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THE POITICAL FOUNDATION OF THE NEO-LIBERAL ECONOMIC ORDER AND THE RE-IMAGINING OF DEMOCRACY

ABSTRACT

Tatkala dunia kian didominasi oleh tatanan ekonomi yang didasarkan pada prinsip-prinsip neoliberal relevansi teori demokrasi yang berbasis *nation-state* mulai dipertanyakan. Dari sudut kepentingan negara berkembang yang menjadi korban dari ketidakadilan tatanan ekonomi tersebut ada keperluan mendesak untuk mempermasalahkan fondasi politik dari tatanan ekonomi neoliberal. Untuk itu para ilmuwan politik telah mengembangkan spekulasi-spekulasi teoritis tentang demokrasi transnasional atau global. Dalam tulisan ini secara khusus dibahas teori tentang *cosmopolitan democracy* dan *deliberative democracy* karena dari sanalah mencuat secercah harapan akan terwujudnya demokrasi pada level global.

Key Words:

Neo-liberalism • *politics* • *political economy* • *globalization* • *transnational democracy* • *global democracy* • *cosmopolitan democracy* • *deliberative democracy* • *discourse* • *contestation*

It is no exaggeration to say that the neo-liberal economic order is currently dominating the international system. Both developed and developing countries embrace liberal principles in organizing their domestic economies and international economic relations. Even the communist regime of People's

Republic of China (PRC) has adopted economic liberalization since the beginning of the era of Deng Xiaoping in late 1970s. The main objective of this paper is to make a critical inquiry into the political foundation of the global market economy which is very much based on the optimism of the neo-liberal economists. The combination of market economy and liberal democracy has been celebrated as an ideal destination of modern societies in the 21st century. Francis Fukuyama has gone even so far as arguing that liberal democracy may constitute the "end point of mankind's ideological evolution".¹ However, it is necessary to question the compatibility between the market economy which tends to be indifferent to economic inequality on the one hand and the equal human worth or dignity as the core value of democracy on the other hand.

From the perspective of developing societies like Indonesia there are several reasons why it is necessary to interrogate the political and moral consequences of the global market economy. First, economic globalization both in finance and production has made our national economy ever more vulnerable to the vagaries of the global market economy. The economic booming of early 1990s produced such a strong optimism in East and Southeast Asia with the effect that no one could predict that countries in this region would face a tremendous economic crisis as they approached the end of 20th century. The liberalization of the Indonesian economy in the 1980s through a series of deregulation and de-bureaucratization policies with a great emphasis on the primary role of the private sector failed to create a sustainable foundation for Indonesian economy. Instead, there was an increasing dependence upon the capital inflow through private investment and public debt.

Indeed, an American economist, Paul Krugman, made a warning to governments in Asia in mid-1990s that the Asian economic miracle was just a myth. He argued that the Asian economic miracle was mainly due to an increasing inflow of foreign capital. It was not an achievement in the rise of the level of economic efficiency or productivity.² Although Krugman did not really predict the coming of the economic crisis, his analysis could have urged the policy makers in this region to make necessary anticipation to lessen the magnitude of the economic crisis. The economic crisis that still haunts the Indonesian economy today teaches us a very important lesson in that the Indonesian people may not take for granted the promises of the economic liberalization. As it turns out today, careless integration into the global market economy could produce social and economic suffering for the majority poor in developing societies. On top of that, the primacy of efficiency as an economic value over democracy as a moral virtue has undermined the integrity of the democratic public sphere.

Second, international economic relations never take place in a vacuum. Those relations are conducted by human agencies competing for the accomplishment of their respective interests. Therefore, politics cannot be assumed away from international economy. The realist thinkers of international political economy argue that international economic relations take place within certain political

framework among nations. The realists express their views in different versions but the essence of their thinking is just the same in that the state is the main actor and power is the main objective of international economic relations. Robert Gilpin underlines the importance of the political framework within which an economic activity operates. It is also argued that an open or liberal economic order can only function if it is supported and guaranteed by a dominant or hegemonic political power.³ The realists are also skeptical about economic globalization because they view it as an outcome of national economic policies. In other words, economic globalization is allowed to proceed by major economies like the United States, Japan and the European Union as far as it serves their strategic interests. For instance, in the 1970s and 1980s developed countries abandoned the capital controls across their national borders. This act of liberalizing flow of capital is believed to have opened the way for the financial globalization.⁴

The phenomenon of economic regionalization and integration also produces a new perception that the role of the nation-state is decreasing. However, the realists do not buy that argument. The failure of the ASEAN countries in formulating a common policy to solve the economic crisis, for instance, is related to the fact that member states have different and even conflicting policy preferences. While Malaysia rejected cooperation with the IMF and World Bank, Indonesia relies heavily on those international financial institutions in order to recover from the economic crisis. Even within a common market entity like European Union national interests of member countries often become the main stumbling bloc for the achievement of their common objectives. For instance, the competition between Germany and France as two major economic powers in Europe remains an important variable in explaining EU's major economic policies. The current failure of the EU to formulate a common constitution was due to the conflict of opinions among its member states especially with regard to the distribution of voting power.⁵

Third, the practice of market economy, both at the domestic and global level, requires certain types of political organization in order to ensure social justice and equality. The claim by the liberals that free trade would give benefits to all participants can be falsified by the fact that the gap between the North rich countries and the South poor countries remains wide and there is no indication that such gap will be bridged in the foreseeable future. At the domestic level there is an urgent need to promote the practice of good governance and rule of law so as to ensure public accountability and equality before the law. At the global level, the international regime of trade and investment should be made more sensitive to the economic needs of the majority poor in developing countries. However, it should be noted that developed and developing countries have different capabilities in addressing the negative effects of the market economy. Under the provisions of the welfare state policies, governments in Western Europe and Scandinavian countries are financially capable of providing social security systems for the unemployed, refugees, elderly people and orphans. In developing countries the

states are too poor to provide such public service with the effect that those who lose in the market competition are left behind in a sustained misery without state subsidies.

Fourth, developing a healthy and reasonable suspicion about certain structure of any ideological establishment may encourage a productive and creative contestation of discourses the outcome of which may generate a better human interaction. The fact that rich countries like the United States, Japan and the European Union defend the neo-liberal principles in the organization of international trade and investment while at the same time continue to maintain some protectionist measures in their trade policies is an indication that the perpetuation of neo-liberal economic order is deliberately designed or constructed to serve the strategic interests of the major industrial powers. For instance, under the provision of the Common Agricultural Policy (CAP) of the European Union the farmers in some member states enjoy huge subsidies annually in order to keep their products competitive in the global market. The United States and Japan also do the same thing for their farmers.

Globalization and the Prospect of a Democratic State

The urgency of a more democratic governance of the international system has become ever more evident as the three institutional pillars of the Bretton Woods system IMF, World Bank and GATT/WTO secure their indispensability in the management of the post-Cold War global market economy. Today important decisions regarding the economic survival of the people in one country is no longer the exclusive business of the national government. For instance, under the provision and pressure of the IMF the Indonesian government has had to revise its annual budget so that the level of the likely deficit might fit into the preferences of the IMF.

The question is: can an international financial institution nullify a national budget policy which has been approved by people's representatives in the national parliament? In fact, such question has turned out to be an anachronism today. For a growing economic interdependence at the global level tends to reduce the effectiveness of monetary and fiscal policies made by national governments.

The global economic order that we have today has its roots back to the Bretton Woods Conference during World War II. The main institutions of the Bretton Woods were created to ensure a more effective coordination of the international economy. The idea was to check the revival of the economic nationalism which had led to the outbreak of the war. One thing which has not changed since then is the undemocratic nature of the decision making process in these institutions. For instance, the voting power of the United States in the IMF is 17.35 percent of the total votes. While Indonesia and many other developing countries have only less than one percent.

It should also be noted that decision makers at the IMF's headquarter in

Washington are not independent actors. Their decisions are very much embedded in the economic and commercial interests of major donor countries, Western commercial banks and multinational corporations (MNCs). This is precisely the reason why the IMF tends to apply the same policy prescription for any crisis-stricken country under its supervision. As a result, the IMF has less sensitivity to the unique characteristics of the economies of its clients. Many people lament the fact that the IMF always commissions its own external evaluators and the absence of an independent evaluation over its policies has led to a glaring gap in public accountability.

It is now quite evident that the main pillars of the world market economy IMF, World Bank and WTO tend to carry out mutually reinforcing functions. While the three institutions control the strategic sectors of the global economy such as finance, economic development, trade and investment they all suffer from severe democratic deficits. The functions of these institutions are based on the primacy of the rule of efficiency over the imperative of democratic accountability. For instance, if the IMF or WTO make policies which bring disastrous consequences for the livelihoods of the people in developing countries there can be no legal procedure whatsoever by which the victims could possibly demand their responsibility.

Is global democracy possible?

It is a big irony that as the world enthusiastically embraces the liberal principles in the discourse of international development, international financial institutions tend to perpetuate an undemocratic international regime. Along with the internationalization of economic development the interlocking of the political and economic processes at the local, national and global level may undermine the role of democratic institutions in developing countries. Unfortunately, theories of democracy that we know today are still confined to the organization of power *within* a nation-state. There is no such thing like democratic government at the global level. Global democracy is at best a hope or the pessimists would call an illusion.

Taking into account the damaging consequences of the undemocratic nature of the international financial and development institutions it is now high time to extend democracy to the international system itself. While all agree that the current international system is in need of fundamental transformation, there is no consensus how such system can be made more democratic. In his article titled "Transnational Democracy", Anthony McGrew explains four theoretical accounts of transnational (global) democracy including liberal internationalism, radical pluralist democracy, cosmopolitan democracy and deliberative democracy.⁷ The liberal internationalism argues that global democracy can be achieved by making international institutions such as IMF and WTO accountable to national governments. The philosophical root of this theory can be traced back to the idea

of world federalism⁸ proposed by Immanuel Kant in his book *Perpetual Peace* published in 1795. Radical pluralist democracy emphasizes the importance direct and participatory democracy within a multiplicity of self-governing and self-organizing collectivities. Like liberal internationalism, cosmopolitan democracy also focuses on the transformation international institutions. However, instead of defending the state-centric and western characteristics of the current global system, cosmopolitan democracy focuses on “the centrality of rule of law and constitutionalism as necessary conditions for the establishment of a more democratic world order”. Deliberative or discursive democracy starts from a recognition that “the essence of democratic legitimacy is to be found not in voting or representation . . . but rather in deliberation”.⁹ Therefore the proponents of this theory emphasize “the importance of the principles and necessary conditions for the creation of a genuine transnational public sphere of democratic deliberation”.¹⁰

Compared to the other two theories, cosmopolitan democracy and deliberative democracy are considered more realistic and workable. One of the proponents of cosmopolitan democracy is David Held, a British political scientist, who has written extensively on the topics of global democracy. He argues that a new definition of democracy should take into account the interlocking of the political and economic processes at the local, national and global level. The main objective of his theory is to bring all global issues such as flow of capital, environmental degradation and foreign debts of developing countries under an effective democratic control.¹¹ Held's short-term agenda includes a reform of the UN Security Council in order to make it more inclusive and effective, enhanced political and economic regionalization, transnational referenda, more effective international courts, and establishment of an effective, accountable and international military force. In the longer term he proposes the establishment of 'cosmopolitan democratic law', a global parliament, separation of political and economic interests, international criminal court and eventual international demilitarization.

Another British political scientist, John S. Dryzek rejects Held's concept of cosmopolitan democracy. Dryzek suggests that creating new global institutions may not necessarily lead to more democratic global governance. The transformation of GATT into WTO is a case in point. Through the global trade and investment regimes WTO has rendered many member countries (especially the developing ones) vulnerable to trade sanctions, capital flight and negative investment. Moreover, in the context of gross inequalities of power the implementation of cosmopolitan principles may easily lead to the justification of dubious international military intervention.¹²

Against the argument of James N. Rosenau who believes that democratic procedures for global governance are at best ad-hoc, non-systematic, irregular and fragile,¹³ Dryzek argues that there is in fact a 'grand logic' upon which some form of democracy can be attained in the international system. He emphasizes

discursive sources of governance and order. Discourse is defined as “a shared set of assumptions and capabilities embedded in language that enables its adherents to assemble bits of sensory information that come their way into coherent wholes”.¹⁴

In the practice of international relations we may find many instances in which discourses on certain issues do coordinate the behavior of the individuals or groups who subscribe to them. Market liberalism, humanitarian intervention and sustainable development are just a few examples of international discourses. As an illustration, the independence of the East Timorese from Indonesia's rule has been strongly influenced by the ability of their political activists to connect their cause to a supportive international discourse.

According to Dryzek the transnational civil society networks which develop rapidly in different regions of the world have the capacity to promote deliberation which is in favor of those who are systematically victimized by the operations of the international financial and development institutions. With the collapse of many authoritarian regimes in Asia today there are ample opportunities for transnational civil society networks to exercise their discursive force in various developmental issues. The growing phenomena of anti-globalization movements around the globe should be seen as an indication of increasing resistance against the domination of the neo-liberal economic order. We need to endorse the activities of the transnational networks of NGOs who promote the democratization of the international public sphere by socializing alternative development discourses which defend the interests of the politically and economically disadvantaged groups in society both at the domestic and international levels.¹⁵ Thus, the contestation of discourses which is crucial for the notion of transnational democracy has begun. It is from such a dynamic contestation of discursive forces we may have some hope for a more democratic world.

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End Notes :

1. See Francis Fukuyama, The End of History, *The National Interest* 16 Summer 1989, pp. 3-18. Later on the author elaborated his idea in his well-known book *The End of History and the Last Man* published in 1992.
2. See Paul Krugman, “The Myth of Asia's Miracle”, *Foreign Affairs*, 73 (6), pp. 62-78.
3. See Robert Gilpin, *The Political Economy of International Relations*, Princeton: Princeton University Press, 1987, p.
4. See Thomas D. Lairson and David Skidmore, *International Political Economy: An Introduction*,
5. See *Economist* 6th 12th December 2003, p.

6. See Joseph E. Stiglitz, *Globalization and Its Discontents*, New York: W.W Norton & Company, 2002, p. 6.
7. See Anthony McGrew, "Transnational Democracy" in April Carter and Geoffrey Stokes (eds.) *Democratic Theory Today: Challenges for the 21st Century*, Cambridge: Polity Press, 2002, pp. 269-294.
8. Kantian theory of liberal internationalism is quoted in Michael W. Doyle, "Liberalism and World Politics" in Charles W. Kegley (ed.) *Controversies in International Relations Theory: Realism and the Neo-liberal Challenge*, New York: St. Martin Press, 1995, pp. 94-96.
9. See John S. Dryzek, "Transnational Democracy", *Journal of Political Philosophy* 7, 1 (1999), p. 44.
10. See Anthony McGrew, *op.cit.* p.277.
11. See David Held, *Democracy and the Global Order*, Cambridge: Polity Press, 1995.
12. See John S. Dryzek, *Deliberative Democracy and Beyond*, Oxford: Oxford University Press, 2000.
13. See James N. Rosenau, "Governance and Democracy in a Globalizing World" in Daniele Archibugi, David Held, and Martin Kohler (eds.), *Re-imagining Political Community: Studies in Cosmopolitan Democracy*, Cambridge: Polity Press, pp. 28-57.
14. See John S. Dryzek, *op.cit.* p. 121.
15. See Aleksius Jemadu, "Transnational Activism and the Pursuit of Democratization in Indonesia: National, Regional and Global Networks" in Nicola Piper and Anders Uhlin (eds.) *Transnational Activism in Asia: Problems of Power and Democracy*, London: Routledge, 2004, pp. 149-167.

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