

Pax Americana in Crisis

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How should the current global financial and economic crisis be understood?

The current global financial and economic crisis, originated at the U.S. housing loan has been recognized as critical as that of “once a century”. The crisis has already far gone beyond the mere sub-prime loan crisis prevalent in the U.S. housing finance sector. It has evolved into the global financial and economic crisis. It even recalls the reemergence of Great Depression of the 1930s. In its 2009 Annual Convention, the Japan Society of Political Economy began to refer to it as “the 2008 Global Depression.”

However, simply referring to the current crisis as “the world depression” and overlapping it superficially to the Great Depression of the 1930s is questionable. Indeed, even the expression “once a century” is problematic, as it raises the memory of the 1907 Crisis, which occurred just a century ago. The late Professor Mitsuhiko Takumi investigated the 1907 crisis and authored a book titled “The International Currency Regime,” which analyzed the classical international gold standard system based on the Pound Sterling regime at the time. The convenient time span of a century draws us back to that crisis, so that the expression of the “once a century depression” may obscure distinctions between the current crisis and the 1907 Crisis. I believe the important fact is that the current global crisis has begun to have a substance comparable to that of the Great Depression in the 1930s. Nevertheless, if we simply refer to the current crisis as “the reemergence of the Great Depression,” the significant transfiguration and different historical dimensions of the contemporary capitalism after the World War II would be lost. The current crisis cannot be reduced to a simple Great World Depression scenario.

Unquestionably, there are major differences in world depressions between the 1930s and the contemporary capitalist regime that has emerged through war economy. For example, today national states intervene, on a full scale and by means of, even in “untraditional” ways, emergency monetary measures and business-stimulus measures. This is a salient feature of contemporary, post-war capitalism. Also, arguments arise that touch upon the scenario of “from the great depression toward war” or that envisage the scenario of “from the rise of protectionism and of block economy toward world war III.” The scenario of economic recovery through militarization of the economy is exemplified typically by Nazi Germany and the militarized Japan in the 1930s. Of course this is certainly the worst case scenario and should be warded off. However, such a course of economic recovery must be only an imaginary one at the present time and quite questionable in reality.

After all, when analyzing the point at issue in a broader time frame, by arguing that the current crisis is an event that occurs “once a century,” we should emphasize that the current global financial and economic crisis originating from the U.S. is furnished with a substance comparable to the Great Depression, but the difference between the Great Depression and the current crisis that has occurred under the regime of contemporary capitalism inevitably becomes a larger issue than similarities between those two crises. In that regard, current problems must be considered in the context of

the decline and shift of the post-war Pax Americana regime and the resultant advancement of global capitalism, which reflects the evolutionary process of contemporary, post-war capitalism centered on the United States. Such a basic perspective is necessary to address the historical dimensions of the current global crisis.

For the current global financial and economic crisis originating from the U.S., the sub-prime loan problem was emphasized at the outset. Of course, the sub-prime loan crisis certainly constituted a trigger. It has essentially been continuing as the major cause of the financial crisis. However, the crisis has evolved into the global financial and economic crisis. It has further gone to the point that affects real economy, and thus the current crisis has been likened to the Great Depression of the 1930s.

The sub-prime loan crisis itself was basically created by a combination of the following three factors: first, historical racial segregation in the U.S. mortgage loan business (and the general credit market) and moves to correct such segregation carried forward since the late 1960s; second, “financialization” and globalization of finance which have advanced significantly since the 1980s through liberalization and financial innovations and the securitization mechanism as the important media for those changes in finance; and, third, the key linkage of these factors to the new American economic expansion nexus, which has been formed through the evolution of global capitalism evolving during these three decades.

The first factor can be viewed as an issue stemming from socio-economic characteristics inherent in America, which are attributed to racial segregation manifested in residential compounds maintained through “restrictive covenants” and “red lining,” and the resultant discriminative handling of mortgage loans, and to the advancement of corrective measures against such discrimination following in the wake of civil rights movements and legislations, in particular represented by the “Community Reinvestment Act” (CRA). The problems of sub-prime loans cannot be limited to minority groups, but the current sub-prime loan crisis tends to concentrate on African-Americans and Hispanics, who have provided a huge ground for the expansion of sub-prime loans, including the “predatory lending practices” that postulated the risk-shifting mechanism through securitization. In this respect, too, the current sub-prime loan crisis is a financial crisis accurately described as having been “triggered by America.” However, from the broader viewpoint of the transfiguration of the post-war capitalism, the so-called “financialization” and development of the global capitalism are the issues first to come. Thus, we must look to the second and third factors.

Chart 1: Global City Nexus

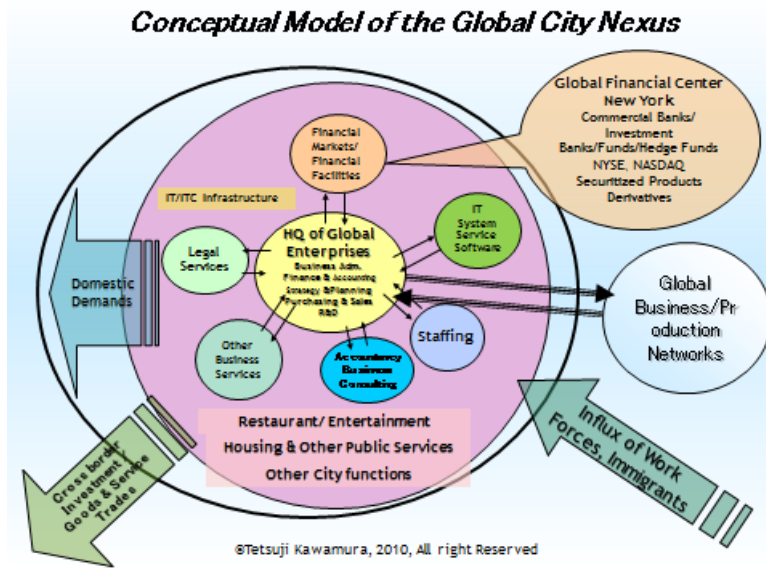
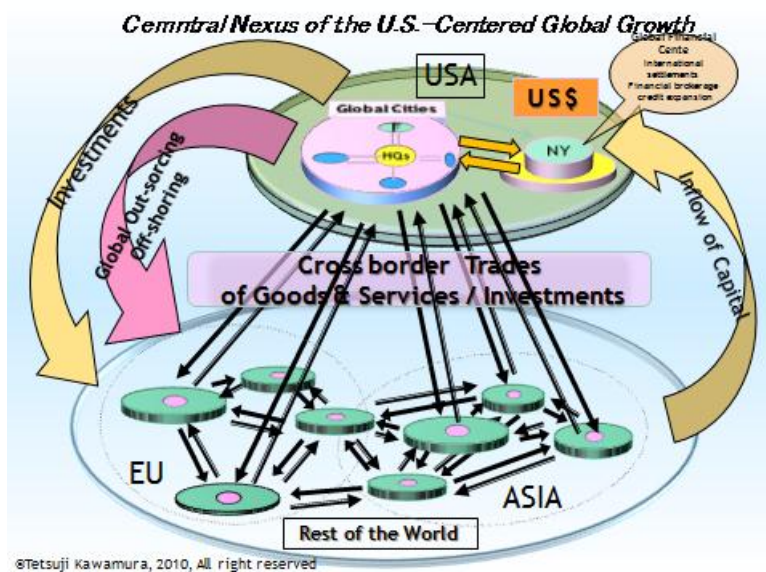


Chart 2: U.S.-Centered Global Growth Nexus



The decline of the post-war Pax Americana and the evolution of the global capitalism

In reality, the development of global capitalism has been driven by the decline and transfiguration of the post-war Pax Americana. In the course of an overall reorganization and transfiguration of the post-war capital accumulation system centered on the United States, the global capitalism has taken shape. Essentially, the globalization of the post-war contemporary capitalism has gathered momentum since the middle of the 1970s. Certainly, the 1980s was the epoch-making period for that development. In consequence, the layered advent of “global cities,” joined together with the so-called

“new imperial circulation,” has brought about the emergence of the global growth linkage centered on the United States through the globalization of the postwar capitalism. Charts 1 and 2 show these structural relations, which emerged in the 1990s as the result of the major shift after the 1980s. The current global financial and economic crisis triggered by the U.S. is a crisis of this linkage itself.

Putting it simply, globalization in the 1980s and 90s involved mainly business enterprise, finance, and information, rather than finance alone. As an abstract concept, a business enterprise is *capital* itself that operates based on the profit principle ($M \dots M'$ – or *Geld ... Geld*). To put it more precisely, a business enterprise is an actual state of capital or an organized entity that incorporates various institutions in it. In addition to the business enterprise and finance that constitute the core of the capital accumulation system, information characteristically takes part in globalization. In a word, informatization and the introduction of IT go global.

Let's take the discussion back a step. Globalization took shape as a consequence of the stalemate in and the resultant transfiguration of the post-war American capital accumulation system. In the 1950s and 60s, the American capital accumulation system, centered on the domestic economy, held the post-war corporate system in its core. The post-war corporate system featured a matured oligopoly of key industries. A typical example is the Big Three regime in the U.S. automobile industry. Similar oligopolies were seen in the iron and steel, electric appliance, and the rest of the key industries. Taking the automobile industry as an example, we see there existed in a set the traditional post-war industrial relations exemplified by the UAW and GM. As its production system, the industry adopted a American-type (or Ford-Taylor type) mass production system which the Regulation School referred to as “Fordism.” In addition to such a post-war corporate system, there were in a set the post-war state functions called the welfare state, the New Deal-type financial regulations and government regulations, the Keynesian policy and other governmental functions, and there occurred, so to speak, a kind of administrative capitalist growth based primarily on the domestic market. On that ground, under the Pax Americana, the political and economic regimes existed, which went hand-in-hand with the free-trade and commerce systems that featured the institutional framework consisting of the dollar, the key international currency, the IMF regime and GATT, as well as with the worldwide American political and military system that integrated the Cold War. And those were the post-war Pax Americana systems centered on the United States in the 1950s and 60s. That Pax Americana shaped the center of contemporary post-war capitalism. In terms of weight and growth potentials, America formed the axis of the main body of the capital accumulation system that brought about sustained economic growth for the advanced capitalist countries in North America, Europe, and Japan. But, the system collapsed, and starting from the 1970s, these institutions underwent the process of reorganization and shift.

In the wake of the collapse of the capital accumulation system, its reorganization and shift since the 1980s can be said to have evolved separately, according to the logics specific to business enterprise or to finance. The government's economic administration and regulatory functions became unmatched with the ongoing capital accumulation. The Keynesian policy had retained its effectiveness by adjusting relationships to assure sustainable growth, under the prevailing world order, against the cornerstone domestic economy. But, such effectiveness was lost. The Keynesian policy

is characterized by the idea that fiscal and monetary policies must be administered in such a way as to fine tune or ease them against business downturn and to tighten up against economic overheating, but when the growth structure of the main body collapses, Keynesian measures lose effectiveness and instead stagflation prevails.

The decline of this post-war capitalist system centered on America got underway around the end of the 1960s. In terms of the international currency regime, in the course of the dollar crisis originating in the latter half of the 1960s, the IMF-dollar regime collapsed. Through currency speculation, the worldwide inflation spurt, suspension of gold-dollar convertibility, and the two major oil crises, the fixed exchange rate regime collapsed and the shift to the floating exchange rate system took place. Those developments directly led to the globalization of finance. Phenomenally, “financialization” and the “Casino financial market” appeared.

Under the past fixed exchange rate regime, volatility of the overall financial market had been restrained. The trend of interest rates had shown minimal fluctuations. But, in the wake of the introduction of the floating system, interest rates began to fluctuate substantially. This is a matter of course under exchange fluctuations, while capitalizing on the spread of the financial floating regime and the increase in risks, derivatives and hedge operations evolved and led to the development of financial innovations at a dash. In parallel to those developments, inflation had accelerated in the final phase of the post-war dollar crisis since the end of the 1960s, triggering the New Deal-type interest-rate controls, which in turn caused disintermediation, i.e. circumvention of the banking system, and capital transactions were shifted to the securities market and direct financing. The weakening of the banks continued through the 1980s, when liberalization of finance was carried out. At that time, volatility increased, so that hedge and speculative operations by means of derivatives and other new financial commodities expanded, which, in combination with IT-computerization at the time and networking, pressed forward the expansion of financial transactions, including financial innovations and speculative transactions (i.e. “financialization” as well as the “Casino financial market”). Then, financial transactions could not be contained within the domestic market, which brought forward the liberalization and globalization of finance.

Regarding business enterprise, the domestic growth linkage collapsed. Specifically, accelerated inflation and the oil shocks exerted enormous cost pressure. From the beginning, the post-war capital accumulation system exemplified by the post-war corporate regime had a built-in inflation spiral. There, within the framework of traditional industrial relations, the matured oligopoly regime incorporated a pass-on mechanism into the capital accumulation system, where the increase in labor cost was passed on to prices, so that the inflationary structure was embedded in the micro-economic level. The accidental explosion of the said micro-inflationary structure, which was triggered by soaring energy prices and a wage explosion, resulted in a high-cost situation. On the other hand, the collapse of the sustainable growth linkage created a very difficult situation in corporate profitability. On the other side of the scene, in the international market where competition became fierce, Japanese enterprises exercised their competitiveness based on Japanese-specific business management. To the contrary, the American manufacturing industry, which was faced with competition from imports from Japan and other exporting countries, was cornered in a very disadvantageous position. Those developments, taking place in the 1970s, stimulated

the globalization of major American firms. Thus, U.S. businesses were forced to change their production systems and corporate regimes, and to reorganize their traditional industrial relations.

The traditional industrial relations in post-war America featured a labor-management regime that went hand-in-hand with the large enterprise system originating from the New Deal and already firmly established during the war period. In traditional U.S. industrial relations, based on the American-specific mass-production system and labor management method, the labor agreement system, which featured collective bargaining between major business corporations and major industrial unions, pattern bargaining, and shop control unionism, assured high-level incomes for workers and realized job security for core workers through the seniority rule. Those industrial relations were another supporting column to the sustained growth of post-war America. In the middle of the 1970s, the major linkage to sustainable growth collapsed. Because of the cost increase due to inflation and the oil shocks, businesses were placed in a difficult situation. Corporate profitability sharply plummeted. Those developments caused the growing pressure to allow businesses to seek essential reorganization of their traditional industrial relations. In reality, the changeover in post-war industrial relations has gathered momentum since the Reagan Era of the 1980s. It is rather difficult to gauge to what extent industrial relations have been altered. Some argue that the basics remain unchanged. In order to clear up some of these points, we need to look closely at the institutional nature of industrial relations. However, there is a business development which may indicate that the UAW is the last residuum of post-war industrial relations. Under current crisis management, when GM or Chrysler filed bankruptcy petitions with the court under Chapter Eleven (Bankruptcy Law Article 11), the labor contracts that outlined traditional industrial relations and labor practices were all cleared off, and industrial relations had to restart from zero. Things have come down to such a critical situation.

At any rate, America's changeover to global capitalism stands on the two supporting columns of globalization in both business and finance, which are encompassed by globalization of information. In short, the shift to global capitalism basically includes the following phases: the post-war American capital accumulation system originating in the 1930s and established firmly through the war-time economy had come to a stalemate and thus the post-war Pax Americana went toward its decline and an inevitable shift; and this was followed by continuing moves to rebuild the institutional and organizational structures of the capital accumulation system, including industrial relations, which have been stimulated by the developments in American business and finance aimed to address these points domestically and globally.

Chart 3: American Corporate Profit and Its Composition: 1970 – 2008

\$1 Billion

Others, world total

Finance (including Feds)

Non-Finance

Corporate Profit, total (inventory, adjusted)

Emergence of “Global Growth Linkage” centered on America

In consequence, proceeding into the 1990s, the core relationship of the global

growth linkage centered on America emerged. The two major components of the linkage are the development of “Global Cities” and the “New Imperial Circulation.” In greater or lesser degrees, things have shifted toward such a relationship that the American corporate system as a whole makes profit within such a linkage. In other words, a global-scale capital accumulation system centered on America has emerged. Of course, the newborn capital accumulation system has defects in terms of its systems and institutions, and contains fundamental insecurity, too. These defects and insecurity constitute the major causes of the current financial and economic crisis.

By the way, a “Global City” is defined as an urban space that is furnished with global city functions. It’s a city itself, and the typical profile and functions of a global city are shown in pattern diagram in Chart 1. Detailed discussion of the concept of a global city is provided later, whilst the typical global cities include New York, Silicon Valley, the Bay Area in California including San Francisco, and Los Angeles, among others. In the peak years of the post-war Pax Americana during the 1950s and 60s, the base of American capital accumulation was a domestic one. But, in later years, it became impossible to retain the domestic revenue base. The situation is easily understandable from the trend of profit sources for American firms (Chart 3.) This trend of profit sources indicates how American firms made profit from which sources, as well as how they expanded the U.S. economy between the 1990s and the first decade of this century. The bottommost stands for the manufacturing industry and, overall, the weight of non-manufacturing industries has been expanding. Roughly speaking, this indicates the trend toward service economy. Profit on manufacturing has been leveled or declines as shown. On the contrary, non-finance profit has been increasing substantially. This trend has been clearly observed since the 1980s. Furthermore, profit on global operations, i.e. profit from overseas operations, has been expanding markedly.

Since the 1990s, the American economy has expanded for a prolonged period at higher growth rates. This extraordinary growth of the American economy has often been referred to as its “reigning supreme” or as “the success of the New Economy.” But, analysts now talk about the bubble economy by referring to that extraordinary growth. The point at issue is the content of that economic growth, how the U.S. economy could continue that high level of growth. Likewise, why demand for cars has contracted in such a nosedive following the collapse of the financial market, globally as well as domestically. In the peak years, the volume of the American new car market stood at 17 million annually, but right now it has plummeted below the 10 million mark. Last year, it stood at 12 million, decreased by 5 million from the previous year. The prevailing explanation attributes the demand decrease to customers’ inability to obtain car loans. Of course that’s part of it, but outstanding car loans last year only shrank by a few percent, and this alone could not explain that demand contraction. Why were several million cars suddenly eliminated from the U.S. market? Did the car market abruptly shrink in Europe, Japan, and elsewhere? Aside from cars, flat-screen TV sets and other high-quality goods remain almost unsalable, too. And worse, real economy has been sharply contracting worldwide.

Conversely, between the 1990s and the first decade of this century, what did contribute to the expansion of the American domestic market and consumption there? Further, why were BRICs, other emerging economies, and some developing countries able to grow substantially? Of course, financial expansion was a major contributor. However, even if adequate funds are available, it does not make sense if borrowers do

not exist. Consumption growth is often explained by over-consumption of Americans, which is attributable to their habitude. If they go into debt for their buying craze, this would probably be true. For example, in the area of housing, American consumers tend to take out home equity loans by collateralizing gains in housing price, by cashing out, or by raising secondary home mortgage loans, and then expend the received money on consumption. However, if the structure of economic expansion that supports consumption by borrowed money lacks any repayment mechanism, such a situation could not persist. Indeed, such a situation is now reversed. In a contracting economy, consumers restrain themselves from consuming excessively. Through the use of infused public funds, banks now want to lend money only to the grade AA borrowers, as they are major profit sources for banks, but reportedly the number of borrowers is dwindling. It's no wonder. Even if people could buy cars or expend money on consumption today, they might lose their jobs tomorrow. Conversely, in the context of over-consumption, it is important to recognize that the expansion of the economy assures income growth. That is, there was the basic linkage between economic expansion and global spread which emerged through the development of global capitalism. Right now, such a linkage has reversed to cause a sharp contraction of real economy.

Through globalization of business enterprise, finance, and information, global cities have emerged throughout the United States in various and multilayered forms. The core function of global cities distinguishes one from another. In September 2007, when the problem of sub-prime loans was coming to light, the author conducted a field survey in Southern California where this problem was typically seen. The findings from the survey will be discussed in some detail later, while Austin, Texas, where Dell headquarters is located, provides a case example of a global city. The author once visited its Xiamen plant in China, whence Dell gets orders for PCs through the Internet. After receiving the order, the company puts together in a single dash mother boards, electronic devices, and drives piled up at its Dongguan plant, Shenzhen, and other plants in Guangdong Province and its Taiwan plant, assembles these components into PCs at its local production bases, and sells them. Dell adopts the direct sale and build-to-order business model. The company runs six plants around the world, with its corporate headquarters located in Austin. Its Austin plant is the production base for the North American market, and product development is also conducted there. For production, too, the successful method demonstrated at the Austin plant is instantly and directly applied to Dell production bases all over the world. In this city, Motorola's headquarters for semiconductor operations is also located. These are some of the global city functions held by Austin City.

Business and financial management functions assumed by the corporate headquarters of a business enterprise that runs global operations cover, by necessity, its operations all over the world. These global functions include offshoring (overseas production) and outsourcing. Also, the global company seeks markets for its products overseas, and relocates its marketing and R&D functions overseas. Back-office services necessary for its operations are also outsourced offshore. For example, the consumer relations office or call center for aftermarket services may be moved to Bangalore, India, which is well known as the center of outsourced computer program development. These global operations are controlled by the corporate headquarters, and these headquarters' functions are concentrated in the global city. The corporate headquarters in a global city assumes corporate planning and strategy development functions, including which

product should be launched for sale where, and how to exploit new markets. Also, sales and purchasing go global. The nerve center of these functions is eventually placed in the corporate headquarters. On the other side of the scene, in the United States, the full-scale manufacturing function is hollowing out. This hollowing out is most advanced in the electric home appliance and IT industries. Dell assembles its products at home at this time, whilst parts, components, and key devices for assembly are sourced globally. Descriptions of the assembly work are identical to those found in the manual for individuals' home-assembled PCs. Share of the manufacturing industry of GDP in the U.S. has already plummeted below 20%, even though, in the medical equipment and defense industries, high-technology products are mostly domestically manufactured.

The situation is somewhat different in the automobile industry. Its products are larger in size, so domestic production still provides advantages. Nonetheless, the combined share of the Big Three in the home market accounted for 90% in their peak years during the 1950s and 60s, but their combined share has plummeted below 50% at present. Their lost share has been filled with the increasing market shares of locally-assembled cars by Japanese-controlled local plants, including Toyota, Honda, and Nissan. In reality, however, these Japanese-controlled local plants source parts and components globally. They procure these parts and components from the Mexican transplants of Delphi, the spin-off of the GM parts division, Ford-controlled Visteon, and United Technologies. Also, many major European and Japanese parts suppliers have their transplants in Mexico.

Those developments have become the dominating overall trend spurred by the motivation of businesses, which have sought ways to ensure profit by breaking away from the domestic high-cost structure, including the problems of the traditional industrial relations, which, as discussed earlier, had become clearer by the middle of the 1970s. The matured oligopoly regime, primarily based on its home country, could not be sustained any longer. For example, in the past, the Big Three lived in stable conditions by producing large-sized cars in volume and capturing the domestic market. But, their prosperity has gone far and away. From the latter half of the 1970s on, the sustained growth under the post-war Pax Americana collapsed, and instead they were exposed to fiercer international competition. An era of global "mega-competition" broke out.

For that matter, around that time, the rise of Asia became increasingly relevant. The advent of the Pacific Triangle consisting of Japan, the United States, and Asia contributed largely to the rise of Asia. Asia's economic ascent reflected the fact that the collapse of the post-war Pax Americana induced the trading of places in industrial competitiveness between Japan and the U.S., which rapidly increased the trade imbalance and caused intensive trade conflicts between the two. The effect of the soaring yen against the dollar also prodded offshore production of Japanese firms. At the start, Japanese firms relocated their production bases into the so-called Asian NIES countries and exported, in a circumventive manner, from there to the U.S. market. They brought parts and components as well as production facilities from Japan into their local plants in Asia. This time, American firms were exposed to competition from imports from those Asian transplants run by Japanese firms. The affected American firms and, later, European firms, too, skillfully managed that difficult situation. In the course of their industrialization and economic growth, the Asian NIES gradually lost their cost advantage because of wage hikes and the increasingly contentious industrial relations in their home countries, and then these firms from the West deployed their operations in

ASEAN countries. When ASEAN lost their cost advantage, these firms advanced into China, India, Vietnam, and other developing countries. Without such a structure, the Asian economic growth model, centered on the “export-oriented industrialization” strategy, could not work. China’s successful shift toward the reform, liberalization, and industrialization strategy is understandable in this context.

Major American firms, which were faced with fierce competition in both the domestic and overseas markets, had to make a tough choice. They would have nowhere to go at home. They would be forced to ask their government to implement protective measures against imports, or alternatively go global. Their domestic manufacturing base was macerated. For reasons of technology and through protective measures, the automobile industry survived, whilst the electric home appliance industry has almost disappeared. No American firm manufactures TV sets at home. Japanese consumer electronics makers have been manufacturing their products in their down-sized facilities at home, but these remaining facilities are expected to be swept out in the wake of the current economic crisis. So then, how would things continue under such a situation? Did American corporate society and American capitalism decline under such a situation? That was not the case.

In this connection, the issue of the transition to global capitalism emerges. Tracing its history, we find that the concept of the global city was first presented in effect by Robert Reich, the Secretary of Labor in the Clinton Administration in the early 1990s, regarding the functions of corporate headquarters of global companies, and then clearly defined by Saskia Sassen, sociologist, who discussed this concept in relation to problems of immigration or gender. A clearer definition to the concept of the global city can be found by juxtaposing it against the shift of American business enterprises and finance to global capitalism, in the broader context of the decline of the post-war Pax Americana and its changeover.

If a further explanation of the global city is allowed, in peripheral areas that support the functions of corporate headquarters, professional business services become necessary. For example, there are various legal services for strategic management of international intellectual property rights and for problems concerning competition among businesses. Also, there are several other business services, such as call centers in Bangalore, Dalian, or other areas, which are contracted out by global companies, and other customer relations services to handle claims from consumers. Other professional services, including accounting consultancy, temporary personnel service, IT systems services, and software and program development, are concentrated in urban areas where corporate headquarters of global companies are located. Of course, the type of these business services varies depending upon the business line of the relevant global company. For example, business services for IT are concentrated in Silicon Valley and the San Francisco area. On the other hand, Los Angeles is the urban center related to the “growing Asia.” Located there are the corporate headquarters and related functions concerning Asian business. Among Japanese firms, Toyota and Honda have placed distribution companies, financial, and design center functions there. Mitsubishi Electric, too, has located its R&D function in Irvine in the Los Angeles area. Reportedly, the former DaimlerChrysler placed its gateway for imports from Asia into the American market there. Toyota manufactures its cars at assembly plants in Kentucky, Indiana, and West Virginia. In the Bay Area of San Francisco, adjacent to Silicon Valley, there is the NUMMI plant, the joint venture between GM and Toyota. In Tijuana, Mexico, the

company runs an assembly plant. Parts and materials used in the Tijuana plant are sourced from Long Beach, from where by rail and truck these parts and materials are brought to the local plant in Mexico. Tijuana is also the gateway for a variety of consumer goods imported from China and other Asian countries.

In the periphery of these global city functions, a variety of related functions are concentrated. As these functions become located in a city, public services and other city functions, including peripheral ones, are developed. As population concentrates in a city, restaurants and other personal services as well as entertainments concentrate therein. Even Hollywood qualifies as a global city. Labor flows into the global city, and, in the case of America, immigrants naturally flow in there. Professional services there lure specialized human resources. In the global city where things go well globally, people get paid the big bucks, so that middle- and high-income families increase. Aside from these, there are numerous miscellaneous city functions and corresponding miscellaneous jobs in the global city, and Sassen emphasizes very much these aspects of the global city. In particular, Hispanics (Latinos) in great number flow into Southern California, including illegal immigrants. Reportedly, unlawful residents in the U.S. amount to as many as 12 million.

In the context of the sub-prime loan problems at this time, in areas where the influx of Hispanics and other immigrants concentrate, in particular from Southern California to Texas and to Florida, the percentage of bank-seized houses is most serious. In actual fact, borrowers of sub-prime housing loans are not always truly poor persons. In reality, they are typically the middle-level income earners or members of the lesser income bracket who engage in professional jobs. Regarding sub-prime loans, media coverage often refers to Stockton in California, which is located halfway between Sacramento, the state capital, and the San Francisco area, where the author conducted his field survey, and Silicon Valley. In fact, findings from the field survey indicate that in areas nearby Silicon Valley, troubles related to sub-prime housing loans are uncommon. As the field survey was conducted a year and a half earlier (in September 2007), immediately after the revelation of the sub-prime loan problems, it is unclear how things transpire at present. Bankruptcy by foreclosure occurs at a high level in new resident areas within an hour's ride by car from Stockton. Dwellers in the local communities are Hispanics and African-Americans. The state of things there is explainable in terms of the global city.

Another important point is that the evolution of global city functions has gone global. Global city functions vary, city by city. New York provides the function of the global financial center. The utmost core function of Silicon Valley and San Francisco peripherals is IT concentration. Los Angeles provides an interface function to the "growing Asia." Austin in Texas features Dell Computer and Motorola's headquarters of semiconductor operations. Seattle is the site of Boeing and Microsoft. Memphis is the site of Fedex. Each global city builds multilayered functions on its core function, and these global cities have emerged throughout the U.S.

A more important point is that the attribute of the U.S. dollar as the key international currency underlies the global city. This attribute supports offshoring, outsourcing, and procurements from these overseas sources, i.e. imports of goods and services by the global city. With respect to imports of services by the global city, the aforementioned call center in Bangalore, India, provides a relatively simple function for its global city, while Indian IT firms such as the Tata Group and Infosys Technologies

serve as subcontractors of software development for the IT function of the global city. Less costly software products developed there are imported by the United States. These transactions lead to the increasing cross-border deals of goods, services, and funds.

It is advisable to look to the industrialization and economic development of China, which has emerged as the great economic power, in the context of the global city. As the American domestic manufacturing base has been worn-out, imports from China, including clothing and sundry goods, have increased sharply. In Chinese coastal areas, which extend from the Zhujiang Delta area where Guangzhou, Shenzhen, and Dongguan are located, to Shanghai and the Changjiang Delta and to the Northeast region, many foreign-affiliated companies from Japan, the U.S., Europe, South Korea, and Taiwan have advanced, and local companies have grown, too. To these areas in China, Japan has been exporting capital goods, production facilities, technology, and know how. Under such a structure, China's shift to a market economy and industrialization has developed rapidly. The expansion of the Chinese domestic market has been largely pulled forward by these relations. Broadly speaking, China's economic development has occurred within the framework of the "Pacific Triangle Structure" that has emerged as a result of the decline of the post-war Pax Americana and its conversion.

At any rate, these American practices of offshoring and outsourcing have been generating huge imports of goods and services. In terms of national economy, the U.S. records an enormous current account deficit. That huge deficit is financed by the influx of vast amounts of foreign funds. Thus, the picture of global-scale fund circulation centered on America comes into focus. This is termed the "new imperial circulation." In the peak years of the post-war Pax Americana during the 1950s and 60s, the U.S. dollar dispersed through American political and military foreign aid had been returned to the U.S. in the form of its large trade surplus based on its overwhelming advantage in industrial competitiveness, which could be referred to as the "imperial circulation." And, if the structure in the Reagan period where the "twin deficits" were financed by the influx of foreign funds could be called the "new imperial circulation," the current structure may be referred to as "the new imperial circulation."

In short, Charts 1 and 2 emphasize the formation of the global economic growth linkage in past years, which is based on a combination of global city functions and the structure of worldwide fund circulation. It should be further emphasized that the attribute of the dollar as the key international currency and the financial facilities function of the New York financial market based on the key dollar currency occupy the key positions in this linkage.

On this specific point, in what Professor Mitsuhiro Takumi once emphasized as the "multilateral clearing institution" under the international gold standard and Pound Sterling regime prior to the World War I, whether for transactions of goods and services or capital, every international transaction is settled in New York because of the attribute of the dollar as the key international currency. Simply stated, international transactions are settled by transfer of dollars between American bank accounts. In the case of Mid-East crude oil, most oil bills are based on dollars, except a few cases based on the Euro, and overwhelmingly settled in New York. Because of its concentrated financial facilities as the global financial center, New York has the deepest reach for fund management. Based on abundant financial facilities, a variety of financial transactions and monetary management strategies have developed there. Intermediary services for these investment and fund operations are among the most essential functions assumed

by investment banks. Further, various equity funds, in particular speculative hedge funds and other financial operations, have come to the top since the 1980s. Largely leveraged speculations are conducted by means of various financing vehicles and monetary manipulations, including derivatives, program trading, and futures, and huge profits are earned. By using the acquired funds, the global city expands financially.

Additionally, foreign direct investment (FDI) grows substantially. As a matter of course, offshoring involves FDI. FDI may include Dell's investment in plant construction overseas or MacDonald's opening of hamburger shops outside the U.S. Global sourcing and exploitation of markets overseas may include the establishment of joint ventures between the entering foreign firm and its local partner. Also, the establishment of local manufacturing, operation, and distribution bases, as well as the opening of branch banks and business bases by investment banks or by commercial banks, all involve direct investment. Global deployment of business operations involves FDI. There is investment in foreign securities as well. Such a cross-border investment promotes industrialization and financial expansion worldwide and facilitates global economic growth.

However, at least at present, the influx of funds into America outweighs its investment overseas. In order to manage their large amounts of dollar holdings deposited in New York, Japan and China, for example, buy treasury bonds in large quantity. Recently, they bought in large quantity securitized mortgage loans by Freddie Mac (Federal Home Loan Mortgage Corporation) and Fannie Mae (Federal National Mortgage Association), which are regarded as the prime financial assets comparable to treasury bonds. Also, they invest into hedge funds, even though their actual conditions are unclear because they are privately-placed bonds. China, with a huge accumulated trade surplus, the Middle East with oil money, and other resource-rich countries with abundant proceeds from export of price-hiked resources have joined the investment spree. The Sovereign Wealth Fund, which was much hyped in the early stage of the current sub-prime loan crisis as subscribers to capital increase conducted by American and European financial institutions in financial peril, is the government-invested equity fund run by these deep-pocketed countries. Investment banks operating in New York earn huge profits by intermediating between investors and fund-raising companies. By making use of these transactions, commercial banks offer leveraged loans and syndicate loans.

Such a picture became more apparent in the 1990s. These relations have emerged since the 1980s through liberalization of finance and by financial innovations. It is somewhat difficult to demonstrate these developments by proof, but they could be asserted in light of the observations of the author who conducted field surveys over the past two decades on Japanese firms and others of different nationalities in North America, Brazil, Britain, Europe, NIES, ASEAN, China, and India.

The abrupt explosion of the “global growth linkage” and the impact of the current global financial and economic crisis

The point now becomes how the global growth linkage has exploded so abruptly. Specifically, the point here is that the IT boom or the IT bubbles in the middle of the 1990s had occurred in conjunction with financial developments under the global growth linkage. Further, the housing bubbles in the first decade of this century, the

sub-prime loan crisis, and the current financial crisis stemming from the sub-prime loan crisis are all extensions of the IT bubbles in the 1990s.

In this connection, another essential point is the neo-liberalistic shift of government functions. This is because Neo-liberalism has been crucial in the criticism against globalism. As pointed out earlier, both America and the U.K. have been promoting liberalization of finance. It is another important pillar of the development of global capitalism, in parallel with the globalization of business enterprises, finance, and information.

As seen earlier, the basic dynamism to promote the liberalization of finance is actually the dysfunction of government functions under the post-war custodial state. It could be referred to as Keynesianism, and in terms of both institutional and discretionary administration, one of the characteristics of government functions under contemporary post-war capitalism is its administrative rule over capital accumulation. In the institutional aspect, the Keynesian policy still remains as a built-in stabilizer, while such aspects of the welfare state that featured the progressive income tax system and unemployment benefits have become nonfunctional due to the decline of the post-war Pax Americana system. When the main body of the post-war sustainable growth system collapses, the implementation of the Keynesian business stimulus policy aimed to create adequate aggregate demand does not work any longer.

For example, in the period of the Ford and Carter Administrations in the late 1970s, the G7 summit conference was first inaugurated at the Rambouillet Summit in 1976. In the London G7 Summit in the next year and the Bonn Summit the year after that, the locomotive theory was brought into the summit discussion. Under the locomotive theory, the U.S., Japan, and West Germany, all with remaining growth potentials, were asked to take the role of locomotive to pull the rest of the world from the worldwide recession at the time. America expanded government spending, but its stagflation was not improved, the unemployment rate remained at a high level, price decline did not occur, and recession continued. Around the end of the 1970s, the U.S. federal government put an end to the defunct Keynesian policy. Then, Paul Volker assumed chairmanship of the Federal Reserve and practiced an extreme credit restraint policy under monetarism. Also in the 1970s, on the plea that the government had become non-functional, the well known anti-tax campaign gathered steam in California, resulting in the referendum known as "Proposition 13." This campaign advocated "small government" in place of the existing, "non-functional" government. Finally, Ronald Reagan assumed the U.S. presidency.

The most common cause of the non-working government was the collapse of the capital accumulation system that had supported the sustainable, post-war American growth, which consisted of three major aspects in a set. The core of the system was the post-war corporate system, i.e. the regime of big business or "the corporate behemoth." It consisted of the matured oligopoly regime, the American-specific mass-production system, and the traditional pattern of industrial relations in a set. In addition to this main body, there were the worldwide political and economic framework of Pax Americana, the international currency system based on the IMF-dollar regime, the free trade system represented by GATT, and the American-dominated worldwide political and military regime which incorporated the Cold War. Those relations in a set formed the capital accumulation system (both structure and mechanism) for sustainable post-war growth, which occupied the core axis of contemporary post-war capitalism under Pax

Americana in the peak years. But, the whole of those relations became disassociated. The abrupt explosion of inflation and the dollar crisis from the end of the 1960s to the early 1970s were the systemic symptoms, and the whole system itself developed dysfunction. The cause could not be attributed to any particular component of the system; rather, the linkage of capital accumulation itself fell apart. The system was disbanded and the organic linkage between individual system components was lost. Thus, disbanded components, e.g. business enterprise and finance, began to pursue separately their new development in accord with their own logic. The non-working government functions were subject to resetting. Thus, deregulation became the core of the idea of Neo-liberalism set forth by the Reagan Administration. In other words, the basic logic of capital surfaced in a naked state on the top. Its base was the profit principle (G...G').

This point has been emphasized for the following reason: the actual capital accumulation system is not simply constituted by the logic of capital alone. There, the logic of capital constituted the core and incorporated various regimes and institutions in it—from the historical angle, it could be said that such relations have been everlasting—and for contemporary capitalism, it evolved into the capital accumulation system through the Great Depression in the 1930s, the New Deal, and World War II. In other words, in the course of being built up into a system, the post-war capital accumulation system had to be synthesized with social factors. Under a war economy, this is particularly true. In a circumstance where everybody has the possibility instantly to die, the state comes out all the way. Thus, in the U.S., various social relations, including racial problems, had been institutionalized in different ways and integrated into a set to form the capital accumulation system. Plainly stated, the logic of capital constituted the core, while various systems and institutions bundled together around the core to form the contemporary capital accumulation system. As this composite system has been dismantled, the market principles pursued by businesses and finance are revealed nakedly; these are the market-based principles.

Therefore, Neo-liberalism is nothing more or less than “capital-ism.” That is the logic of capital, so it is capitalist ideology itself. Capitalism is not an ideology by any standard. And, some may say that the meaning of “-ism” differs between socialism and capitalism. Capital-ism is translated into the basic principle of G...G'. Those relations that had been formed as the post-war capital accumulation system through historical development and which had taken shape in the post-war period as bundles of systems and institutions were disbanded, and capital-ism was separated from such systems and institutions. Thus, the bare capital-ism tends to explode abruptly. Industrial relations are the typical relationship which is institutionalized by incorporating historical, social, and cultural properties, whilst capitalism attempts to undermine such traditional industrial relations. Reaganomics is the landmark Neo-liberalism, and the policy ideal that embodies the aforementioned events. Accordingly, Neo-liberalism advocates deregulation and financial liberalization.

Broadly speaking, the transition to global capitalism is, as discussed earlier, a phenomenon where businesses and finance hunt for profit in various ways in their inherent business areas based on naked, market-based principles. Unfettered from the past institutional bundles or separated from constraints of national economy, they freely carry forward their operations, and thus they go global. In conjunction with business' transition to global capitalism, there occurs the neo-liberal shift of government

functions.

In this regard, the early 1980s set a milestone. Under the tint of Neo-liberalism, at the outset, financial policymakers hammered out monetarism and financial liberalization, and then various adjustments were made to the policy during the decade as the problem of the “twin deficits” and the related “appreciated dollar,” as well as the “dollar unrest,” became very serious. The Neo-liberal policy changeover also contained several backward moves, such as protectionist actions. The typical case example involves the automobile industry. Japan’s voluntary export constraints to the U.S. and the Structural Impediments Initiative between Japan and the U.S. occurred in this retrogressive context. Thus, American trade policy at the time was of the managed-trade variety. Against the “dollar” unrest, internationally coordinated control over the dollar, such as the Plaza Accord, was implemented. Therefore, things remained unstable throughout the 1980s.

Turning to the 1990s, however, we can see that the naked hunt for profit began to furnish itself with its own realistic and institutional linkage. The economic expansion of the 1980s, which had been supported by financial boom, ended at the close of the 1980s in the aftermath of Black Monday. However, proceeding into the 1990s, the American economy entered into the longest economic expansion phase in its history. The IT boom occurred together with the general economic expansion in the 1990s. America experienced its longest boom, and thus the theory of the New Economy gained force. Capital outlays by venture businesses, which were related to computer, telecommunications, and other IT-related business, began to increase around 1995 and then sharply increased around 1998. The Asian financial crisis in 1997 contributed to the investment growth in the IT industry. The Asian financial crisis was an extension of the worldwide financial instability continuing from the 1980s. Riding on the “Pacific Triangle Structure,” the primitive form of the global growth linkage discussed thus far, and within the global growth linkage, the Asian region achieved huge economic development, whilst the region had a skew in the structure of its international trade balance. The financial instability, which widened in the bulk flow of financialization pointed out earlier, in reality often caused currency and financial crises in countries and regions outside America. This is the problem of financial instability caused by financialization or globalization of finance. In 1994, there occurred the Tequila Shock, which was the Mexican currency and financial crisis. The Tequila Shock was preceded by the European currency crisis. It was not a crisis involving the Euro, but the crisis of the European Monetary System, from which Italy and the U.K. had once dropped out. This event occurred in 1990. Further, Japan was faced with economic bubbles and their puncture at the end of the 1980s. Also, Sweden was faced with financial crises in the wake of the collapse of its bubbles. In Japan, economic fallout continued in the aftermath of the collapsed bubbles.

In the context of the abrupt explosion of finance, the typical case was the Asian financial crisis in 1997. Then, in 1998, in the course of the Russian financial crisis, its leading hedge fund, LTCM, collapsed. Incidentally, Myron S. Scholes and Robert Cox Merton joined the board of LTCM. They were the economists awarded the Nobel Prize for Economics in 1997 regarding their work on the Black Scholes Equation, which forms the basics of financial engineering.

Whatever the case, beginning around 1997 and 1998, investment funds and speculative funds returned in bulk to America, as there was a perceived danger

regarding fund infusion in areas outside America, and investors practiced the “flight to quality.” This caused the bubbly development of the IT boom. The Internet went in service around 1994, and, at roughly that time, applauding diverse business models of IT, investment funds flowed into this business area and caused the boom of venture business. Thus, Silicon Valley greatly prospered. Venture capital and venture businesses raised funds from financial facilities available in New York, further raising funds through initial listing on the NASDAQ, and expanded their business. Moreover, they raised funds globally, so that massive doses of fund infusions further accelerated the IT boom, turned the boom into bubbles, and then finally punctured them. Those massive funds then shifted into housing to cause the housing bubbles.

The transition of America to global capitalism and the core relationship of the global growth linkage centering on America have emerged with America as the axis. Economic growth on a global scale, which included the strength of the American economy (often referred to, since the end of the 1990s, as “the reinstatement of the American economy,” “America reigning supreme,” and the “New Economy”), and the economic growth of China and other BRICs countries and of Asia, as well as the strong British economy, in broad terms can be specifically defined by their phase in the context of the global growth linkage emerging from the transition to global capitalism centered on America. China and Southeast Asia as well are typical examples of their engagement in the global growth linkage. The U.K., which served as the go-between in this relationship, earned 30% of its GDP on financial operations. Historical accumulation of financial facilities in City provides the base for its financial go-between function between EU and the dollar block. In the derivative transaction function, it is said that City exceeds New York in transaction value. For that matter, it is reported that Iceland made a mistake trying to get engaged in this function of City. Also, the economic development in Chinese coastal areas, which became remarkable at the turn to the 1990s, may be beyond one’s understanding unless the person looks to China’s involvement in the global growth linkage.

Broadly speaking, the structure that constituted the core of the post-war Pax Americana system, which was reshaped as a worldwide system through the New Deal and the war economy period, as explained earlier, had made a set of the post-war business enterprise regime, the corresponding government functions, and the order of Pax Americana, and in consequence this structure collapsed in the end. In the very difficult circumstance in the aftermath of the collapse, the 1970s arrived. In the 1980s, reorganization of the collapsed system got underway in two respects: globalization of business enterprise, finance, and information on the one hand, and the neo-liberal shift of government functions on the other. Those developments created the global growth linkage. This is to present a very-much-simplified structural outline.

Through all those developments, various traditional linkages still remain, for example, in American domestic demand, as a matter of course. One such typical case is the automotive industry, including its affiliated industries. However, expansion of American domestic demand at the time was primarily driven by the global growth linkage. For that matter, Japan has shaped, within the global growth linkage, a structure where businesses go global and earn profit on their global operations, even though there remains the export business in the country. Tokyo has become a global city, but the yen is not yet a key international currency. Japan’s financial market is eclipsed as a submarket of the New York market, and worse, by the puncture of its economic bubbles,

Japan's financial sector is burdened with massive bad debts and thus internationalization of the yen has remained a cloudy issue. That is, Tokyo has failed to become a global financial center. As a result, Japanese processing & assembling type industrial firms and the Japanese-specific management and production systems went global to a large extent starting from the most competitive automobile, electric home appliance, and general machinery manufacturers aimed at capturing the global market. Thus, for better or worse, as fallout of the economic bubbles and their puncture around the end of the 1980s, globalization efforts of Japanese firms were feeble in financial operations and instead centered on manufacturing operations.

The latest economic crisis made it clear that Japanese firms have globalized doubly. On the one hand, they have relocated their domestic production and operation bases overseas. Matsushita (Panasonic) earns more than half of its sales on overseas production. SONY's ratio of overseas production is much higher. Toyota earns half of its sales on overseas production, and Honda's ratio of overseas production is much higher. On average, assembly makers earn nearly half of their sales on overseas production. By definition, they have become global companies. The ratio of overseas production to total production has reached more than XX %. The overseas production ratio is much higher for major Japanese companies.

On the other hand, export from Japan is on the rise, too. Not only completed products, but export of parts, key devices, production facilities, and capital goods for overseas production run by Japanese firms is increasing by association. In this sense, Japanese firms are doubly dependent on the overseas market. The ratio of overseas sales is very high for major Japanese firms. Toyota, for example, runs many car plants worldwide, and local production overseas has increased its sales. And, now that the American market has contracted and the yen has appreciated, Japanese firms are hard hit by the decrease in export to the American market. The approach to look at this as the primary cause of the massive dismissal of dispatched workers by Japanese firms is insufficient. From a viewpoint of confining Japan to the national economy unit, such a view may be justified. However, looking at it from the standpoint of business enterprise, not confined to Japan as the national economy unit, the core of this problem is the reversal and contraction of the global growth linkage, to the extent that that both overseas production and export have sharply declined.

Therefore, massive reductions in employment by Japanese and foreign firms as well have been primarily caused by the collapse of the global growth linkage. The global economy as a whole is paralyzed, and this portends the prevalence of a very tough situation. Thus, a profound adverse impact hits every economic sector and each individual company. Without making that point clear, it is difficult to understand the reason why Toyota's profit drastically plummeted from \$1 trillion annually to zero, why Japanese part suppliers who run operations worldwide also suffer across the board the sharp decrease of sales and a profit squeeze, and why almost all the Japanese manufacturing industries, including automobile, flat-screen TV, toys, and sundry goods suffer a debacle. The problems of the American market, which is the seismic center of the current financial crisis, tend to precede those of others, but, to varying degrees, markets in every country and in each area, connected by this negative chain, also suffer substantial shrinkage in association with the global growth linkage now in reverse.

China, too, is now exposed to fierce pressure toward shrinkage as the global growth linkage, which provided the framework for the country's rapid economic growth

centered on its coastal areas, declines rapidly. The media cover closures of Chinese toy factories exporting products to the American market, the massive unemployment of migrant workers from rural areas, their return home, and the occurrence of their insurgence. The 4 trillion yuan stimulative measures, which are aimed at switching over to Chinese domestic demand from the collapsed global growth linkage, have laid the utmost challenge before the communist government. If a revival of the global growth linkage is unlikely for the time being, the predominant issue for China is whether or not they could shift to a growth linkage based on domestic demand over the medium- and long-terms. Seemingly, the presence of such a growth linkage has not yet caught on quickly among the general public, though some may begin to recognize the presence of the linkage.

In Japan, at first they argued that the financial crisis triggered by America would be less painful for the country, but now Japan suffers more serious damage than the EU and the U.S., as evidenced by its deep plunge in stock prices. This is because Japan has globalized centered on the manufacturing firms. That is, Japan's main thrust toward globalization is borne by the manufacturing industries that have an immediate effect on real economy, and those industries include the automobile and electric home appliance sectors which provide mainly middle- and high-grade products.

After all, the influence of the collapse largely differs by which place a country, region, individual firm, bank, or securities house was located in the global growth linkage. Some argue that the situation is tough because the expansion of the Japanese economy driven by the depreciated yen bubbles and the resultant export boom have collapsed, but this sounds somewhat superficial. The author can't help but speculate that those people don't understand the reality of globalization of Japanese firms to date. It is sure that Japan's export decreases substantially, but the sharp plunge of corporate profit and the degree of the stall in capital outlays and personal consumption expenditures obviously go beyond the extent of export decline. Looking at the breakdown of the 12.7% decrease in GDP over the October—December quarter of 2008, which was published yesterday, we see plant & equipment investment stood at (minus) 5.X% the decrease over the consecutive four quarters, and the rate of investment plunge was expected to widen further. It was said that the decline of plant & equipment investment reflected the sharp plunge of export that led to substantial production curtailment, whilst part of the capital good production was of course related to manufacturing activities overseas. Relations to overseas operations in this context mean in short that some core parts and capital equipment destined for overseas manufacturing plants are manufactured in Japan because overseas production of certain capital goods is difficult. Domestic plant and equipment investments largely involve these relations to overseas operations.

Here, flat-screen TVs provide a typical case, and either Sharp or Panasonic has closed their cathode-ray tube manufacturing plants overseas and instead manufacture liquid crystal panels in Japan. Likewise, sophisticated semiconductors are now produced in Japan. If you scrutinize products one by one, you may identify similar cases to these examples. Advanced types of functional sections and key devices—the ignition unit for an airbag, for example—are produced in Japan. Therefore, expansion of local production overseas naturally induces the related plant & equipment investment in

Japan. Further, it prods the related R&D investment. The aforementioned contraction of the global growth linkage adversely affects, on another level, domestic plant & equipment investment. It is of course true that contraction of the American market for Japan's export results in sharp declines for domestic plants & equipment manufacture. For example, in the case of Toyota, its production shift to Lexus and other large-sized high-market models backfired due to the sharp contraction of their market. The company has developed Tantra and other large-sized SUV models dedicated to the American market, and these models are to be locally produced in the U.S. Toyota has planned to supply substantial amounts of parts and components produced in Japan to its American plants. Nevertheless, domestic production of these parts is reduced substantially because of such a negative linkage.

Either in domestic production for export or in local production overseas, if corporate profit decreases globally, either operation naturally resorts to workforce reduction. Such layoffs directly bounce back in the form of shrinkage of domestic consumption expenditures. Some people make a lot of noise about export performance, while they do not touch upon the aforementioned problem. Perhaps they fail fully to grasp the problems involved in globalization of Japanese businesses.

Two big issues remain to be discussed. One is why the latest financial crisis has occurred. The other is what would be brought about by the latest global financial and economic crisis triggered by America or in what direction would it be possible to manage the future circumstance to come. As for the first issue, the author has discussed this already, and broadly speaking, it involves the financial liberalization emerging in the context of the transition to global capitalism and the financial instability brought about by globalization of finance that features financialization or a "Casino attribute" attached to the financial market. However, the issues inherent in the global financial crisis triggered by America, which started from the sub-prime loan problems, include the securitization mechanism that encompasses the sub-prime loan problems and the latest financial crisis, and the problems of the financial mechanism itself, including the so-called leveraged finance. Chart 4 shows its structural outline, which requires a lot of technical explanations, and the author discusses it in his paper placed in the "Quarterly Economics Theory" (Issue No.1, Volume 46; April 2009). Readers are requested to see the paper on this particular topic.

By the way, an essential point is that the "securitization mechanism" had serious institutional faults. Getting them straight, we can say these faults are (1) the problems involved in "structured bonds" related to "risk transfer" and "dispersion of risk" – false, off-balance sheet treatment by structured investment vehicle (SIV), partitioning by senior-sub structure, (2) over-the-counter transaction—the equity, credit default swap (CDS) and collateralized debt obligation (CDO) incorporated CDS, and (3) pricing problems of securitized instruments—problems of assessment rate of collateral, the assumption of default probability distribution that disregards the true nature of "risk" in the market (rather, "Uncertainty of the Night"). These faults compounded their problems cumulatively as securitization and re-securitization were piled up in a multilayered manner. In short, as the theory of the *forms of market* in Uno's Theory specifically made clear, the utmost problem underlay the fact that enormous financial expansion, inclusive of speculative manipulation, stacked up on the financial engineering approach that presumed the essential uncertainty of the market as the computable "risk," but such an uncertainty does not allow to delineation by probability

distribution.

Chart 4: Structural Outline of Securitization of Housing Mortgage Loan in America

Origination

Mortgage Bank

Prime loan (for standard households), \$7.0 trillion

Alt-A loan (slightly less creditworthy households), \$1.2 trillion

Sub-prime loan (less creditworthy households), \$1.5 trillion

American housing loan, total, \$9.7 trillion (at the end of 2006)

Distribution

Sellout

Banks, Investment banks

Securitization -> Re-securitization

Creation of Senior-Sub structure

Senior

Mezzanine equity

Liquidity, credit enhancement

SIV, Conduit

Fund raising

Short & long mismatch, ABCP, etc.

Monoline

Guaranty

Investment

Bank, Insurance, Pension

Hedge fund, MMF

(Source: The Bank of Japan, "Financial System Report", March 2008, p.5, Chart 81-1)

Therefore, problems of securitization for sub-prime loans have surfaced commonly as the problems pertaining to securitization as a whole, not limited to housing mortgage loans. On the whole, the ratio of mortgage-based securitization to the total is larger. But, the financial crisis has become generalized beyond the mortgage loan crisis. The related losses are huge and of an unparalleled size in history. Their impact is great enough to become the core factor governing the future direction of the world economy.

The losses calculated on securitized products and loans marked to market amounted in the aggregate to \$1,405 billion (approx. ¥140 trillion) according to the IMF estimation on October 1, 2008. The amount of those losses has been further increasing according to the latest available data. (Tables 1 and 2.) In addition to these losses, appraisal losses of home equity and real estate amounts to \$5.6 trillion (approx. ¥550 trillion). Further, there is a substantial decrease in the aggregate of new stocks issued at market price due to the stock plunge. In short, the value of assets has been blown off to an extent beyond comparison. The decrease in the aggregate of stocks issued at market price is roughly estimated to be around \$30 trillion (nearly ¥3,000 trillion). As the world's aggregate GDP stands at around \$54 trillion, the decrease is totally different in extent. Because of a huge loss of their possessed assets, banks capital equity is damaged

substantially. Both business finance and personal finance are adversely affected. In terms of the “negative wealth effect,” a loss of several percent of property possessed by one directly reduces the person’s consumption expenditures. Losses incurred by financial institutions tend to damage their finance directly to undercapitalize them. For bad debt, now they say it could amount to \$200 trillion. The business model adopted by investment banks has been disrupted, too. Goldman Sachs is the only survivor among the major American investment banks. For the investment bank, the approach to earn fees by expanding the securitization business has fallen apart, and Goldman Sachs has transformed itself into an ordinary commercial bank to come under the jurisdiction of the FRB.

Table 1: Estimated Potential Losses in the Financial Sector (IMF) (Unit: \$1 billion)

America: Amount of Loan Turned Sour (Appraisal marked to market)

(Row)

Outstanding loan

Estimated loss as of April

Estimated loss as of October

% Composition (to Total)

Bank

Insurance

Pension fund/savings

GSEs, government bond

Others (hedge fund, etc.)

(Column)

Sub-prime

Alt-A

Prime

Commercial real estate

Consumer loan

Business loan

Leveraged loan

Total

Losses of Related Securities (Appraisal marked to market)

(Raw)

(Column)

ABS

ABS, CDOs

Prime MBS

CMBS

Consumer ABS

High-grade enterprise loan

High-yield enterprise loan

CLOs

Securities, total

Loan and securities, grand total

* Prime housing loan includes the securitized part of GSE-supported mortgage loan.
Source:

Table 2: Estimated Losses in Financial Institutions Worldwide Related to American Loans

(Raw)

World, of America (Unit: \$1 billion)

(Column)

Aggregate

Housing

Commercial real estate

Credit card

Car

Commercial & industry loan/corporate debenture

Source: Goldman Sachs, cited in Nihon Keizai Shimbun, morning edition, January 23, 2009

Serious liquidity crises and capital shortages have spread throughout America, the U.K., Europe, and the rest of the world, causing a paralysis of financial intermediary functions, and as a result the entire functional capacity of the financial market is faced with the danger of collapse. The immediate bailout measure implemented is capital infusion by use of public funds, and there are other rescue measures, including the buyout of bad debt scheme and other debt disposal measures. To cope with the paralyzed interbank market, various emergency countermeasures have been implemented or planned. In America, the Emergency Economic Stabilization Act of 2008 cleared the Congress, and the federal government has stepped in with extensive capital infusion, the implementation of a zero interest rate policy, and the quantitative easing policy. Furthermore, the situation has developed into the government's fiscal stimulus measures to address deficient aggregate demand in real economy. In America, the Obama Administration gets under way and, after turns and twists, the Congress finally cleared the nearly \$800 billion economic stimulus plan.

Looking at the big picture, we observe that under contemporary capitalism, the sovereign state, which has gone through the Great Depression in the 1930s, the New Deal, and a period of war economy, has a potential policy drive to resort to every possible means to get out of the crisis it has plunged into. Now, its trump card has come into public view on a grand scale.

America experienced a war economy during the World War II period. In 1944, the peak year of the war economy, the scale of government financial expenditures amounted to \$100 billion—mostly expended on the military—which was comparable to American GNP in 1929 or 1939 in pre-war years. The fiscal deficit in years of the war economy amounted to about half of its GNP. America has an experience with fiscal ventures of this magnitude. Actually, the government authority under war economy has, theoretically, been continuing to date, in legal terms. If America has a desire for doing so, it could impose a state of emergency nationwide and give authority to the president to practice such a fiscal venture, even though it is dubious whether parliamentary politics could follow the president's lead. Of course, government spending during the

World War II period was increased on military demand. More than 40% of the country's GNP was spent on the military. At the same time, assistance under the Lend-Lease Act was implemented on the scale of nearly \$50 billion. Those expenditures were all supported by public finance. National debt management and financial control to this extent, as well as the war-time industrial mobilization system in a set, had realized vast war-time production. Gigantic businesses were mobilized for war-time production. And the state conducted allocation control over raw materials and other resources. Under the industrial mobilization system, the mass production method in the automotive industry was applied to all American industries, to the extent that, in terms of current parlance, the management of both the supply chain and the demand-and-supply balance were realized. As the core of the war-time government machine, the War Production Board (WPB) controlled the industrial mobilization system by hiring 30,000 personnel.

In fact, General Motors was awarded the largest war-time contract (military order placed), amounting to a total of \$13.8 billion. As the aggregate war-time production value amounted to more than 300 billion dollars, which would be several tens of times that amount when translated into current prices, GM was awarded contracts to the value of several % of GNP. In order to fill gaps between the company's insufficient production capacity and the military order placed, a majority of the additional production capacity was built by directly investing the government funds. Lending by banks of working funds to businesses was made on the Fed guarantee. On the other hand, to finance a huge budget deficit, the government issued bonds in massive quantity. In relation to the government bond issuance, the government successfully conducted extensive debt management. Corporate and personal incomes, which had swelled due to military demand fueled by war-time fiscal expenditures, were soaked up by the issuance of various types of federal bonds tailored to investment needs of businesses and individuals, which the government analyzed in detail, and at the same time the Treasury Department and the Federal Reserve Bank practiced support buying of federal bonds, and the FRB bought the shortest-term treasury bonds directly from banks at very low interest rates. By combining those operations, the government and the FRB succeeded in war-time financing that kept a grip on interest and at the same time issued a massive amount of war bonds.

A financial venture of that magnitude could finance even the budget deficit swollen under the current crisis. Even if a budget deficit of the magnitude of \$2 trillion is anticipated by the Obama Administration's \$1 trillion business stimulant measures over the next two years, it could be sustainable. For one thing, if left untreated, the global growth linkage emerging through the transition to global capitalism of the American economy is likely to collapse completely. Such a development would certainly trigger chain-reaction collapses of economies worldwide. As is typically seen in the automotive industry, when parts suppliers go bankrupt and the tie-in supply chain is hit hard beyond repair, it is very difficult for the supply chain to come back. If the surviving suppliers fill the gap caused by bankrupt firms, it is possible for the supplier industry as a whole to reinstate itself, but in the course of restoration, massive unemployment is likely to occur and society could not withstand the unrest caused by massive unemployment. In America, in a major trough of a great depression, one out of four, or perhaps even one out of every three workers would lose their job, and on such an extraordinary occasion, society could not sustain itself.

The Big Three on the brink of bankruptcy have asked the government for

bailouts. In exchange for stopgap funds financed by the government, they are required to submit turnaround plans to the government. In particular, GM poses a great problem. Probably, in the end, it is more likely for GM to go along with the scenario of filing Chapter 11 of the Federal Bankruptcy Code, or so-called “Chapter Eleven” with the court. In this scenario, GM can call off all its contracts, including labor contracts. Therefore, the UAW tenaciously opposes the planned GM bailout by Chapter 11. Specifically, GM bears a flood of obligations of corporate pension benefits for retired employees and health insurance premiums, which had been the key elements of the traditional industrial relations established in heyday of the 1950s and 60s. It is the issue of legacy cost. Compared to Toyota and other Japanese transplants which bear less burden, GM assumes \$1,000 to \$2,000 extra cost per vehicle produced.

When Chapter 11 of the Federal Bankruptcy Code is applied, GM can at once quit its obligations under the existing labor contract, but a substantial problem remains. The workers of the Big Three are all UAW members. Therefore, if the UAW does not accede to renegotiation of the labor contract with GM management, production and all other operations will cease. Accordingly, unless they accommodate this point with the UAW, GM management could not carry forward its turnaround plan. But, management could use the Federal Bankruptcy Code as a tool to shore up its bargaining power, and with things about to reset to the zero-base by means of the Bankruptcy Code, labor-management talks could hardly get underway. Legacy cost is the problem that surfaces in the historical context of industrial relations dating from the New Deal, the war-time labor-management structure, and then the post-war industrial relations that supplanted war-time industrial relations. By means of labor contracts, pensions, and supplementary unemployment benefits (SUB), workers’ welfare has been retained all the while. These are the basic components of the traditional industrial relations in post-war America. GM and the automotive industry drags the business enterprise system from the heyday of the post-war Pax Americana unchanged. That means legacy cost. And, seen in that light, deep cuts in legacy cost is necessary for GM to regain its competitiveness. To circumvent the conceived deep cuts, it would be necessary for the U.S. government to resort to Buy American campaigns and other protectionist measures. In such a situation, it does not make sense for the U.S. automotive industry to shift to eco-cars through the Green New Deal.

The automotive industry is significant in terms of the domestic demand linkage. Therefore, the U.S. government is providing public funding to rescue GM, teetering on the brink of bankruptcy. However, the collapse of the Big Three would mean that the U.S. automobile industry is dominated by the foreign forces of Toyota, Honda, and other Japanese-controlled plants, as well as Hyundai and other Korean-controlled plants. Together with Ford, Toyota, Honda, Nissan, and other foreign firms which have already expanded their U.S. production could keep or expand local production in order to keep the American automotive industry going after the crash of GM and Chrysler. Such a situation is probable. But, the problem remains if the foreign-controlled automotive industry is worth a healthy American industrial base.

The lack of a healthy American industrial base most affects the U.S. national defense. The American automotive industry, which is the largest U.S. manufacturing sector with a broad base of related industries, would be dominated by foreign firms. In such an environment, the U.S. could not manufacture tanks and weapons on its own because of the lack of its own technology. It comes down to what should be done. This

is applicable to some aspects of GM, as well. The characteristic of the defense industry as the base of American military capability to support Pax Americana has been held by major American firms, and now this aspect surfaces as the logic of the state.

Furthermore, semiconductors and other high-technologies pose problems. Comparing Japan with China, the latter is the supply source of sundry goods for America. Nothing else matters. But, what to do without the key devices, core components, and technologies from Japan? The once famous CCD in the video camera installed in guided bombs, specialty coatings used for stealth bombers, and other critical products and technologies provided by Japan are used ubiquitously in American weapons systems. Militarily, America cannot separate itself from Japan in terms of both industrial power and sources of technology. Conversely, America has a vested interest in the domestic industrial base and manufacturing industry, so America could not easily remove them at all.

Scenario for “Rebirth”

Let’s change the subject. Now, the Obama Administration talks about conservation of the environment or measures to control global warming as the priorities of his economic policy agenda. A so-called Green New Deal has become the buzzword. Krugman asserts that environmental programs could not mobilize adequate funds and lack quick effect. Other commentators have started saying that the primary contributor to the American recovery from the protracted economic recession in the aftermath of the Great Depression was the war economy during World War II, rather than the New Deal. Thus, the issue of the military gradually emerges at the top of the economic policy agenda. Or, the military factor could stand out rapidly. In short, America cannot be allowed to lose its domestic industrial base. So, they seek to create new domestic demand for the axis of capital accumulation in place of the now defunct global growth linkage.

Looking at it from another viewpoint, America is required to support the “global growth linkage,” which has been the source of huge profit for American firms and the American economy, through its political and military hegemony. This relationship provides the fundamental basis for the dollar as the key international currency. The real meaning of the impact of the September 11 attacks and the American wars in Iraq and Afghanistan, as well as its “fight against terrorism” in the wake of September 11, seemingly would be that the United States has renewed its aim to retain American hegemony. The node and intermediary of the “global growth linkage” are in New York financial facilities, and financial expansion through the securitization mechanism has been the engine and fuel for American economic growth. This financial expansion largely contributed to the prolonged prosperity and IT boom in the 1990s.

But, the September 11 attacks hit the financial center directly. The Lehman Brothers head office, often featured in televised reports on its downfall, had originally been located in the World Trade Center in New York, but, after the destruction of the twin towers, it moved to the present building. As described in the author’s textbook (“Contemporary American Economy,” Yuhikaku Publishing, 2003, column (8)), by the September attacks, Cantor Fitzgerald, the financial house that traded 30 to 40% of American federal bonds and occupied the 101st to the 105th floors in the North Tower of the World Trade Center, ceased to exist in a single sweep on that day. At least for the next several days, the American financial market was completely paralyzed. From there,

America's "fight against terrorism" took off. The country waged war against Afghanistan and Iraq. For a while, as many as 90% of Americans backed the Bush Administration in its fight against terrorism. Looking at American political and military issues, we can see the problem of American military hegemony logically comes up. When one talks about industrial anti-recession policy, its entanglement with American hegemony comes out sooner or later.

For the \$750 billion-plus Economic Stimulus Act, which recently cleared the Congress and was enacted, Republicans demand the allotment of some one-third of the authorized budget to tax reductions. The rest of the budget is allotted to grants to states, but its key element is the "Green New Deal," including preventive measures against global warming. Green measures include solar energy generation, wind-power generation, the development of other alternative energy, the development of electric vehicles and eco-cars, the relevant infrastructure buildup, and improvements and expansion of the power grid. However, the immediate question is to what extent these measures could serve as actual business stimulant tools. It seems difficult for them to exert any stimulus effect within as short as a one- or two-year time span. Taking into consideration the enormous asset impairment, including the dwindling value of securitized products and loans, bad debts, price declines in housing and real estate, the decrease in value of new stocks issued at market price caused by the stock plunge, and the scale of cut-down pressure on aggregate demand, including consumption and investment in real economy, we could argue there is probably an urgent need to realize a business stimulus effect within the next half year to one year. Otherwise, aggravation of real economy could bounce back finance and undermine finance again, which could accelerate the "negative spiral." And, if this happens, the nightmare scenario of an overall collapse of the economy would come true. Taking a look at the current conditions of GM and Chrysler, we see that they could not keep themselves afloat for the next half year. Therefore, such a measure that exerts a short-term effect by filling the existing deflationary gap and bringing the economy toward expansion is limited to direct investment in infrastructure. (Table 4)

Table 4: Magnitude of Loss and American Fiscal Burden

<Loss attributed to financial crisis and lost asset value>

- Dwindling value and loss of American loans and related securities: \$1,405 billion
 - Outstanding assets: \$23,210 billion
 - Bank, \$725 – 820 billion; insurance, \$160 – 250 billion; pension fund/saving, \$125 – 250 billion; government, \$100 – 135 billion; others (hedge fund, etc.), \$115 – 225 billion; (Cf. IMF, GFSR, Oct. 2008)
 - Increased to \$2 trillion (Cf. estimate by Goldman Sachs in 2009; bad debt: \$200 trillion)
- Lost housing and real estate value: \$5 – 6 trillion
 - Home equity value at the peak in June 2006: \$23 trillion
 - S&P CS Housing Price Index (20 cities): June 2006 – August 2008. down 22% points
- Decrease in aggregate value of stocks issued at market price: October 2007 – October 2008, \$22 trillion (World GDP: \$54 trillion)
 - Aggregate value at market price (major 53 stock markets of world): October 2007 (the peak) \$63 trillion, down to \$49 trillion at the end of August 2008 (Cf. World Federation of Exchanges)

- On October 2, down to \$41 trillion
- At the end of August – October 2: MSCI Index (Morgan Stanley) World Stock Index: down 15.7% (Nihon Keizai Shimbun, October 1, 2008)

<American fiscal burden>

- Till early October 2008: nearly \$2 trillion
 - Emergency Economic Stabilization Act: \$700 billion maximum (buyout of securities held by banks, capital infusion, etc.)
 - Others: approx. \$500 billion
 - Assistance to borrowers of housing loan: \$300 billion maximum
 - Purchase of GSE residential mortgage-backed securities: \$144 billion
 - MMF principal guarantee: \$50 billion
 - Obama administration (announced on January 7, 2009)
 - \$675 – 775 billion over two years □ further increase expected (to \$1 trillion)
 - Aims to create some 3 million jobs
 - Environment, energy (Green New Deal)
 - Education, social security areas
 - Approx. \$300 billion: tax reductions for working households, businesses
- Estimated budget deficit in fiscal 2009 (Congressional Budget Office): nearly \$ 2 trillion (\$1,845 billion)
- Ratio to GDP, 13.1% (real economic growth rate estimated to be minus 3.0%)

But, the source of earnings for American firms—though it is necessary to check industries and businesses one by one regarding this topic—is heavily dependent on the “global growth linkage,” in which the previously discussed global city functions and the new imperial circulation are combined with each other on the node of financial facilities in New York. For example, for GM and others automobile makers, China and other emerging economies have become large sources of earnings. The situation is the same for European, Japanese, Korean, and Taiwanese firms. The question is how to address the damaged global growth linkage. The main stream of the argument in the U.S. appears to be that the global growth linkage should be totally replaced by American domestic demand created by either the Green New Deal or any other alternatives. At least at present, there is no strict distinction between the global growth linkage and domestic demand. An exclusive eye is given to domestic demand-expansion policies taken by individual countries. In other words, the prescription for economic recovery features a very strong national economic image that calls for demand expansion within each country, and this increased demand is expected to prod each country’s economic recovery. As it turns out, the major issue that will come out in the next stage should be how to adjust globally these one-country domestic demand expansion policies.

As a matter of fact, in the light of the qualitative problems of the undermined global growth linkage and the downsized real economy resulting from the financial and economic crises, the American domestic business stimulus measures alone have limitations. Of course, such an American economic stimulus policy provides positive political effects. The New Deal in the 1930s did not lead to the final business recovery, but at the time when people were discouraged by the Great Depression, the New Deal program hammered out by President Roosevelt re-vitalized the American people.

President Obama's business stimulus program, too, has a politically invigorating effect, and also the significance of the Obama program is that it indicates the direction toward an important policy conversion in the medium and long terms.

However, a point very closely linked to the future scenario is that there is a strong tendency to look at things from the perspective of either the market or, alternatively, the sovereign state. This point implies a big issue. As the market fails, so the state comes out instead, the point suggests. The significance of this coming out of the state in this context can be reduced to the role of the central government. In America, it is the federal government, rather than the state, municipal, or other governments, which centrally holds control of the biggest budget and authority all around, and it intervenes in local and all national matters. Further, the federal government centrally holds functions of diplomacy that enables it to conduct external adjustment, and exercise military power as well. In the end, the capability to handle matters at the national level is concentrated on the federal government. In Europe, too, they often refer to the EU, but at present the element of individual sovereign states, such as Germany and France, comes out by their alienating the EC. If the worst happens in such a circumstance, concerns have already been raised that the tendency often referred to as the 1930s model and protectionism, the temptation to resort to protectionist measures from the standpoint of the nation-state or the national economy, will surface. The military is fast and snappy in handling crisis. In a critical time, they tend to argue, in Japan, too, that business does not recover because politics fails to get a grip. The scenario that comes out from such an argument is the tale of block economies and spheres of influence. They tend to yield to the temptation to resort to block economies or Lebensraum. Depending upon the extent of damage to the national economy, unemployment could cause anti-foreign nationalism.

The Buy American clause in the Obama Administration's business stimulant package, too, is questioned from some quarters for its anti-foreign tint. When an economic downturn becomes serious and society no longer withstands strains caused by economic fallout, such arguments would come out that question the responsibility of the state for economic recovery. Further advancing discussion on the state's responsibility, we may say it could result in the elevation of nationalism or patriotism brandishing traditional social values, and the worst scenario on the extension of these developments would be the state of affairs likened to the second coming of World War II, though the way it appears is different from World War II.

That means, one who questions what comes out from review of the meaning implied in the Obama statement on his economic stimulus package would inevitably think a great deal about the fact that various countervailing powers have emerged from globalization. For global warming, for example, the Bush Administration shunned any action on the plea of the likely loss of American firms' competitiveness. Bush's neglect of the adverse effects of greenhouse gases was challenged by several quarters of the American public. Thus, Obama won the presidential race. To what extent could the ideal and policy of these countervailing powers be mobilized to make them into political thrusts? On such an occasion, the fundamentals are power of influence held and exerted by local networks over the political process, which does not go through the central government. The problem of the center vs. peripherals is two-fold. One consideration is how big a government must be before it cannot move things forward at its own discretion any longer. So, governments have to pursue international policy coordination

through all available means. They aim to implement an aggregative New Deal or demand the creation of policy through global coordination. The G7 statements have been following this line. And now the governments which have joined in such policy coordination have increased member countries to form the G20 from the previous G7. Policy coordination now includes China, India, and a dozen other countries.

On the other hand, if the multilateral coordination effort fails to make an adjustment, the first fallout to come on the stage would be the national economic doctrine of rebirth. At this moment, America, Europe, Japan, China, and other countries intend to achieve national economic rebirth through a domestic demand expansion policy by means of extensive public spending. If the policy works effectively, it would be possible for them to stave off contraction of the economy to some extent, and the economy could become buoyant. But, in terms of absolute dollar amounts, the sum expended by a single country is inadequate in most cases to buoy its depressed economy. It could not replace the “global growth linkage” at all. America, which had vast national land resources and huge available capacity, could not achieve a New Deal. Whether for Germany, Japan, or America, the war economy model saved their economy from its plight. For that matter, the planned economy of Soviet Russia was, in effect, the same as the war economy model. When a national economy is disengaged from its global relations, this orientation becomes visible. It seems unlikely that a straight war-time economy or militarization of the economy could be realized with ease in Europe, Japan, or even America at this time, but for Russia, China, countries in the Middle East, and some others, inclination toward a war economy or a militarized economy would not be improbable. How to stave off this scenario constitutes a formidable challenge.

Then, making brief mention of America, I find it necessary to call into account the meaning of the dynamism that has elevated Obama to the presidency. Simply put, there is a feeling of standstill. In the light of the overall American perspective, the “global growth linkage” that supported American prosperity during the preceding period is of very limited dimension in the overall American economy. It now primarily refers to strongholds of global cities or the situation of these strongholds. Furthermore, taking industrial relations, for example, the transition of the American economy to global capitalism during the past period thinned down the middle class which generally consists of key workers and middle managers serving major business enterprises. The flesh and blood of the government’s so-called welfare functions or welfare state, which provided medical care, insurance, and pensions, were in reality company welfarism centered on key workers serving big businesses. During the 1950s and 60s, big businesses took on most welfare services for their employees, and only those who were not eligible for company welfarism were covered by unemployment benefits or welfare benefits provided by the federal or state governments. Things at present have been little changed from the system put into effect in the 1950s and 60s. But now the middle class are suddenly exposed to an uninsured status and unstable employment. As the center of the “global growth linkage” was attacked, America waged the “fight against terrorism,” the Afghan and Iraq wars, in an effort to retain Pax Americana. But, the isolated military ventures that disregarded the United Nations have been unsuccessful. Then, the global financial and economic crisis broke out. Thus, “change” has been badly needed.

Obama’s words and actions, seen in his speeches and various materials, characterize his concern with the real problems in people’s daily lives and his stance in support of middle- and low-income earners. He appeals directly to people, pointing to

their fears in daily life. Business managers and professionals in business services, touched upon earlier in the discussion of the global city, include, to be sure, Republicans and supporters of the Republican Party, but right now many of them have dropped out from the Establishment. Now, Republicans and their supporters include people who have dropped further out into the peripherals of the city, workers assuming various jobs in the city area, and newly-arriving immigrants who are associated with city functions with a tiny share. Somewhat paradoxically, those people who have dropped out from the mainstream of economic growth traditionally form the constituency of the Democratic Party.

The Republican Party emphasizes tax reduction as an effective business stimulant measure, because the party basically conceives that if the system works by tax reduction, the global growth linkage, including businesses, could be retained. However, a feeling of insecurity has been spreading rapidly these days as they consider the possibility that things would not continue in that manner since the dropout rate has been increasing. There prevailed such a feeling of anxiety and acknowledgement of the reality among the public that the exercise of military might to keep up the entire system in the form of Pax Americana could not work at all. So, things went in the direction that, other than Obama, there would be no choice. Let's carry things forward not from the standpoint of the sole superpower, but by means of coordination—this is Obama's scenario.

Not only with Europe, but even with Iran, things are moving in that direction. Only with Afghanistan, which lacks the attributes of a nation, is the aspect of American direct intervention highlighted, but the Obama Administration says the military forces of the U.S. and its allies will gradually withdraw from Afghanistan to shape the framework of a pacifist nation there. The same approach has been adopted in America's relations with North Korea, to the extent that America has to continue the Six-Nation Talks. The Obama Administration emphasizes adjustment and dialogue with China, too. On the whole, the American course of politics through the Bush Administration had been that by evangelizing, throughout the world, the ideal of neo-liberalism and the market-based principles in a set, the country sought to increase profit from the global growth linkage centered on America. As it turned out, the limit of such a course of politics came out visibly in the aftermath of the serious financial and economic crisis occurring "once in a century." This sense of crisis, which we share, has led to the birth of the Obama Administration. Recently, neo-liberalism has receded considerably in economics and every other field. However, a difficult problem is whether the new course of politics could work well. The Obama Administration must implement its policy challenge within a short time. If visible accomplishments would not appear within one or two years, the course of politics might be reversed.

It is fairly difficult for America and other countries actually to carry out international collaboration and adjustment successfully. Every participant has its own problems. China, for example, is rigidly constrained by its national interest at the time when the country is faced with a danger of disintegration. The Communist Party of China keeps up the party style of the nineteenth century and retains the mind-set of typical power politics. There occurred the Russian invasion into Georgia, too. As was expected, the financial and economic crisis spreads out its impact on the weakest economies. If terrorism or a regional conflict boils over, some might believe they have been provided with an excuse to intervene in the dispute. On such an occasion,

adjustment becomes necessary among the countries concerned, but their collaboration would be constrained by their domestic business stimulant measures or their own domestic problems.

Using the unsuccessful political adjustment, some might wish to bring things toward a war-time economy. However, rather than the reality of a war-time economy, the author attaches importance to the situation where the war economy model is not improbable and may require serious consideration. Reference to the war-time economy model always causes misunderstanding, but war is not the only choice. (Chart 5) Though different in the content, even the Green New Deal will do instead of war, though it should be remembered that the economic rebirth model based on central planning and a closed economy supported by nationalism is problematic.

Chart 5: Composition of American War-Time Economic System during the World War II Period

War-time administrative machinery (WPB, OPA, NWLB, etc.)

Price control

Creation of war-time production facility, conversion of existing facility to war production

War-time production control

Material flow regulation, other industrial controls

War-time labor control, stabilization of industrial relations

<War-time industrial mobilization system>

<Basic loop of economic expansion>

Military demand programs

Finance

Military contract

Major 250 firms, organized labor

Expansion of corporate profit and incomes

War public finance and financial machinery

Source: Tetsuji Kawamura, “Contemporary American Economy”, Yuhikaku Publishing, 2008, p.55, Charts 1 – 3.

As the key to this problem, the necessity of pursuing an approach that helps expand more local-specific activity should be emphasized. Locality in this context may be a traditional lifestyle or, in Japan for example, things specific to rural areas or local communities. A massive amount of fiscal funds would be expended in a concentrated way on these things, free from fiscal constraint. If it comes to that, market systems would have to be restrained. However, the path toward a Soviet-type centralist, planned economy does not make sense. This path involves such serious problems that ideology of national integration or elements of the politics imported to the system of governance would make it repressive or create a political body endorsing the rule of dictatorship. It is important for us to have a scenario which circumvents such a path, and such a scenario could be developed.

Discussions so far have tended toward “modified capitalism,” rather than the militarized economy. We refer to the existing systems under the generalized term of “capitalism,” but actual capitalism is precisely “modified capitalism” per se. Pure capitalism defined in the theoretical model has been historically non-existent in the real

world. Let's return to the discussion of capital-ism, which is mere ideology. Capital-ism is the mere ideal type of capitalism that consists of the logic of capital only. Real capitalist societies invariably embody their traditional elements, which include history, climate, culture, and other attributes specific to the region where the society is located, and these elements are combined, in a set, with the market, businesses, the financial system, and further government functions prevailing in the society to stabilize basic elements that constitute capitalism in the real world. At the very least, a system established by these elements is the capitalism we find in the real world. America is an exception to some extent. That is, the country lacks the adequate base of traditional society, and, as a result, has shaped the framework of a society based on market-based principles. However, as already discussed, America, too, has developed its economic system by integrating its particularities. The past transition to global capitalism was the runaway prodded by the fundamentalism of the market-based principles that dismantled those historically complex systems. But, in the American system, too, the sub-prime loan problem took place. The underlying causes of the problem are immigrants and racial problems, which are embedded in the basic process of American society. These problems, combined with the transition to global capitalism, have appeared as the sub-prime loan problem.

At any rate, capitalism in the real world does not consist of the basic logic of capital, i.e. $G \dots G'$. When the runaway of the basic logic of capital goes a little too far, this causes problems, and the capitalist system is checked and corrected once again. Correction in this context is, in the case of businesses, including Japanese firms, related closely to corporate society, which is a community, too. Correction to the overshot capitalist system is made by reconstructing corporate society, which is often brought up in the context of Japanese-specific management systems. In a situation anywhere in the world, where the necessity for such correction is talked about, other than reconstruction of corporate society there is no alternative corrective measure. This gradually eases the discussion toward the topic of commune-ism versus capital-ism. Unless conjugated with commune-ism, capitalism cannot be stabilized as a social system. When people learn that if they go only with capital-ism, society will collapse, then they would launch countervailing moves.

On such an occasion, the problem is that national policy or the central government is not the only way to cope with the situation. Certainly, capitalist society so far has had a government system based on democracy and has been summed up by the framework of the national state. However, globalization has relativized the national state framework. In that sense, globalization is a new development. As a result, problems have surfaced very individually and separately. Within a business enterprise, the problem may be treatment of permanent employees and dispatch workers. In rural areas, it may be the topic of the collapsed hamlet or marginal hamlet. Reconstruction of community or social systems, with respect for traditional elements, would allow once again the flourishing of components which have been there for several centuries. The policy for such reconstruction is positioned in a different dimension from the world where fiscal discipline, neo-liberalism, and market-based principles are favored and prevail.

Effective measures for reconstruction on the aforementioned occasion were paradoxically found in America during the war era, as far as contemporary capitalism is concerned. Endeavors for reconstruction there were primarily organized by principles of

democracy. The federal government, state and other local governments, corporate society, ethnic communities, and local communities were systematically mobilized by the principles of democracy. No other effective alternative was offered other than reconstruction under such an extensive framework.

Globalization certainly provides some benefits. Its negative aspects, however, include the rise of religious fundamentalisms and the collapsed African states based on tribalism, among others. However, one of the salient aspects of globalism is the real spread of a way of thinking linked to people's principles of ordinary life values. For the spread of people's values, the globalization of information is crucially important. People's principles of values form the basis of a "living democracy," wherein everyone realizes and makes the point as their political right that the greatest value for them is being assured of stable daily life and of its continuation. The world where people share living democracy with one another as a shared reality has spread. As a process, living democracy certainly has some aspects that stand out. In some instances, people tend to give a lift to the autocratic state, often in the form of populism, but people tend to follow the dictator in a convincing way. Chavez may be such an example, and in the context of Latin America, he may be needed, some would say. In short, with a dole-out policy, the dictator provides by all means food for people who could not get a meal, and several means for that purpose are available for him. Globalization has made this clear. The spread of living democracy is significant because it suggests that, for such a movement to flourish, globalization should not be eliminated. To exploit positive aspects of globalization, national governments surely remain as an important entity. To retain the positive aspects of globalization, this should not simply be denied.

On the other hand, with market-based principles alone, things could not continue. Taking the food-safety issue, for example, it would not do to buy foodstuff from China merely because Chinese products are cheap. A restraint on such a market-based approach has been operating globally. Low income earners who buy Chinese products because these products are offered at cheaper prices suffer health consequences. Americans do the same. If based only on market-based principles, it is a matter of course for consumers to buy cheaper products. But, in any traditional society, there is a rule of "local production for local consumption," though its scope varies widely. Globalization has expanded the significance of locality. Therefore, reconstruction of the damaged social system will be promoted, centered on locality. However, the difficulty for capitalism to respect locality is exactly how to situate businesses within this logic. To solve this particular problem, government functions and politics have to intervene between the logic of locality and businesses. But, there, adjustment is very difficult. Businesses have the basic logic that profit-earning is all. Eventually, it is difficult for them to get away from their basic logic. Let's take up America from the viewpoint of corporate profit. The problem now becomes how to make adjustments with the interests of America which have "sped up" in the process of transition to global capitalism. Here, the problem of international coordination comes up. If America would withdraw from the world and retire into isolationism, that would be another story. However, in such an instance, America would have to throw away totally its profit earned from the transition to global capitalism. The rest of the world, too, still owes much to American coordinating capability, though its capability has suffered a setback.

As a practical matter, the problem of external adjustment compels the question

of what will happen to the attribute of the dollar as the key international currency. For global capitalism, now plunged into crisis, how America and the capitalist world organization will perform the necessary shift and become reorganized accordingly—how the question of the dollar will be resolved—is a critical issue to determine the direction of the reorganization and shift. In other words, in terms of economics, one of the maximum domains that require multilateral adjustment in the end is the dollar problem. This is because if the trend continues unchanged, it is likely that the dollar would slip from the position of the key currency because of two strains: one is the American federal budget deficit, and the other is the Fed's emergency monetary measures. The dollar-implied problems seem likely to lose it its key currency position. If the dollar is pushed into such a situation, the “global growth linkage” would truly become unrecoverable. In that case, within a few years, America would eventually retire to its domestic homeland, which extends over that vast national landscape, has a population of 300 million, and has been generously taking in people who have fallen into poverty elsewhere in the world. But, for now, the world would miss the economic polar axis. Such a situation would be very critical for all.

At present, America is preparing for a massive issuance of federal bonds, and the Fed is ready to step into direct industrial finance. Some three schemes, including buyouts of CP of businesses, have been developed already. Theoretically, the Fed says it aims to provide support for the American financial system, but it has stepped into practices of providing support to cash management of non-financial businesses. This means that the Fed takes on risk assets. On the fiscal front, if massive issuance of federal bonds incurs a loss of confidence and the influx of foreign funds stops, it would become impossible for the federal government and the Fed to support the value of the dollar. If the possibility of a dollar plunge increases in this way, the attribute of the dollar as the key currency would be undermined. In consequence, the existing global fund circulation centered on America could not function. The disruption of the fund circulation would stop the entire global growth linkage. In reality, it has already stopped. Presently, the dollar is supported largely by China, Japan, and oil-producing countries. As a matter of fact, there is no currency eligible to replace the dollar. And, as international funds are faced with nowhere else to go, the dollar remains in the position of key currency.

In fact, it is certain that a phase of an appreciated Euro and an appreciated Pound Sterling has existed in the global fund circulation and financial linkages so far, whilst massive funds flew into the EU. In the midst of financial expansion during the past period, a lot of American money, including funds from hedge funds, flew into Europe, which was estimated to have kept up the appreciated Euro. Of course, there is inflow of funds to America from the EU, and the piping bore of reciprocal fund flows across the Atlantic is large. Furthermore, the Middle East fund flows into the EU via the U.K. In addition, there were days when hoarding of the Euro increased, motivated by the objective of assets distribution. However, in the midst of contraction of fund flow due to the spread of the financial crisis, the Euro has ended its temporary appreciation.

It became apparent that the Euro lacked from its advent the depth of supporting financial facilities comparable to the New York financial market. The economic growth potential of the EU is weak, and the Euro is subject to financial constraints of individual Euro area countries. Thus, the dollar funds could not find anywhere to go.

Further, the dollar, as the key international currency, is necessitated for

settlement of international transactions. For this reason there were the appreciated dollar phases in the past. And, as far as the past several years are concerned, there has been no dollar plunge. Nevertheless, loss of confidence in the dollar could lead to an overall collapse of currency markets. What is to be done about the risk of a potential dollar plunge? At that point, the multilateral collaboration scenario would come to the fore. As a world government is non-existent, adjustment on the currency issue would become extremely difficult because each country's interests conflict with the others'. Some have proposed an idea to create an Economic Security Council within the U.N. organization that would have authority comparable to the U.N. Security Council. The suggested Economic Security Council could have strong authorities. Would small countries be offered seats in the Council, or would the G20 members occupy the seats instead? It remains unclear. The U.N. Security Council has power and authority to impose military sanctions, and if the Economic Security Council would be delegated power and authority by the U.N. to impose sanctions against a country which does not observe a Council decision, adjustment to the currency issue through multilateral talks would become possible. Adjustment of conflicting interests is difficult, but at the start, adjustment could be made, for example, on the dollar, Euro, the Chinese yuan, and the eclipsed yen conjugated with the dollar. Another approach would be adjustments between regional currency areas. At any rate, the value of the dollar would certainly decline. Could America concede the declined dollar value? This scenario could arise when America is pushed into such distressed conditions.

In association with the issue of regional currency areas, and with the problems of locality discussed earlier, we can proceed to a discussion on potentials of region, which is an area that goes beyond the framework of the national state. One possibility is of an Asian region. Then, there are suggestions of the EU and the rest of Europe and Africa forming a region. It is uncertain how Russia would move on this issue. America might contain Latin American countries in an Americas region, though its realization seems very difficult. Under such regional developments, political collaboration would be required. For growth potentials in these regions, the discussion should not be of a naïve national economic idea to foster industries focused on the automotive industry. But, hopefully, adjustment on conflicting interests within a region could be focused on the concept of local production for local consumption, or on locality, which takes advantage of regional interlinks developed over the past two or three decades.

Viewed from the slightly broader post-war perspective, the world was faced with the decline and the resultant conversion of the post-war Pax Americana around the end of the 1960s. The point at issue here is in what form the post-war capital accumulation system has developed through subsequent years to date. In short, there has been a transition to global capitalism centered on America. The decline of Pax Britannica led to World War I, and then the Great Depression occurred, beginning in 1929. In the aftermath of the worldwide economic collapse in the 1930s followed an era of bloc economies and the dismantlement of the world economy, and then World War II, which led to the reorganization of the world order centered on America. That was the post-war Pax Americana. On the other side of the scene, the Soviet system had emerged. Both systems were based on their war-time industrial mobilization regimes. In the post-war period, the Soviet Union adopted an extreme form of the war-time economic models. It was a perfectly centralized, planned economy, and its way of organization was similar to the American war-time economic system. Different from America, the

war-time economic system of the Soviet Union lacked private business enterprises, but the Soviet Gosplan and the American War Production Board, for example, stood in roughly the same position.

However, the Soviet Union failed to ride on the “global growth linkage,” which came about as a consequence of the transition of global capitalism centered on America that followed the decline of Pax Britannica and its resultant conversion. Essentially, the Soviet Union collapsed because it could not go in that direction. In contrast, Asia successfully took a ride on the emerging framework of the “global growth linkage.” At first NIES and then ASEAN countries worked out industrialization and economic development and improved their living standards. China was the late-comer. In the globalization process of businesses in the advanced economies, the destinations of offshoring and outsourcing of global corporations were South Korea, Taiwan, Hong Kong, and Singapore, i.e. NIES, at the earliest stage, then expanded to the ASEAN region, including Thailand, Malaysia, Indonesia, and the Philippines, and later to the coastal areas of China. The remarkable economic development and improvements in living standard begun in the 1980s in NIES and ASEAN countries seemingly took hold as body blows to the Soviet and East European socialist regimes. The rapid economic growth period of NIES and ASEAN was coincident with the globalization of information. First, via satellite broadcasting and then other IT media, information regarding the success of another world flew directly into the Soviet bloc countries. “Virtually,” their social system could not survive any longer.

Until the end of the 1960s, in terms of living standard, the Soviet Union and East Germany had been comparable to or probably surpassed Asia. At the time, North Korea was yet outpacing South Korea in living standard.

South Korea, which then adopted an export-oriented industrialization strategy, established a free trade zone in Masan in 1971. Since that time, South Korea has accelerated the tempo of its industrialization and economic growth. Taiwan followed a development path similar to South Korea. The industrial development of the two countries closely matched the conditions sought by American firms in the aftermath of the decline of the post-war Pax Americana and by Japanese firms, both of which had come to a standstill due to their high domestic cost structure. The inflow of information that showed economic development in NIES and ASEAN as well as the improvement in the standard of living for the people in these regions supposedly made people in the Soviet Union and the Eastern Europe feel that a market economy or a capitalist economy would be better than their planned economy. However, if they believed that everybody would become rich under a capitalist economy, it was an illusion indeed.

Certainly, in terms of politics and the military, the Soviet Union with its nuclear capability appeared to be the superpower rival of America. But, from the viewpoint of conversion of the world system through World War I, the interwar period, the Great Depression, and World War II, in the post-war world, the order of Pax Americana centered on America first came to the fore, and the Soviet Union and the post-war socialist system led by the Soviet Union looked like the inverse or a subsystem of Pax Americana. In the declining course of the Pax Americana, several developments, in particular the transition to global capitalism, occurred, and as a result the Soviet negative conjugated with Pax Americana became disrupted, too. It is not the case that in the early 1990s the Soviet and East European socialist systems collapsed, and then globalization began suddenly in the 1990s. The onset of the collapse of the Soviet and

East European socialist systems immediately followed the decline of the post-war Pax Americana and the start of its conversion to a global system. The state of affairs which occurred in the early 1990s under the Soviet regime was that they could not retain the conventional socialist system and planned economy in the process of the conversion of Pax Americana to a global system. On the other hand, China eventually staved off collapse and, with its reform and opening-up strategy, rode on the “global growth linkage.” First, China tackled the economic development focused on its “coastal areas” and carried forward by gradually switching the domestic economy from the socialist planned economy to a so-called “market economy.” But, right now China faces a challenge of how to steer its economy, as the “global growth linkage” has collapsed and is largely being rotated negatively.

China’s success in its “reform and opening-up” policy and the “shift to socialist market economy” made gains under the larger framework of the transition to global capitalism which evolved in the process of the decline and conversion of the post-war Pax Americana. (Chart 6) In the transition process, first NIES and then ASEAN emerged, and democratic transition and wage hikes occurred in South Korea and Taiwan around the end of the 1980s. Then, in the first half of the 1990s, economic bubbles became significant in Thailand and Malaysia. In these areas, foreign capital, in particular investment from Japanese firms, was infused in massive quantities, and thus the earlier were the days of the “Pacific Triangle Structure,” the higher became their dependency on the American market. Destinations for their exports also included Europe and Japan. Riding on that structure, they achieved industrialization and economic growth. However, their national economic unit was small, in particular that of NIES was very small as evidenced by Hong Kong, Taiwan with a population of 20 million, and South Korea with a population of 40 to 50 million. Thailand held a large population, but its workforce was rather limited. In consequence, their wage increased substantially. Just in the early 1990s, the author went to Thailand, Malaysia, and Singapore to conduct field surveys. Funds flown into the suburbs of Bangkok and the real estate markets in these countries created booms there and invited the quick influx of speculative money from investment funds and hedge funds. In short, they caused bubbles in these countries. As an extension around various limitations to growth developed in NIES and ASEAN regions, the coastal areas of China came on the scene. Deng Xiaoping seemingly had gotten a grasp on such a trend at the time when he gave a series of lectures arguing for acceleration of “reform and opening-up” and “socialist market economy” to ride on globalized capitalism, called “Lectures in the Southern Inspection Tour,” and on the turn of the 1990s, the buildup of the industrial base there gathered momentum.

Chart 6: Perspective of Emergence and Deepening of the “Pacific Triangle Structure”

Japan

Limitation of export, U.S.-Japan trade friction, appreciated yen

Major manufacturing firms

Relocation of production base

Export of key components and capital equipment

Direct investment, automobile, electric home appliance, general machinery

America
Decline of post-war corporate system

Export
East Asia, Export-oriented industrialization strategy
China
Reform and opening-up policy
Deepening mutual relations
NIES
Cost increase
Wage increase
Democratization
ASEAN

Therefore, adverse effects of the backspin this time are substantial in China. For a while, China will face a very tough situation. Rarely reported, there occur incidents of unrest here and there throughout China. Massive unemployment of the migrant workers coming from rural areas who supported the export-oriented industrial development in Chinese coastal areas has become a serious social problem. The attainment of “8% economic growth” that can mitigate unemployment problems has become an absolute must for the Chinese government. Chinese coastal areas extending from the Northeast (the former Manchuria) to Guangdong enjoyed the development associated with the “global growth linkage.” But, now, it remains a challenge for China to work things out within the domestic framework at the time when its economy is suddenly separated from the external world.

As an emergency countermeasure, the Chinese government has hammered out the 4 trillion Yuan domestic demand expansion program package, including infrastructure investment. By tax and budget reforms which have been carried forward together with reforms of state-owned enterprises during the past period, a mechanism that secures sources of revenues for the central government has been shaped, so that China has a fiscal capacity available to help its economy grow. In China, where farmers account for 70% of the population, economic disparity between the inland areas and the coastal areas has become a significant problem. However, the challenge to China is how to create a domestic linkage that truly generates incomes for farmers, as effects of fiscal business stimulus measures are temporary and its exports to the American market riding on the “global growth linkage” does not work any longer. So far, money sent by migrant workers has accounted for a substantial part of the income sources in inland areas. The money remitted by migrant workers has been shrinking rapidly in recent days. Two years ago, the author went to Nei Mongol for a field survey. At the time, Nei Mongol’s economy had been bubbling over due to energy-related resource development, such as natural gas and coal. Through resource development, the country took in foreign investment and used the attracted funds for industrial development and the development of tourism. However, its economic development was heavily dependent on natural resources, similar to the Russian situation. Under such circumstances, could a country successfully shift to the domestic demand-driven growth linkage or not? If not, the country should continue fiscal business stimulants forever. How long could an economy endure supported solely by fiscal business stimulants?

Compared to these situations, India yet has the potential for internal economic development, because only part of the Indian economy was geared to the “global growth linkage.” With its overwhelming population, the Indian economy gives an impression that its growth has been very slow since its changeover from the planned economy in the early 1990s, although the author cannot say for certain, based only on his three field surveys there. The Indian economy has difficulties as it sustains various troubles in politics, religious antagonism, regional conflicts, and geopolitical issues. Continued slow growth is a distinct possibility for the Indian economy. Internally, the Indian economy has plenty of social linkages specific to its traditional society which has not gone global. Thus, candidly speaking, in India there are potential strata of buyers for Tata ¥200,000 cars, which could possibly find buyers in the low-income strata in China, Southeast Asia, and Latin America. China of course has such strata of potential buyers, who would not buy the flat screen high-grade TV sets, but may buy monochrome TV sets using the round CRT. There was a monochrome TV set manufacturing plant run by a Japanese firm in Malaysia, and the author was told that the Malaysian plant was closed and relocated elsewhere in Asia in order to sell the product in India.

For those and other low-end products, there are enormous potential demands all over the world. So, it is not improbable to have such a scenario that would reconstruct the local or regional linkage, instead of the global linkage created by global companies which have been competing fiercely on the most advanced technology. Such terms as “traditional society” and “local production for supplying local consumption” may be associated with the image of farm products, but there are substantial parts that would produce and consume low-end products by this pattern if local or regional linkages could be established between producers and consumers in every region. Certainly, China practices reconstruction of regional linkage. The government has launched programs in rural areas to subsidize the purchase of electric home appliances such as washing machines, refrigerators, and TV sets, as well as automobiles, which are produced by domestic makers. It is interesting if these programs reflect the government’s intention to establish the domestic growth linkage, though the author can’t say for certain without visiting China and eye-witnessing the extent of the domestic growth linkage so far established. But, various alternatives are likely to appear in the wake of the structural economic crisis, so the author can admit the probable emergence of such internal linkages.

Recently, it seems, simply stated, that reconstruction of the traditional mode of living is critically important. For reconstruction of the traditional living mode there would be various approaches specific to a particular region or a locality. It is neither a return to unsophisticated conservatism, nor a simple return to traditional values, nor to the 1930s Japanese Physiocracy. Rather, it involves efforts to eke out the good stuff based on a traditional way of living, in the light of diverse information acquired from the global linkage, for example, in accordance with Anthony Giddens’ “Reflexivity.” Unless these regions or localities could work together, it seems difficult for any economy to achieve improvements in the standard of living, and this includes peripherals within advanced economies and the developing world as well.

Reconstruction of the traditional mode of living is applicable to both the world as a whole and Japan in particular. If this approach were employed, the issue of decentralization of authority, not merely as an empty slogan, would arise. In this regard, if the current critical situation would have occurred subsequent to further advancement

of the regional system now being discussed and the completion of the transfer of tax revenue sources and other centralized authorities to local governments, a fairly likely scenario of Japan's rejuvenation could be delineated. Unfortunately, the regional system is likely to end up as mere empty slogans. In this light, it comes to the point that immediate change of government is necessary to implement that regional system, otherwise a lot of regions in Japan would collapse if things remain unchanged.

Typically seen in the automotive and electric home appliance industries, the closure of plants in peripheral areas has begun spreading. Local communities heavily dependent on those plants have been directly affected by plant closures. Massive lay-offs of temporary workers alone have caused the complete lack of activity along shopping streets and at buffets in the affected localities. Those plant closures and the lack of activity in localities have occurred in the part of city functions and various city services delineated in the composition of the earlier discussed global city. These relations are applicable to either the headquarters of a global company, or on a smaller scale a plant of a global company in the case of Japan, although examples in Chart 1 are limited to the case of America. For example, Toyota City in Aichi Prefecture, Nagoya, Hamamatsu, or Akita City, which was once described as the company's castle town, represented these relations. In the light of Obama's Green New Deal, the scenario to rejuvenate the hard-hit peripherals would be letting Silicone Valley produce solar panels, or letting a car plant in Alabama convert to assembly of electric cars, for which budget has to be appropriated. If the federal government would manage such a project, which could be allowed when any other alternative is unavailable, the attributes unique to the locality would be totally lost because the logic of uniformity is applied. Such a case would be unacceptable. In the case of Japan, such a scenario of rejuvenation of localities would require at the very least a regional system.

Of course, in America, state governments have held strong authority from the beginning. However, in the course of the current recession, the fiscal base of the state governments has become so fragile that they are on the edge of financial collapse. In particular, California, the central place of housing bubbles and sub-prime loan problems, is faced with a severe financial plight.

Thus, the federal government has come to the point where it is required to support some states financially. The issuance of state bonds is rather limited in raising funds. The capacity to raise funds globally is limited to American federal bonds and the Fed. If the credit-creating function of banks in the private sector collapses, the Fed has to take over the credit-creating function, as the states lack a central bank. In any case, such a fund-raising task could not be assumed at the state level when things have run into such a critical situation.

Certainly, the federal budget deficit continues, while the country's roads and other infrastructure have become older. In California, too, the state funds earmarked for economic stimulus policy have to be diverted to maintenance and repair of the damaged roads in order to prevent car accidents. The same is true for facilities held by communities. Current American business stimulant policy looks to have room for further improvements thereto. The "green" aspect is added to the business stimulant policy addressing these communities. Existing public transportation systems remain poor, and railways have long since decayed. The idea of reducing cars on the road and instead increasing public transportation systems would be difficult to work out nationwide. However, in Europe, these things have been carried forward to a significant

extent by placing great importance on public transportation systems. In the short-term, things would not go with ease, as employment owes much to the automobile industry. But, there is a way to direct infrastructure investment in a focused manner toward public transport services, while gradually increasing the population of eco-cars. If things are better managed, it could be possible to delineate a scenario to bring the American economy forward by retaining the existing benefits of globalization earned during the previous period. A crisis provides an opportunity for change, too.

As emphasized repeatedly, a key issue is how to have a grasp of capitalism itself. It was argued earlier that capitalism in the real world was a modified form of capitalism. In this instance, in fact modification does not come from the external world. What shape or system the actual capitalist economy takes is dependent on not only the logic of capital or business enterprise, but also on what institutionalization is carried out, including social and community problems. For example, for employment practices, there are ways of institutionalization that put institutional shackles on businesses. In addition, all over the world or in advanced countries, if a unified institution is put on employment practice, businesses would be provided with the same competitive conditions. For example, measures to mitigate global warming would incur the same cost for businesses. As these measures provide the same competitive conditions or the joint cost for businesses, businesses concede these cost burdens. Thus, in accordance with fundamental principles, these control measures, including emission trading, come onto the market mechanism.

Individual employment systems have been regarded by businesses as cost burdens that harm their competitiveness in the process of the transition to global capitalism. Measures to regulate the employment regimes applicable to temporary and dispatch workers, or to make it difficult for businesses to discharge their employees, have been regarded by individual businesses as incurring additional cost for them, so that concession to such measures by a single firm could harm its competitiveness, and therefore they have dispensed with these regulations. Businesses' hostility to these regulatory institutions has occurred elsewhere across the world. For these problems, people are able to discern the desirable direction. In that event, what should become the best criteria? On the one hand, it would be better to prioritize the good things in life that favor and nurture families and localities over several centuries or generations. Otherwise, the criteria would be undermined by the logic of the national state, local governments, or big businesses, such that bare-boned systems that trim off these good things would result. The bare-boned systems could not withstand the crisis likely to occur one or two decades from now.

The difficulty in shaping a system that respects the locality or traditional good things is attributed to the diversity of values inherent to local life. The changeover of the central system is relatively easy, as possible changes could be made in macro-terms. However, individual cases differ from one another across the globe. Within Japan, too, situations differ in the light of their individual towns, type of business and industry, distance from Tokyo, geographical location, and climate and culture. What should be changed and how? In Asahikawa, how should the Asahiyama Zoo be improved? The situation is not limited to Japan. There is a problem of how to build a linkage with Asia. If changes are carried out in accordance with the logic of mega-competition followed by global corporations, which assess everything uniformly from the viewpoint of cost, these factors would certainly be trimmed off. Conversely, it would be difficult to adjust

and institutionalize these factors into the fabric of global systems, even given that such an endeavor would have to bet on the commonality of “humanity.” On the other hand, some argue once again that the pseudo-community aspect of the Japanese-specific management is the source of Japanese firms’ competitiveness. The fundamentalism of market-based principles, which simply reduces all these factors down to cost, could hardly comprehend the intrinsic meaning of “labor.”

America, which is sometimes described as if it were the homeland of market-based principles, in fact has strong local or grass-roots communities. Among ethnic communities, for example, the new Hispanic immigrants and African Americans seem somewhat adrift, as they are separated from the traditional community background. On the other hand, Asians, including Chinese- and Korean-Americans, have formed their ethnic communities while retaining traditional values to some extent. Including Chinese-controlled banks, everything relevant to the Chinese community has been transplanted into the ethnic Chinese community in America. Financing is performed within the ethnic community, so that sub-prime loan problems rarely occur in the Chinese community. These local or grass-roots communities exist here and there in America. In the light of the traditional lifestyle and concept of values, the Amish are on the fringe, whilst empirically observed, in New England, at the county or township level, communities, which largely overlap sectarian relationships in Christianity, spread like a mesh. These grass-roots communities show strong anti-Washington sentiment.

Conversely, however, as President Obama does, when the central government proactively flies a flag in a manner respectful to the diverse ways of life in communities, American society as a whole tends to be invigorated. Such an attitude was observed during the New Deal and the war-time period. Later, President Reagan practiced similar policies. As the post-war system collapsed, the American economy and society as well landed in trouble. In order to regenerate American systems, President Reagan stressed the values of the traditional American conservative life, such as the farmers’ lives in the Midwestern states, who respected the values of labor, rising with the sun to work, as well as the “small government” that was opposed to any government intervention. Those were the contents of Reagan’s new conservatism. Reagan followed this path in defiance of the managerial capitalist system of post-war America that had run into a deadlock. In consequence, however, the decline of the post-war Pax Americana and its changeover opened the way for the evolution of global capitalism through globalization of businesses and finance together with the corresponding neo-liberal turnaround of government functions. However, global capitalism has now collapsed. Thus, Obama has laid out the direction to start fresh as a team. Under Obama’s plan, attributes of local communities are emphasized, and in the course of the transition to global capitalism, various attributes of communities have come to light. To what extent could the corrupted global capitalism that tainted these local attributes be reconstructed? This question has seemingly surfaced as the big challenge through the impact of the global financial and economic crisis.

In looking back, what is Japan to do about all this? In the broader context, just discussed in this paper and centering on the importance of rejuvenating regions and localities that have opened up for global relations, a leadership that pursues reconstruction of community-based systems from the viewpoint of people concerned with their livelihood and daily lives is now called for more seriously than ever.

However, such leadership is absolutely impossible for bureaucrats in the central

government. They only have macro ideas, and believe that through delegation of the central government's authority to "people" and regions, nothing good would result. Nonetheless, in the midst of the crisis of the global growth linkage centered on America, the business buoyancy policy and various public works projects championed by bureaucrats in the central government (who of course obey the politics of patronage) are only reacting to the situation and provide little future perspective at all. These programs are cosmetic solutions, though better than doing nothing. The cash benefit program may be better than fiscal policy led by the central government bureaucrats, as the cash benefit program gives discretion for its spending to individuals in a manner that respects people's initiative. However, regarding the financial sources for these cash benefits, it would be better than payment to individuals to allocate \$100 million or so to each municipality, as Prime Minister Takeshita did in the past. In hammering out a business stimulant program of the magnitude of several tens of trillions of yen, it would be better to allocate the money to the rebirth of both the living environment and the national land and natural environment, as well as to reconstruction of localities. However, without clearly defined rejuvenation scenarios for each locality and at each field site level, these endeavors would not work. Accordingly, specific initiatives closely addressing regions, local communities, and the field sites are urgently required.