

FHE 5

WORLD ECONOMIC CRISIS IN THE NEAR FUTURE:
SOME FIRST AND THIRD WORLD SCENARIOS *

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The point of departure for this analysis is a simple conceptualization of an economy as divided into an internal and an external sector, with the internal sector divided into a formal and informal sector, and the formal sector divided into a public and private sector. This provides the setting within which economic cycles linking the nodes of nature, production and consumption can be located.⁽¹⁾ The three sub-divisions of the economy mentioned are basic to the reasoning below, and they would have to be defined - another question is how much is gained by very precise definitions. For the present purposes the following will do.

The internal/external distinction is essentially one of marginalization: the internal sector is given first class treatment, the external sector is given second class treatment. The external sector is the part of the economy on, or in, which one tries to dump the negative externalities; the internal sector is the part of the economy in which one tries to accumulate positive externalities.⁽²⁾ Thus, economic action in the internal sector will be more considerate. The views and perspectives, even the non-articulated needs of the other party will be taken more into account, whereas the moment the external sector is a part of the economic cycle such considerations will play a very secondary role, if any role at all. In general the external sector can probably be said to be found in three places: in social space, meaning the lower classes, including the proletariat; in geographical space in the sense of the periphery of the nation-state considered and in the sense of the periphery of the world economic system, meaning for all practical purposes the Third world countries. We shall generally pick up the third of these interpretations meaning that the distinction internal/external roughly corresponds to the distinction First world (OECD) versus Third world countries, as a first approximation.

The formal/informal distinction actually does not refer to formalized versus non-formalized sectors of economic behaviour. The "informal sector" is wrongly named: the plumber and the dentist who decide to exchange staking up toilets for filling cavities will sooner or later agree on the terms of trade, meaning the rules of exchange. They may not put it on paper, however. And that is certainly a characteristic of the formal sector: not only are there rules of economic behaviour, but the rules are knowable and known, and explicit; and the language in which the rules are written is the language of prices. For our purpose the formal sector can actually be defined residually by defining first the informal sector as comprising the following two or three (the last one is added with some doubt) categories:


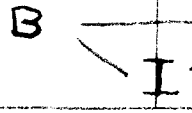
- production for self-consumption; not for exchange, for reproduction
- production for exchange; but for barter, not monetized
- production for exchange, monetized; but for local economic cycles.

This means that, roughly speaking, the informal sector corresponds to what in other contexts ⁽³⁾ has been referred to as the "green pole of development" the meso- and micro levels of social organization.

The public/private distinction refers to the formal sector alone, and to what in that other context ⁽⁴⁾ has been referred to as the "red pole of development" and "blue pole of development" respectively, depending on whether the state or non-state corporations play a dominant role in the economic activity considered. Just as for the internal/external and formal/informal distinctions the public/private distinction should be seen as a continuum rather than a dichotomy, as a question of more or less rather than as a question of either-or. But analytically we shall nevertheless treat them as dichotomies. It should also be remembered that these categories are not mutually exclusive: there are lots of implicit rules in the formal sector, friendship ties, etc. just as there are explicit rules in the informal sector.

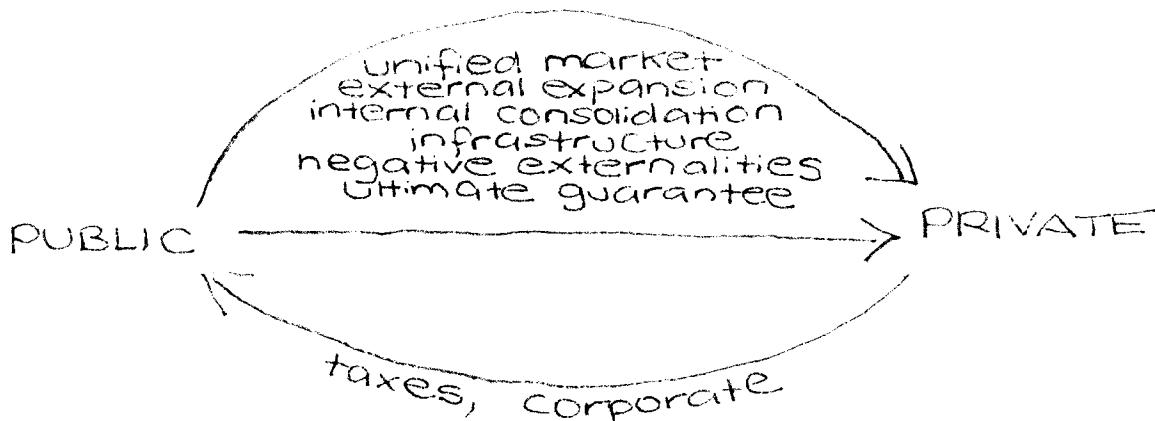
Thus, an economy looks as follows with its sub-divisions:

Table 1. The subdivision of an economy in six sectors

	INTERNAL		EXTERNAL	
	public	private	public	private
formal				
informal				

(We get only six; the informal sector is not split public/private). In the formal sector of both the internal and external sectors we have put the "B-C-I triangle", the technocratic integration of the bureaucracy of the public sector, the corporation of the private sector, and the intelligentsia at the disposal of both of them.⁽⁵⁾ As the intelligentsia is precisely specializing in the production of explicit rules, they by definition are particularly functional in the formal sector and have less to offer in the informal sector.

Let us then look at the relationship between the sectors as exchange relations, starting with the public/private distinction.

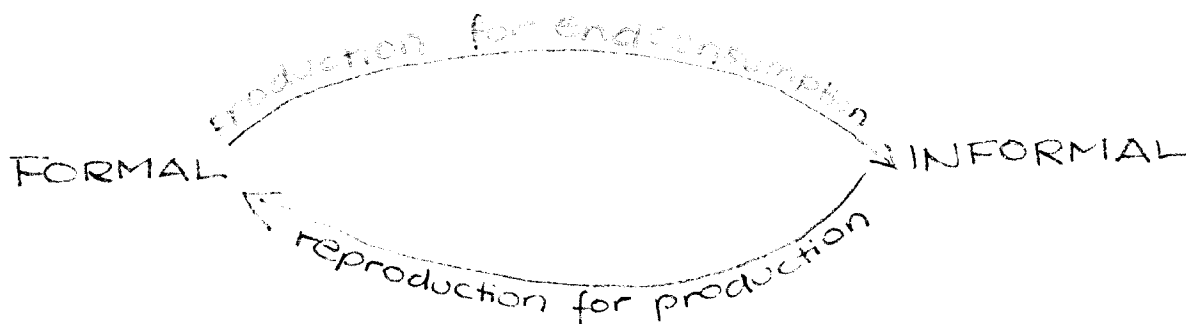


The exchange relation is seen here as something that has been evolving over a long period, in the West particularly since the emergence of the State and the corporation, say early 16th century in places like France and the Ottoman Empire.⁽⁶⁾ Obviously, the private sector pays corporate taxes to the public sector, and what they get in return is considerable:

- (1) - a unified market in the national territory, meaning that whatever is produced is marketable all through the area with the state regulating the competition;
- (2) - external expansion, meaning that the public sector puts at the disposal of the private sector the military, the foreign service, technical assistance and other agents of external expansion and control in order to sector expansion of the market;
- (3) - internal consolidation, meaning that the public sector puts at the disposal of the private sector the police and other agents, particularly to control workers "unrest";
- (4) - infrastructure, meaning the total system at individual and public levels needed for the private sector to operate within the national territory and beyond: science and technology;
- (5) - negative externalities, meaning that the bill for negative consequences (costs) of economic activities incurred by the private sector, but not paid for by them, will tend to be picked up by the public sector (but also pushed onto the informal sector); such as ecological imbalances, somatic and mental disorders, unemployment, etc.;
- (6) - ultimate guarantee, meaning that if there are problems in the economy the public sector can place orders with the private sector (eg. promoting iron and steel industry by ordering canons and canon-balls, textile industry by ordering uniforms), in other words keynesian measures; and if real bankruptcy should come the public sector can also absorb unemployed and unemployable workers and managers as soldiers and officers, respectively, in an army -or other places.

In general terms, this should be seen as an exchange relation rather favourable to the private sector, well worth paying some taxes for - but the private sector, probably due to much better public relations' techniques through the centuries than the public sector has had, has managed to make very many people to believe otherwise: that they are taxed to the bone and receive nothing in return.

The relationship between the formal and informal sectors can probably be formulated relatively simply :



This presupposes an informal sector which is not self-sufficient in producing goods and services. In rich countries what happens is "only" that human beings are clad and fed and also to some extent emotionally taken care of; in other words reproduction.⁽⁷⁾ The production part takes place in the formal sector and some of the goods/services are ultimately distributed to the informal sector for consumption. There is a precise formalization of the inputs to the formal sector from the informal sector, it is referred to as "labour", as there is also a precise formalization of the output from the formal sector. But what goes on in the informal sector is referred to as "subjective": consumption is everybody's private matter, and although there is a logic of reproduction it is rarely made explicit, and there is a clear resistance against monetizing it.⁽⁸⁾ The moment something becomes monetized and in addition controlled by the public or private formal sectors it ceases belonging to the informal sector, which is then shrinking further.

The problem now to be analysed is the relation between the internal and external sectors in a classical imperialist economy; in other words in the Old International Economic Order.⁽⁹⁾ The relation can also be understood as an exchange relation, but again as a highly asymmetric or unequal one, as clearly seen when one proceeds factor by factor in a production function, including the products themselves:⁽¹⁰⁾

Table 2. Asymmetric exchange between internal and external sectors

	From external to internal	From internal to external
Nature	raw materials	waste products
Capital	deposits, profits	investment
Labour	body drain, cheap labor <u>in situ</u>	excess labor
Research	brain drain, cheap research <u>in situ</u>	sale of technology experiments
Products	semi-processed goods and services	processed goods and services

This should be seen more as a socio-economic than as a geographical **map** defining the sectors by the type of exchange which, in turn, distributes the positive and negative externalities.

Thus, there are two types of things going on that which the internal sector gets from the external sector, and that which the internal sector gives to, hands over to, or dumps into the external sector. The exchange is an unequal one in all cases. The internal sector gets raw materials, but will try to dump waste products. It gets deposits, not only in the form of repatriated profits, but also in the form of profits made by the external sector itself (not only by the internal sector operating in the external sector), "gives back" investment from excess capital out to earn an acceptable average profit, in order to get back again "raw money" in the form of deposits that can
into finance capital/fixed capital. As to labour: the internal sector gets cheap labour, as body drain or as labour in situ (on plantations, in free trade areas), and during the day of colonialism the external sector was a place to which unemployment could be exported as colonial officers, soldiers, etc. (nowadays as experts, volunteers, etc.). And as to research: the internal sector benefits from brain drain, but also from cheap research done in the

external sector and made available through prestigious journals, conferences, etc., controlled by the internal sector; and gets "in return" the proceeds from sales of technology as well as the opportunity to test and experiment in an external sector less sensitive to the negative consequences. And finally, there are the products: the traditional exchange between semi-processed goods obtained from the external sector and the processed goods with considerable value added exported to the external sector.⁽¹¹⁾

It should now be mentioned that this type of relation between internal and external sectors is an extreme one, and by no means the only possible one. The Table is an effort to give a more total image of the exploitation that took place and still takes place, not limiting it to the usual three factors, defining the periphery as a place to obtain raw materials, as a market for finished goods, and - possibly - as a place to steal, buy, or employ at very low wages very cheap labour. Read horizontally the advantage of the relationship to the internal sector becomes very clear, for each factor and for the final products; read vertically it becomes even more clear when the sums of the two columns are compared. The Western capitalist powers have been engaged and are still trying to combine all these ten techniques into a viable pattern of "harmonious" economic integration.⁽¹²⁾ Relative to this what seems to be the Soviet attempt, to obtain long term supplies of raw materials at bargain prices⁽¹³⁾ (cotton from the Sudan, cocoa from Ghana, natural gas from Iran, sugar from Cuba, pig iron from India, wheat from Canada and the US), nutmeg from Grenada) appear innocuous as it is difficult to see that the Soviet Union in any significant way has tried to make use of the other nine possibilities.

I think the simplest way of trying to come to grips with what the New International Economic Order is about⁽¹⁴⁾ is to say the following:
it is the Third world's effort to internalize what to the First world was the external sector. This implies internalizing positive and externalizing negative externalities, in other words trying to do unto the First world what the First world did to the Third world. This means considerably more than
higher prices

for raw materials, and is very poorly understood by those unable to see more aspects of the current world process in economic systems than higher prices for one commodity: oil. It means using raw materials for their own purposes, controlling deposits in their own financial institutions, making use of their own labour, making use of their own researchers, and processing to the final stage as far as they can come for their own purposes. It definitely means a stop to the use of themselves as a dumping ground for waste products, for investments which would give control and major portions of profits to others than themselves, to being used as a dumping ground for excess labour, and to be clients for innovations made by others and guinea-pigs for experiments conducted by others. It is only in this more holistic fashion the revolutionary character of the NIEO as a historical process can be understood, not by any piecemeal approach. Thus, even the now classical UNCTAD approach focussing on terms of trade between raw materials/semi-processed goods from the external to the internal sector and the processed goods transmitted from the internal to the external sector appears very unsatisfactory, even mystifying, relative to the totality of the process now going on.⁽¹⁵⁾

What now should be discussed is possible First and Third world scenarios as a response to this type of political and economic process. Let us simply assume that the inner logic of the exchange relation, so flagrantly exploitative, between the internal and external sectors is of such a kind that all ten aspects referred to in the Table 2 come into play. And not only that. It is not only a question of the Third world gaining control over what was the First world's external sector, making it their own internal sector. They will also try to go one step further. The logic of the capitalist system they by and large are operating seems to drive them to do this: they may try to externalize what to the First world is its internal sector. Clearly, Botswana still will have some steps to go before it is able to dump radio-active waste in the streets of Paris.

But Japan, the first Third world country out, although more than one hundred years ago (but it did not really become an economic actor before this century), is already making use of "cheap labour" in the United States, giving the negative externalities (alienated work among them) to the US, keeping positive externalities such as spin-offs from research, experience in how to manipulate US people for themselves.⁽¹⁶⁾ There will be much more of this in the years to come: reversed body-drain and brain-drain, capital being deposited in the Third world, patents starting flowing against the stream or what so far has been the stream, and so on. Needless to say the First world reaction to all of this will be to put up economic fences, and ultimately this may lead to a division of the world into two separate capitalist economies: the First world and the Third world; obviously with sub-divisions in each of them, and socialist islands.

If something like this should happen what would then happen to the internal division in the First world? - and to the internal division in the Third world? Since we assume that the economies form a system one cannot remove or in a significant way change one part of the system and the way it relates to the other part without bringing about changes inside those two parts. This is not a mechanical coupling between two railroad cars that look pretty much the same after they have been decoupled from each other; it is more like the organic coupling between two parts of the body. Or, rather, it is something in-between, for we are obviously not implying that both parts will die if they are detached from each other. All we are saying is that internal relations will change and even dramatically, and the question is what impact that might have on the parts.

Let us start with the First world. Obviously it will do its very best to exploit the external sector in the Third world as far as it can, seeking into new and even remote corners of their economy, in other words making use of uneven development in order to promote its continuation; even expansion. And I also take for

granted that the external sector within the First world nation states may be in for a tougher time : the peripheries, the working classes. The more democratic the country, the better can negative externalities be counteracted through protests. But maybe democracy depended on a world Periphery external sector?

Let us start with the public sector which in a typical OECD country would have a (state) budget looking something like this:

Table 3. First world public sector budget: an image

PUBLIC SECTOR	
in	OUT
- Customs duties	- Administration
- Taxes, VAT, etc.	- External security
- Taxes, individual	- Internal security
- Taxes, corporate	- Education, research, culture welfare, health, etc.
- Income, state enterpr.	- Transportation PTT,
	- Industry and commerce
	- Agriculture, forestry, fishing
	- Subsidies, enterprises
	- Int' affairs, foreign aid
	- Interest on national debt

I have divided revenues in the public sector in customs duties, three types of taxes (on goods and services; individual income and fortune tax and corporate income and fortune tax) and - if possible - income from state enterprises. Expenditures have been divided into administration proper, external security meaning roughly the military expenses, internal security meaning roughly the police expenses, then individual and public level infrastructure, incl. subsidies to enterprises (meaning the deficit of state enterprises and subsidies proper given to "private" enterprises that for one reason or another have access to public funds). Other sub-divisions might be possible.⁽¹⁷⁾

Remembering how important the Third world has been as an external sector and thereby in the First world economy it is difficult to see that, in general, corporations operating on and in the Third world from the First world will not in general suffer a decline,

meaning that the public sector will get less of its revenue from corporate taxes. Given the Laffer curve⁽¹⁸⁾ (rather trivial, actually!) that situation will hardly improve with higher taxes, and the same may apply to revenue from individual taxation as this to some extent will be linked to corporate income. A decline in the trade with the Third world may be compensated for in trade with the First world, but then there are so many customs unions and most favoured nation clauses that it is difficult to see how in the short run customs duties lost relative to the Third world can be compensated for by increases in duties on First world products.

If this is correct, then the public sector will probably put up the taxes on internal goods and services with low elasticities such as the perennial gasoline, alcohol and tobacco, possibly also on such products as salt and sugar, gas, electricity and water, PTT, trains and so on. There might also be a tendency to nationalize corporations that yield easy profits, eg. energy corporations, and to engage into such activities as lottery, betting, games of various kinds.

What then about the expenditure side? If we assume that most administration by and large remains constant (in other words that the cuts will not more than compensate for inflation and rising costs) then it might be a choice between the hard and the soft sectors of the public sector: between the military and the police on one side, and education, research, culture and the various types of welfare (unemployment, sickness and old-age benefits) on the other. Regimes supported by really popular parties, and with the military and the police well under control, might be able to reduce the hard and even increase the soft sectors, but such regimes are rare. Officers are better at social protests and lobbying, among other reasons because they can put real threat behind their words, than retired people subsisting on pensions with decreasing effective buying power. A possible conclusion: a slow, to start with but then increasingly rapid, farewell to the welfare state; particularly

because the events accompanying economic and political changes likely to come probably will be of a kind that will seek to justify an increase rather than a decrease of the external and internal security machineries. (19)

The assumption behind all of this is that the public budget really is vulnerable to changes in the relationship between the external and internal sectors. How valid that assumption is should be the subject of serious research. The impression so far is that when OECD countries engage in studies of the economies of their own countries, then standard First world arrogance expresses itself in a certain unwillingness to explore the full implications of the possibility that the tale may now be wagging the dog, a possibility not very pleasant for the dog to contemplate. The dog prefers to wag itself, meaning that when there are problems the dog will prefer to see the problems as being of its own creation, due to the internal contradictions in the internal sector, regardless of what happens in, or relative to, the external sector. There certainly are such internal contradictions, many of them related to the information and data processing revolution leading to higher levels of productivity which, with non-expanding or only sluggishly expanding markets will have to lead to either unemployment or decreases in working hours (in other words leisurism), or both. (20) But that there also are internal problems is insufficient comfort when the external problems really start biting.

Let us then try to look at some other possibilities. If the formal sector, both public and private, is squeezed due to the withering away of the external sector then one obvious response for the two in combination would be to encroach upon the informal sector. The public sector could let the private sector do the job, limiting itself to taxing the private sector as the profits start coming in. And what the private sector would do would be to penetrate into all local economies making them non-competitive,

penetrate with goods and services into all kinds of local barter deals and into all kinds of production for self-consumption, including scooping up all the fish in the creeks, the blueberries in the forests or whatever might be still available in the First world nature in order to deepfreeze them and launch them into a refrigerated economic cycle with ice-boxes close to the consumer's dining table. The public sector might actively help the private sector here, legislating against production for self-consumption and barter economies by making benefits not accounted for taxable,⁽²¹⁾ thereby discouraging people sufficiently to drive them into the arms of the private sector. How well this cooperation between public and private sector can be carried out depends on the level of integration in the general BCI-triangle. The result: colonization of the informal sector⁽²²⁾ as a likely consequence of the New International Economic Order in First world countries.

If we now assume that the public sector recedes into the background, waiting for the private sector to do its job, then the real battle front for the 1980s, as a result of the NIEO, in the First world countries, is "blue-red" or even "brown" vs. "green". It becomes a question of to what extent the local and the self-sufficient will stand up against corporate interests. The tactics and the strategies of these actors will have to be understood if one wants to understand future politics in these countries.⁽²³⁾

But what then about the Third world countries, what kind of development is likely there? Surprisingly enough, probably exactly the same, but with expanding rather than contracting economies. Former colonies will tend to take over one basic pattern from the colonial period: the primacy of bureaucracy.

The public sector will then probably be strengthened further through its role in the NIEO process, for instance if it is called upon to nationalize relocated industries through military/police action. But even if this is not the case, the magnitude of the economic enterprises being developed is of such a kind that only the public sector will have sufficient control and in many cases also sufficient manpower of some kind or another to handle the opportunities. The organization most likely to be called into action here would be the military: it is organized like a corporation, it is clearly vertical, it has division of labour and orderly chains of command, it views its role in the world as that of an aggressive enterprise out to fight the enemy (the competitor); it is engaged in zero sum games⁽²⁴⁾. It is a perfect model of formal economy.

But this public sector differs from the one in the First world by getting expanding budgets within which to operate. Taxes, duties and income from state enterprises will probably all increase, making it possible to increase the administration, to strengthen the military and the police, and to establish small or big nuclei to support the internal sector. It is then assumed that the internal sector will only be a part of the economy, that most of the country will still be an external sector used by the internal sector very much like the West made use of the rest of the world. The border line will not quite coincide with the demarcation line between cities/towns and the countryside but will be closely related to that line. And on the other side of that line is precisely what is here called the informal sector, which will then continue to be used as an external sector, but now by its own people, no longer by the West. In other words: internal colonization. In so doing the Third world countries will have models to look at: the histories of the First world countries in this century, and they will probably to a large extent follow in the footsteps. Some high measure of arrogance and self-confidence will be needed to do this as the First world countries may be less than inspiring as examples as the century draws to a close. "If their past is our present", a Third world leader

might reason, "then their present will be our future" - but at this point the thought "we shall do better" might erase any discomfort. And, not believing fully in any determinist image of human history, that leader might be right. But only might be. The likelihood is that the Third world countries embarking on the capitalist path will retrace First world steps, and sooner or later end up in the same quagmire.

To summarize, let us now look at Table 1 again. The New International Economic Order deprives the First world of much of the external sector. What are the options? Obviously,

(1) to regain the external sector at a higher level - and this, in our view, is what the Brandt commission report is about. Precisely for that reason it is doomed to fail.

(2) colonize the informal sector - and whether that succeeds depends on the relative strength of the brown and the green forces.

Correspondingly for the Third world:

(1) to make the First world an external sector, and for that they are not (yet) quite strong enough.

(2) colonize the informal sector - and here the green forces are weaker because they have not been through all the problems of the blue and red options yet.

In short, the people are to suffer, to pay for a crisis not of their making. We are still a far distance away from a system that would make the whole world an internal sector, or a set of mutually detached, self-reliant economies.⁽²⁵⁾

1. All budgets are for 1979, some estimated.
2. For some countries, the government receipts and expenditures listed give only those of the federal government, excluding state and local government budgets. For example, for the Federal Republic of Germany, the federal expenditures in the Table cover only 44% of all government expenditures. Education, police, health and hospitals, waste disposal and other municipal services are often left to local governments.
3. Postal and telecommunication services, federal railways etc. are often self-supporting and have not always been included in government expenditures.
4. Most countries do not distinguish between administration costs and expenditures for real programs (except Austria).
5. Environmental protection was included together with health in several country budgets.
6. "Other expenditures" for Austria are substantial and include such major posts as administration, government pension, and general government construction.
7. The FRG does not distinguish between individual and corporate taxes, but between taxes on salaries, and taxes on profit and interest, for both individuals and corporations, in the summary Table available to us.

Government revenue (per cent)

	AUS	D	DK	N	NL	S	SF	USA
individual income taxes	54.4	20.0	43.5	29.7	37.0	34.5	43.6	70.0
corporate income taxes	13.5	13.6	2.1		10.1		14.1	14.3
indirect taxes (VAT etc.)	23.9	42.2	31.5	50.3	35.3	33.9	39.7	3.7
customs duties	6.5	-	0.4	0.9	-	0.7	-	1.5
income from state enterprises	-	2.0	-	7.9	-	1.0	-	-
borrowing	-	15.3	22.4	-	15.4	21.8	-	7.6
other	1.6	6.8	-	11.2	2.1	8.2	2.6	2.9
TOTAL	100	100	100	100	100	100	100	100

Government expenditures

(per cent)

	A	AUS	D	DK	GB	N	NL	S	SF	USA
external security	3.8	8.7	19.0	5.0	11.3	9.0	9.5	9.1	4.8	23.2
internal security	1.1	0.6	-	1.6	2.4	2.0	2.5	3.7	3.6	0.9
education, research culture	12.1	10.4	5.5	7.0	3.3	9.9	28.5	13.5	18.0	4.9
welfare	24.0	27.7	35.3	26.9	24.9	12.6	12.6	23.9	13.7	32.2
health	0.8	10.1	0.5	12.8	13.2	1.8	3.6	5.4	8.8	10.0
transportation and communication	17.8	2.7	13.9	-	1.9	11.3	8.0	4.0	11.2	3.5
agriculture, forestry and fisheries	2.2	-	-	0.9	1.4	8.0	2.0	3.7	12.5	1.3
environmental protection	-	-	-	0.2	2.8	0.7	-	-	-	1.5
housing	-	0.4	1.1	2.0	3.7	1.6	8.6	4.7	6.7	2.2
employment	-	1.2	-	9.5	-	2.8	-	5.0	2.1	2.4
industry and commerce	0.6	1.9	4.1	1.1	2.3	1.7	2.4	2.3	3.1	0.4
international affairs (incl. foreign aid)	0.4	2.1	2.2	1.8	2.9	3.0	2.5	3.1	-	1.5
interest on national debt	12.4	6.6	5.8	19.3	3.6	16.0	7.9	8.1	-	10.7
other	24.9	27.7	12.6	11.7	16.5	19.5	11.9	13.4	15.6	5.5
T O T A L	100	100	100	100	100	100	100	100	100	100

N O T E S

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[1] In this cycle Nature gives nature inputs to Production and Consumption and receives, "in return", production [industrial] waste from the former and consumption [household] waste from the latter. Production gives products [goods/bads and services/disservices] to Consumption, and receives in return the other two inputs, labor and capital, both conceived of broadly. Evidently Nature is the loser, being depleted and polluted in this process. For more on this, see Johan Galtung, Development, Environment and Technology, UNCTAD, Geneva, 1979, chapter 1.

[2] See Johan Galtung, "A Structural Theory of Imperialism", Essays in Peace Research, Vol. III, Ejlers, Copenhagen, 1980, pp. 437-481, particularly p. 447, or The True Worlds, The Free Press, New York, 1980, p. 116. Thus, I use the distribution of positive and negative spin-offs from the total production and distribution and consumption process as the key criterion in the internal/external distinction, not the more superficial terms-of-trade approach. There are actually three internal/external cuts interlocking with each other in an imperialistic system: the Center/Periphery distinction between [regions of] countries, the center/periphery distinction inside the Center country administered by the center in the Center, and the center/periphery distinction inside the Periphery country, administered by the center in the Periphery. Obviously, the stronger the collusion between the cC and the cP, the heavier the total burden on the pP - and particularly the women, young and old.

[3] See Johan Galtung, "The Blue and the Red; the Green and the Brown: A Guide to Movements and Countermovements", GPIID Papers, IUED, Geneva, 1981. The green/informal is also by some referred to as "The Quaternary Sector" [see paper with that title by Yona Friedman, GPIID "red series", No. 18].

[4] See the preceding footnote. The distinction actually boils down to the following: the blue or private sector is run by private, corporate capital; the red or public sector is run by the state bureaucracy and the green or informal sector by people themselves.

[5] This is spelt out in more detail in Johan Galtung, "Global Goals, Global Processes and the Prospects for Human and Social Development", GPIID Papers, Geneva, 1979.

[6] See Immanuel Wallerstein,

[7] The question, of course, is whether the informal sector is able to do that, particularly if so much of its human and social resources are taken over by the formal sector, including a number of classical reproduction functions - such as care, education in the broad sense, security. Hence, it may very well be that we are actually witnessing a subtle change here with reproduction functions gradually being transferred to the formal sector and the informal sector struggling to get more control over production!

[8] This resistance is certainly not strange: it is the last border, the ultimate redoubt. It is also a border line between male power and female power, and it is not obvious that women will gain in power by formalizing the informal sector (monetizing women's many roles, paying for informal sector production, also in home and family), thereby bringing more of the informal sector under formal sector control (eg through added value and income taxation), a sector largely controlled by men.

[9] For some views of NIEO against the background of OIEO, see Johan Galtung, Self-Reliance and Global Interdependence, CIDA, Ottawa, 1977.

[10] One might also have included "organization" among the production factors, but it would not add much to the analysis.

[11] This type of analysis spells out the production process more than is done in "A Structural Theory of Imperialism" - also see the follow-up paper, "'A Structural Theory of Imperialism" Ten Years Later", Journal of International Studies, 1981, pp. The distribution link and all the "invisibles" connected with it should, however, also be drawn into the picture.

[12] Essentially this is what the annual economic summits among the leading industrial countries is about, "harmony" being the most frequently used word in the first of their declarations, from Rambouillet 1975. The Brandt commission report can also be seen in that light, see Johan Galtung, "Old Wine in Old Bottles with New Labels; A Critique of the Brandt Commission Report", to be published by the Friedrich Ebert Stiftung, Bonn, 1981.

[13] This particular field seems still to be waiting for some good research effort that could **help** the world understand better the inner and outer workings of the Soviet economy.

[14] A very poor point of departure for understanding the NIEO are the resolutions of the Sixth and Seventh Special Sessions of the UN General Assembly in 1974 and 1975 - NIEO should be seen in a more long term, historical perspective.

[15] UNCTAD can be said to give attention to the other aspects too, but what is missing is an overall, integrated view of the process.

[16] This may change with changing currency rates, though - one reason why US labour was cheap in 1979/80 was that the US dollar was cheap. But what will hardly change is the ability of the Japanese to play the capitalist game at least as well as was done by the **West**. The most longlasting example must be the US (and Western in general) effort to make Japan import more ["liberalization"] and export less ["exercise restraint"] - two clearly contradictory demands. Japan seems to have been balancing with considerable talent here, promising a little, giving very little - and exporting more and more.

[17] This particular subdivision was tested out on the state budgets of ten OECD countries and found to work, to some extent. The reader will find the break-downs in relative terms, for receipts and expenditures for moderately comparable categories in the Appendix. I am particularly grateful to Dieter Fischer for his help and advice in this connection. It should only be born in mind that the whole idea of studying the economy as if a country were isolated, with no **external** sector, is very misleading. The study of the economic system should be the subject matter of economics, not of abstract entities defined by administrative rules - and this implies exploration

of the effects of the economic cycles wherever they take us.

[18] The Laffer curve (named after its "inventor", the University of Southern California economist Arthur Laffer) has taxation level (eg in % of income) as **one** variable and revenue to the government as the other. Obviously, with 0% and 100% tax levels the revenue will be zero (or at least very low in the latter case); the hypothesis is that the curve is bell-shaped between these two points. There is a maximum, a tax level at which the government will get maximum revenue. It is hard to disagree with this - the disagreement would rather be with the location of that point or range; (neo-) conservatives putting it lower than liberals and socialists. Probably neither party has much to offer in terms of **theory** or evidence because of all the other factors that enter into the picture. In the Reagan experiment international politics is probably a key variable: the stronger, more militaristic the policy, the stronger the dollar seems to be - whether that is good for the economy or not. For some of the thinking behind new, neo-conservative economics, see Jude Wanniskis, The Way the World Works, How Economics Fail - and Succeed, Basic Books, New York, 1978 and Rose and Peters, Can Governments Go Bankrupt, Basic Books, New York, 1978.

[19] Since this was written such policies are now pursued by a number of countries - most important among them being the United States and the United Kingdom. As a typical example might serve the Tory government budget proposal March 1980, as reported in The Times, March 27, 1980: "Education: 9% cut in spending over 5 years", "Prisons: Four new jails to be started"; p.2. "--the number of teachers in Britain should fall -- 1978-79 to 1983-83 -- a drop of 67,000 or 12.7%", "--the increase in the number of police officers is estimated at 8,286 by 1984 --".

[20] This is the argument of the paper, written in 1975, mentioned in footnote 9 above. For a eulogy of the computer revolution, see Christopher Evans, The Mighty Micro, London, Gollancz, 1979.

[21] This will probably soon become a major political battlefield. What to the population may be green economy, self-help, self-reliance, using an abundant nature (in the Norwegian case) as a common, is for the authorities a black economy, an effort to **withdraw** economic activity from the formal sector, meaning accountability and taxation. No doubt there is also a black economy, and to draw the borderline between the black and the green is as important as it may be difficult. What is obvious is that the formal sector, the public/private collusion, will try to encroach on the informal sector to increase control and revenue, and that the informal sector will try to cheat on the formal sector. How this battle will ultimately shape up is not so easily seen today.

[22] The expression, I think, stems from Ivan Illich, in his talk to the world conference of the Society for International Development, Sri Lanka, August 1979.

[23] This is explored a little bit in Galtung, Poleszynski, Rudeng, Norge i 1980-årene, Gyldendal, Oslo, 1980.

[24] This is elaborated in Johan Galtung, "Military Formation and Social Formations: A Structural Analysis", GPID Papers, Geneva 1981, also Chair in Conflict and Peace Research, University of Oslo, Papers No. 66.

[25] For the logic of self-reliance as an economic system, see Galtung, O'Brien, Preiswerk, Self-Reliance, Bougbe-Ouverture, London, 1980.