

ECONOMIC IRONIES IN WORLD POLITICS: A SEQUEL TO POLITICAL IRONIES IN THE WORLD ECONOMY

by

Andre Gunder Frank

Immanuel Wallerstein writes that "Andre Gunder Frank has achieved the status of being a person of controversy". This means that his writings are widely discussed, passionately debated and hastily read.

The Macmillan edition in the introduction to Prof. Frank's "Critique and Anti-Critique" states: "As an originator and main spokesperson of dependency theory, Andre Gunder Frank has participated in theoretical, ideological and political controversies about these and many other contemporary issues. His earlier pieces were written 'to contribute to the Revolution... to assimilate the Latin American Revolution and the inspiration it finds in the Cuban Revolution.' In the face of growing conservatism and reaction in much of the world over the past 15 years, however, Frank has evolved from revolutionary hope and critique of reformism to an acceptance of reformism here and there as the lesser evil to reaction."

In this essay, I intend to show how in the short run today world economic conditions limit the discretion of, and produce unintended consequences from, political policy. These economic conditions are largely beyond anyone's control, but they have far reaching effects on apparently autonomous political policies and social movements around the world. Uncontrollable world economic constraints and exigencies ironically subvert well and not so well intentioned political action all around the world. Their combination results in unhappy consequences for the peoples of the world. This thesis is illustrated here by examining the present transition from socialism to capitalism in the East, the underdevelopment of development in the South, the political economic conflicts among the Western powers, and the tragic ironies in the Gulf War. Unfortunately, this kind of "economic determinism/reductionism" is not popular in any of these places; but, equally unfortunately, it is realistic for all of them.

cular, I argued that the economic conflicts and opportunities generated by the world economic crisis since 1967 would prove to be more important in shaping international relations and domestic policy than the ideological and political cold war between the United States and the Soviet Union. Moreover, I argued that many East-West conflicts were a sham and largely a cover for the always real North-South contradictions. I argued that none of the 14 "revolutions" in the South since 1974 was what it appeared to be or would turn out as was hoped or feared.

These observations among others suggest the further irony that much of the East-West conflict, especially between Washington and Moscow, is a smoke screen cover for North-South conflicts The world economic and technological development that is now passing through a crisis of regeneration, is perhaps, again ironically, likely further to diminish if not eliminate the importance of the East-West political division of the World much more than the North-South economic division, which it is likely to accentuate still further (Frank 1984/1987).

I also suggested that this inefficacy of "voluntarist" state policy and politics, especially for "national development" in a world economy, was the basis for the rise to greater importance of alternative social movements in the West, South and also in the East. Under the title *The European Challenge* (Frank 1983/84), I also argued that world economic conflicts made greater "Pan-European Entente" (as per my subtitle) both politi-

cally possible and desirable, as a least worst policy. In the meantime, all of these and related analyses and forecasts, which seemed unrealistic in the ideological climate of their time, have become hard reality.

In the 1980s, political economic policies took unexpected ironical turns and have had or will have unintended ironical consequences. That is, they are ironical if viewed through the orthodox and even heterodox ideological prisms, which were then still dominant in the West, South and East. However, these "ironical" turns and consequences are only logical repercussions of the changing world economic conditions. Now the cold war is over, and Germany and Japan have won!

The most spectacular turn is the end of the cold war and the dramatic transformations in Eastern Europe and the Soviet Union. Hindsight theorists have since then attributed these changes to all manner of objective and subjective "causes." The world economic background of these political changes has, however, received far less attention in theory than it deserves in fact. The world economic crisis and particularly the severe recession from 1973 to 1975 prompted the West into anti-cyclical lending policies, which converted much of the South and East into ever more dependent debtors. The renewed severe recession of 1979 to 1982 then sparked the debt crisis, which erupted in Poland in 1981 and in Argentina and Mexico in 1982. The same recession also severely compromised the American and Soviet economies, the latter in particular through the decline in the world price for its exports of oil and gold.

Reaganomics or neo-conservatism (neo-liberalism in Spanish terminology) and the long cyclical recovery in the West since 1983 masked the continued development of the long economic crisis,

Earlier Political Ironies in the World Economy

Recent history has borne out similar theses, which were advanced in my previous and complementary essay entitled "Political Ironies in the World Economy" (Frank 1984/1987). Then, I maintained that in the long run since 1945 world economic conditions were shaping international and national politics and social movements. In parti-

particularly in the South and East, but also in the United States. Gross national product and per capital national income declined or stagnated in much of the now excessively debt burdened South and East. By 1990, average per capita income in Latin America had declined by 13 percent back to the level of the mid 1970s. In Africa, it fell back over 25 percent to the pre-independence levels of 1960. The economies of Eastern Europe and of the Soviet Union under the Brezhnev regime also stagnated or declined. All of these completely missed the train of international economic competition and were left to vegetate on a siding, while the world economic express train rushed by on the main track.

However, if the American economy was still on track at all; it was also running out steam relative to its rivals in Western Europe and East Asia. Or at least, America was no longer able to generate its own steam at home. The United States ceased being the world's largest creditor in 1985 and became its largest foreign debtor instead. Ever more foreign borrowing became necessary to stop up the foreign trade deficit, which in turn was generated at least in part by the growing domestic budget deficit. This growing budget deficit, its cumulation, and the resulting more than duplication of the national debt from less than 1 trillion to more than 2 trillion dollars (after President Reagan had promised to eliminate the first trillion!) were in turn due primarily to the Reagan administration's vastly expanded military expenditures. Ideological get-government-off-our-backs monetarist/supply-side Reaganomics turned out to practice military Keynesianism with money borrowed from the Europeans and the Japanese! One purpose was to keep the economy or at least its military sector afloat and to redistribute income from poor to rich at home, which succeeded on borrowed money and time.

The other purpose was to make "America Number One Again!" abroad, and that failed miserably. True, this Reaganesque "Star Wars" policy and practice did indeed bankrupt the economically already weakened Soviet Union. However, it also nearly bankrupted the United States. Its legacy may still drive the American economy completely into the ground in the new recession, which started in 1990.

The Recent Economic Irrelevance of Political Ideology

Thus, the most important international and national economic and political policies adopted and implemented around the world during the 1980s were often contrary to the "dominant" ideologies. These in turn were largely irrelevant to the necessary political economic responses to world economic conditions beyond anyone's control. In my review of the revolutions in Eastern Europe in 1989 (Frank 1990a) and in my answer to Francis Fukuyama (Frank 1990b), I sought to demonstrate that his ideological thesis that "in the long run ideology wins out over the material world" was belied by material reality. The latter proved the opposite in recent years — and threatens to do so again in the coming ones:

* In the 1970s, the same, export/import led growth strategies were adopted by Communist Party led governments in the East (Poland, Romania, Hungary) and Military Dictatorships in the South (Argentina, Brazil, Chile).

The most important international and national economic and political policies adopted and implemented around the world during the 1980s were often contrary to the "dominant" ideologies. These in turn were largely irrelevant to the necessary political economic responses to world economic conditions beyond anyone's control.

* In the 1980s, the same debt service policies on the IMF model were adopted and implemented by Communist Party led governments in the East (Poland, Hungary, Romania, Yugoslavia) and by Military Dictatorships, other authoritarian governments, and their successor democratic governments in the South (Argentina, Brazil, Mexico, Philippines).

* There were variations on the theme of debt service, but it is difficult to correlate, let alone explain, them by reference to the political color or ideologies of regimes or governments: The most stellar pupil of the IMF was Nicolae Ceaucescu in Romania, who actually reduced the debt until the lights went out, first for his people and then for himself. In Peru, on the other hand, the newly elected President Alan Garcia defied the IMF and announced he would limit debt service to no more than 10 percent of export earnings. Actually, they were less than that before he assumed office. Then, they rose to more than 10 percent of

export earnings. Actually, they were less than that before he assumed office. Then, they rose to more than 10 percent under his presidency. Real income fell by about half, and the novelist Vargas Llosa sought to succeed to the presidency after moving from the political center left to the extreme right. But what does that mean, if anything?

* Communist General Jaruselski in Poland and the populist Sandinistas in Nicaragua also implemented IMF style "adjustment" and "conditionality" on their people. Both did so *without* the benefit of pressure from the IMF, since Poland was not a member and Nicaragua had no access to it. In Nicaragua, there was "condicionalidad sin fondo," that is conditionality without the Fund and without any bottom or end to the Sisyphus policy. Hungary had the most reformed economy and the most liberal political policy still led by a Communist Party in the Warsaw Pact. Yet Hungary paid off the early 1980s principal of its debt three times over —and meanwhile doubled the amount still owed! That is

more than Poland or Brazil or Mexico, which on the average paid off the amount of debt owed only once or twice, while at the same time increasing its total only than two times. No matter, the Solidarnosc government that replaced General Jaruselski and the Communist Party in Poland now benefits from IMF membership and imposes even more severe economic sacrifices on its population than its predecessors. In Hungary's first free election, all parties promised to follow the IMF prescriptions after the election.

* Moreover, the Western IMF and its policies were the "secret weapon" and "de facto ally" of the opposition groups. They are now in power or making their bid for it thanks primarily to economic and secondarily to the political crisis, which was engendered by the implementation of these austerity "adjustment" policies with IMF support. So now there is not only no economic but also no political alternative to further austerity

Contd. on page 41

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policies, which are tied to IMF and other Western advice and conditions.

* The political irony is that "really existing socialism" failed not least because of the unsuccessful implementation of import/export led growth models and IMF style austerity policies in the East. Yet "really existing capitalism" pursued the same models and policies in the South and also failed. However, nobody in the West or East says so; and nobody in the South any longer has a plausible "socialist alternative" to offer. Why was there a "change of system" in (part of) the East in the face of failure, but none in the South in the face of the same failure? Jeanne Kirkpatrick was wrong when she said that "totalitarian" countries in the East don't change, while "authoritarian" ones in the West do. Actually, it is arguable whether in either case there was any "change of system," or an "end of history."

* The economic crisis has been expanding and deepening in Eastern Europe and the Soviet Union. The economic crisis and related economic factors contributed materially to the desire and ability of these social (and also ethnic/nationalist) movements to mobilize so many people at this time for such far-reaching political ends. The decade of the 1980s, indeed beginning in the mid 1970s, is now called "the period of stagnation" in the Soviet Union and generated accelerating economic crisis and absolute deterioration of living standards in most of Eastern Europe, (as also in Latin America, Africa and some other parts of the world, vide Frank 1988). Significantly especially in Eastern Europe, this period also spelled an important deterioration and retrocession in its relative competitive standing and standards of living compared to Western Europe and, even to the newly industrializing countries (NICS) in East Asia.

* Moreover, the course and (mis)management of the economic crisis generated shifts in positions of dominance or privilege and dependency or exploitation among countries, sectors, and different social, including gender, and ethnic groups within the Soviet Union and Eastern Europe. All of these economic changes and pressures generated or fuelled social discontent, demands, and mobilization, which expresses themselves through enlivened

social (and ethnic/ nationalist) movements — with a variety of similarities and differences among them. It is well known that economically based resentment is fed by the loss of "accustomed" absolute standards of living as a whole or in particular items and by related relative shifts in economic welfare among population groups. Most economic crises are polarizing, further enriching, relatively if not also absolutely, the better off; and further impoverishing both relatively and absolutely those who were already worse off, including especially women.

Thus, the momentous economic and political changes of perestroika and glasnost in the Soviet Union and Eastern Europe and therewith the end of the cold war did not simply emerge, like Pallas Athene out of Zeus, from the head of Mikhael Gorbachev. He said himself that they were "inevitable." As (economic) necessity is the mother of (political) invention, had Gorbachev himself not existed, he would have had to be invented. His pragmatic praxis outpaces and

marketizing the industrial and commercial state monopolies and permitting them large measures of private monopoly power instead. The result is, of course, that they raise prices to consumers and intermediaries. At the same time, the state ran the money printing presses faster and faster to cover its growing deficits, including those generated by higher purchase prices from and support subsidies to these enterprises. The result had to be a breakdown of the supply system and runaway inflation. Instead of serving the consumer — not to mention the worker — better, liberalization ironically brought the economy to grind to a screeching halt.

However, perhaps the biggest irony is that the "transition from socialism to capitalism" is taking place just when another severe recession in the world economy is helping to pull Eastern Europe and the Soviet Union even deeper into depression. Therefore, the celebrations of the revolution of 1989 as liberation in the East and victory in the

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overturns ideological preconceptions, including his own and those of his opponents at home and abroad. The exigencies of the world economy generated all manner of pragmatic praxis and political ironies in the 1980s.

New Economic Ironies in Eastern Europe and the Soviet Union

However now in the 1990s, even the most pragmatic political policy and practice are subject to limitations and to the subversion of their intended consequences by world economic ironies.

Soviet perestroika and East European privatization are destroying old forms of economic organization before and much faster than they are replacing them with new ones. In particular, the Soviet Union made the serious mistake of starting perestroika where it is most difficult in industry and trade instead of in agriculture. There on the Chinese model (albeit less so) the beginning of privatization could have increased food supplies to the cities and built up political capital for Gorbachev. Both the Soviet Union and especially Eastern Europe began by

West may be premature. Marketization through perestroika and glasnost in the Soviet Union and privatization and democracy in Eastern Europe was supposed to offer their peoples some of the benefits (although also some of the costs and discipline) of the freedom of the market = democracy in the West. East Europeans sought at least to join Western civilization. The transition would be unsettling, and better or worse domestic policy could smoothen or roughen the transition. Many people hoped and some still do that the more they reject old ideological ways and replace them with Reaganomic and Thatcherist ideology and practice, the better the policy and the faster and smoother the transition.

In the Short Term

However, the short term economic irony is that the transition is accelerating economic decline in the East. Moreover, in world economic terms this transition in the East is being promoted at the worst possible time: The world economy is falling into severe recession again in the West, which exacerbates the difficulties of transition in the East. In 1990 already,

production declined an average of 20 per cent and spelled severe depression and galloping inflation in the East. This inflation is measured in terms of the national currencies, which become worthless. Accordingly, these economies are being "dollarized" or "D-markized." Therefore, the real market value of their properties

address the real problems in the economy and will sharpen economic, social and political polarization. That, in turn, will again generate new social movements. However, then they will threaten to become fascistoid populist ones instead.

In the meantime, the plans for 1992 and now the new recession have made

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and goods is suffering a classical and severe deflation in terms of these world currencies. (Ironically, the dollar is increasingly valued only in the socialist or exsocialist East and the underdeveloping South, while it is declining in value on the world market.)

Unemployment is ravaging the population in the ex-East, which has no unemployment insurance; because previously the old ideology and full employment made it unnecessary, and now the new ideology and bankruptcy make it impossible. In Germany, politically accelerated unification deepens the depression and aggravates unemployment of already nearly two and a half million in the East. Ironically also, unification was accelerated to avoid mass migration out of the bankrupt East. Yet unification so accelerated the East's bankruptcy and unemployment as to promote even more westward migration.

Ironically, one of the short term victims of this political economic process are the very civil society social movements, which brought on the transformation of Eastern Europe in the first place (as recounted in Frank 1990). Progressive social movements and their organizations with "Forum" names in several countries have everywhere been bypassed in the rush to organize new political parties through which to reorganize the state. Symbolically, in Czechoslovakia two of the leaders of Civic Forum in civil society, Vaclav Havel and Jiri Dienstbier, became President and Foreign Minister instead. The new leader of the now split Civic Forum is the Economics Minister Vaclav Klaus, who pushes ultra right wing free marketeer Thatcherist views and policies. No doubt, this ideological reliance on the "free" market will fail to

the West preoccupied with its own economic problems. Now the Gulf War has aggravated these. Western markets, capital, and attention are constrained by problems at home and in the Gulf, and they offer little more than moral support to the ex-East. Therefore, Western Europe is doing precious little to forestall these dangerous political developments in the East through economic aid. The new European Development Bank is itself underfunded and only makes loans at commercial rates. At the moment, the prospects for a "European Marshall Plan" are dim indeed. The West has not even offered to write off or significantly reduce the enormous external debt payments with which several countries in Eastern Europe are burdened. (However, the West German state de facto assumed the US 20 billion of GDR foreign debt and much internal and enterprise debt at the time of currency reform before unification). Except for the ex-GDR, the economies of Eastern Europe and the Soviet Union are receiving scarce support or even attention from the West. Now Poland's debt has been reduced but the quid pro quo seems to have been that they now pay interest on a smaller debt,

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while before they would not paying interest on a larger debt. At the same time, the previous East European and Soviet regional economic arrangements are breaking down.

In the Medium Term

Therefore, the medium term economic irony is that domestic economic and

political liberalization and the breakdown or abolition of COMECON are breaking up the only still available international economic foundation of East-East trade. Eastern and Central Europe are dependent in various ways on fuel and other raw materials from the Soviet Union. This dependence is physically based on the already installed network of oil and gas pipelines and railways. (A further bitter irony is that Iraq had agreed to pay a portion of its own large debts to several East European countries by supplying them with oil — until the UN embargo and then the Gulf War left Eastern Europe high and dry and with tripled import prices for oil to boot). The dependence on the Soviet Union is also economic, since these countries cannot import and pay for fuel from elsewhere. They cannot do so as long as they are in turn dependent on manufacturing exports to the Soviet Union and to each other, which they cannot sell in the West because they are not competitive there. The East also has difficulty selling them in the South, because the West and East Asia increasingly outcompete it there and must take away some of its market share to compensate for domestic and export markets lost to the new recession.

Therefore, conversion of East European and Soviet trade from transferable accounting rubles to hard cash dollars can only exacerbate the problem of their mutual economic dependence. The medium term economic result can only be that the short term domestic economic depression and unemployment in each country is exacerbated by the international decline of its export markets elsewhere in the region and the impossibility of replacing them by export markets in

the West and South. Dollarization and regionalization among republics within the Soviet Union and Yugoslavia and elsewhere extends the same problem inside these "countries." Again, the new ideology and politics is also replacing the old international economic organization before it can be replaced by another new one. Therefore, another economic irony

is that, after the cancellation of its foreign debt, the next best thing Eastern Europe could get from the West would be a fund of convertible currencies to maintain its existing international trade network among each other and with the Soviet Union until it can be replaced by more multilateral East-West trade in the long run. However, the long run also poses further economic limitations and ironies.

In the Long Term

The long term economic irony is that many of the "Second World" East Europeans who sought to join the "First World" West will find themselves in the "Third World" South instead. This irony is long term in three respects. The first one is not really so ironical except in reference to present ideals: It is that historically Eastern Europe, albeit culturally European, was never economically developed like Western Europe in the first place. Therefore, their people have little historical claim to become West European now. Only part of the Eastern part of Germany, the Bohemian part of Czechoslovakia, and in some sense part of Hungary, Slovenia and may be part of Croatia in Yugoslavia in Central Europe plus perhaps the Soviet Baltic republics were historically similar to Western Europe.

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The second long term economic irony is that 40 years of the politics and ideology of "socialist development", literally not to mention the "development of socialism," seems not to have changed the economic positions of these regions, neither relative to each other, nor relative to Western Europe. (Indeed, there is some question of whether these 40 years even changed their internal class structure much). If there was any change of position (or of class structure) it was mostly the decline of Bohemia, Hungary, Slovenia and perhaps the Baltics in Central and "Socialist" Europe relative to the rise of parts of Spain, Italy, and Greece in "capitalist" Southern Europe. (Industrialization, of course, modified the class structure everywhere in Europe, but apparently not more and perhaps less in the East than in the West and South). Therefore, only the above

mentioned regions in Central Europe now have a fighting chance to recuperate their historical positions in Europe, and that in competition with Southern Europe. Public opinion in Southern Europe already shows itself very aware of this threat, while in Central and Eastern Europe it still appears even unaware of the problem.

The third long term economic irony, therefore, is that the same present day political and ideological changes in Eastern Europe through which its people aspire to join the First World in Western Europe now threaten instead to place Eastern Europe economically in the Third World — again, for that is where it was before. Poland has already been Latin Americanized. The earlier dependent agricultural (and only temporarily, oil) export economy par excellence of Romania will be lucky and thankful if it can even recuperate that position, now in competition with Bulgaria, which developed agribusiness for export during the "socialist" regime.

The same problem obtains a fortiori in the Soviet Union. A few parts of Russia and the Ukraine were westernized by Peter the Great and industrialized by him, Witte, and Stalin. But most of the Soviet Union at best still is a third world

economy, like Brazil, India and China, which also have industrial capacities, especially in military hardware. The Transcaucasian and Central Asian regions, whether they remain in the Soviet "Union" or not, are not even likely to be Latin Americanized, but rather economically more Africanized or, God forbid, politically Lebanonized. The same sad fate may befall much of southern Yugoslavia, whether it remain one or, more likely, become several.

Many of these regions now face the serious prospect, like Africa, of being marginalized out of the (admittedly exploitative) international division of labor. Their natural resources have been squeezed dry like a lemon for the benefit of industrial development farther north, and now the regions and their peoples can be discarded. That is the political position, for instance, represented by the

Russian President Boris Yeltsin. The southern inhabitants' wrath at having so long been exploited in the past and demanding its cessation for the future is understandable. So is the appeal to (or discovery of) "traditional" ethnic and national identity and inter-ethnic strife in response to aggravated economic deprivation, such as 30 per cent unemployment in parts of Soviet Central Asia. However, political "independence" and inter-ethnic strife in Central Asia or Central Africa now can afford them little economic benefit in the future. On the contrary, the erection of politically motivated ethnic and other barriers to economic interchange, and even exploitation, threatens to convert them separately and altogether (back) into backwaters of history. [However, the "Centrality of Central Asia" was a fact of history for millennia before the world's present North South arrangement took shape in the sixteenth century, as I argue in Frank (1990c)].

Bitter experience has shown that "Second World" "socialist" "national development" in China, the Soviet Union and Eastern Europe was unable to break out from or overcome the constraints of competition in the world economy. The events of 1989 and 1990 eliminated all their remaining ideological legitimacy and credibility. However, while many observers limit their attention to the bankruptcy of the "socialist" component of this ideology in Europe and Asia or Africa, reality has undercut its "nationalist" component equally or even more so. For other national development strategies in Africa, Latin America, and Asia were essentially similar and often failed equally or even more so. So we observed in our comparative review above of economic policy by communist parties, military dictatorships, and their successor democratic governments. Thus, the long term economic irony is that the prospects for "another" national development by any other political means, whether separately or together, are not good. On the contrary these prospects are now quite bad for the underdeveloping Third World regions of Eastern Europe and the Soviet Union. However independently of their national ideology or state policy, they are equally bad and in some cases even worse for most still underdeveloping Third World regions elsewhere.

Persistent Economic Ironies in the Third World South

Ironically, economic underdevelopment persists in most of the Third World South in the face of almost all manner of ideological solutions and political efforts to overcome it. This story is not new and requires little elaboration here. However, there are some new ironic twists of late, which merit note in the present context. In this regard, I may be permitted to repeat my reflections in my recent and partly autobiographical and autocritical essay "The Underdevelopment of Development" (Frank 1991b).

* Real world system development has never been guided by or responsive to any global and also not to much local "development" thinking or policy. In this world economy, sectors, regions and peoples temporarily and cyclically assume leading and hegemonic central (core) positions of social and technological "development." They then have to cede their pride of place to new ones who replace them. Usually this happens after a long interregnum of crisis in the system. During this time of crisis, there is intense competition for leadership and hegemony. The central core has moved around the globe in a predominantly westerly direction. At the sub-system levels of countries, regions or sectors, all "development" has occurred through and thanks to their (temporarily) more privileged position in the inter "national" division of labor and power. The recently prevalent notions of "national development" are the result of a myopic optical illusion. These notions and the illusion are derived from a self-interested selective tunnel vision perception. It lacks an objective global assessment of real world development. This development ideology was based on and is now doomed by this self-illusory perception. It is less and less sustainable in the face of hard reality. Instead as suggested above, we now need to replace this development theory, as well as micro-supply and macro-demand side economic theories, by another one. We need a more rounded, dynamic and all-encompassing supply and demand side economics to analyze, if not to guide, world economic and technological development.

The most widespread political ideology and "development theory" for the last decade or two has been that "national

development" is best pursued through the "magic of the market" by letting "free enterprise" promote "export led growth." The stellar "models" are South Korea and Taiwan. These two have indeed done well in the world market recently. Unfortunately for the ideological model however, their success was not the result so much of free enterprise as of state intervention. Moreover, their state's ability to do so was in turn based on three earlier political factors: Pre-war Japanese colonialism, post-war American imposed land reform, and massive cold war subsidies.

Unfortunately for the ideological peddlers of this political model and for the many countries of Latin America, Africa, and South-East Asia who pursued essentially the same export led growth strategy, outside the city states Hong Kong and Singapore, it failed miserably elsewhere. Moreover, the possibilities of continued success by Korea and Taiwan is now increasingly questioned (eg. Bello and Rosenfeld 1990), not to mention the political and social costs of these dictatorships while they lasted. The reason, of course, are the exigencies of competition in the changing world market, particularly during the new world economic recession since 1990.

Another economic irony is that a dual economy and society may now indeed be in the process of formation at this stage of social evolution in the world system.

In this increasingly technological competition in and for the world market, it is not yet clear who has made the grade to survive. To put it differently, in this world economic game of musical chairs, it is not yet clear who will still have a seat when the music stops the next time, as it well may in this new recession. Perhaps Korea and Taiwan have, but more than likely they have not; and their success in carving out a world market share will be temporary at best.

However, it is clear that outside Japan much of the remainder of Asia, Africa, and Latin America, as well as most of Eastern Europe and the Soviet Union have not made the grade. Resource saving industrial development and the development of a service/information society deprives them of their "tradi-

tional" world markets for raw materials and reduces their comparative advantage as low labor cost producer exporters. At the same time, technological upgrading to remain competitive in the world market has failed in most of this "third" and "second" world, but of course also in many sectors and populations in the industrially developed "first" world and particularly in the United States.

Returning to my autocritical essay on development again, — What is a realistic prospect, therefore, is the growing threat to countries, regions and peoples to be marginalized. That is, they may be involuntarily de-linked from the world process of evolution or development. However, they are then de-linked on terms, which are not of their own choosing. The most obvious case in point is much of sub-Saharan Africa. There is a decreasing world market in the international division of labor for Africa's natural and human resources. Having been squeezed dry like a lemon in the course of world capitalist "development," much of Africa may now be abandoned to its fate. However, the same fate increasingly also threatens other regions and peoples elsewhere. Moreover, they may be found everywhere: In the South (e.g. Bangladesh, the Brazilian Northeast, Central America etc.); in the ex-indus-

trial rustbelt, the South Bronx, and other regions and peoples in the West; and in whole interior regions and peoples in the "socialist" East, e.g. on both sides of the Sino-Soviet border. Events in 1989-90 must accelerate and aggravate the marginalization of millions of people in Eastern Europe and the Soviet Union. As noted above, many regions there are more likely to be Latinamericanized, and some even Africanized and Lebanonized, instead of achieving the West Europeanization to which they aspire.

* People in all these and other places may now be sacrificed on the altar of growth pole "development" policy. They fall victim to efficient competitive participation in the international division of labor in the world capitalist market and to contemporary social evolution.

However, the West may well receive much more migration by the few who can, among the many who wish, to escape this marginal existence in Central America and Africa. North America and Western but soon may be also Eastern Europe and Japan will be the magnets. Many people prefer to survive exploited by the division of labor in the North than to suffer death by war and starvation or marginalized life without hope in the South.

* In other words another economic irony is that a dual economy and society may now indeed be in the process of formation at this stage of social evolution in the world system. However, this new dualism is different from the old dualism I rejected in my earlier writings (Frank 1967 and others). The similarity between the two "dualisms" is only apparent. According to the old dualism, sectors or regions were supposedly separate. That is, they supposedly existed without past or present exploitation between them before "modernization" would join them happily ever after. Moreover, this separate dual existence was seen within countries. I correctly denied all these propositions. In the new dualism, the separation comes after the contact and often after exploitation. The lemon is discarded after squeezing it dry. Thus, this new dualism is the result of the process of social and technological evolution, which others call "development." Moreover, this new dualism is between those who do and those who cannot participate in a world wide division of labor. To some extent, the ins and outs of this world division of labor are in part technologically determined. Thus, this new dualism may partake of the technological dualism.

Economic Ironies in the "West"

In the 1984 forerunner to the present article on ironies. I wrote about the "Debt Bomb":

The danger of another crash in our world financial house of cards is a domino-like chain-reaction spreading through the world banking system into the world economic system... (it) would feed economic and political nationalism and encourage the resurgence of economic blocs such as we had during the 1980s. A dollar zone, a mark zone, a yen zone ... (Frank 1984/87).

I had already mentioned the possibility of such regionalization or bloc formation

in the world economy in 1972 (reprinted in Frank 1981, Chapter 1); and I returned to this theme in greater detail in Frank (1986) and (1988). Then, however, I saw this regionalization already occurring in the real economy, and I returned to the debt bomb and the possibility of a crash as an aggravating factor. In particular, I analyzed what Business Week had already termed the "debt economy" in the United States. I emphasized the basic problem of the non-competitiveness of the American economy and therefore the decline of the dollar; the derivative twin budget and trade deficits; the crisis in the oil, real estate, and farm sectors; the resulting emerging crisis in the Savings and Loan (S&L) "thrifts" or mortgage banks; and also the weakness of the commercial banks and the annually increasing number of failures among them; the shift from equity to debt and junk bond finance and swollen interest obligations of industrial and other corporations, which they would be unable to meet when their earnings and cash

annual rate in the last quarter of 1990)," "Amid Signs of a US Recession, Bankruptcies Hit a Record," "US Firms' Debt Service Burden Grows," "US (corporate and municipal) Debt Downgrades Hit a Record in 1990", "Portfolios of US Banks are Shakiest in 15 Years," "20 Big Banks Head for Failure. US Agency Says Many Will Need Bailouts," "US Deposit Insurance (of bank accounts) is 'At a Low'," "1991 Bank Failures Threaten US Fund. Most Large Institutions Are on Verge of Insolvency, Congress Study Says," "This is a Rescue? The S&L bailout is faltering — and the meter keeps running," "No End in Sight. Politicians Hurl blame as the US savings and loan crisis races out of control" —but not only at the S&Ls, and not only in the USA.

The recession is already world wide: Canada and Australia are in severe recession. "UK Slump Worse Than Expected." France, Spain, Italy, the Netherlands, Sweden, even Switzerland

The most likely possible alternative resolution will therefore be increasingly neo-mercantilist regionalization of the world economy into American dollar, Japanese yen and German led European ECU/D mark zones and/or trading (and political?) blocs.

flow next decline; and the dangerous exposure of all of these to the shock of the next recession. It would be the fifth and possibly the most severe in this world economic crisis, which started in 1967. Moreover, I argued that in this recession the traditional anti-cyclical monetary and fiscal instruments would already have been exhausted. This is because they had already been misused just to maintain the preceding cyclical recovery, which itself had already exacerbated economic conflicts of interest between the United State, Europe, and Japan. Since then, all of these observations have become common place — and...

The next recession is here! The rate of profits declined again in 1989, continued to decline in 1990, and the recession became evident in 1990 — some time before the Gulf Crisis and War. A very small sampling of recent newspaper headlines (and text) sets the tone: "US Profits: Sign of a Slump (for second year in a row)," 1.3% Fall Forecast for US (3.4%

("bank profits down") have reduced or negative growth rates. Africa is in depression. In Latin America, GNP declined 0.5 per cent and per capita 2.4 per cent in 1990, on top of a 10 per cent decline in the 1980s. As observed above, now it is the turn of Eastern Europe with an over all 20 percent decline in 1990, and of the Soviet Union. Now growth rates are down and debt up also in China and India, which the crisis largely bypassed in the 1980s.

Are Japan and Germany exceptions? Can and will they be the replacement locomotives for the world economy during the early 1990s? Growth rates have declined already in Japan, as well as in Korea and Taiwan. The Japanese speculative bubble has burst as well. The stock market declined 40 percent in 1990; real estate prices plummeted; and Japanese investors and speculators transferred funds inward from abroad to help them cover their losses at home. That is also why for the first time since 1986 and now that the United States

needs it most, in 1990 the net flow of Japanese capital was out from the United States to Japan. The prospects for a severe recession in Japan and the East Asian NICs are quite real. Either way, the prospects for economic co-operation instead of competition by Japan in the world economy are quite dim. "G-7 Aides Disagree on Policy;" "G-7, by Default, Gives Japan Go-Ahead on Loans to China." If Japan primes the pump or steams up its locomotive at all, it is likely to do so in its own region in Asia ... and Germany in Europe.

The July 1990 Houston Summit of the G(roup of) 7 industrial countries confirmed the live-and-let-live "Sinatra doctrine": Each one does it "my way," and the others not approval, as long as they have no other choice. At that Summit, Prime Minister Kaifu of Japan announced a large scale program of loans to China, and Chancellor Kohl of Germany a similar state guaranteed loan of 5 billion DM to the Soviet Union. President Bush reiterated his "Initiative for the Americas" for a free trade zone from Alaska to Patagonia (and \$7 billion remission of debts out of the over \$250 billion!), which he had already hurried to announce a week earlier. In each case, the other two listened, acknowledged, and did nothing either to participate or to stop it. Thus, they concentrated what the Soviet spokesman Gennadi Gerasimov had in another context baptized as "the Sinatra Doctrine."

Germany's first priority was and is reunification. The economic and social costs are enormous, and they are borne mostly by the people and their government(s). So far private industry in the West of Germany has been very slow to invest in the East of Germany—and much less even in the East of Europe. How long it will take Germany to get up the steam to put its locomotive in motion remains to be seen — in Central and Eastern Europe. Little of this locomotive power is likely to be visible in the world economy elsewhere. On the contrary, as an economy that has been very dependent on exports to the world market, Germany itself has already suffered from declining export markets due to the recession elsewhere in the world economy.

Thus, the threat that world recession in the early 1990s will be even more severe than in the early 1980s is quite

real. As I wrote in 1989 about "Blocking the Black Debt Hole in the 1990s".

* the question is less one of a soft or hard landing than whether the world economy has already bottomed out, or whether the next recession will be still deeper once again. This is a serious danger, because the next recession threatens to exacerbate all these imbalances and to accelerate their resolution by sucking the world economy into the black hole of debt (to use the expression of MIT economist Lester Thurow). The accumulation of domestic and foreign debt in many parts of the world is likely to inhibit further domestic reflationary finance (call it Gramm-Rudman in the United States) to combat recession just when it is most needed in the next recession. That would be among other things to foist all the bankruptcies of junk bond financed corporations and banks dependent on interbank loans. Both US and Japanese monetary policies would be damned if they do and damned if they don't ...

* The continuing world economic crisis is exacerbating the accumulated regional and sectoral imbalances especially among the world's major trading regions of America, Europe, Japan and their Third World and Socialist trading partners. They will find it ever more difficult to manage the growing conflicts between financial debt speculation and real economic productive investment, through the already conflicting monetary, fiscal, exchange rate, trade, security and other policies. Therefore, another (again more severe?) recession threatens also to spark another (also more acute?) crisis within the crisis. More of the same muddling through is likely to become impossible. Any possibility of reimposition of the old American dominance (or an alternative Japanese new dominance) in a multilateral world economic and financial system or its coordinated management by the G7, G5 or G3 is improbable in such a recession. (A, US bomb and Japanese yen based Pacific basin political economic consortium is possible but rather unlikely, and one including Europe even less likely). The most likely possible alternative resolution will therefore be increasingly neo-mercantilist regionalization of the world economy into American dollar, Japanese yen and German led European ECU/D mark zones and/or

trading (and political?) blocs (Frank 1990c).

Economic Ironies in the Gulf War

That was still the situation on August 2, 1990 when Iraq invaded Kuwait and all the more so on January 17, 1991, when the United States with 23 other countries in tow started bombarding Iraq. Tons of ink have already been used to analyze and/or propagandize this war and its buildup, and I have myself added my two cents' worth (Frank 1990d and 1991a). Here, we may confine our observations to the (ironical?) probable economic background and possible economic consequences of this world geopolitical drama and human tragedy.

Both invasions had economic backgrounds if not motives. Iraq's were its huge debt and reconstruction needs after its war with Iran; Kuwait's drain of their common oil field and other long standing disputes; the decline in oil prices due to the recession and increased production by Kuwait and Saudi Arabia, which were perhaps deliberately decided to weaken Iraq. President Hussein pleaded Iraq's oil interests to the Arab Summit in Baghdad in May 1990 and again to the American Ambassador in Baghdad in late July. To no avail, and he invaded Kuwait in August—after the American Ambassador indicated that the United States had no interest to intervene.

In the wake of an oncoming recession and cuts to the Pentagon budget, President Bush already invaded Panama eight months earlier. Now he deliberately escalated the crisis sparked by President Hussein's invasion into a full scale war. That was not unusual and should not have been surprising. In the face of every recession since World War II, every American president before him also had recourse to a military response and/or escalation (detailed in Frank 1990d and 1991a). Former President Nixon summarized in the International Herald Tribune on January 7, 1991: "When Senator Bob Dole said we were there for jobs, they were criticized for justifying our actions on purely selfish grounds. We should not apologize for defending our vital economic interests."

However, American economic interests and their defense extend far beyond oil in the Gulf and jobs at home. These interests are world wide, and the primary

threats to them are competition from Japan and Germany, or from a Japanese led Asia and a German led Europe — all the more so now that the Soviet “threat” is virtually eliminated. As we observed, the cold war is over — and Japan and German have won! The Reaganomics of the 1980s helped eliminate the Soviet Union from the running but at the cost of mortgaging the American economy and even its government’s budget to the Japanese and the Europeans. The United States is now economically dependent on continued capital inflows from its principal economic rivals, and the Japanese already began to withdraw capital from the United States in 1990 instead. In response to even deeper recession and/or greater deliberation, they now threaten to pull the financial rug out from under the United States and its dollar altogether. At the same time, trade and other economic disputes grew even deeper at various points including the GATT Uruguay rounds. Japan was distinctly uncooperative, and Europe refused to budge more than a few percent on the issue of agricultural subsidies. At the same time, the road to “Europe 1992” was made more difficult by the 1989-90 events in Eastern Europe and by Britain’s intransigent foot dragging.

Comes August 2, 1990. President Bush and his Secretary of State Baker go on a spectacularly successful diplomatic campaign to line up their recalcitrant allies and even their erstwhile enemies, like the Soviet Union and Syria, behind American policy in the Gulf—and by extension elsewhere. The most enthusiastic support for President Bush came from the British Prime Minister Thatcher. She was in Washington in early August. There in addition to sharing her ideology with President Bush as he had with his predecessor Reagan, she now took advantage of an opportunity to support him—or even to egg him on? — to throw another monkey wrench into the process of European unification.

However, President Bush required little encouragement to proceed, despite — or perhaps rather because of — those with the least enthusiasm: Japan and Germany. They are the rival economic powerhouses that hold the economic keys to American economic survival during this new recession. However, they have no seats or voice, let alone a

veto, in the Security Council! And that is where the first battle of the Gulf War was to be fought—to align friend and foe behind American military might, which is the only one it still has left to support its geopolitical power.

This is where mutually supportive further ironies come in: Since World War II, the United States has not been able to use its military might *against* Japan and Germany; and it can no longer do much for them either, now that the Soviet military threat is waning. However, the United States still can—indeed without Soviet encumbrance now all the more so — use its military might in and against countries in the Third World. The other economic irony was spelled out by the American *National Interest*: “The fact (is) that the military power of the United States was the only thing capable of mounting an effective riposte—when the economic power of a Japan or a Germany was virtually irrelevant.” The London *Sunday Telegraph* (January 20, 1991) comments editorially: “This is not going to be a multi-power world. If there is to be a new world order, it will be based on US military power with Britain playing a key role. Saddam’s scalp will be its first trophy.”

In other words the cruel irony is that President Bush has taken good advantage of a black golden opportunity to try to redress declining American hegemony against its principal economic rivals in Japan and Germany by playing the only — that is military — ace he still has up his sleeve. Of course, at the cost of Iraq and the Third World, where this war was “played” out. Without exception, all East-West wars since 1945 were fought on Third World soil. Now the West-west competition is to be fought out in the South as well.

In June 1990, the former editor of the American foreign policy establishment’s *Foreign Affairs*, James Chace, could still write in *International Management*, *Europe’s Business Magazine*.

AUF WIEDERSEHEN USA. There will be a European challenge ... Europe has ... turned Servan-Schreiber’s thesis on its head. Today it is the United States that is fearful of Europe’s economic strength and worried about its own relative economic decline ... Approaching 1992 ... if there are severe economic

dislocations or, let us not forget, a global recession, there is no telling how the new Europe will react ... From this prospect arises the even more frightening specter, to Americans at least, of a Fortress Europe dominated by great industrial groups that could freeze all competitors out of its market. If this should happen, the risks to the United States would be huge ... The likelihood that the Europeans will eventually form a pan-European security system of their own will further reduce US power and influence ... Washington is almost desperately eager to remain in Europe. “The United States should remain a European power in the broadest sense, politically, militarily and economically,” said US President Bush in a speech last month.

Two months later, Saddam Hussein offered President Bush an opportunity to meet the European challenge. President Bush successfully bluffed or finessed all of the Europeans, albeit less so the Japanese, to line up behind him — and to fall out among each other. Mrs. Thatcher lost the battle and her job, but so far she has won her war both in Iraq and in Europe! The war is exacerbated the political and economic conflicts of policy within Europe, on which she made her stand against a more united Western Europe.

With her help, the United States also has already achieved at least two major political coups in Europe beyond getting its support for the war itself. One is to scuttle even the pretense at a more independent European policy towards the Middle East and in favour of a more reasonable settlement of the Palestine—Israeli issue. Israel’s all purpose minister, Isaac Rabin, recently declared that Israel has no use for Europe or the United Nations. For the time being, the American-Israeli line is unchallenged, except by the for now weakened Arabs themselves.

The other coup is the transformation and diversion of NATO. Far from constructing a stronger post cold war European pillar in NATO, let alone an alternative European security system, the Europeans have now acceded to an already earlier American pressure, which they previously resisted: To turn the NATO thrust southeastward to intervene in the Middle East in particular, and in North-South conflicts in general.

American troops, bases, material and logistics, but also those of several European countries' NATO contingents was diverted from the defense of Western Europe against the Soviet Union to the attack against Iraq in the Middle East! They even took their central European AirLand battle plans with them to the Arabian desert. Moreover, the Europeans paid not only their own but also many of the American costs of this diversion. Europeans paid for the fuel that American B 52 bombers used when they took off from and were refueled by bases in Europe. The use of Turkish bases to bomb Iraq also served to engage NATO, and through it the reluctant Germans, in this American led North-South war.

The Europeans not only supported President Bush's war politically, militarily and financially; beyond that, it was announced that the Europeans have finally also caved in on the issue of agricultural price supports, their biggest protectionist measure, which had scuttled the last meeting of GATT. Symbolically, its last deadline for reconsideration was the same January 15, 1991 set by the United Nations for Iraq to get out of Kuwait and for the United States to go to war!

The perhaps also ironic question remains whether in the long run this North-South war in the Gulf will recoup American hegemony or destroy it. President Bush is well aware of this major question. He devoted much of his January 1991 State of the Union Message to the Gulf War and gave his answer directly to this question and perhaps indirectly to why he went to war against Iraq in the first place: America's responsibility to "defend freedom" is greater than ever and therein its golden age lies not behind, but before it. President Bush may not be deliberately bluffing when he says so; but does he have the political economic cards in his hand to make his prediction come true? Or may the ultimate economic irony be that this gamble at prolonging the American century through yet another war will cost the United States so much as to become its last Indian summer Swan song?

The original deployment of American and other troops and equipment was "to defend Saudi Arabia" from possible, albeit never threatened, attack by Iraq.

However, there was at least one other reason for the choice of Saudi Arabia as the site for the massive buildup: During more than a decade after the debacle with Iran, the United States had built up Saudi Arabia as its client regional military power in the Middle East, next to Israel. The United States sold Saudi Arabia tens of billions of dollars of arms (in support of its own industry and balance of payments) and built up a whole network of naval and air bases, which Saudi Arabia pledged to make available to the United States for use in case of an emergency in the Middle East. Saddam Hussein's invasion of Kuwait provided that emergency. Then the United States shipped nearly half a million troops and their supporting naval and air forces to Saudi Arabia, which is the only place that has the necessary ground facilities ready to receive them!

Even so, the allies had over 5 months time to put their offensive capacities in place there. Therefore, the deputy commander of the U.S. Military Transportation command observed that "we ought to keep in perspective that we've had the luxury of time — 161 days to land all that stuff without anybody firing a shot." Moreover, "47 percent of it came from foreign ships, which might not be available in the next emergency." These facts, argues the *Washington Post*, "make Operation Desert Storm an inadequate test of the US military's usefulness in forging what President Bush called 'a new world order,' according to military analysts" (*International Herald Tribune* February 11, 1991). We need not only in passing how these analysts and publicists take it for granted that "The New World Order" is to be 'forged' by US military intervention in one 'emergency' after another. But at what political and economic cost, and can the United States afford them?

At home in the United States, the Gulf War distracted attention from the deepening recession. That may have been another one of its purposes, particularly in distracting public opinion from increasing bankruptcies and unemployment. However on the policy making level, this diversion of needed attention from the recession may be a short sighted or even ostrich policy. It can become costly in the middle run, if it lets the recession get all

more so out of hand. More so, because even without the distraction of the war, the US government and Federal Reserve have scarce anticyclical economic policy instruments left to combat recession. Most measures to stem the recessionary tide at home, like lowering the rate of interest as the Fed did in early 1991, only open the floodgates even more to a lower dollar and reduce or reverse the capital flows from abroad, which the American economy also needs to remain afloat.

Probably more important than the confidence of consumers at home in the United States, is the confidence of international capital and of allied governments elsewhere in the West. The more important effects of the recession and war will play themselves out via the reactions of private capital and the decisions by governments and central banks in Europe and Japan. The German (Central) Bundesbank, and following it per force the Dutch and some others, already followed the U.S. interest rate decline by raising their own rates of interest, to the dismay of the more recession ridden United States, British and France. The fixed exchange rates within the European Monetary System were brought under pressure, the dollar immediately plunged, and capital was attracted to Germany. As usual, the intervention of the central banks to shore up the dollar was to no avail. The Bundesbank president defended his decision by saying that he was contributing to 'stability' in fighting against inflation in Germany, which is Europe's most important — but also still most healthy-economy. Let the Devil take the hindmost!

How long will the Japanese and the Europeans, other than the British with their "special relationship" but most depressed economy, continue to lend a helping hand of private and public funds to support the American economy at home? That is the question. For without foreign active political and material economic support, the United States no longer has the domestic economic base to build a "New World Order" of its own design. Walter Russell Mead correctly observed in the *International Herald Tribune* (Feb. 7, 1991):

At a time of diminishing national resources and power, the United States has not lowered its foreign policy hori-

CAPITALISM & SOCIALISM

zons, it has universalized them. The mirage of universal alliance against instability, led but not paid for by America is potentially the most dangerous idea in US foreign policy in the last generation. It raises expectations that cannot be met ... It tempts Americans to take on responsibilities beyond their resources. While they want the post- Cold War order to evolve in (New World Order) ways that defend American primacy, America's Associates want it to diminish.

There is the rub! The Soviet Union never had the economic clout to support its claim to being a super power. Now it is being downgraded into the position of an over-armed Third world/rate power. The United States was long obsessed with its political and ideological security in (successfully) defeating the Soviet Union in the cold war. In so doing, the United States neglected to maintain its real economic base in competition with its real competitors in Japan and Europe. So now the United States no longer has sufficient economic clout to be a super power either.

Yet with President Bush waiving the American flag, the United States rushed in where angels fear to tread. It rushed into war in the Gulf in a probably vain attempt to shore up its declining power on the world stage one last time by the only means it has left and knows how to use — its military power. However, without an adequate economic base, military power is insufficient to keep a great super power afloat. On the contrary, the foolish use of its military power may instead sink that power. It is not for nothing that Paul Kennedy became a best seller (apparently not in the Bush White House or the Pentagon) when he wrote that foolish military overextension beyond the economy's means to support it is the basis of **The Rise and FALL of the Great Powers.**

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