ownership and planning over the capitalist production system and the law of value (as expressed in the other BRICS), even with the distortions of the 'Communist' rule.

Roberts (2023) HM 2023: value, profit, technology and value again

14.2 China zigzagging

Michael Roberts

The real challenge for China's economic future is how to avoid much of its investment going into unproductive areas like finance and property. It is China's large capitalist sector that threatens China's future prosperity.

Michael Roberts (20223) China zigzagging

China's economy is seriously 'imbalanced'. There is 'too much' investment in such projects and not enough handouts to the people to spend on consumer goods like I-phones or services like tourism and restaurants. China cannot grow any more unless it switches households from saving to spending and investment to consumption. The old state-led investment and export model is dying. China will now end up like Japan, stagnating with near zero growth and a falling population.

I have pointed out the nonsense of this view on several occasions. China's growth has been based on a high rate of productive investment – at least until the unproductive capitalist property development sector came overloaded with debt.

Roberts (2023) Xi meets Biden

Michael Roberts

In the main IIPPE conference there were other presentations on China. I'll single out just two. The first was again by Prof Dic Lo, called The Political Economy of China's "New Normal". This dealt with a key question being posed in the Western media – namely is China's recent economic slowdown permanent, or even worse is it a signal of China's imminent demise? Prof Lo considers whether the slowdown is due to a lack of domestic demand, as many Keynesian experts on China like Michael Pettis claim, or is it due to falling profitability of capital in China, as Marxists might suggest? Lo tends to argue for the latter as the main cause (indeed I find the same in my own study of this – see the book, Capitalism in the 21st century, pp213-14).

But Lo points out that **industrial sector profitability remains high; it is the profitability of unproductive sectors like real estate and the stock market that has fallen back** – and we know that China is facing a real estate crisis. Also, profitability has fallen because of a rising share of wages in value added (unlike in the West) and a rise in the organic composition of capital, following Marxist theory.

For me, Lo's paper **poses the major contradiction in China's weird, hybrid economy**. If the profitability of capital falls, that reduces investment and productivity growth in the capitalist sector. For me, that **increases the need for China to expand its state sector to make the economy not so dependent on profitability**, particularly in technology, education and housing.

Michael Roberts (2023) IIPPE 2023 Part Two – China, profitability and financialisation

14.3 Housing

Tooze

43 percent of all homes in China had been built since 2010, 68 percent since 2000 and 88 percent since 1990. If you put this in relation to total population it implies that in a single generation, China has built enough homes to house a billion people.

It is the demand for concrete and steel generated by this giant construction boom that has made Chinese growth so dirty. It is important to emphasize this point. As a driver of energy consumption, the rehousing of hundreds of millions of people, dwarfs China's role as an exporter.

What China needs is not more physical construction but a burst of institutional state-building. What China needs is a welfare state adequate to its new status as a high-middle income country and that will require a new fiscal constitution.

Tooze (2023) Can Beijing halt China's housing avalanche?

Roberts

'Productive' investment growth has fallen back in China. Investment in new technology, manufacturing etc has given way to investment in unproductive assets, particularly real estate. In my view, successive Chinese governments made a big mistake in trying to meet the housing needs of its burgeoning urban population by creating a housing for sale market, with mortgages and private developers being left to deliver. Instead of local governments launching housing projects themselves to house people for rent, they sold state assets (land) to capitalist developers who proceeded to borrow heavily to build projects. Soon housing was no longer "for living but for speculation" (Xi quote). Private sector debt rocketed – just as in the real estate bubble in the West. It all came to a head in the COVID pandemic as developers and their investors went bust. The real estate crisis has remained unresolved.

What the Chinese government needs to do is take over these large developers and bring them back into public ownership, complete the projects and switch to building for rent. The government should end debt payments to foreign investors and only meet obligations to small investors; and transfer housing out of the mortgage and private finance system.

The real estate sector has got so large in China as a share of investment and output that it has seriously degraded overall growth. This is where the economy does need rebalancing.

China's private sector has mushroomed in the last two decades. It has led to an unhealthy expansion of billionaires and rising inequality of wealth and incomes. And just as in the West, as the profitability of productive capital fell, the capitalist sector switched into unproductive investment areas, like finance and real estate. Debt has rocketed. This has increased the risk of economic crises as in the West.

Contrary to the views of the Western experts and Li, it's not less investment and more consumption; not less public and more private investment that China needs to sustain its previous economic success, but the opposite.

Roberts (2023) China and the experts

14.4 Global Integration

Benjamin Selwyn

At least since President Barack Obama's pivot to Asia, have responded by formulating political, economic, and military strategies to constrain China's rise.36 This containment strategy represents an attempt to maintain China in a semi-peripheral position by forestalling its attempts at becoming part of the core of the world economy. As Minqi Li puts it, "although China has developed an exploitative relationship with South Asia, Africa, and other raw material exporters, on the whole, [it] continues to transfer a greater amount of surplus value to the core countries in the capitalist world system than it receives from the periphery."

Selwyn (2023) Limits to Supply Chain Resilience: A Monopoly Capital Critique

14.5 Ming, Qing and the Century of Humiliation

Noah Smith

The Ming and Qing dynasties that ruled China from 1368 to 1911. The conventional wisdom is that during this period, China turned its back on the outside world and on new technologies, choosing instead to look inward and cultivate a tranquil, harmonious, static society. The Ming burned their oceangoing ships in the 1500s and sealed the country off from most trade. In 1793, the Qing emperor declared to a British trade mission that "Our Celestial Empire [has] no need to import the manufactures of outside barbarians." That isolationism was brought to an abrupt end when China's technological backwardness and military weakness made it incapable of resisting foreign aggression in the 1800s, leading to the "century of humiliation".

Smith (2023) Europe is not ready to be a "third superpower"

14.6 Turchin's Model applied to China

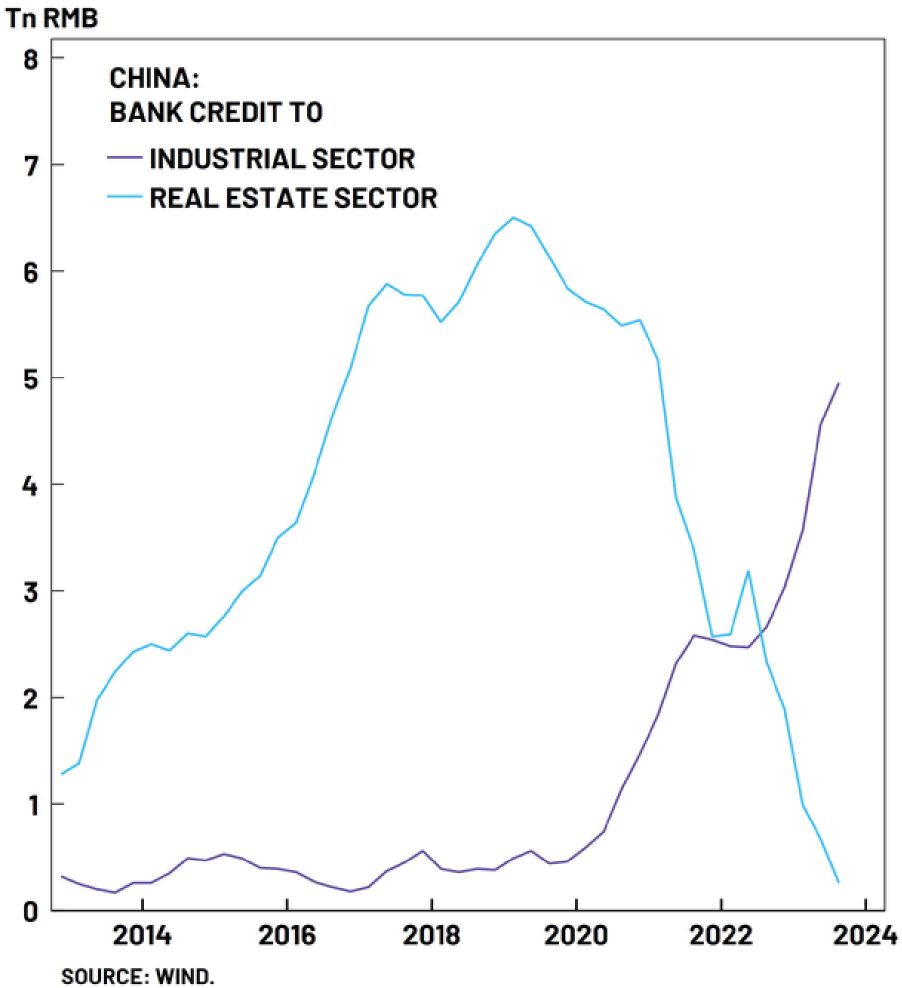
Milanovic

Turchin's model applies to China (not discussed in the book) probably as well as to America. The relative immiseration of the median class has gone on for the past forty years. Indeed, it went hand-in-hand with its phenomenal increase in material well-being, to the clip of almost 10% per year, and is thus less noticeable. At the top end of the distribution, the political/administrative class that has historically ruled China is opposed, still very cautiously, by the rising capitalist/merchant class. In a paper by Yang, Novokmet and Milanovic, we have documented and analyzed probably the most radical change —short of a revolution—in the composition of the elite ever. That has occurred in China between 1988 and 2013. Economic growth has displaced the administrative class in favor of those linked with the private sector (capitalists).

Milanovic (2023) On Turchins End Notes

14.7 Investment switch

This is probably one of the most important charts right now about the Chinese economy. To offset the collapse in the real estate sector, Beijing has managed to surge credit to the manufacturing sector, which has helped prevent a total collapse of domestic credit growth and demand



ShanghaiMacroStrategist (twiiter)

14.8 Maoism

Milanovic

If one were to define Maoism as a pragmatic application of Marxist principles to bring about a revolution to China, get rid of "landlordism" and feudal institutions, and liberate China from undue foreign influence, it was indeed a great success. But if one were to look at Maoism as an "exportable" ideology, it was a failure. Maoism in the world, as opposed to Maoism in China, could best be described as the ideology of a senescent classical left-wing movement that lost faith in working class revolutionary potential and hated bureaucratized socialism of the Soviet Union. But it produced almost nothing that is intellectually challenging or durable.

Milanovic (2021) A global ideology that was neither

Wagner

China's growth and emissions problems have a common source: unproductive investment. Although China is still a middle-income country with abundant high-return projects, investment in the last decade has been concentrated in the property sector. Accounting for up to 25% of GDP in the 2010s, housing investments went far beyond the needs of China's urbanizing middle class. Local governments' encouragement of developers, coupled with cheap finance from state-owned banks, fueled a property bubble that sucked in resources that would have been put to better use in other economic sectors. This bubble now appears to be deflating, dragging down consumer confidence and risking a classic deleveraging spiral, similar to what the West faced after the subprime-mortgage bubble burst in 2008.

The remedy is simple: share the benefits of growth more widely. Chinese consumption represents only 40% of GDP, which is among the lowest rates the world, and well below the US. China's weak social safety net compels Chinese households to save large amounts of their income, which gets funneled directly into domestic investment by a state-directed financial system. Meanwhile, artificially low bank interest rates, rising public-sector consumption, and other policy choices deliberately tamp down household consumption and push up investment.

Removing these macroeconomic distortions would benefit not only Chinese households, but also the planet. Chinese investment has been hugely costly for the climate. China uses half of the world's steel and coal, and 60% of its cement. All those apartments, roads, and bridges require enormous amounts of energy and carbon-intensive materials.

Slowing the rate of investment in physical capital would curb some of this outsize damage to the climate. Moreover, as incomes rise, Chinese consumers will shift their spending proportionally to services. Around the world, as households grow richer, they tend to spend more on health care, education, and hospitality, and less on carbon-intensive products. This iron law of development will further slow China's emissions growth, allowing it to bend the curve downward through concerted decarbonization efforts.

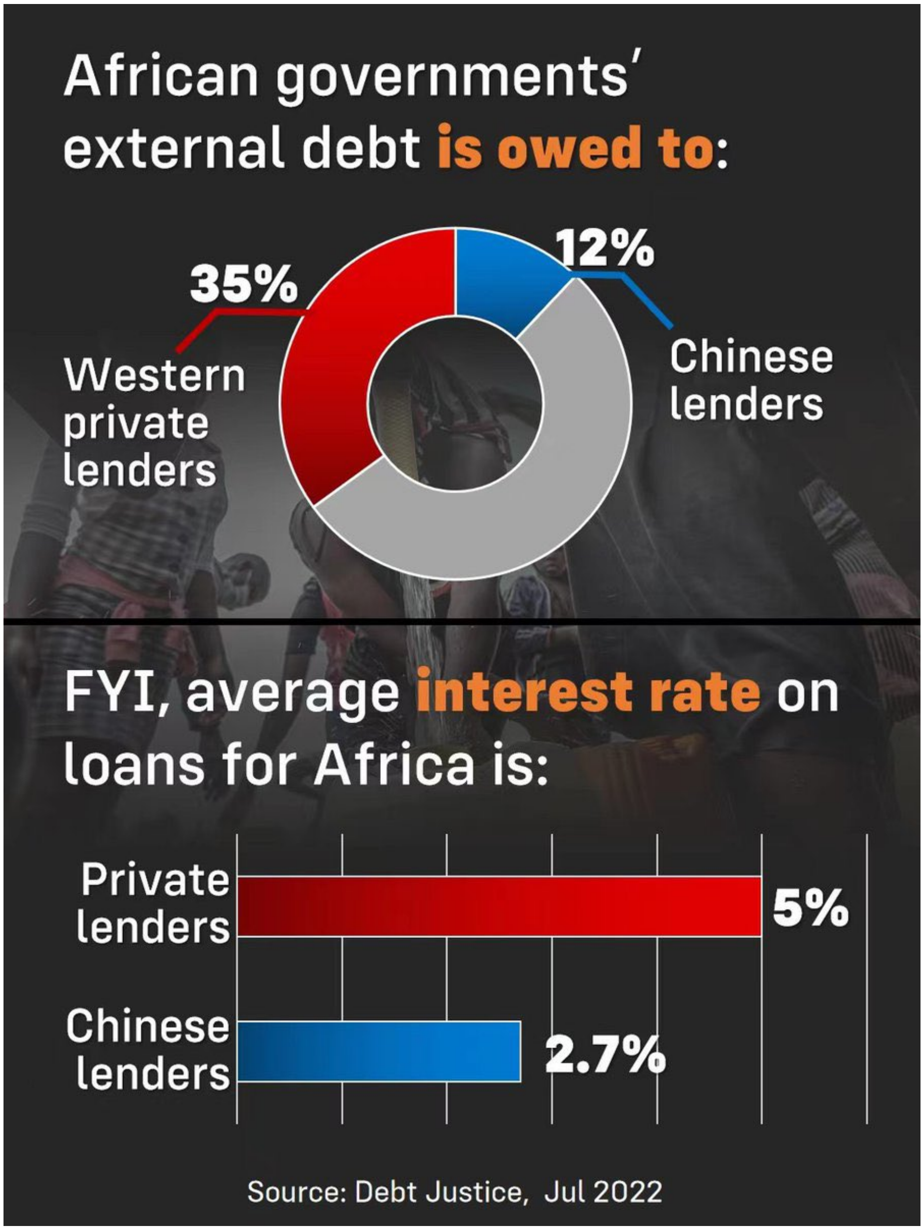
China will need to slow the growth of overall electricity demand in order to phase out coal and cut CO2 emissions. The result will be a full decoupling of economic growth from growth in energy demand and, thus, CO2 emissions. From a climate perspective, China's next economic chapter cannot come soon enough.

Wagner (2023) How China Can Save the World – and Itself

14.9 Chinese loans

Roberts

China is not a particularly large lender to poor countries compared to Western creditors and the multi-national agencies.



Roberts (2023) Sri Lanka's debt trap and the vultures

14.10 China's Rise

Farooqi

The world economy in the late-twentieth century had a tripolar advanced industrial core centered on the United States, Western Europe and Japan. This structure has since been transformed by the rise of China. The Asian production network used to be centered on Japan as late as 2000. This hub-spoke system has since recentered on China.[1] And whereas the Asian core used to be smaller than the Western cores in the late twentieth century, Asia has now taken the leading position. Indeed, Asia already accounts for more than half of global manufacturing value-added, while Europe and America together account for less than a third. More precisely, China accounts for 30 percent, Asia ex. China another 17 percent, while Europe and America account for 16 percent of global manufacturing value-added each. Let that sink in: *China is as large an industrial power as Europe and America combined.*

China's economy may still be smaller than America's at market exchange rates, but it is already larger than the European Union's. Moreover, Chinese living standards have begun to converge with those of the advanced economies. Real per capita income at purchasing power parity in China increased from $3,452 in 2000 to $18,188 in 2022—a rate of growth of 8.2 percent per annum. Over the same period, real per capita income grew at 1.2 percent per annum in the US and 1.3 percent per annum in the EU.

The Chinese economic miracle has not only transformed the network topology of the global production system and the core-periphery structure of the world economy, it has also changed the polarity of the international system.

The rise of China as the dominant industrial power in the world cannot fail to transform the strategic balance.

The United States cannot assume that it can outgun China by outspending it. So, before we initiate a long and costly cold war, we need to think very carefully about what we're getting ourselves into.

A power transition is underway in world politics. Gilpin's motor of world history—the law of uneven growth—continues to churn.

Farooqi (2023) Notes on US China Policy

14.11 Climate Finance

Tooze

China's domestic climate finance mobilization was greater than that of all other countries combined, accounting for 51% of all domestic climate finance globally. Even without greater detail, we can therefore conclude that at least as far as domestic resource mobilization is concerned, China's spending exceeds its one third share of global green house emissions, is, perhaps, three times greater than its share of historic emissions and twice its share of global GDP.

China success in driving this extraordinary pace of investment relies on a combination of centralized and decentralized mechanisms.

About half of the solar panels added this year will be installed on rooftops, largely driven by China's "whole county solar" model, where a single auction is carried out to cover a targeted share of the rooftops in a county with solar panels in one fell swoop.

Under this model, the developer negotiates with building owners and arranges contracts with the grid, financing, procurement, contracting and installations. This model – which could be described as centralised development of distributed solar – has enabled rooftop solar deployment at a vast scale.

The other half of solar installations are set to be in large utility-scale developments, particularly in the gigawatt-scale "clean energy bases" in western and northern China.

Tooze (2023) Carbon Notes 6: China's lead in the energy transition

If the pace of new low-carbon capacity installation in China is dramatic, the expansion of the upstream capacity to actually manufacture low-carbon energy technology is even more so.

What has unleashed this extraordinary surge in investment? Carbon Brief is worth quoting at length:

The announcement of the 2060 carbon neutrality target provided the political signal, but wider macroeconomic conditions have delivered low-carbon capacity growth far in excess of policymakers' targets and expectations, with this year's solar and wind installation target met by September and the market share of EVs already well ahead of the 20% target for 2025.

The clampdown on the highly leveraged real-estate sector, starting in 2020, led to a steep drop in the demand for land, commodities, labour and credit for apartments and associated infrastructure. This left a hole in the finances of local governments – which rely on land sales for a lot of their revenue – and hit economic growth rates.

Local governments were, thus, searching for alternative investment opportunities to drive economic growth. Yet, at the same time, their investment spending was under scrutiny due to debt concerns. China's high-level environmental and industrial policy goals made cleantech one of the acceptable sectors for their investment.

At the same time, the government made it easier for private-sector companies to raise money on the financial markets and from banks, as part of measures to stimulate the economy during the pandemic.

The low-carbon energy sector, in contrast with the fossil fuel and traditional heavy industries, is largely made up of private companies. Access to credit had earlier been a major bottleneck for them in a financial system that has heavily favoured state-owned firms.

As a result, much of the bank lending and investment that previously went into real estate is now flowing to manufacturing – largely cleantech manufacturing – as well as to cleantech deployment.

Local government enthusiasm for attracting investments to their regions meant that they often also offered major direct or indirect subsidies. Reportedly, it is common for local governments to build an entire factory and associated infrastructure, with the private company going on to occupy the site only covering the cost of machinery and operations.

All of this happened at a time when falling costs driven by technological learning and subsidies resulted in many low-carbon energy technologies becoming economically competitive against fossil fuels.

China's policymakers had favoured "green" investments previously, as in the 2009 stimulus package launched in response to the global financial crisis. Yet the sector had been too small to absorb the huge amount of credit mobilised as a part of China's stimulus cycles. After experiencing extremely rapid growth since 2020, this has changed.

The construction of low-carbon energy manufacturing capacity, production of low-carbon energy equipment and construction of railways have been significant drivers of commodity demand this year, as the only areas of investment showing substantial growth.

This demand explains, among other things, why China's steel output has continued to grow despite the ongoing contraction in real-estate construction.

Conversely, the precipitous drop in demand for commodities from the real estate and conventional infrastructure sectors explains why the breakneck expansion of low-carbon energy sectors – and their commodity demand – has not resulted in a spike in prices.

The coincidence of the real estate collapse since 2021 and the green energy boom means that China has become the first large economy in which the green energy transition is driving growth at the macroeconomic scale. In the medium-term this must irrevocably change its political economy, with green energy interests coming to the fore. So large is the shift in China that talk of being in mid-transition (Grubert, Hastings-Simon) does not seem far-fetched. But, as Carbon Brief notes, the major test is still to come.

Politically, the major challenge will only come when low-carbon energy begins to substantially cut into the demand for coal and coal-fired power.

This shift threatens the interests of the coal industry and local governments with a high exposure to the coal sector. These stakeholders could be expected to resist the transition, raising concerns about potential roadblocks.

CPR-report (pdf)

14.12 Inequality

(Branko Milanovic on X)

14.13 Monetary

Roberts

The government has just announced that its new Central Financial Commission will take over from the People's Bank and the existing financial regulator, the control of China's financial private sector. The 'Western experts' decry this move because they think the market can better allocate investment than the state. "The temptation to intervene in capital and credit allocation, whether arising from risk or management failure, or from political directive, is likely to be elevated," said perennial China sceptic, George Magnus. He added. "These features do not augur well for China's financial stability or economic prospects."

The point is that the Xi leadership no longer trust the Western-educated economists in the People's Bank to regulate the private sector – the bank is a fortress of neo-classical pro-market economics. The bank's economists would support Magnus' approach to free up the finance sector – something so successful in Western economies! But the CP leaders still stop short of bringing these speculative financial and real estate speculators into public ownership (no doubt some leaders have personal links). Until they do, financial speculation will continue to distort the economy much more than any arbitrary policies of the party leaders.

Roberts (2023) Xi meets Biden

14.14 Currency

Smith

China's currency, the RMB (typically called the yuan), has, with a few brief interruptions, been getting cheaper and cheaper relative to the U.S. dollar for the past decade:

Of course, some of the reason for the depreciation of the yuan is based on lower expectations of future growth. But some of this is probably due to China's policy of keeping the yuan from appreciating a bunch in the bullish times (which it does by having its central bank buy U.S. bonds). And some of it is a macroeconomic response to Trump's tariffs in late 2018; tariffs tend to push down the exchange rate of the country subject to the tax, thus offsetting some of the effects of the trade barrier.

And remember that a cheap yuan makes China's exports more competitive vs. the exports of the United States. Thus, a combination of macroeconomic weakness and exchange rate management is helping China gain and hold market share in all the industries that the U.S., Europe, and the rest of Asia would like to build up. In other words, part of what you're looking at when you see that graph above is a story about slowing Chinese growth, but part of it is about increasing Chinese competitiveness. It would be helpful to remember that.

Smith (2023) Is China really falling behind the U.S. economically?

De Mott

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China has more foreign exchange reserves than reported, a former Treasury official wrote.

An additional $3 trillion is hidden in "shadow reserves," such as state commercial and policy ban

"Not everything that China does in the market now shows up in the PBoC's balance sheet."
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Half of China's currency reserves are "hidden," a situation that may add risks to the global economy down the road, former Treasury Department official Brad Setser wrote.

While the country's State Administration of Foreign Exchange reported $3.12 trillion in foreign assets last December, Setser estimates that foreign exchange reserves actually sit at around $6 trillion.

"China is so big that how it manages its economy and currency matters enormously to the world," he wrote in The China Project. "Yet over time the way it manages its currency and its foreign exchange reserves has become much less transparent – creating new kinds of risks for the global economy."

A key indicator about China's reserves is a sudden pause in its reported activity. From 2002 to 2012, China's foreign exchange reserves steadily rose as the central bank bought US dollar assets to prevent China's yuan from appreciating too much, allowing exports to remain cheap.

But over the last 10 years, China's reserves stopped rising, which is puzzling as China's trade surplus has continued growing, and currently stands at an all-time high, he said.

Setser, who previously was deputy assistant Treasury secretary for international economic analysis and is now senior fellow for international economics at the Council on Foreign Relations, has an idea of what's going on.

Just as China has 'shadow banks' — financial institutions that act like banks and take the kind of risks that a bank might normally take but aren't regulated like banks — China has might be called 'shadow reserves.' Not everything that China does in the market now shows up un the PBoC's balance sheeet.

China's state banking system is the main way Beijing hides its reserves, Setser said. That includes state commercial lenders like the Bank of China, Industrial & Commercial Bank of China or ICBC, China Construction Bank, and the Agricultural Bank of China as well as policy banks like the China Development Bank and the Export-Import Bank of China.

China's State Administration of Foreign Exchange did not immediately respond to Insider's request for comment.

The vast amount of China's reserves carries enormous weight in financial markets and represents a risk.

For example, Setser said China's earlier accumulation of US Treasurys and agency bonds — such as Freddie Mac and Fannie Mae securities — helped give rise to the 2008 financial crisis, by pushing investors further into riskier mortgage-backed securities.

"China's lack of transparency here is a bit of a problem for the world," he said. "China structurally is so central to the global economy that anything it does, seen or unseen, will eventually have an enormous impact on the rest of the world."

De Mott (2023) China is hiding $3 trillion of foreign currency in 'shadow reserves

14.15 The Big Inundation

Welsh

On a personal level, this feels weird, in that all the things I've been warning about for decades are now happening. De-dollarization, industrial hollowness leading to military incapacity, and the Global South abandoning Europe and American en-masse.

Slowly, then quickly.

I mean, it's not weird, these things were obvious. But 30 years is a long time in a human life. To see it all happening now, just as I (and others) predicted feels really weird.

Same as climate change: for a long time we were warning, and not it's here in ways only fools can deny. Exactly as predicted. I always said it would happen sooner and worse than the IPCC claimed.

The Chinese are going to get in the neck, of course. They'll get lead-trace and then be gutted by climate change and ecological collapse like everyone else. Their time in the sun will be brief.

It's Chinese bad luck to make it to the top of the industrial heap at the moment when the entire industrial stack is about to become impossible to maintain. They played by the industrialization rules, and they're going to die by them.

Still, unless the North China breadbasket gets wiped out an early inundation, the Chinese will probably hold on longer than most. Big if, though. My money is that a big inundation will hit far sooner than most models say.

Welsh (2023) China Will Be Understood To Be The World's Premier Power In Less Than A Decade

14.16 Left Government China Ride

Welsh

Back in 2016 I wrote a piece called "Seven Rules For Running a Real Left Wing Government." It proved to be one of my most popular pieces, particularly loved by activists. Since then I've often been asked for an more and I've finally written a partial update and companion piece.

The Sixth Rule was "*Reduce Your Vulnerability to the World Trade System.*"

What working with China can do for you.

- Movement up the industrialization chain;
- Modernization
- one time infrastructure
- cheap loans
- Training and teching-up your scientists, engineers and designers.

To take advantage of this opportunity you need to understand China's domestic issues:

1. China has far more construction and development capacity than it needs. It has built most of the buildings, roads, ports, hospitals, schools, power plants and so on it requires. China could get rid of those jobs and cut the industry in half OR it could use it overseas and not throw a pile of people out of work and destroy half an industry. This means, among other things, that China is willing to put up infrastructure for very low prices in order to keep the people employed.
2. China has a vast need for resources: food, fuel, minerals and so on. If you've got it, odds are they need it and they want long term secure deals.
3. China is moving up the manufacturing value chain and moving into services. In many cases the Chinese government has forced industries to shut down low value manufacturing plants that are still profitable. They want the lower chain industry out of their country, and over time what counts as "lower" moves further up the chain.

What all this means is that China is willing to build your country what it wants for cheap in exchange for deals for your resources and, more importantly, to relocate industry to your country.

Welsh (2023) How To Use China To Make Your Left Wing Government Succeed

14.17 Nuclear

Barnard

China couldn't recreate the conditions for success despite having every ability to so. Their nuclear program peaked in 2018 with seven reactors achieving commercial operation but has been averaging three reactors a year since. This year the single reactor that's been connected to the grid may not achieve commercial operation. In my assessment, their industrial export strategy led them to build too many technologies and designs of reactors instead of rigorously enforcing a single design, hamstringing the deployment and scaling effort.

Barnard (2023) What Drives This Madness On Small Modular Nuclear Reactors?

COP28 Triple Nuclear Pledge

Wesoff

Ironically absent from the pool of signees is China, the only country with any real chance of meeting the COP goal. China aims to double its nuclear energy capacity by 2035 and is well on its way; as of this year, 22 nuclear plants are under construction in China with more than 70 planned.

Wesoff (2023) 20-plus countries pledge to triple the world's nuclear energy by 2050

15

Congo

Radley

In the DRC, external shocks unmasked the failures and limitations of Mobutu's nation state-building project. Nationalization measures undertaken in 1973 and 1974 to provide an emerging politico-commercial class of senior state bureaucrats with access to productive capital—known as *Zairianization* — were poorly planned and implemented and went badly awry. Agriculture had been neglected, receiving less than 1 per cent of state expenditure from 1968 to 1972, and the Congolese manufacturing sector was in decline.

In the DRC, staff from the World Bank worked in close collaboration with a Congolese committee on the drafting of the mining law. Blaming mining-sector decline on poor governance under the Mobutu administration, the eventual 2002 Mining Code moved to privatize state-owned mining enterprises and attract fresh foreign direct investment (FDI) by offering a generously liberal fiscal regime, including tax holidays and exemptions and low royalty rates. This included the eventual privatization of the country's two largest SOEs, the copper producer *Gécamines* and the diamond producer *Société minière de Bakwanga*.

In the DRC, FDI inflows focused almost exclusively on mining, increasing by a factor of seventeen between 2002 and 2012, from $188 million to $3.3 billion. Across the same period, FDI stocks rose from $907 million to $22.5 billion or from 10 per cent to 59 per cent of gross domestic product.

Radley (2023) The three-stage process through which African resource sovereignty was ceded to foreign mining corporations

16

Denmark

16.1 Nitrogen pollution

This reporting covers the period 22 September – 26 October, i.e. in continuation of the extensive oxygen depletion in mid-September, which was the second largest rec- orded so far. In the following two weeks, the poor oxygen conditions were maintained and in some areas worsened even further. The strong wind during October improved the oxygen conditions significantly. At the beginning of October, the most severely affected areas of oxygen depletion were Mariager Fjord, Aarhus Bay and many of the east Jutland fjords south of here, the southern Little Belt, the Southern Funen Archi- pelago and Marstal Bay. In several of these areas, the bottom water was devoid of oxygen, and toxic sulphide was released from the bottom. Dying fish and benthic an- imals were observed at the inner part of Horsens and Vejle Fjord at the end of Sep- tember and at the beginning of October. At the end of October, there was only wide- spread oxygen depletion in the inner Danish waters in the southern Little Belt be- tween Als and Ærø

DCE (2023) Iltsvind i danske farvande 22. september – 26. oktober 2023 (pdf)

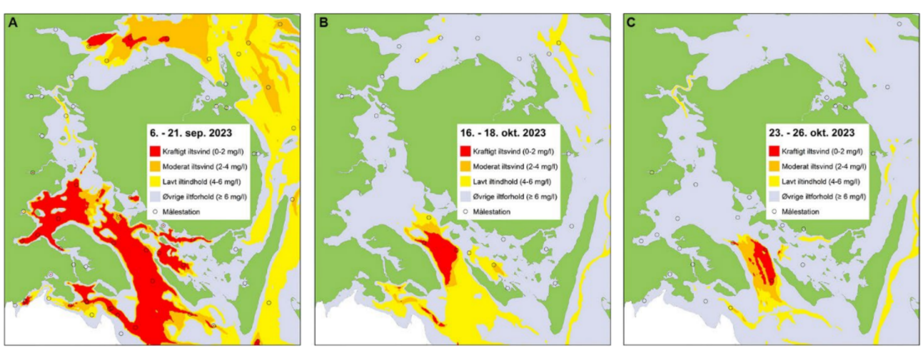


Figure: Oxygen loss in Danish Waters

Stormfloden i oktober 2023 havde ødelæggende konsekvenser på landjorden, men under vandoverfladen var der måske grund til positive miner.

Det havde nemlig potentielt haft en positiv effekt på iltningen af havbunden,

Videnskap.dk (2023) Iltsvindet er stadig højt på trods af stormflod

17

Ecuador

Roberts

Ecuador dollarised its economy in January 2000 and price stability was achieved by 2004. From then on, inflation has been on average 3.1 per cent a year, lower than the 28 per cent average between 1970 and 1999, and similar to Chile's 3.3 per cent), Colombia's (4.4 per cent) and Peru's (2.9 per cent) in the same period.

Ecuador's dollarisation has been no great success for its economy. Ecuador was lucky when it dollarised because it could rely high oil revenues during the commodity price boom up to the mid-2010s. But after that, Ecuador was forced into cutting spending and raising taxes, which has aggravated a drop into recession in the last few years. Indeed, Ecuador has grown some 40% less than the rate achieved in the pre-dollarised years and Ecuador's per capita income in 2019 was lower than in 2012.

Roberts (2023) Argentina election: from peso to dollar?

18

Egypt

Tooze

Middle East Eye reports:

Israel is proposing writing off a significant chunk of Egypt's international debts through the World Bank to entice the cash-strapped Abdel Fattah el-Sisi government to open its doors for displaced Palestinians, according to the Israeli Ynet website.

Egypt is currently mired in a debt crisis, ranking second only to Ukraine among countries most likely to default in debt payments.

The state is haemorrhaging half its revenue in interest payments and is reliant on loans from the IMF and wealthy Gulf states, limiting its ability to contradict US foreign policy.

However, it remains unclear whether Israel wields adequate influence at the World Bank to write off Egypt's international debts.

Debt forgiveness has previously been leveraged by the United States to bring Egypt in line with its foreign policy. In 1991, the US and its allies forgave half of Egypt's debt in exchange for its involvement in the anti-Iraq coalition during the second Gulf War…

This comes shortly after an Israeli intelligence ministry document was leaked to the Israeli news site Calcalist; it detailed purported plans for the forced transfer of Palestinians in Gaza to the Sinai peninsula.

The Israeli site +972 (named after the shared international dialling code for Israelis and Palestinians, a small hint at possibilities and necessities of shared futures) has this report:

The Israeli Ministry of Intelligence is recommending the forcible and permanent transfer of the Gaza Strip's 2.2 million Palestinian residents to Egypt's Sinai

Peninsula, according to an official document revealed in full for the first time by +972's partner site Local Call yesterday. The 10-page document, dated Oct. 13, 2023, bears the logo of the Intelligence Ministry — a small governmental body that produces policy research and shares its proposals with intelligence agencies, the army, and other ministries. It assesses three options regarding the future of the Palestinians in the Gaza Strip in the framework of the current war, and recommends a full population transfer as its preferred course of action. It also calls on Israel to enlist the international community in support of this endeavor. The document, whose authenticity was confirmed by the ministry, has been translated into English in full here on +972. The existence of the document does not necessarily indicate that its recommendations are being considered by Israel's defense establishment. Despite its name, the Intelligence Ministry is not directly responsible for any intelligence body, but rather independently prepares studies and policy papers that are distributed to the Israeli government and security agencies for review, but are not binding. The ministry's annual budget is NIS 25 million and its influence is considered relatively small. It is currently headed by Gila Gamliel, a member of Prime Minister Benjamin Netanyahu's Likud Party.

However, the fact that an Israeli government ministry has prepared such a detailed proposal amid a large-scale military offensive on the Gaza Strip, following Hamas' deadly assault and massacres in southern Israeli communities on Oct. 7, reflects how the idea of forced population transfer is being raised to the level of official policy discussions.

What of Egypt's position? It is explored brilliantly in this analysis by Nihal El Aasar, which connects a possible refugee influx to Egyptian domestic concerns:

The ongoing crackdown on dissent and public displays of solidarity also reflects a deep anxiety in the Egyptian government regarding the potential influx of Palestinian refugees—an influx which fundamentally would change the domestic make-up of postcolonial Egypt and the broader dynamics in the region. If Palestinians settled in Sinai continued resistance operations (or, likely, even if they didn't), their presence would give Israel reason to attack Sinai in "self-defense," at a time when Egypt is already struggling to assert sovereignty on the North of Sinai due to the activities of Islamist militias.

There is also the possibility that the (practically guaranteed) entry of militants alongside other refugees, combined with the popularity of the Palestinian cause amongst Egyptians, could influence a number of Egyptian citizens to join the resistance movements. Furthermore, Palestinians would instantly become the majority population in the Sinai, further undermining Egyptian sovereignty in the area. It is not an exaggeration to think that the expulsion of Gaza into the Sinai could precipitate Egypt's own version of Black September, the 10-month long civil war in the 1970s in Jordan between Jordanian forces and Palestinian militants.

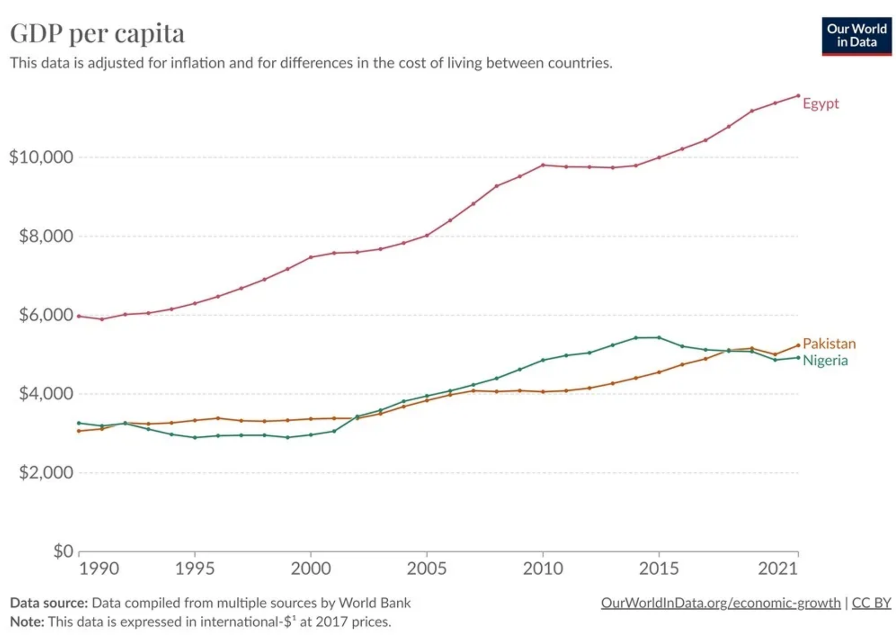
Tooze (2023) What to do with Gaza's civilian population, China's stake in

Europe's ports, Ultra-lithography and US bombs for Israel

Smith

The encouraging thing about Egypt's middle-income status is that it isn't based on exports. Egypt doesn't sell that much stuff to the outside world at all, actually; its exports are only 15% of GDP, which is quite low compared to most countries. Its biggest export is actually oil, but the total amount of oil it sells outside its borders is quite low — only about as much as Vietnam, which has a similar population. Egypt definitely isn't a petrostate, by any stretch of the imagination.

Egypt's income must come from the domestic economy — from Egyptians making goods and providing services for each other. The fact that the country has managed to reach middle-income status based almost entirely on its internal economy is an encouraging sign — it means that basic economic mechanisms are functioning with a reasonable amount of efficiency. Compare Egypt to true basket cases like Nigeria or Pakistan.



Although Egypt's living standards are below the world average, it's not actually that poor — it's at about the same level as South Africa or Indonesia. In other words, it's a solidly middle-income country.

Egypt has 113 million people; combine that with a middling level of income and you have a fairly substantial potential market.

At around 75%, Egypt's literacy rate is pretty low by modern standards.

Egypt scores poorly on corruption measures, although it's far from being one of the worst. The key problem is that the military owns or controls many of the country's businesses. This is similar to Indonesia's military in the late 20th century, or Iran's Revolutionary Guard today. Military control of business crowds out the private sector, and is often inefficient because of a lack of competition.

Foreign-owned companies will be free of military ownership, and in special economic zones — which Egypt started establishing in 2017 — the foreign companies will be lightly taxed.

The military is unlikely to mind too much; they will get a big boost simply from the revenue that flows into the rest of the Egyptian economy, benefitting the domestic-facing businesses that they already own.

This is how Indonesia's military dictator Suharto, whose political career bears some resemblance to el-Sisi's, was able to engineer an FDI-based manufacturing boom in the 80s and 90s, even as his military kept control of much of the rest of the economy. El-Sisi should consciously try to copy Suharto's economic strategy.

But the biggest danger for Egypt right now isn't corruption, illiteracy, or lack of water — it's foreign debt. Egypt has a very low domestic savings rate — only 13% of GDP — so it can't really fund all the infrastructure spending it's been doing. Instead, it has largely borrowed the money from abroad. But Egypt can't borrow in Egyptian pounds; it has to borrow in dollars or euros or some other foreign currency.

That puts Egypt in big danger.

> Few of [the Egyptian government's] grand projects are generating additional hard currency inflows…global borrowing costs have climbed…Amid a foreign currency crunch, Egypt has drawn down net foreign assets in the banking system by more than $40 billion in two years, partly used to prop up the pound…The hard currency squeeze has raised concerns about Egypt's ability to repay foreign debt. Since April, all three main credit agencies downgraded the outlook for Egyptian debt…

Egypt is very dependent on imported wheat, which is why you always hear about bread riots in Egypt when global food prices rise. If Egypt has a currency crisis, el-Sisi's rule will clearly be in danger.

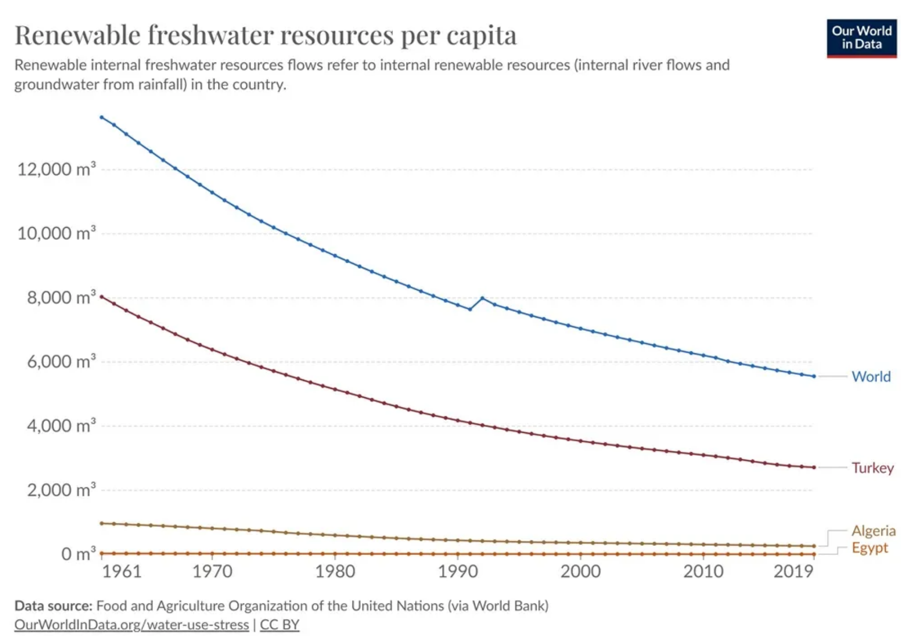
The pieces aren't all in place yet for a successful industrialization story, but some of them are, and the government knows that growth is the only thing that will keep its people happy.

Egypt, unlike many nearby countries that experienced turmoil during the Arab Spring, and despite having somewhat of a youth bulge, did not fall into a civil war. The country has no major racial or ethnic divisions, and only a minor and politically irrelevant religious division (13% of the country is Christian).

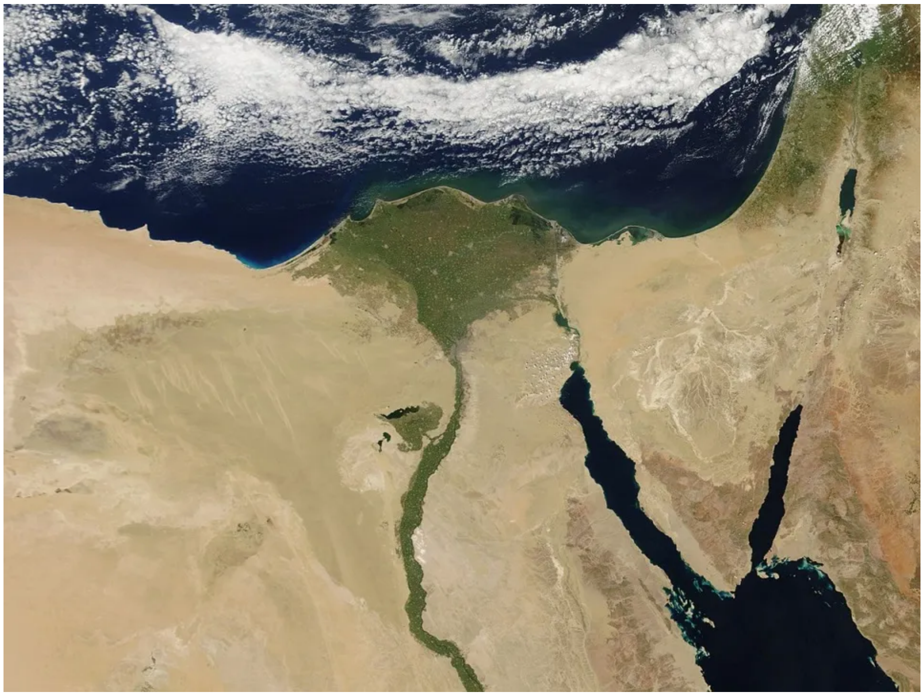
There are no regional fault lines either; pretty much everyone in the country lives along the Nile river or in the Nile river delta. In other words, there are no natural fault lines along which Egypt could break apart; it's one of the most homogeneous, unified populations in the world.

Egypt gets a lot of sun all year round, and has a lot of empty desert land to build solar power. In an era of ultra-cheap solar, Egypt thus has effectively unlimited electricity resources. Cheap, reliable electricity is a key input into manufacturing.

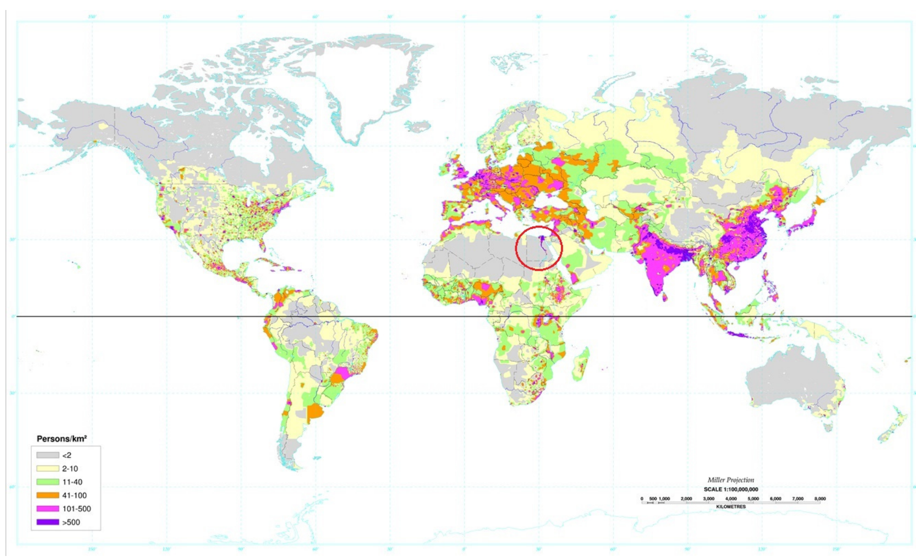
The biggest weakness is water availability. Egypt is practically the driest country on the planet; by the World Bank's reckoning, Egypt has only 9 cubic meters of renewable internal freshwater resources per capita — the third-lowest value in the world after Bahrain and Kuwait. Here's a graph, just for illustration:



The country is so bone-dry that it's essentially impossible to live anywhere except right along this thin line of river.



Many kinds of manufacturing can be very water-intensive. For these, the only real hope for Egypt is to use desalination — which is rapidly becoming cheaper — and put the factories on the coast. Cheap solar will help. Manufacturing (including construction) is around 16% of Egypt's GDP — a decently high percentage as countries go. So the lack of water resources isn't necessarily a dealbreaker here.



Smith (2023) Upbeat about Egypt

19

Ethiopia

19.1 Landlocked

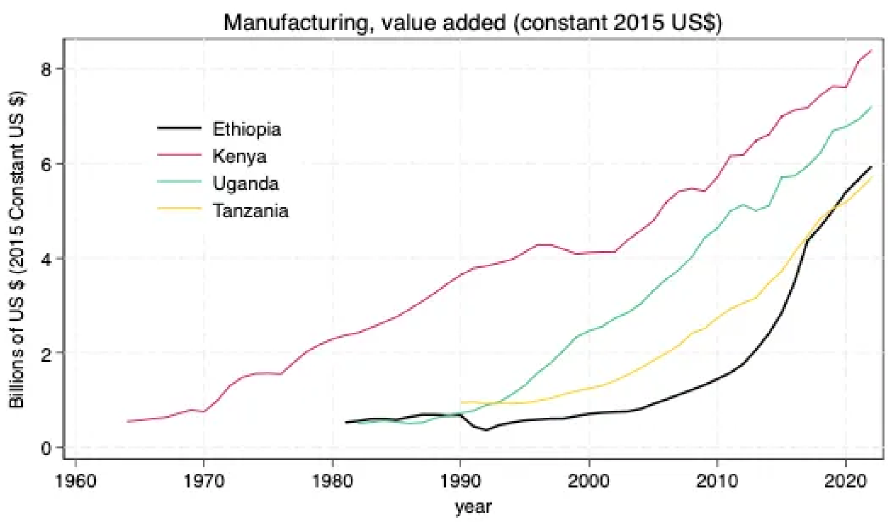
Opalo

Ethiopia's economic case for reliable and cost-effective seaport access is strong. In order to secure its economic future, the country must minimize or completely erase the economic costs associated with being landlocked. Overall, landlocked countries tend to be 20% less developed than they would be if they had access to the sea. This is partially due to cost of trade, with transportation costs being between 50%-262% higher for landlocked countries.

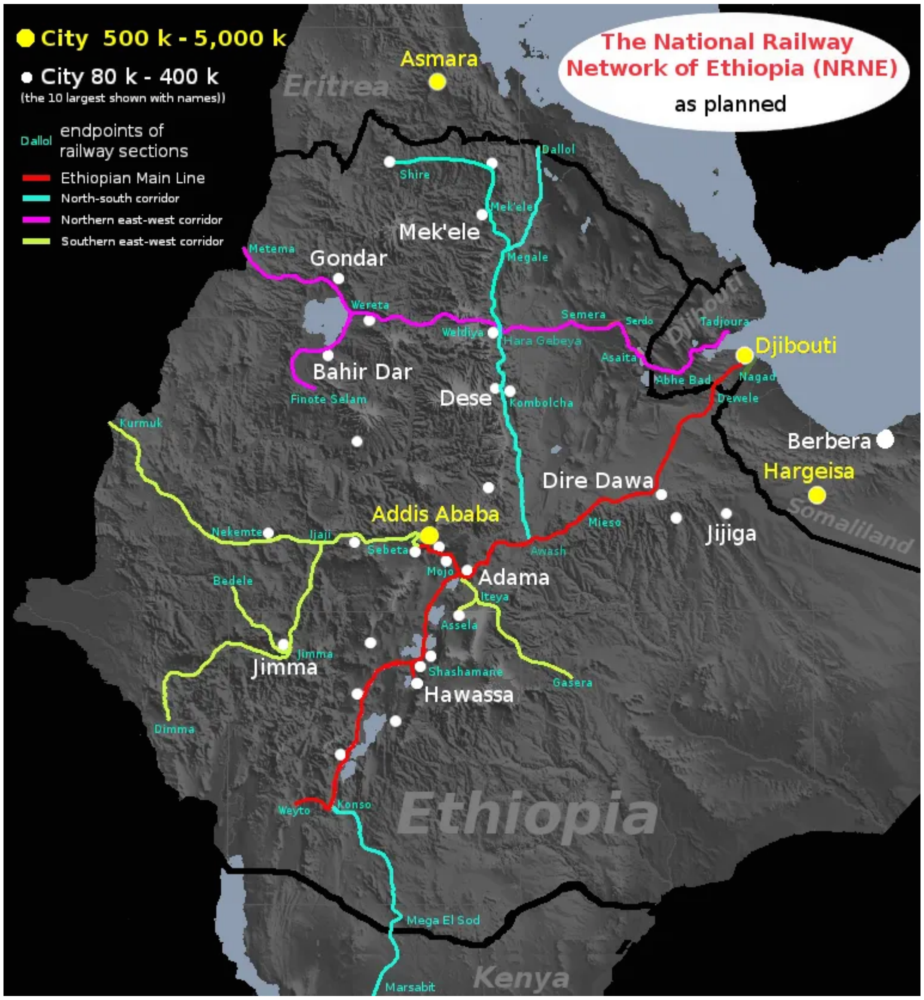
Given the significant economic costs associated with being landlocked, it is a no-brainer that for Ethiopia to achieve its ambitious developmentalist agenda — which will necessarily require export-oriented industrialization and improved agricultural productivity — it needs to have more control over trade-related costs and policy (or procure stability on both fronts from its neighbors). According to the Ethiopian government, transportation costs gobble up 16% of the value of international trade (which seems really high). Foreign trade currently amounts to 24% of GDP, and needs to grow by orders of magnitude. With an annual output of US$127b, Ethiopia is already Eastern Africa's biggest economy (Kenya is second at US$113b) but with lots of low-hanging opportunities for even bigger trade-driven output.

Last year Djibouti cut stay of cargo days from 45 to 8 days. In addition, the port is more expensive relative to neighbors, often lacks storage space, and suffers from untimely availability of empty containers for exports. These factors have are the motivation behind Ethiopia's aggressive port diversification initiative. As of early last year, Djibouti City's share of Ethiopian trade cargo had declined from 95% to just under 86%, with the Kenyan border Moyale dry port (0.02%), Somaliland's Berbera (5%), and Djibouti's Tadjoura (9.6%) emerging as alternatives. These latter routes, however, lack the infrastructure (roads, petrol stations, service and repair stops, etc) to support bulk haulage logistics.

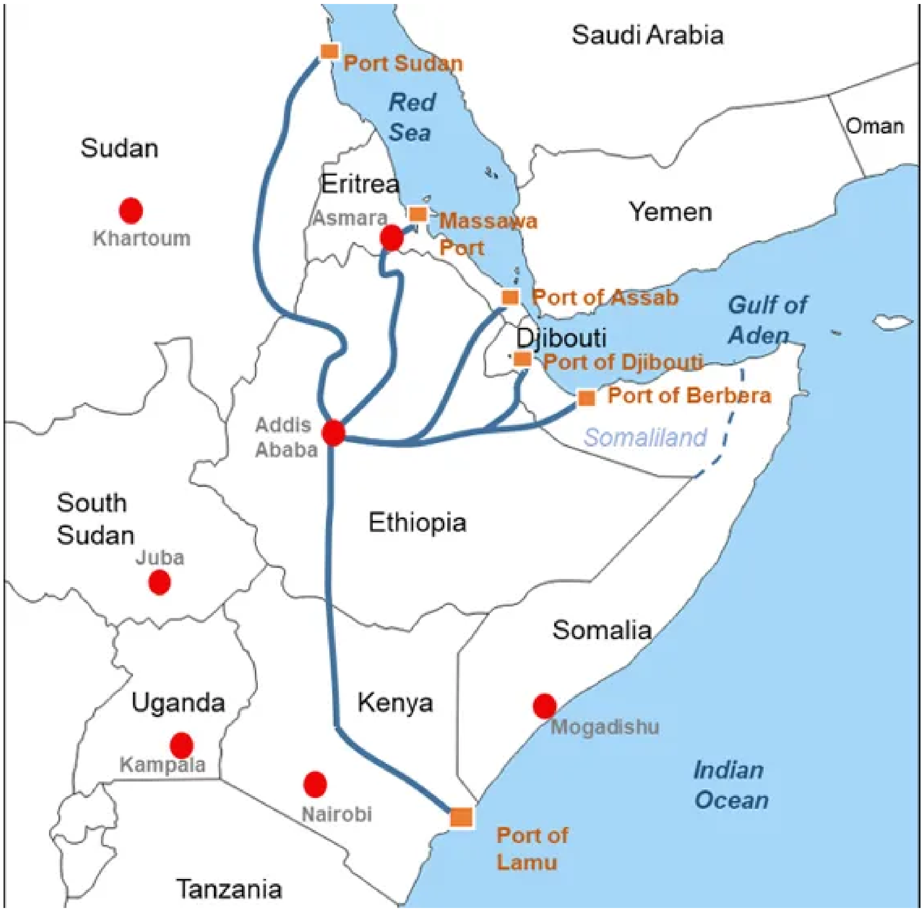
Over the last decade Ethiopia has quintupled its industrial output and is quickly catching up with its regional neighbors.



The agricultural sector, which still has a commanding share of exports. Agriculture accounts for nearly 38% of GDP (including 50% of manufacturing production), 80% of employment, and about 90% of forex earnings.



Yet while it is plausible that Addis Ababa would find reason to tie Eritrea economically to itself as a means of guaranteeing future peace, the medium term unpredictable political environment in Asmara exposes Ethiopia to hold-up problems once the port and logistics infrastructure are in place. Choosing Berbera would also be risky as it would drive a wedge between Addis Ababa and Mogadishu, and risk inviting attacks from Somalia nationalists. These are good reasons to use these ports as means of diversification but not as principal ports. The same goes for the third-tier options of Lamu and Port Sudan, which also come with security risks — potential attacks by Al Shabab in along the route from Lamu, and conflicts and hold-up problems in Sudan.



In ascending order of distance from Addis Ababa (see below), the options include: Djibouti (867km), Tadjoura (880km), Assab (883km), Berbera (936km), Lamu (1279km), Massawa (1317km), and Port Sudan (1770km).

The economic case for an Ethiopia navy

Ethiopia exists in a geopolitical neighborhood racked by security threats. This reality goes back centuries and shaped the evolution of Ethiopia's transport infrastructure, a fact illustrated by Abiy's invocation of Ras Alula Abanega. Therefore, no one should be surprised than a history-conscious elite in Addis Ababa would find reason to build the military capacity needed to protect Ethiopian economic interests.

To this end, Ethiopia's leadership should learn the right lessons from the two times in the modern period that the country acquired access to the sea: diplomacy backed by a military guarantee works better than naked coercion.

Emperor Yohannes famously resisted the construction of railways, fearing that such an innovation would expose Ethiopia to foreign influence and eventual domination. Even Menelik II, the Great Modernizer (and imperial expansionist), feared that building a railway to the coast would lower the cost of a foreign invasion (at the time the Ottomans, Egypt, Mahdist Sudan, and Italians were the main threat). He must have remembered that when the British invaded Ethiopia in 1868 under Tewodros II's watch, Napier had built a temporary railway to transport troops and weapons on the coastal plain (the track was dismantled after Napier's departure). One of the emperor's advisers sent him a grim warning:

> When the railway reaches Harar, Harar will be no longer yours, and when it reaches Addis Ababa, Shoa will be no longer yours.

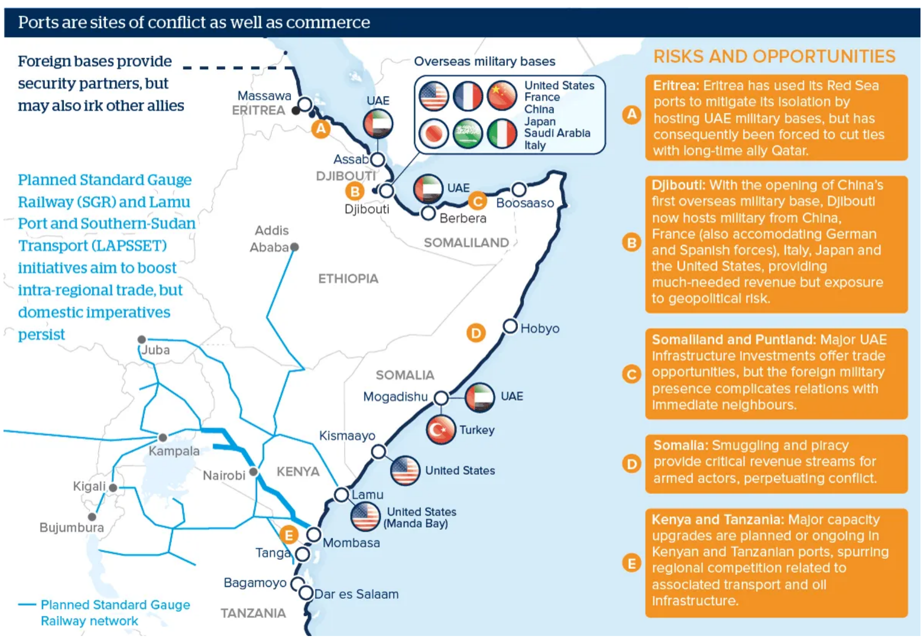
Menelik eventually concluded that the economic benefits of a railway to a seaport outweighed the security risks. Some have argued that it helped that he came from Shoa, an imperial province that leveraged its autonomous status to promote international commerce:

> since the time of Prince Abiyye who won the battle with the royal troops from Gondar in the middle of the 18th century, [Shoa] was attractive for the European and Muslim traders because of the uniform customs charges and sensible regulations issued by its princes who were fully aware of the inconveniences of mule transport and its costs that greatly hindered the trade in various commodities such as coffee, ivory, wax or hides and skins.

A delicate balancing of competing European imperial powers dictated the construction of the first railway line to the coast. Italy had already grabbed Eritrea, a fact that foreclosed on any links to either Massawa, Assab, or Zula. The British, ever focused on controlling the headwaters of the Nile, were more interested in linking Ethiopia to the sea through Sudan and ensuring that the Ethiopian state did not become a French pawn. Understandably, Ethiopia was suspicious of opening itself up to dependence on Egypt. Eventually, British investors settled on balancing French interests in the wider region by acquiring shares in a line constructed by the French through their colony of French Somaliland (Djibouti).

Ethiopia and the French firm Duparchy and Vigouroux signed a contract in January 1896. However, the French delayed any financial commitments until Italy's quest to conquer Ethiopia was put to the test (the matter was famously settled two months later in Adwa). The solution of the Italian problem generated new French problems. France was keen on neutralizing Ethiopia as a state power and dividing it up into European spheres of influence (with the Brits and Italians). Menelik, the British, and even the Italians did not like this plan (control of Ethiopia's main transportation artery gave France a massive advantage). The back-and-forth on this question, and Menelik's willingness to delay construction to get his way, partially explains why it took two decades to finish construction. Even after completion, the substantial taxes demanded by France made the line one of the most expensive freight lines in the world — a fact that certainly slowed down Ethiopian economic performance in the late imperial years.

Fascist Italian occupation after 1937 came with a road link to Assab, thereby giving Ethiopia an alternative sea route. This arrangement persisted throughout the British mandate in Eritrea (1941-1952). Following the creation of the Federation of Ethiopia and Eritrea (1952-1962), the imperial government diverted trade from Djibouti to the ports in Massawa and Assab. It also established a navy in 1955, headquartered in Massawa. This arrangement persisted after Ethiopia dissolved the federation and annexed Eritrea outright (1962-1991). By the 1970s, Assab had supplanted Djibouti as Ethiopia's primary seaport. Unfortunately for Addis Ababa, annexation ignited an armed rebellion that culminated in Eritrean independence in 1993 after almost three decades of war.



Contemporary Ethiopia faces similar geopolitical challenges. The port of Djibouti, its most important access to global markets, is crowded with foreign naval bases that could some day be used as tools of coercive diplomacy against Addis Ababa (see above). Under the circumstances, it would be negligent of Ethiopia's leadership to not consider investing in a navy — if only to ensure that the country gets a seat at the table when matters related to Red Sea and Indian Ocean sea lanes are discussed.

Egypt is Addis Ababa's most important geopolitical rival. While much of the rivalry is focused on the Nile and influence in Khartoum and Juba, the two countries also compete for the title of pre-eminent African Red Sea power. Egypt currently enjoys a significant lead. It has the largest navy in Africa (12th largest globally), with an economy almost four times larger than Ethiopia's.

The Imperial Ethiopian Navy (1955-1974) was mostly a prestige pastime for Emperor Haile Selassie. The nepotistic circumstances of its founding (it was headed by the emperor's grandson between 1958-1974), its use largely as a nationalist symbol of modernization throughout the late imperial era, and the attempted development and gradual degradation under an inwardly-focused Derg may persuade some of the disutility of an Ethiopian blue water navy. However, it would be a mistake to project the same conclusions on the current Ethiopian state.

Opalo (2023) Ethiopia needs a reliable seaport and a navy

20

Germany

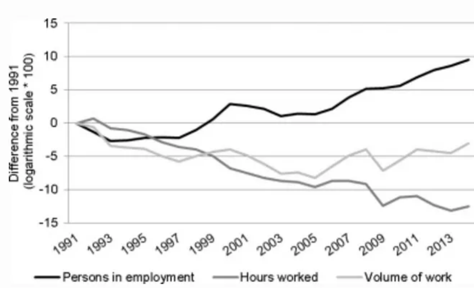
Tooze

The story of the German labour market miracle is in large part a myth.

The early 2000s labour market measures did not increase the overall supply of labour, they really just hustled millions of people into dead-end, part-time jobs. Work was redistributed and spread more thinly to the disadvantage of workers.

Over the period from the late 1990s to the 2010s, full-time employment declined and part-time work and self-employment increased dramatically. Overall, comparing the 2010s relative to 2000 the total input of labour was flat, relative to the early 1990s it was down. One can have different opinions about a more flexible as opposed to more standards form of employment, but it certainly increased inequality and it did not increase overall labour input, which cannot, therefore, have been a major driver of GDP growth.

Fig. 2



Development of employment, hours worked and volume of work; annual averages 1991–2014. (IAB Working Time Measurement Concept, Federal Statistical Office and own calculations)

Between the late 1990s and 2006 full-time employment in Germany suffered a real crisis. The number of jobs contracted by almost 25 percent. It then stabilized at this much lower level. Amongst the self-employed likewise the hours of work declined and then stabilized. What the Hartz IV labour market measures may perhaps be credited with, is not so much an industrious revolution that propelled growth, as a stabilization. As hours of work in the full-time sector stabilized, more and more people were absorbed into part-time work. This had the effect of returning the total labour input of the economy to its 2000 level. This reduced the number of those who were classed as unemployed and suffered the associate stigma. An unprecedentedly large share of the population, including many more women, were brought into one or other form of employment.

The labour supply as such is not a constraint on the German economy, the unwillingness to invest in people - in their education, housing, supportive social services, job security - is. That is good news and puts the ball squarely back in the court of Germany's political parties who must overcome the deadlock over debt and public investment - calling for a major investment push in Germany.

Germany …is truly a case of what Keynes would call "muddle", a self-inflicted injury as a result of a failure of societal coordination, organization, mobilization and persuasion. It is an authentically political problem.

Tooze (2023) Chartbook 242: What is wrong in Germany? And an (interesting) correction.

Milanovic

What were the topics that fueled the pessimism? Here is an approximate list: inflation and dearness of energy, economic stagnation (near zero growth), the rise of the extreme right, political paralysis, loss of exports to China, decline of German car technology, high wealth inequality, imperfect assimilation of foreign-born population, inefficiency of German railways, dark streets in Berlin (saving of energy), full political dependence on the US.

I think that the pessimistic mood dominates not only because of the current wars in Ukraine and in Israel/Palestine, and general uncertainty that has enveloped the world, and Europe in particular, but because of the resonance of current concerns with the events from one hundred years ago in Germany. It seemed to me that the current events played on three important German fears: runaway inflation, wrecking of democracy, and the rise of antisemitism. All three are grounded in the Weimar period, and like a person who has been once poisoned, the fear of a similar outcome is not assessed by the actual strength of the current "poison" but by past memories and the awareness that, if not entirely checked and nipped in the bud, things can get out of control.

Despite many years of social-democratic rule and an extensive welfare state, German wealth inequality is very high. 39 percent of the German population has zero (or quasi zero) net wealth, and almost 90 percent of the population has zero or rather negligible net wealth. German wealth inequality (depending on the metric one uses) equal or even greater than the very high US wealth inequality.

The full establishment of the Alternativ für Deutschland as a stable parliamentary party with about 10% of the vote, and not a passing fad like the Republicans in the past, serves as a reminder of a non-negligible chance of sharp movement to the right.

The third fear is, in a way, the most irrational but does not seem to me absent. Germany's strong, and perhaps excessive, support for Israel in the current war in the Middle East has its obvious roots in the Shoah and the atonement for those crimes which the German public opinion and politicians have since the establishment of the Federal Republic put on a level of an almost core principle, equal to democratic governance and judiciary independence. The irony is that an excessive zeal in atonement might lead to the unquestionable acceptance of policies that lead to crimes committed against civilian populations. Germany thus faces an almost Greek-like drama: the desire to correct for past misdeeds may lead to the acceptance of current misdeeds.

Milanovic (2023) The three German fears - Historical origins of the malaise

21

Ghana

Smith

Ghana's government, however, didn't decide to inflate the debt away; instead it just defaulted. This was a wise move. 58% of Ghana's government debt is owed to foreigners, so defaulting on this drastically lowers the country's overall government debt burden even as it also makes the government less vulnerable to further downward currency movements. The default will hurt, for sure, but it will also restore confidence and make it much easier to get a bailout from the IMF — which Ghana is currently doing.

In other words, Ghana basically did a *speedrun of its emerging market crisis*, getting the pain over with and skipping to the recovery phase. Ghana defaulted before A) the exchange rate crashed severely, or B) the central bank was forced to hyperinflate.

It appears that Ghana's leaders have become addicted to the cycle of debt and bailout — this is the 17th time the IMF has helped them out of debt

So much of the borrowed money was spent trying to start an oil industry. Ghana is a poor country that needs to escape poverty any way it possibly can, but at the same time, its fundamental challenge is escaping the Resource Curse. Investments should be focused on manufacturing — on infrastructure, education, and capacity building, and perhaps on export incentives. If Ghana's oil industry had worked out, its economy just would have become a bit more like Nigeria's — and that is not a desirable goal.

Noah Smith (2022) Ghana you were doing so well

Tooze

On December 13 Ghana reached staff-level agreement on a $3 bn IMF credit package. In addition it is seeking to negotiate a 30 percent haircut with private creditors on tens of billions in bonds. Already in September Ghana's 2026 eurobonds plunged to a record low of 59.30 cents on the US dollar. By the end of October yields had surged to 38.6 %, up from less than 11% at the end of 2021. Meanwhile, inflation is headed to 40 percent and the cedi is the worst performing currency not just in Africa but of all currencies in the world.

You could shrug and say that this is Ghana's second IMF deal in 3 years and its 17th since independence in 1957. Plus ça change. But it is more than a national crisis. It is the latest sign that the entire model of market-based development financing is in crisis.

The fact that borrowers like Ghana find themselves in trouble at this moment is not surprising. The hiking of interest rates occurs in waves and whenever it happens it hits the weakest. We don't call it a global dollar credit-cycle for nothing. This year, as the Fed has hiked, the average emerging-market dollar yield has doubled to over 9%. Debt issued by stressed frontier market borrowers has seen yields surging to 30 percent or more.

But to treat the news from Ghana as "just another predictable crisis", is to trivialize and to fail to grasp the significance of the current moment.

Ghana is an important African success story. In recent times it has been the site of sustained efforts to improve labour practices and the terms of trade for peasant cocoa farmers. In 2020 its stress-free elections contrasted favorably to the democratic anxiety in the United States. Ghana has been praised for its efforts to extend health insurance to 70 percent of the population, topped up with cash benefits for the poorest. Accra boasts a vibrant fashion and design culture. The interior is touted as destination for adventurous trekking tourists.

An ample flow of money was key to this success story. And not just the volume of funding mattered, but how it flowed.

The Ghana crisis matters beyond its immediate impact, because it was the poster child for this[development] model of private finance. Ghana issued its first eurobond for $750mn in 2007 and has since become a leading example of a country financing development through private borrowing abroad.

And beyond the resolution of any particular debt crisis the next question that must be top of the agenda is simply: what comes next? If debt is not sustainable, how is Africa's urgent and huge need for capital to be met? The current level of poverty across much of Africa and the pressure of population growth can make calculations of debt sustainability and long-term viability seem quaint. Africa has no long-term, sustainable future without investment.

Ghana illustrates this pressure in microcosm. At independence in 1957, at the beginning of its trajectory of repeated renegotiations with the IMF, Ghana's population was roughly 6 million. Today Ghanas's population is 33 million, more than five times larger. Ghana's capital Accra is now one of the hubs in a giant conurbation that stretches from Abidjan in Ivory Coast to Lagos in Nigeria. This huge and rapidly growing population desperately needs capital investment to meet basic needs, let alone keep up with rapidly-developing Asian economies.

Tooze (2022) Chartbook #181: Finance and the polycrisis (6): Africa's debt crisis

Zaitchic

In early 2023, I spent several weeks traveling in Ghana's far northern savanna and meeting with farmers who are the supposed beneficiaries of "improved" patented seeds. With a dry season that lasts up to eight months and worsening droughts, the region would seem a poster child for agricultural programs ostensibly motivated by climate and humanitarian concerns. Yet in village after village, farmers received and discussed the details of the new Western-backed seed regime with wariness, confusion, and anger.

Early one morning, I joined a gathering of seven farmers inside an adobe municipal building on the outskirts of Paga, a market town near Ghana's border with Burkina Faso. The group had convened at the invitation of Isaac Pabia, the 45-year-old national secretary of the Peasant Farmers Association of Ghana. When he isn't tending his cowpea and cassava crops, Pabia travels the country to update his fellow farmers on policy changes affecting smallholder agriculture, still the most common livelihood in sub-Saharan Africa.

At the top of Pabia's agenda was a rumor about provisions in the country's 2020 seed law. Early reports indicated that politicians in Accra had criminalized the saving, sharing, and trading of seeds among neighbors or at local markets. Word was spreading that farmers who shared seeds protected by patents—a concept as foreign to most of them as the genetically modified seeds the patents protected—could be sent to prison. Farmers were particularly worried about the government's expected decision to green-light a genetically modified variety of the cowpea, a staple of West African diets. Was it possible, the farmers asked, that Ghanaian police could be empowered to imprison cowpea farmers for trading and refining "unregulated" native seed stocks?

"The law is real," Pabia explained in the local language. "It was written by the companies to control how we use our seed."

Picking up a copy of Ghana's Plant Variety Protection Act—based on the same draft law as the proposed African Union protocol—he shifted to English and read Section 60, which stipulates penalties. "A farmer who willfully commits an offense," he read, enunciating slowly, "is liable on summary conviction to a fine of not less than five thousand penalty units… or a term of imprisonment of not less than ten years and not more than fifteen years."

Farmers in northeastern Ghana have been cultivating the cowpea—a protein-rich legume that North Americans know as the black-eyed pea—since the Bronze Age. How was it possible that people continuing to farm in that lineage, some 5,000 years later, could face 15 years in prison for infringing property claims on crop varieties based on the local original?

Ghana's Plant Variety Protection Act is a national variant of a regional and global crusade to integrate every aspect of smallholder farming into the industrial food system.

Fuseini Bugbono, a 64-year-old cowpea and cassava farmer in northern Ghana's Gundoug Nabdam district, laughs at the memory of Obama's forays into African agriculture. "Obama came here saying GMOs are good, but his family had an organic garden behind the White House!" he recalled. "All of the Western leaders are like hunters who use poison. They don't eat that meat. They sell it."

Zaitchic (2023) The New Colonialist Food Economy](https://www.thenation.com/article/world/new-colonialist-food-economy/)

22

Honduras

Zaitchic

Nine thousand years ago, give or take, Mesoamerican farmers bred the first maize cobs from a wild grass that grew thick in the river valleys of central Mexico. They were followed by farmers further to the south, in what is now Guatemala and Honduras, who developed other maize varieties around the time African farmers began to cultivate the cowpea. These ancient crop breeders did not know of each other's existence, but their descendants have been drawn together into a global movement to defend the genetic survival of their agricultural inheritance.

This fight has reached the most isolated corners of maize's expansive "region of origin," such as Concepción de María, Honduras, a village high in the mountains near the country's southwestern border with Nicaragua. Most residents are Indigenous or mestizo descendants of early maize breeders, eking out livelihoods on tiny mountainside plots that look down on fertile, well-irrigated valleys devoted to commodity crops owned by land barons such as Porfirio Lobo Sosa, the corrupt former Honduran president, who signed his country's hated seed law in 2012.

A dirt road winding uphill from the village square leads to the shack office of the Association of Ecological Committees of Southern Honduras. For a decade, as the battle over the seed law gathered momentum, the tin-roofed structure served as the war room where a wiry farmer named Feliciano Castillo Avila led the local resistance to it. Recalling the protests with a reporter today, the 58-year-old Avila, normally earthy and quick with a joke, turned somber and businesslike at the mention of what he will always call "the Monsanto law." (In 2018, the German conglomerate Bayer paid $63 billion for Monsanto and its scientific assets.)

"The law attacked our patrimony, our right to feed ourselves," Avila said. Opening a desk drawer, he removed a manila folder marked "LEY UPOV," or "UPOV law," a reference to the Geneva-based, industry-dominated NGO that drafts model "plant variety protection" laws for the Global South. Avila's file contained a dog-eared, soil-stained printout of Honduras's 2012 Law for Protection of Plant Varieties.

The high fines are a tactic to deprive farmers of their land.

Five thousand farmers showed up and drafted a statement rejecting GMOs and the Law for Protection of Plant Varieties.

In the fall of 2021, the Honduran Supreme Court struck down the seed law in a decision that cited the farmers' rights enshrined in the national Constitution and in the UN Declaration of the Rights of Peasants, adopted in 2018.

(A bloodier version of the Honduran story played out in Guatemala in 2014)

Zaitchic (2023) The New Colonialist Food Economy

23

Hungary

Karas

(see also cap/dependency and ecc/turkey)

We detail the consolidation and limits of financial statecraft and authoritarian financialization in Hungary and Turkey over the past two decades, analyzing how changing global liquidity conditions between the early 2000s and the 2020-22 Polycrisis have affected the state's management of money.

In both countries, financial crises in the early 2000s incentivized public interventions which momentarily consolidated a centralized system of political control over money managed by the executive from the mid- to late 2010s onwards. Soon, "defensive" forms of financial statecraft were revamped into "offensive" tools, allowing the executive to ride the wave of cheap global capital liquidity by deepening credit-based accumulation, which enhanced GDP growth and co-opted large social constituencies via subsidized lending.

The semblance of an economic miracle broke down in both cases as soon as global credit conditions worsened: the hitherto expanded and centralized executive control over money proved unable to simultaneously manage public debt and the financialization of the private sector.

Faced with this dilemma, Hungary and Turkey first followed different strategies: In the context of peak global inflation, and the resulting interest rate hikes in Core Central Banks in 2022, a disinflationary power bloc prevailed in Hungary between the executive, non-tradable domestic capital factions, and households hurt by inflation. For Viktor Orban, this meant sacrificing large-scale subsizied lending programs for households and SMEs which had previously played a crucial role in stabilizing the Fidesz regime.

In Turkey, a narrow power bloc between Erdogan's hyper-presidential regime, export-oriented SMEs, and the construction sector maintained a loose monetary policy against the resistance of the Central Bank and the interests of wage-earning households hurt by inflation. In the second half of 2023, Erdogan sidestepped this strategy as the costs on the sustainability of public debt proved overwhelming, and even exporting firms were hurt by rising intermediary import costs due to hyperinflation and collapsing exchange rate: thereafter, Turkey signalled a similar approach to Hungary's conversion to an orthodox crisis-management strategy but at the time of writing, its full adoption and impact are yet to be seen.

In fair weather, a dramatically expanded political and institutional apparatus empowered the Hungarian and Turkish executives to centralize control over the domestic circuit of money, giving the illusion that semi-peripheral financial statecraft had managed to simulatenously contain the destabilizing effects of global financial mobility, while harnessing credit-based accumulation for cultivating patron-client relations to help the political stabilization of these regimes. The dramatic shift in global credit conditions in 2022 lifted the veil over this illusion: no matter the expansion of executive control over the domestic management and allocation of money, a global liquidity contraction forced these regimes to prioritize fiscal solvency and the exchange rate by opting for austerity and aggressive interest rate hikes, which undermined their capacity for pacifying wide cross-sections of society via subsizied credit.

The Hungarian and Turkish pathways contain multiple lessons which resonate in the wider Global South.

Karas (2023) Financial Statecraft and its Limits in the Semi-Periphery

24

India

Tooze

For deeper historical perspective on India's growth outlook, you may wish to pick up Ashoka Mody's typically fiery interpretation of India's economic development since independence, which is being released by Stanford University Press this month.

Trigger warning: Mody's treatment is a no bolds barred attack on "India boosterism":

> Challenging prevailing narratives, Mody contends that successive post-independence leaders, starting with its first Prime Minister, Jawaharlal Nehru, failed to confront India's true economic problems, seeking easy solutions instead. As a popular frustration grew, and corruption in politics became pervasive, India's economic growth relied increasingly on *unregulated finance and environmentally destructive construction.* The rise of a violent Hindutva has buried all prior norms in civic life and public accountability.

Mody does not deny the growth, which in recent decades has lifted hundreds of millions out of absolute poverty. But he also highlights mounting inequality, which now places India alongside South Africa and Brazil as one of the most unequal societies on earth.

India Stack

> In many of the ex-colonies of European empires, biometric technology systems are being built under an ethos of welfare and financial service delivery. One case in this broader trend of postcolonial governance is India's Aadhaar and India Stack. This paper uses this case to explore how the in-sourcing of technology into means of governing, behind a front of participatory "good governance," is contributing

> to the historical trajectory of citizenship regimes in India. Through claims of reducing financial "leakages," Aadhaar, a biometric identification database consisting of fingerprint, iris scan, and photograph, has become compulsory for accessing welfare in India. The Indian government makes a case for Aadhaar using a propaganda discourse of its success, based on weak evidence. The India Stack, a set of cloud-based application programming interfaces (APIs) built on top of the Aadhaar database, offers a digital infrastructure for private companies to verify identities using Aadhaar data and to offer other "services" including "financial services." The ability to access data, paired with a "revolving door" of individuals between state and corporations, points to an ulterior goal of both Aadhaar and the India Stack: creating winners in the corporate and financial technology sectors. The Indian corporate-state run through a "governtrepreneurism" uses Aadhaar and the India Stack as new digital technologies of governmentality to transform populations into subjects or customers.

Delhi is selling "India Stack Global" as a model for tech and governance solutions worldwide, but particularly for middle- and low-income countries.

You cannot understand the genuine mass appeal of Prime Minister Modi and the BJP unless you recognize the way in which they have managed to associate themselves with a real and very dramatic transformation and at the same time to cast their opponents as those who for so many decades failed to deliver even the most basic services for India's population. Following the Gujarat model of privatized infrastructure model, corporate interests are not shamefaced but front and center in this vision of nation-building. Nation-building is the key boast of the Adani group. And it is that model that is at stake in this crisis.

Tooze (2023) Indian nation-building, Modi and the Adani crisis

24.1 Industrialization

Noah Smith

Unlike China, India has grown to its current level without industrializing — that is, without increasing manufacturing's share of the economy.

Basically, I think India has most of the raw ingredients necessary to industrialize. In particular, it has built an impressive amount of infrastructure in recent years, and is building much more, shoring up a key longstanding weakness. And high-speed rail is being built, using the same trains as Japan's shinkansen. The India of unreliable slow trains and dirt roads is rapidly vanishing into history.

If India has one remaining weakness, it's education.

In the West, those on the political Left have a curious tendency to downplay

India's growth and pooh-pooh its future chances. It is up to India's leaders to prove these naysayers wrong.

But I am reasonably confident that they will, and the reason for my confidence has nothing to do with willful optimism or a mystical faith in the effectiveness of India's people and India's government. The reason is called "agglomeration effects".

With production costs no longer low in China and geopolitical risk rising, multinational companies are going to be looking for alternative places to put their factories and offices. And those alternatives are likely to be in other parts of Asia, rather than in Latin America or Africa or elsewhere, in order to be close to existing supply chains and manufacturing expertise and sources of capital. And India is really the only other part of Asia whose sheer scale has any hope of matching that of China.

Apple is starting to bet big on India, shifting production of a variety of products. In 2021, only 1% of iPhones were made in India; two years later, it's approaching 7%, with a planned increase to 40-45%.

Unlike China, India doesn't mount a massive government campaign to copy (or steal) the technology of multinational companies that invest there, then transfer that technology to state-supported domestic champions. And although India has plenty of regulation, it doesn't have China-like arbitrary state control that reaches into every economic sector in ways that are difficult for multinational companies to anticipate.

Comments on Smith

"Indian polity revolves around those who believe that India went through single colonization (European) vs those who believe India went through double colonization (Islamic and European)" *Everything* about Indian politics will make sense if one understands above statement.

Smith (2023) Here comes India

Smith

In my last post, I predicted how manufacturing would spread to India and other developing countries in South and Southeast Asia. Basically, India will start out doing low-value assembly work using imported tools and components, and then gradually work its way up the value chain. Right now, in terms of its position in the supply chain, India is about where China was in the early 2000s.

Viola Zhou and Nilesh Christopher have a wonderful article about what Indian industrialization looks like on the ground. They traveled to a Foxconn factory in southern India, where Apple has shifted some iPhone production in order to diversify out of China. They found that many of the engineers that have been brought over to train and supervise the Indian factory workers are themselves Chinese. Much of their reporting focuses on the interaction and culture clash between the factory's Chinese and Indian workers.

The story that emerges is a very familiar one. The Chinese supervisors think the Indian workers are slow, lazy and undisciplined — just as the British once thought of German and Japanese workers, when those countries were first industrializing. Industriousness is learned; it proceeds from industrialization. The people who first come to work in the labor-intensive factories are mostly women, looking for independence and an escape from rural life (and probably advantaged by having small fingers). The Indian factory girls are recognizably similar to their Chinese predecessors, or their British forebears centuries ago.

This is the universal tale of industrialization, and it's a beautiful and terrible one at the same time. It's a story of ruthless labor exploitation, urban ennui, and harsh working conditions. But it's also the story of workers escaping what Marx called "the idiocy of rural life", finding their own way in the world, making money and winning their independence. And it's the story of a country that is primed to become much richer in the near future.

We know how this story typically ends, too. Indian factories will become more automated; salaries will rise and assembly line jobs will become fewer and more technical. Indians will move into higher-paying service jobs with better conditions. Indian companies will move up the value chain, learning how to make tools and components, eventually creating their own brands and competing with China and the rest of the industrialized world. And then Indian engineers will be off to the next poor country — Bangladesh? Ethiopia? Nigeria? — to start the whole process over again.

I was struck by this paragraph:

> Li said Chinese engineers sometimes talked about how they were working to make their own jobs obsolete: One day, Indians might get so good at making iPhones that Apple and other global brands could do without Chinese workers. Three managers said some Chinese employees aren't willing teachers because they see their Indian colleagues as competition. But Li said that progress was inevitable. "If we didn't come here, someone else would," he said. "This is the tide of history. No one will be able to stop it."

Anyway, if you have the time, go read the whole thing.

Smith (2023) India industrialize

25

Indonesia

Smith

Exactly how Indonesia is accomplishing this growth is a really interesting story. It's one of the few countries in the world that pivoted from being a manufacturing powerhouse to a natural resource exporter without slowing down, and is now trying to pivot back.

In addition to being an important potential market for U.S. goods, Indonesia could be a key location for "friendshoring" of U.S. supply chains. The recent U.S.-Indonesia agreement included a key piece about the semiconductor industry.

The U.S. government is preparing to give Indonesia advice on how to make itself a more suitable destination for manufacturing FDI. If that effort is successful, Indonesia's attractiveness as an investment destination could go far beyond the chip sector. With its large mineral deposits, it could potentially help break China's strangleholds on the processing of critical minerals and on battery manufacturing.

But Indonesia's strategic importance to the U.S. goes beyond its economic potential. It lies along critical trade routes between the Indian Ocean and the Pacific Ocean — around 40% of China's goods trade passes through the South China Sea. This trade has to pass through one of three Indonesian straits — Malacca, Sunda, and Lombok — or else go the long way around Australia.

Foreign infrastructure financing involves more than just lending — it also typically involves "concessional financing" (lending money at below-market rates, which is effectively a partial grant), and technical assistance. The U.S. basically didn't do this. Japan — a key U.S. ally — has definitely stepped up, helping Indonesia build a metro train system in Jakarta, and pledging money for roads as well.

But the country that Indonesia has really turned to here is China. Under the Belt and Road initiative, China has poured billions of dollars of infrastructure loans into Indonesia, and pledged tens of billions more — an order of magnitude more than Japan. The most important and impressive Chinese-financed project has been Indonesia's first high-speed railway, between Jakarta and Bandung.

And this infrastructure effort has helped cement broader economic ties between the two countries; China has taken over as Indonesia's dominant trade partner, where Japan and the rest of Southeast Asia once dominated. Given all this, no wonder Indonesians think China is a more important economic power than the U.S.!

Nine of Indonesia's BRI projects, worth a total of $5.2 billion, involve scandals, controversies, or alleged violations—the world's second-most, behind only Pakistan…Indonesia's debt to Chinese creditors continues to climb, reaching $22.01 billion in March 2022.

Indonesia came out a bit better than some other Belt and Road borrowers, because it dealt with China in a savvier way, refusing to put up its government budget as collateral for the money it borrowed from China. As a result, the cost overruns and other problems will be more of an annoyance than a trap.

What's needed is a joint U.S.-Japan project to finance Indonesian infrastructure, where the U.S. puts up the bulk of the cash and Japan provides the technical assistance.

Instead, what the U.S. probably needs now are more targeted trade initiatives — measures to encourage Indonesia to provide the U.S. with goods like processed metals, batteries, and low-end semiconductors that America currently depends on China to provide.

The third thing the U.S. can offer Indonesia is manufacturing FDI. Widodo is intent on pivoting Indonesia back from resource exporting to industry, undoing some of the deindustrialization that has set in since the 1997 Asian Financial Crisis. The U.S. can help that by helping point companies looking to diversify away from China toward Indonesia.

Smith (2023) The U.S. must not ignore Indonesia

25.1 Jakarta Sinking

Tooze

Venice is sinking. So are Rotterdam, Bangkok and New York. But no place compares to Jakarta, the fastest-sinking megacity on the planet. Over the past 25 years, the hardest-hit areas of Indonesia's capital have subsided more than 16 feet. The city has until 2030 to figure out a solution, experts say, or it will be too late to hold back the Java Sea.

Cue Anthoni Salim, the billionaire owner of PT Air Bersih Jakarta, the firm tapped by the government to expand piped water access to the city's 11 million residents immediately, if not sooner. As of now, one in three Jakartans doesn't have access to piped water, relying instead on the thousands of illegal wells that dot the city — and deplete the aquifers and weaken the ground, creating prime conditions for further sinking.

Tooze (2023) Munitions

26

Iran

Tooze

Almost 10 million Iranians have slipped into poverty from a combination of sanctions, bad economic management and volatile international oil prices during a "lost decade" of growth, according to a World Bank report.

The report is the institution's first official assessment of poverty in the country of 85 million people since the 1979 Islamic revolution. It portrays an economy in which inequality and poverty surged in the decade through 2020, with US-led policies contributing to that, and women bearing the brunt of the impact of both sanctions and the Covid-19 pandemic.

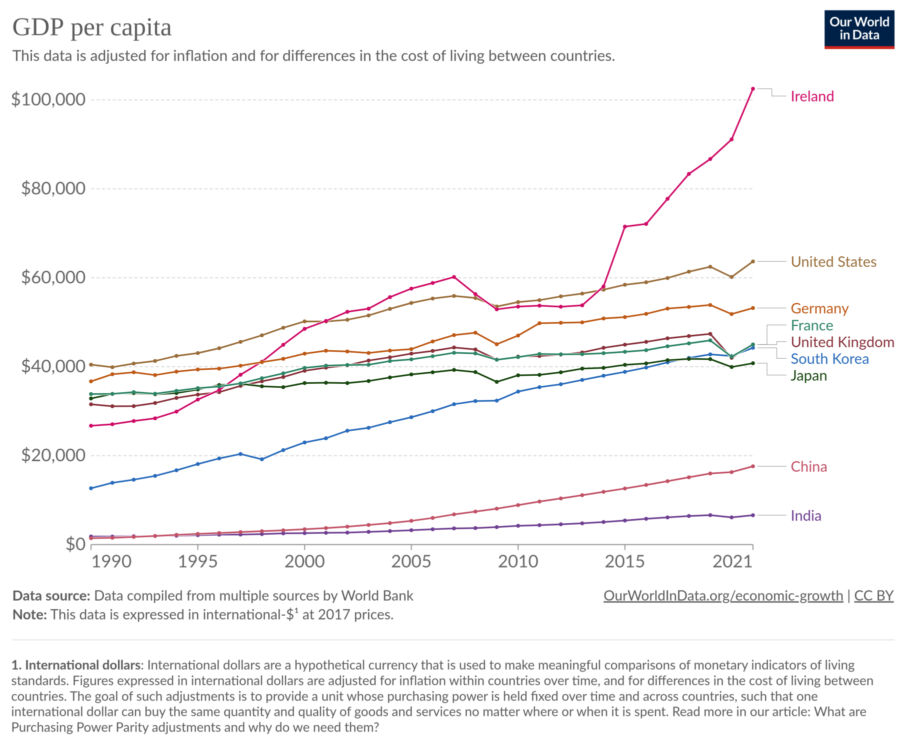
Tooze (2023) Iran sactions

27

Ireland

Smith

My mental visions of the country were always ones of poverty and strife — the potato famine, the penniless migrants flooding American shores in the 1800s, Jonathan Swift satire, James Joyce novels, the Troubles, and so on. And as recently as 1991, there was still a bit of truth to the stereotype — Ireland had a lower per capita GDP than most of the other countries in West Europe. But 16 miraculous years later, the situation had reversed:



Of course, you may have heard that Ireland's GDP is massively overstated. And indeed it is — now, recently Irish GDP soars to ridiculous heights — over $100,000 per person. The country is rich, but it's not that rich.

Ireland's GDP is overstated for two main reasons. First, and most importantly, Ireland is a famous tax haven — its low corporate income tax rates give multinational companies an incentive to book as much of their profit as possible at their Irish subsidiaries. For European companies, this usually required actually relocating their activities to Ireland, but the U.S. has a strange corporate tax system that allows companies like Google and Apple to engage in various other schemes to book profits in Ireland without actually doing anything substantial in the country, inflating Ireland's GDP. A second piece of weirdness was aircraft leasing, whose statistical treatment doesn't make a lot of sense.

In an attempt to stop exaggerating its GDP, Ireland implemented a special statistical system called GNI, *or modified gross national income. Ireland's GNI* is a little over half of its GDP.

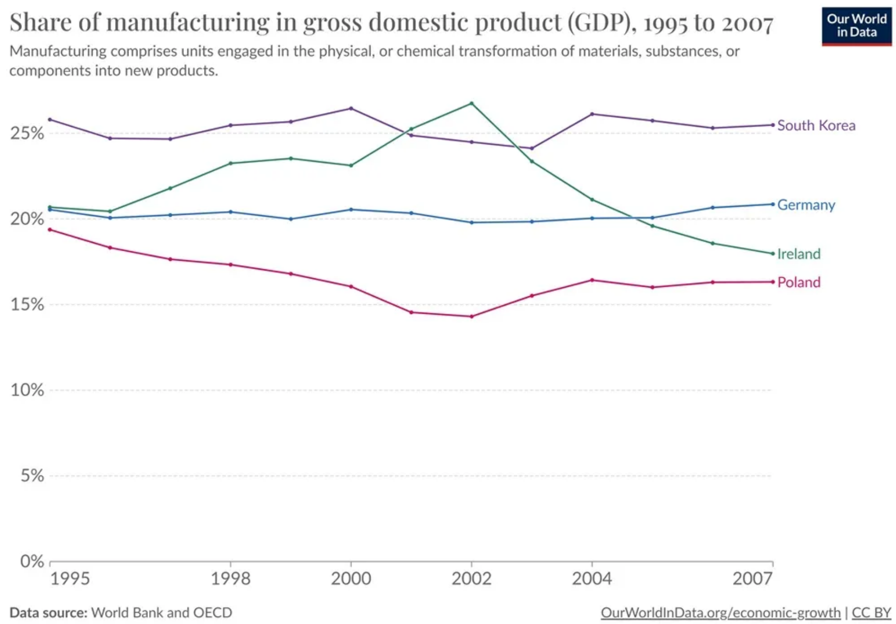
Figure 2.1 Comparison of GDP and GNI* at current prices

GNI* didn't really start to diverge from GDP until 2000, and even in 2007 the divergence was pretty small. The stunning growth of the Irish economy in the 1990s and early 2000s was very real. And despite getting hit famously hard by the bursting of the housing bubble in 2008, Ireland retains its status as one of the world's richest economies. The country may no longer be the "Celtic Tiger", but its gains during that glorious epoch appear secure.

Ireland is also part of a small, elite club of countries that is richer than its 19th-century imperial overlord, along with South Korea, Poland, the Baltics, and a few others. It's Britain's turn to be the shabby, dysfunctional cousins.

Ireland's exports are heavily weighted toward the biomedical and pharmaceutical industry, with some high-tech electronics manufacturing as well.

If you go back to the "Celtic Tiger" years, electronics manufacturing was a little more prominent, but the basic pattern was probably the same. In general, Ireland was a pretty manufacturing-intensive economy during its boom years, in the same league as South Korea or Germany.



Ireland is a small country, meaning it can't really make much stuff for the domestic market, because there just isn't much of a domestic market. So Ireland's economic success naturally involved a lot of exports. In fact, Ireland is traditionally more export-oriented than South Korea.

In other words, the Celtic Tiger looked much like the Asian Tigers did — a country that made a lot of high-tech products and sold them to the rest of the world. Of course, a country can't get by on export manufacturing alone — you need to have a robust local economy to circulate and multiply the gains from export revenue. But export manufacturing is useful for a number of reasons. Manufacturing inherently tends to have rapid productivity growth. And many people think exporting raises productivity growth as well, by forcing local companies to compete in global markets and helping them to absorb foreign technologies.

One reason Ireland has been able to accomplish this is its special relationships with two important economies: the U.S. and Europe.

Ireland's export destinations are actually very diversified. Europe obviously looms the largest. Ireland's embrace of Europe stands as a stark contrast to Britain, which is still reeling economically from Brexit.

When it comes to investment capital, Ireland has an even bigger ace in the hole — the United States. U.S. is by far the biggest source of that investment.

Ireland is the most popular destination for new Foreign Direct Investment (FDI) projects in the EU, when measured on a per capita basis. The attraction of FDI to Ireland has been a cornerstone of Irish government policy since the 1960's and FDI now plays a very significant role in supporting the Irish economy.

Investment has come primarily from the U.S., with the large Irish diaspora overseas helping to facilitate connections. In 2020, U.S. FDI in Ireland stood at USD 390 billion, more than the U.S. total for Brazil, Russia, India, China, and South Africa (the BRICS) combined. While investment from all sectors has been welcomed, those offering high value-to-volume products for export (e.g. ICT and Pharma) have been favoured.

In terms of global distribution, 847 of the multinationals investing in Ireland are from the United States, 354 companies are of European origin – with almost half of those from Germany and France, 136 are UK origin client companies, and 212 come from across the rest of the world. One report I read referred to Ireland as "an intermediary between Silicon Valley and Europe".

The U.S. has a big Irish diaspora — about 36 million strong, over seven times the population of Ireland itself.

Over the centuries, Ireland's tendency to send its young people abroad has traditionally been seen as a weakness; since 1990, Ireland has been an object lesson in how outmigration can boomerang and eventually become a strength.

Irish policy does it all

Roughly speaking, there are three varieties of development policy. These are:

- Liberalization
- Capacity building
- Industrial policy

Liberalization just means removing the barriers to economic activity — high taxes, regulation, trade barriers, and so on. Capacity building means investing in things like education, health, and infrastructure. And industrial policy can mean lots of different things, from subsidizing exports to courting foreign investment to promoting specific industries.

Back in the 1950s when Ireland mainly exported farm products, its leaders recognized how crucial foreign market access was. In the 1970s, economic policy influencers like T.K. Whitaker successfully argued for free trade — which is essential if you're a small country without much of a domestic market. The EEC and EU were, of course, essential for this. In fact, one big growth advantage of small countries over big ones might simply be trade openness; in a small country, everyone realizes that the domestic market isn't enough.

Ireland also has famously low corporate tax rates, which are part of what give it its reputation as a tax haven (the other part being some weird tax loopholes). But in fact, this wasn't always the case. Until the late 90s, Ireland had high tax rates on every sort of corporate income except manufacturing, for which the rate was very low.

This is sort of a combination of liberalization and industrial policy. Preferential low rates on manufacturing helped bias economic activity toward things like electronics and pharma; without this split rate, Ireland might have become finance-heavy like the UK.

In fact, one wonders whether cutting tax rates for other kinds of corporate income might have inadvertently pushed Irish investment away from the strengths of the Celtic Tiger period and toward things like housing speculation and tax haven shenanigans.

But it's also the case that tax havens tend to grow faster than other countries. Part of the reason might be that many tax systems only allow companies to take advantage of a country's low tax rates if they actually move their factories to that country. So Ireland might be absorbing foreign technology by luring companies in with tax arbitrage.

Partly as a result of low tax rates and various other business-friendly policies, Ireland regularly ranks near the top of various "competitiveness" rankings; in 2023 it was #2 on IMD's global list, behind only Denmark, with especially high rankings in "business efficiency" and "government efficiency".

Some thinkers like Ha-Joon Chang have concerns with FDI as a driver of development. They worry that foreign companies won't let go of their best technologies, and that foreign brands will crowd out domestic ones, ultimately limiting a nation's ascension to the top of the value chain. Irish policymakers have shared this concern, making various attempts to promote domestic innovation. So far it's not clear how effective this has been (especially because Ireland's tax shenanigans make macro data difficult to assess).

To build a rich economy, one thing you definitely need is a lot of skilled labor. There are two ways to get skilled labor — education and immigration — and in general you should use both. Ireland did. Its baby boom was bigger and lasted much longer than other rich countries

But Ireland has also imported large numbers of workers. In the 90s, a traditional pattern of outmigration reversed, and people started moving to Ireland en masse.

These immigrants tend to skew young. And they're disproportionately high-skilled; in 2022, more than half of immigrants to Ireland had a university degree or similar.

In other words, there are a lot of things Ireland did to try to produce an economic miracle. It liberalized its trade policy, cut taxes, created a favorable climate for business, and drew in a bunch of immigrants. But it also encouraged manufacturing, tried to promote domestic innovation, and invested heavily in education. Ireland did it all, and somehow, it worked out.

Ireland's biggest policy challenge right now, without a doubt, is housing. Rapid immigration, along with replacement-level fertility, has sparked a population boom. But this boom hasn't been matched by a boom in new housing construction. If the issue doesn't get solved, it's not inconceivable that Ireland could follow Britain into genteel decline.

Smith (2023) How Ireland got so rich

OCarrol

The case against Apple dates back to 2014, when the then-competition commissioner Margrethe Vestager launched an investigation into two tax rulings in Ireland that she suspected had artificially lowered the tax due since 1991.

It found that in 2003 the company had been allowed an "effective corporate tax rate" of just 1% on its European profits and just 0.005% in 2014.

Two years later the European Commission concluded that the benefits between 1991 and 2014 amounted to illegal state aid and ordered Ireland to recover the money.

Apple and Dublin immediately challenged that decision.

Three years ago the general court of the European Union annulled the European Commission's decision on the grounds that it had not shown the tax advantage was derived from tax rulings.

On Thursday, the ECJ's advocate general, Giovanni Pitruzzella, sided with the commission, saying the court's judges should set aside the general court ruling and refer the case back to the lower tribunal.

"The judgment of the general court on 'tax rulings' adopted by Ireland in relation to Apple should be set aside," Pitruzzella said in a non-binding opinion.

He said the general court had committed "a series of errors in law" when it ruled that Brussels "had not shown to the requisite legal standard" that the profit Apple had made on sales of its products outside the US had to be attributed to their Irish branches.

"It is therefore necessary for the general court to carry out a new assessment," said the ECJ in a statement.

While proceedings drag on, Apple had to hand over the full amount, which Ireland has been holding in an escrow account.

OCarrol (2023) Apple suffers setback in fight against EU order to pay £11bn tax bill in Ireland

28

Israel

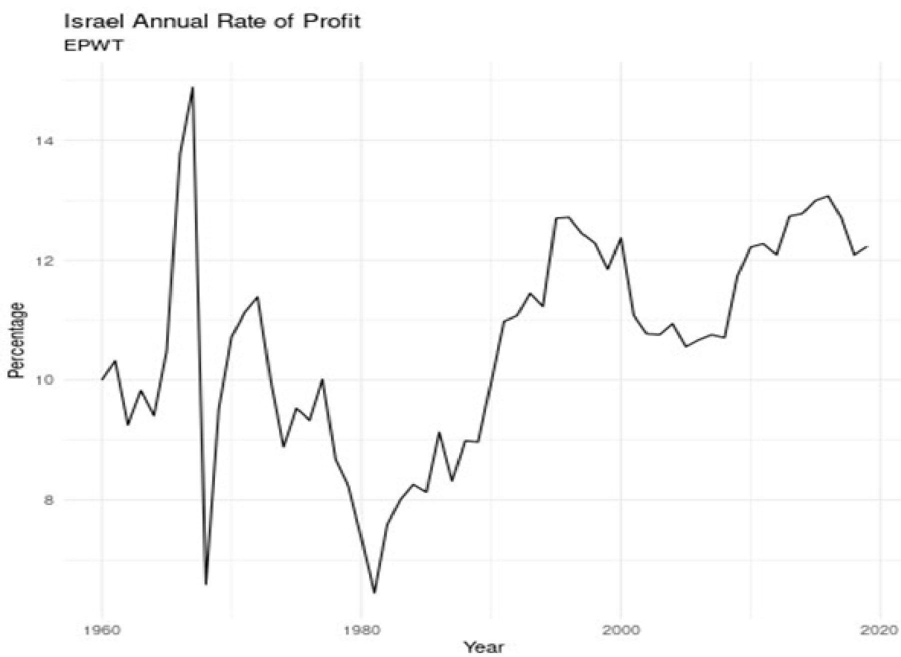
Roberts

Last March, Israel marked its 75th anniversary as a state. The Economist journal commented "Today Israel is hugely rich, safer than it has been for most of its history, and democratic—if, that is, you are prepared to exclude the territories it occupies (sic!). It has overcome wars, droughts and poverty with few natural endowments other than human grit. It is an outlier in the Middle East, a hub of innovation and a winner from globalisation." These words now seem like a sick joke given the events of the last few weeks, or for that matter if we look at the real history of the Israeli state.

That history is one of Jewish immigrants coming to Palestine with the broad aim of setting up a 'safe-haven' state for Jews in their 'homeland' alongside the existing Arab inhabitants. Many of these Zionists dreamt of Israel as becoming a model 'socialist society', communally owned and run through local communes or kibbutzim acting, as an democratic alternative to the rule of sheikhs and generals in the Arab states. The reality was that in practice Jewish immigrants settling in Palestine and establishing a new 'socialist' state could only do so by the removal of hundreds of thousands of Arabs from their homes and land through violence.

Nevertheless, through a combination of massive immigration (which doubled the Jewish population), huge inputs of foreign investment by rich Jewish communities and mainly American capital, plus the setting-up of a strong military force, Israel's economy grew very fast from 1948. This was the 'golden age' of post-war capitalism, when profit rates were high and investment was equally strong. So it was possible to inaugurate a new economy very fast. GNP grew at an average annual rate of 10.4 percent between 1948-1972. The capital needed to build the Israeli economy came from US aid transfers and loans, German reparation payments and the sale of Israeli state bonds abroad. Profitability was kept high by controlling prices and wages, so keeping workers' real incomes from rising too much.

But then, as in the rest of advanced capitalist economies, the profitability of capital in Israel fell sharply from about the mid-1960s to the early 1980s. This brought economic crises as part of the international slump of 1974-5 and 1980-2. It also brought a new war with the Arab states in 1973. At this point in the story of the Israeli economy, it is very useful to look at the profitability of Israeli capital from the 1960s, as provided by the World Profitability Database.



The graph clearly shows the sharp fall in profitability to a low in the global slump of 1980-2. Between 1973 and 1985, GNP growth declined to about 2 percent per year, with no real increase in per capita output. At the same time, the inflation rate spiralled out of control, reaching a high of 445 percent in 1984 and the balance of payments deficit with the rest of the world hit highs.

Israel's so-called democratic socialist state had to go if Israel's capitalists were to prosper. And so, as in many other capitalist economies, Israelis now elected governments that aimed to end 'socialism' and open up the economy to capital without restrictions, while at the same time reducing Israel's 'welfare' state and support for collectives like the kibbutz. Israel entered the neo-liberal era which lasted globally for the next two to three decades with a vengeance.

In 1983, the Tel Aviv Stock Exchange collapsed, bursting a huge financial bubble that had been growing for years. The right-wing Likud government blamed the banks. It took over Bank Hapoalim which had direct and indirect control over some 770 companies and controlled some 35 percent of the Israeli economy with the aim to privatise all these state assets. The state eventually sold the three major banks: Bank Hapoalim, Bank Leumi, and Bank Discount to private capitalists. The telecommunications industry was privatised and the ports are now going through the same process.

In a carbon copy policy of Reagan in the US and Thatcher in the UK, between 1986-2000, 83 government owned companies were sold for a total of $8.7 billion US dollars. The national airline ELAL, the telecommunications network Bezeq, all the major banks and the other big five conglomerates were all sold off to buyers selected by the government. The buyers included many of Israel's wealthiest, combined with moneyed American Jewry, and other foreign conglomerates. None of these companies were privately listed for sale. For example, the government sold Israel Chemicals Ltd. to the Eisenberg family through a private bidding process that was carried out between 1993 and 1997.

For a while these measures did help to get the profitability of Israeli capital up – in our profitability graph, there was a doubling of the rate of profit from 1982 to 2000. But the rise in profitability was mainly driven by a new influx of immigrants after the collapse of the Soviet Union and from North Africa. Immigration cheapened labour costs, while a period of seeming 'truce' with the Arabs ensued after the Oslo accords enabling even greater inflows of foreign investment.

This was the period of the expansion of 'start-up hi-tech' firms that Israel has become noted for and of the apparent integration of the Israeli economy into a a fast-globalising world economy. Nicknamed the "Start-Up Nation", Israel now has more than 7,000 active start-up companies.

But this did not last. In the 21st century, Israel's capitalist economy increasingly struggled like many other 'emerging economies'. The big difference, of course, that in its perpetual war with its neighbouring Arab states, Israel has been backed to the hilt by the US and Western capital. So even facing permanent conflict with its Arab neighbours and uprisings by the displaced Palestinians, it has been able to survive economically and also develop a formidable military force.

Ironically, massive immigration from the former Soviet Union, the importation of foreign workers and the rapid natural growth of the local Arab population, has made Israel less and less of a 'Jewish state' in population terms. But the impact of neoliberal policies and economic slowdown has not led to a shift to the left. The fear of Arab attacks and the failure of any effective alternative socialist opposition have instead led to the rise of religious and ethnic political parties. The race and religious cards have been played by Israeli capital to avoid any confrontation over its economic and social failures.

In the past ten years the collective Kibbutzim have rapidly disappeared to be replaced by high-end suburban housing. Land values have skyrocketed with real estate speculation. There has been continual erosion in funding for health and other public services which has led to a rise in the private cost of health and adds to growing gaps in the access to services between those who have money and those who don't.

The 'socialist dream' of the early Israeli state has now given way to the capitalist reality. Israel is one of the most unequal high-income countries.

Continual war may benefit the arms manufacturers and the military, but over the long term it lowers profitability and investment in the productive sectors of the economy.

Roberts (2023) Israel: the shattering of a dream

Naila

"I'm personally a Holocaust survivor as an infant, I barely survived. My grandparents were killed in Aushwitz and most of my extended family were killed. I became a Zionist; this dream of the Jewish people resurrected in their historical homeland and the barbed wire of Aushwitz being replaced by the boundaries of a Jewish state with a powerful army…and then I found out that it wasn't exactly like that, that in order to make this Jewish dream a reality we had to visit a nightmare on the local population.

There's no way you could have ever created a Jewish state without oppressing and expelling the local population. Jewish Israeli historians have shown without a doubt that the expulsion of Palestinians was persistent, pervasive, cruel, murderous and with deliberate intent - that's what's called the 'Nakba' in Arabic; the 'disaster' or the 'catastrophe'. There's a law that you cannot deny the Holocaust, but in Israel you're not allowed to mention the Nakba, even though it's at the very basis of the foundation of Israel.

I visited the Occupied Territories (West Bank) during the first intifada. I cried every day for two weeks at what I saw; the brutality of the occupation, the petty harassment, the murderousness of it, the cutting down of Palestinian olive groves, the denial of water rights, the humiliations…and this went on, and now it's much worse than it was then.

It's the longest ethnic cleansing operation in the 20th and 21st century. I could land in Tel Aviv tomorrow and demand citizenship but my Palestinian friend in Vancouver, who was born in Jerusalem, can't even visit!

So then you have these miserable people packed into this, horrible…people call it an 'outdoor prison', which is what it is. You don't have to support Hamas policies to stand up for Palestinian rights, that's a complete falsity. You think the worse thing you can say about Hamas, multiply it by a thousand times, and it still will not meet the Israeli repression and killing and dispossession of Palestinians.

And 'anybody who criticises Israel is an anti-Semite' is simply an egregious attempt to intimidate good non-Jews who are willing to stand up for what is true."

Naila (2023)

Tooze

The extreme destruction begs the question of Gaza's future. But this crisis also puts to the test the economic grand strategy that Israel has developed since the second intifada (2000-2005), a strategy of national security neoliberalism, closely associated with Benjamin Netanyahu, first as Ariel Sharon's Finance Minister and then as Prime Minster.

Israel's strategy followed from the collapse of the hopes associated in the 1990s with the promise of the peace economy. Shimon Peres and other Israeli strategists had hoped to combine a final settlement with the Palestinians with broader regional economic integration, along the lines of West European integration.

The outbreak of the Second Intifada in September 2000 turned the game upside down. The failure of the Camp David Summit in that year marked the end of the peace economy.

The intifada dealt a heavy blow to Israel's economy. According to Central Bank estimates the Palestinian uprising was costing Israel as much as 3.8% of gdp per annum. The idea of a deeply integrated regional economy no longer seemed realistic. Even less so after 911 and the assault on Iraq in 2003. This put strain on Israel's alignment with the United States, as Washington needed to find new allies in the Arab world and Israel's right-wing no longer wanted to compromise on the road to a two-state solution.

The right-wing governments in the post-Intifada period faced a new dilemma: How to restore economic growth without a peace process? This dilemma was the origin of a new economic-security doctrine. In the early 2000s, the Israeli economy was in a recession … The government of Ariel Sharon, led by Finance Minister Benjamin Netanyahu, implemented an austerity policy. In April 2003, a month after his appointment as minister of finance, Netanyahu announced the Economic Recovery Plan, which included a budget cut, a lowering of government deficits, and severe reductions in social spending and allowances. He also reduced government subsidies to the private sector. For Netanyahu, private sector growth was a means to improve Israel's economic power in a globalized world. … privatization and liberalization were processes designed to improve Israel's capacity to withstand external political pressure and pursue an independent foreign policy. … By late 2003, Israel's current account had become positive and was growing, indicating that foreign currency was pouring into the economy. This change, which went unnoticed by the Israeli public, was nothing less than a transformative moment, a revolution in Israel's economic history. … Ben-Gurion's doctrine assumed dependency on foreign capital. This dependency, I argue, was a key element in the national vision and identity: the dependence of the state-building project on foreign assistance. By becoming a "surplus country" …. Israel had become less vulnerable than it had been before. The Bank of Israel hoarded part of the foreign currency. The Bank of Israel's foreign reserves, having rocketed since 2007, currently are among the highest in the world per gross domestic product. At the same time, despite the deadlock in the peace process with the Palestinian Authority, Israel's risk premium on government bonds stayed low and matched the risk premium of some countries in Europe.

The shift in Israel's relationship to the United States was embraced by the Israeli right-wing as essential if they wanted to pursue their aggressive line on the Palestinian question.

A strong current account surplus was essential if Israel was to make this "bid for autonomy". Within Israel's political economy, the new focus on private-sector, export-led growth implied a shift away from the absolute priority of the military.

In social and political terms, the new growth model effectively divided Israeli society into several separate parts with different economic and cultural trajectories. The familiar pattern of rising inequality under neoliberalism was compounded in Israel by the rapid expansion of the ultra orthodox community, which does not participate in mainstream education, and the structural discrimination of the Arab community within Israel.

Netanyahu's strategy was to make the modern segment of Israel's economy so competitive that it would enable not just independence from American (or European) pressure, but turn Israel into a magnet for regional economic interests, above all of the Gulf. Foreign Direct Investment became a crucial component of Israeli investment.

Developing better relations with the growing Arab economies of the regione would allow an "economic peace" (one of Netanyahu's favorite slogans) to be built over the heads of the Palestinians whose resentment and frustration would be contained through a strategy of divide and rule.

Gaza under Hamas would be quarantined and maintained just above the level of total collapse. Withdrawing from Gaza and placing it under siege was consistent with what Israel's Institute for National Security Studies called "externalizing" the conflict.

Meanwhile, the PA-run West Bank was incorporated in a much more open regime, allowing a dramatic increase of Palestinian migrant labour in the Israeli economy. "Shrinking the conflict" entailed allowing more than 200,000 Palestinians to work in Israel, 80,000 alone in construction.

This was not so much development, as the classic strategy of dependency and it went hand in hand with an aggressive program of settler development. The ongoing violence of the occupation regime thus sat side by side with Israel's global economic integration.

Tooze (2023) Chartbook 251: Israel's national security neoliberalism put to the test

28.1 Gaza

Tooze

Why Gaza's refugee camps are so vulnerable

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There are 1.7m registered refugees living in Gaza-constituting more than two-thirds of its popula
first shelters made of mud bricks, then cement-block houses. In 1955 unrwa re-organised the camps
including electricity and plumbing-as other parts of the strip. But they were not included in urb
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Tooze (2023) The history of refugee camps in Gaza (from the Economist)

Bishara

Israel's sadistic war on Gaza, the culmination of a long series of criminal policies, may well prove suicidal in the long term and lead to the demise of the mighty "Jewish State".

Indeed, Israel's deliberate, industrial-scale murder of the Palestinian people under the pretext of "self-defence" won't enhance its security or secure its future. Rather, it will produce greater insecurity and instability, further isolate Israel and undermine its chances for long-term survival in a predominantly hostile region.

In truth, I never thought Israel could have much of a future in the Middle East without shedding its colonial regime and embracing normal statehood. For a short while in the early 1990s, it seemed as if Israel was changing direction towards some form of normalcy, albeit dependent on the United States. It engaged the Palestinians and Arab states in the region in a "peace process" that promised mutual existence under favourable American auspices.

But Israel's colonial nature dominated its behaviour at each and every turn. It wasted countless opportunities to end its occupation and live in peace with its neighbours. To paraphrase Israeli diplomat Abba Eban's infamous quip, Israel "never missed an opportunity to miss an opportunity".

Instead of ending its occupation, it doubled down on its colonisation project in the occupied Palestinian territories. It has multiplied the number of illegal Jewish settlements and settlers on stolen Palestinian lands and networked them through special bypass roads and other planning projects, creating a dual system, a superior, dominating one for the Jews and an inferior one for the Palestinians.

As one apartheid was dismantled in South Africa, another was erected in Palestine.

In the absence of peace and in the shadow of colonisation, the country has slid further towards fascism, enshrining Jewish supremacy into its laws and extending it to all of historic Palestine, from the Jordan River to the Mediterranean Sea. In no time, the fanatical and far-right parties gained momentum and took over the reins of power under the opportunistic leadership of Prime Minister

Benjamin Netanyahu, undermining Israel's own institutions, and all chances of peace based on coexistence between two peoples.

They rejected all compromise and have begun devouring the entirety of historic Palestine, expanding the illegal Jewish settlement on stolen Palestinian lands throughout the occupied West Bank in an attempt to squeeze the Palestinians out. They also tightened their siege of the Gaza Strip, the world's largest open-air prison, and dropped all pretence of ever allowing it to unite with its Palestinian hinterland in a sovereign Palestinian state.

Then came the October 7 attack – a rude wake-up call reminding Israel that its colonial enterprise is neither tenable nor sustainable, that it could not lock in two million people and throw away the key, that it must address the root causes of the conflict with the Palestinians, namely their dispossession, occupation and siege.

But the Netanyahu regime, true to its nature, turned the tragedy into a rallying cry and doubled down on its racist dehumanisation of the Palestinians, paving the way for a genocidal war. It declared war on "evil", by which it meant, not only Hamas, but also the people of Gaza. One Israeli leader after another, starting with the president himself, implicated all the Palestinians in the gruesome attack, claiming there are no innocents in Gaza.

Since then, Israel turned vengeful, tribal and adamant on destruction and expansion with total disregard for basic human decency and international law. Israel's colonial war became a war on hospitals, schools, mosques and residential buildings, financed, armed and protected by the United States and other Western lackeys and killing thousands of Palestinian civilians – children, doctors, teachers, journalists, men and women, old and young, as if they were enemy combatants.

But this foreign tribe has no chance of surviving among all the indigenous people of the region, who have coalesced more than ever before against the bloody intruder. Israel can no longer use its fanciful theological claims to justify its violent racist practices. God does not sanction the slaughter of innocent children. And nor should Israel's American and Western patrons.

As Western public opinion turns against Israel, its cynical leaders will also change course, if not to preserve their moral standing, then to safeguard their interests in the greater Middle East. The change in the French position, demanding Israel stop the killing of children in Gaza, is an indicator of things to come.

Israel has no good options after its bad war ends. This may be its last chance to pull away from the brink, stop the war, embrace US President Joe Biden's vision of a two-state solution, impractical as it is today, and accept America's red lines for Gaza: no to reoccupation, no to ethnic cleansing and no to shrinking its territories. But Netanyahu, along with his fanatic coalition, who've long taken America for granted, have once again ignored – read rejected – America's advice to the detriment of both sides.

Long before the war on Gaza, a leading Israeli journalist, Ari Shavit, predicted the demise of Israel "as we know it", if it continued on the same destructive path. And last week, Ami Ayalon, a former head of Israel's Shin Bet secret service, warned that the government's war and territorial expansion will lead to "the end of Israel" as we know it. Both have written books warning Israel about the dark future ahead if it continues its occupation.

Like all other violent intruders, from the ancient crusaders to the modern-day colonial powers, this last colonial entity, Israel, as we know it, is destined to vanish, regardless of how much Palestinian, Arab and Israeli blood it sheds.

The Gaza war may turn out to be the beginning of the end, but not for Palestine. Just as apartheid South Africa's bloody supremacist regime imploded, so will Israel's, sooner or later.

Bishara (2023) This Israel has no future in the Middle East

29

Italy

Tooze

How much growth does Italy really need? I don't want to engage in the degrowth debate here. But Italy is also interesting from that aspect. By most reasonable criteria, despite this stagnation in gdp per capita, the standard of living in Italy for a large majority of the population is very attractive, enviable indeed. Behind a rawlsian veil of ignorance, would you pick a "success story" like the United States over Italy?

There are very real deficits of an institutional kind, in technical modernization, not to mention the future problems of the climate, energy transition etc. What Italy needs is not brute-force growth at any price, but faster, "smart" growth, reform of institutions to improve everyday life, above all in the legal system and state administration, and a major investment in its education system, which currently fails far too many young Italians.

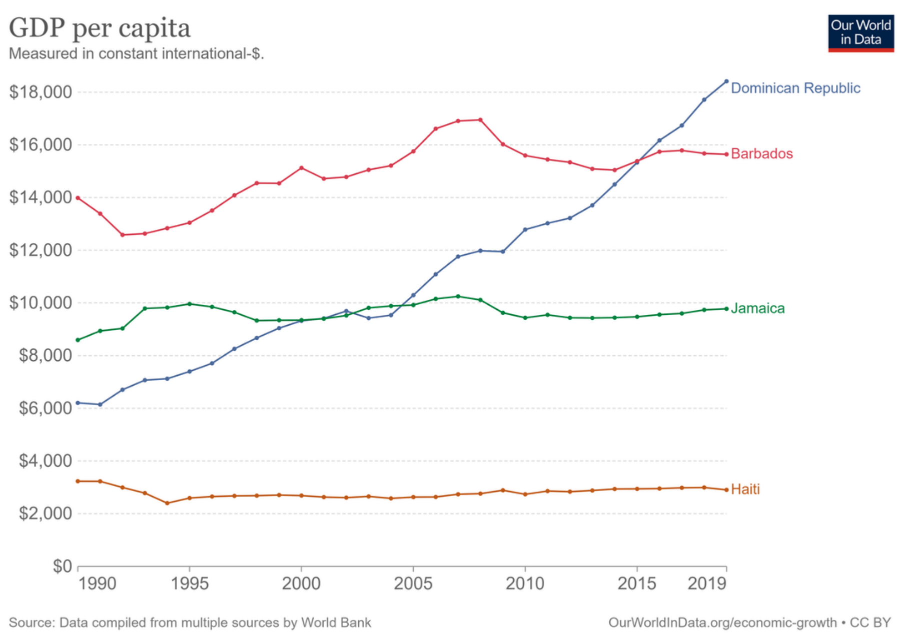
Tooze (2022) Draghi for Presiden?

30

Jamaica

Smith

Jamaica is classified as a middle-income country by the World Bank. In terms of GDP per capita (PPP), it's at about $10,000, putting it somewhere in the same neighborhood as Vietnam, Tunisia, or Jordan. That's rich enough for Jamaicans not to starve, and for most to have generally decent living situations, but not enough to eliminate extreme poverty or create the kind of broad middle class we'd recognize as such in a developed country.



Jamaica's socialist policies in the early 70s — nationalization of industry, import barriers, subsidies for basic goods, high deficits, and so on — did long-term damage, while Barbados' relatively neoliberal policies avoided hurting its economy much during those troubled years.

This, if true, would be a pretty direct rebuke to the ideas of people like Ha-Joon Chang, who argue that nationalization, import barriers, and tolerance of rapid inflation are a more effective growth strategy than the traditional "neoliberal" orthodoxy of privatization, free trade, sound money, and balanced budgets. And interestingly, Jamaica's more leftist turn in the 70s didn't result in enduringly lower inequality than Barbados — the two countries' Gini coefficients are almost equal, both in the mid-40s.

The more important question here has to be why Jamaica hasn't seen a takeoff in growth, the way the Dominican Republic. has. Remember, a growth takeoff — rather than simply stagnation at a higher level — is the ultimately goal of "development state" policies like those recommended by Ha-Joon Chang.

It might be that each country just has to wait its turn in line, waiting for the so-called *"flying geese" of global capital* to decide that this is the next place to produce shoes and clothes and toys. Under this theory, countries can at best hope to cut in line by having slightly better education and infrastructure than the next country over.

But if we assume there is something countries can do to jump-start industrialization, then the best candidate for what they can do is the "development state". My favorite formulation of this is in the book How Asia Works, which — though it doesn't get everything quite right — is the simplest and most reasonable guide to the basic idea. The author, Joe Studwell, distills the experiences of successful East Asian industrializers into three basic steps:

1. Land reform, to employ the rural population and raise farm output while freeing up landlords to start manufacturing companies
2. "Export discipline", meaning a country promotes exports in manufacturing industries as a tool to absorb foreign technologies, learn how to climb the value chain, and generate foreign exchange
3. Financial repression, meaning that the finance sector is forced to fund manufacturing and exports rather than putting all its money in stuff like real estate or Bitcoin or whatever.

On land reform, Jamaica fails badly; concentrated land ownership and widespread tenant farming is a big reason for its continued high inequality. The Jamaican Left keeps proposing land reform, and it keeps not getting done. This is probably depriving Jamaican manufacturing of talent; a number of the country's richest and most well-educated people are engaged in relatively unproductive landlording instead of starting the next Hyundai or Samsung.

How about export discipline? Here, Jamaica faces a more formidable enemy than political gridlock — its own abundance of natural resources. Jamaica has huge reserves of bauxite, which is used to make aluminum. This accounts for an enormous percentage of its exports.

Exporting aluminum-related minerals makes Jamaica's currency more expensive (since it means other countries have to buy a lot of Jamaican dollars in order to buy the minerals). That makes Jamaican exports less competitive. This is known as "Dutch disease".

The second problem posed by resource abundance is high wages. Yes, we all think high wages are good, but if you're trying to get in on the cutthroat game of global manufacturing exports, you need to start at the bottom, with simple low-value activities like making clothes and toys and light electronics assembly. This is how Bangladesh and Vietnam — and, indeed, the Dominican Republic — kicked off their own exponential growth. But with a per capita GDP of around $10,000 in 1990, Jamaica was much richer than Vietnam or Bangladesh or the D.R. In fact, it's still richer than the first two.

Because it had so much bauxite (and, possibly, so much tourism), Jamaican wages were necessarily uncompetitive when they needed to be competitive.

In fact, Jamaica did make a big push for export-oriented industrialization, starting with exactly the kinds of labor-intensive light manufacturing industries that have worked well for the successful industrializers. Established in the 1970s and 1980s, the Jamaican Free Zones were similar to China's Special Economic Zones — they provided tax exemptions for businesses, facilitated foreign investment, and favored export-oriented industries like textiles.

But the Free Zones never took off. Even with all the tax breaks, Jamaican manufacturing was just never competitive. In an economy that's used to middle-income living standards, the low wages and brutal conditions necessary to be competitive in labor-intensive manufacturing just didn't provide people with what they considered to be decent work.

Whereas Bangladeshi and Vietnamese workers would endure harsh conditions for a while but eventually get better lives as companies learned how to do more complex manufacturing, Jamaica's high starting wages short-circuited that process. If industrialization is a process of learning to walk before you learn to run, then according to this theory, Jamaica was born with a fancy aluminum wheelchair.

This might be the brutal, unfortunate truth for developing countries — those that are endowed with plentiful natural resources might simply be destined to start out ahead but eventually fall behind.

The fact is, we don't really know how economic development happens, and to put too much faith in the Chang/Studwell story would be unwise. After all, the Dominican Republic is pulling off a successful manufacturing-based industrialization, and yet its top export is still gold. So having resource endowments doesn't ensure stagnation; Jamaica still has a chance.

With the rise of highly complex service industries, there's always the chance that Jamaica may in some sense be able to "leapfrog" to higher-value activities. Jamaica is trying to do this with the Jamaica Logistics Hub, which envisions the island becoming a waystation for trade throughout the Caribbean and Latin America. This can be a good strategy for a small country — is has worked well for countries like Dubai and Singapore, each of which is actually more populous than Jamaica.

Becoming a logistics hub will involve a lot of new infrastructure — in fact, China is helping Jamaica build out its facilities. Ports, roads, and various processing facilities are all being built. According to some sources, the country is now investing about a quarter of its GDP, almost as good as Vietnam, up from about a fifth of GDP five years ago.

Jamaica has avoided becoming a kleptocratic basket case like many resource exporters. Jamaica is doing OK, but it deserves to be a rich country. It just has to keep experimenting until it finds a model that will get it there.

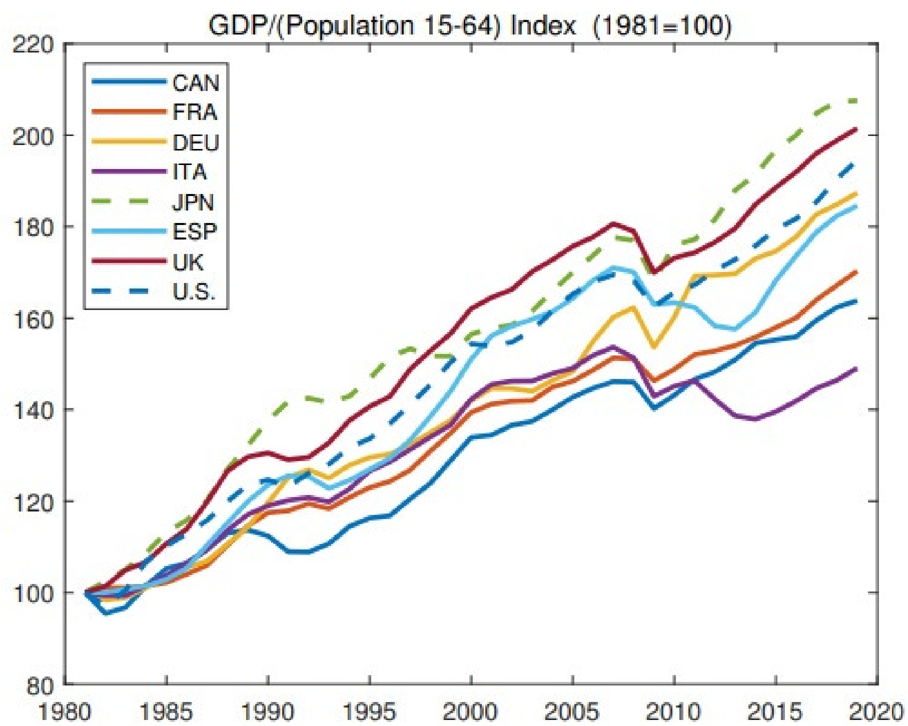
Smith (2021) Jamaica is doing OK Could it do better than OK?

31

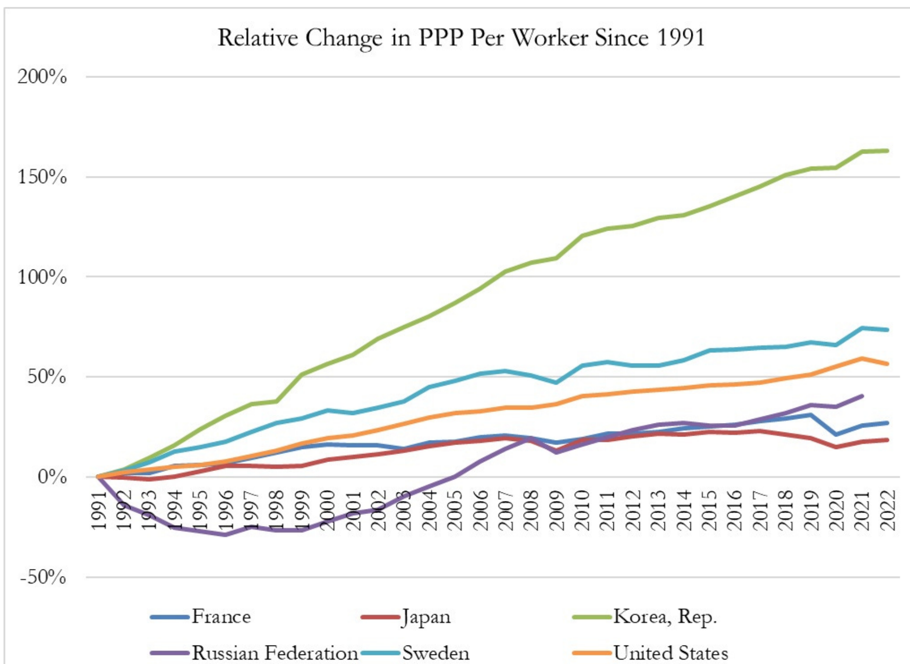
Japan

Smith

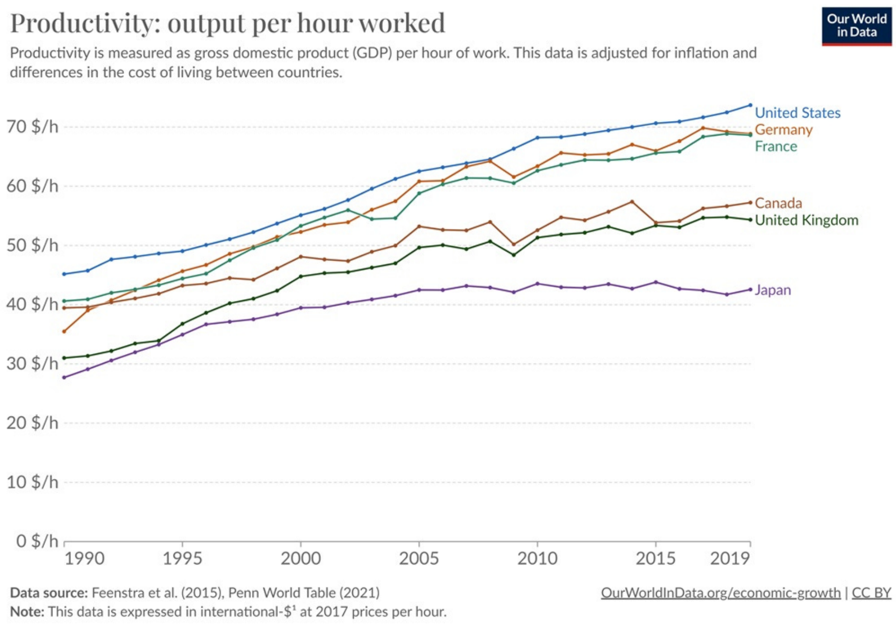
Once we correct for population aging by focusing on output growth rates per working-age adult, Japan appears as a surprisingly robust economy over the last 25 years, outperforming the other G7 countries and Spain.



But not so fast! Not all working-age adults actually work. Lyman Stone points out that if you look at GDP per worker instead of GDP per working-age population, Japan again looks very slow:



And when you look at output per hour, the story is the same:



Japan has been able to beat these other countries in terms of GDP per working-age population by putting in a lot more of its population to work.

This low productivity growth could also be due to aging, as there is a pretty robust empirical connection in the data. But the timing — a sudden flatlining of productivity growth after the Asian financial crisis of 1997, rather than after the bubble burst of 1990 — seems highly suspicious here.

Is it possible that the early and mid 90s weren't actually a lost decade for Japan, but that the years since 1997 have been? This is a mystery that bears a lot more investigation, and I plan to write more about this soon.

Smith (2023) At least five things for your Thanksgiving weekend](https://www.noahpinion.blog/p/at-least-five-things-for-your-thanksgiving)

32

Liberia

Beslik

a carbon offset deal could see Liberia concede 10 percent of its territory to a private Emirati company, extinguishing customary land rights and giving the United Arab Emirates (UAE) pollution rights equivalent to the forest's carbon sequestration.

The deal would give the company blanket control over one million hectares of forest. The company would then "harvest" carbon credits, supposedly from restoring and protecting the land, which they would then sell onto major polluters to offset their emissions. If signed, the Memorandum of Understanding (MoU) would violate a number of Liberian laws, including the 2019 land rights law, a legislation that asserts communities' right to "customary land".

It would also concede near total control of one of the most densely forested territories in Africa to the Dubai-based firm Blue Carbon for a period of 30 years. Additionally, the deal would prevent Liberia from using the land to meet its own international climate targets.

Up until recently, the agreement was shrouded in secrecy; while the MoU was concluded in March, with the final draft to be signed imminently, local NGOs were reportedly unaware of the contract until government sources leaked the news.

"We only got to know about the draft agreement a few weeks ago," Jonathan Yiah of the Sustainable Development Institute (SDI), a member of Liberia's Independent Forest Monitoring Coordinating Mechanism (IFMCM), a consortium of seven environmental and community rights organisations, told Middle East Eye.

Following the leak, the government scrambled to invite local stakeholders to meetings. But the SDI reported that participants were only sent the draft contract a day before the first meeting, with subsequent meetings rescheduled at the last minute. The upcoming Liberian elections in October suggest that government officials were in a hurry to pocket the initial upfront payment of $50m, an amount revealed in the leak. And so, what? We don't have a problem with this, transition is win-win for us, who cares about the rest!

And, you know that SBTI thing that was about to change things around the world, yes that scientific thing, those targets. And, if you want to laugh out loud this is a good spot. In this article written by the brilliant Attracta Mooney in the FT, you can find out why.

Beslik (2023) Week 37: And… so what?

Hearst

The draft contract also outlines an uneven distribution of profits from the sale of the carbon credits, with Blue Carbon reaping 70 percent of profits, the Liberian government 30 percent - of which around half will be paid to communities. However, the profits depend on how much the credits are valued at.

Hearst in Middle East Eye (2023) Liberia to concede territory to UAE firm in carbon offset deal

33

Mauritsius

33.1 .io Top level domene

Chagos

In 1965, while planning for Mauritian independence the UK constituted the Chagos as the British Indian Ocean Territory (BIOT). Mauritius gained independence from the United Kingdom in 1968, and has since claimed the Chagos Archipelago as Mauritian territory.

.io considered harmful

> ISO 9660, for example, describes the structure of CD-ROM disks. ISO 8601 describes date and time representation. And since 1974, ISO 3166 has described an ever-growing set of two-character codes to represent the countries and territories of the world. The United States of America, for example, was assigned "US". Britain got "GB". And the British Indian Ocean Territory was given "IO".

The .io top-level domain funds and legitimises Britain's exile of the Chagossian people from their homeland. Here's the history and the facts.

Out in the middle of the Indian Ocean lies the small coral Chagos Archipelago.

With the coastlines of Africa, Asia and Antarctica thousands of kilometres distant, the archipelago is amongst the most isolated on the planet. The islands are tiny, too, with a total land area of 56 km²; about half the size of Walt Disney World Resort in Florida.

The first Europeans to stake a claim to the Chagos Archipelago were the French. They settled the nearby Isle de France in 1715. By 1793, a French coconut plantation housed the first permanent settlement on the archipelago's largest island, Diego Garcia.

This being an 18th Century European settlement, of course it was built on the backs of slaves. The colony was French, but the people were Malagasy and Mozambican.

After Napoleon's defeat in 1814, the French ceded Isle de France and its dependencies to Britain. Britain reinstated the isle's Dutch name – Mauritius – and continued to govern the archipelago and its plantations from there.

After the abolition of slavery in 1835, many now-freemen chose to stay on the archipelago and were joined by labourers from India. Beautiful people being beautiful people, they were fruitful and multiplied. New families made the archipelago their home, and an integrated Chagossian society blossomed for generations. By the 1960's, the archipelago was home to some 2,000 people.

The end of World War II in 1945 led to the start of the Cold War. Soviet influence grew across Europe and Asia, and the United States of America sought to expand too.

And she had just the spot in mind.

No matter where in the world the next inevitable war was to break out, those idyllic coral islands smack in the centre of the Indian Ocean would be the perfect staging platform for attacks against a dozen countries' supply lines, communication hubs and military targets.

But how could the United States acquire the archipelago? The land was Mauritian territory, and – even though Mauritius was a British territory – Britain had no claim over the islands. No matter what the United States' offered her war-time ally, the land wasn't legally Britain's to trade.

And so, Britain traded the land illegally.

On November 8th, 1965, the British Foreign Office redrew the map. Public servants in London created, on paper, a new British territory – the British Indian Ocean Territory – which encompassed the Chagos Archipelago, then transferred governance of the islands from Mauritius directly to London.

By the Foreign Office's reckoning, the islands were now British. And in exchange for a $14 million discount on a nuclear missile, the British Indian Ocean Territory was leased to the United States of America.

The American military-industrial complex was not amenable to sharing the islands.

The people were removed; first by terror, then deceit, then force.

Exile

At 1pm on October 15th, 1971, the remaining people of Diego Garcia were summoned to the office of Sir Greatbatch's magistrate, John Rawling Todd. They were told they were to be loaded onto the cargo ship MV Nordvær and immediately expelled from their homeland.

They were allowed one suitcase each. Anything of cultural, emotional or financial value that they couldn't carry had to be abandoned. Sir Greatbatch demanded that the horses ride on-deck, while each family was permitted one mattress and forced to sleep on the ship's cargo of bird shit.

In an instant, not having bank accounts or currency of significant value, the Chagossians were poverty-stricken; no farms, no ocean to fish, no money, no homes.

The Nordvær sailed to the Seychelles, where the Chagossians were marched uphill to a prison and held until passage to Port Louis, Mauritius, was arranged. Then, at Port Louis, they were dumped and abandoned on the docks.

Cassam Uteem, former President of Mauritius, recalls:

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Some of them stayed on the docks, waiting for the next ship to take them back home. There was nev
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Eventually, they were taken to the derelict Estate Beau Marchand housing estate. They were given no water, no electricity, no doors, and no windows.

Many of the islanders died; of poverty and – in their own words – of "sadness".

Of heartbreak, despair, and suicide.

Those who lived couldn't afford to pay for funerals.

By the end of 1975, the expulsion and exile of the Chagossian people was complete. A survey showed 26 families had died together in poverty. Young girls were forced into prostitution to survive. 9 people committed suicide. And Mauritian slums are still prisons to Chagossians today.

This was nothing less than ethnic cleansing. The war machine

Today, the archipelago's two-thousand Chagossians have been replaced by two-thousand military personnel.

Naval Support Facility Diego Garcia is owned by the British Ministry of Defence, leased to the United States Navy, and operated together.

"One Island, One Team, One Mission," they say.

Nearly 4 km of Diego was paved into a runway where American bombers have launched attacks on Iraq and Afghanistan. There are piers and warehouses to support aircraft, ships and submarines. The island even hosts a satellite tracking station code-named "REEF".

How the fuck did they get away with this? They knew it was illegal

From the very beginning of the conspiracy to expel the Chagossians, the British and United States authorities knew it was illegal.

Cariad (2023) All things beep.blog

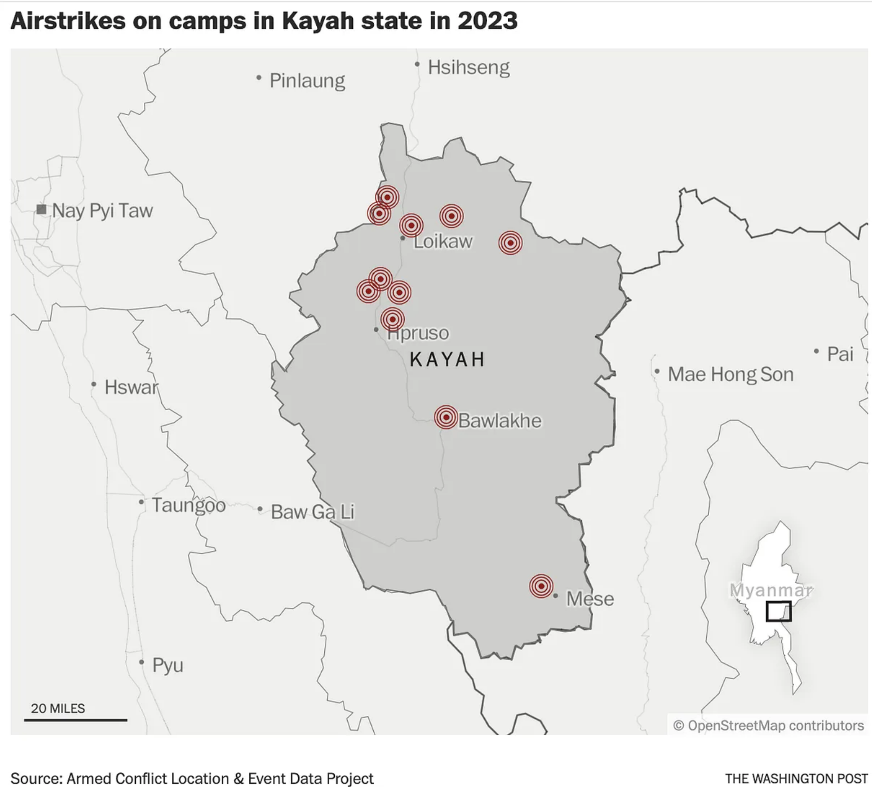
34

Myanmar

34.1 Military

Tooze

In the small southeastern state of Kayah … 60 airstrikes were carried out in the first nine months of 2023 — more than five times in all of 2022 — and at least 11 struck camps where civilians were taking refuge, according to the Armed Conflict Location & Event Data Project. Kayah sits close to the capital, Naypyidaw, and is a vital channel connecting resistance groups in the south and the north, according to an analysis by the Singapore-based International Institute for Strategic Studies. Within months of the coup, as much as 80 percent of the state's urban population was forced to flee because of clashes between resistance fighters and the military, said local aid groups.



Source: Washington Post

Tooze (2023) Multipolar global trade etc.

35

The Netherlands

Tullis

In the 1950s, the Netherlands was still recovering from five years of Nazi occupation and the famine that gripped the nation in the final winter of the war. Many of the population were subsistence farmers, with a few cows, a few chickens, some crops, and maybe a pig. Sicco Mansholt, the agriculture minister, decided that the Netherlands could leave behind poverty and hunger by producing enough food to feed itself, rather than relying on imports. Under his proposals, a certain number of farmers would specialise in one product and expand their business, while the government would pay other, smaller farmers to quit. This would mean both that more food could be produced and that the remaining farmers would earn more.

Mansholt's policies did not pay off immediately. In 1960, GDP per capita still barely exceeded $1,000, nearly 40% less than in the UK. But gradually the plan began to work. The number of Dutch farms plummeted – in 1950, there were 410,000 farms among 10 million Dutch people, while today there are only 55,000 in a population of nearly 18 million – and those that remained became increasingly productive. Since 1984, for example, the number of cows per farm has more than doubled.

By 1990, the environmental effects of Mansholt's policies were also becoming clear. Nitrogen reductions would create a drop in income for dairy farmers: a typical farm would lose 10,000 guilders a year (about £3,900 today), or about 20% of per capita GDP at the time. No one wanted to hear this. Since the 1980s, the Netherlands' coalition governments have almost always included the Christian Democratic Appeal party, which has particular support in rural areas. The party's leader would almost reflexively be appointed to head the agriculture ministry, which was heavily staffed by the sons of farmers. Despite the 1990 commission, the Christian Democrats successfully kept the issue off the table, and the government continued to encourage farmers to invest and expand.

Dairy production jumped further between 2008 and 2015, as the EU phased out its limits on the amount of milk that individual farmers could supply. By 2020, the Netherlands was home to 3.8 million cows, 11.9 million pigs and 90.2 million chickens in an area one-quarter the size of England, giving it the densest livestock population in Europe by far.

Whoever wins, the next government will face a host of challenges that have become linked to the nitrogen issue. The Netherlands has 122 job openings for every 100 unemployed; the tram service in Amsterdam has been reduced due to staff shortages, and signs outside virtually every shop seek employees. Migrants are eager to take these jobs, but the government doesn't have the capacity to process their applications to stay – and there are few places for them to live because of a nationwide housing shortage, exacerbated by the fact that 18,000 construction projects have been halted, because the government wants to restrict their nitrogen emissions. What seems to be a solution to one problem aggravates the others.

This might seem like so much local politics, but the broad contours can be recognised in political trends elsewhere, from the US to Britain to central Europe to the Indian subcontinent.

The drop in social cohesion in the Netherlands, with public services, public transport and healthcare provisions whittled away in many rural areas.

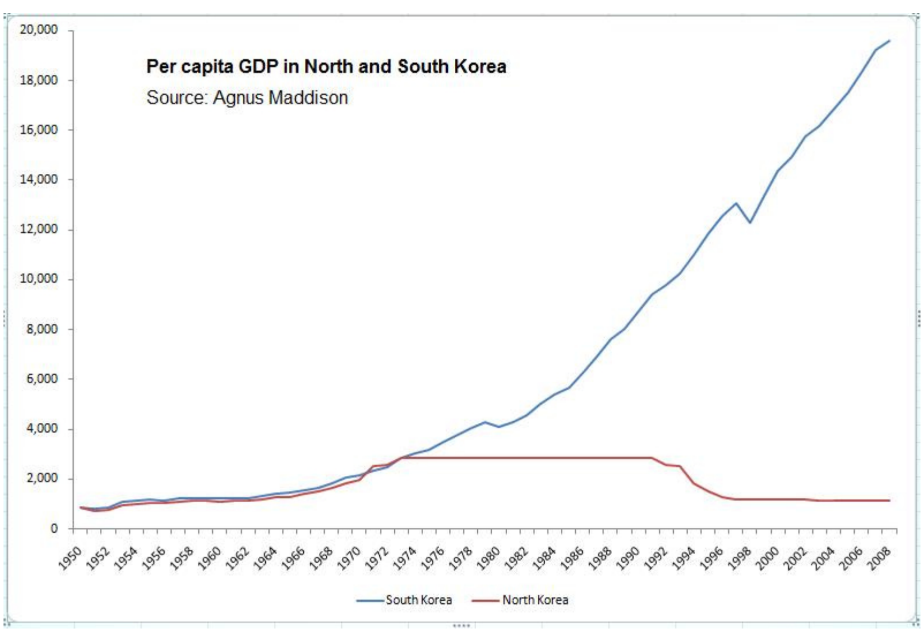
Tullis (2023) Nitrogen wars: the Dutch farmers' revolt that turned a nation upside-do
wn

36

North Korea

Smith

One explanation, beloved of leftists, is that the U.S. simply bombed North Korea back to the stone age 70 year ago, and it remained there. This isn't credible. Even if you believe the bombing of North Korea was more destructive than the devastation of South Korea — whose capital changed hands three times during the war — it still doesn't fit with North Korea's timeline. In fact, until the early 1970s, North Korea was growing at a decent clip, and keeping pace with South Korea.



Obviously these figures are hard to know exactly, and the perfectly straight line for North Korea between 1973 and 1992 just means "we don't have any data for this period". But in 1965, the economist Joan Robinson was praising North Korea's rapid economic growth and successful rebuilding efforts:

> Eleven years ago in Pyonygang there was not one stone standing upon another. (They reckon that one bomb, of a ton or more, was dropped per head of population.) Now a modern city of a million inhabitants stands on two sides of the wide river, with broad tree-lined streets of five-story blocks, public buildings, a stadium, theaters (one underground surviving from the war) and a super-de luxe hotel. The industrial sector comprises a number of up-to-date textile mills and a textile machinery plant. The wide sweep of the river and little tree-clad hills preserved as parks provide agreeable vistas. There are some patches of small gray and white houses hastily built from rubble, but even there the lanes are clean, and light and water are laid on. A city without slums.

So what happened in the 70s? Well, for one thing, North Korea embarked on a massive military buildup in order to reduce its military dependence on Russia and China. This diverted resources from investment in the civilian economy. North Korea also borrowed a bunch of money internationally and invested heavily in mining; when it was hit hard by a long decline in the price of metals in the 70s, 80s, and 90s, it was unable to pay its foreign debts and had to default. That, along with the collapse of the USSR in 1991 — which had provided North Korea with large amounts of aid and trade — provided a long-running macroeconomic shock that took a lot of time to recover from.

Juche

North Korea has always been one of the world's most centrally planned economies; extreme central planning can be good for conducting a war or rebuilding from a war, but otherwise tends to misallocate resources by quite a lot. There is some optimal level of central planning, and North Korea simply exceeded it. The principle of "juche" (self-reliance) also discouraged North Korea from both exporting manufactured products — which was one of the main ways South Korea improved its productivity and got rich — and importing goods that could have been used as inputs into domestic production.

Western sanctions have also been a factor in North Korea's economic isolation, but probably less than people think. Most sanctions are very recent, and are due to the country's nuclear program; before that, North Korea actually exported a lot of minerals. Meanwhile, China doesn't impose sanctions and in fact trades with North Korea a fair amount, though thanks to China's mercantilist policies and North Korea's general industrial backwardness, North Korea runs a large trade deficit and mostly just sells China minerals. Meanwhile, North Korea has generally resisted efforts by South Korea to expand economic ties.

In other words, North Korea's poverty is really not hard to explain. When you're a small country and you close yourself off to trade and you intentionally mismanage your domestic economy, you're going to be poor. If the U.S. could reach out to North Korea and help ease it out of its paranoia, the situation might change. That's unlikely, but we did just do it with Vietnam, so maybe there's hope.

Smith (2023) Why is North Korea so poor?

37

Norway

37.1 Ocean Mining

Beslik

Norway has secured a parliamentary majority for its plans to open up for deep-sea mining despite opposition from environmentalists and the fishing industry, who warn that the move risks further damage to fragile oceans.

"The renewable green industries run on minerals. This is an important contribution internationally," said Bård Ludvig Thorheim, an MP from the main opposition Conservatives. Norway runs on oil & gas extraction.

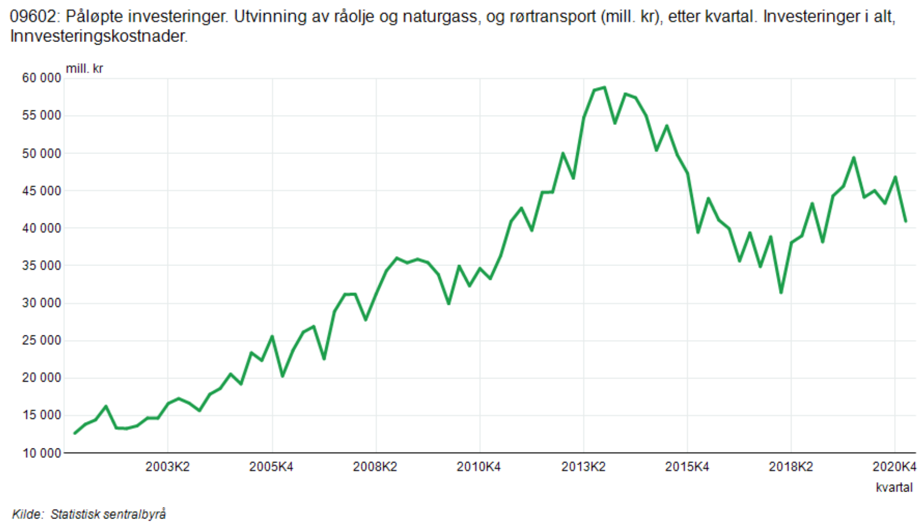
Beslik (2023) Oil-Cave Jabs and the Dramatic Dance of Petrostates at COP28

37.2 Wealth Fund

And if Norway is so keen on renewable energy, how come they're not investing anything in it? Norway's sovereign wealth fund, the largest of its kind in the world at more than $1.3 trillion, has made some 10,000 investments across the global economy. Yet, it has made just three investments in renewable energy projects. Three.

Beslik (2023) Oil-Cave Jabs and the Dramatic Dance of Petrostates at COP28

37.3 Oil and Gas



ssb

37.3.1 Oil Exit Strategy

Stoknes

The global energy transition may usher in an age of stronger climate policies, declining oil demand and mid-to long-term low(er) oil prices. If so, oil majors as well as oil producing countries may face a trilemma in choosing between: i) maintaining high investments in the core oil and gas business, ii) preserving short-term dividend payments to shareholders and governments, or iii) investing sufficiently in the energy transition to achieve climate goals.

To what extent does this trilemma apply to Norway? In conclusion, our study shows that a BAU-policy with high tax incentives for petroleum production may work well economically given a long-term average of 50 $/brl for oil and 5.5 $/Mbtu for gas, or higher, to 2050 and beyond. But following this policy means that domestic climate emissions will remain high (Fig. 11), and further – as exports increasingly depend on gas sold to an EU whose green deal strategy will wean its economy off gas – is progressively risky.

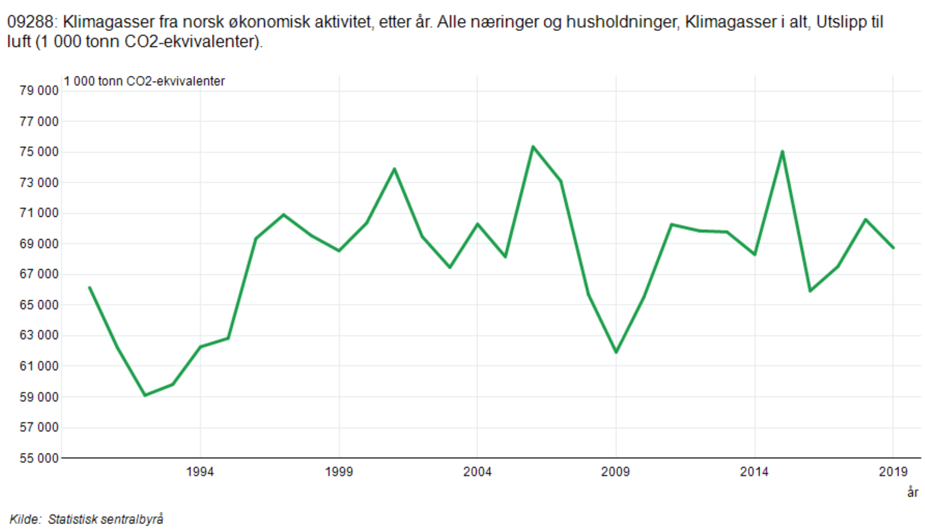
Choosing a Harvest-and-exit policy is an economically more robust option in a medium-to-low oil-price world, where EU cuts down on its gas-demand as aimed for in the green deal and if the world delivers on its climate policies. This scenario delivers both a higher oil fund balance in the short and the long term, while in addition increases the likelihood of net-zero domestic emissions by 2050. But this strategy of achieving the objectives for emissions and oil fund balance comes with a trade-off of large jobs-losses (along the coast) that will incur a heavy political burden, unless countered by Rebuilding policies.

The Rebuilding policy scenario indicates that public auctions securing an investment of 30 billion NOK/yr in the construction of innovative green industrial capacity annually from 2027, incentivized through an adjusted offshore tax regime, is enough to avoid any extra decline in the offshore employment below a BAU trajectory. This, or an even Faster Rebuild policy, holds the potential to transform Norway into a low-carbon energy-exporting, economically viable society also after 2050, with an energy policy aligned with net-zero ambitions.

The implications of our study is that by adapting the GTM to their national economies and resource base, hydrocarbon producing countries can improve their understanding on the transition to green energy sectors in a world of net-zero ambitions. A set of scenarios can help foresight discourses through guidelines that focus attention on the long-term effects of current investments under uncertainty, and broaden the perspective to a better balance between future aspects of sustainability; both the economic, ecological and social.

Stoknes (2023) Plausible futures for the Norwegian offshore energy sector: Business as usual, harvest or rebuild?

37.4 Emissions



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38

Peru

Reinert

Looking at the example of Peru since 1950, waves of industrialization and deindustrialization have been associated with fl uctuations in living stand- ards. Th e standard of living of the population has been inversely related to the weight of the primary sector in the total economy. During the period 1950–1997, a one percentage point decrease in manufacturing as a share of GDP led to a fall in white-collar wages by 5.4 per cent, and a fall in blue- collar wages by 7.5 per cent. Conversely, when manufacturing increased by one percentage point in total GDP, white-collar and blue-collar real wages increased by 10.6 and 15.5 per cent respectively (Roca and Simabuko 2004). Going back to Carey's map, we can conclude that every time manufacturing increased as a percentage of GDP, this corresponding to 'moving east' on the Carey map: wages went up. Every time the manufacturing sector shrank, it corresponded to 'moving west' on the Carey map: wages went down. Figure 1.4 shows how real wages in Peru peaked in the mid-1970s when the country did everything 'wrong' according to the Washington Consensus. Peruvian industry was kept up by high tariff s and represented a 'bad' form of protection. Industrialization was 'artifi cial', but the wages, roads, schools and hospitals created by this industrialization were all real. It is also impor- tant to see how exports took off and made the country look very successful while real wages were plummeting at the same time. Th e Washington Con- sensus shock therapy hit Peru on two fronts simultaneously—with deindus- trialization plus downsizing the public sector. By killing off the two sectors with strong union power—one private, one public—the whole national wage level collapsed. Th is was accompanied by a rapid fall in the terms of trade.

Peruvian wage levels fell much faster than GDP, as the composition of Peruvian GDP changed. Figure 1.5 shows how dramatic this change was. At the height of industrialization in Peru in 1972, wages amounted to 51.2 per cent of

GDP and the income of the self-employed was 26.5 per cent, a total of 77.7 per cent of GDP. Figure 1.5 shows how wages, salaries and the income of the self-employed shrank rapidly as the country prematurely opened up to free trade. In 1990, the last year the Peruvian central bank provided a breakdown of GDP in this way, the share of wages in GDP had been almost halved to 26.5 per cent, and the share of the income of the self-employed had fallen to 15.9 per cent. In total, the wages, salaries and the income of the self-employed as a share of GDP had shrunk by 45 per cent—from 77.7 to 42.4 per cent of GDP—as a result of Washington Consensus policies from the mid-1970s to 1990. Th e 'national industrial rent' had been destroyed, with devastating consequences for real wages that had been more than halved in real terms.

Reinert (2011) The terrible simplifiers (pdf)

39

Portugal

Politico

Portuguese Prime Minister António Costa submitted his resignation Tuesday after police raided his official residence and the country's attorney general confirmed he was being investigated under a corruption probe.

The prime minister's resignation came hours after Portugal's national police carried out searches of Costa's residence and several government ministry buildings. The sweeps are part of a corruption probe linked to lithium exploration schemes in the north of the country as well as a green hydrogen mega-project in Sines.

Costa's socialist government has enthusiastically backed schemes to extract lithium in different areas of Portugal as part of the EU's wider drive to secure critical raw materials, but those projects have been mired in controversy due to the low quality of the material to be extracted and the disproportionate environmental damage expected.

A 2021 POLITICO investigation into one mining scheme in the northern Montealegre region highlighted these controversies and ultimately led the Portuguese government to cancel a major project in the area.

The prime minister's executive had also bet big on a green hydrogen production hub in the Port of Sines, a project that is being funded with millions of euros in EU innovation cash.

End of an era

Socialist Party leader Costa became prime minister of Portugal in 2015, forming a minority government backed by an unlikely coalition of far-left parties.

His government oversaw a tourism boom that turned the country into an international hotspot and led observers to salute a "Portuguese economic miracle" that had transformed the country after years of austerity imposed following the European debt crisis.

The impact of COVID on tourism, however, dampened enthusiasm for Costa and invited censure of his government's promotion of cheap service-sector jobs and tax breaks for digital nomads. Left-wing parties also broke with the PM due to meager public investment in education and health care, as well as for his government's inaction during a nationwide housing crisis worsened by an influx of expat residents.

However, despite widespread discontent among public sector workers, Costa's Socialist Party managed to gain an absolute majority of seats in the country's parliament in 2022 legislative elections thanks to a campaign in which Costa cast himself as the only viable alternative to a center-right government supported by the far-right Chega party.

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Russia

The Economist

41

Saudi Arabia

Tverberg

Saudi Arabia does not seem to be using recent record profits to quickly raise reinvestment to the level that seemed to be required a few years ago. This suggests that Saudi Arabia needs prices that are quite a bit higher than $100 per barrel in order to take significant steps toward extracting the country's remaining resources.

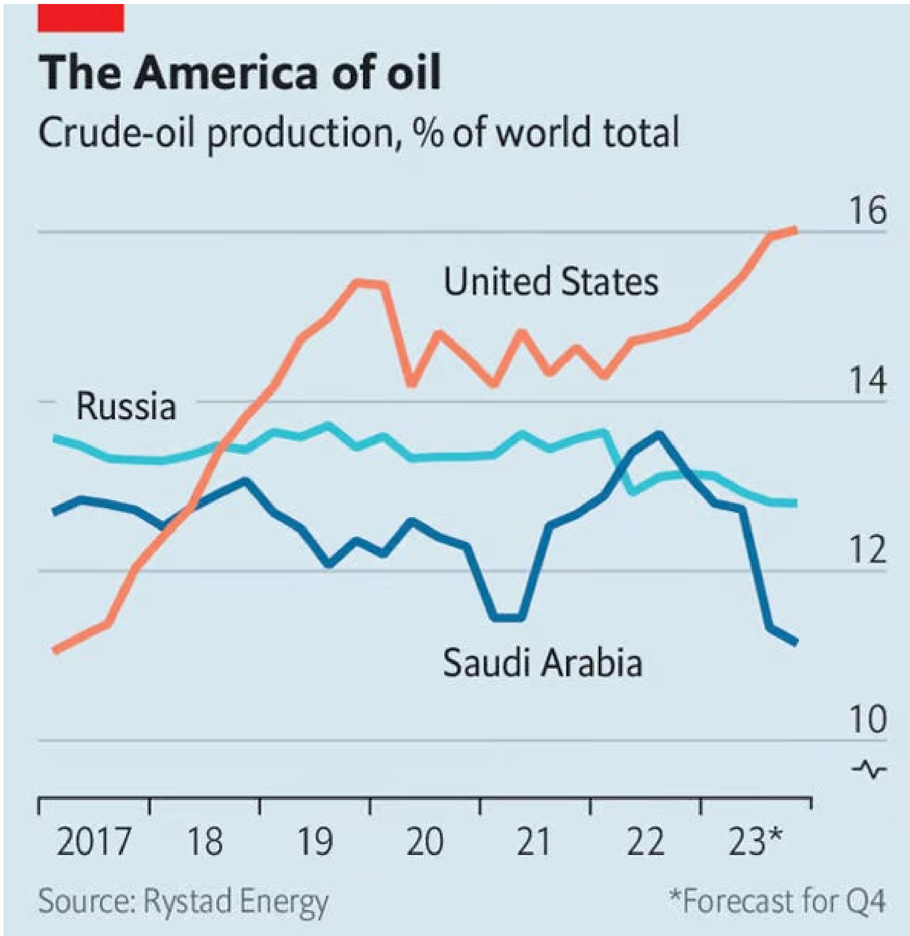
Tverberg (2022) Why No Politician Is Willing to Tell Us the Real Energy Story

Messler (2022) Saudi Aramco Is Taking A Page Out Of The U.S. Shale Playbook

Smith

Traditionally, people thought that Saudi Arabia was the world's crucial "swing producer" of oil. The basic idea was that even though Saudi was far from a monopolist in the global oil market, they were the only producer who could increase or decrease production by huge amounts in a very short time frame. And so it was thought that the Saudis could basically control global oil prices, both because global demand is inelastic (meaning that modest swings in production can change prices a lot) and because the other OPEC countries would follow the Saudis' lead.

But in recent years, another key swing producer has emerged: the United States. Since around 2010, the biggest swing by far has been the rise of U.S. shale oil production. And even as the Saudis have slashed production in 2023, the U.S. has raised its own oil output by almost as much.



The U.S. is winning the tug-of-war. Saudi has cut production, but prices have gone down anyway. The combination of fewer barrels sold and fewer dollars per barrel is dealing a crushing blow to the Saudi economy. The country is now in a recession, with GDP shrinking at a stupendous 4.5% annualized rate in the third quarter.

The Saudis are in big trouble. Their ability to push oil prices around like a monopolist is gone, so cutting production simply impoverishes them. That's bad news for a country that has seen zero GDP growth in 30 years.

Smith (2023) Swing Producers

42

Scotland

Scotland, with 8.1% of the UK's population, possesses:

13-38% of the UK's natural wealth (Note: value varies with oil price).

22% of the UK's energy generation and 85% of its hydropower.

32% of the UK's landmass and 62% of its offshore maritime area.

85% of the UK's oil and gas.

90% of the UK's total FRESH WATER.

20% of all planned offshore wind power capacity in the EU.

50% of the world's installed tidal stream capacity is in Scottish waters.

43

Singapore

Smith

How did Singapore get so rich? In fact, its development model is pretty similar to Ireland's: a very small English-speaking country, a great education system, tons of high-skilled immigration, and an industrial policy that focuses relentlessly on attracting foreign direct investment.

Singapore's main investor is the U.S., for whose businesses Singapore acts as the "gateway" to Asia in much the same way Ireland is the "gateway" to Europe. It's not a model that can easily be copied by larger countries, of course, since the FDI has to come from somewhere.

43.1 Housing

There's one important regard in which Singapore is leaving Ireland in the dust, and that's housing. The reason Singapore has all of this housing, of course, is the country's fabled "public" housing policy.

The government of Singapore owns most of the land, and has a government agency called the Housing Development Board (HDB) that builds a ton of housing. It then sells this housing, mostly to first-time homebuyers (i.e. young people), at a cheap price. who are then free to resell it. The combination of the discount for first-time buyers and the government's ability to make prices appreciate slowly and steadily over time means that HDB apartments function not just as a cheap place to live, but also as a sort of wealth-building pension system. In other words, in Singapore there's no contradiction between using your home as a place to live in, and using it to build wealth!

The government doesn't actually sell HDB apartments to people; it sells them 99-year leases. If a lease has 98 years left on it, that's pretty close to ownership, and so when Singapore's system started out, it was basically a homeownership system (in fact, Singaporean homes that are called "freehold", or privately owned, are technically on 999-year leases!).

Remember that Singapore was founded in 1965, so no 99-year leases have had time to expire yet. But in a few more decades, it'll become a big pain in the neck, since people whose leases expire will have to move to new apartments. And people are now starting to think about that day, which is messing up the market for leases and causing some apartments to start depreciating.

Singapore's HDB system is an absolutely amazing solution to the housing problems that afflict most other nations. Basically, the government owning and developing the land allows it to control housing supply so as to produce abundant affordable housing and predictable slow appreciation.

Smith (2023) Singapore Urbanism

44

South-Africa

Tooze

In the 1990s mining and minerals accounted for 40 percent of electricity consumption in South Africa. Conversely, electricity, even at heavily discounted tariffs, accounted for 32 percent of the intermediary costs of gold production. It takes 600 kwh to yield one fine ounce of gold. As a result, South Africa's economy was estimated to be three times more electricity intensive per unit of gdp than the USA.

In 1970s as the South African apartheid regime faced the oil crisis, the escalation of the Cold War on the African continent in Angola and Mozambique and the Soweto uprising of 1976. The strategists of Apartheid began to fear what they called a "total onslaught" that would require the South Africa state to defend a last redoubt of white rule. For the power sector, as Andrew Lawrence argues, the implication was that Escom needed to dramatically increase capacity - to a gigantic total of 70 GW by the year 2000. A key element of this expansion drive was the nuclear power plant and weapons program at Koeberg

The last of the big 1980s projects was Majuba Power Station on which work began in 1983. Its last unit came into operation in 2001. At that point, Eskom had effectively doubled the available generation capacity to just under 40 000 MW. It was also the halting point for any further expansion.

At Eskom, Dr Ian McRae, who was appointed CEO in 1985 entered into clandestine contact with the ANC to explore options for expanding power supply to townships. Contrary to the racist legends of the regime, which denied the very idea that Black South Africans might use electricity, McRae found a huge repressed demand for electrical services.

Between 1991 and 2014, in the forefront of the National Electrification Program, Eskom would provide new electrical connections to 4.3 million households. That is almost a quarter of South Africa's 15 million households. As a result of combined action by the ANC-led government, Eskom and local authorities, the share of households with power rose from 58 percent in 1996 to 87 percent of those in formal housing by 2013. At that point three quarters of informal shanty settlements had power connections too. From 2003 universal connection was encouraged by the introduction a basic ration of 50 kwh per month in free electricity for every household with a meter. It is this expansion of electricity supply, which defines the crisis of power supply as it is felt across South African society today.

The biggest beneficiaries of the power bonanza bequeathed by the apartheid-era expansion were industrial producers. In the 1990s and 2000s with the global resource boom in swing, South Africa's abundant and cheap electricity made it a major investment location for aluminium production, stainless steel and ferro alloys. The coega aluminium plant owned by Alcan of Canada and then snapped up by RioTinto was to be one fo the biggest smelters in the world attracting huge South African subsidies as well as GW of power.

What unlocked the supply was flipping the risk so that customers made prepayment to their accounts for the electricity they were going to use. In effect hard-pressed consumers extended an advance to Eskom not the other way around. Unsurprisingly this made supplying them more attractive. As critics pointed out, Eskom retained the power to end supply as soon as the cash ran out. What ought by rights to be a social entitlement was turned into a commercial relationship governed by household budgeting. *In short, an individualized, market-based, low-trust relationship typical of contemporary, neoliberal thinking about service provision.*

Taking advantage of the apartheid-era capacity surge, electricity was cheap. Tariffs were progressively reduced to some of the lowest rates in the world. And under those circumstances, whatever the form of the supply relationship, it was hard to see electrification as anything other than a blessing.

In 1998 the White Paper on electricity proposed extending neoliberal visions to power supply. The White Paper proposed that Eskom be separated into two parts: the transmission system that would remain a monopoly and the generating side which would be thrown open to competition. This was the model of unbundling pioneered in Chile and the Uk in the 1980s and 1990s and that went on to be adopted by over 100 countries worldwide. The idea being that it disaggregated decision-making on price-setting and investment thus minimizing the risk of big mistakes and lowering costs to minimum.

On paper the unbundling vision prepared for South Africa by PwC looked good. It seemed like an obvious way to maximize competition in what might otherwise be seen as a natural monopoly sector. But like any other structural change it was a gamble. Crucially, it was not clear whether such a system could really provide incentives for long-term investment.

Before ESKOM could put in place the new regime of greater investment and price increases, disaster struck. Starting with a failure at the Koeberg nuclear power station at the end of 2005, South Africa's over-stretched electricity system began to fall apart. From November 2005 rolling blackouts and load-shedding became a daily reality.

The blackouts were caused not by an absolute shortfall of capacity below demand, but by a lack of safe reserve capacity to deal with inevitable outages. From a high of 27% in 1999 the margin of reserve capacity had fallen by late 2007 to a dangerous 5 percent. In November 2007 a new series of power cuts began and by early 2008 Eskom and the government were forced to declare a national emergency.

South Africa's first renewable energy plan had been drafted in 2003. But it was not until 2009 that the government hosted a nationwide conference on renewable energy in Pretoria. At the COP conference in Copenhagen in November 2009, South Africa's government committed itself to reducing emissions by 34 percent by 2020 and 43 percent by 2025 - ambitious targets.

In 2009 the NESRA, South Africa's regulatory agency, took the lead in introducing a feed-in tariff - known as the renewable energy feed-in tariff (Refit) - along the lines that Germany had pioneered.

The fossil fuel interests around Eskom - as opposed to the Department of Energy and NERSA - fought back hard. And they gained support from the outside. In 2010 in a controversial decision the World Bank gave its approval, worth $3.75 billion in loans, to Eskom's giant Medupi coal-fired power plant, one of the two projected since 2004 and one of the largest coal-fired stations ever built outside Asia. Quite apart from environmental and climate impact, this cemented ESKOM's ruinous commitment to implementing a giant investment program which its staff had no experience of managing. For a notional budget of R150 billion it planned to build not just the 4 764 MW Medupi plant, but the 4 800 MW Kusile coal-fired stations, plus the Ingula pumped storage scheme in the Drakensberg, which would deliver 1 332 MW of hydroelectricity during peak demand periods. Medupi and Kusile would end up costing three times as much. To this day, they have not reached full capacity. Funding needs far exceeded the World Bank loan, leaving Eskom hugely in debt. To keep up its payments it was forced to raise electricity tariffs at an extraordinary rate. In real terms between 2006/7 and 2017/8 Eskom's customers would see electricity prices increase sevenfold.

Starting in 2013 electricity supply became chronically unreliable. As the new coal-fired power stations failed to come online and costs soared, ESKOM ran its existing generator stock to the point of collapse, whilst skimping systematically on maintenance. The overall impact was to stop dead in its tracks the growth in demand for power, which had been at the heart of the upbeat story of electrification up to 2006. South Africa shifted from being a society in which energy use was broadening and deepening to one in which economic growth depended on economizing on overpriced and unreliable electric power. Richer consumers resorted to buying their own generators. But industry was prevented from expanding so-called “embedded” power production by rules that barred connections for anyone generating their own power. It was a hobbling, unproductive, inefficient disaster, which helped to constrain South Africa’s lack-luster economic growth. GDP per capita stagnated in line with power consumption for most of the 2010s. Perversely, low growth helped to cap power demand on Eskom, cementing the low-level equlibrium.

Tooze (2023) Carbon Notes 4 From Feast to Famine: Apartheid’s power bonanza and the genesis of South Africa’s electricity crisis

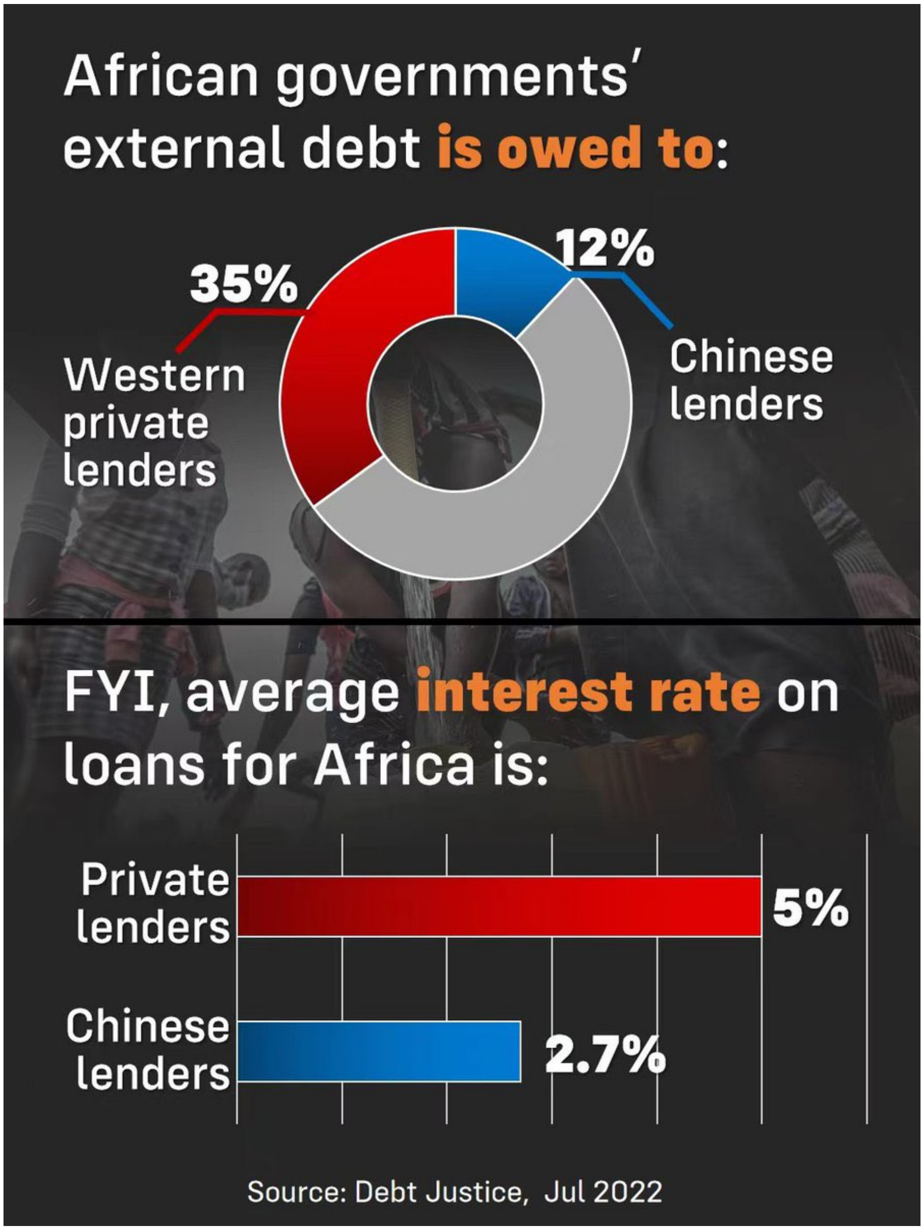
45

Sri Lanka

45.1 Debt trap and Vulture Funds

Roberts

China is not a particularly large lender to poor countries compared to Western creditors and the multi-national agencies.



The rise in Sri Lanka's debt burden was not the result of China's 'imperialist' debt trap, but was caused by the desperate need of the corrupt and autocratic Sri Lankan government. After the 2008 Global Financial Crisis, interest rates fell globally, and Sri Lanka's government looked to international sovereign bonds to further finance spending. But then COVID-19 hit, ravaging the tourism sector, a major source of income. COVID-19 required increased spending and increased imports of health and other products, exacerbating the trade deficit. Foreign currency reserves dropped by 70 percent, meaning less dollars to purchase essential yet increasingly expensive imports including fuel and commodities. To solve this, the government started to 'print money' to cover its deficits. . Inflation rocketed to 60 percent by June 2022. As the right-wing Chatham House study shows, "Sri Lanka's debt crisis was made, not in China, but in Colombo, and in the international (i.e. Western-dominated) financial markets."

By 2016, 61 per cent of the government's sustained budget deficit was financed by foreign borrowing, with total government debt increasing by 52 per cent between 2009 and 2016. Three-quarters of external government debt was owed to private financial institutions, not to foreign governments. Despite ample warnings about the Sri Lankan economy, foreign creditors kept lending, while the government refused to change course for political reasons. This was the real nature of the 'debt trap'.

That brings us the Sri Lankan port project, the usual issue raised about China's supposed 'debt trap'. China did not propose the port; the project was overwhelmingly driven by the Sri Lankan government with the aim of reducing trade costs. To quote Chatham House, "Sri Lanka's debt trap was thus primarily created as a result of domestic policy decisions and was facilitated by Western lending and monetary policy, and not by the policies of the Chinese government. China's aid to Sri Lanka involved facilitating investment, not a debt-for-asset swap. The story of Hambantota Port is, in reality, a narrative of political and economic incompetence, facilitated by lax governance and inadequate risk management on both sides."

It is the obscure Hamilton Bank that is opposed to any agreement and instead is demanding full repayment on its holding of Sri Lankan bonds. Hamilton is what is called a 'vulture' fund', buying up the 'distressed debt' of poor country governments at rock bottom prices and then pushing for full repayment at par (the original bond issue price), using the blackmail of refusing to agree to any 'restructuring'. These vulture hedge funds specialise in sniffing out vulnerable sovereign bonds, amassing a blocking stake, waiting patiently for a broader restructuring to take place, and holding out for full repayment once a country has secured debt relief from other creditors. It's called being a "holdout".

Hamilton is demanding \$250m in bond repayment and interest from the Sri Lankan government. The US court has intervened on behalf of the US government and other creditors to stop Hamilton getting its pound of flesh, at least until there is a general restructuring deal that Hamilton will be forced to go along with.

Even if Hamilton is thwarted and a deal with creditors is reached, Sri Lanka will still be burdened by a huge debt liability that can only be 'serviced' by cuts in the already low living standards of 22m Sri Lankans. The IMF has already indicated it will encourage austerity in Sri Lanka – reducing spending and increasing taxes. Sri Lanka did not seek IMF debt relief in the 1990s or early 2000s for that reason. But now it is either Hamilton or the IMF.

Roberts (2023) Sri Lanka's debt trap and the vultures

46

Tanzania

Ray Bush

The amnesia about how early post-independence leaders tried to secure the "newly-won freedom of their countries through policies that were designed … to promote autonomous development processes anchored on the demands and needs of a home market" (1). Nyerere, for example, rebuked the IFIs when they accused him of failure, noting that at independence 85% of Tanzania was illiterate and they had just two trained engineers and 12 medical doctors – after 43 years of British colonial rule. Under Nyerere, Tanzania ensured 91% literacy, that all children were in school and that per capita income grew dramatically. After reluctantly accepting IFI diktats, key social and economic indices plummeted. In discrediting the first 20 years of autonomous and autochthonous African post-independence development policy and strategy, the IFIs provided a narrative to justify what became the ruinous years of structural adjustment. While the heart of the neoliberal project is to discredit African strategy and practice, this collection highlights that the idea of African post-independence failure was manufactured and "deliberately misleading.

Bush (2023) Review Africa from post-colonialisms today

47

Turkey

Karas

(see also cap/dependency)

We detail the consolidation and limits of financial statecraft and authoritarian financialization in Hungary and Turkey over the past two decades, analyzing how changing global liquidity conditions between the early 2000s and the 2020-22 Polycrisis have affected the state's management of money.

In both countries, financial crises in the early 2000s incentivized public interventions which momentarily consolidated a centralized system of political control over money managed by the executive from the mid- to late 2010s onwards. Soon, "defensive" forms of financial statecraft were revamped into "offensive" tools, allowing the executive to ride the wave of cheap global capital liquidity by deepening credit-based accumulation, which enhanced GDP growth and co-opted large social constituencies via subsidized lending.

The semblance of an economic miracle broke down in both cases as soon as global credit conditions worsened: the hitherto expanded and centralized executive control over money proved unable to simultaneously manage public debt and the financialization of the private sector.

Faced with this dilemma, Hungary and Turkey first followed different strategies: In the context of peak global inflation, and the resulting interest rate hikes in Core Central Banks in 2022, a disinflationary power bloc prevailed in Hungary between the executive, non-tradable domestic capital factions, and households hurt by inflation. For Viktor Orban, this meant sacrificing large-scale subsizied lending programs for households and SMEs which had previously played a crucial role in stabilizing the Fidesz regime.

In Turkey, a narrow power bloc between Erdogan's hyper-presidential regime, export-oriented SMEs, and the construction sector maintained a loose monetary policy against the resistance of the Central Bank and the interests of wage-earning households hurt by inflation. In the second half of 2023, Erdogan sidestepped this strategy as the costs on the sustainability of public debt proved overwhelming, and even exporting firms were hurt by rising intermediary import costs due to hyperinflation and collapsing exchange rate: thereafter, Turkey signalled a similar approach to Hungary's conversion to an orthodox crisis-management strategy but at the time of writing, its full adoption and impact are yet to be seen.

In fair weather, a dramatically expanded political and institutional apparatus empowered the Hungarian and Turkish executives to centralize control over the domestic circuit of money, giving the illusion that semi-peripheral financial statecraft had managed to simulatenously contain the destabilizing effects of global financial mobility, while harnessing credit-based accumulation for cultivating patron-client relations to help the political stabilization of these regimes. The dramatic shift in global credit conditions in 2022 lifted the veil over this illusion: no matter the expansion of executive control over the domestic management and allocation of money, a global liquidity contraction forced these regimes to prioritize fiscal solvency and the exchange rate by opting for austerity and aggressive interest rate hikes, which undermined their capacity for pacifying wide cross-sections of society via subsizied credit.

The Hungarian and Turkish pathways contain multiple lessons which resonate in the wider Global South.

Karas (2023) Financial Statecraft and its Limits in the Semi-Periphery

Tooze

Since the early 2000s Turkey has relied heavily on foreign borrowing (mainly by the private sector) to finance large current account deficits brought on by rapid growth. Erdogan had ridden a wave of capital inflows that were attracted to Turkey by slightly higher interest rate margins.

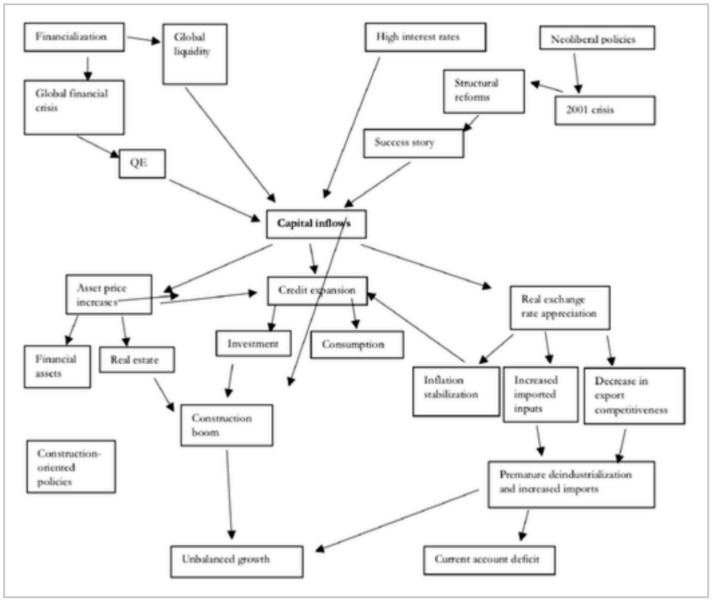


Figure 15 Open in figure viewer | PowerPoint

Overview of the Foreign Capital Inflow-dependent, Debt-led, Construction-centred Economic Growth Model

Source: Authors' own compilation based upon Orhangazi (2019: Figure 12).

Figure: Systematically promote growth through construction rather than manufacturing, agriculture and exports.

Turkey's economic experiment ran much longer than it should have, thanks to the more elastic supply of finance. The economic costs will be larger as a result.

Erdogan has long cultivated an economic ideology that consists of a brew of convenient fragments of Muslim doctrine, productivism, hostility towards outside pressure. He is prone to associating any critics with external threats.

Warring with Turkey's secular business interests is now a key device through which Erdogan rallies his electoral troops.

He is egged on by advisors such as Cemil Ertem who systematically promotes the idea of politico-economic autonomy.

The main message given by Ertem's presentation is economic independence. Over and over, he emphasises that it is impossible to be economically independent while carrying out a financial policy based on high interest rates or International Monetary Fund recommendations. Ertem asserts that a policy of high interest rates has triggered a vicious circle of low exports, lower employment, high imports, growing external debt and a country with an external dependence, which again requires higher interest rates, completing a full circle. "As a result, the country is posting a high current account deficit and depending on short-term hot money inflows and raising the external debt," he says in the presentation. "This economic model, due to its external dependency, is laying [the] ground for economic attacks." The chief economic adviser says his new model, based on lower interest rates, will increase exports and decrease imports, leading to a current account surplus and higher growth with high employment. He believes it will make Turkish exports more competitive with a depreciated lira. "We will incentivise foreign direct investments instead of short-term hot money inflows, and stabilise the foreign finances," Ertem says. "And that's how we will become a stronger country that is protected from the external financial shocks."

Certainly the devaluations of recent years have had an effect. "exports jumped 33 percent in November, reaching $21.5bn, while the current account posted a $3.16bn surplus for October. Unemployment has also decreased, by about two percentage points, from 13.1 percent to 11.2 percent in October year-on-year. GDP grew by seven percent in the third quarter of 2021."

With import prices soaring, the economic circumstances threaten to crush domestic demand; a recent 50 per cent rise in the minimum wage will wipe out the cost advantages of the currency depreciation.

For devaluation to yield dramatic benefits would require an industrial policy to back it up.

In recent months, as Erdogan launched another easing cycle, he has reportedly cited China's economic transformation in the wake of 1978 reforms as evidence that his model would bear fruit.

It is economically crazy to think that a country can build an export-oriented economy simply on the back of a trashed currency.If that were the case, Zimbabwe would be a tech superpower.

Some businesses are gaining from the slide in the currency. Most of the companies listed on the Borsa Istanbul are benefiting from the weak lira - publicly listed airlines, defence groups, carmakers and chemicals producers as companies that enjoy foreign currency-denominated revenues and Turkish lira-denominated staffing costs. Erdogan is prioritising exporters over households.

Turk Dolar: The new tool, labelled the "Turkish dollar" by some on social media, offers a solution to this problem: if investors convert their foreign currencies into lira and deposit them in a savings account with a certain term of maturity, Turkey's treasury guarantees that it will get the same return as forex markets. And if the forex markets drop below the official interest rates, the investor will still get an official interest rate return.

Tooze (2021) Turkey's financial crisis

Özgür Orhangazi,A. Erinç Yeldan in Development and Change (2021)

Noah Smith

But there were always three flies in the ointment of Turkey's long boom. The first was a reliance on external borrowing. The second was political instability, ultimately leading to bad macroeconomic policy. And the third was Erdogan's bizarre love of low interest rates. The root of the problem was external borrowing. Turkey's fairly high investment rate isn't matched by an equally high savings rate, meaning that it has had to run a big current account deficit

While some of this investment was in the aforementioned productivity-boosting manufacturing industries, a fair amount went into real estate (encouraged by the Erdogan administration) and into grandiose construction projects undertaken by the government. Since many of these projects were undertaken or encouraged for populist political reasons, they didn't earn a great return on investment and ultimately set the country up for a rapid reversal of capital inflows. The second factor making things worse was that a ton of Turkey's external debt was short-term, leaving it even more vulnerable to a sudden stop in foreign investment. Let's ask why Erdogan was so eager to encourage foreign investment into sectors that weren't going to boost long-term productivity and set the country up for a crisis. The fairly obvious answer is political instability.

When populist leaders face challenges to their rule, a very common response is to pump up short-term economic growth in order to shore up political support, even at the expense of long-term productivity growth.

Erdogan needs to use his near-dictatorial power to channel investment away from speculative real estate or white elephant construction projects, and back toward manufacturing industries.

Noahpinion (2022) Turkey you are doing so well

48

Uganda

Opalo

The presidency of Uganda's Yoweri Museveni (1986-present) offers important lessons on the nature of power (and leadership) in most African countries.

Museveni's long tenure (37 years and counting) illustrates this reality. Instead of using his power to transform Uganda as he had promised in 1986, politics transformed him into loving power as an end in itself. As a result, he will leave office largely as a failed state-builder, a failed nation-builder, and a failed developmentalist president.

The Ugandan state is still scarce in much of the country, while his governance style still relies on ethnicity as the dominant mode of organizing mass politics. He also failed to transform the economy. In 1986 Uganda's per capita income was 71% of Kenya's. As of 2022 Uganda's per capita income had shrunk to just 46% of Kenya's, having essentially stagnated since 2009. The political instability that will follow his departure from office will likely erode current levels of state capacity, social cohesion, and economic development.

Like other rulers in the region, Museveni chose to cope with his inability to maximize the state's hegemony and to define and enforce the operative rules in society by adopting a model of authoritarianism characterized by "institutionalized arbitrary governance." His style of governance focused "more on weakening competition than on maximizing control." The ensuing generalized decay of civilian institutions has left the military, itself factionalized under the logics of arbitrary governance, as the main game in town (with an ever increasing role in the economy through the National Enterprises Corporation).

Museveni had to use a share of the economy's limited output to prevent elites from defecting from his coalition with their co-ethnics in tow. To his credit, he certainly did better than either Milton Obote or Idi Amin.

For much of his tenure he has been genuinely popular on account of having brought political stability.

Museveni's aversion to institutionalization stunted political development in Uganda.

The National Resistance Movement (NRM) is a Potemkin party, a pale shadow of more illustrious hegemonic parties in the region like Tanzania's Chama Cha Mapinduzi (CCM). Ugandan parliament, judiciary, and other public institutions continue to decay.

Museveni relies on unstable personalist purchasing of elite loyalty as a substitute for institutionalized mass politics and rationalized administrative-bureaucratic management of state affairs. The system is unstable because it is a chaotic "musical chairs" queueing system marked by constant reshuffling.

The tragedy, of course, is that Museveni and Uganda could have avoided this state of affairs. When he took power he was rightfully viewed as a revolutionary leader who could transform Uganda by stabilizing its politics and focusing the state's attention to the important tasks of state-building, repairing the social fabric, institutionalizing politics, and improving Ugandan's material conditions. These views of Museveni were not unreasonable. Objectively speaking, he was/is better than the modal African leader. However, at some point Museveni ceased to see power as a means to and end — i.e. transforming Uganda. Thereafter merely holding power became an end in itself. This reorientation has since left him unable to escape what Branko Milanovic calls the dictator's trap:

> There is nothing that can be offered to dictators to make them step down. They have to continue to rule until they either die peacefully in their beds and after death became either vilified or celebrated (or at times, both), or until they are overthrown, or meet an assassin's bullet. Once on the top, there is no exit. They have become prisoners like many others whom they have thrown in jail.

Uganda is on track for a messy transition. Neither the NRM nor the military have institutional mechanisms for enforcing an orderly transition.

Power changed Museveni and that the direction of change was a function of the manner in which the "Bush War" (1981-1986) war was prosecuted and settled. The young Museveni was a radical revolutionary who became politically conscious early in life.

Visited areas liberated by FRELIMO in northern Mozambique, from where he learned about resistance councils that he would go on to found during Uganda's "Bush War."

NRA's lack of political hegemony when it seized power in early 1986 meant that Museveni had to pragmatically negotiate with and accommodate other political forces within Uganda — a cycle that continues to this day.

The absence of a politically mobilized countryside with institutional influence created room for Uganda's economic reforms to largely focus on monetary policy (exchange rates), stabilizing the urban economy, and cash crop producers. Peasant agricultural production was simply ignored.

A continued western domination of Uganda's political economy may invite systemic political instability, including a military coup by disaffected units.

Opalo (2023) The Museveni Succession

48.1 Mining

Radly

In 2017, 70,000 miners were displaced by Ugandan military and police in Mubende to make way for a Canadian-listed mining corporation. Speaking to local media shortly after the displacement, Edwards Katto, a Director at the Ugandan Ministry of Energy and Mineral Development, said:

Those people [Ugandan miners] still joking should style up. Now, I'm not only a director [in the Ministry] but also a commander of the Minerals Protection Unit of the Uganda Police Force. So, those illegal miners still behaving like those in Mubende [who were evicted], they should pack and vacate the mines, otherwise, my police force will them help to pack.

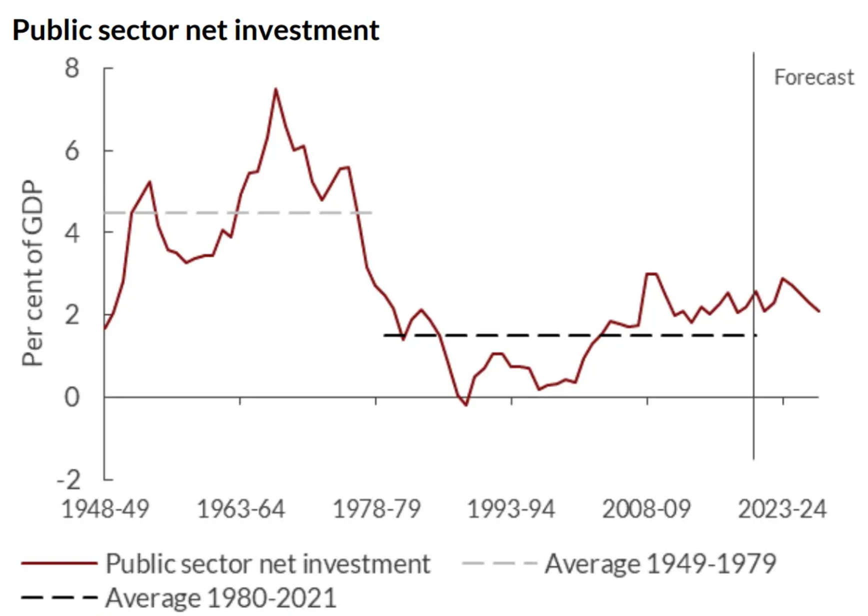
Radley (2023) The three-stage process through which African resource sovereignty was ceded to foreign mining corporations

49

UK

Coppola

The collapse of public sector net investment under Thatcher is striking. It even briefly turned negative in the mid-1980s, as council houses and state assets were sold off. And although the Labour government of 1997-2010 did increase investment, the rise was small by historical standards and short-lived. Under the Coalition and Conservative governments, public investment has remained largely stuck at just under 2% of GDP.



Source: OBR, ONS and NIESR forecast

49.1 Housing

High levels of public sector net investment in the 1950s and 60s were largely accounted for by an enormous social housebuilding programme. Under Margaret Thatcher, most of these properties were sold to the private sector. But they were not replaced.

My father, Frank Cooke, who as Chair of Housing on Bromley Council led that local authority's flagship Right-to-Buy programme, castigated Thatcher for refusing to allow local authorities to reinvest the funds raised from council house sales in new social housebuilding. For him, Right-to-Buy was about enabling council tenants to own their own homes without having to move out of their homes, not about running down the social housing stock. But for the Conservatives in government, it was all about shrinking the size of the state. They genuinely believed that the private sector would be better at developing and running essential infrastructure and services than the state. Council houses were far from the only state assets they sold off.

By 1994, social housebuilding had all but ceased, and although housing associations did increase their housing stocks, it was nowhere near enough to replace the lost council homes. And private sector housebuilding didn't take up the strain either. Since 1979, private sector housebuilding has been persistently lower than it was in the mid-1960s.

If there had been no population increase, the collapse of social housebuilding and the stagnation of private sector housebuilding might not have caused significant problems. But the same period has seen the population increase from around 50 million to over 67 million. This rise has not been evenly distributed over the country: cities have tended to grow faster than rural areas, and London and the South East faster than other regions. The combination of high population growth with inadequate housebuilding can have only one effect, namely to raise house prices. House prices have indeed soared.

During this period of rapid house price rise, house prices actually fell on two occasions: in the recession of 1990-1994, and again in the 2007-8 financial crisis. In 1990-94, over a million households experienced the miserable phenomenon known in the UK as "negative equity", when the value of their houses fell so much that they were worth less than their mortgages. The fact that so many people were affected may have been because of the prevalence of so-called "endowment mortgages", in which homeowners paid into a long-term savings policy instead of making monthly capital repayments. The savings policy was intended to generate sufficient capital to pay off the mortgage at the end of the term, usually with a bonus, but it meant that the mortgage balance did not reduce during its lifetime. Homeowners with endowment mortgages were thus more likely than homeowners with repayment mortgages to struggle to maintain mortgage payments when interest rates rose, and were also more likely to find themselves in negative equity.After a major mis-selling scandal in the 1990s left many homeowners with insufficient capital to repay their mortgages, endowment mortgages disappeared from the market. Today, interest-only mortgages are largely confined to the buy-to-let market, and linked savings products with unhedged interest rate risk and exorbitant fees are thankfully a thing of the past.

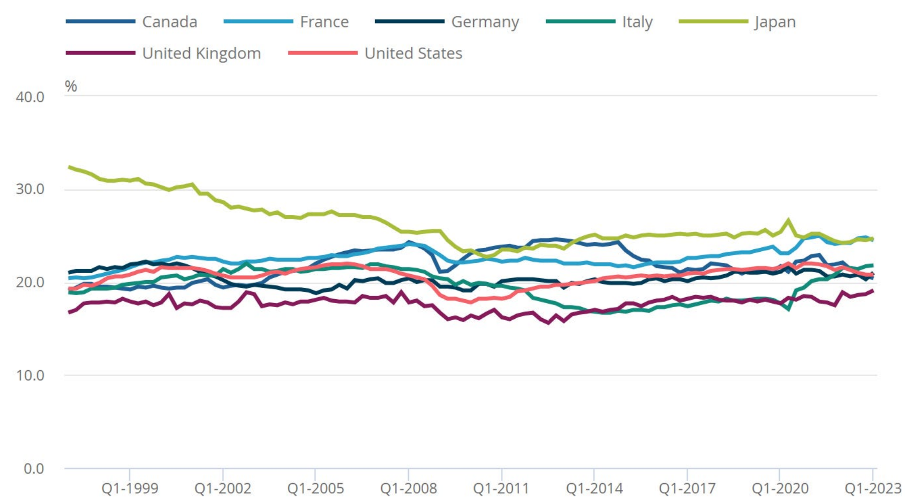
But negative equity is on its way back. NIESR forecasts a 6.5% fall in house prices over the next couple of years, and expects that as a result, about 166,000 households will find themselves in negative equity.

49.2 Investment

As a proportion of GDP, UK investment is the lowest in the G7 - and has been for a long time.

Figure 4: UK investment as a proportion of gross domestic product (GDP) remains lower than other G7 economies

G7 nations GFCF as a percentage of GDP, chained volume measures, seasonally adjusted, Quarter 1 (Jan to Mar) 1997 to Quarter 1 2023



49.2.1 Crowding Out - Crowding In

Conservatives' fervent belief in "shrinking the state" arises in part from an economic theory that says state spending "crowds out" private sector investment. According to this theory, cutting state spending should result in a private investment boom.

In the second half of the 1980s, the "crowding out" theory did appear to be true. After the 1986 financial sector reforms, there was an investment boom . But it was short-lived. By the late 1980s the economy was overheating and inflation was heading for the skies. When the Chancellor yanked up interest rates, there was a painful housing market crash and deep recession. It took over a decade for investment to reach pre-crash levels. That eventual increase was driven by the public sector. The sad truth is that when the public sector doesn't invest, neither does the private sector.

NIESR argues that increasing public investment will "crowd in" private investment. And even if it doesn't, the fiscal multipliers for public investment are so high that it is worth doing on its own terms anyway: NIESR estimates fiscal multipliers on public investment of 2-10% in the UK.

This is a radical departure from the economic orthodoxy that has largely determined government policy for the last forty years. And it raises more questions about what is taught to economics students. **The economics profession has done much painful soul-searching since the 2008 financial crisis, but it seems it is not enough.**

Despite the lack of evidence that public investment ever "crowded out" private investment in the UK, the Conservatives still believe that big tax and government spending cuts will encourage private sector investment. Liz Truss is still promoting her theories to anyone who will listen. And Jeremy Hunt is preparing to cut welfare benefits in real terms to create fiscal space for tax cuts in 2024, though this perhaps has more to do with trying to win an election than increasing private investment.

Coppola (2023) The sorry state of UK investment

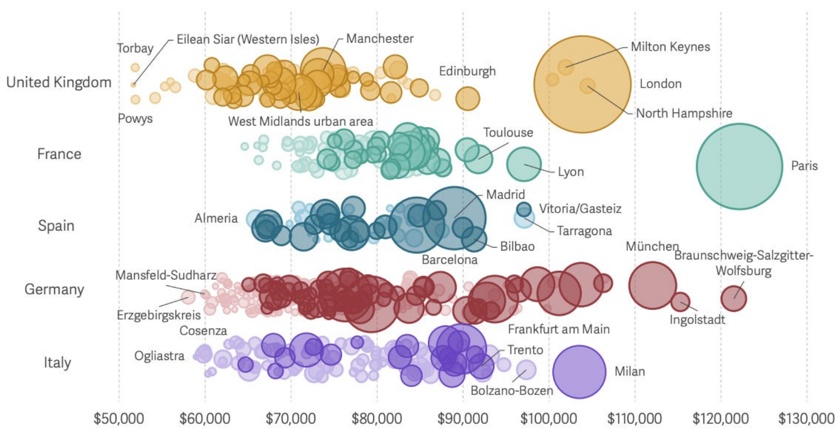
49.3 Foreign Owvership - weal performance

Tooze

London boasts world-class productivity and incomes to match. Much of the rest of Britain d
oes not. There is a strikingly large gap between London and Britain's second cities, Birmi
ngham and Manchester. This is larger than the equivalent gap in France between Paris and a
city like Lille. As the report comments:

Figure 33: The UK's large cities are further behind the capital than in France

Gross value added (GVA) per worker by country and area: 2018



Notes: PPP adjusted. Spatial units are a combination of OECD metro regions and NUTS3 for non-metro regions. Metro areas are shown in darker bubbles in the figure. Bubbles are proportional to the number of workers in each region. Gross value added (GVA) is the value of a unit's outputs less the value of inputs used in the production process to produce the outputs.
Source: Analysis of OECD, Regional Economy Database.

Birmingham is 14 per cent less productive than the UK overall, and has an employment rate
5 per cent below the national average, while even Greater Manchester, widely regarded as a
n economic success story, has productivity 12 per cent below the UK average.

Human capital formation is not encouraged by the fact that wages are low and the premium c
ommanded by graduates everywhere outside London has fallen, signalling that the local econ
omy cannot make particularly good use of high-skilled labour.

Put another way, highly skilled workers who might prefer to make lives for themselves and
their families outside the hot spots of London and the South East, face an increasing pena
lty for making that choice. Rather than convergence this will tend to drive deconvergence
within Britain itself.

If we ask why labour productivity is not higher, the obvious culprit is inadequate investment.

To put capital and labour to work productively requires good management. And though there are many British firms which are well run, the UK has a long tail of underperformance.

Assuming that owners are in general interested in maximizing returns, a long tail points to weak structures of corporate governance. What is particularly striking in the UK case is the extent of foreign ownership - foreign ownership of UK public firms rose from just over 10 per cent in 1990 to over 55 per cent in 2020 - and the extent to which firms lack a single controlling share owners, who would be in a position to oversee management strategy and reap the full rewards of success.

Corporate Britain isn't very British and it lacks a model.

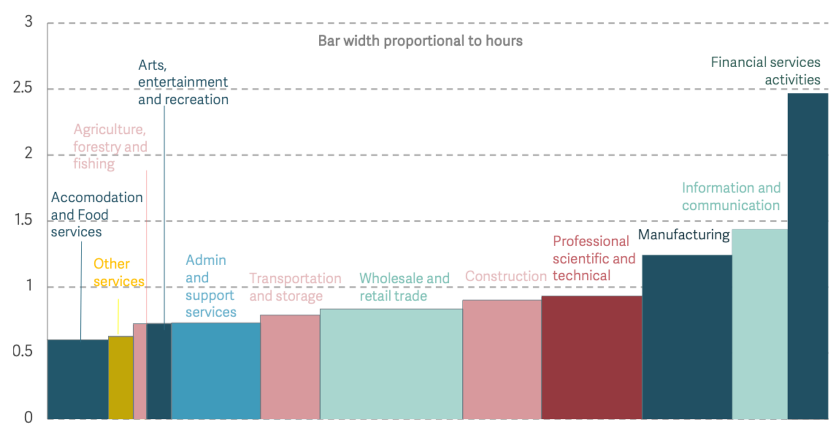
A largely unconstrained managerial class, who to judge by the data are doing a thoroughly mediocre job.

Given this state of affairs it is easy for those owning firms operating in Britain to imagine reallocating investment and work away from Britain. The negative consequences of the gratuitous self-amputation of Brexit fall particularly on the highest productivity sectors.

Reviving manufacturing is not going to save the British economy or provide the basis by itself for a more equitable reconstruction of British society.

Figure 57: A steep ladder: mapping productivity across sectors

Sector size and relative productivity in the UK: 2022



Notes: Notes: Width of bars represent the relative size of the sector (gross output in the baseline). Height represents relative productivity compared to average.
Source: ONS, Quarterly Output per hour worked by section-level industry aggregations, Chained volume measure (CVM), April 2023.

Raising the minimum wage, which has been one of the success stories of recent policy, should be a priority.

20-30 percent of the population are heavily dependent on benefits,

The current Tory government and their predecessors are responsible for much of the mess the country is in and no better future for Britain can be built so long as they remain in power.

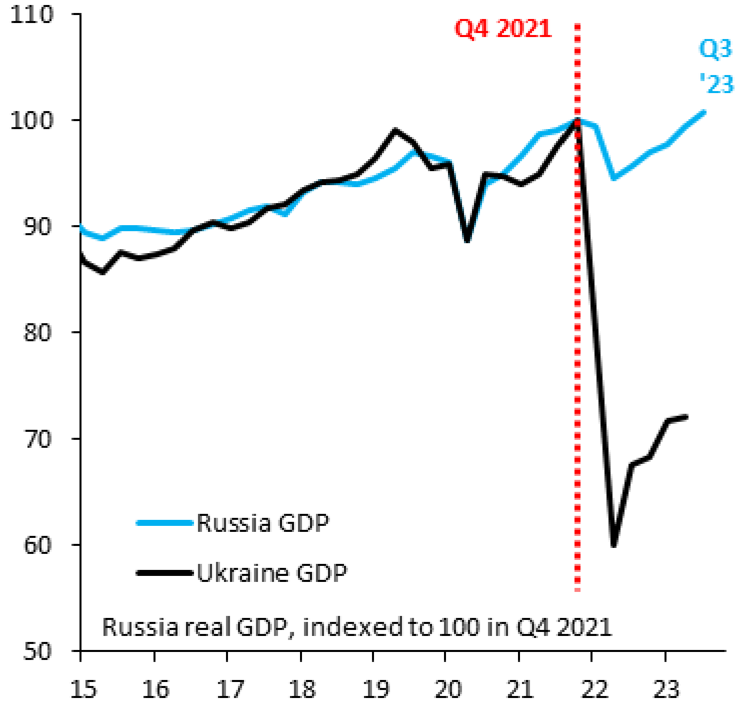
Starmer and his clique seem bent on betraying most things an intelligent progressive politics in Britain should be proud to stand for.

Cynical attempt to appeal to "Middle England".

Tooze (2023) Chartbook 252 Broken Britain

50

Ukraine



Alex Smith

About half of all wheat consumed in Lebanon in 2020 came from Ukraine, according to data from the Food and Agriculture Organization (FAO). Relying on bread and other grain products for 35 percent of the population's caloric intake, Lebanon is critically dependent on Ukrainian wheat. Of the 14 countries that rely on Ukrainian imports for more than 10 percent of their wheat consumption, a significant number already face food insecurity from ongoing political instability or outright violence. For example, Yemen and Libya import 22 percent and 43 percent, respectively, of their total wheat consumption from Ukraine. Egypt, the largest consumer of Ukrainian wheat, imported more than 3 million metric tons in 2020—about 14 percent of its total wheat. Ukraine also supplied 28 percent of Malaysian, 28 percent of Indonesian, and 21 percent of Bangladeshi wheat consumption in 2020, according to FAO data.

Smith (2022) A Russia-Ukraine War Could Ripple Across Africa and Asia

Tooze (2022) Strategy of tension

Tooze on Cooper

In an impressive report from December 2022, Luke Cooper discussed the logic of "Market economics in an all-out-war?" that is at work in Ukraine. In the name of anti-corruption drives and austerity Kyiv seems wedded to a minimal state vision, whereas the opposite is actually required. "A genuinely modernizing economic strategy should start from ensuring the capacity of the state to protect its citizens and the environment. Investment in capital projects for a green transition, public services like healthcare and education, and the social safety net, will be critical to ensuring Ukraine's long-term development."

Tooze (2023) Ukraine's War Econmy

Cooper (2022) Market economics in an all-out-war

50.1 Peace Deal

Welsh

So, there can be no deal, because Russia and Putin don't believe that the West in general and the US in particular (they have contempt for EU leaders who the know simply follow US orders) can't be trusted to keep it.

That means there's really on one way to have a peace deal: hostages.

It's an old idea. If there's no trust, in the old days you had people the other side cared about, usually family members, live with you. Break the deal and they get it in the neck.

So if there's to be a deal with Ukraine, there have to be hostages, and they have to be given to Russia. Not people, in this age, but something the US cares about. Perhaps the contents of Fort Knox? Perhaps something else? (Suggest possibilities in the comments.)

I personally can't think of anything that would be enough, so I can't see a peace deal now.

The deal will happen when it's a surrender deal. When the Ukrainians firmly admit they are losing and losing badly. And world war I style deal, where the victor sets the terms.

As such, I don't see Ukraine keeping Odessa, for example. The deal will be ugly.

Welsh (2023) The Conditions For Peace In Ukraine

51

USA

Milanovic

51.1 Turchin Model of Decay

Inequality is important because high inequality leads to social conflict. How? Peter Turchin comes with an explanation.

Turchin's model of decay has one variable: inequality in income or wealth. That variable which is often adduced as a source of political discord is given a very concrete meaning by Turchin.

Rising inequality means by definition that the median-income person will fall further behind the mean-income person, and increasingly behind the top 10% or the top 1 percent. The median-income person could be, as in today's United States (a county to whose analysis most of the book is dedicated), an insufficiently credentialed manufacturing or service sector worker; or it could be a semi-skilled laborer in the 19th century Great Britain, or a small landholder in the 1830s France and 1850s Russia. Thus, *precise occupation or class does not matter:* ***income position*** *does.*

Elite Split

Increased inequality means, again by definition, that people at the top are getting richer compared to the rest, or put differently, that the advantage of being in the top decile or top percentile is increasing. This, as every economist knows, implies that the "demand" for such top slots will go up. If the elite (the top decile or the top percentile) is composed, as in today's US, of executives, investment bankers, corporate lawyers there will be an increasing attempt to study the most lucrative fields and to adopt the type of behavior (including the beliefs) most likely to lead to joining the elite. If more people do so than there are elite positions, a game of empty chairs follows. Not everyone among the aspiring elite will make it. The split in the elite, created by the disappointed would-be elite fighting for top positions, comes next.

Elite Overproduction

In conditions where (a) the distance between the median and the top goes up (what Turchin calls "immiseration" although it is important to note that this is a relative immiseration; i.e., the median-income person can in real terms become better off), and (b) there is elite overproduction, a pre-revolutionary situation ensues.

Enlisting 'The People'

Immiseration is not enough. To produce a breakdown, we have to have different elites fighting each other, with one of them enlisting the support of the "people" in order to win.

Even passing knowledge of the backgrounds of the most important revolutions in the modern era shows that Turchin's simple model provides a good fit. Take the French revolution: stagnation of income and recurrent famines occurred simultaneously with a divided elite (aristocracy and part of the clergy against the rising city merchant class); in Russia in 1917, it was one part of aristocracy against another which lost its landholdings and wealth after the abolition of serfdom and could not compensate it with well-paying state jobs. (The statistic of the number of revolutionaries who were themselves, or their families, the impoverished nobles is striking.) Or take the 1979 Iranian revolution: the sidelined clergy against the bourgeois elite, which, like in the Russian case, produced through its offspring the future revolutionaries.

US is a Plutocracy

The model fits well—almost too well—the current American reality. The median person is the "deplorable" (to quote Hillary Clinton), a populist (to quote the mainstream media), a Hillbilly (to quote J. D. Vance) or one of the candidates for the deaths of despair (to quote Anne Case and Angus Deaton). The disaffected, disenchanted American lower middle class has been studied extensively after Trump came to power. The current elite, whom Turchin dissects in an almost forensic manner, is composed of CEOs and board directors, large investors, corporate lawyers, "policy-planning network", and top elected officials (p. 203), that is, of all those who have money and who use it to gain voice and power. (Not unexpectedly, Turchin argues that the United States is a plutocracy that uses the tools of the general right to vote as a way to legitimize its power).

Elite Fight

But that elite is not monolithic. An aspiring elite ("credential precariat") has been constituted. It has failed so far to reach the top and has ideologically defined itself in opposition to immigration, globalization, "woke" ideology. Turchin argues that this aspiring or would-be elite is in the process of taking over the Republican party and thus creating a political tool for an effective intra-elite competition. This is, of course, resented by the ruling elite that enjoyed an extraordinary good run between 1980 and 2008 as its view of the world (neoliberal capitalism, "credentialism", and identity politics) became espoused by both mainstream parties. Turchin regards the present political struggle in the US as the ruling class trying (desperately) to fend off an assault on its ideology and, more importantly, on its economic position, by an aspiring elite that is enlisting the support of the disaffected middle class.

Left Elite against working/middle class

In all Western democracies, the left-wing or social-democratic parties have become parties of the educated credential elites, while the working and middle classes have lost their influence and even representation.

(See also under 'China')

Milanovic (2023) On Turchins End Notes

51.2 Military

Roberts

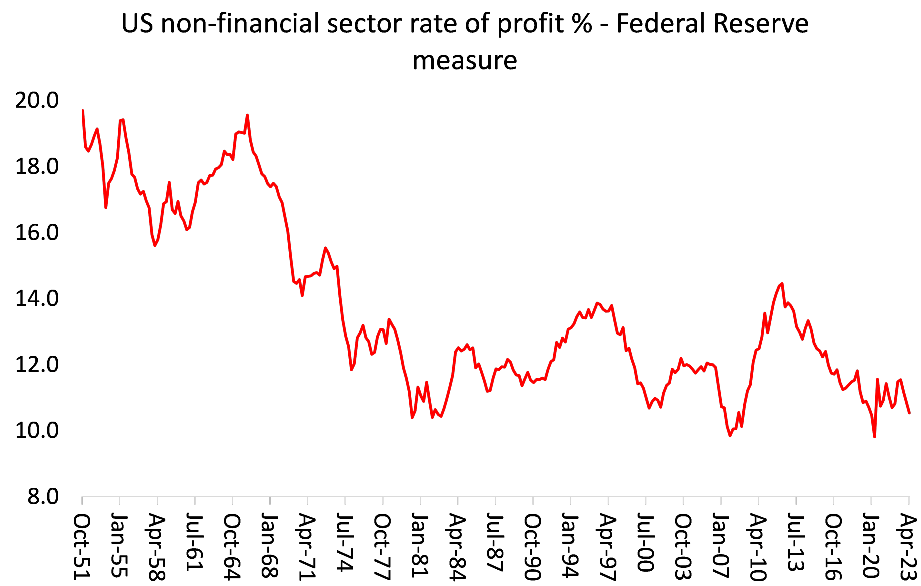
Brown University's Watson Institute for International and Public Affairs published its annual "Costs of War" report last week. This refers only to the costs of war for the US. It takes into consideration the Pentagon's spending and its Overseas Contingency Operations account, as well as "war-related spending by the Department of State, past and obligated spending for war veterans' care, interest on the debt incurred to pay for the wars, and the prevention of and response to terrorism by the Department of Homeland Security." The final count revealed, "The United States has appropriated and is obligated to spend an estimated $5.9 trillion (in current dollars) on the war on terror through Fiscal Year 2019, including direct war and war-related spending and obligations for future spending on post 9/11 war veterans."

US military is conducting counterterror activities in 76 countries, or about 39 percent of the world's nations.

Between 480,000 and 507,000 people have been killed in the United States' post-9/11 wars in Iraq, Afghanistan, and Pakistan.

Roberts (2019) Milex and the rate of profit

Roberts


US non-financial sector rate of profit % - Federal Reserve measure
20.0
18.0
16.0
14.0
12.0
10.0
8.0
Oct-51
Jan-55
Apr-58
Jul-61
Oct-64
Jan-68
Apr-71
Jul-74
Oct-77
Jan-81
Apr-84
Jul-87
Oct-90
Jan-94
Apr-97
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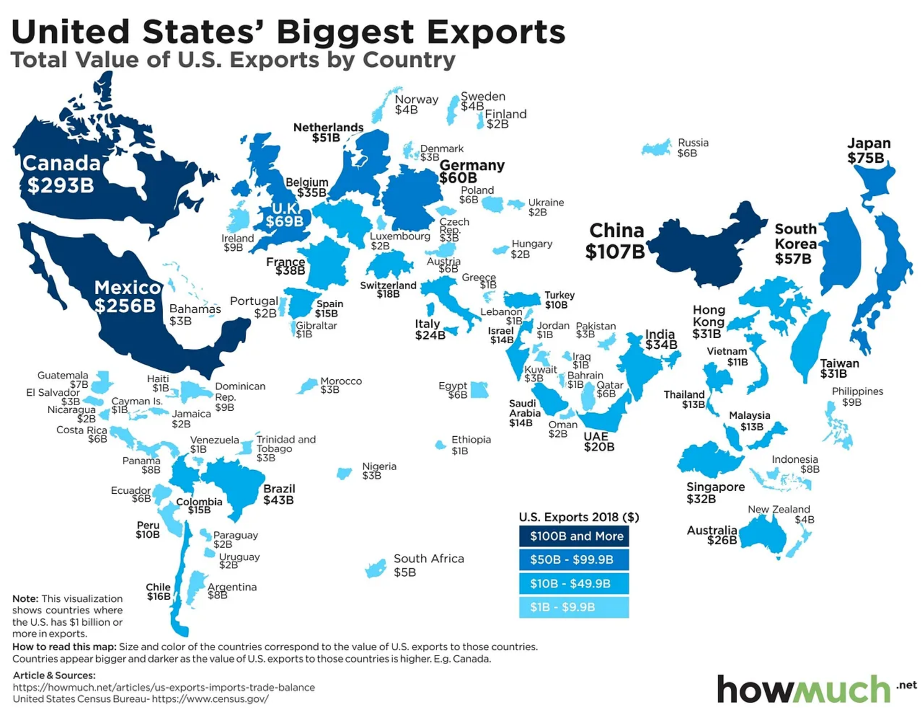
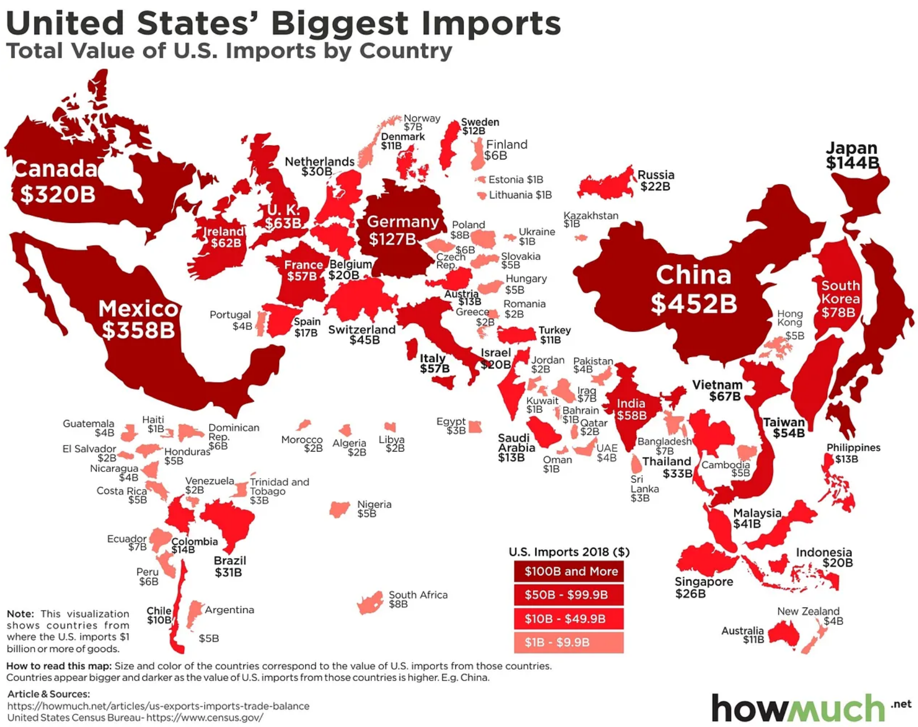
Apr-10
Jul-13
Oct-16
Jan-20
Apr-23

51.3 Trade


United States' Biggest Exports
Total Value of U.S. Exports by Country
Canada $293B
Mexico $256B
China $107B
U.K. $69B
Japan $75B
Germany $60B
South Korea $57B
Netherlands $51B
Brazil $43B
France $38B
Belgium $35B
India $34B
Singapore $32B
Hong Kong $31B
Taiwan $31B
Australia $26B
Italy $24B
UAE $20B
Switzerland $18B
Chile $16B
Spain $15B
Colombia $15B
Israel $14B
Saudi Arabia $14B
Thailand $13B
Malaysia $13B
Vietnam $11B
Peru $10B
Turkey $10B
Ireland $9B
Dominican Rep. $9B
Philippines $9B
Argentina $8B
Panama $8B
Indonesia $8B
Guatemala $7B
Russia $6B
Poland $6B
Austria $6B
Egypt $6B
Qatar $6B
Ecuador $6B
Costa Rica $6B
South Africa $5B
Norway $4B
Sweden $4B
New Zealand $4B
Denmark $3B
Czech Rep. $3B
Morocco $3B
Bahamas $3B
El Salvador $3B
Nigeria $3B
Kuwait $3B
Pakistan $3B
Trinidad and Tobago $3B
Finland $2B
Ukraine $2B
Luxembourg $2B
Hungary $2B
Portugal $2B
Nicaragua $2B
Jamaica $2B
Oman $2B
Paraguay $2B
Uruguay $2B
Greece $1B
Gibraltar $1B
Lebanon $1B
Jordan $1B
Iraq $1B
Bahrain $1B
Haiti $1B
Cayman Is. $1B
Venezuela $1B
Ethiopia $1B
U.S. Exports 2018 ($)
$100B and More
$50B - $99.9B
$10B - $49.9B
$1B - $9.9B
Note: This visualization shows countries where the U.S. has $1 billion or more in exports.
How to read this map: Size and color of the countries correspond to the value of U.S. exports to those countries. Countries appear bigger and darker as the value of U.S. exports to those countries is higher. E.g. Canada.
Article & Sources:
https://howmuch.net/articles/us-exports-imports-trade-balance
United States Census Bureau- https://www.census.gov/
howmuch.net



51.4 Bidenomics

Foroohar

There can be no doubt now that an epochal shift is underway in how the economy—in America and across the globe—is governed. The mystery is how a moderate, conventional politician like Joe Biden engineered it….

The record on that score is unequivocal. His COVID-19 stimulus bailed out people, not banks. His domestic economic policy has been about curbing giant corporations and promoting income growth. His infrastructure bills invested in America in a way not seen since the Eisenhower administration. He has taken commerce back to an earlier era in which it was broadly understood that trade needed to serve domestic interests before those of international markets.

The contrast with the so-called neoliberal economics of recent decades, in which it was presumed that markets always know best, and particularly the Clintonian idea that "free" trade and globalization were inevitable, could not be starker. With a few notable exceptions (Joseph E. Stiglitz, Jared Bernstein), Bill Clinton's administration, like Barack Obama's, was filled with neoliberal technocrats who bought fully into the idea of the inherent efficiency of markets. Although they might have occasionally looked to tweak the system, many of the academic economists running policy basically believed that capital, goods, and people would ultimately end up where it was best and most productive for them to be without the sort of public-sector intervention you've seen during the Biden administration.

In this world, so long as stock prices were going up and consumer prices were going down, all was well. Monetary policy trumped fiscal stimulus. And if the latter had to be used, it should be, in the words of the economist Larry Summers, "timely, targeted, and temporary." (The Biden stimulus, by contrast, is designed to be broad based and long term.) In this political economy, outsourcing wasn't a bad thing. China would get freer as it got richer. Americans should aim to be bankers and software engineers, not manufacturers….

"Rather than speaking to Goldman Sachs, Biden spoke to autoworkers."

Foroohar (2023) The Great Reordering

Welsh (2023) Week-end wrap-up

51.5 America's decline

Farooqi

A more compelling theory pins the blame for the decline of the American working class on the transformation of the US occupational structure that is occurring around the same time as the structural break in despair: when Clinton was throwing parties at the White House to celebrate the New Economy, the US occupational structure was acquiring its present hourglass shape.

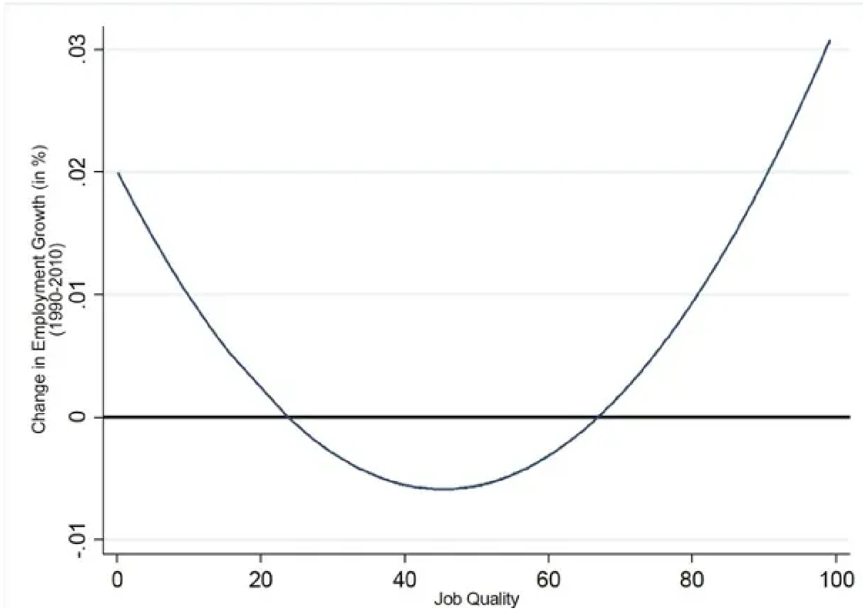


Figure: US Job Quality Shift

The hourglass occupational structure may be a consequence of the information technology revolution. The technology enabled routinization of production processes of both goods and services. Both men and machines were automated. Machines were automated with code. Workers were automated through routinization of tasks, thereby increasing the scale of operations that could be brought under the precise control of highly-skilled managers. An unanticipated consequence of this development in technics was the vanishing of middle-skilled occupations and the systematic deskilling of the American labor force. As we argued above, this is the correct etiology of the crisis of the American working-class.

The number of middle-skilled with middling pay have actually declined. Meanwhile, the number of deskilled jobs offering low pay have grown, and highly-skilled jobs for the college-educated have grown especially fast in the New Economy.

What has happened as akin to the Lewisian model in monstrous reverse: instead of leaving a traditional low-productivity sector for a modern high-productivity sector, working-class American breadwinners were pushed out of middle-skilled jobs into either deskilled "dead-end" jobs at the bottom, or a life of dependence and indolence. Labor force participation for women over 20 had risen to 60 percent by 2000, where it has roughly stabilized so that participation rates of all adults are not confounded by gender composition effects from then on. In 2022, the prime-age labor force participation rate was 73 percent for college graduates, 63 percent for those with some college, 56 percent for high-school grads, and 45 percent for high school dropouts. Let that sink in: *four out of every nine high-school graduates in their prime working years are no longer even looking for a job.* These workers are almost certainly discouraged by the dead-end jobs that are available for high school grads.

Occupational polarization has caused grave insults to the working-class self and to the reproduction of the working-class family. The trauma of deskilling and intergenerational downward mobility resisters in self-harm, labor market capitulation, and family instability. Family formation rates are strongly stratified by educational attainment.

These insults to the working-class self and family reproduction have exacerbated the status conflict inherent in the polarization of society around what's called the diploma divide. Emmanuel Todd has argued that the universalization of high school education flattened the distribution of capabilities and thereby made possible the egalitarian world that obtained at midcentury. But the spread of college education in the latter half of the twentieth century, because it was invariably limited to an advantaged minority, vertically polarized society along the diploma divide.

Prestige-schooled meritocrats cornered the lion's share of skill, income, and prestige, leaving crumbs for the provincial elites and working classes of "flyover country."

I have tried to suggest what I see as the correct etiology of working-class despair and radicalization. Serious people may, of course, challenge my explanation of the crisis of the American working class. What is amply clear is that China is not responsible for this catastrophe. We did this to ourselves.

The problem is endogenous to our civilization. It lies in our arrangements. In order to dig out of this hole, we need an honest reckoning with the underlying problem. Blaming foreigners is the refuge of scoundrels like Donald Trump. It has no place serious debate over high policy.

One of the main findings of what's called Schumpeterian growth theory is of particular importance to the countries of the advanced industrial core. This is the finding that "openness is particularly growth-enhancing in countries that are closer to the technological frontier."[36] Conversely, tariff walls and non-tariff trade barriers pose special risks for the most advanced economies. Specifically, the risk posed by protectionism is that it would undermine the competitiveness of the center countries.

If the US embraces economic protectionism, as it is most definitely at risk of doing, not only will the most productive American firms face weaker import competition and therefore weaker incentives to innovate, but factors of production will also remain trapped in the least productive firms, thereby further undermining US productivity growth. And the problem cannot be contained by narrow Sino-American decoupling. If we shelter our firms from Chinese competition but, say, the Koreans don't, then how will we compete with the Koreans? The same is true of all our allies and trade partners. We cannot escape this dilemma through clever tactics.

If the United States hunkers down behind tariff walls, American firms and industries will in all probability lose the productivity race. Our mistaken narratives blaming free trade for the decline of the American working class may very well cost us the very thing on which the future of America's world position rests. We are at risk of killing the golden goose.

Farooqi (2023) Notes on US China Policy

51.6 Dollar Hegemony

Farooqi

The dollar's role in the world gives the United States a great deal of power. We have abused this power for a long time with our overreliance on the economic weapon to discipline confrontation states. But with the Russia sanctions we crossed a line. The freezing of the assets of the Russian central bank in particular was a signal moment not just for our adversaries but also third parties and even allies. Everyone's been put on alert: your dollar assets are no longer safe; they can be seized at any time. Put another way, at a stroke, our ill-considered resort to unrestrained economic warfare has undermined the status of the dollar as a true safe asset. No self-respecting country will tolerate that sort of blatant erosion of sovereignty for long. The template for the development now afoot is what happened in the aftermath of the Asian financial crisis of 1997-1998. The US, acting through the IMF, was so heavy-handed that not just the Asian countries in trouble but countries worldwide resorted to systematic reserve accumulation as insurance against our dictat. One general response this time around is that countries around the world have begun signing up for alternative payment systems being articulated by the Chinese so that they have somewhere to go if the crazy Americans turn on them.

Our abuse of the economic weapon is squarely responsible for this tendency. And we are now exacerbating the dynamic by further initiatives to garrison the world economy. The world had greeted the Biden administration with evident relief. That relief has given way to horror as the world has come to understand that Biden in bent on further articulating Trump's economic rearmament. And then there's the very real possibility of further instability in US policy. In a sense, this diplomatic fallout has already obtained.

Because other countries now have excellent reasons to doubt the tottering US commitment to an open world economy and perceive great risks from US policy instability, they're begun to embrace the second-best option: closer ties with China.

If Trump comes back into office, he will almost certainly bring in committed economic isolationists like Oren Cass.One of his signal ideas is to impose a 10 percent tariff on all imports, to be increased by 5 percent annually until the deficit is closed. This trade policy, arising from a misplaced fetishization of the trade balance, is a recipe for economic and geopolitical suicide. The erosion of US productivity will come later. What will begin immediately is an irreversible process whereby China will replace the United States from the center of the world economy.

Actually, we've played a version of this game before. American politicians wrongly seized on international economic intercourse as the source of the instability in the early-1930s. We built a great big tariff wall and pushed all other powers into autarchic grand-strategies that ultimately led to the radicalization of world powers and the catastrophe of the midcentury struggle. The lesson that Cordell Hull drew from that catastrophe was that preserving the open world economy was essential to the stability of world politics. This is why the greatest generation invested all its political capital into resurrecting the open world economy. That was why the United States created the World Bank and the IMF. Before we again destroy the world that we ourselves created, we need to revisit the original logic that governed the American articulation of global institutions.

The harsh reality is that our allies and third parties are greatly worried about US policy. They are worried about the coupling of electoral class politics and trade policy.

The impasse of American class politics is forcing all nations to reconsider their world strategies in directions that undermine our world position.

We need to find a formula that allows us to regulate long-term competition with our world historical competitor. It is too dangerous to allow the security spiral to get out of hand for reasons of political expediency. If we must fight a long and costly cold war against the strongest peer we have ever faced, it had better be for a good reason. China is not the Soviet Union. It is vastly more powerful relative to us than the Soviet Union ever was. Before we take the leap, we need to take a good hard look at the abyss.

Farooqi (2023) Notes on US China Policy

Tooze

Bank Oligoply

Earnings at JPMorgan Chase, Bank of America, Wells Fargo and Citigroup were up 23 per cent according to BankRegData, which collates quarterly reports from lenders to the Federal Deposit Insurance Corporation. Of Americas's almost 4,400 banks, the big four made 45 per cent of the industry's overall profits in the third quarter. That was up from 35 per cent a year ago, and well above the 10-year average of 39 per cent. By contrast profits at all other institutions dropped by an average 19 per cent in the quarter, their largest fall since the early months of the coronavirus pandemic.

Tooze (2023) Bank Oligopoly

51.7 Inequality

(Branko Milanovic on X)

Smith on Deaton

A few years ago, the Nobel-winning economist Angus Deaton started declaring that modern economics has gotten it all wrong. His argument is basically that recent reductions in life expectancy in America are due to the despair created by our capitalist economic system. He has a number of papers and a book laying out this idea.

I'm actually favorable to the "deaths of despair" idea, though my guess is that it's more about stress than despair — behaviors like overeating and drug and alcohol abuse seem like coping mechanisms that can become addictive and destroy long-term health. But that's just a guess. The fact is that just showing drops in life expectancy doesn't really prove Deaton's grand thesis about capitalism at all.

Essentially, we can boil Deaton's story down to the following:

capitalism —> despair —> increased death

So far, most of the debate has focused on the second arrow — the question of whether falling life expectancy in the U.S. is due to despair. And most of that debate has focused on isolating which groups have been hit hardest by fentanyl, suicide, and so on — for example, the question of whether whites without a college degree have been hit harder.

The more important point, however, is that neither Deaton nor any of his supporters have managed to establish a link between capitalism and despair. In a scathing and widely read post back in October, Matt Yglesias pointed out that Europe suffered a slowdown in productivity and income growth that's similar to America's, but saw no rise in "deaths of despair". More generally, Deaton hasn't managed to draw an empirical link between macroeconomic outcomes of any kind — inequality, slow income growth, income insecurity, rising service costs, or anything — and the drops in life expectancy that he talks about. And he doesn't seem to even bother comparing America's economic system to that of other rich countries, or analyzing whether those differences are responsible for divergences in life expectancy.

It's this grand leap of interpretation, combined with a seemingly profound incuriousness about whether the data supports the leap, that makes Deaton's anti-capitalist messaging so frustrating. If you're going to claim that features of America's economic system are causing more people to commit suicide or overdose on fentanyl, why not just test your claim? Empirical economics is chock full of ways to test that idea — there are plenty of natural experiments that you could use. Yet the Nobel Prize-winning economist seems content to simply do yet more demographic breakdowns of mortality rates. This does not yet satisfy the burden of proof.

Smith (2023) At least five things for your Thanksgiving weekend

51.8 Nuclear

Barnard

In the early 2000s, wind, solar and batteries hadn't seen massive global deployments and astounding cost reductions, and wind and solar especially had not been proven to be able to be managed to create reliable grids. Nuclear was the clear deployable low-carbon, low-pollution alternative. It was quite possible to have an informed, logical and defensible opinion at the time that nuclear would dominate low-carbon electrical generation. Memories of the successful nuclear deployments, if not why they were successful, were top of mind in people's heads.

Many people such as Michael Shellenberger and seemingly everyone involved with the Pritzer-funded Breakthrough Institute became convinced that lots of nuclear energy was required quickly and everything else was a distraction.

There's no obvious connection between the Institute and Breakthrough Energy Ventures, but there's clearly an intellectual one.

Bill Gates, founder, funder and Chair of small modular reactor firm TerraPower founded the latter. He brought a set of other pro-nuclear billionaires along for the ride including Mukesh Ambani, Jeff Bezos who has money in fusion, Richard Branson who is a public advocate for nuclear, Chris Hohn whose hedge fund was invested in a Japanese nuclear utility whose assets included nuclear power stations, Vinod Khosla who blames environmentalists for nuclear's economic failures, Jack Ma who was instrumental in Chinese involvement in the UK's Hinkley Point C nuclear expansion and even Ratan Tata, former Chair of Tata Group who was instrumental in building nuclear energy in India.

Many of these people's hearts are in approximately the right place regarding addressing climate change, but billionaires are surrounded by a chorus of sycophants and so find it easy to end up having their opinions reinforced rather than challenged as data changes.

And by 2015 when Breakthrough Energy Ventures was founded, data had changed. Wind and solar were already being deployed at remarkable scales without running over budget or schedule. China's nuclear program was already struggling while its wind, solar and hydro programs were running well. It was clear to outside observers that the premise of Venture was flawed.

Shellenberger couldn't let go of his fixation on nuclear as the solution when data changed. So instead he started attacking renewables relentlessly, falsely and illogically. When that didn't work, and it was clear that renewables were the primary answer to decarbonizing electricity to address climate change, he became a climate change denier instead. It was impossible for him to let go of his public commitment and admit that he was wrong, and so he became even more wrong.

At that, he's done less harm than Breakthrough Energy Ventures. It continues to fund nonsense like Heirloom and AirLoom most recently, and Heliogen in the past. Gates' TerraPower is funded by US DOE money as much as anything else, and he goes cap in hand to Congress to demand that nuclear get more subsidies than it already does and that renewables be short changed.

The Ventures crowd are deeply influential. They have the ear of billionaires and national leaders. What they whisper major media outlets amplify. And they are simply wrong because they are stuck in the early 2000s and haven't updated their priors with modern results.

Their support for small modular nuclear reactors as something which is going to fix nuclear energy's modern inability to be delivered on schedule and budget in developed countries comes because they didn't analyze why nuclear programs were successful in the past and why SMRs won't fix that.

Silicon Valley energy 'disruptors'

Silicon Valley has done a lot of things in its innovation history. Early on, it did tremendous work with electronics and physical computers. More recently, it has exploited the internet mercilessly to both destroy and create value chains where data of any form was moving around or persisting. Quite a lot of what the Valley has done is destroy capital, but it has created some amazing firms and attracted a lot of talent. Some of the firms are even good things for humanity and many of the people try to have their hearts in the right places. And in the Valley, if something already exists there's a strong tendency to think it's obsolete and that novel things are by definition better.

Facebook and Google had stormed the world of data, media and entertainment. Moving fast and breaking things worked to make a lot of tech bros absurdly wealthy. Surely there must be another market ripe for disruption. And so they turned to energy. It was electrons. It flowed through wires. Obviously it was just as easy to disrupt as data!

Silicon Valley venture capitalists loved the idea of all the money sloshing around the world of energy. They saw the potential for all of the fossil fuel money flowing into their bank accounts and their kids' trust funds. A whole lot of nonsense technologies received a lot of funding, including a bunch of small modular nuclear reactor and fusion startups.

Yeah, not so fast. Electricity does not equal data. You can't compress or multiplex electricity. The grid is the biggest machine in the world, not a bunch of printing presses and hard drinking writers in New York.

The biggest machine in the world is like a very large crude carrier and the icebergs of wind and solar were already directly in its path and getting bigger every year. By not actually learning about energy, electricity and the grid, a bunch of Dunning Krugered up tech bros and women wasted a lot of venture capitalist money.

The actual disruptive technologies already existed for decarbonizing energy, so the tech bros discounted them at the expense of lots of wasted cleantech capital. The recent SPAC craze which has flung lots of money at bad ideas like Energy Vault and NuScale is just more of the same.

US Department of Energy thumb on the scale

A key point to remember about the US DOE is that 55% of its budget is related to commercial nuclear generation. The other 45% covers dams, geothermal, wind, solar, tidal, wave, biomass and biofuel energy.

There are two results from this. The first is that it's much easier to get big DOE money for small modular nuclear reactors than it is for any other form of generation, although hydrogen for energy plays are giving nuclear a run for its money right now. Gates' TerraPower and the just-failed NuScale both have received hundreds of millions of free money from the DOE in their lifespans so far. Like the continued efforts from the DOE around the perpetually failing technologies of perovskite solar panels, supercritical CO2 thermal generation and concentrating solar power, the DOE just can't help continuing to back bad ideas.

Which gets to the next problem. The DOE is a bureaucracy with all the pros and cons of that form of organization. It has internal politics. That 55% of budget for nuclear is jealously guarded and the source of lots of authority and influence. Bureaucracies persist and add to themselves. They don't voluntarily wind down.

And the people in that side of the DOE are watching a cliff looming toward them. Virtually every nuclear reactor operating in the USA is reaching its end of life in the next decade. What's coming is a century of decommissioning that's underfunded. That's not fun. That's not delivering lifeblood energy to a vibrant economy. That's cleaning up the mess it left behind.

They aren't stupid. They've watched the debacle of the Westinghouse AP1000 failures at Vogtle and Summer deployments. They've watched the European EPR program fail just as badly in Flamanville, Hinkley and Olkiluoto. They lived through the aftermath of the Fukushima disaster, which will approach a trillion USD in economic and clean up costs for Japan by the time the dust has finally settled decades from now.

They know that they can't get support to build more GW scale nuclear reactors. No one is buying that story anymore, although few are clear on the conditions for success. So SMRs are a big area of hope for them. 55% of the DOE's $150 billion budget pays for a lot of attention and air cover for a very low likelihood of success technology.

It pays for a lot of people to go to conferences with other like minded people where they agree with one another, usually politely but sometimes in heated ways, arguing about arcana that are irrelevant to the big problem SMRs face, that they just don't solve the industry's challenges.

Barnard (2023) What Drives This Madness On Small Modular Nuclear Reactors?

51.9 Business Cycle

Roberts

The optimists are puzzled at why Americans, on the whole, are very pessimistic about the US economy despite their rosy picture. The explanation they have come up with is that US households are either stupid or biased politically against the Biden administration!

Perhaps more likely is that with average prices up 17-20% in two years, wages not rising to match that; transport and infrastructure neglected; student fees and debt rising again; record house prices; rising credit and mortgage costs;

and government money going to fund wars elsewhere, Americans are not so convinced that all is well.

Roberts (2023) Goldilock and the last mile

51.10 IRA EV tax credit - parts sourcing rules

St.John

The prospects for U.S. manufacturers to secure sources outside of China for the processed minerals and components that go into lithium-ion EV batteries remain murky.

DOE's guidance designates any company based in one of the countries on its list as a foreign entity of concern. The label would also apply to companies at which 25 percent or more of board seats, voting rights or equity interest are cumulatively held by officials of those governments or companies based in those countries, "whether directly or indirectly via one or more intermediate entities."

The proposed rule would also require scrutiny of joint ventures, licensing agreements and other cooperative ventures with companies based in China (or other countries on the list). Any such agreements that would give those companies "effective control over the extraction, processing, recycling, manufacturing or assembly" of "critical minerals, battery components, or battery materials" will render the resulting products ineligible for the tax credit. St. John (2023) The US EV industry now faces a choice: Tax credits or Chinese batteries

52

Venezuela

52.1 Essequibo Conflict

Tooze

Venezuela's revolutionary socialist government has trumpeted what it says is an "overwhelming victory" in a referendum on its claim to an oil-and-mineral-rich swath of neighbouring Guyana in a referendum on Sunday(3 Dec 2023). The referendum, which Guyana has described as a pretext for "annexation", marks a new phase in a dispute over the Essequibo region, which has escalated since ExxonMobil made one of the world's biggest recent oil discoveries in the Stabroek block off its coast in 2015.

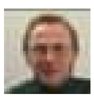
Tooze (2023) Essequibo

Part I

Appendices

Appendix A

About



Dyre Haugen and *Dyrehaugen* is Webian for *Jon Martin* - self-owned Globian, Webian, Norwegian and Canarian with a background from industrial research policy, urban planning and economic development consulting on global, regional and urban scales. I am deeply concerned about the (insane) way humanity (i.e. capitalism) interfere with nature. In an effort to gain insights in how and why this happens stuff is collected from around the web and put together in a linked set of web-sites. The sites are operated as personal notebooks. However, these days things can be easily published to the benefit of others concerned with the same issues. But be aware - this is not polished for presentation or peer-reviewed for exactness. I offer you just to have a look at my 'work-desk' as it appears in the moment. Any comment or suggestion can be mailed to dyrehaugen@gmail.com You can follow me on twitter as @dyrehaugen. Thanks for visiting!

Appendix B

Links

Current Dyrehaugen Sites:

- Capitalism (github) (geek) (loc)
- Climate System (github) (geek) (loc)
- Climate Models (github) (geek) (loc)
- Climate Impacts (github) (geek) (loc)
- Climate Actions (github) (geek) (loc)
- Economics (github) (geek) (loc)
- Economics of Countries (github) (geek) (loc)
- Finance (github) (geek) (loc)
- Energy (github) (geek) (loc)
- Environment (github) (geek) (loc)
- History (github) (geek) (loc)
- Marxian Economics (github) (geek) (loc)
- Statistics (github) (geek) (loc)
- Synthesis (github) (geek) (loc)
- Urbanization (github) (geek) (loc)
- Varia (other themes)(github) (geek) (loc)
- Wisdom (github) (geek) (loc)

Blogs:

- Opinions - Blog in English (github) (geek) (loc)

- Ytringer - Blog in Norwegian (github) (geek) (loc)

Discontinued:

- Climate Change (Up to Sept. 2023) (github) (geek) (loc)
- Collection (Jekyll) (up to 2018) (github) (geek) (loc)
- Collection (Hugo) (2019-2020) (github) (geek) (loc)

Not listed:

- (q:) dhe dhn jrw56
- (z:) rcsa rpad rstart

Appendix C

NEWS

C.1 221220 Market-based development finance in crisis

On December 13 Ghana reached staff-level agreement on a $3 bn IMF credit package. In addition it is seeking to negotiate a 30 percent haircut with private creditors on tens of billions in bonds. Already in September Ghana's 2026 eurobonds plunged to a record low of 59.30 cents on the US dollar. By the end of October yields had surged to 38.6 %, up from less than 11% at the end of 2021. Meanwhile, inflation is headed to 40 percent and the cedi is the worst performing currency not just in Africa but of all currencies in the world.

You could shrug and say that this is Ghana's second IMF deal in 3 years and its 17th since independence in 1957. Plus ça change. But it is more than a national crisis. It is the latest sign that the entire model of market-based development financing is in crisis.

Tooze (2022) Chartbook #181: Finance and the polycrisis (6): Africa's debt crisis

C.2 210717 Carney calls for stronger Government Regulation

For the world to meet its climate goals, governments would have to force industries to follow *clear rules, on everything* from energy generation to construction and transport, and set carbon prices that would drive investment towards green ends and close down fossil fuels.

"We need clear, credible and predictable regulation from government," he said. "Air quality rules, building codes, that type of strong regulation is needed. You can have strong regulation for the future, then the financial market will start investing today, for that future. Because that's what markets do, they always look forward."

Without such robust intervention from governments, markets would fail to address the crisis.

Gurdian

Appendix D

Sitelog

Latest Additions

December 8, 2023 europe
    capital cities economic lead
December 8, 2023 uk
    british economic underperformance
December 8, 2023 indonesia
    jakarta is sinking
December 10, 2023 europe
    auto industry lack of innovation
December 10, 2023 norway
    ocean mining and wealth fund renewables investments