

# INTRODUCTION

## **For whom is this book written?**

The book is mainly written for people who think something like this:

I am sceptical of international market liberalism, i.e. of the free flow of goods, services, capital and labour across the borders between countries. I therefore believe that the current economic system should be changed. But I have very vague ideas about how it should be changed. This is extremely unsatisfactory. It makes little sense to demand a new system unless you can say which system ought to replace the current one.

But I also wanted to write a book which may be regarded as a valuable contribution to public discussions about how economic activities ought to be organized.

There are probably many people who think this:

The positive effects of international market liberalism are so important that I feel sure that we should keep this system. However, this does not prevent me from wanting to know how people argue against international market liberalism.

I hope that some of these people will read this book and comment on it.

## **A note to potential readers of the book**

If you don't know more about the book than what is said above and have not yet decided whether you want to read it, I suggest that you do the following to get an impression of it: read the rest of this introduction and then skim through Chapter 10.

## **Contents**

The following topics are discussed.

### *1. "The five problems"*

In all industrial countries there now exists:

mass unemployment,

public sector poverty,

very unequal distribution of income and welfare,

a hard working life for many,

the use of production methods that increase global environmental problems.

These problems are called "the five problems" in the book.

2. *A theory claiming that it is impossible for the industrial countries to get rid of "the five problems" when the economic activities are organised in the way they are organised now*

By "the *framework conditions* in a country" what is meant are the conditions that determine how profitable it is for businesses to produce in that country. The tax level and the rules for the labour markets are examples of framework conditions.

I believe that "the five problems" have the same cause. Here is a simplified version of a theory about what that cause is:

The free flow of products and capital makes the markets for products and capital international.

Economic policy is mainly national. This implies among other things that every national government can influence the framework conditions for the businesses located in their country.

The combination of "international markets for products and capital" and "an economic policy that is mainly national" leads to competition between the countries about being an attractive location for trade and industry and having a good ability to compete.

To avoid ending up as a loser in this competition, every government gives top priority to the following goal: domestic businesses must have framework conditions which are as at least as good as those of their foreign competitors.

Giving top priority to this goal for the framework conditions makes it impossible for the governments in the industrial countries to do what must be done if they are to get rid of "the five problems".

3. *The industrial countries can get rid of the five problems by making the markets for products and capital less international*

According to the theory I use, it is impossible to get rid of "the five problems" if the markets for products and capital are international and economic policy mainly is national.

I therefore tried to find a reorganisation of the economic activities that satisfies these two demands:

The markets for products and capital shall be less international than they are now and this shall make it possible to get rid of "the five problems".

The reorganisation shall not have side effects that make the conditions at least as unacceptable as now.

The second of these two demands makes the following two alternatives uninteresting:

*North Korea's organisation of its economic activities*

North Korea has very little economic contact with other countries. That alternative is unacceptable for the following reason:

Suppose that a country produces more than it needs of certain products, sells them abroad and buys certain other goods abroad. If that happens, economists say that this country participates in the international division of labour.

If a country abstains from participating in the international division of labour, as North Korea has chosen to do, then the production per inhabitant will be very low. Very low production per inhabitant means a very low standard of living.

*The planned economy in the Soviet Union*

In the Soviet Union, the central authorities made a large number of the economic decisions. It turned out that in the long run this organisation had serious weaknesses.

A planned economy of the form that the Soviet Union had is not an acceptable alternative.

I succeeded in finding an alternative that meets both the demand that it should make it possible to get rid of “the five problems” and the demand that it should not have unacceptable side effects. This alternative is described and discussed in chapters 3-7.

#### *4. The industrial countries cannot get rid of “the five problems” by making economic policy more international*

In chapter 9, I argue that it is impossible to get rid of “the five problems” by transferring decision-making power from national to international authorities, but letting the markets for products and capital be at least as international as now. “There are limits to how much decision-making power the individual countries will be willing to give up” and “there are limits to international authorities’ ability to govern” are keywords in the argumentation.

#### *5. Consequences for the typical developing countries of the organisation of economic activity in the industrial countries*

I divide the developing countries into two groups. The first includes China, India and some other countries, where the economy is undergoing rapid change and production per capita is increasing rapidly. The second group I call *typical developing countries*. It consists of African, Latin American and some Asian countries. In what follows I shall by “the developing countries” mean “the typical developing countries”.

I argue in chapter 1 that “the competition between the industrial countries about having the best framework conditions” leads to the following situation in the industrial countries.

The authorities have little room for manoeuvre other than to try to ensure that domestic businesses have framework conditions that are at least as good as those of their foreign competitors.

Under such conditions the governments in the industrial countries will not allow themselves “the luxury” of letting their policies be influenced by what will be best for the developing countries. The industrial countries therefore try to ensure that their products can be sold in developing countries without being hindered by customs or trade barriers. This benefits industrial countries’ businesses, but it does not benefit the developing countries.

If the industrial countries switch over to “the alternative system” it will be easier for them to tackle their domestic problems. That will make it easier to get a breakthrough for the idea that people who live in the industrial countries for humanitarian reasons ought to consider what benefits developing countries.

Another effect is that it will be easier for the authorities to consider the long-term effects of their policies. Perhaps some of them will occasionally think along these lines:

There are several reasons for believing that it is in our interests to avoid a world where the developing countries have the problems they have now. It is hence in our own interests to conduct policies that increase the chances of improvements in the developing countries.

From what is pointed out above, it follows that the chances of developing countries escaping poverty will increase if the industrial countries switch over to “the alternative system”.

#### *6. Consequences for the global environment of the organisation of economic activity in the industrial countries*

The global environment is threatened in many ways.

In Chapter 12 I discuss one of them, climate changes resulting from emission of greenhouse gasses. I have chosen to focus on this threat both because it is very serious and because it provides a good illustration of this: what will happen to the global environment is influenced by how the economic activities are organized in the industrial countries.

The greenhouse gasses are gasses that influence the climate on the earth. CO<sub>2</sub> (carbon dioxide) is the most important of them.

Many types of production lead to emission of greenhouse gasses. How large that emission is depends on *how much* is produced, *what* is produced, and *how* it is produced.

Every country wants to increase its production, and will do this in the long run. "What happens with *how much*" will therefore increase the emission.

"Most measures that reduce the emission because these measures change *what* and *how*" usually also increase production costs. Under the current economic system every country is therefore reluctant to use such measures in large doses. They are reluctant because they fear that this may make the country a loser in the competition over having a good ability to compete and being an attractive location for trade and industry.

From what is pointed out here, I conclude:

If the industrial countries keep the current economic system, emissions of greenhouse gasses will not be sufficiently low in the future. By "sufficiently low" what is meant here is "as low as the experts in the field regard as being necessary in order to avoid grave conditions".

It is also pointed out above that under the current system there is competition between countries and that this competition makes production increase fast. That competition will be weaker under "the alternative system". From that I conclude:

If the industrial countries switch over to "the alternative system", then emissions of greenhouse gasses will be smaller than they will be if the current system is kept.

## **Simplifications**

I discuss many large topics in this book. This makes it necessary to simplify greatly. But as far I can judge, none of the simplifications I am aware of has lead to errors in the most important conclusions I have drawn.

In the above survey of the book, it has of course been necessary to simplify even much more than in the book.

## **Where can you find the book?**

You can find the book on [www.fritzholt.com/book](http://www.fritzholt.com/book). Those of you that want to skim through chapter 10 may also find this at the same address.