

## BRETTON WOODS AND THE WASHINGTON CONSENSUS

What the San Francisco Conference and Bretton Woods institutionalized half a century ago, at the end of a second global war, was more than just a complex of international agencies, a fund and a bank. It embodied into a fresh compact a worldview, a belief system, an intellectual paradigm, and an ideology.

Serving the interests of the governments, the major corporations, and the financial institutions of the industrial countries, this ideology became the blueprint for a globalization process.

Globalization according to its gospel, was achieved in several stages.

Stage One: The Postwar restoration of the 19th century world order.

In the immediate postwar period, the U.S. emerged from the second world war as the only major industrial country with its productive capacity intact. It proceeded first to assist its allies, the United Kingdom and Western Europe to restore their own production facilities through the Marshall Plan.

Then it assisted its former enemies - Germany and Japan - to reconstruct their war-torn economies. By the end of the 1950s reconstruction had pretty much been completed.

Stage Two: The Bipolarization of the Enterprise System under two ideologies: Capitalist and Communist

After the recovery of the economies of both allies and erstwhile enemies, the large industrial corporations of both reemerged in all their power. Together, the governments and the mega-enterprises of these developed nations, in the pursuit of their political and economic ends, set loose upon the rest of the world the transforming force of their ideology and strategy. These embodied the classical-Keynesian and neoclassical economic paradigm.

The classical paradigm - called by the historians of philosophy, "Philosophical Radicalism"<sup>1</sup> - had spawned both liberal capitalism and socialism - both John Stuart Mill and Karl Marx. The period between the two world wars brought two revolutions - the Russian revolution which established a communist state modeled after the Marxist paradigm and the Keynesian revolution which established the theoretical basis for government intervention to maintain full employment in the free market economies.

The United Nations embodied the political principles of liberal democracy. Bretton Woods embodied the classical-Keynesian-neoclassical principles of the mixed-economy.

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<sup>1</sup>Joseph Alois Schumpeter's *History of Economic Analysis* which explicitly traces radicalism to Ricardo, although Ricardo himself was not one of them (p. 471). The Utilitarian school that sprang from the intellectual leadership of Jeremy Bentham, styled itself Philosophical Radicals. The classic work on this is Elie Halevy, *The Growth of Philosophic Radicalism*, London, Faber & Faber Limited, 1934. But see also John Maynard Keynes, "The End of Laissez Faire," (1926) in *Essays in Persuasion*, Vol IX of the Collected Writings of John Maynard Keynes, Macmillan, 1972) pp. 272-294

The USSR could subscribe to the United Nations Charter but not to the free market principles of Bretton Woods. And for most of the fifty years following (until November 9, 1989 when the Berlin Wall came down) the world polarised around these two models -- the western model of free market capitalism, and the Russian model of planned and command-and-control economies. They were the First and Second Worlds.

### Stage Three: Political "decolonization" and Economic Recolonization of the "Third World"

At the time of the Bretton Woods Agreement the First World comprised the countries that had achieved industrialization by the time of the first world war -- the so-called Metropolitan countries. Most of what became known as the Third World of underdeveloped countries were still colonies of those countries.

Except for Latin America. But even in the case of most of Latin America which had already become independent before or shortly after the turn of the 19th century, the economic hegemony of the industrialised countries held full sway.

In the European and American colonies in the middle East, Africa and Asia, independence movements were in full momentum. Still, the industrialized metropolitan countries dominated the economies of these primary producing countries. There ran an assumption in the discussions of postwar plans that their fate would be subsumed under the interests of the Western Metropolitan countries.

### Stage Four: Embodying the 19th Century World Order in the Bretton Woods Institutions

The Bretton Woods system was not particularly concerned with the problems of development<sup>2</sup>. While they had been victims of war devastation and therefore shared in the problems of monetary disorganization and reconstruction, their underdeveloped state meant that mere restoration of pre-war structures would address only a small portion of their deeper problem. Still, in the discussions of the charter of the International Bank for Reconstruction and Development, representatives from less developed countries had some success in inserting development among the purposes of the Bank. This took second place, after reconstruction.

The important point, however, is that the free enterprise ideology was embodied in the

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2 In Keynes's statement before the Commission constituted to study the proposed design for the Bank, he explicitly advances the importance of global development beyond reconstruction. The relevant quote follows:

"It is likely, in my judgement, that the field of reconstruction from the consequences of war will mainly occupy the proposed Bank in its early days. But as soon as possible, and with increasing emphasis as time goes on, there is a second primary duty laid upon it, namely, to develop the resources and productive capacity of the world, with special attention to the less developed countries, to raising the standard of life and the conditions of labor everywhere, to make the resources of the world more fully available to all mankind, and so to order its operations as to promote and maintain equilibrium in the international balances of payments of all member countries." (Opening Remarks at the First Meeting of the Second Commission on the Bank, July 3, 1944. From, Seymour Harris, editor, *The New Economics: Keynes' Influence on Theory and Public Policy*, New York, Alfred A. Knopf, 1948, p. 397)

Bretton Woods covenant. That committed the institutions to a particular blueprint of world development and transformation.

What were the essential propositions of this blueprint?

An atomistic individualism - the individual is the all important unit of society

Hedonism and utilitarianism - the individual's right to seek his maximum happiness

The objective of government to achieve the greatest good of the greatest number: social good is the arithmetic sum of individual satisfactions

Society as the result of contract among individuals

The institution of private property with its individualistic foundations

The right to life, liberty and property is of the essence of the individual's being, and this is the basis of democratic polity. The state is the creature of a contract that individuals enter into to create an environment in which those rights can be protected and exercised with security. The state's primary responsibility is to protect those rights.

The economic system is the organization within which those rights translate into free exchanges that maximize the gains of individuals from their use of their resources. The market is the forum through which the individuals achieve exchanges that maximize their satisfactions. It is then the democratic institution par excellence since it is the primary means through which society achieves the greatest good of the greatest number.

Stage Five: Globalization of the Enterprise System

In the last half a century since the end of the second world war, the world has been transformed deliberately according to this ruling design. The Bretton Woods Institutions became one of the most effective instruments for globalizing its rule. We must fully understand the intellectual foundations of this design and the shape and form it has given to the present world.

## II.

Walter Russell Mead's characterization of the strategy embodied in the Bretton Woods system sums it up quite nicely. He labelled it "low-octane" Keynesianism which he defined as "an economic expansion in which growth of purchasing power was not to exceed the increase in production. The Keynesian stress on demand and expansion was present, but so too were institutional barriers against unbalanced growth and the resulting inflation."<sup>3</sup>

We need to take apart the specifications of that strategy and the precise propositions of the theory underlying it. Our purpose, however, is to understand the gestalt of the strategy as design rather than as an economist's analytical model. Because it is as design that it represented a powerful agent for economic - and social and political - change.

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3 "American Economic Policy in the Antemillennial Era," *World Policy Journal*, 1989, p. 396.

The architecture and engineering of the system necessarily bear the essential characteristics of the theory. The main postulates and propositions of the theory become specifications of the design.

Its base was the 19th century system that Karl Polanyi described in his famous 1944 analysis, *The Great Transformation*. In the years that followed the end of the Napoleonic wars from 1793 to 1815, according to Karl Polanyi, there was established in Europe a "civilization" that rested on four institutions:

- . A "balance-of-power system which for a century prevented the occurrence of any long and devastating war between the Great Powers."
- . A global economic system based on two mechanisms: the international gold standard, and
- . What constituted the third institution, the self-regulating market, and
- . The liberal state.

These he said, "determined the characteristic outlines of the history of our civilization."

Of the four, the central mechanism, "the fount and matrix of the system", was the self-regulating market. That gave the region the specific character of its civilization. The gold standard gave the system its inter-national scope. The balance-of-power system was a superstructure erected upon it and partly relied on the gold standard itself for its viability; and the liberal state was itself a creature of the self-regulating market.

The key to the system was the belief that the laws governing the market economy was of the same category as the laws Newton had discovered determined the motions of the universe. They were natural laws in the operation of which we could rely to ensure that atomistic individual behavior of human beings each pursuing his own happiness would in the end harmonize with the imperatives of universal order.

The best policy and strategy for nations and states was to leave these laws to operate of themselves, without interference. The primary obligation of states was to ensure that nothing interfered with their free and unhampered workings.

And for a hundred years, it seemed, the system produced prodigious results - the "European Miracle"<sup>4</sup>. First there followed a hundred years of relative peace<sup>5</sup> in which no *prolonged Great Power wars* disrupted economic and social life. In that atmosphere of relative tranquility, European countries followed Great Britain in industrializing their economies<sup>6</sup>. But the hundred years peace only meant the absence of prolonged Great Power wars. It did not mean the total absence of conflict, For conflict there continued to be and particularly the

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See Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000*, p. 16

5 Karl Polanyi, *The Great Transformation*, Ch. 1, "The Hundred Years' Peace'

6 For example, see L.C.A. Knowles, *Economic Development in the Nineteenth Century: France, Germany, Russia and the United States*, 1932, Ch. 1

European and North American wars of conquest against less developed nations intensified<sup>7</sup>.

In 1944, as the architects of Bretton Woods deliberated on the strategy for post World War II reconstruction, historical upheavals and theoretical 'revolutions' had already established a change in worldview. Four dramatic events contributed to this change: The first World War (1914 to 1918) brought the 'hundred years' peace to an explosive end. The 1917 revolution in Russia had established a Communist regime. The attempt to reestablish the Gold Standard ended in frustration and in its total demise in 1931. The world entered into the worst depression in history in 1929.

In the intellectual field, the belief in a self-regulating market mechanism waned. Ideas and crude instruments of national planning were already in the air before the outbreak of the WWI. Put on a war footing after 1914, nations were forced into national planning, and the forms remained after the war.

Disenchantment with the automatic market followed the depression and there was an increased clamor for state planning interventions. In 1926 Keynes wrote his essay entitled "The End of Laissez Faire". And ten years later, his "General Theory" launched the "Keynesian Revolution" that became the theoretical basis of the "Mixed Economy".<sup>8</sup> Private enterprise should continue to be the prime movers of an economy and markets should be left to operate freely, but governments had a role to ensure the adequacy and wide distribution of purchasing power to ensure a high and growing level of effective demand to keep economies operating at full employment.

The chaotic state of the global economic system in the period between the two world wars -- the competitive devaluations, the raising of tariff and non-tariff controls on international trade, "beggar-thy-neighbor" tactics, and the attempts to solve domestic crises by classical remedies of budget cuts, and monetary constraints causing widespread deflation and, eventually, world wide depression -- left a deep impression on economists and economic policy-makers.

Hence the four primary goals established for the Bretton Woods System were full employment, price stability, economic growth and balance of payments equilibrium.

The system design assumed that each member country would have a modern, capitalistic, market economy with a developed private business sector, reasonably free product and factor markets, a commercial banking system, a central bank, a finance ministry that managed the fiscal budget. It would help to have an economic planning ministry, and a reasonably developed financial market. The corporation laws, the accounting and audit ground rules, the system of macro-economic accounts with at least the following: money and banking statistics and money supply accounting, foreign trade and invisibles accounting to complete a balance of payments recording system, national income and product accounts and series on prices, physical production, income and employment, gross sales, investments.

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7 Kennedy, *op. cit.*, p. 143

8 John Maynard Keynes, "The End of Laissez-Faire", Vol. IX of the Collected Writings: *Essays in Persuasion*, MacMillan, 1972, pp. 272 - 294. This was first published as a pamphlet in July, 1926 and was based on lectures delivered at Oxford in November 1924 and in Berlin in June 1926. The "General Theory" refers to Keynes' theoretical demonstration that the free market economy need not establish overall equilibrium at a full employment level. This was embodied in his book, *The General Theory of Employment Interest and Money*, first published in 1936.

In the developing countries, these institutions generally existed in the colonial, import-export enclaves - the capital cities, and the mining, logging and plantation towns. These represented enclaves in the sense that they were more closely linked to the metropolitan countries than to their own hinterland.

Here the economy operated according to the macro-model. Households in the cash economy sold their services to enterprise and government and received their incomes which they spent on consumer goods and consumer durables. A portion they saved with banks or invested in securities. Enterprises sold consumer and capital goods to households, other enterprises and governments, paid wages and salaries to labor, staff and managers, paid dividends, borrowed from banks or raised funds from the securities markets, and invested in inventory and new plant. Their export and import transactions were recorded at customs and the records were tabulated in aggregate trade statistics. Invisible flows were intermediated through the banks and were recorded in the corresponding balance of payments accounts. Enterprise, government, institutional and household accounts were consolidated into national income and product accounts and published as the series on national incomes and product. Banks took funds in the form of checking, savings and time deposit accounts, maintained reserves prescribed by the central bank and gave loans and invested in government securities. All transactions that might take place in New York or London.

Where these institutions were absent, the Bretton Woods instruments were of little use. In pre-capitalistic and non-monetized societies, obviously, purchasing power is not created by simple infusion of money and credit. It avails little to prime pumps in societies where there are no modern economic pumps, or to fuel engines of demand where capitalistic engines have precisely to be designed, fabricated and installed.

It was quite to be expected, therefore, that after a decade and a half or so of seeking the niche in the real world where they could perform functions approximating the expectations of their designers and constituents<sup>9</sup>, the BWIs should finally settle on the task of making a world where the theory on which their operating tools were based would work.

### III.

It is not necessary to elaborate on all the ways in which the BWIs joined forces with the governments and large corporations and financial institutions of the developed countries to establish the hegemony of the ruling economic order. Theory became ideology<sup>10</sup> and

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9 Robin Broad's account of the evolution of the IMF's and the World Bank's roles as major advocates and promoters of what she calls transnationalization in development strategy is adequate to explain the role of the BWIs in shaping the worldsystem according to the neoliberal paradigm. See *Unequal Alliance, 1979 - 1986: The World Bank, the International Monetary Fund, and the Philippines*, Ateneo de Manila Press, 1988, particularly Chapter 2.

10 The term "ideology" defines what the whole classical-Keynesian-neoclassical theory represented to the world at this time, "ideology" in the sense, for example in which Karl Mannheim uses it as a sociological construct in *Ideology and Utopia* (1952), and the way, a couple of decades later, George C. Lodge applied it to the analysis of the fundamental beliefs underlying the American way of life. See *The New American Ideology*, New York, Alfred A. Knopf, 1975.

ideology became a blueprint for transforming the still "undeveloped" world. We need only to point to certain key elements of the campaign.

The establishment of a complex of international agencies and institutions -- the United Nations and their regional commissions, and the BWIs themselves, created opportunities for professionals -- economists, engineers, lawyers, finance and accounting people, -- to enter the ranks of the new international civil service. In the meantime, in the newly independent developing countries, central banks, and government budget departments and finance or treasury ministries, central planning offices and corresponding plans and programs units in the sectoral ministries, and statistics departments were being established. In staffing these there was a premium on professionals trained in western universities and carrying degrees in economics and western style statistics.

The design of monetary, financial and economic statistics was prepared by technical persons from the United Nations and the BWIs therefore conformed to the model. And country statistical offices were organized to fill the pro-forma tables of these agencies.

An accounting system carries with it a whole philosophy and theory. When once an accounting system is adopted by an organization, it builds into the logic of its operation -- by accepting the system as the mode for assessing its performance -- the theory implicit in the system.

Thus one indicator of the scope of acceptance of the theory underlying the system of national accounts is its adoption by country governments as the official basis for measuring their economic performance. Tracking the history of national income and product accounting in effect tracks the success of the proselytizing work.<sup>11</sup>

The BWIs linked up with the international banking community, the world of *haute finance*, to wield in combination a tremendous influence in the global propagation of the ruling ideology.

This whole network of enclaves forms an interlinked worldsystem which is really a civilization. It has powerful methods of acculturation and recruitment to build up a growing corps of people whose education and development is determined by the opportunities offered by the enclaves.

Professional practice of finance people, engineers, architects, accountants, medical practitioners cater to the enclaves where alone their modes are applicable.

Primary production provides the export earnings for paying for the imports to sustain the enclaves in their western lifestyle. Local industries are subsidiaries, joint ventures or

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11 Paul Studenski's 1958 work on *The Income of Nations: Theory, Measurement and Analysis: Past and Present*, provides precisely such a comprehensive account of the theory and measurement of national income in different countries including the translation of Marxist concepts into accounting systems in the Soviet Union. Although national income concepts go back a few centuries and attempts to estimate national income and wealth for different countries go back in England to William Petty in the 17th century, the adoption of the concept by governments did not happen until late in the nineteenth century and the universalization of the practice as an official matter not until after the second world war. In this, the propagation of Keynesian economics was definitely a most important factor. Development planning in the Third World after the 50s and all through the 60s and 70s was centered on the national accounts as the basis for setting targets and formulating national resource budgets.

licensees, of transnationals like Procter and Gamble and Unilever or franchised by MacDonald's or Shakeys or 7-Eleven.

These enclaves then represent the staging areas for the development model. Development is equated with projects to expand the production of these enclaves, replicate them in other areas, diversify their output, and policies to render the developing countries more attractive and more accessible to foreign investors in the process of globalization.

The household population is acculturated by formal education and the media to adopting the lifestyle.

The enclaves are also the seats of political power. Governments and the political leaders must relate to the constituencies in these centers. These represent the economic and intellectual leaders, the property owners, the church hierarchy, the owners and editorial staff of the media.

It has become typical, in the past more than three decades, with each change of administration in the developing countries for each new government to launch a program with exchange liberalization, removal of import and investment restrictions, an austerity budget, and an economic growth program relying on an aggressive export drive and packages of incentives for the entry of direct and portfolio investments.

This happens even when a new leadership has gotten itself elected on a platform severely criticizing the policies and programs of an administration essentially following the same line.

This is an index of how successfully the BWIs have staffed the career ranks of the civil service in these countries with technocrats thoroughly steeped in the paradigm and firm believers in its tenets.

Whatever the platform it used for getting elected, as each new government assumed responsibility and faced the need to pursue a program, its leaders would have needed a highly sophisticated grasp of alternative strategies to launch a program that departed radically from what the senior technocrats in the central bank, the planning office and the finance ministries, the phalanx of business leaders who were subsidiary managers, joint venture partners, bankers or investment bankers of the transnational companies, assured them was the tried and tested path: follow the prescriptions of the IMF and World Bank.

The BWIs had succeeded in building up a potent network of advocates among technocrats or political level ministers or their deputies in the central banks and the planning ministries, budget offices and treasuries. The possibility of recruitment to the regular staff of these institutions or of serving as consultants to them offered very attractive prospects. As governments changed in their home countries, nationals working with the BWIs became likely candidates for recruitment back into their own countries, and the possibility of moving back to the Fund or the Bank if things did not work out politically or there was another change of government, was a comfortable safety net.

Over the years, in this manner, the BWIs built up a powerful world-wide constituency. The BWIs made it a point to include in their invitation lists for the Annual Meetings, retired ministers and the key private bankers of the member countries. Thus a camaraderie developed among the growing ranks of Bretton Woods devotees.

#### IV.

The system that became preponderant had assumed a character that was, in the world after the Second World War, quite different from the classic vision of a world of small producers and traders bidding with one another to offer the best products and services to millions of sovereign consumers in a free competitive market.

It is important to understand that in classical economics up to at least the time of David Ricardo the unit players were individual persons. For example in Cantillon whose work antedated Adam Smith by nearly half a century, the pivotal role in economics was the entrepreneur's, a natural person, the enterpris-er and not the enterprise<sup>12</sup>. This was case as well in the analysis of Adam Smith. The analytical models reflected the realities of history; large-scale enterprise did not really become preponderant until the late nineteenth and early twentieth century.

In 1932, Adolf A. Berle Jr. and Gardiner C. Means, in their pioneer work, *The Modern Corporation and Private Property*, drew attention to this fundamental change in the industrialized economies. "The corporation," they pointed out then, "has, in fact, become both a method of property tenure and a means of organizing economic life. Grown to tremendous proportions, there may be said to have evolved a 'corporate system' - as there was once a feudal system - which has attracted to itself a combination of attributes and powers, and has attained a degree of prominence entitling it to be dealt with as a major social institution."<sup>13</sup> The critical consequence of this development was the separation of

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12 Richard Cantillon, *Essai Sur la Nature du Commerce en General*, written between 1730 and 1734, first published in English, translated by Henry Higgs, July 1931. (London, MacMillan & Co., 1931) Chapter XIII discusses the particular role of the *Entrepreneur*, translated by Higgs as "Undertaker", as the person who assumes the venture risk, For example: "The Farmer is an undertaker who promises to pay to the Landowner, for his Farm or Land, a fixed sum of money (generally supposed to be equal in value to the third of the produce) without assurance of the profit he will derive from this enterprise. He employs part of the land to feed flocks, produce corn, wine, hay, etc. according to his judgment without being able to foresee which of these will pay best." pp. 47-49

Sir Arthur Salter's description of the economic system: "The normal economic system works itself. For its current operation it is under no central control, it needs no central survey. Over the whole range of human activity and human need, supply is adjusted to demand, and production to consumption, by a process that is automatic, elastic and responsive." [quoted in R.H. Coase, "The Nature of the Firm" in A.E.A. *Readings in Price Theory*, Stigler & Boulding eds., 1952, p. 332]

The distinction between the allocation of resources in a firm and the allocation in the economic system has been very vividly described by Mr. Maurice Dobb when discussing Adam Smith's conception of the capitalist: "It began to be seen that there was something more important than the relations inside each factory or unit captained by an undertaker; there were the relations of the undertaker with the rest of the economic world outside his immediate sphere. . . the undertaker busies himself with the division of labour inside each firm and he plans and organises consciously, but "he is related to the much larger economic specialisation, of which he himself is merely one specialised unit. Here he plays his part as a single cell in a larger organism, mainly unconscious of the wider role he fills." [*Capitalist Enterprise and Social Progress*, quoted in Coase, op cit, p. 334]

13 New York, MacMillan Company, 1932, p. 1

management from ownership.

Capitalism, at that point, assumed quite a different character from that described in classical economics. The capitalism described in that system was one in which decisions were made by individual managing proprietors. With the emergence and growth of the large corporate enterprise a fundamental change took place. In the words of Alfred Chandler Jr.(1990) "the world received a new kind of capitalism - one in which the decisions about current operations, employment, output, and the allocation of resources for future operations were made by salaried managers who were not owners of the enterprise." They were "a new subspecies of economic man" who was then to provide the "central dynamic for continuing economic growth and transformation".<sup>14</sup> The essential character of the organization is the centrality of enterprise, its mode of operation, its culture, values, indeed its civilization as a social unit.

In 1967, John Kenneth Galbraith, had already described the emergence of this mega-corporate sector calling it the "Industrial System", the new managerial class it spawned, "the Technostructure," and gave the new world order it created the threatening label of *The New Industrial State*.<sup>15</sup> The awesome power that this system has come to wield over our lives has been glossed over as the propaganda still paints an idyllic picture of free market capitalism in terms of millions of small traders competing with one another to offer the best service to the sovereign consumers in a freely competitive market<sup>16</sup>.

The remarkable thing is that, by and large, the large enterprises that came out of the later industrial revolution continue to be the industrial giants that are the Transnational corporations of today. This was one of the conclusions of Alfred D. Chandler Jr. in studying the 200 largest industrial enterprises of the U.S., Great Britain and Germany.

On the threshold of the next century and the next millennium, we live in a world that has been largely molded by the designs of this industrial system. Its characteristic mark is not the market. Markets operated long before the first industrial revolution.<sup>17</sup> The predominance of the sector-specialized, profit-guided enterprise as the central actor and decision-maker defines the character of this awesome force. The ruling paradigm was not market but enterprise economics.

In a process of preemption well-described by Galbraith, this enterprise system has put in the service of its cause, national governments and the international agencies that the national governments formed. The Bretton Woods Institutions became among its most effective advocates.

Development became identified with the entry of these enterprises into any territory and their establishment of their branches, subsidiaries, joint ventures to extend their marketing reach

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14 *Scale and Scope: The Dynamics of Industrial Capitalism*, Cambridge, Mass., The Belknap Press of Harvard University Press, 1990, p. 2

15 John Kenneth Galbraith, *The New Industrial State*, Houghton Mifflin Company, Boston, 1967.

16 Galbraith, *op cit.*, pp. 8-10

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<sup>15</sup>See Fernand Braudel, *Civilization and Capitalism, 15th-18th Century: The Wheels of Commerce*, Vol. II, Harper & Row, New York, 1982, particularly the section, "The Market Through the Ages," pp. 225-230.

and establish subsidiary plants and offices from which they could source cheaper materials, labor, power, or enjoy substantial tax and other benefits.

In Third World countries this generally had dual effects. It provided opportunities for employment of professionals, managerial and supervisory personnel and work demanding various skills for young men and women.

It also resulted in displacement and dislocation of farmers, fishermen and communities whose lands were appropriated not only for the plants of these enterprises but also for the infrastructure to serve the needs of their production plants, and the commercial offices, residential apartments, golf courses and recreation facilities that was part of the life-style that they introduced in the wake of their establishment. More important, by the demonstration effect of the life-style the more traditional populations were enticed to adopt a level of living that could not be democratized in the local economy.

The enterprises were desired for the first effect. And governments and communities vied for their favors as a result. The second effect was deemed only the result of not enough of these investments taking place. It was believed that the solution would be to campaign more vigorously for the establishment of more of these enclaves. The effects they had on lifestyle was deemed part of the process of bringing the local communities into the 20th century.

A force that has wrought the spectacular transformations of the last half century cannot be simply rejected. But we must understand precisely where the theory has gone wrong. How has it operated through history spawning at one and the same time unbelievable growth and elevation of lifestyles and massive marginalization and widespread "immiseration" to use a Marxist term

Seen from the point of view of organization, this, in fact, is what would be expected from a system whose dynamic force springs from individual persons and organizations picking out from the range of needs in every society only those that yield the most attractive gains. It is analogous to the way an opportunist miner picks from an ore body only those with the highest assay. The effect is to leave beyond economic recovery the "low-grade ore". In societies, the result is to leave beyond feasible servicing the needs that are far more vital and imperative for the mass of the population -- health, education, environmental preservation, care for the poor and the handicapped. The result is evident precisely in the polarisation of humanity into a minority enjoying unprecedented opulence and a large majority faced increasingly with unmanageable problems.

As enterprise became larger and more powerful, it succeeded more effectively in creaming the best resources for its narrow purposes. The residual chores of society for growing numbers of marginalized people fell on governments first. As a result governments have had to grow bigger and bigger and more inefficient as they grew. They became less and less able to cope. Private enterprise then began to form non-profit foundations to remedy at the margin the pathological effects they were producing in their mainstream operations. In more recent decades, civil society itself has found the need to organize and cope with the dislocations and misery that "progress" was leaving in its wake.

## V.

The global scene after fifty years of this process is best described by quoting the UNDP's Human Development Report for 1994:

"What emerges is an arresting picture of unprecedented human progress and

unspeakable human misery, of humanity's advance on several fronts mixed with humanity's retreat on several others, of a breathtaking globalization of prosperity side by side with a depressing globalization of poverty. As is so common in human affairs, nothing is simple and nothing is settled forever."<sup>18</sup>

Business has emerged as the most powerful organization in the world. Its methods have come to stand for everything, hard-nosed and rigorously efficient. Its methods have become the exemplar for all institutions, and "business-like" has become equated with systematic, orderly, and disciplined behavior. Its language has become currency in all of human activity which must have clear products, cater to markets, be cost-efficient, show returns, at the bottom-line.

But the human condition is shrouded in deep shadows. Of 5.5 billion people on earth, 1.1 billion are overconsumers who use 80% of the world's carrying capacity. 1.1 billion are poor peasants, artisanal fishermen, ethnic minorities, women and children - in Africa and Asia, tribal peoples, urban poor, - and live below the poverty line. 3.3 billion people are at subsistence and bare over-subsistence levels, and aspire for improvement in their lot. The richest billion people command 60 times the income of the poorest billion.

The planet is already manifesting clear signs of serious ecological damage at local and global levels.

The planet's situation and the condition of humanity on it dictate the imperatives for the next Century and the new millennium.

We must be clear first of all precisely what they are: if we are faced with a full earth then humanity as a whole must in the end pursue a life style and apply technology that uses the planet's capacity in a sustainable mode.

We must understand how the imperatives are translated into a suitable global organization. What does this mean? That the distribution of responsibilities among unit organizations, and the exercise of those responsibilities by the micro-decision units, have built into them criteria that ensure, when all the micro-decisions are added up, that the resulting total stays within the planet's sustainable limits.

Sustainable must mean drawing from the planet only the material and energy resources which preserve the integrity of its life support capability for perpetual use of all future generations, while securing for each current generation an equitable and just distribution of the perquisites of a full, happy and peaceful life and the opportunities for improvement and development.

A world system in which the major resource allocating decisions are directly made or powerfully influenced by these enterprises obviously will not correspond to the organizational configuration that responds to global sustainable development imperatives.

Of the many points that may be argued for this claim, one telling one suffices. We need organization units that each has an allotted portion of the planet's ecosystem which it speaks for and protects and preserves. By definition enterprise has no allegiance to territory. Its ultimate development is precisely defined as transnationality which means the shedding of responsibility for any specific portion of the planet, a transcending of the earth.

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18 UNDP, *Human Development Report 1994*, New York, Oxford University Press, 1994, p. 1

Nothing in its resource-allocating logic covers a concern for staying within the limits of the planet's carrying capacity. The lifestyle that their culture introduces is precisely one that could not be democratized globally without bringing on the global disaster that the sustainability strategy is attempting to avert.

The imperatives of national and planetary sustainability, even survival, needs for business to place in the mainstream, the concerns of communities and the NGOs, and in turn, for communities and NGOs to acquire the organization, the technology the managerial skills that made business so powerful.

For business to find a sustainable course, it must fit its operations to the dictates of ecological integrity and social equity. For communities and NGOs the fight for environment and justice must be reconciled with material productivity and organizational efficiency. Both views must converge in a genuine partnership if the planet is to survive.

## VI.

The imperatives have to be made practical and operational. How is this accomplished? The elements which made business the overriding historical force in the past fifty years provide a pattern to follow -- communities must be empowered by imitation.

A Communitarian Paradigm must be founded on a different set of postulates.

The ruling order is founded on the philosophy of individualism - the idea that the person is fulfilled as an individual, maximizing satisfaction through the use of all the resources of the earth.

The new order must be based on the idea that the individual is fulfilled in harmony with the whole of creation - in community with his own and other living species and through a mode that uses inanimate nature sustainably.

The ruling science is reductionist - assuming that nature is understood totally by the analysis of its parts, because their behavior can be extrapolated by linear approximations, their tendency is to revert to equilibrium states, and their dynamic motion traces reversible paths, and that these laws are equally applicable to the behavior of human beings and their institutions.

The new science must be holistic and systemic - based on the principle that the whole is greater than its parts, that non-equilibrium states are the rule rather than the exception, that paths of evolution are nonreversible over time, and the emergence of life and human consciousness means that organic processes and human management predominate over mechanistic forces in the continuing process of evolution, and that therefore, this is a moral and not a mechanical universe.

The ruling technology maximizes dependence on fabricated artifacts based on massive energy inputs from fossil fuels, generating a wide variety of products designed to satisfy ever more specialized wants that are increasingly differentiated by conditioning from an incessant barrage of clever communications transmitted through hardware of ever greater sophistication<sup>19</sup>.

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19 Technology itself is a social construct and its development is a social rather than a deterministic mechanical process; as such that development is marked by conflict and

The new technology must emerge out of the combined revision of consumer life-styles that consciously evaluate the specifications of need-satisfiers with the nature of fundamental human needs to achieve more sustainable consumption baskets and production engineering designs that ape nature's production modes, balancing the direct transformation of the flow of the sun's energy with the production processes using the direct products of that transformation and generating "wastes" that feed further production processes.

In the ruling economic and social organization, the profit-enterprise is the paradigm of organization units, its profit-seeking logic the law of behavior, and the mechanism of free, competitive markets the preeminent basis for the valuations that determine optimizing choices.

In the new sustainable world, the ecosystem, meaning the community of living populations in their natural habitats, must be the ruling economic and social organization and its life-supporting net output, the measure of welfare. The criteria and mechanisms for priority-setting valuations and for the setting of prices that determine mutuality of benefits must reflect these valuations rather than exclusively the valuations of profit-maximizing sector-specialized enterprises.

The enterprise logic is rendered operational in the accounting system that has developed and become universally standard for measuring organizational performance. It defines the proprietary interest of the stakeholders of the enterprise in the balance sheet that declares the resources controlled by the organization, the claims against the resources from creditors and the net interest of the owners. It measures the throughput, the flow of inputs into the production and distribution process and the flow of outputs and revenues, defining over any accounting period, the net incomes accruing to the stakeholders after due allowances for capital consumption during the production period.

If the enterprise paradigm establishes an accounting system that measures revenues, costs and incomes for enterprise owners, the new community paradigm must do the same for communities. The shift in viewpoint, from private owner to community and the community's stakeholders, clearly internalizes costs -- environmental and social -- that escape individual enterprise accounts. This means that the net income measurement is a more accurate reflection of total costs incurred by society in the generation of outputs.

The professional managers are trained as agents of the worldview, the valuation logic and as operators of the technology.

The objective is to flesh-out an operational model of a community. Enterprise management has developed into a hard-nosed science and art because the concept of enterprise has had the benefit of translation into a clear, unambiguous operating model, with performance standards measured through an elaborate accounting system, and operating protocols embodied in textbooks with principles and cases.

The question: can the concept of a community be similarly fleshed-out? Two reasons dictate

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struggle. See David F. Noble, *Forces of Production: A Social History of Industrial Automation*, New York, Alfred Knopf, 1984, pp. 324 ff.

that it should be:

. Enterprise management excludes responsibility for the ecology. This is the reason economists agonize over the problems of "externalities" -- precisely because the whole of the environmental consequences of business operations are external to the enterprise and must be tortured back into consideration to accommodate environmental costs.

. An authentic sustainable development program must be designed as a consolidation of sustainable development programs at the level of sustainable developing communities, meaningful only because the responsibility for carrying them out are clearly defined at each of these levels, the managers are trained to implement those programs, and the accounting systems monitor the performance of the managers.

This implies that there needs to be exercised in some mode and through some formality, in the community, the role of manager. What are the implications of that role? It assumes the community to be an "organization" of particular characteristics.

The community system combines the ecological system and the human community, colony and habitat. The choice of the appropriate unit of organization, must thus integrate its stakeholders, its structure, and its stock of resources. The community is an organism subsisting in a territorial habitat on which it has fashioned a life-support system. It has a territory, a natural resource endowment and a working economy that together define both its needs and its capacity to supply them.

The Institutional Strategy for the global advocacy of such a system would need certain essential elements:

- . A consensus among nations that the global imperatives are as defined here would require first of all a new covenant among nations, a covenant for planetary survival. The high end of the expectation for the Rio de Janeiro Summit was the acceptance of such a consensus and the agreement to such a covenant.
- . The task of establishing a new world order built on these postulates would be equivalent to a global organizational transformation on a scale equal to the transformations wrought by the enterprise paradigm in the past fifty years.
- . It would depend ultimately on all the efforts of organizations at the levels of local communities, villages, towns, metropolitan neighborhoods, whole countries and regions to organize local civil societies and raise their awareness.

But beyond that the communities must be helped to become rigorous and disciplined organizations, effectively led, professionally managed, with efficient participatory modes of rational decision making, to the point of being able to register their own valuations and resource allocating decisions in markets.

- . There would be adopted internationally a principle of subsidiarity under which every community seeks the internal development that its members freely choose and finds its own balance with its habitat. The international community is viewed as a community of communities. Intercommunity trade seeks to establish patterns that genuinely enhance the respective "carrying capacities" of the trading communities by offering opportunities for authentic gains after taking into account the full environmental and other costs of the traded products.

There would be respect for "infant communities" that desire to achieve a level of internal development and preserve the use of their territories carrying capacities for the use of their own members first. In the historical development of the countries that were in the batch that industrialized before the Industrial enterprise giants established their influence, the communities in the municipalities had an opportunity to achieve levels and styles of development that were marked by their own cultural diversities. This was true particularly of the countries that went through a feudal period and then a period of mercantilist protection, particularly at municipal levels. This particular phase in economic evolution is usually only marked for condemnation in histories viewed by the votaries of classical and neoclassical economics.

What complement of actions and institutions would engineer change?

- . A strategic re-thinking of the United Nations, its mission, the distribution of its mission into responsibilities of specialized agencies, and the whole organization and culture of the present UN System.
  
- . The elevation of the role of the UN Council for Sustainable Development into a General Assembly Function - in the character of a new Planetary Security Council and the redefinition of Global Security to include the concerns of global sustainability. Planetary survival must become a mainstream concern of the world's governments and civil societies.

Transform the United Nations Development Program (UNDP) into a UN Sustainable Human Development Program (UNSHDP), which the recent statement of Mr. Speth has coined<sup>20</sup>. But redefine the paradigm to center development around the world's communities as the primary units of organization, planning and management. The UNSHDP thus carries the primary responsibility for translating community-based developed into operational and planning protocols, and the modalities of project design, and human resource development programs.

In this setting then redefine the roles for specialized financial institutions that will be the principal mobilizers of resources of this global survival movement. In this area the mission of the institutions will be:

To put world-class technological, financial and managerial disciplines behind the task of translating community-based sustainable human development into feasible program and project packages.

Develop the technical and financial designs, and the technical and managerial human resources for communities to plan and manage sustainable development strategies and operational tactics.

Mobilize the financial and other resources from the range of multilateral and bilateral, philanthropic and commercial sources to support regional and national programs for community empowerment in the pursuit of

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20 James Gustave Speth, Administrator, UNDP, "Building a New UNDP: Agenda for Change," Presentation before the UNDP Executive Board, 17 February 1994. After recounting all the fundamental changes in the global scene that necessitate a change in UNDP Strategy, and taking into account the critique of past ODA performance, a new role for the UN, and the weaknesses of UNDP itself, he underlines the reasons for the need of UNDP to change:

[the underscoring is his]

"in order to become a leading advocate for new approaches to international cooperation for development and for a new ODA."

"...The United Nations has got to be a major force for sustainable human development, for global human security, and for new and reformed methods of international cooperation for development... UNDP has got to change in order to help the UN realize this potential."

. And finally, "to respond to its identified weaknesses and realize the potential inherent in its mandate."

He calls for a "new paradigm of sustainable human development" and "new approaches to development cooperation that achieving sustainable human development will require". His definition of SHD however falls short of an authentic paradigm shift. He still stays within the enterprise, nation-state, and neo-classical frameworks. The Human Development Index is still very much as "ex post" supplement to the national income accounting which is in essence consolidated enterprise accounting.

sustainable human development.

Facilitate inter-community economic and financial relations and induce free and open trade among communities as a means of genuinely enhancing the sustainable carrying capacities of their respective resources for the benefit and support of the community constituencies.

. At least three global institutions will be required:

An Inter-Community Sustainable Trade Organization (ICSTO),

An Inter-Community Clearing Union (ICCU), and

A Sustainable Human Development Bank (SHDB)

. Trade in the present world order is really inter-enterprise exchange. This includes so-called inter-national trade. In fact, the term globalization does not describe the current global trend. Trans-nationalization is more precise. It defines what is happening to economic activity: it is transcending allegiance to territory. It is becoming a-local and therefore indifferent to any portion of the planet. At the same time, the triple imperatives of sustainability: social equity, ecological integrity and economic efficiency, demand that resource management decisions be governed by these triple considerations as convergent goals.

. Agenda 21 recognized this as a key problem in achieving sustainable development:

"8.2 Prevailing systems for decision-making in many countries tend to separate economic, social and environmental factors at the policy, planning and management levels. This influences the actions of all groups in society, including Governments, industry and individuals, and has important implications for the efficiency and sustainability of development. An adjustment or even a fundamental reshaping of decision-making, in the light of country-specific conditions, may be necessary if environment and development is to be put at the centre of economic and political decision-making, in effect achieving a full integration of these factors. "

. The objective proposed in Agenda 21 of improving or restructuring "the decision-making process so that consideration of socio-economic and environmental issues is fully integrated and a broader public participation assured" sounds fairly straight-forward and simple. But on closer examination, carrying it out in practice calls for quite a few fundamental elements:

For social, economic and environmental considerations to be integrated at all levels of the decision process that is furthermore participatory, would require, at a first instance, a conceptual framework that makes it possible

to understand the mutual interrelationships among social, economic and environmental factors. The integration must be understood as a total system if it is to be managed as a total system. But vertical sector-specialization has been a mark of our civilization for at least two hundred years. Our thinking is sector-specialized. This is the "paradigm" problem.

As our thinking, so our organizations are sector-specialized. For decision-making to be holistic as the objective requires, organizations must have holistic objectives that combine social and environmental as well as economic performance targets. This is the organization problem.

Managements must have operating systems that are holistic encompassing control systems that relate controlled variables to social, environmental and economic end-results. If, further, decision processes are to be shared, then organizations must be designed in relatively "flat" rather than steeply hierarchical structures. This is the operating system problem.

The performance must be translatable into correspondingly holistic accounting measurement so that managements are able to track their performance. This is the accounting problem.

This calls for an institutional strategy that sets in operation, with massive political will and the direct and positive support of national and local governments, a community-centered human development movement that will parallel the current enterprise-centered economic activity at global and national levels. *The idea is to empower communities rather than to dis-empower enterprise.* But it is important to ensure that the playing field is level and the governments act as *equalizers* rather than supporters of enterprise interventions.. Equalization means that real options for an alternative economic organization, and means of sustainable livelihood, are opened up for communities, and they are assisted to make conscious decisions about life-style and the precise modes they will adopt for achieving the appropriate balance between their traditional values, culture patterns, resource management modes and modernization for enhancing the productivity and carrying capacity of their allotted portions of the earth's resources. It means that they have the means to enter into their own alliances and mergers with other communities to achieve economies that accrue to their incomes and authentic welfare and improve their respective competitive positions vis-a-vis enterprise in the market arena. It means their empowerment to establish at their local levels, the functional tension between private gain and community interest.

The vision of sustainable development dictates a new mission and strategy. Community would become the central actor in place of enterprise, and governments would be guided by communitarian rather than the 18th century atomistic and individualistic liberal philosophy. The fundamental shift in

- worldview and intellectual framework would demand a corresponding transformation in the organization structure, operational protocols, the staffing and culture of institutions.
- . A historical analysis of the stages through which enterprise domination became a global reality, and the role of the Bretton Woods Institutions in the process, would supply valuable insights for detailing out the alternative strategy.
  - . The first prerequisite is to flesh out the model of viable, sustainably developing local communities. They must be made as rigorously operational as individual enterprises. They must have distinct legal personalities, clear rights over defined stocks of natural resources delineated in ways that are ecologically meaningful, authority over their territorial jurisdiction, have an operating technology, a career corps of trained managers, and a formal accounting system to track the viability of their performance.
  - . They must then have formal criteria for managing their trading and other fiscal and financial relations with the "citizens" of other communities at successively larger levels in the hierarchy of organizations, building up towards an international network of interrelating communities.
  - . The role of international organizations would be to support this empowerment of communities so that they are the principal actors in the development process. The implications of this shift in perspective are far reaching.
  - . It requires, first of all, a "de-sectoralization" of intellectual perspectives, professional specializations and organizational divisions. The unit of sustainable development action is the sustainably developing local community in its local habitat. The hierarchical levels are successively larger communities in correspondingly larger ecological territories.
  - . The fundamental character of these shifts is only appreciated if one realizes the depth, penetration, and all- pervasiveness of sectoral specialization in the ruling economic order and in the international organizations -- the UN System, the BWIs, the regional development banks, governments, private sector business and even civil society organizations, in academe and the scientific communities..  
It requires a whole new culture for organizations to think of sustainable development in terms of whole communities in relation to their respective habitats rather than in terms of sector-specialized enterprises and capital projects. It demands a whole new discipline to combine in feasibility appraisals, social and ecological integrated with economic criteria. A new breed of managers must emerge that manages communities towards integral goals where economic efficiency is defined to include social equity and ecological wholeness as integral outputs from the use of resources.
  - . Ideas - Movements - Institutions: these define the sequence and process of social

transformation. Ideas become dominant among a critical mass of people and stimulate social movements. Social movements topple old institutions or energize them with a new spirit and a new culture. Such a process established the hegemony of the ruling economic order responsible for the enterprise-centered, growth-obsessed, unsustainable world that we have. It will take a similar process to transform our world into the community-centered sustainable socio-economic order that alone can save humanity and its habitat.