

Labor-Capital Conflict: From Eurocentric Capitalism Towards. A Humanistic World Order

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Abstract. What Wells summarized in the first quote above was Eurocentric capitalism. It has now become the principal source of instability and inequality in the world. Speculation, not profit, is its driver; profit has taken a back-seat. Capital market, the arena for speculation, is disconnected from the real economy, particularly the labor market which rewards less and less the workers and producers. Rewards, as private wealth are increasingly in speculative capital gains which accrue to the top 1% elite, made up of stock market players and financial institutions, while the rest [workers, middle class and those in lower segments of the socio-economic pyramid] fall behind.

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“In the closing years of the nineteenth century it was assumed... to be a natural and inevitable thing that all the world should fall under European dominion. ... the European mind prepared itself to take up what Rudyard Kipling called ‘the White Man’s Burden’ – that is to say the lordship of the earth.”

H.G. Wells, *The Outline of History*, Doubleday & Co, NY, 1971, Vol. II, p. 851

“Today, market capitalism has no major ideological rival. Its biggest threat is from within itself. If it cannot promote both prosperity and justice, it will have failed.” Kofi Annan, former UN Secretary-General, *The Gazette (Montreal)*, Feb 2, 1997: A7

“Indian electricity consumption per capita in 2035 will reach the US level that prevailed in 1947.” Fatih Birol, Chief Economist and Director, Global Energy Economics, International Energy Agency, in a public lecture at Carleton University, Ottawa, Ont., Canada, 26/11/2012

1. Introduction

What Wells summarized in the first quote above was Eurocentric capitalism. It has now become the principal source of instability and inequality in the world. Speculation, not profit, is its driver; profit has taken a back-seat. Capital market, the arena for speculation, is disconnected from the real economy, particularly the labor market which rewards less and less the workers and producers. Rewards¹, as private wealth are increasingly in speculative capital gains which accrue to the top 1% elite, made up of stock market players and financial institutions, while the rest [workers, middle class and those in lower segments of the socio-economic pyramid] fall behind.

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¹ In algebraic notations, and following Piketty (2014), $r > g$, where r = rate of return on physical capital and g = growth rate, with the understanding that r increasingly represents speculative capital gains realized on the stock market. For an early analysis and discussion, see Mehmet (1999).

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For Marxists and neo-Marxists, the post-2008 financial crisis in the USA and EU may signal the end of capitalism. Here we argue differently: that what we are witnessing is yet another crisis shaking, but not destroying, the Eurocentric foundations of the system, a system moving inherently from crisis to another, but always working to enrich the West and impoverish the Rest. Well's summation, written as WWI was ending, was right on! A century later, greed-driven aggressive capitalism is crushing down in debt and deficits; it has no future as Kofi Annan has stated.

Looking ahead, a peaceful and stable world is viewed as the noblest GPG [global public good], and sustainable development (SD) as the policy instrument to lead to a Humanistic World Order built on shared prosperity of the entire global family. This paper argues that what we are witnessing now is the difficult transition to the next stage of world governance. In such a world, international taxation is seen as essential to make global justice, peace and prosperity as GPG a reality.

The paper is organized in four Parts. In Part II we focus on the weakest link of Eurocentric capitalism, i.e. the increasing disconnect between the capital market and the labor market. Capital is now driven by speculation, delinked from the real economy of production, employment and earnings. The labor mobility is blocked and unable to serve as a mechanism of social justice. The systemic failure has assumed global proportions. In Part III a Race-to-the-Bottom global market is formulated to account for systemic failure of capitalism. In the spirit of positivism, Part IV outlines transition to a Humanistic World Order, using the GPG paradigm in the case of international taxation and autonomous SD.

2. Globalization of Speculative Capital Mobility

The capitalist system, a Western invention with deep-rooted mercantilist roots, has enriched the West but impoverished the Rest (Mahbubani, 1992). However, the Rest and the West are simply too big, too diverse and too complex to fit or be reduced into a single mould. Ideology, religion and economy subdivide the Rest [i.e. Third World] no less than in the West. Furthermore, where does Japan, with its unique culture, fit in? Or a market-driven People's Republic of China, or such outposts of the West as Australia, New Zealand, or South Africa?

Crises in the Western capitalist system are self-generated from within the dynamics of the system itself. In perfectly competitive market, equilibrium implies zero profit (Mehmet 1999: Fig. 1.1, p. 21). The system re-generates itself, creating speculation and havoc in markets, re-shuffling wealth anew between losers and gainers. In the end, the capitalist system survives with the Eurocentric interests always winning, while the Rest experience yet another round of impoverishment. After waves of crises, capital, [defined as not just finance, machines and equipment, but increasingly technical knowledge and know-how as well], is systematically concentrated in the West, home of technology and innovation, whereas the Rest is further drained of such resources.

As a rough generalization, the impoverishment of the Rest is the product of approximately two centuries of aggressive imperialism, all driven by aggressive or "pioneering" capitalist/investors, taking risk in new markets through speculative ventures, moving capital from the center to the periphery, but always ending with yet further concentration of surplus, as return on capital, in the center. Certainly classical economics, particularly Adam Smith, Malthus and Ricardo, wrote theories which facilitated colonialism and imperialism; but free trade and market theory alone, without a strong navy and military technology, efficiently utilized by colonial administrators, could not subjugate British India, China and Africa. The subjugation had a selfish pecuniary interest: It eliminated speculators' risk and

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safeguarded the extraction of surplus drained from the periphery to the center. The Eurocentric capitalist/investor could count on a guarantee of profitable business venture overseas by the powerful home-government. Military might, as gunboat diplomacy, always came to the rescue in risk-laden environments.

The period of aggressive imperialism, with gunboats and armies, may be dated from the publication of the system's bible, i.e. Adam's Smith's masterpiece, *The Wealth of Nations* in 1776 till the mid the 20th century when the final gunboat diplomacy over Suez was fought, with Egypt's Abdul Nasr, a new voice of anti-imperialist voice from the Third World, won a pyrrhic victory over the combined forces of Britain, France and Israel. Leadership of the West passed to the USA.

In the preceding 200 years, Europe and by extension the USA emerged, thanks first to the Industrial Revolution which brought in the Age of Machine, and then the French Revolution, which promised the Age of Human Rights, as H.G. Wells so aptly, put it, to assume the "lordship of the earth."

In the Age of Eurocentricity, economists, literary figures and missionaries as well as natural scientists like Darwin, globalized whatever comparative advantage the West had, demeaning and devaluing assets in the Rest. Free Trade was aggressively applied in empire-building at the heels of Industrial Revolution. It de-industrialized India and the Ottoman Empire; it subjugated China. Earlier, the Portuguese and Spaniards had carted back to Europe the gold of the Incas and Aztecs causing a huge inflation in Europe, but also financing the Industrial Revolution, the Triangular Trade and created an unequal world.

Colonial administrators, backed by gunboat diplomacy, constructed a Eurocentric world in order to enrich the West and impoverish the Rest. Ethics and the rights of non-European man were ignored in this construction. For example, the East India Company controlled the Opium Trade, growing the drug under monopoly cultivation in India. The monopoly output was then dumped on an unwilling China, enslaving the Chinese for the exclusive profit of Britain. Similarly, the Dutch exploited ruthlessly Indonesian Archipelago, and the likes of Cecil Rhodes built the South African gold mines, impoverishing the natives and reserving the riches to the privileged Europeans and their descendants in what became the *Apartheid* system. How was this any different than the earlier Triangular Trade? African slaves had built the Cotton Civilization in the Deep South, so beautifully described in *Gone with the Wind* that was an integral part of the manufacturing system of Lancashire and Midlands.

Yet, remarkably, this Eurocentric capitalist system was reinforced and justified by evolutionist theories of survival of the fittest. Aggressive capitalism was ennobled as "natural" that evolved from nature-ordered competitiveness; it was *natural* because it meant survival of the fittest in the marketplace. One step further, in the logical deduction, was the derivation that the White Man was superior; the "Other" [Non-White] was inferior, lazy, as in the *Myth of the Lazy Malay* (Alatas, 1977). Accordingly, colonial schemes such as Apartheid, Colonial Cheap Labor Policy, Settlement of the American and Canadian West, genocidal policies to eliminate the native people, were all justified on economic, philosophical and religious grounds as in "Manifest Destiny."

The Age of Imperialism coincided with the scientific age which reinforced a Eurocentric hegemony. From Enlightenment, universities led rationalism. Research and development produced inventions and investment opportunities. Risk-taking speculators and investors were always ready to monetize these new opportunities. The rewards, as huge surplus, would enrich risk-takers. Schumpeter put it in a context when profit was still significant. Pioneer profits worked as incentive for aggressive capitalists like the Vanderbilts and Rothchilds. Steam engine, electricity, automation and mass-production techniques ushered in the Factory

System. The West became the Center of industry, capital, management and technology, the Rest its Periphery, source of raw materials. Western knowledge did not aspire to a global solidarity or creation of a sharing global family.

On the contrary, it contributed to the creation of an unequal world driven by aggressive capitalism. The new industrial system, processing and producing ever-expanding products, was hungry for raw materials as inputs and, at the other end of the assembly-line, it needed consuming markets. The Periphery, in the decolonization period after WWI, was redefined as the target of “global reach” (Barnet & Muller 1973; Barnet 1993). Earlier, literary figures, from Rudyard Kipling to Joseph Conrad joined in the Great Game, painting the Rest in “Orientalist” or self-serving images (Said, 1978), Western Arts and Science, soldiers and merchants, missionaries in particular, working as one gigantic team in the service of Imperialism and neo-Imperialism.

Marx had something to say on the subject.

2.1. Marx and the Third World

Slowly but surely, industrialization has been globalized, but not the proletariat or socialism. The factory system, the supremacy of machine over working class, alienating workers and pushing them, in Marxian terms, to violently overthrow the capitalist system, failed to occur, first in Germany in the aftermath of the Bolshevik Revolution of 1917 as the leaders of the Communist regime in Russia at the time expected. Instead, and during the course of the next half century, USSR itself collapsed under the weight of its own militarist, super-class aristocracy.

None of this makes Marx the humanist wrong. Nor was his critique of injustice and inequality in 19th century Europe misplaced. The questions put by a recent Marxian analyst are right on: “Why is it that the capitalist West has accumulated more resources than human history has ever witnessed, yet appears powerless to overcome poverty, starvation, exploitation, and inequality? What are the mechanisms by which affluence for a minority seems to breed hardship and indignity for the many? Why does private wealth seem to go hand in hand with public squalor?” (Eagleton, 2011)

Nevertheless, we must ask: how valid is Marxian analysis at the present time? Some, of course, continue seeing much relevance (Eagleton 2011; Kitchen 2001). In an eclectic, non-ideological perspective, in the early decades of the 21st century, in the West, the class system has to be judged in decline. So is socialism: the middle class is shrinking as capital and investment [and with them jobs] are being exported to cheaper labor destinations like China, India, and several other emerging economies are rising into prominence. With declining real income in working households, not only savings, but consumer spending too, the life blood of capitalism, is only being propped up by increasing private debt and public sector deficit. This is unsustainable rendering survival of Western capitalism questionable, but not for Marxian reasons. There is no evidence of an “international working class” (Negri, 1991) or working class consciousness emerging.

What has been globalized is the speculative nature of the capital market, not the labor market. Capital and its biggest owner the West enjoy global freedom of movement. Here ‘freedom’ implies speculation, the ability of the capitalist to convert risk and uncertainty into surplus extraction. Former colonies, now the Third World, have two special characteristics, high risk and labor surplus. Risk aversion techniques include blocking international migration so that “freedom of mobility” is restricted only to capital. This asymmetry is an essential feature of Western capitalism and constitutes market failure of contemporary capitalism. This as well as other systemic failures are ignored by defenders of the system and triumphalists (Fukuyama, 1989).

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Marxist prospects in other parts of the world are no better. Free mobility of capital together with technology along with immobility of labor, have created a Race-to-the-Bottom world [Part III]. Industrialization has turned out to be far more capital-intensive than Marx or anyone ever anticipated. Early leaders in the Third World, such as Nehru, opted for capitalism choosing import-substituting industrialization and welcoming foreign investment while paying lip-service to feeble Third Worldist movements like the Non-Alignment Movement. As a result, the growth of the proletariat has not occurred, and an indigenous labor union movement even under African Socialism with Nkrumah or Nyerere failed to emerge. In the West ‘labor aristocracy’ rose with little or no concern for global labor solidarity. Post-Apartheid South Africa has followed capitalist growth. If, the more mature industrial countries have not gone the way Marx predicted what about late-developing countries?

The answer is even more discouraging for Marxism. In developing economies identity emerged more on ethnic, national or religious lines than Marxist notions of material dialectics. Confucian, Hindu, Muslim or born-again Christian values now shape behavior of the masses. Marxist/Communist regimes, outside top-down, single-party systems in Cuba and PRC, generally failed during post-colonial phases of nation-building. In non-Western societies, as we shall argue at a subsequent section of this paper, there are home-grown varieties of cultural traditions, with several different manifestations such as Gandhian (Ghosh, 2006), Muslim or Confucian. Marxism is alien, imported ideology that often clash with these traditions.

Not just Marx, but other economists who reasoned in terms of inevitable laws of economic development have gone astray. For example, Walter Rostow, the architect of the Stages-of-Growth theory (Mehmet, 1999: 70-2) or Colin Clark’s structuralist theory (Mehmet, 1999: 95-6) failed to help developing countries escape poverty. Neither was Arthur Lewis was any more helpful: Originally from West Indies, Lewis formulated his Dualistic Growth paradigm (Mehmet, 1999: 74-9), as did Rostow and Clark, from empirical evidence of the economic history of Western economies. Their prescriptions for Third World development was based on the assumption that late-developer countries, would inevitably follow the same path as Western advanced countries. Lewis was the more Marxian: his dualistic theory was purely non-empirical and totally abstract. Like Marxian “Asiatic Mode of Production”, Lewis’ agrarian sector was characterized by negative marginal productivity of labor [i.e. it was a reservoir of surplus labor] and therefore could be squeezed for transfers of workers to the modern industrial sector for greater value-added. Both Lewis and Marx theorized heuristically, with no empirical evidence; both theorists constructed empty boxes!

Without empirical evidence theories are non-testable and as Karl Popper has argued, the scientific method that advances human knowledge is the method of *refutation*, not confirmation. For this empirical evidence is a necessity. Popper’s critique of Marxism, and the Communist system it spawned, as a totalitarian system, is well-placed.

In the case of economic and social development, home-made or indigenous development, at once autonomous and anti-imperial, is the norm on which to judge Marxism. Empirically, the world has gone much beyond Marxism (Mills, 1968: 130).

2.2. *The Mindset of Aggressive Capitalism*

To understand aggressive capitalism, we need to explore the motivating force of greed. How does the mind of a capitalist/trader work? What are the motives at play? What ethical values are present to constrain unlimited pursuit of profit?

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These questions can best be answered by examining the behavior of some leading capitalists of the 19th century at the height of Western imperialism. A few examples from the Opium Wars, The Dutch Monopoly in Indonesia, and the Firestone Plantation in Liberia are instructive.

Opium Wars: Traders like Jardine and Dent were among the most successful in terms of the pursuit of profit. Driven by unbounded greed, they believed in freedom of trade, i.e. buying cheap Indian-grown opium and selling it at high prices to Chinese tycoons, wholesalers and middlemen. These men were, first and foremost, free traders. The law of free trade, to them, trumped ethics. Never mind that they were smugglers, no different than pirates, breaking Chinese laws that prohibited importation of opium into the country. How did they see themselves? As betters, superior, who knew better than the Chinese, even when it came to Chinese welfare. The Chinese were “uncivilized”, the Emperor and the Mandarins were all corrupt, no different than children. Accordingly, their desire to control opium addiction in China by supply management could not be regarded as serious. Why should these Traders pay the folly of the Chinese? Chinese demand for opium would somehow be met, so why not them? Besides, Chinese laws did not apply to these Traders who operated under extra-territorial laws, recognizing only their own rules in unbelievable arrogance. Their amazing life in Canton has been beautifully narrated in *River of Smoke* by Amitav Ghosh, a novel based on extensive archival sources.

The remarkable thing is that the British Traders were so mercantilist, they could not see that they were victims of their own greed. These free traders in China saw nothing wrong with the monopoly cultivation of opium in India: Opium was grown in India under the monopoly of East India Company, the mother of all oriental trade, in effect reserving all the profits from opium to itself. In China, these free traders, who resisted any government interference in their trading, unhesitatingly sought protection under gunboat diplomacy once the Chinese authorities applied legal sanction against opium smuggling.

In the end, the British traders effectively, adopted a position that Might is Right. The dispute over opium was decided, ultimately, by force of arms, the Chinese losing two Wars, and having to accept Unequal Treaties that humiliated the Chinese, and led to the Boxer Revolution and the bloody and long wars finally culminating in Mao’s triumph with the establishment of PRC. So much for the triumph of free trade theory.

The Dutch Monopoly in Indonesia: The behavior of the Dutch imperialism in what is now Indonesia was similar, driven by the same mindset of European superiority over the local population. Monopoly created a plantation economy judged ethical by a master convinced to be superior. This superiority justified enslavement of Indonesian people, while enriching Europeans through an brutal system of exploitation.

Attracted by the lure of profit of the spice trade, the Dutch, by force of arms, subdued the Indonesian Archipelago, well before the colonization of South Africa and the creation of the Apartheid system there. In 1511 the Dutch overcame the Malacca Sultanate and in 1602 they established the Dutch East Indies Company as a state monopoly. From the imperial capital Batavia, they established a comprehensive monopoly system for the production and trade of spices, in the process subjugating the native population into slavery and forced labor on plantations, brutally suppressing any resistance. The Dutch colonialists justified their imperialist exploitation even under *ethical* policy intended to put a human face on forced labor and cultural oppression (Higgins, 1968).

The Dutch economic policy in Indonesia, however, was the most ruthless monopoly system: Production quotas, prices and wages were all determined by the

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Dutch and the native princes and people had no option but to comply. The Dutch masters, super class made all the decisions, the Indonesians toiled on their own land. Whenever, the native people rioted against injustice, the Dutch countered with brutality such as the 1740 massacre in Batavia or in Moluccas, Java and Aceh. The inequities of the Dutch in Indonesia have been well captured in the movie, *Max Haavelar*, the story of rebellion against exploitation on Java's coffee plantations in the 19th century. In 1949 the Dutch finally formally apologized to Indonesia. However, the historical fact remains unaltered: Dutch imperialism was mercantilist in the extreme, and it laid the foundations for Holland's prosperity.

Dutch prosperity was not home-made; without imperialism in Indonesia and South Africa, it would have been impossible for Holland to achieve the level of prosperity and high living standards that had enslaved Indonesians and Africans.

Firestone in Liberia: The Firestone Rubber and Tire Company of the USA was launched in 1896 by Harvey Firestone with assets of \$20,000. Today it is a multinational corporation with annual sales of over \$4 billion. There were two landmark events which shaped the company's growth. Firstly, the arrival of the automobile age and Harvey Firestone's success in becoming the first supplier of rubber tires to Henry Ford. Secondly, in 1926 he was granted a huge tribal land in Liberia to for a rubber plantation believing that "Americans should grow their own rubber" to end dependence on S. Asian sources (www.academyofachievement.org/honorees/harvey_firestone.htm).

Firestone prospered, but Liberia has remained poor. What is the explanation? Liberian politics and misrule (Mehmet, 1978), is a good part of the answer. However, the principal explanation must be sought in the dynamics of aggressive capitalism which drove Harvey Firestone, as a pioneering investor to Liberia in the first place. While Firestone got the land, the indigenous tribes were dispossessed. Rubber was not processed locally, it was shipped raw to the USA to launch a rubber and tire industry. In Liberia, come what may in the course of the next several decades, but always in collusion with the ruling leadership [Americo-Liberian oligarchy till mid-1970s, warlords including the notorious Charles Taylor during the civil war from the 1980s, and since the end of this conflict], Firestone in Liberia has prospered.

In early phases of the plantation at Harbel, Firestone used dubious labor practices, such as forced labor and slavery, to plant, weed and harvest rubber. In the highly corrupt Liberian political environment, it was easy to buy off political leaders who willingly co-opted security forces to raid tribal areas and force peasants to work on Firestone's plantation. As a result, the Company has had poor relations with international labor organizations which found Firestone in violation of basic labor codes and standards.

As the Firestone Company grew and prospered, it engaged in all kinds of noteworthy philanthropic works in the USA, including contributions to such well-known centers of learning as Princeton University. However, beyond paying off political leaders in discretionary ways, the Company contribution to Liberia has been meager; in education for example, Firestone's contribution pales in comparison with the Chinese-built University at Fendall. However, make no mistake: The Chinese are investing in Liberia, and elsewhere in Africa, for the same motive as Western investors, i.e. to gain access to raw materials for surplus extraction. But the Chinese are late-comers; and only time will tell whether Chinese capitalism will be any different than Western?

In each one of these three cases, a number of key features emerge about the nature of Western imperialism and its mercantilist roots: (1) Homeland is always the Center, and homeland nationalism of the capitalist puts the economic and political interest of the home country first. (2) The host country is Periphery and its

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resources [whether land, labor, or markets] are readily available for expropriation or exploitation by the capitalist.

(3) Therefore, the welfare of the native population in the Periphery does not matter because they are uncivilized or inferior to Europeans or Americans. (4) Hence, as the quotation from HG Wells at the outset puts it, “it is natural” that these Westerners should exercise “lordship over the earth” and it is not, unethical to drain surpluses and profits for enrichment of the homeland at the Center. (5) In short, in a Eurocentric world, it is natural that global riches should be appropriated by at the Center with the Periphery in permanent poverty².

2.3. *Speculation and Casino-Economics*

Financial innovation [i.e. using new information technology to create new financial products and internationalize their ownership in a globalized capital market] is now a key function of the capital market. In mainstream economics, the capital market intermediates between saving and investment to supply the life-blood of the economy. That is no longer the aim of capital market: It is, rather, to seek maximum return in a highly mobile global capital market, moving assets in response to interest rate variations or speculative currency transactions. The aim is short-term gain, typically quarterly capital gain for stake-holders of large pools of assets. These assets are controlled by fund managers, including hedge funds and other assets that, in an unregulated market, may be of dubious quality, sometimes referred to as toxic assets [see moral hazard problem below].

Rational expectations theory, formulated from monetary economics, has been harnessed by speculative financial management as a tool of foot-loose capital, or “hot money” transactions. These are short-term flows moving into this stock market today, another one the next and so on. The trigger behind these flows is the interest rate differential. Involving huge amounts, these hot money transactions leave a country the moment a better interest rate is available some place else. In the process, they destabilize currencies and may undermine economic performance. Some countries have been obliged to impose capital flow restrictions to avoid such negative consequences. Even under normal conditions, hot money flows they are quite removed from the real economy of investment, production and employment.

With the advantage of modern financial innovation and high-tech management tools, hot money flows are on the rise. Normally measured in a residual manner as the difference between the total capital account flows less trade balance and change in official reserves, globalization of capital markets has expanded this type of capital transactions, generating instability and inequality in the world economy. Stock markets channel funds not into investment for growth in the real economy, but into option and future trading promising large capital gains.

The future prospects are particularly worrisome. Inherently, these speculative capital transactions are similar to betting in gambling. One wins similar to a successful bet in a casino. Accurate predictions of expectations bring in huge “wins” as capital gains. Eurocentric capitalism, as Keynes stated, is fast becoming casino-capitalism. If not checked, in future casino economics will create a world with diminishing employment opportunity and rising non-labor income. Consumer spending will be increasingly financed from non-earned income. The latest frontiers of casino-economics are such fields as erotica, TV shows and books on sex as freedom, and luxury services such as golf courses that only the rich can

² Center-Periphery relationship also applies to the North American Native population. These first peoples have been pushed onto “reserves” as a result of unequal treaties in the 19th century and tribal and indigenous lands and resources have been expropriated by European settlers and their descendants who have become the wealthiest people on earth.

afford. For the dwindling middle-class stake-holders, the best hope is a share in some pension or mutual fund.

Under casino-capitalism stake-holders in pension or mutual funds, receive their yield not from real investment [infrastructural projects or mining or industrial development], but rather from “winnings” as in chance games. So long as quarterly expectations are met, rating agencies and the stock market actors are satisfied, the outcome is rewarding, yielding impressive capital gains. In the real economy ledger, however, jobs may be lost or real earnings hit the bottom. This is the Race-to-the-Bottom world described below.

3. A Race-to-the-Bottom World

In a closed economy, firms and entrepreneurs produce solely for the domestic market and profit, Π is the excess of revenue, R , over cost, C :

$$\Pi = R - C \quad (1)$$

In a globalized economy, Π consists of two parts, Π_1 and Π_2 where subscript 1 and 2 refer to domestic and international sources respectively.

$$\Pi = \Pi_1 + \Pi_2 \quad (2)$$

Dividing (2) through by Π , we get return ratios

$$1 = r_1 + r_2 \quad (3)$$

Where r represents return ratio, subscript 1 referring to home and subscript 2 to international ratio. Given that capital and technology are mobile, but labor is not³ [due to visa and residency requirements], in a global economy, Π_2 will continuously increase as firms go international seeking production platforms in labor-cheap regimes.

In this process, home countries and host countries get locked in a zero-sum game in investment and employment. As one gains investment and employment, the other loses. For example, jobs are exported from North America and Europe to China and other cheap-labor regimes that operate as magnets for multinational firms.

What happens to wages and labor incomes in this zero-sum game? In home countries (of North America and Europe) job exports generate casualisation of employment, as part-time or time-share jobs increasingly replace full-time, secure, pensionable jobs. Workers in primary job markets are obliged to enter casual job markets, sometimes having to accept two or more part-time, temporary jobs to make the same real incomes as before.

In host countries, too, there is a matching race to the bottom in labor markets. This occurs because inflow of investment and technology creates a small primary labor market with high wages attracting the most productive [or skilled] labor and other complementary resources. In fact, these primary labor markets are effectively sub-markets of a globalized High-Level Manpower (HLM) market concentrated in the West. As the literature on brain-drain shows, host countries are net losers of HLM to capital-rich, high-technology abundant home countries. Indeed, it may be more useful to consider HLM as a form of specialized capital, embodying technical

³ Some labor mobility, of course, is permitted in the global labor market, either as selective migration [e.g. in Canada or the EU] to select the most qualified potential migrants, or, for humanitarian reasons [e.g. refugee or family reunification cases], but these flows are too inadequate.

knowledge and know-how which, over time, is systematically concentrated in the West.

The residual labor, of declining quality and productivity is forced to flood into the secondary or informal markets of host countries. In these markets, child labor, female exploitation and informalization accelerate (Mehmet, Menes & Sinding, 1999: 46-54]. Real wages per hour decline. In the terminology of labor market flexibilization [i.e. absence of wage rigidity], real wages fall toward the bottom.

What exactly is the “bottom”? The bottom is where bad jobs exist, dirty, dangerous and poorly paid. It is the zone of mass poverty: long hours and low wages. The worst is that at the bottom, new rounds of poverty are bred in the next generation as poor parents produce poor children. Underfed and uncared poor households live in sickness and disease. Mass poverty breeds crime and criminality.

Some have argued that bad jobs are better than none. “Better” for whom? Rising social costs of poverty and criminality undermine the sustainability of the system. In free market theory, wages decline until some kind of low-wage equilibrium is established in the labor market. Whether this equilibrium wage is below or above minimum subsistence level of wages is uncertain. There is no reason why the “bottom”, as discussed above, may not lie below minimum subsistence wages.

Overall, as the share of Π_2 increases, globalization turns into a race to the bottom in the global labor market: Workers must continually lose in order that profits keep rising. But, profits themselves, in due course, are marginalized as speculative greed dominates.

3.1. Debts, Deficits & Moral Hazard

If and when profits fail to increase, or they do not rise in tandem with expectations, then debt, deficits emerge; speculation overtakes profit as the system’s driving force. Speculative behavior creates moral hazard problems. This is the latest, post-2008 phase of a globalized capitalist system.

China has emerged as the largest creditor nation in the world as a result of clever currency and economic policy management. On the other hand, the USA public debt has soared, in part owing to the fact that the US \$ has become international currency. Europe has attempted to gloss over huge structural and institutional rigidities by accumulating unmanageable deficits.

In the meantime, several emerging countries have forged ahead in global economic ranking, BRIC and G20 countries and these trends can only be expected to accelerate in the years ahead. One thing is certain: global economy is rapidly changing and new economic actors will crowd the stage of global trade, investment and capital markets.

Capital-labor conflict and the disconnection between capital and labor markets may keep on worsening. In the next decade, China may overtake the USA as the biggest economy. For a while, the Chinese authorities may devalue the Yuan to compensate, but in the long-run investment opportunities for Western capitalists may decline causing Π_2 to fall short of expectations, especially in Europe. In the end, private and sovereign debt would rise.

In Europe and North America the politics of debts and deficits will persist for the foreseeable future. Indeed, it may be fuelled by moral failure on the part of auditors and rating agencies that are professionally responsible for corporate integrity. Moral hazards appear to be systemic in the capital and financial markets, suggesting the system either collapses or undergoes serious structural change. Assuming the second is the more likely scenario, the global economy in the decades ahead will be radically different than at present: linear projections whether of income growth or energy requirements are bound to go wrong. Already there are

far-reaching shifts in emerging economies as China, India, Brazil and others. If, in addition Europe remains stuck in recession for the next 5-10 years, or a Green economy is created, the world capitalism will look different in 2025 than in 2015.

One thing is certain: Fossil-fuel intensity of economic growth is rapidly coming to an end. As world oil and gas reserves diminish, energy markets may be expected to experience shocks. While greater energy efficiency may occur, for example in passenger cars, ecological and environmental sustainability will become critical constraints on capitalism in the decades ahead. Heavy energy-consuming countries, principally in rich countries, will be obliged to shift away from coal, oil and gas, toward renewable alternative sources more friendly to the environment. Yet, as the quote at the top of this article suggest, high-energy using capitalist countries like the USA will dominate the energy markets for the next several decades.

The capitalist dominance of global economy may, however, be a source of instability as recently argued by the French economist Thomas Piketty in his comprehensive book, *Capital in the 21st Century* (2014) due to increased capital flows, especially private and speculative in nature, un-taxed and un-regulated. These capital flows are motivated by private capital gains, resulting in excess of r relative to g , as pointed out above (Piketty, 2014: 353-356). Piketty is concerned that private capital accumulation over time is leading to concentration of private wealth in rich countries, or what he calls “patrimonial capitalism.” (Piketty, 2014: 173, 473). His policy recommendation is international taxation, applied regionally as, for example, “a European Wealth Tax” (Piketty, 2014: 527-529). We shall discuss international taxation in detail in a later stage in this paper.

The projections above are based on the continuation of the status quo. However, the status quo capitalism is unsustainable. Can the 1% rich in the West living off speculative trading and capital gains in stock markets matched by mass poverty in the Third World survive in confidence that the pyramid is safe and sound? Greed at the top of the global wealth pyramid, and poverty at the base is unlikely to persist for the next half century on “business as usual.”

Rather than a violent revolution and civil wars, better join forces together for a rational world order: When all is said and done, capitalism is a creative system and it may yet create a Green economy, less dependent on hydrocarbons and more driven by solar and alternative energy. Additionally, and given a human face, it can be around for a long time. That much persons of good will may endorse. For collective good, it is time that aggressive mercantilist mindset is replaced by something ethically sound. The Eurocentric economic system can be reformed for the good of humanity as a global family. The next Part will examine such a transition.

4. Towards a Humanist World: Global Fiscal Policy and Institutional Reform

Speculation, greed must be checked to save the system and profit, as fair rate of return, must be restored as the driver of capitalism. The question is how to manage surplus value now cornered by speculators at the top? Here we propose channeling it via a global fiscal policy to finance transition towards a humanistic world.

The history of Eurocentric capitalism demonstrates one thing: A humanist world cannot evolve automatically from market forces unaided by human hand. The West certainly has a role and a significant contribution to make in efforts to establish such a world. In particular, western decision-makers can endorse transition to such a world. Left unregulated to operate on a *laissez-faire* basis, guided by the “invisible hand”, the market is inherently unstable, as bears and bulls generate fluctuations for speculative gains. Moreover, such a market process is

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devoid of ethical standards. The non-Christian world, the Muslim world currently war-torn in particular, is crying for fairness and social justice in global governance. Terrorism is the voice of the dispossessed and the irrational who want to tear down everything in blood because they themselves have nothing left to lose.

A humanist world is one in which every member of the human family contributes to global wellbeing according to one's capability and in return is entitled to basic human needs such as food, shelter, education and freedom. This is Amartya Sen's capability analysis based on viewing development as freedom (Sen, 1999), a blend of welfare economics, ethics from east and west (Sen, 1987), and some updating of Marx, in his most celebrated saying in the *Critique of the Gotha Program*.

The global family is pluralistic and diverse: many languages, religions, cultures and economic and political systems. The humanist world runs on peaceful co-existence, co-ownership and co-management of world's resources. Capabilities, individual as well as collective, differ. Each can contribute to the maximum of one's capability. All have basic needs and entitlements. Global justice must evolve out of this principle through universalization of Best Practice norms and conventions based on consent. The ultimate aim is world governance with a level playing field. However, no world government is feasible without international taxation. Universalization of Best Practice rules need funding generated from progressive (ability to pay) principles, for resource equalization (transfer) payments in aid of social and economic development from the rich to poorer regions.

The 1998 Nobel Prize winner Amartya Sen has gone furthest in the promotion of a humanist world order. Sen's is unique because, although an economist living in the West, his agenda is truly global, not Eurocentric. This sets him apart from most business school academics, and narrow-range economists or econometricians. He is unafraid to mix ethics, culture and economics in favor of multi-disciplinarity. For Sen, in keeping with his Indian roots, development is "enlarging people's choices, capabilities and freedoms so that they can live a long and healthy life, a decent standard of living, and participate in the life of their community." [

<http://hdr.undp.org/en/media/Capabilities%20and%20Human%20Development,%20Sabina%20Alkire.ppt>].

To give substance to this definition, Sen has played a key role in the construction of the UNDP's Human Development Index (HDI). The Index consists of three components: Income, Education, and Health. UNDP has utilized this Index to classify countries on their performance in terms of Human Development. Moreover, the UNDP has gone further and designed *Millennium Goals* (MG) to provide policy guidelines for developing countries. But these countries, especially the poorest, need resources even more.

Without resources, however, HDI, MG or Sen's ideas are bound to stay merely ideas on paper. It is essential to break out of the existing [and insufficient] system, the Eurocentric mindset. The largest resource flow from the rich to the developing world is direct foreign investment (DFI) through multi-national corporations (MNCs). Notwithstanding reforms enacted through the World Trade Organization, the global trade system inherently generates an unequal world because it favors the former colonial powers. Even DFI tend to contribute to a Race-to-the-Bottom world since both DFI flows occur within a monopolistic and unfair system generating monopoly gains for the powerful and rich actors. Foreign aid and charitable donations are also inadequate and, like missionary aid, often pursue ideological or bilateral policy objectives.

In the transition towards a more democratic and humanistic world order, the major question which emerges is a question of finance and resources: How can the

monopoly gains of the existing global system be harnessed for a humanistic world order? Such a world would require an agreed system of world governance. It would have to evolve from the existing architecture of the UN and international financial institutions. As with any governance system, taxation must be central. What is required for transition to a more humanistic world is international fiscal authority to raise tax revenue and pay for sustainable international development.

Such taxation should be levied on world trade, both on capital account flows as well as on trade in goods and service. Multinational corporations (MNCs), the key players in international trading system are the logical actors to pay international taxation. After all, MNCs, and the trading system are extensions of the old Colonial System. Global justice would be served if MNCs were to pay their fair share in the promotion of a more peaceful and stable world. Towards this end, MNCs need to be come taxpayers of international governance, for example, through the World Bank and IMF if only the required political will would be forthcoming. Taxing MNCs would be the most practical and efficient method, compared to alternative methods of international taxation mentioned above. It could be implemented via national tax authorities, with the revenues thus generated transferred to an international financial institution on the basis of multilateral agreements as in the case of UN organizations. These agreements could be drawn in such a way as to overcome any concerns against the proposal on grounds of sovereignty.

4.1. Upward Harmonization: Creating Global Justice

International sustainable development (SD) must become autonomous, funded independently as proposed above. As with other forms of taxation, international taxes must be progressive, administered efficiently by responsible institutions and create global justice. Global peace, stability and justice are Global Public Goods (GPG), a subject further discussed below. Consistent with GPG is Upward Harmonization in labor markets based on core labor standards, defined by the International Labor Organization (ILO). These standards are examples of Best Practice for application in national labor markets to eliminate slavery, child labor, female exploitation through investment in education and skill training. With higher worker productivity, wages and earnings would rise promoting a more just “level playing field” for all workers producing for world trade.

There is a further, equally fundamental rationale of Upward Harmonization in developing country labor markets: To stop the brain-drain outflow which impoverishes the Rest. Under Upward Harmonization the supply of HLM in developing countries would increase but, thanks to better earnings and working conditions it would not be drained away. Rather HLM would be retained in developing countries themselves creating value-added locally and contributing to social and economic development.

Funding of Upward Harmonization is the key. Who will pay for skill training, monitoring of standards and for enforcement of rules? Our view is that Upward Harmonization is Global Public Good⁴ (<http://www.globalpolicy.org/social-and-economic-policy/global-public-goods-1-101.html>): Consumers in high-income countries and workers in low-income countries have a common interest in fairly-produced tradable goods and services as opposed to goods produced by workers under exploitation and unfair production conditions. Such exploitation and unfairness production represent market failure generating monopoly profits for MNCs and speculative gains for financial elites. In short, these gains are value expropriated from unjust conditions in global labor markets. Unfairness can be

⁴ Literature on Global Public Goods is growing in tandem with cross-boundary problems such as global warming, international pollution, health and safety, etc., cases where national jurisdictions and private markets fail (Barrett, 2007).

converted into GPG through global fiscal policy: International taxation offers⁵ an equitable method for leveling the field, specifically by resolving the fundamental capitalist problem of labor-capital conflict.

As with progressive taxation, global tax is a justice-creating step toward global governance by putting a “human face” on capitalism. More precisely, taxing capitalists in the unregulated global market, the inherent instability of capitalism is checked and the danger of “patrimonial” wealth accumulation in the hands of the top 1% in rich countries is prevented.

The fundamental premise here is global equity: The desire is to treat labor in the global market fairly by taxing capital. The proposal here for international taxation enables some kind of compensation of the workers whose contributions have generated those monopoly profits of capitalists in the first instance. That is what global justice must mean as argued several years ago (Mehmet in Drydyk & Penz, eds., 1997) before George W. Bush invaded Iraq unilaterally.

In a post 9/11 world, the “war on terror” has set back the internationalist agenda decades. In particular, the Bush doctrine has created a new “Crusade” mentality, effectively destabilizing the Islamic world. US-led military interventions in countries like Iraq, Afghanistan and Libya have bred more, not less, terror and violence. Poverty, marginalization and human displacement have increased with all kinds of regional conflicts raging in poverty zones of the world such as sub-Saharan Africa.

Will the internationalist agenda aimed at creating a humanistic world return to reclaim the unfinished business that led to the UN and the Bretton Woods reforms at the end of WWII? Or is mankind condemned to permanent violence between the haves and the have-nots? Other-directed global ethics has become essential as a first step in global reform to tackle terrorism, injustice, environmental degradation and unequal access to health and other benefits of economic development.

This paper is an argument in favor of renewed internationalism for global justice. For this, institutional reforms in the UN system are essential, in line with the GPG theorem above. These reforms should be the guiding principles for the next phase of global governance, starting at the G8 and G20 meetings. In 1945, a good start was made with the establishment of the UN system of multilateralism. Now, after almost three quarter century later, the system is urgently in need of a democratic and representative transition.

4.2. Global Fiscal Policy and Institutional Reform

To promote this transition, in particular the following two urgent reforms are proposed: (1) Creating more democratic global governance and (2) Global governance must have global fiscal policy, i.e. International taxation.

First, the permanent veto system in the Security Council, a reward system, a legacy of WWII now totally outmoded, needs to be replaced by something more workable, democratic and representative of the global family. Permanent veto creates super powers and is hegemonic; it should be replaced with a rotational system all 15 members enjoying equal status. In the Muslim world there is widespread belief that Muslim problems get no hearing because in the existing global governance Muslim voices are not heard; there are no Muslim voices “at the table.” UNSC should have Muslim representation.

Secondly, to give equality real meaning in global governance, there is an urgent need to link finance and global justice. Existing international financial institutions,

⁵ The idea of taxing currency transactions, as in the Tobin Tax [<http://www.bbc.co.uk/news/business-15555812>], is a logical step, endorsed by many key actors, but it should be expanded and linked to autonomous international development as proposed in this paper. More recently, Thomas Piketty has raised the issue of global capital taxation, as noted above.

such as the World Bank and IMF must become fiscally autonomous through international taxation as argued above [similar to what Keynes had originally proposed]. Their articles of incorporation could be updated, by international consent at G8, G20 and at the UN, so that they are authorized to levy and collect tax revenue from MNCs and currency transactions. These renewed WB and IMF would then become accountable to a global parliament, as the UN General Assembly, constituted on a “one-man-one-vote” basis and some suitable acknowledgement of MNCs, maybe in some Council of MNCs, as global corporate citizens. The exact formulae would be determined by international negotiation which, of course, *inter alia*, would require arrangements to avoid double taxation.

In short, global fiscal policy must go hand in hand with institutional reform for global justice. The logical starting point of such reform would be bodies such as G8 and G20 leading to reforming the existing UN system. Middle-power countries such as Canada and Turkey could perhaps take a lead in such initiatives together with other like-minded actors.

5. Conclusion

The current global financial crisis which began in 2008 is by no means over. This is a systemic crisis of capitalism with many simultaneous manifestations of instability and conflict: US and EU debt crises, petro-dollar driven Islamic extremism and radicalization of the Middle East, along with the rise of emerging economies. China may overtake the USA as the biggest economy, but equally significantly there is a convergence of China and the USA interests that will shape the future.

Clearly a new Post-Modern world is unfolding before our eyes. The world will not achieve stability and sustainability unless and until global equity is achieved, until a new order is attained effectively globalizing the benefits of technology and progress to all members of humanity. Indeed, with the on-going conflict in the Middle East, the refugee crisis may get worse.

Moving from the current world of disorder and conflict toward a humanistic world order looks utopian and unrealistic. Some may also argue that reform comes in small steps, not the giant leap premised and grand vision outlined in the article above. This may bring to mind Marxist utopian visions and, for that reason, it might be dismissed for ideological considerations. That would indeed be short-sighted. This paper is neither utopian nor ideological. What we are proposing is an extension of the present market economy with a human face on it. A progressive global fiscal policy is the path to follow in the transition to the next phase of multilateralism.

Rather than the greed-driven, selfish gene-oriented Eurocentric capitalism, we need an Other-directed global ethics in which the wellbeing of others, as members of the global family, is priority action in a post-modern world. Selfishness and greed can only lead to more conflict and instability in a divided world.

Global justice, as entitlement by all members of humanity to basic human needs, is feasible only by collective human action at the highest level of multilateral political will. It must be a free good, independent of ability to pay for it. As such, global justice should be seen as the essential foundation for world peace, the greatest example of GPG. Nothing less than foresight, vision and courage for the collective good can bring it about. Hopefully, the current global chaos and economic instability will lead to a new dawn and push humanity to a grand vision for building a humanistic world.

Furthermore, and in defense of the grand vision, the following may be said in conclusion and in the spirit of neo-institutionalism and multilateralism. The UN

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system itself, created in the closing days of WWII, was a giant leap for humanity. Nothing less is required now for the next step forward to create a better world. As argued above, the logical step for the reform agenda would be to launch it most appropriately at G20 meetings.

A new humanistic world requires going beyond a Eurocentric construction. It must be built by a true global partnership. Western and non-western voices must be heard and, moreover, all members of humanity should provide meaningful input into a redesign of the UN system, without a permanent veto system, and international taxation for autonomous SD for growth, peace and justice simultaneously.

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