

## Appendix A

### THE LINEAR AND ACCRETION MODELS OF ECONOMIC EVOLUTION

As indicated in the introduction, this researcher feels that the context in which vocational education and its literature is embedded is vital to interpreting and internalizing the meaning. While a number of schema can be used to organize and systematize this material, it was decided to arrange this material in the context of how the culture / society is predominantly organized for economic activity. This was primarily done because it appears that economic organization tends to drive or control the other factors such as culture and politics. It should be noted that this not simply how the majority of the people live. If this was the criteria, simple subsistence farming would have been the dominant mode well into the modern era. Rather, what is intended is the type and organization of economic activity which appears to lead (or have led) the group [leaders] to reach critical decisions in a certain way and to engage in certain activities most of the time. Admittedly, this is an ambiguous criteria and is highly subjective. Additionally, if it is expanded, it can be seen to be somewhat circular. However, post-modern “analysis” posits that all criteria are ultimately ambiguous, subjective and circular if examined at sufficient depth, and this is intended to be, at least in part, a post-modern study.

The (apparent) stages or phases and sequences / relationships of social, cultural and economic development have been discussed by many writers. The most recent, and the one with the most current impact seems to have been Walt Whitman Rostow who published a series of books and articles on these topics, which appear to have formed the basis of much of the foreign aid policy of the United States in the 1950’s and early 1960’s. Much of Rostow’s

work was overtly intended to refute the earlier works of Marx and the resulting ideology of communism and as such concentrated on the sequence of stages 7 through 10 or 11 below.

The latter stages (numbers 10 through 14) were added to the sequence from less academic but more current works such as Barlett and Steele. The economic stages used in this study to organize or contextualize the literature are:

- I. Hunter / Gatherer
- II. Simple subsistence farming and animal husbandry
- III. City States
- IV. Empires
- V. Feudal / Medieval
- VI. Renaissance
- VII. Mercantile
- VIII. Owner capitalism
- IX. Entrepreneurial capitalism
- X. Absentee ownership capitalism
- XI. Indirect ownership capitalism
- XII. Service capitalism
- XIII. Value extraction capitalism, and in parallel with and  
as alternatives to stages 11-13
  - A. Marx-Leninism

B. Stalinism-Maoism

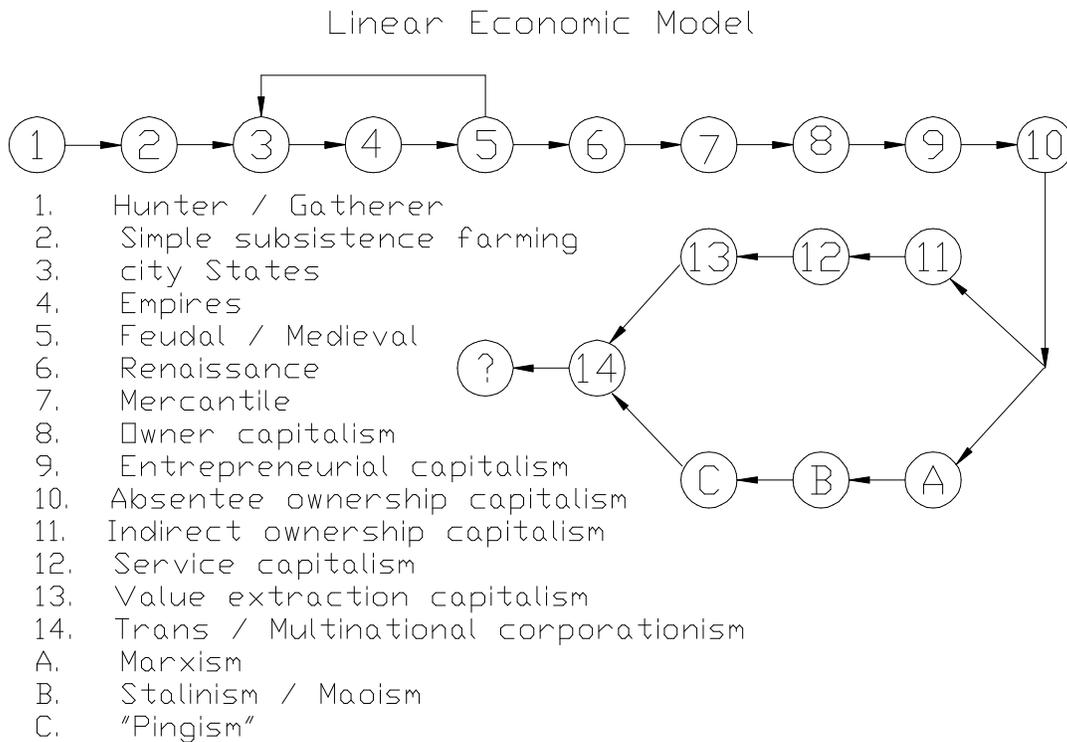
C. "Pingism"

#### XIV. Trans-national corporationism

This schema is highly linear, and in the literature has been presented as a linear stage model.

A diagram of this sequence or progression is presented as the chart titled "Linear Economic Model."

While this model is extensively used, its validity is examined and critiqued in a later sub-



section and a more complex but, to the investigator, more useful "accretion" alternative is discussed. It is somewhat ironic that such a linear and determinist model will be used as a

basis for post-modern analysis, however it is the stages which refracts the data and allows the resolution of the problematics.

Linear stage models, as developed, popularized and used by Piaget and many others, imply:

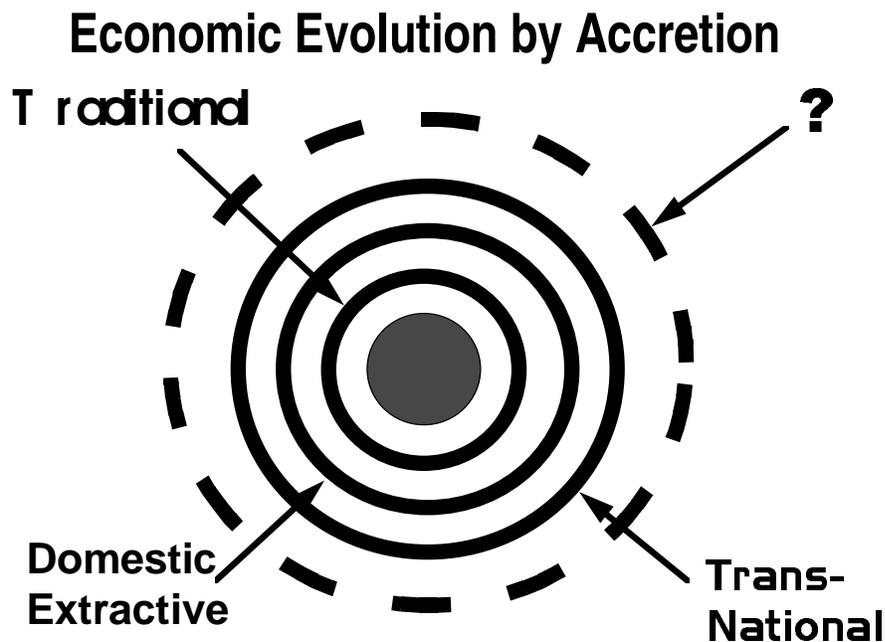
1. Before moving to the next stage, the current stage must be completed;
2. No stage can be skipped; and
3. Return to a previous stage is not possible.

An item of perhaps critical importance, which is expanded in a latter discussion. is that it appears existing economic stages are not so much "replaced" as "overlaid" or buried by succeeding stages in much the same way that a pearl is created by the addition of layer after layer, with the "previous" layers continuing to exist for different groups and segments within the economy / culture. This model is mentioned out of sequence at this point so that the reader may be aware of this alternative model as well as the accepted linear model as these stages are described and reviewed. This alternative model will be discussed in greater detail later in this section.

This layer or "accretion" model has several features which make it attractive for analysis of VOTE. Two of these are:

1. Possibilities exist for individuals and groups to shift between existing stages; and

2. The existence of stresses and incompatibilities between layers which may result, in engineering terms a catastrophic failure of society such as the Chinese, French or Russian revolutions, an "implosion" of the society / economy such as occurred in the USSR, or a series of (relatively) lesser disturbances such as booms, panics and depressions.



An extensive analysis of stages 1 through 5 will not be done and these are included for completeness, however it should be noted that stage 2, simple subsistence farming and animal husbandry, while not currently of major importance in the industrialized countries, appears to be a highly significant factor in the economic organization and activity of the less developed [LDC] and low income [LIC] countries and questions of land tenure continue to be a major destabilizing factor in newly industrialized countries [NIC] such as Brazil and Mexico. Indeed, several writers have suggested that many of the foreign aid and / or economic growth / development effort disasters and debacles of the 1950's and 1960's were at

least partially caused by neglect of, and frequently by overt efforts to eliminate, traditional subsistence agriculture in order to concentrate on, and insure an adequate (low cost) labor supply for industrialization [Mellor, Ghatak and Timmer] This frequently had the effect of converting an area which had minimal international trade and industrial capabilities but which was self-sufficient in food into an area with slightly greater international trade and industrial capabilities, but which was now dependent on international trade for their food supply or one in which large segments of their population experienced malnutrition or famine. [Todaro 295-334] The absolutely vital economic role of traditional subsistence agriculture in the LICs and LDCs, and the social / cultural role of traditional subsistence agriculture in NICs should never be forgotten by VOTE practitioners and policy makers who may engage in international practice.

### ***Stage I -- Hunter / Gatherer***

Minimal specialization exists (other than between genders) and any thing produced is for immediate consumption. Major activities are hunting and gathering. The group has no fixed location but tends to move with the seasons, tracking prey and gathering seasonal vegetation. Artifacts produced are generally utilitarian such as spear points and digging sticks. A rich [oral] culture may exist. Training / education while informal and generally observation and imitation is extremely important. For example, what plants are safe to eat, how to find water, the safe way to hunt large game, how to make weapons, and so forth.

As an observation, such groups are very disturbing to later stages. They are both difficult to control and to tax. If any attempt is made to control them they simply move to a new area and

they have little or nothing of commercial value to the later stages. Because of a lack of the concepts of wealth and personal property they frequently come into difficulty with groups in the later stages because they tend to regard the crops, domesticated animals, and other assets of the later stages as "free goods." Even their use of traditional migration routes and access to water may prove to be problematic to later stages. Indeed, access to public areas such as the beach or zone between high and low tide, which by ancient practice and common law is public land in the United States, is still an item of disagreement when the developers or land owners adjacent to this area attempt to prohibit traverse of their property by the public to the public's land.

It should not be assumed that the absolute numbers of humans in this stage are necessarily decreasing. If groups, which exhibit many of the same attitudes, behaviors and activities such as the homeless in many large cities are included, this group is increasing in absolute numbers. It can be argued that the "homeless" are not a distinct ethnic or cultural group, nor is membership generally a result of being born within that group, but rather in many cases are due to mental or drug related problems.

### ***Stage II -- Simple subsistence farming and animal husbandry***

There is not an abrupt shift between stage 1 and stage 2. This stage can perhaps be characterized by a fixed location for the group. Because of the fixed location, production and storage of goods for later consumption, that is mainly food, becomes more important. Specialization becomes more common, but generally anyone can do anything that anyone else can, although perhaps not as well. Barter increases. As a transitional stage the group may begin to domesticate animals but move with them rather than settling a fixed location. The

Lapps, Mongols, and the nomads of the middle-east still practice this life style. Specialists in the mystic arts such as medicine, magic and religion appear and may concentrate on these activities.

In the latter phases of Stage II "technology" begins to develop. Specialization increases to the point that some members of the group can accomplish things that other members cannot usefully accomplish. Typical skills are pottery, weaving, leather work, and, in the latter stages of development, metal smithing. Bartering becomes common and specialists tend to perform only their specialty, that the weaver only weaves and the potter only makes pots. The food that they require is obtained by trading their cloth and pots. The cloth and pots the farmer requires is obtained by trading their food. Controversies begin to arise about what is a fair exchange. Distribution of desirable merchandise and food tend to become more unequal and thereby need to be protected. Socio-political organization is limited to relatively small, generally related groups. Possibly writing and written numbers begin to be developed.

VOTE is generally limited to the traditional methods of observation, imitation and guided practice. Career guidance is very simple; the child is expected to follow the trade or occupation of the same gender parent who in almost all cases will be their instructor and mentor.

VOTE information from these stages is rare, however some advice has been handed down in oral tradition in religious material. This advises the worker to be worthy of their hire, to obey their master / parents / elders, and to follow the ethical code of the group.

It should be noted that when the majority or bulk of the people are considered, the entire world, including western Europe, remained for the most part at this stage up to at least the mid 1750's. We tend to see only the economic, political and economic elite as these are the ones

who write or make history and ignore the bulk of the common people. Worldwide this remains an extremely important stage because a significant fraction of the Latin American, Sub-Saharan African and South-East Asian (that is world) population is at this stage, although it is not currently important domestically in the United States and other industrialized countries. This is of critical importance for economic growth and development in these areas and should be an item of major concern for practitioners in the VOTE field who may engage in international activities.

### ***Stage III -- City States***

Stage 3 is characterized more by changes in the size or extent of the area of social-political hegemony than any changes in technology. Specialization becomes more extreme. Developments in socio-political structures and communications (writing) allow and thus encourage the formation of much larger groups. Two new and highly significant areas of full-time specialization are administration / governance and military science. The number of "trade secrets" and guilds begin to rise. Written language and numbers become common among select groups, although these may be regarded as "trade secrets." Progress in technology is slow but steady and is based on the gradual accumulation of pragmatic procedures developed through trial and error. There tends to be a marked separation between the "thinking" and the "doing" classes. Typically, considerable progress is made in areas such as philosophy, logic, mathematics, literature and astronomy, but because of the separation between "thinking" and "doing" these advances tend to have little effect on the vast majority of people. Major differences between the "haves" and "have nots" begins to appear

and differences in perceptions of the world by the various economic groups begins to become significant. (Post-modern feminist analysts would point out that this separate perception of the world had long existed along gender lines, and that what was now happening was the separation of perception of the world for the male gender groups / classes.) Career Counseling and VOTE generally continued to follow the simple rule that the child enter the same occupation as their same gender parent.

### ***Stage IV -- Empires***

There is no sharp dividing line between a large city state and an empire, however it can be posited that when a city state begins to impose its rule on other linguistic and ethnic groups, especially if it imposes taxes for this "service," it has become an empire. This stage tends to produce large entities<sup>1</sup> such as the Akkadian, Assyrian, Babylonian, Egyptian, Roman and Chinese, possibly because of the existence of well-trained and efficient specialists in governance / administration and military science. It appears that the policy makers of a stage 4 society tended to engage in and promote activities which cause their society to become too centralized, too specialized and too highly concentrated to be sustainable.

Generally considerable technical progress is made in the pragmatic sense. That is that while certain procedures were known to produce certain effects, these are regarded more as magic spells or procedures than as a cause-effect relationship which can be systematized or integrated. Examples of this are the conversion of iron into steel and the tempering of the steel to provide sharp, durable weapons. A major contributing factor to the decline and

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<sup>1</sup> A small empire is an oxymoron.

destruction of a specific empire may have been the tendency to regard any technical knowledge as a family or guild "trade secret" which was to be protected to maximize profit. Thus while a family or guild knowledge of pragmatic procedures may allow the production of complex and sophisticated products, it also tended to restrict the diffusion of such procedures and products into other areas and thus limit the rate of change and improvement.

It is unfortunate that in many cases moral and ethical considerations have been introduced into this discussion as these tend to produce considerably more heat than light. (For example Rousseau 1712-1778 and Gibbons 1737-1794 )

What seems to be the general case is that all cultures are subject to random stresses. These stresses can be an invasion, an internal revolution, a famine, a plague, a new social theory, a new religion, etc. Cumulative environmental effects also appear to be important. For example, some writers have posited that a major contributor to the decline in some stage III societies was the depletion of available natural resources such as arable land for food and timber for building ships and fortifications. The less developed transportation systems and technologies would have caused societies in this stage to be more vulnerable than would societies in the later stages. There appears to have been little realization of the importance of using sustainable agricultural techniques, reforestation and the productivity of and thus the need for the protection of wetlands. Indeed, some of the major "public works" of antiquity and the medieval period was specifically the draining of swamps and marshes. Long term climatic changes could also have a similar decisive effect.[Wright, K.] Additionally, geographic changes such as the shifting of the course of a river or the silting of a harbor are also known to have caused the abrupt economic decline if not collapse of ancient city-states.

It also seems apparent that the more perfectly an organism, and by extension a society or culture, is adapted to one set of conditions the less well it will be adapted to a new or changed set of circumstances, and it is observed that the older an organization the less "flexible" it is.

A further consideration is that most societies in stage III historically tend to engage in behaviors which cause extensive amounts of animosity and resentment. These animosities include but are not limited to envy of their flaunted wealth, hatred of their affectation of political and intellectual superiority or simply a desire for revenge for military defeat.

While the historical record is not completely clear on this point, it appears that most stage IV societies succumb, not to a single factor but rather a combination of simultaneous factors.

That is to say that while an empire may have successfully coped with famines, plagues, invasions and internal revolutions in the past, they are unable to cope with all of these at the same time. This is especially true if their nominal allies and vassals have been biding their time for the proper moment to obtain revenge.

Each of the characteristics that helped create an empire then becomes a characteristic that assists in its downfall. The concentration of governance and military science into the hands of a few, albeit highly talented, specialists means that if these few people can be isolated or incapacitated then the entire society is paralyzed. The specialization by large numbers of the population in specific trades means that they are extremely vulnerable if the demand for their specific knowledge/skill no longer exists as they no longer have the means or knowledge to feed themselves and their families in the sense of subsistence agriculture or hunting.

Economic devastation of large numbers of people, what ever the cause, generally results in revolution. Responsible or not, the existing social structure and leaders are held answerable for the disaster. The concentration of people into large cities, while promoting trade and

generally improving the perceived quality of life means that to control the city, all that must be done is to control the food (or water) supply and as there is no need to breach the fortifications, advanced technologies such as siege engines and catapults are not required for their capture. This means that a stage IV society or economy is vulnerable to organized and warlike peoples such as the Huns, Goths and Mongols even though they may lack "technology" or "culture." The separation between the "thinking" and "doing" classes tended to grow more pronounced over time. In most empires slave holding tended to become more pronounced, thus further debasing the status of labor, gainful employment and useful physical (other than military and sports) activity. Another factor may also be that the specialization of occupations has resulted in the development of a large mass of people with no more military capability or "will to resist" than a flock of sheep. Slaves, almost by definition, are forbidden to own arms or even learn the "arts of war<sup>2</sup>," thus making this segment of the population useless in the military sense. This means that as soon as the "professional" military segment of the culture is no longer available, for what ever reason, the culture is instantly vulnerable to even small para-military groups, even if these are not particularly well armed, trained, or led.

### ***Stage V -- Feudal / Medieval***

In the west at least, this stage was a more or less complete break with the classical (Roman) era, while in the east, that is China and India, this stage seems to have been more of a breakdown in central authority, which occurred several times and was later "corrected." (It should be noted that the Byzantine "Empire of the East" founded by Rome and located in

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<sup>2</sup> Janassaries, slaves personally owned by the Sultan were an exception. Janissaries were elite corps of war captives and Christian youths in the service of the Ottoman Empire(Turkey). Converted to Islam and trained under the strictest discipline, they eventually became powerful enough to make and unmake sultans. By the 17th cent.

Constantinople survived until the end of the medieval period in the west.) The Chinese name for these periods is "The time of the contending states." In India these stages are referred to as "The time of the fishes, when the strong devoured the weak and are devoured in turn by the stronger still." It is not known if stage V as perceived in the west is an actual stage which should be expected in the normal course of development or is simply an anomaly. The very limited amounts of data suggests that it is an expected outcome of stage IV, although not all known stage IV societies completely passed through stage V. Rostow (1971a) includes material from other authors using non-western data and concepts that suggest and even posit that rather than a linear sequence typical to western thought, a less evolutionary and more naturalistic or holistic, that is cyclic, process could be at work based on at least seven cycles in China.

Indeed, because of the interference by (or imposition of) the mass-consumption stage with all other stages, there may be an abrupt jump (or shove) to the mass-consumption stage and because of the "new world order" with stage XIV economic structures [trans-national corporations], an abrupt end to separate and independent development.

Some authors have suggested that the frequently used term "The Dark Ages" is unduly pejorative and suggests that "The Age of Faith" may be more appropriate. Another term that could be used to describe this stage is the age of simplicity and introspection. It can be seen as a reaction to the perceived failure of stage IV, and its distinguishing characteristics, that is specialization, centralization, concentration and emphasis on individual advancement / attainment. Three characteristics seem to be common to these periods. (1) Extreme, and in

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membership was largely hereditary. Their power came to an abrupt end in 1826 when Sultan Mahmud II had them massacred in their barracks.

some cases excessive, piety and faith, (2) Extravagant respect for the role of the warrior, and (3) an almost total lack of concern for what are currently termed human rights. [This characterization admittedly represents a value judgment based on currently accepted standards, however as a person cannot hang in the air and must stand somewhere, currently accepted standards seem as good a place to stand as any.]

While specialists in praying and preying (fighting) did exist, the vast majority of the population appear to have been generalist subsistence farmers who required little training beyond the traditional observation and imitation. It is worthwhile to note that if only the "average" or "typical" person is considered, little had actually changed from stage II. The majority of people remained what they had always been, that is simple pre-literate subsistence farmers or peasants. Our impression of vast changes and upheavals across these stages may be due to the fact that the only people who left written records were those who could write, and by definition these would be the people most effected by the changes described.

The glorification of the warrior class however tended to result in social characteristics and activities which cause the evolution of a stage V society into a stage VI society. Specifically these are the impetus for better weapons and fortifications and the impetus for bigger, better led and better trained, that is more professional (standing), armies. Both of these cause an evolution in technology, specifically metallurgy and fabrication techniques / design for better swords and armor and architecture for better fortifications, and improvements (or at least innovations) in social and political organization / administration in order to better arm, feed, and otherwise support large professional (standing) armies. Social groups that do not, will not or cannot improve their capabilities in these overlapping areas are rapidly absorbed by those that do, once a critical level of advantage is reached. There is also the possibility that contact

with an existing stage IV culture such as medieval Europe with the Byzantine empire which still maintained highly centralized control, which still possessed highly trained professional military forces, and which invested heavily in military fortifications and innovations such as "Greek Fire." The typical economic organization was manorialism, whereby the only thing of value (in the economic sense), that is land, is held by the king (or kinglet). In the west at least, a very large number of small, independent, leaders with claims to land existed, and a large amount of warfare was caused by grants of the same parcels of land by two or more of these independent rulers to different nobles. Because of the need to maintain a professional fighting class in a largely non-cash economy, land tenancy was traded for military service. The holders of direct grants of land from the king would frequently make sub grants to lower status nobility to obtain their military support. The ultimate tillers of the soil, the serfs, could not "own" land but did have the right to farm it in return for part of the harvest and other labor service. This "right" was also heritable, but this in turn bound the serf to the land.

As a point of interest, the right of "serfdom" was not abolished in Europe until 1781 (the Hapsburg monarchy), 1781 (France by revolution) , and (1861) (Russia by ukase of Alexander III). Legal slavery was not abolished in the United States until Congress passed a Civil Rights Act on April 9, 1866 over President Johnson's veto to secure for former slaves all the rights of citizenship intended by the 13th Amendment to the U. S. constitution. [MicroSoft Bookshelf 94]

Note that as part of the "accretion model" that this aspect of economic organization (manorialism) still has some importance in the United States even in the closing years of the 20th century. "Share cropping" is still practiced in many of the southern states, and because of the tendency for the tenant farmer to maintain a continuing (or revolving) debt to the land

owner, the tenant is effectively bound to the land. Land ownership and the political, cultural and economic status which derives from its ownership is still highly important in Latin America and to a somewhat lesser degree in South-East Asia. [Todaro 295-329] To the degree that VOTE is attempting to educate / train the tenant farmer and / or their offspring simply to be better farmers (as opposed to better business persons), it is effectively attempting to maintain this aspect of feudalism.

### ***Stage VI --Renaissance***

The literature suggests a large numbers of reasons or causes for the Renaissance, but these tend to be contradictory. One of the more interesting "explanations" was the theory that the renaissance was caused in large part by the black death or bubonic plague which killed between one-fourth and two-thirds of the various populations of Europe. The reasoning was that this removed mounting population pressures, caused a shortage of labor and thus an increase in its wages, benefits, status and rights, and eliminated much of the old secular and religious ruling classes who had both an interest in and the knowledge of how to maintain the status quo. It is interesting to speculate that this was one of the first examples of the effectiveness and efficiency of both down-sizing and restructuring. This and much of the following information is available at

<http://www.jefferson.village.virginia.edu/oshem/intro.html>,

<http://www.teleport.com/~blake/index.html>

<http://pondorosa-pine.uorgon.edu/students/Janis/impact.html>, and

<http://www.teleport.com/~arden/brown.html>

The latter developments of stage V merge into the beginnings of stage VI, with no sharp division, however some of the distinguishing characteristics are:

1. The re-centralization of power;
2. The development of a "national conscience";
3. The revival of the use of money; and
4. The beginnings of what Rostow refers to as "Newtonian" science.

Of particular interest is the development of a "national conscience" by large numbers of people with a resulting replacement of loyalty to a small kinship group with a larger loyalty to an abstract organization or a state personified by a King. To a degree this was promoted by increased individual mobility. This development was bitterly resisted by the nobility and clergy who thereby lost much of their independence, power and wealth.

The reference to Newtonian science by Rostow needs some explanation as this appears to be what largely differentiates between the atypical western "progress" to a stage 6 and the typical "recycling" into a stage IV economy / culture. By this Rostow means that the concepts of cause-and-effect are replacing those of magic and other supernatural forces. This process is by no means complete and bitter debates on exactly this and similar topics such as "free will" and "nature vs. nurture" continue. Indeed, the [more] qualitative and post-modern / structuralism sections of this study critique the seeming current over-reliance on the many elegant mathematical and logical models of reality [economics] and the consequent confusion between these models and "reality."

The importance of the wide acceptance of the cause-effect model which dispenses with any need for divine or supernatural intervention and knowledge in technical and manufacturing

processes should not be underestimated. It appears that this may have been the single most important factor which caused the progression into a stage VII mercantile culture rather than the typical loop back into the city-state (stage III) / empire (stage IV) sequence. Other critical factors included the development (c.1436) of movable type, such that it became possible to publish books in large quantities and to disseminate knowledge more quickly and widely, which both increased the rate of change and greatly reduced the loss of knowledge once gained.

The Renaissance of humanistic literature developed most strongly and noticeably in Italy during the 14th and 15th centuries, with Petrarch and, in the Netherlands, with Desiderius Erasmus as major representatives. Essays such as *The Prince*, by Nicolo Machiavelli, *The Courtier* (1516), by Baldassare Castiglione, and Erasmus's *The Education of a Christian Prince* (1516), plus the writings of Francois Rabelis and Michel de Montaigne, urged new patterns of education. Humanistic schools for the aristocracy were founded in Italy, France, and England at this time. In Germany, the Gymnasium was set up. Some schools were also established for children of non-aristocratic families.

The Protestant Reformation, led by Martin Luther and John Calvin, occurred in the 16th century. Both believed that it was important for all Christians to read the Bible. They urged the state to help establish an educational system. Followers of Calvin sought to maintain primary schools so that everyone could learn to read. Luther's friend Philipp Melanchthon was influential in advocating new national patterns of schooling.

At this time a reformation (usually called the Counter-Reformation) was also taking place within Roman Catholicism. One of its leaders was Ignatius Loyola, who started the Society of Jesus in 1534. The Jesuits established schools and colleges throughout Europe. John

Amos Comenius, caught in the cross-fire between the Reformation and Counter-Reformation forces, first advocated the need for free, universal education in the modern sense. In the 17th century John Baptist De La Salle established the Christian Brothers, who maintained an extensive system of Catholic schools for the poor. At Reims, they established a teacher-training institution.

### ***Stage VII -- Mercantile***

The following "stages" are not as neatly characterized as the previous ones, and many of the current national states or economies seem to either have never advanced beyond the mercantile stage (stage VII) or have returned to a similar stage which can be called "technological mercantilism." If the simultaneous existence of major economies and cultures at different "stages" is correct and the accretion model applies, this could explain the very considerable stresses observed. Stress typically results in self-defeating pathological behavior. In the Fall of 1997, countries in South East Asia such as Thailand, Malaysia and Korea all had severe economic disturbances apparently largely resulting from self imposed conditions historically known to promote problems such as over-valued currencies and lack of internal controls on economic and financial development.

Several closely related "systems" are popularly (and incorrectly) included with mercantilism. A short essay "Balanced Trade: Toward the Future of Economics" provided these concise definitions or characterizations:

AUTARCHY: No trade. Autarchic governments attempt to eliminate all imports and exports, forcing their subjects to live with whatever the local economy can provide. These governments apparently believe that all other cultures are so evil

or corrupt that any contact will harm their people. No responsible government engages in this practice today because the benefits of trade are so apparent.

Recently, North Korea and Albania came close.

**PROTECTIONISM:** Protectionists restrict or tax imports to benefit domestic manufacturers and keep as many jobs at home as possible. Protectionists believe that the benefits from keeping jobs at home outweigh any loss of consumer surplus resulting from higher prices after tariffs. Exports are ignored by protectionist governments as are imports for which there is no domestic competition. Although rarely used as a stand alone policy, protectionism is frequently used as an accusation by those promoting free trade access to foreign markets for their own companies. [This is closely related to although not identical with a currently unpopular strategy for economic growth and development called "Import Substitution."]

**STRATEGIC TRADE:** This policy requires or encourages domestic companies to make goods needed by the military instead of relying on foreign companies for strategic goods. Also, this policy seeks industries that will grow in the future and provides protection and encouragement to companies in those industries in the home market. For example, some argue that the United States' space program is a method of helping the aerospace industry by providing government funded R & D for new products.

**MERCANTILISM:** Trade for national advantage. Mercantilists believe that the world has a finite store of wealth; therefore, when one country gets more, other countries have less. Mercantilists restrict imports and encourage or subsidize

exports as a conscious policy to make their citizens better off. Some Asian countries use this policy to good effect in expanding their wealth by expanding exports and curtailing imports. Japan is an example of a country that has taken this policy too far - now its export surplus has raised the value of its currency so high that much of its labor is priced out of the world market. Many developing countries use this practice to secure good markets for their exports while protecting their market from foreign imports.

A variation of this is "Technical Mercantilism". Technological Mercantilism was described by the JTEC/WTEC Annual Report [Holdridge] and Program Summary as:

... Second, foreign governments have identified certain technologies and/or applications as critical to their future, therefore deserving of direct or indirect government support. The debate in the United States over industrial policy must therefore be influenced greatly by the extent to which other governments around the world have already distorted the "free market" forces that would otherwise shape the development and deployment of new technologies and products. The illusion of a free market is further undermined by the behavior of large oligopolistic or monopolistic private corporations and/or consortia overseas. For example, there is no doubt that, due to differing cultural and institution frameworks, Japanese corporations behave very differently from U.S. corporations, especially with respect to long-term investments in R&D. In other words, if governments and large corporations and consortia overseas are practicing technological mercantilism by subsidizing or otherwise fostering the

development of civilian high technology industry, the U. S. Government cannot possibly gain from conducting a laissez faire free trade policy in isolation. JTEC and WTEC studies can provide key information concerning the mechanisms for corporate and government R&D support abroad to facilitate informed debate on this issue in the United States.

The phrase "national advantage" is of great importance to understanding this stage. At this stage, the growth of any particular company or corporation is intended to increase the power and prestige of the national state and by extension the power and prestige of every member of that state, although probably not to the same degree. Quite frequently this stage is associated with the active promotion of jingoistic or chauvinistic attitudes of (exaggerated) nationalism. The identifying characteristic of this stage seems to be the perception that trade is a zero sum game, and therefore it is almost as beneficial to your country to cause a direct and proximate rival a large loss as it is to achieve a large gain. The concept of a "win-win" situation between two rivals (other than one resulting from equivalent third part loss) does not seem to be possible to nations / societies at this stage. Indeed, it is precisely the perception that it is possible to create rather than simply redistribute wealth that is the rationale and justification for the (frequently grudging) acceptance and development of "capitalism," which, as examined in the following sections, means different things to different people. Indeed, one of the many problems appears to be that it frequently means different things to the same people based on the Red Queen's prerogative of "a word means what I want it to mean."

At this time, Career Counseling and VOTE began to become more complicated because of the rapid increase in new occupations (for example printing) and the elimination of old ones

(scribes), thus preventing in many cases the tradition of the family trade for increasing numbers of people.

### ***Two major phases of Capitalism***

Stages VIII through XII are characterized by wealth acquisition and accumulation through value creation. Stage XIII is characterized by wealth acquisition and accumulation through value extraction. In other words, stages VIII through XII, assume that by creating a bigger pie, they can have additional pie to eat, while stage XIII has decided that it is easier to grab more of the existing pie from other people than it is to create a bigger pie which in most cases must be shared. Far from being merely a semantic difference, this differentiation has major implications.

### ***Stage VIII -- Owner Capitalism***

This is the 1776 capitalism of Adam Smith, where the "invisible hand of the market" is most clearly seen and is most effective. Owner Capitalism is the direct descendent or heir of the master of the medieval guild with the exception that excessive capital requirements or other barriers to establishing a competing store or service are minimal. It is this lack of "other" barriers which differentiates between Owner Capitalism and the guild "Master." Owner Capitalism is characterized by small enterprises, in small towns with at most a few workers or employees, who are generally not trainees but wage laborers. The owner knows most or all of their customers, their workers and their families. Typically the business is organized as a sole proprietorship. Personal integrity, honesty, and product quality are maintained by the social forces of the community. Simply stated people will not deal with an individual they know to

lack integrity, to be dishonest, or who produces inferior products. Generally the owner is the most highly skilled individual in their organization and can perform any operation better than any of their employees. Owner Capitalism dates from at least the end of the Medieval period, traditionally dated as 1453 marked by the fall of Constantinople to the Turks, although not placed on a theoretical basis until 1776 by Adam Smith. This is an enduring stage, and one which is highly stressed and perhaps overemphasized in much of the vocational education literature.

### ***Stage IX --Entrepreneurial capitalism***

Characterized by larger enterprises in large towns. The owner(s) no longer knows their individual workers or their families, but still runs their own business. Partnerships, either from inheritance or infusion of capital become common.

### ***Stage X --Absentee ownership capitalism***

Massive enterprises in big cities. Absentee individual ownership of the business with hired “professional” managers. Professional, occupational and trade specialties still recognized. Partnership, possibly limited and silent, is still dominant method of ownership. As indicated in other sections, it is at this point that the classical Adam Smith - David Ricardo capitalism begins to break down. Primarily this is due to the specialization of production equipment and the long term nature of investment. That is the physical plant cannot be easily liquidated and the capital re-allocated to other more profitable uses, nor can it efficiently produce a different product. Additionally there tends to be a very high ratio of fixed to variable costs such that not operating the plant costs almost as much as, and in some cases more than, operation does.

This is the case for most older iron foundries and steel mills because the furnaces crack and must be rebuilt if they are not kept hot.

### ***Stage XI --Indirect ownership capitalism***

Massive enterprises in big cities, railroads, and other large operations characterized by indirect stockholder ownership with hired, highly specialized professional managers. Anonymous workers are treated as a cost and commodity. Work simplification and rationalization is a conscious policy to eliminate the need for skilled and independent workers. Mass production of standardized products emphasized to take advantage of the economy of scale. The age of the mass market with national brands and markets.

Corporations are a complex phenomena of their own with an interesting and important history and a close connection to VOTE. A separate section on corporations is included in the appendix. This material is not included here because it is lengthy.

### ***Stage XII -- Service capitalism***

A shift occurs in that emphasis on the generation of wealth by manufacturing or processing concrete products becomes an emphasis on the creation of wealth through the providing of services such as shipping, insurance, merchant banking, and brokering. However these services still are connected with concrete products, these are useful if overpriced in many cases, and do add to the value of a product. For example, coffee is worth more (or at least costs more) in large northern urban areas than in the small tropical countries where it is grown, so by the act of transporting a pound of coffee from where it is produced to where it is consumed, its "value" is increased. The principal effect on vocational education is that far fewer people are needed to "process" the same amount of material, no matter how it is

measured, than when concrete products are manufactured and processed. There is also the tendency to “cannibalize” existing domestic production in order to feed the demand for the service oriented segments of the economy. For example, advanced technology, machines and expertise may be exported to areas which are currently importers of domestically produced products because of the large immediate gains to the organizations that manufacture the machines, provide the training, provide the financing, shipping and insurance. Later, because of the lower labor costs and newer machines in the formerly importing area, products can be produced at lower cost and possibly of better quality. This creates a profit potential for export back to the original exporting country and also provides the organizations that supply services such as financing, shipping and insurance with continued and increasing income.

### ***Stage XIII -- Value extraction capitalism (the dark side of the force?)***

The last apparent stage in capitalism appears to be the transformation of large segments of the risk capital sector from making money by providing needed concrete goods or services into a market which appears to deal in totally abstract “items” of no apparent intrinsic value or utility and thus to a totally extractive function. The reason that this appears to be the last stage is that the new stage of trans-national corporations and one world economy appear to be such a quantum jump that it is a new stage and not just a development of this one. Indeed, the emphasis can be said to have changed from the generation of wealth by the creation and efficient operation of economic organizations to the generation of wealth by the liquidation and dismemberment of economic organizations. This process of liquidation, while it makes a few individuals extremely wealth such as Frank Lorenzo (Eastern Airlines) causes great

hardship for large numbers of people. This includes not only the employees of the liquidated organization but also the direct creditors such as the suppliers and bond holders and the indirect stakeholders such as the communities in which the organizations were located. Thus the concept of the market and the “invisible hand” of Adam Smith which served the western economies so well for two hundred years no longer seems to apply. Indeed, because there is no intention to maintain the enterprise as a “going concern” the good name and reputation of the organization is frequently seen as just another asset to be “liquidated” for the highest possible profit thus minimizing or eliminating the control of informal social forces.

An item of interest is the large growth of new financial debt instruments such as derivative contracts. It is interesting to note that even banks with known serious financial problems such as Credit Lyonnais and Credit Indosuez are major participants in this process. In 1994 the top twenty participants issued or held a total of \$23.5 trillion dollars worth of these instruments. During the same time period, the total world Gross Domestic Product, that is the total value of all goods and services produced in the entire world was about 27 trillion US dollars. While some rationale appears to exist for derivatives, it is doubtful that an amount equal to approximately 85% of the entire world's production of goods and services is required or even beneficial. Indeed, the record seems to indicate that the existence of such synthetic and artificial debt instruments has contributed to market volatility and the bankruptcy of financial institutions and governments such as Bearing's Bank, Long Term Capital Management, and Orange County California. It would appear that the introduction of these new instruments overlap stage XII and stage XIII. In the beginning, and still to some extent, these novel financial instruments provide a way to balance risk and profit, however the highly synthetic and artificial (virtual) nature of these instruments, which is to say they can be created out of

and return to nothing, places the majority of them firmly in stage XIII -- the extraction of value. A Nobel prize was recently awarded for the creation or invention of a procedure to assign an economic or dollar value to derivatives. What is unusual about this new procedure is that it is overtly probabilistic and involves the estimation of several critical parameters. It is interesting that **even the most determinist fields such as accounting are being invaded by post-modern concepts such as negotiated reality**. However in point of fact, the concept of economic or dollar value has always been subjective and frequently defined as whatever a willing buyer and a willing seller agree that it is. A dedicated post-modernist would point out that this is not something new, but rather the realization of how subjective, arbitrary, ambiguous and circular the concepts of “utility,” “asset,” and “value” are.

### ***Totalitarianism: An attempted return to certainty***<sup>3</sup>

Poverty in itself does not make men into a rabble; a rabble is created only when there is joined to poverty a disposition of mind, an inner indignation against the rich, against society, against the government. *Georg Hegel (1770–1831), German philosopher. The Philosophy of Right, “The State,” Addition 149 (1821; tr. 1942).*

Man is more disposed to domination than freedom; and a structure of dominion not only gladdens the eye of the master who rears and protects it, but even its servants are uplifted by the thought that they are members of a whole, which rises high above the life and strength of single generations.

*Karl Wilhelm Von Humboldt (1767–1835), German statesman, philologist. The Limits of State Action, ch. 16 (written 1792; published 1854; tr. and ed. by J. W. Burrow, 1969).*

The true courage of civilized nations is readiness for sacrifice in the service of the state, so that the individual counts as only one amongst many. The important thing here is not personal mettle but aligning oneself with the universal. *Georg Hegel (1770-1831), German philosopher. The Philosophy of Right, “The State,” addition 189 (1821; tr. 1942).*

As high as mind stands above nature, so high does the state stand above physical life. Man must therefore venerate the state as a secular deity. . . . The march of God in the world, that is what the State is. *Georg Hegel (1770–1831), German philosopher. The Philosophy of Right, “The State,” addition 164 (1821; tr. 1942).*

The only successful revolution of this century is totalitarianism.

*Bernard-henri Levy (b. 1948), French philosopher. Time (New York, 12 Sep. 1977).*

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<sup>3</sup> Material in this section is almost entirely from The New Grolier Multimedia Encyclopedia Version 6 CD-ROM. While minor emendation and reordering has been done to maintain continuity much of the material is quoted verbatim.

There is a totalitarian regime inside every one of us. We are ruled by a ruthless politburo which sets our norms and drives us from one five-year plan to another. The autonomous individual who has to justify his existence by his own efforts is in eternal bondage to himself. *Eric Hoffer (1902–83), U.S. philosopher. The Passionate State of Mind, aph. 28 (1955).*

Totalitarianism is a form of government in which all societal resources are monopolized by the state in an effort to penetrate and control all aspects of public and private life. This control is facilitated by propaganda and by advances in technology.

Both in theory and practice, totalitarianism is of relatively recent origin. First used to describe the organizational principles of the National Socialist (Nazi) party in Germany, the term gained currency in political analysis after World War II. Older concepts, such as “dictatorship” and “despotism,” were deemed inadequate by many Western social scientists to describe this modern phenomenon. Totalitarian regimes are characterized by distinctive types of ideology and organization. Totalitarian ideologies reject existing society as corrupt, immoral, and beyond reform, project an alternative society in which these wrongs are to be redressed, provide and implement plans and programs for realizing the alternative order. These ideologies, supported by propaganda campaigns, demand total conformity on the part of the people. Totalitarian forms of organization enforce this demand for conformity. Totalitarian societies are rigid hierarchies dominated by one political party and usually by a single leader. The party penetrates the entire country through regional, provincial, local, and “primary” (party-cell) organization. Youth, professional, cultural, and sports groups

supplement the party's political control. A paramilitary secret police ensures compliance. Information and ideas are effectively organized through the control of television, radio, the press, and education at all levels. In short, totalitarian regimes seek to dominate all aspects of national life. In this respect totalitarianism differs from older concepts of dictatorship or tyranny, which seek limited--typically political--control. In addition, totalitarian regimes mobilize and make use of mass political participation, whereas dictatorships seek only pacified and submissive populations. Finally, totalitarian regimes seek the complete reconstruction of the individual and society; dictatorships attempt simply to rule over the individual and society. Two types of totalitarianism may be distinguished: National Socialism and Fascism on the right and Communism on the left. While sharing the ideological and organizational features discussed above, the two differ in important respects. Right totalitarian movements, such as the Nazi party in Germany and the Fascists in Italy, have drawn their popular support mainly from middle classes seeking to maintain the status quo and advance their own social position. Left totalitarianism, such as that of the former USSR, relies instead on a lower or working class seeking to eliminate, not preserve, class distinctions. Right totalitarianism has been outspokenly racist and elitist, whereas, in theory, left totalitarianism has not. Right totalitarianism, unlike its leftist counterpart, rests on a cult of the hero, although in practice the cults of Joseph Stalin and Mao Zedong were as pronounced as those of Adolf Hitler and Benito Mussolini. Moreover, right totalitarianism has supported and enforced the private ownership of industrial wealth. A distinguishing feature of Soviet communism, by contrast, was the collective ownership of such capital. It should be noted that "ownership" mattered little because control of what and how much was to be produced was largely determined by the state.

A final difference lies in the role of terror and violence in the two types of totalitarian societies. Left totalitarianism has arisen in relatively undeveloped countries through the unleashing of massive revolutionary violence and terror and the elimination of all opponents--political, social, military, economic--in short order. Terror and violence tended to level off or decline after these regimes consolidated their power. By contrast, right totalitarian regimes (particularly the Nazis), arising in relatively advanced societies, have relied on the support of traditional elites to attain power. The old elites, coexisting in a subordinate role with the new, have continued to pose a challenge and threat. Escalating levels of terror and violence resulting from such struggles contributed to the eventual collapse of the two major right totalitarian regimes, Nazi Germany and Fascist Italy. The Communist governments in Eastern Europe and the former USSR, by contrast, endured periodic reforms leading to democratic transformation

## **NATIONAL SOCIALISM**

Hitler's rise to power paralleled the unstable course of the Weimar Republic, which replaced the fallen Hohenzollern monarchy at the end of World War One. The abortive Communist revolution in Germany and the dictated Peace of Versailles determined Hitler's decision to enter politics. In 1919 he joined a small political faction in Munich and within the next year formed the National Socialist German Workers' party (NSDAP). He directed the organization with an iron hand and used its meetings to deliver forceful rhetorical assaults on Germany's "enemies." In 1923 he led the party into the ill-fated Munich Putsch. This action resulted in his imprisonment. While in prison at Landsberg, Hitler wrote *Mein Kampf*, which became the standard work of Nazi political philosophy. He defined the enemy as world Jewry, international communism, effete liberalism, and decadent capitalism. Hitler offered instead

pure Aryan blood and the renewal of German nationalism under a fighting elite. Germany would once more become the leading power on the Continent and gain its living space (Lebensraum) in central Europe and Russia. The Great Depression opened the way for Hitler's success. Mass unemployment, Communist insurgency, and an alliance between the Nazis and the industrialist Alfred Hugenberg's Nationalist party all contributed to the NSDAP's electoral breakthrough in September 1930. Having won a commanding lead in the last free elections, held in March, Hitler proceeded to dismantle all parties except the NSDAP. All federal and state institutions and organizations were "coordinated," purged of Jewish influence, and brought under party control. Germany's economic recovery reinforced the widespread support Hitler enjoyed throughout the Reich during in the 1930s.

## **COMMUNISM**

Originally, the term communism signified an ideal society in which property would be owned in common and the necessities of life shared by members of the community according to their needs. Communism in this sense dates back to classical antiquity. Plato proposed a kind of aristocratic communism in his Republic. Some of the early Christian groups held property in common. The idea of common ownership figured in Sir Thomas More's Utopia (1516), and was espoused by such religious groups as the Anabapists in 16th-century Germany. It inspired numerous religious and social reformers of the 19th century, including Etienne Cabet, Charles Fourier, Robert Owen, Pierre Joseph Proudhon, and the comte de Saint-Simon. Their theories contributed to the 19th-century socialist movement aimed at replacing the system of private property with one in which property would be owned by society as a whole. Stronger revolutionary socialist theories were expressed by Francois Babeuf during the French Revolution and by Louis Blanc and Auguste Blanqui later in France. In their

Communist Manifesto (1848), Karl Marx and Friedrich Engels applied the term communism to a final stage of socialism in which all class differences would disappear and humankind would live in harmony. Marx and Engels claimed to have discovered a scientific approach to socialism based on the laws of history. They declared that the course of history was determined by the clash of opposing forces rooted in the economic system and the ownership of property. Just as the feudal system had given way to Capitalism, so in time capitalism would give way to socialism. The class struggle of the future would be between the bourgeoisie, or capitalist employers, and the proletariat, or workers. The struggle would end, according to Marx, in the socialist revolution and the attainment of full communism.

Marxism became the dominant body of thought in European socialism in the 19th century. Socialist parties grew rapidly and, despite their revolutionary theories, began to elect representatives to national legislatures. Much controversy raged within the parties between those who felt the need for a revolutionary overthrow of capitalism and those who held that socialism might be achieved through gradual reforms. European Marxists were strongly international in their outlook. They proclaimed their opposition to imperialism and militarism and declared that the workers had no fatherland. However, the outbreak of World War I in 1914 demonstrated that nationalism had a much stronger grip on the socialist parties than their theorists had realized. Except for a few radicals such as Karl Liebknecht and Rosa Luxemburg in Germany and Lenin in Russia, the party leaders and most members supported the war policies of their governments. The Russian Revolutions of 1917, which enabled Lenin and his followers to seize power, divided world socialism into competing groups of parties--those which opted for the Russian path and those which kept to the democratic tradition. Two Russian revolutions took place in 1917. The first, in February (O.S.; March,

N.S.), brought the collapse of the tsarist regime and its replacement by a weak provisional government. A jostling for power began among various parties and groups, including two factions, called Bolsheviks and Mensheviks, of the Russian Social Democratic Workers' party, a Marxist party founded in 1898. The Mensheviks, led by, among others, the party's founder, Georgy Plekhanov, believed that "feudal" Russia would have to pass through the capitalist phase under a bourgeois democratic regime before it would be ripe for socialism. The Bolsheviks, led by Lenin, called for the overthrow of the provisional government in favor of immediate rule by the workers and peasants, and did so in October of that year.

#### **STAGE A -- MARX-LENINISM**

Lenin made important additions to the theory of Marxism and created a doctrine for professional revolutionists that gained considerable influence in the economically backward areas of the world. In his pamphlet *What Is to Be Done?* (1902) he called for an elitist, disciplined party of professional revolutionists to lead the working class toward communism. The principles of "the leading role of the party" and "democratic centralism" --meaning an almost military organizational discipline within the party--were supposed to be practiced by all Communist parties. Lenin also preached flexibility in strategy and tactics, by which he meant a willingness to adapt party programs so as to enlist the support of the peasantry and oppressed national minorities without giving up the goal of communism. Lenin's forceful insistence on his own point of view caused the Russian socialists to divide into the Bolshevik and Menshevik factions in 1903.

In October (O.S.; November, N.S.) 1917, Lenin led the Bolsheviks in a successful coup d'etat against the provisional government. The initial period of Lenin's Soviet government (1917-

21) was characterized by trial and error in the midst of economic dislocation, social chaos, domestic civil war, and foreign intervention. Lenin soon abandoned the notion that the government could function as a "democratic dictatorship of workers and peasants." He dissolved the Constituent Assembly that had been elected after the Bolsheviks seizure of power because the Bolsheviks did not control it. Soon all other parties were outlawed, and the internal discipline of the ruling Bolshevik, or Communist party became even stricter. Lenin also laid the basis for the domination of other Communist parties by the USSR. He insisted that foreign parties break with the existing Second (Socialist) International and form a Third, or Communist, International, which came to be known as the Comintern. Every party was required to impose Leninist discipline on its members and on the world Communist movement as a whole. As a result the Comintern, with its headquarters in Moscow, eventually became little more than an instrument of Soviet foreign policy.

A second phase began in 1921, when Lenin recognized that priority must be given to economic reconstruction. The New Economic Policy [NEP] legalized private trade, encouraged small-scale private enterprise, and loosened the state's grip on agricultural production, all in sharp contrast to the radical social and economic experimentation of the preceding period. The NEP, however, was no more than a strategic retreat. The party took the offensive again in 1928 by introducing centralized economic planning through the First Five-Year Plan, which called for forced-draft industrialization and the collectivization of agriculture. By means of these programs, implemented at terrible human cost, the Communist party attempted to create the kind of industrial system that already existed in the capitalist countries of the West, but with state ownership of the means of production.

## **STAGE B -- STALINISM-MAOISM AND THE “CULT OF PERSONALITY”**

Following Lenin's death in 1924, Stalin skillfully used his position as general secretary of the Communist party to obtain a monopoly of power. He overcame the opposition of Leon Trotsky, who had been Lenin's chief lieutenant during the revolution. Lenin and Trotsky had justified their seizure of power as being only the beginning of international revolution that would soon overthrow capitalism in advanced industrial countries such as Germany. They had believed that they would have to wait for the revolution to happen elsewhere before they could begin to build socialism in Russia. Stalin, however, enunciated the doctrine of "socialism in one country," maintaining that the USSR could build socialism by itself. He also believed that unless the USSR became an industrial power it would be destroyed by the stronger capitalist nations of the West. Stalin ruthlessly carried out the policies of industrialization and collectivization and did not hesitate to root out and destroy anyone he thought might someday turn against him. Between 1936 and 1940, most of the Old Bolsheviks (the leaders of the 1917 revolution) were executed. At the same time, Stalin systematically eliminated most of the officer corps of the Red Army, purged government bureaucracy, and unleashed indiscriminate mass terror against the population as a whole. Under Stalin the party strove to control every aspect of Soviet life, including the activities of workers, peasants, artists, writers, and athletes. A cult of praise that amounted almost to deification developed around Stalin as supreme leader. His policy decisions, made arbitrarily, were enforced as much by the secret police as by the party. The pervasive controls were relaxed somewhat during World War II, in order to gain popular support for the war effort against the invading Germans, but at the end of the war they were quickly reestablished. Stalin believed that the struggle with the capitalist West called for the strictest ideological and

political discipline. The Soviet population was once again forced to endure economic privation in the interest of reconstructing and expanding the domestic base of heavy industry needed to establish the USSR as a world power. Stalin died in 1953.

### Maoism

In 1949 a Communist movement won power in China under the leadership of Mao Zedong (Mao Tse-tung). Founded in 1921, the Chinese Communist party allied with the Kuomintang (Nationalists) in 1923, under orders from the Comintern. By 1927, however, the Nationalists had turned on the Communists, and a long civil war began, during which the Communists received little aid from Moscow. Forced to retreat into the interior (the Long March of 1934-35), the Chinese Communists built their party on peasant support. During the Second Sino-Japanese War, which began in 1937 and eventually became part of World War II, the party provided more effective resistance to the Japanese than did the Kuomintang, and by the end (1945) of the war controlled large areas. Within four years it had defeated the discredited Kuomintang and established control over the entire country. Although the Chinese Communist party gave lip service to the doctrines of Lenin and Stalin, its Marxism was shaped by its own unique experience and blended with the ideas of Mao. Mao saw humans as engaged in a permanent struggle against nature. Society was riven by contradictions between classes (antagonistic contradictions) and between groups (nonantagonistic contradictions). The antagonistic contradictions could be solved by revolution, but after the revolution it was necessary to work out the nonantagonistic contradictions that existed among the people and even within the party. Mao also believed that the revolution did not end when the Communists came to power; it had to be waged continually against vestiges of the old

culture and against bureaucratic habits. Under Mao, China was subjected to startling shifts in policy that began with the elite and were carried downward through all parts of society.

### **THE STATE WITHERS AWAY**

The decay of Soviet authority over other Communist governments could be seen as early as 1948. Yugoslavia had been the first to take a different road after 1948, giving up the attempt to collectivize agriculture and turning over industrial enterprises to workers' councils. Its leaders held to this path after Tito's death, in 1980. In 1968 economic and political liberalization led by Alexander Dubcek threatened to undermine the Communist party's monolithic control of Czechoslovakia and possibly set off repercussions in other East European countries. Moscow denounced the trend as "creeping counterrevolution." In August 1968, Czechoslovakia was invaded by armies of the Warsaw Treaty Organization. The country was speedily "normalized" and orthodox leadership reinstated. To justify its intervention in Czechoslovakia, the USSR asserted the right and duty of Communist countries to render "fraternal assistance against counterrevolution," which was known in the West as the Brezhnev Doctrine. In 1979 the doctrine was exercised in Afghanistan, which was occupied by Soviet troops to prop up the pro-Soviet regime there. In 1980 a wave of strikes in Poland led to the legalization of an independent trade union movement, Solidarity, and the promise of further liberalization. In December 1981, however, the Polish government, pressured by Moscow, declared a "state of war" against its own society and suppressed Solidarity. Although martial law was officially lifted in 1983, the Polish Communist regime under Gen. Wojciech Jaruzelski ruled with a heavy hand. This did little to ameliorate Poland's deteriorating economic situation and made it difficult to rally popular support. In 1989, with the tacit endorsement of the Gorbachev regime in Moscow, new negotiations with

Solidarity led to Poland's first partially free elections in 40 years and produced a major defeat for the Polish Communist party. Jaruzelski then called on a Solidarity leader to head a coalition government that included both Communists and anti-Communists--a previously unthinkable eventuality. The new Solidarity-led government soon introduced a package of sweeping economic reforms designed to replace Poland's defunct command economy with the free market. Throughout Eastern Europe, 1989-90 was a time of major upheaval. East Germany, amid widespread popular protests, changed its leadership, and in November 1989 it opened its border with West Germany for the first time in decades. In March 1990 free elections in East Germany produced a non-Communist government. This marked the beginning of the end of a separate East German state, which in a rapid succession of moves merged with West Germany. Demands for reform supported by Moscow toppled the Czechoslovak regime in November 1989, leading quickly to a freely elected non-Communist government there. In 1990, Hungary also held free elections. Hungary's reformist Communist party had reconstituted itself and campaigned under a new name; nonetheless, it was voted out of office. In December 1989 the Romanians overthrew the brutally repressive dictatorship of Nicolae Ceausescu. Romania's new leaders renounced Marxism, but many of them were former Communists, and they used strong-arm methods in dealing with dissidents. Bulgaria also underwent a change in top leadership, but its first steps toward democracy were hesitant. In Yugoslavia the authority of the Communist party crumbled as the country experienced a revival of separatism and ethnic strife. Even Albania, long a bastion of rigid orthodoxy, began to change.

## **STAGE C -- "PINGISM" OR CONVERGING CHINESE CORPORATIONISM**

A struggle continued in China between those who wanted to follow the Soviet approach to industrialization and those who thought of the Soviets as another bourgeois society and regarded technicians and bureaucrats as enemies of the revolution. Mao himself declared that the Soviet Communists had betrayed the revolution. In 1966, Mao launched the Cultural Revolution, in which millions of young Communists, organized as Red Guards, went through the country denouncing senior officials and establishing revolutionary committees in place of local government bodies. The Cultural Revolution ended in 1969, and the leaders set about rebuilding new party and state organs. The power struggle finally ended after Mao's death in 1976 with the moderates in control, led by Deng Xiaoping (Teng Hsiao-p'ing). China then embarked on a program of technological modernization. China established diplomatic relations with the United States in 1979 and subsequently encouraged increased interaction with Western nations.

Deng's initial, ideologically ambiguous call for the "four modernizations" developed into a concerted program for economic reform, featuring various market incentives and the establishment of special economic zones with considerable latitude for private enterprise. As indicated in other sections, considerable western investment has resulted in a convergence of communism and trans-national capitalism in their attitudes and methods of operation. Both the government of the PRC and most trans-national corporations share the characteristics of extensive bureaucracy because of their enormous size and complexity, amorality, ruthlessness in attaining their goals and objectives, lack of responsibility to their citizens [employees] and only nominal limitations on their actions by law and custom. This common ground has resulted in extensive cooperation in not only the expected mass production of western

consumer items such as clothing, shoes, electronics, and toys, but unexpectedly in high-technology areas with serious national security aspects such satellite communications technology, rocket [inertial] guidance systems and wide body commercial aircraft production.

Opponents of the party's dictatorship asked for more, a "fifth modernization"--that is, the renunciation of the party's leading role and the introduction of democracy. This was rejected by most of China's aging Communist elite. Deng and his entourage wanted economic reform without political change. They were determined to crush their critics by force, if necessary, and did so in the June 1989 massacre of students and others in Beijing's Tiananmen Square where up to one million pro-democracy protesters had gathered for weeks on end.

#### ***Stage XIV -- Trans-national corporationism***

Stage XIV is still developing but can be called the age of the trans-national corporation. This is the most difficult stage to evaluate and describe. Not only is it still developing and thus lacks historical perspective, the observers are "inside" the stage, interacting with it, thereby making objective observation and recording difficult. It is highly ironic that one of Karl Marx's predictions, that the "state" would wither away, now appears to be occurring as a direct result of the collapse of the USSR, which eliminated the (perceived) need for strong central governments to provide massive armed forces to protect the property of the multinational corporations. Strong central governments have now become an expensive nuisance to many trans-nationals which are now attempting to eliminate many of the problems such governments cause such as the regulation of trade and currency controls. In turn many of the people with a stake in maintaining the existing central governments are attempting to

create the perception of sufficient external threats to justify their continued existence and as possible expansion.

Adam Smith's tenet in his work "The Wealth of Nations" that "*the economic order should be as independent as possible from the political order*" seems to have been inverted, perverted and compromised. There is massive interference with the political order by the economic order, while the economic order has raised non-interference by the political order in their operations to the status of a religious tenet or article of faith.

Smith's rationale for the "free market" and the "invisible hand" based on the two assumptions (a) no person or combination of persons can control the marketplace, which means that power is diffuse and cannot be monopolized by a party or a clique; (b) the market system tends to reward efficiency with profits and to punish inefficiency with losses. It appears that these two requirements are no longer operative for these organizations.

A major characteristic of this new period is the "escape" of trans-national businesses from any effective governmental control. The new organizations no longer appear to have any loyalty or feel any sense of obligation to their country of incorporation or their employees. At one time Charles Wilson, Secretary of Defense under Eisenhower and former Chairman of GM, could say without irony or sarcasm and with a great deal of truth "*What is good for General Motors is good for America, and what is good for America is good for General Motors.*" Recently, many major corporations such as DuPont, Hewlett-Packard, 3M and General Motors have gone to great lengths to emphasize that while their home offices may be located in, and they may be chartered in the United States of American, they are **not** American corporations. Indeed, they boast that over one-half of their income is derived from

markets other than the United States. Similar statements have been issued by major Japanese and European trans-national organizations.

It is unclear what the relationships between people, governments and these organizations, which are bigger and more powerful than all but a few governments (see Table IIB), will or should be. These new organizations have no borders to protect nor natural constituencies to support them or which they need defend. Indeed, given the new reliance on electronic communications and funds transfer, it is difficult even to say where these organizations are located or who owns them.

An interesting and insightful comment was made by a reviewer of this study when they remarked that these trans-national corporations reminded them of the maritime use of "flags of convenience" for merchant ships. An example of this is where a group of American investors own the stock of a corporation chartered in the Bahamas which owns a ship. The ship is registered in and flies the flag of Liberia. The ships officers are from and licensed by Taiwan and the crew is Senegalese. In Al Gore's famous phrase who is the "controlling legal authority" when something goes wrong?

The above points are so important to the following analysis that these are examined in greater detail below. Of particular importance is the apparent fallacy of the widespread and popular American assumption that "small businesses" are the source for the majority of new jobs and technical developments. The current definition by the American government that a business is small if it employs less than 500 people does not appear to be useful in this context. In any but the largest metropolitan areas, a company employing 499 people, although classified by this definition as small would be a, if not the, major employer in the area. The widespread

acceptance of the small-business fallacy seems to result in policy and curriculum decisions for VOTE which do not necessarily result in optimum returns to and benefits for the stakeholders.

The following information is compiled from the World Bank Data Book and Fortune magazine. What is compared is the cumulative total Gross Domestic Product by nation arranged in increasing size of the national GDP as table IIA and the cumulative totals of the gross revenues of the world's 500 largest corporations arranged in decreasing order in table IIB. Some reservation has been expressed by reviewers about the use of corporate gross rather than net revenues, however the calculations of national GDP do not make allowance for profit and loss, that is the GDP is simply the total value of all goods and services produced. Admittedly there are some problems with this data, for example, not all of the organizations and countries involved have a standard accounting year from 1 January through 31 December and all data are converted to 1995 US dollars so that exchange rate fluctuations may introduce a certain error. Nevertheless, this compilation is extremely informative, and should have major significance for policy makers. Most of the following observations are directly taken from the rightmost columns of Table IIA.

1. The top two corporations in the world when ranked by gross revenue are "American."  
(General Motors and Ford)
2. Three of the top 4 corporations while indicated as primarily producers of motor vehicles have significant service components such as finance[GMAC] and insurance[GMIC].
3. When the gross revenues of the largest global corporation (GMC) is compared with the listing of 128 nations on which the World Bank supplies data, its gross revenue is larger than the cumulative total Gross Domestic Product of the first 55 nations (43% of the world's nations) which have 7.87% of the world population.

4. The combined gross revenues of the top ten global corporations is greater than the combined GDP of the first 96 nations (75% of the world's nations) which contain 24.76% of the world's population.
5. The gross revenues of these 500 corporations directly account for 42 per cent of the entire world's production of goods and services. While it cannot be accurately estimated, these corporations control or greatly affect an even higher portion of the world's production of goods and services because of the position of many of the remaining organizations as suppliers and sub-contractors to them.

A frequent observation by less “academic” reviewers of this section of the study is that this seems to “prove” the existence of some sort of conspiracy or plot for world domination by a small select group. While there is great popular appeal in a conspiratorial view of history, it does not appear to this investigator that this is the case. While “absence of proof is not proof of absence” no credible information discovered supports the existence of any such cabal, plot or group. However, what appears to be the most likely explanation to this investigator may be even more disturbing to many people. This is that these large economic organizations may have taken on a life of their own and are evolving, although to what extent this means anything with abstract and non-organic organizations is unclear. To some people this implies that they are evolving to something or that there is a goal or an end. This is by no means a settled philosophical point. More traditional groups hold that evolution or change is to something better or higher while the more recent schools of philosophy hold that evolution is simply a process of change in response to changing circumstances and conditions with no other goal than survival.

Although “reverse engineering” in the sense of identifying “causes” by observing “effects” through the application of logic is always a risky undertaking, recent trans-national behavior seems to indicate the following:

1. A lack of any obvious viable social / political / economic alternative (that is threat) which would require moderation or modification of corporate behavior.
2. An oversupply of qualified employees indicated by a falling real wages and benefits in almost all categories. (See the section on “Skills Premium”)
3. An oversupply of capital indicated by low and sometimes negative (effective) interest rates (see the section on corporate bond yields in Chapter Four).
4. A reluctance of national governments to require the trans-national corporations to pay a proportionate share of the costs to operate the governments, that is taxes. This is shown by the continually decreasing fraction of net income paid by these organizations, which in many cases in the United States is proportionally less than that paid by a person employed full-time at minimum wage. Indeed, records indicate that in the period 1950 - 1970, American corporations paid about 46% of local property taxes, which are the primary source of primary and secondary school funding. Currently they are only paying about 16%. [Barlett & Steele, 1993 p35]
5. Commitments by national governments to prevent global corporate business failures as indicated by repeated bailouts using taxpayer money by the IMF / World Bank on the international level such as Mexico and Korea, and by American rescues such as Chrysler, Lockheed, Long Term Capital Management, and the savings and loans thus

circumventing the market forces which are supposed to guarantee maximum efficiency.

[Phillips 186]

### ***Evaluation of the applicability of the linear model as stage theory model***

This appealing model presents an orderly and structured sequence of economic, social and political development as may have been presented in Economics 101 or World History 101. A sequence which in these classes flows smoothly from one to the next, much as a frog egg becomes first a tadpole and then a frog. Walt Whitman Rostow in many of his popular economic works stressed the stage theory model of economic development. While useful for instructional purposes and micro analysis, stage theory in the Piaget sense has several items which indicate that it is not applicable in this context. Specifically:

1. It appears possible for a person or group to shift backwards and forwards between stages, sometimes repeatedly.
2. It appears possible to skip stages.
3. Alternative stages appear to exist.
4. Within a larger group, sub-groups appear to exist at different stages.

### ***The accretion model as an alternative to the linear model***

The problem with this is that while these stages do seem to exist, a close reading of history shows the transitions between them is anything but smooth, and indeed there may be no or little transition in the sense of a metamorphosis or evolution but rather an accretion or coating of the existing socio-political-economic structure(s) with yet another newer, more “efficient” and more “aggressive” layer. While physical analogies to abstract concepts have been

extensively misused to “prove” an idea, it is nevertheless useful to consider what would occur in an equivalent physical system. We can start with a small primal nugget which is a stage 1 group and can accrete each of the layers from 2 to 14 on top of each other, with occasional inclusions such as Stage A-C communism. If the conditions were static, there may be no interaction or “problems,” however as soon as any change takes place a cascade of effects can occur. There may not necessarily have been a complete accretion so that as stresses occur between each of the layers, the most malleable layer or the layer under of the most stress could be squeezed out. It is documented in history that small and large migrations of people often occurred as a result of stress, from the migration of the Indians into the New World across the Bering Strait to the Long March of Chairman Mao & Company. A major problem results when such displacement cannot occur even though extensive stress exists. An other consideration is that the layers may not be compatible in the same way that some materials are not compatible and result in the rapid corrosion of the more susceptible material if these come into contact. An example of this is the effect that tin plating has on iron or steel. As long as there no hole in the tin plating it will protect the underlying iron or steel but as soon as there is the slightest pin hole or scratch the tin will cause much more rapid corrosion of the iron or steel than if the tin plate was not present. This analogy can be extended in that some materials cannot be coated over other materials by any know process. This can be extended to the accretion model. For example, it is impossible to impose a mercantile or capitalistic system directly onto a stage 1 or 2 society because the neither the physical items such as gold, silver (other than as pretty rocks) or the concept of money as medium of exchange and store of value exists. Indeed, one of the first tasks of most European imperial powers in their new African and Asian colonies was to transform the existing stage I and stage II societies /

cultures into a money economy so that these could be taxed. It is also possible that one layer of accretion can be symbiotic with or parasitic on a preceding layer. This appears to be the situation of communism (stages A-C) and stage 10 through 12 capitalism or Stage XII “cannibalistic” capitalism on Stage XI “mass production” capitalism. As soon as the “threat” (or alternative) of Marx-Leninism was removed, the need for protection against Marx-Leninism, that is a powerful central government to coordinate and control stage 10 - 12 capitalism and the military-industrial complex, also disappeared. Indeed, the existence of strong, central and activist governments appear to be seen by stage 13 capitalism not as an asset such as umpires and referees who maintain conditions which promote fair, honest, and constructive competition but rather as a liability which impedes efficient operation of the market.

The problems this accretion causes should not be underestimated. At best this results in the actions and decisions made by people and organizations operating in one layer being seen as totally irrational and self defeating by people and organizations operating in other layers. Unfortunately, the typical response is to perceive these actions and decisions as resulting from hidden and ulterior motives, personal animosity and rancor, cheating, or just plain stupidity.

### ***Typical American time frames for the stages***

As earlier indicated stages I through IV have limited applicability to mainstream American economic development. The indigenous peoples, were of course at or in Stage I and II, and it can be argued that the 13 separate colonies were in fact "city-states." However it is now agreed by many historians, who use an economic view of history, that, while certainly not the only cause, one of the major causes of the American War for Independence was the wide

adoption in the colonies of "domestic" mercantilism and Owner Capitalism in direct opposition to the more traditional stages of Feudalism, Renaissance Centralization, and Imperial Mercantilism common in the United Kingdom of the period.

A major exception to this, and one which most Americans would just as soon forget, is the existence, not of serfdom, but of actual slavery in the southern states which was the economic foundation or basis of the large plantations. Many of the traditions of the feudal (V) and renaissance (VI) stages were followed by those who could afford to do so, apparently because of both the tendency of the British Crown to make large land grants to favored individuals in their southern colonies and the later self imposed exile of many of the "Cavaliers" (King James loyalists) from the U.K. after the victory of Cromwell and the imposition of the Commonwealth. The combination of very large land holdings and the strict application of a (minimum size) real property ownership requirement to the franchise meant that many southern counties had only a few qualified voters, and the required offices of magistrate, sheriff, et cetera, would be rotated among an elite electorate of perhaps 5 to 10 individuals. Indeed, strict property qualifications for the franchise (vote) were common in most areas of the early United States, and began to be relaxed only about the time of the founding of the Democratic party and the Presidency of Andrew Jackson. The last traces of property qualification were eliminated only in the late 1950's and early 1960's through a series of United States Supreme Court decisions known collectively as "One Man -- One Vote." Prior to these decisions it was common in many states to maintain two lists of registered voters, and to limit participation in elections which would affect property tax rates, such as bond issues, to property owners only.

It was only after the American Civil war that slavery was legally abolished in the United States and the large but under productive southern plantations broken up. While this was partially due to formal efforts at land redistribution such as that performed by the "Freedman Bureaus," it now appears that much of this land redistribution was largely the result of the increased taxes imposed by reconstructionist governments, much of the land being taxed at fair market value for the first time, and the existence of other more profitable investments such as railroads. De Facto slavery and restrictions on citizenship, while decreasing over time, continued at least into the 1960's. While much improved, this continues to be a serious source of political and social instability on into the 21st century.

Some vestiges or traces of the typical Feudal economic structure still exist in the United States. This is the practice of share cropping. Typically, the owner of the land provides the land, a place to live and frequently (on credit) the seeds, fertilizer, equipment and minimal living expenses while the share cropper provides the labor. The proceeds of the crop are to be divided in some fixed ratio, and any credit advanced is to be repaid from the sharecropper's portion of the "profits."

Thus it can be seen that Stage V feudal / medieval had and continued to have a significant influence, at least in the southern states from the establishment of the United States until at least the 1960's. Among the beliefs / perceptions / attitudes common in a stage V economy, which appear to continue to cause significant difficulties in or to later stages, are:

1. Some groups of people are entitled by heredity to economic, political, social dominance.
2. Possession of wealth (land) indicates membership in one of these groups, and the more the wealth possessed the more firmly membership is established.

3. Persons of wealth, simply by virtue of their wealth, know better what is good for society, and the more wealth the individual has, the surer and more extensive their knowledge.
4. Persons of wealth are exempt from many of the legal rules and social / cultural conventions that other people are expected to follow.

It is important for practitioners who may engage in international activities to remember that feudal perceptions of land ownership still play an important role in many areas. This is particularly true in Latin America, South East Asia, and to a lesser extent in sub-Saharan Africa. Todaro suggests [295-329] land owning in these areas, while economically important, does not appear to be primarily driven by economic factors but rather by the social and political prestige and power that land ownership confers. A factor which strongly supports this view is the relatively low productivity of most of the large land holdings in comparison to the smaller holdings which are more intensively and aggressively farmed and which have much higher per acre yields. To use the Spanish term, the continued existence of the *Latifundios* or large estates and the political, social and economic concentrations of power perceived to coexist with their ownership is the apparent cause of much continuing social and political instability. A major complicating factor is that the simple solution of dissolution or expropriation of these large estates and redistribution of the land does not appear to offer any advance in most cases to a stage VIII owner-capitalist (American) style of innovative, aggressive, and intensive high productivity (cash crop) farming but rather a return to a stage II subsistence farming. Stage VIII owner-capitalist (American) style of innovative and intensive high productivity farming appears to require several pre-conditions. These include but are not limited to:

1. Knowledge of the techniques of successful advanced high productivity agriculture. The days of being "just a farmer" in high productivity agriculture are long gone. A successful farmer requires a fair knowledge of chemistry, biology, botany, mechanics, economics, and business as well as how to "poke seeds in the ground."
2. Continuing availability of affordable<sup>4</sup> capital to purchase the high yield seeds, fertilizer, insecticides, and mechanical equipment required for advanced high productivity agriculture.
3. Continuing existence of markets to provide an outlet for the materials produced which yield a fair market return.
4. The ownership or long term control of sufficient (contiguous) areas of land to justify investment in the education and equipment necessary for high yield agriculture.

From examination of these requirements it should be evident that the traditional land reform and redistribution following the post-civil war American pattern of "40 acres and a mule" to each eligible applicant is very unlikely to have long term positive results in the "third world" LDC/LICs as all of the pre-conditions are lacking.

Any intervention should be done with extreme caution as the "Law of Unintended Consequences" seems to be very efficient in this area. Two examples of this are: First the extensive reappearance of vitamin deficiency diseases such as pellagra and beriberi because of the replacement of native or locally grown high-vitamin high-fiber products with minimal processing with completely pre-processed and packaged foods common in the industrialized

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<sup>4</sup> Although a value judgment by this investigator, an interest rate so high as to eliminate or preempt any significant benefit for the farmer using these new techniques and materials is excessive. An interest rate this high effectively transfers all the gains to the provider of capital, eliminating all but negative incentives (and the risk) for the farmer.

countries. Second, the reappearance of wide spread famine in areas such Ethiopia and Somalia. It can and has been argued that these famines are the result of wars in these areas, but it appears just a likely that the wars are a result of the famines. A particularly tragic case is that of China during their "Great Leap Forward" when traditional agriculture was "improved." The resulting famine is estimated to have killed tens of millions and certainly resulted in developmental difficulties for millions of the children of that period which will affect China for their lifetimes. Indeed, when other efforts such as Stalin's Ukrainian efforts are included, "improving" traditional or existing agriculture to support modernization appears, in total, to be about as efficient a way to reduce the world's population as deliberate efforts at genocide such as in Turkey (Armenians), Germany (Jews/Gypsies) and Rwanda (Tutsi).