

## Epilogue: The World at the Turning Point

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In June 2002, as this book is going to press, the world is at the turning point. The decisions being taken at this crossroads will determine how long, how deep and how widespread the current recession will be and whether what lies ahead is a depression, a gilded age or a true golden age.

According to the interpretation presented in this book, the installation period of the current fifth great surge ended with the draining of the NASDAQ bubble, in March 2000. The recession that then began to threaten the US economy, developed through the first months of 2001 and intensified after the destruction of the World Trade Center, set the stage for a profound institutional restructuring.

It is not yet clear whether the stock markets have seen the worst of their troubles or whether the reconnection between paper and real values still awaits a big jolt or two. But the structural problems causing the recession are already there to be solved, and the Information Revolution is awaiting the appropriate conditions to display the second half of its growth and its wealth-generating potential.

If the world economy is to move towards a phase of synergistic growth, a new regulatory framework is needed, along with the global organizations capable of making it effective. This is a time for institutional imagination. Financial regulation is only a small part – though perhaps the most crucial – in the wide range of transformations required. Given the nature of the current paradigm, such changes are needed at several levels of differentiated action: local, regional, national, supranational and, especially, global.

In the equivalent period of the fourth surge, at the beginning of the recession following the crash of 1929, Keynes warned about the need for understanding the nature of the problem in order to be able to confront it. In his essay ‘The Grand Slump of 1930’, he defined the situation thus:

The world has been slow to realise that we are living this year in the shadow of one of the greater economic catastrophes of modern history... At this moment the slump is probably a little overdone for psychological reasons. A modest upward reaction, therefore, may be due at any time. *But there cannot be a real recovery, in my judgment, until the idea of lenders and the idea of productive borrowers are brought together again* [added emphasis]... Seldom in modern history has the gap between the two been so wide and so difficult to bridge. Unless we bend our wills and our intelligences, energised by a conviction that this diagnosis is right, to find a solution

along these lines, then, if the diagnosis *is* right, the slump may pass over into a depression, accompanied by a sagging price level, which might last for years, with untold damage to the material wealth and to the social stability of every country alike.<sup>251</sup> (original emphasis)

That is precisely the dilemma facing world leaders today: misjudge the situation and treat it as one more passing recession or rise up to the task of confronting a serious structural problem, starting by understanding its nature.

History, however, tends to play tricks on the beholder by providing events that divert attention from the underlying forces at play. It has been as easy for many to blame the recession on the terrorist attack of September 2001 as it was, in the mid-1970s, to blame stagflation on the OPEC oil price hike. Though both events certainly intensified the phenomena, they didn't *cause* the recessions, which in both cases had clearly begun earlier and were of a structural nature. Explanations based on exogenous shocks (often, in fact, partly symptoms of the same deeper causes) lead to an impotent insistence on applying old economic recipes to new structural problems. Such recipes can only lead to fragile and short-lived successes, vulnerable to relatively minor events.

Financial capital has already done its job of leading the intensive spread of the new paradigm and the installation and testing of the new infrastructure. Sufficient portions of the business community and of consumers have assimilated the new common sense to be able to continue the transformation process. Now is the turn of production capital to take the leadership, expanding production and widening demand, with financial capital in a supporting role.<sup>252</sup> However, this change in the rules of the game may not be easy, because the financial collapse has not been spectacular enough to wipe out excess self-confidence.

Nonetheless, it is through institutional recomposition that the synergy phase can be ushered in. Going from drained bubble to golden age requires overcoming the three structural tensions that have built up and caused the recession.<sup>253</sup> All three demand well directed institutional action.

The tension between the growth of paper values and real wealth creating capacity, which was partly relieved by the collapse, can only be overcome by strict and decisively enforced regulation to restrain the practices of the casino economy. The cluster of revelations about the accountancy scandals in Enron, WorldCom and other major corporations should not be seen as a sudden and unexpected epidemic of dishonesty striking the business community. Rather, they are the consequence of the extreme pressure for unrealistic profit levels

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251. Keynes (1930:1931:1972) pp. 126 and 133.

252. See pp. 123–4 above.

253. See pp. 115–8 above.

that the world of finance put upon the world of production during the Frenzy bubble. A dip in profits, which is a normal occurrence in the life of any company, meant a catastrophic collapse in value. Hence, during Frenzy, crime paid well.<sup>254</sup> Only such measures as will bring profit expectations down to realistic levels will allow production firms to conduct their business with strategic goals in mind. At this turning point, short-term financial criteria, apart from the risk of stimulating dishonesty, can no longer serve to guide investment and technology decisions directed to the steady expansion of production and markets. As at equivalent moments in the past, regulation is one of the main instruments to achieve that switch.

The second tension – between the potential for production expansion, on the one side, and the profile and rhythm of existing demand on the other – requires policies to willfully activate the markets of the new engines of growth. The premature market saturation in microelectronic chips, computers, software, telecommunications and Internet-based services affects the whole economy. Those are the dynamic sectors that have the potential to induce multiple new business activities around them, as well as to pull all the other industries and the whole world economy forward. Therefore, the choice of which industries are stimulated by government demand will make a huge difference, as will policies that affect the shape of income distribution.

Yet, in the globalized world of the present paradigm, demand is also global. The best promise of massive market expansion would seem to be in the incorporation of more and more countries to global growth, investment, production and consumption. Growth in the larger countries of the developing world, together with China, Russia and the ex-socialist group of Eastern Europe, could serve as a first tier to pull the others forward. It is quite obvious that these potentially huge markets are a very long way from saturation.

Nevertheless, the remaining potential in the markets of the advanced world should not be underestimated. The feeling of intense technological change of the 1990s Frenzy can lead, when followed by recession, to misguided pessimism regarding the future expansion of the Information Revolution and the Knowledge Society. A comparison with the Age of Mass-production can be instructive. At the end of the equivalent frenzy phase, in 1929, there were 23 million registered automobiles in the USA at a time when the adult population was 72 million. That market coverage of 32%, which appeared unsurpassable then, approached real saturation at over 70% by the end of the golden age, around 1970.<sup>255</sup> Similar figures apply to the markets for home electrical appliances and to the construction, coverage and use of the infrastructures of

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254. See pp. 75-6, 109-11 and 142 above.

255. US Department of Commerce (1975), pp. 10 and 716.

that paradigm: the all-compassing networks of roads and electricity. The markets that were attained from the 1940s<sup>256</sup> through the 1960s, including the flourishing of synthetic materials and of innumerable induced activities in commerce and services, around suburban living and electricity, made the market levels of the 1920s Frenzy look relatively small. The parallels with computers and the Internet can readily be made.<sup>257</sup>

Regarding the third tension – the political and social pressures generated by the chasm between the countries that have been getting richer and those trapped in debt and economic crisis – effective action to ease it would be the most decisive contribution to overcoming the market saturation problem in an increasingly globalized economy. Not reversing global polarization, in itself, poses serious threats to the safety and stability of the prosperous countries. These include massive migrations, various forms of violence and the outbreak of serious economic crises, such as that of Argentina, which could affect others in their wake.

Hence, the tasks are complex and wide-ranging: designing an adequate and enforceable regulatory framework; devising ways of effective intervention to reshape the demand profile to extend the Information Revolution; and decisively acting on both sides of the world divide to stimulate a truly global economy, expanding wealth generation across the planet.

No idea is too bold as long as it applies the ‘common sense’ principles of the new techno-economic paradigm. As at other turning points, imagination has to look forward, not back, and there are no ready-made recipes. Each technological revolution is different, each paradigm is unique, each set of solutions needs to be coherent with the problems to overcome and with the logic of the techno-economic paradigm, its opportunities and its best practice. Each specific mode of growth, constructed for deploying the second half of each revolution, involves a set of ideological values that shapes the manner in which those opportunities are deployed and which of them will be favored.<sup>258</sup>

The present generations are living through a period requiring intense social and institutional creativity. There is a growing sense of urgency that leads to many proposals coming forth, of greater or lesser scope, with greater or lesser ambition, going from alternative economic theories to practical measures and

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256. See the discussion about institutional inertia prolonging the depression in the 1930s in the USA, pp. 125–6 above.

257. And the similarity extends to the pessimistic forecasts. Landes (1969), p. 484, reports that the economic adviser to the Federation of British Industries predicted in 1944 that the economy would peak out because the latest cluster of innovations, associated with electricity and motor transport, was exhausted.

258. Fascism in the 1930s made choices within the potential of mass production that were different from those made by Keynesian democracies after the war.

policies.<sup>259</sup> There is also ample scope for redirecting business imagination and technological innovation towards the deeper transformation of world society, through developing truly knowledge intensive ways of producing and living.

What lies ahead are many social conflicts and confrontations, negotiations, agreements and compromises leading to fundamental decisions on policies and institutions, at all levels and in many areas. The range of the possible is very wide and history has shown that violence, messianic leaders, economic theories and many other social, political and ideological factors can influence the choice. The forces that will engage in those battles are gathering now. Those present on the arena, with viable proposals, will take part in the shaping of the social and economic history of the next two or three decades. A golden age of worldwide expansion is possible. Making it happen will require thinking big, deciding wisely and acting boldly.

*Caracas, June 30, 2002*

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259. Examples of collective efforts at building alternative economic theories are The Other Canon ([www.othercanon.org](http://www.othercanon.org)), The Post-Autistic Economic Network ([www.paecon.ne](http://www.paecon.ne)) and the PEKEA (Political and Ethical Knowledge on Economic Activities) Research Programme ([pekea.free.fr](http://pekea.free.fr)). Among the proposals signaling the direction of change, see Chris Freeman's (2001b) brief and powerful essay 'If I ruled the world,' Richard Jolly's (2002) measures to confront inequality, the Sagasti and Bezanson report on Global Public Goods, Radosevic (1999) and Ostry (1992) on harmonizing global regulation of foreign investment and the reports of the UNU-WIDER Research Programme (<http://www.wider.unu>) to help overcome world poverty. Ambitious proposals to reform the global financial and trade institutions are George Soros (2002) and Stiglitz (1992:1997 and 2002).