U.S. AND WORLD ECONOMY

New Era in the World Economy

By Norman Gall

1. New Facts

Since 1973, world economic growth has fallen suddenly. The years from 1950 to 1973 have been called the Golden Age. The world economy grew at an annual rate of almost 5%, with investment, productivity, and international trade increasing at unprecedented rates.

After much effort to relive the Golden Age, many economists in many countries are now convinced that the Golden Age has ended. Many of them would now agree with Professor Andrea Boltho of Oxford University, who is here with us today, that the "world appears to be moving towards a fragmentation into several major trading and currency blocks. This fragmentation may be corroborated by the financial imbalances and slow growth that may prevail over the short to medium run."

A New Era in the world economy is being born. The New Era still has no name, but its coordinates are coming into view. Some aspects of the New Era are frightening. Before us is the threat of social disintegration that Fernand Braudel painted in his masterpiece, The Mediterranean and the Mediterranean World at the Time of Phillip the II. Braudel wrote that at the end of the 16th Century, after an era o great prosperity: "Uprisings, riots, and disturbances, the alarming spread of 'vagabonds and vagrants', increasing armed attacks by bandits... all tell us about the extraordinary rise of poverty towards the end of the 16th Century, which was to become even more marked in the next." Five bankruptcies of the rich and extravagant kingdom of Spain, Europe's greatest military and financial power, ruined the great bankers of Genoa and Southern Germany. According to Braudel: "Along the roads leading to Madrid moved a steady procession of the, poor , civil servants without posts, captains without companies, humble folk in search of work, trudging behind a donkey with empty saddle bags, all faint with hunger and hoping that , in the capital, their fate would be settled.

Europe took a long time to recover from the institutional breakdown which Braudel explained as fruit of the redistribution of economic and military power on the continent. Humanity has suffered many institutional breakdowns. The disorder that is created and tolerated in times of prosperity is threatened with disintegration in times of crisis. To survive, human institutions again and again face difficult tests of coherence and economic rationality.

Latin America's current difficulties resemble those of Southern Europe 400 years ago. Cities overloaded during economic expansion could not be easily maintained when expansion stopped. Today, cities like Rio de Janeiro, Mexico, and Lima show this kind of problem. The end of expansion and the beginning of institutional breakdown spread fear, but much depends on how we face the new situation. Catastrophe is not inevitable.

Since 1973, the world economy seems to have returned to a pace of growth roughly similar to the 2.5% yearly rate of 1870-1913, the previous "Golden Age" of economic development, when the world economy as we know it took its present shape. For the rich countries of OECD area at least, 2.5% annual economic growth with a rich stable or shrinking population means considerable increases in income per person. We have gone through frightening

financial disturbances, and continue to live with rates of peacetime credit expansion and proliferation of financial assets previously unequallesd in human experience in peacetime

Historically, the world economy has shown impressive stability when free of war-related shocks. According to Professor Angus Maddison, a member of the International Advisory Board of the Fernand Braudel Institute of World Economics, "the world's 16 leading economies, taken together, suffered production losses in only four years in placetime since 1870. Nevertheless, the world economy lost production in ten years of the decades spanned by the two world wars between 1914 and 1966. According to Prof. Maddison, "individual countries were much more unstable than all the group taken together (particularly prior to 1913)... As a whole, production of the group, in peacetime, has been most impressive".

In moving from the Golden Age to the New Era of the World Economy, we also are passing through the debt crisis. Masaru Yoshitome, director of the Research Institute of Japan's Economic Planning Agency, recently came to Brazil and spoke of the "twin debt crises"-- the United States' and the poor countries' that exploded in 1982. Both problems are products of the unprecedented world credit expansion which began in 1970. And both seem to be reaching a climax. It will be difficult to separate them in the long term. What here concerns us most is the problem faced by Brazil and its neighbors.

Professor Boltho says that, in the New Era of the World Economy, "the LDCs (Less Developed Countries) could find that a necessary, indeed indispensable, period of domestic retrenchment might turn into a semi-permanent retreat into austerity...". Since 1983, the United States has been absorbing the bulk of surplus world savings." According to Boltho, in the two decades preceeding 1973, the rich countries annually transferred to the rest of the world 0.5% of their collective product, which was more than 2.0% of the poorer countries' production and "greatly assisted in the development process which was already being stimulated by the exuberant growth of world trade." Now tables have been turned. The poor countries are transferring resources to rich countries. Poor countries are generating large trade surpluses to pay interest and to regain their standing in the international financial market. Boltho and others doubt that this strategy can work as long as the United States absorbs such a large share of the rest of the world's savings.

Earlier today, Martin Mayer, the great economic journalist who has analyzed the financial markets for nearly four decades, compared the worldwide stockmarket crash of october 1987 to a heart attack and the problem of the international financial system to Parkinson's disease. "What happens in the international financial structure is, in braudelian terms, worse than a crisis. It is a progressive disease, paralysing and eventually fatal to initiative. At this time we lack a cure." Mayer adds that "world debts prevent economic growth because the creditors are weak."

We now see two main problems in the world economy. One is the proliferation of financial assets that is associated with heightened financial instability and with declining rates of fixed investment in both rich and poor countries. The second great problem in the world economy is its increasing polarization, tending to eliminate the middle ground of developing countries.

2. Financial Explosion

There are several ways, each of them insufficient, to evaluate the escalating multiplication of financial assets which has occurred in the last decades. The International Monetary Fund says the world's money supply multiplied seven times in the 15 years between 1970 and 1985, at an annual rate of 14%, while world production grew only 3% per year in real terms. During the 15 previous years (1955-1970), which fell within the Golden Age, the global monetary supply grew only 5.5% per year, only slightly ahead of the increase in production.

The explosion of money and financial assets has several facets. The daily electronic transfers for check payment between U.S. banks grew from US$23 billion in 1970 to more than $1 trillion today. The currency exchanges in New York, London, and Tokyo now trade

approximately $200 billion per day or $48 trillion per year, about ten times U.S production. In the United States, there is a credit expansion on a scale unprecedented in human peacetime experience.

World wide, interbank loans multiplied more than fourfold in the last three years, with an increase of 39% just in 1987. The big banks are now more dependent on loans than on liquid assets to meet unexpected cash needs. This is the main reason why the Euromarkets, basically a system of interbank loans, has grown so fast, by 25% yearly, from $90 billion in 1970 to $3 trillion today. The extraordinary growth in financial transactions points to a uncoupling of financial assets from productive investments.

Among the advanced economies, the productivity of fixed capital has fallen almost 2% annually since 1973. The fastest decline (3.4% yearly) has happened in the greatest saver, Japan, where the real value of financial assets per capita has accumulated since 1950 at the incredible rate of 10% per year. Today Japan shows the most dramatic evidence of the explosive growth in financial assets. Despite the strong drop in the productivity of capital, the domestic Japanese financial market quadrupled in yen terms over the last three years. Measured in dollar terms, it multiplied nearly 10 times, from US$ 100 billion in 1984 to almost $1 trillion in 1987. Although Japan is the largest creditor in the world, the interbank loans to Japan increased ten times in the last three years. The Japanese borrow dollars to buy assets outside Japan, principally in the United States.

3. Polarization of the World Economy

Aside from the explosive growth of financial assets in rich countries, we must try to understand the polarization of the world economy. The declining saving and investment rates in the poorest countries suggest that, due to institutional problems, declining capital productivity could be much more widespread than official statistics have revealed thus far.

The polarization of the world economy happens in four ways. First: structural changes are reducing the importance of commodity exporters that played significant roles in the last century. Many developing countries have failed to adapt to these changing structures. Latin America's share of world trade has dropped by half since World War II, from 10% in the 50's to 5% at present. The share of developing countries' exports was one third less in 1986 than in 1980. As the twentieth century approaches its final decade, many countries are falling back in the world economy because of their incapacity to adapt to new situations and to provide for future needs.

The second threat of polarization is technological. Insufficient investment in human and fixed capital reduces the chances of absorbing new technologies. One indicator of this kind of polarization is the distribution of semiconductor consumption around the world. In 1986, 91% of worldwide semiconductor sales of $31 billion were concentrated in the U.S., Japan and Europe. With nearly two-fifths of world consumption, Japan has the highest per capita use of chips ($100), more than twice that of the U.S. ($43) and nearly five times Europe's ($22). By contrast, the $2.9 billion chip market in the rest of the world is divided among many countries. Korea absorbs $255 million and Brazil $190 million, together taking 1,5% of all other countries' consumption. Per capita use is below $6 for Korea and $1.50 for Brazil. In poorer countries, semiconductor consumption is negligible.

The third kind of polarization is financial. As liquid assets multiply rapidly in the more developed financial markets, the share of poorer countries in total financial wealth diminishes. This is a long-term trend that has accelerated in recents years thanks both to the proliferation of financial assets in the rich countries and to capital-flight and interest payments from poorer countries. Measuring this trend must be rough,for lack of data. The IMF, however estimates that the share of deposits from developing countries in all cross-border bank deposits shrank from 27% to 21% in the five years after 1981.

The fourth way in which the world economy is polarizing is through the inability of many nation-states to mobilize sufficient resources to ensure their survival. This inability has led

to the deterioration of infrastructure in many poor countries, rightly leading President Sarney to observe recently "the Brazilian State has reached a point of exhaustion in which it lacks resources with which to mananage and meet the basic needs which are the State's responsibility in the areas of health, education, and other public services. It has no resources available for large scale investments."

In rich countries, "intangibles" like research, publicity and software are claiming rapidly rising shares of fixed investment. According to the OECD: "The share of investment in machinery and equipment is shrinking, while investment in research and development, training, organization, software and marketing is increasing steadily and becoming predominant in many industries." Between 1974 and 1984, the share of these "intangibles" in gross fixed investment rose drastically in France, Britain, Japan and the United States, where it now reaches two thirds of new investment. In the United States, Great Britain, and Germany, approximately 80% of all investment is, at present, in the service sector.

One of the most striking contrasts between rich and poor countries is that, far from investing in "intangibles", poor countries have not invested sufficiently to preserve existing physical infrastructure-highways, railroads, telephone networks, electrical power systems. Much of this infrastructure is new, built with foreign financial and technical support in recent decades, and is badly needed for operation of political and commercial systems over large areas. Also, without adequate transportation, communications and delivery systems, relief of famines and epidemics will be more difficult, threatening a reversal of the downward trend in mortality in many nations over the past half-century. Ester Boserup, a Danish economist, says that human experience over thousands of years gives us many examples of "urban economies falling back into ruralism", observing that "many urbanized societies had temporary or prolonged periods of regression".

In the poorest countries, today, the deterioration of infrastructure already has advanced far. In Bolivia, which depends on foreign financing for both construction and maintenance of its fragile infrastructure, spread over a huge area of low population density, road repair camps have been disbanded because the government cannot feed the workers. In 1984, the World Bank reported on Sub-Saharan Africa: "Features of modern society to which many Africans have been exposed are withering: trucks no longer run because there are no spare parts and roads have become impassable; airplanes no longer land at night in some places because there is no electricity to light the runway."

The same type of polarization is appearing in the Brazilian economy. One of the most promising developments of recent years is the appearance of new industrial and agro-industrial centers throughout the interior of its continent-sized economy, far from the gigantism and turbulence of Rio de Janeiro and S†o Paulo. They form an archipelago of communities starting from Rio Grande do Sul and extending in a crescent of new lands passing through the West of Santa Catarina, Paran , both Mato Grosso and Mato Grosso do Sul, Goi s, and Rond"nia. Cities such as Lajes, in Santa Catarina, which produces apples and apple juice for export; Maring , in Paran , producer of silkworms and their textile derivates; Toledo, in the West of Paran , produces a variety of animal byproducts, such as glue and footballs. The archipelago extends to older cities in the interior of S†o Paulo and Minas Gerais with new industrial vocations, such as Mat†o (orange juice), Franca (shoes), Uberlƒndia (electronic material and textiles). We have been impressed with the progress of these cities, generally unaffected by the economic crises of 1981-84 and of today.

The contrast with the other pole in the polarization of the Brazilian economy is stark. While the new archipelago is rapidly entering into the world economy, the Northeast faded from the world economy in 1929, with no signs of comeback. Generally speaking, the export capacity of the Northeast in now limited to cocoa, traditional in Bahia, and some mining and metallurgy enterprises, such aluminum in Maranh†o. While one of the strengths of the rest of the Brazilian economy is its capacity to draw foreign immigrants, the economy of the Northeast is similar to that of Mexico not only in its dependence on public subsidies, the lack of water and incapacity to assimilate immigrants, but also in the expulsion of its native

population. With a per capita income less than half of what it is in the rest of Brazil, the Northeast depends on money transfers from the central government and from other regions for much of its economic activity and capital formation. The new Constitution increases these transfers.

It is hard to believe that the new archipelago of progressive communitites, dependent on national and international long distance trade, will accept the deterioration of the transportation and communications networks which would accompany the reduction of central power so often announced by President Sarney. Will these communities revolt when faced with such a threat? Will their political strength be sufficient to stem disintegration? Or will they remain passive, submerged in disintegration, to reappear in another era as islands of progress, like the cities of Northern Euope at the end of the Middle Age? To avoid this choice, the Brazilian State and economy will have to recover their investment capacity. To save lives and communities, the economic policies will have to be much more geared not only toward capital formation but also toward the efficiency of ivestment so that investments, poorly planned, do not become another form of consumption.

The weakening efficiency of investments began with the flood of loans in the 70's. "After increasing in the early 70's, the investment rates in capital importing countries did not strengthen significantly in the remainder of the decade, despite the increase in external financing," reports the IMF. "When financing stopped in the 80's, investments took on a disproportionate share of the adjustment". In countries with debt payment problems, investments suffered even more. In these countries, many of the foreign loans at the end of the 70's were used to compensate for low saving rates, rather than investments, which tended to decline. Finally, when foreign financing ceased in the 80's, the investment rates declined dramatically while the saving rates continued to drop."

This decline is beginning to affect middle-income countries. One of its most visible signs is in the electric power sector, which requires large concentrations of capital and organizational capacity as well as long-term schedules of investment. In Peru, where total investment fell by 17% yearly in 1980-85, serious power shortages now affect 85% of the country's industrial plant. Although its Central Lima grid was one of Latin Americas most complete and sophisticated supply systems, its adequacy was wiped out by a near-doubling of electricity consumption since 1975, encouraged by low tariffs, and by financial and technical difficulties in carrying out new hydroelectric projects to keep pace with the tenfold growth of Lima since 1940. At the same time, Peru's nationalized metals and mining output fell by about 10% in 1987 because of shortages of spare parts, trucks and replacement equipment as part of an accelerating breakdown of the country's productive infrastructure. In Argentina, where investment reached net negative levels after falling by 14% yearly since 1980, electricity supplies to Buenos Aires have been interrupted five hours daily, despite large natural gas and hydropower reserves. These shortages have been caused by lack of maintenance and spare parts for its two nuclear power plants and because of failure, for financial reasons, to begin construction of the giant Yaciret power dam on the Paran river in the 15 years since the agreement with Paraguay was signed for the binational project. These power shortages are one sign of general deterioration of Argentina's infrastructure, extending to telecommunications, railroads, ports and highways.

The Brazilian hydroelectric program, the largest in the world, absorbed $48 billion in 1974-84, i.e, 40% of public investiment and 10% of total investiment. Eletrobr s S.A., a state-owned enterprise, is threatenend by financial collapse. By 1985, the group of state owned businesses, owed Us$20 billion abroad, which is one fifth of the Brazilian foreign debt. Payment of the debt service of the Eletrobr s group, by 1985, amounted to double its investments, as against enly 20% of investments in 1975. In real terms, average electricity prices in 1985 were half their 1975 levels. After financing its own operations and two-thirds of its investment needs with one of the world's highest price structures, Eletrobr s now struggles with one of the world's lowest electricity prices, unable to pay for either debt service or investments, and expected to lose $3 billion in 1987 to triple capacity by the year 2010, to keep abreast of mushrooming demand, priced below marginal cost for political

reasons, and to free itself of the spectre of power shortages throughout the country. There is no financing in sight for this expansion program.

The Fernand Braudel Institute of World Economics is carrying out a study of The Formation and Use of Capital in the Brazilian Electrical Sector to develop policy alternatives for rationalizing investment and consumption and for avoiding bankruptcy of one of Brazil's most capital-intensive industries.

The Fernand Braudel Institute of World Economics has as its central mission the study and debate of the problems of capital formation, which are institutional problems at heart. It is believel that, in the foreseeable future, indebted countries such as Brazil will not receive more funds from their creditors. They will have to mobilize more of their own resources for investment in order to maintain and modernize their productive capacity and their basic transportation, energy and communications infrastructure. We see no reason why this investment decline must continue. We believe that it is possible to generate surpluses for investment without threatening the living standards and survival of large numbers of people. Many countries poorer than Brazil have achieved this. Let us examine the case of India.

4. Brazil and India

In the paper he prepared for our conference, Angus Maddison analyzes the growth of the 10 main economies of the world since 1870. During these 127 years, Brazil was the fastest growing economy (4.4% per year). In per capita terms, Japan grew fastest (2.7%). India was the country with the lowest growth rates of both gross production (1,7%) and per capita income (0.5%). We will now examine a certain reversal of these trends during the last few years.

India has one sixth of Brazil's income per capita and much less economic potential. Despite these difficulties, India's development has been accelerating in the four decades since its Independence in 1947. In the century prior to its Independence, India's real GDP grew only 1% per year. According to the World Bank, India's economic growth from 1965-80 was, on average, 3.6%, much less than Brazil's 9%. In the 80's, these trends reversed dramatically. In 1980-85, India's growth accelerated again to 5.2% per year, while Brazil's fell to 1.3%. It is worth our trying to understand these events. The Fernand Braudel Institute of World Economics proposes to find out the reason.

While India was an ancient river civilization, with more than 200 million people in the mid nineteenth century, Brazil had but 7 million people exploiting a virgin base of natural resources of continental proportions, generating greater economic growth rates with agricultural surpluses which permitted higher urbanization rates.

The contrast in the institutional character of these two great countries could hardly be more dramatic. In India, densely settled societies, ecologically akin to the ancient civilizations of Egypt and Mesopotamia, have been known to exist in the Indus River basin more than 3,000 years ago. In the Ganges valley, "powerful and far flung kingdoms" arose around 600 B.C. Residual pools of disease acted as more formidable barriers against invasion than conventional military defenses. In Brazil, by contrast, native populations were wiped out quickly by epidemic diseases and superior military technology brought by European invaders. At the time of the European conquest of America, and probably long before, India had developed effective tax-collection systems. At the time of the death of the Emperor Akbar in 1605, Mughal India counted about 110 million subjects, roughly one-fifth of the world's total population. Its national income per capita was about the same as Skakespeare's England's, or Brazil's in 1850. The Mughal Finance Ministry had revenue offices in all 15 provincial capitals and in all 3,000 districts. Total government revenues were 15%-18% of national income, a larger share of output than any European government could claim until the 20th Century. While Indian rulers traditionally obtained the bulk of their revenues from land taxes, in Brazil the land tax always has been negligible, largely because central governments did not control the national territory and left effective rule to local clans and

families operating at the county level. Instead, Brazilian governments were financed mainly by customs revenues until the early 20th Century.

These contrasts are important because they reveal the problem of capital formation as essentially an institutional problem. Although Brazil and India are among the most successful tropical economies of the post-war period, these continental nations struggle with different types of institutional problems that are testing their strength as nation-states. The results of these tests will depend principally on the institutional capacity of each of these economies to mobilize resources for the development and preservation of national integrity. India increased its fixed investment from 10% of gross domestic product in 1950 to 18% in 1965 and 25% in 1985, while drastically improving the quality of life. Exports grew around 5% per year in 1973-83. Food self-sufficiency increased and, at the same time, infant mortality rates fell by half in the last two decades. With an income per capita much higher than India's and without the internal conflicts and hatreds that afflict India's political life, Brazil's level of investment as a share of GNP fell from 25% to 16% in the last two decades.

5. The Investment Crisis

Many countries are experiencing an investment crisis similar to that of Brazil. Among the 56 middle-income countries listed by the World Bank, gross domestic investment fell by 4% yearly in 1980-85 after rising vigorously at a 9% rate over the previous 15 years. Heavily debt-ridden nations show even more disturbing trends. In Brazil, investment fell by 5.5% yearly after expanding by 10% in 1965-80; in Mexico, it fell by 9%; in Chile, by 13%. Aside from Latin America, the declining investments in 1980-85 involve an wide variety of countries: Philippines, by 14% per year; Ivory Coast, 22%; Nigeria, 18%; Jordania, 13.5%; Portugal, 10%; Greece, 5%. Among the rich countries, investment contracted in Spain, Ireland, Italy, Belgium, France and West Germany.

In the 1980's, many troubled nations chose to sustain consumption and to cut investment. Countries with recent debt-servicing problems generally have sustained consumption at 1980 levels while cutting investment by one-third. Strikingly, this was the same choice made by the United States during the great Depression, when consumption for 1930-33, measured in constant dollars, averaged only 3% below 1925-28. On the other hand, gross fixed business investment in the United States, beginning its fall earlier after reaching an all-time peak in 1927, in 1930-33, was 38% below the 1925-28 average. As in the United States after 1929, the demographic impact of economic crisis in Latin America during the 1980s was not expressed in the rate of mortality, which continued to decline, but in falling birth rates. In the United States, neither business investment nor fertility recovered pre-Depression levels until after the U.S. entered World War II.

The Latin American countries are facing an equally or more difficult recovery. Therefore, we are tempted to say that the debt crisis is finished. Debtors and creditors will have to deal with the consequences of their mistakes. We say this because the importance of the Third World debts to the international financial systems is much smaller today than in 1982 and because the capacity of debtor countries to transfer resources is nearing exhaustion. Our colleague, Professor Jeffrey Sachs of Harvard University, a member of the International Advisory Board of the Fernand Braudel Institute of World Economics, has strongly argued that debtor nations should enter tough negotations with creditor banks, backed with the strong moral authority which would stem from internal adjustment to end inflation and disorder in public finances. Without this sort of quick and successful negotiation and adjustment, the debt crisis will be superimposed with the pressures of the institutional disintegration which has already begun. When convoking this seminar about the problems of capital formation in the New Era of the World Economy, some friends told us that Brazilians are very immediatist and are not interested in the long term. We could only answer that the long term problems are here and now.

For some time still, international bankers and debtor nation Finance ministers will insist on the negotiation marathons. They will continue to protest their good will at the giant annual

meetings of the IMF and the World Bank. They will persist in their heroic blitz trips, with chains of nervous sleepless nights on airplanes hopping between Bras¡lia, S†o Paulo, Washington, New York, Tokyo, Mexico, Buenos Aires, London, Paris, Zurich, Frankfurt. Nonetheless, the long "grace periods" on unpayable debts and the "emergency" bank loans to capitalize interest are becoming routine. The net transfers between creditors and debtors will run out either as the infrastructure and productive systems of the debtor countries deteriorate, or as these countries are pressured to channel resources, currently used to pay interest, to sustain these systems. The debt crisis is over.

What will come afterwards? My wife, Catalina, often repeats to me at difficult moments the words she attributes to the "maŒtre" Jean Paul Sartre: "Do not tell me what they have done to you. Tell me what you are going to do about it." In Europe, after the First World War, 24 countries suffered different degrees of inflation and gallopping inflation. , Only five of these countries received foreign aid to halt inflation. The postwar conditions in these countries were much more difficult than those in Latin America today. There was hunger and destruction. There were countries that had been dismantled by the Treaty of Versailles and others created by the same Treaty. There was nationalistic violence and ethnic hatred. There were permanent threats of communist and fascist revolutions. Analysing these inflations, the League of Nations observed: "The governments of many countries were weak, disorganized and inexperienced; inflation is a form of taxation which even the weakest government can handle, when it cannot handle anything else." Why have the Latin American countries been unable to consolidate their economies and institutions under conditions much more favorable than those that existed in Europe at that time?

In today's world economy, we see around us much dangerous turmoil. The fruits of turmoil are already visible in the Third World debts, the market crashes last year, the U.S.' indebtedness due to trade and government deficits, the banking problems in Texas and in the "thrifts". (T.N.:Savings and Loans Associations), the economic prostration of Peru and Argentina and in the march toward hyperinflation in Brazil. But we believe in man's instinct for survival . We believe in the saving strengths of fear. We believe in the ability of nations and communities to change their conduct in the face of danger. Such change does not always happen, but we have today sufficient examples to give us courage. Countries much poorer and disaster-prone than Brazil, such as Ghana and Bolivia, have taken drastic measures to assure their political and economic survival. Rich countries, such as Japan, Germany, Great Britain, and France, have already changed their conduct and abandoned the 70's policy of large public deficits. Martin Mayer explained today the unlikelihood of a debtor country without any capital reserves, such as the United States, remaining the principal financial mediator in the world. Both Mayer and Boltho have today given financial and commercial reasons to think about a greater fragmentation of the world economy.

The masterpieces of Fernand Braudel are a celebration of the power of the market in the evolution of man. In his last book, Perspectives on the World, Braudel wrote that "the world economy is the vibrant surface which covers the greatest possible area, that covers not only the environment but, at a certain depth, the factory. It is the world economy which, at any rate, creates price uniformity over a vast area." On the beaches of the world economy ocean, it is useless to build Chinese walls against important differences in price and cost. The world economy may become more fragmented in the future, but it will not break down into water-tight compartments. Not even Adam Smith preached total ly free trade. But we need the power of the market, with its relative price mechanism, to distribute our resources in a more productive and rational manner. If we do not achieve this rationality, the rupture of our institutions will bring unregulated prices, salaries, interest, and exchange rates under even more difficult conditions than those that exist today.