The current economic crisis and international business. Can we say anything meaningful about future scenarios?

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Abstract

The paper starts with a list of stylized facts on economic trends in the last few decades with particular attention to international elements. A very brief analysis of the current economic crisis is then attempted. The root cause, the *causa causans* of the excessive growth of the financial sector and the inevitable current crisis is identified in the lack of profitable investment opportunities in advanced capitalist systems. The short term remedies include a shift in income distribution to increase the consumption component of effective demand; it also includes serious regulation of the financial sector at both national and international levels. In the medium to longer term governments should consider engaging in large investment projects such as alternative sources of energy, transport as well as in public services. This might help to improve conditions for profitable private sector investment, thus benefiting both the workers and the capitalists operating in the real sector at the expense of the rent-seekers. The paper then draws some inference on key elements likely to impact on futures, particularly with respect to internationalization and the two types of innovation identified in the stylized facts: organizational and technological. Inference is drawn with respect to the economic system as well as to economics as a scientific and academic field. The final discussion draws these various elements together.

**Keywords:** Financial crisis; international business; organizational and technological innovation; stagnationism and crisis; new technologies and sectoral taxonomy; economics curricula.
1. Introduction

The title of this paper contains a question about whether anything meaningful can be said about the future of international business in the light of the current world economic crisis. If the question is interpreted in terms of our ability to predict the future, the answer is definitely ‘no’. However, if we interpret it to mean saying something about the recent and current developments that have a strong bearing on the future, I would say we can and this is what I shall concentrate on in this brief and sketchy paper.

Contrary to common parlance – ‘financial crisis’ or ‘credit crunch’ – the current crisis is a full economic crisis in which both the financial and real sectors of economies are affected and which has now spread to many countries world wide. It has started in the financial sector, as crises tend to do, and as it deepened it spread wider and wider in terms of affected sectors and countries.

What is the context of the crisis? We can try to understand the context by focussing on some key stylized facts of the last 30 or so years with particular reference to international elements within the context.

- Introduction and spread of two types of innovation: organizational and technological. The two types of innovation are closely related and neither would have been possible without the other. On the technological side the main contribution comes from the information and communication technologies (ICTs). On the organizational side we can identify three major strands of innovation. The organization of production across countries; the division of the production process into various components and the siting of related segments of the value chain in different locations and particularly in different countries; the involvement of satellite firms in the production process organized and controlled by main centres [1]. These organizational innovations have led to changes in the international division of labour as well as to the development of two types of networks involving the transnational corporations (TNCs): the network of subsidiaries across countries though internal to the company; and the network of external collaborations with sub-contractors and other partners [2 and 3].

- The institutions which have been highest in terms of responsibility for both types of innovation are the TNCs. They are heavily involved in the information and communication technologies (ICTs) as well as in the main types of organizational innovation.

- We have seen the deepening of activities across national borders organized and controlled by a main strategic centre: the headquarters of TNCs [4]. The relevance of TNCs has increased consistently. The total number of TNCs originating from 14 developed countries in 1968-9 was 7276 [5, table 2.1, p. 12]; for 2008, UNCTAD [6] gives the worldwide number at approx. 82000. In the last couple of decades there have been sectoral and geographical shifts in their activities. We have seen growth in foreign direct investment (FDI) from developing and central and eastern European countries: the stock of outward direct investment from these regions moved from 3.1 percent of the total world stock in 1980 to 16 percent in 2009 [6 and 7]. There has also been growth in the number of smaller companies that are becoming transnational.
• Incorporation of former Soviet Union and east European countries into the market economies areas.
• Rise of some developing countries to the economic and political world stage particularly China, India and Brazil.
• Increasing financialization of economic systems. Palma [8, p. 6] reports that: ‘…the four components of the stock of global financial assets (equity, public and private bonds and bank deposits) increased 9-fold in real-terms between 1980 and 2007… As a result, the multiple of the stock of financial assets to world output jumped from 1.2 to 4.4…’ We have also seen large growth in cross-border flows of direct and portfolio investment.
• Changes in income and wealth distribution. Indicators of within-country distribution have seen the top percentiles of the population absorbing higher shares of both income and wealth compared to the decades immediately after WWII [9].
• The changes in distribution appear to have been achieved largely through rent\(^2\) generation - particularly in the financial sector - more than via profits on investment in the real sector as pointed out in [8].
• Increase in indebtedness of private, corporate and state sectors [8 and 11].
• In the political and economic spheres there has been a shift in ideology from ‘market needs regulation’ to ‘market knows best’. Liberalization and deregulation in many areas and particularly of labour markets and financial markets [12].
• In spite of the increasing spread of liberal ideologies, governments have been very interventionist in areas such as: privatization; regulation of - and financial support for - privatized industries; and strengthening of intellectual property rights (IPRs) as argued in [13]. We have seen a change in the role of the state: from one that supported capital accumulation and helped to maintain a balance between class forces in the period after WWII, to one in which – in the last 20 years - it supported rent-seeking activities and aided the shift in income and wealth distribution in favour of the better off strata of society. This shift has occurred via various forms of intervention including: legislation, the structure of taxation and social security and the casualisation of labour. The latter together with the changed labour market structure away from manual and into white-collar jobs and the opportunities and threats of international relocation of production aided the process of submission by the working class.

The paper will proceed as follows. The next section analyses the current crisis; section three considers where we may go from now on in terms of: the economic system, the international arena and the science of economics. The last section contains a summary and discussion.

2. Understanding the crisis

If a Martian had visited Earth in the last 20 years she would have been pretty puzzled to see a planet where lack of food and infrastructure was endemic in many countries; where even the rich countries had: many people in poverty; inadequate levels of basic infrastructures and public services and yet many resources – including many bright
people – were allocated to producing strange financial products that nobody could possibly want and very few people understood among the Earthlings let alone the Martians. Moreover, the people involved in these useless and socially dangerous\(^3\) products were the very ones that were gaining the highest rewards. How had that come about?

If imagining a Martian – let alone her thoughts – is difficult for us let us try to imagine the position of someone growing up or working in post WWII Italy: myself and my father respectively. What we saw around us was fervour (almost a fever) of construction and reconstruction – to which my father was indeed contributing – and the production of ever increasing consumption and investment products from cars to household electrical products to roads and railways to houses to holiday packages. Why can’t modern societies produce things the majority of people need and want, might the Martian lady as well as my father – were he still alive – ask? This is what we must try to explain.

Economic crises are always manifestations of underlying and deepening disequilibrium between the three sides of macro activity: production, demand and distribution. The last few decades have seen great developments in the forces of production and thus in the world potential capacity. These developments are due to the organizational and technological innovations in the production processes. Actual capacity has also grown world wide but mainly due to the development and growth of large emerging economies (China, India, Brazil). In the developed countries, actual capacity though growing has lagged well below its potential and indeed the growth of private investment in the non financial sector as a percentage of gross domestic product (GDP) has been declining as evidenced in [13, p. 6] and in [8, p. 22]. We have, nonetheless, seen growth in profits due to: high productivity induced by innovation; low labour costs – due to liberalization of labour markets; casualization of labour and influx of immigrant labour in developed countries; and the widening of scope for profit-making sectors due to the privatized industries. Rents have also been increasing largely due to the growth of the financial and property markets.

Profits and rents need outlets for investment and large capacity needs increasing demand for its absorption: unless the absorption problem is solved potential capacity cannot be realized into actual capacity and actual income. As potential and actual capacities grow, equilibrium can only be maintained if demand grows accordingly in order to absorb the growing capacity\(^4\). For demand to grow in line with potential capacity there must be a congenial income distribution.

Let us briefly consider the components of aggregate demand and the possible constraints to their growth. Exports are ultimately constrained by the fact that world net exports must be zero by definition\(^5\). There has been plenty of pent-up potential demand for consumption goods in both developed and developing countries. However, the shift in income distribution towards the better off strata of society\(^6\) - i.e. towards those with lower propensity to consume - made it difficult for it to be transformed into effective demand for consumption. Though the rich consume more than the poor, the latter devote a higher percentage of their income to consumption. Indeed the last decade has seen many people in the lower and middle strata of US and UK societies consume more than their income and therefore exhibit a propensity to consume greater than one and thus a negative
propensity to save. They could sustain this by borrowing, usually against the value of their houses.

Let us now consider demand for investment: the key component of aggregate demand in terms of the effects on the level of income, capacity and employment. There are two main problems/constraints on investment demand: first, investment creates extra capacity thus exacerbating the problem of absorption. Moreover, though modern economic systems have plenty of need for investment – in alternative energy sources; in public services such as education and health or transport – what is not plentiful is the range and volume of profitable investment opportunities in the real sector. This is a key difference between advanced capitalist economies today and an emerging country such as Italy post WWII; during the Italian ‘miracolo economico’ years there were plenty of profitable investment opportunities. Thus there may be plenty of need for investment in developed countries today, but not of the type that would induce private investors to venture their money into, particularly since the imperatives of the stock exchange require short term returns on investment. The environment requires huge investment: however, it is risky investment with returns too far into the future for the private sector to be interested.

The ICTs developed the forces of production and changed the production process but did not create many products towards which consumers’ demand and profitable investment could be channelled. This pattern contrasts with the decades immediately after WWII when well-established technology was used to flood the markets of developed and emerging countries with many new products from cars to all sorts of white electrical goods.

Moreover, the tough IPRs laws support rents for companies who already have IPRs but make it more difficult for other firms to invest in developing new products. According to [13] this may have contributed to the slow down in investment opportunities for the real sector while increasing the rent element for current beneficiaries of rights.

What about investment by governments? They could certainly become involved in new sources of energy or in developing public transport as alternative to the motor cars but for the vested interests of private corporations in the existing industries. As for the much needed investment in education and health, again vested interests may be in the way. Moreover, the governments that presided over the privatization and de-regulation programmes in western economies are not likely to argue in favour of more public provisions. Indeed as I write major European countries are cutting down on these provisions.

The slowing down in profitable investment opportunities in the real sector of modern capitalist economies after the surge of the decades following WWII - is, in my view, crucial for understanding what has been going on in the last couple of decades and what has led to the current crisis. It is this slowdown in profitable investment opportunities coupled with the wish by the top echelons of society to shift power, income and wealth in their favour that is the root cause, the causa causans – to borrow a concept from Keynes [15, p. 121] - of the developments in the last 20 years and of the resultant current crisis.

It is this problem that can help to understand why the financial sector was allowed – indeed encouraged – to grow so disproportionately [16 and 8] to the rest of the
economy. Moreover, its growth delivered two great benefits to the rich and super rich: it generated very profitable outlets for private investment – without extra capacity in the real sector – and it helped to change the distribution of income and wealth in favour of the rich.

The low level of profitable investment opportunities in the real sector led also to another key development of the last two decades: the intervention of governments to enhance the sphere of profitable investment opportunities by private corporations. This was done via the privatization programmes and via the involvement of the private sector in the provision of public services. Such involvement has taken place in the context of many public services including the provision of clinical services in the British National Health Service (NHS) as well as the provision of building infrastructure in hospitals, primary health care, schools and universities.

This strategy increased the sphere of profitable investment opportunities for the private sector but not without costs for the British people. Costs for the taxpayers and the service-users as a slice of the expenditure had to be diverted to paying for management consultants, legal fees for contracts and litigations between NHS trusts and their private providers; the transactions costs at the interface between public and private operators; interest to banks and profits to the private companies involved.

However, the generation of these profitable opportunities for investment within the sphere of public services was not enough to absorb the increasing surplus. To this end – and also in order to achieve a redistribution of income and wealth - a growing share of surplus was channelled into rent-seeking investment in more and more sophisticated financial products. This – as well as the culture of huge remunerations for employees in the financial sector and managers in the wider corporate sector - further contributed to the mal-distribution of income and wealth and thus to the generation of further profits and rewards looking for investment opportunities in the financial sector. Increasing surpluses were looking for shrinking profitable investment opportunities; not finding them in the real sector their owners kept reversing the funds into the financial sector that eventually ballooned out of proportion. A large and increasing financial sector was sitting on an unstable real sector; the pack of cards was bound to come down though no one knew when and how hard it would hit the ground.

Emerging economies such as China and India did provide some outlets for profitable investment opportunities. The growth in these economies may have helped to widen the real-sector basis of the world economy thus postponing the inevitable crush.

### 3. Where to now?

#### 3.1 Ideologies and vested interests

If the above sketchy analysis is correct – even if only in parts – it would seem that the remedies for the current crisis should be fairly obvious. In the short run even a small shift in income distribution in favour of the poor would secure an immediate increase in consumers’ demand while in the medium to long run the state could undertake major investment in infrastructures and services: from investment in alternative sources of energy to the building of houses, from public transport to investment in health and education. These initiatives by governments would provide stimulus to demand and also
act as stimulus for private sector investment. It is difficult to say whether they would be enough to avoid a protracted or double dip recession and for how long they would prop up the system.

However, things are not going in this direction. There are deep obstacles to a rational solution that might help workers and capitalists at the expense of rentiers. Among the main obstacles are the political environment, the prevailing ideologies and the vested interests. For years we have been bombarded with the message that liberalization and the free market are the best – indeed the only – solutions to economic problems. A whole generation has been brought up in this ideology and it is difficult to eradicate. Moreover, the ideology has pervaded the teaching of economics and a whole generation of graduates have hardly heard any theory other than the neo-classical one.

For example, the first pronouncements of the British government on putting a large stake of taxpayers’ money into the failing banks was to reassure the City of London that they had no intention of exercising control over the banks: private sector managers know best even if they have brought down the banking system.

Policy seems still to be affected by supply side economics teaching. While listening to the daily stream of business closures and redundancies, in the spring of 2009 British viewers heard their Labour Minister for Work and Pensions announce that support was at hand: he was developing a scheme to help the unemployed draft their CVs!

Politics and ideologies may also be in the way of embracing large public sector programmes in transport and other public services, or for the development of alternative sources of energy. The latter may be hampered by the vested interests of the oil industry. The effects of vested interests are also manifesting in calls for very light regulation of the financial sector.

It is not difficult to see that the financial sector badly needs regulation in several elements of its operations including the following. (a) Larger rates of capital to debt as security against future risk of default. (b) Control of incentives – not just to avoid obscene city bonuses – but mainly to make sure that the reward system does not produce incentives to excessive risk-taking. (c) Separation of banking activities according to the type and level of risk involved, i.e. separation of commercial banking from long term operations and from investment banking. (d) Regulation, accountability and transparency in international operations. (e) Increase in the level of competition in the sector. Among the advantages of a more competitive banking industry is securing that the benefits of low bank rates are passed on to the public as lower borrowing rates: something that is not happening at the moment. Moreover, we would be less likely, in the future, to hear that banks are too large to be allowed to fail and the taxpayer must pay the cost of saving them. (f) An effective international regulatory infrastructure for finance – including the area of banking competition – and for fiscal liabilities. (g) Part of the international regulations should be agreement for a tax on foreign exchange transactions: the famous Tobin tax for which the economic and political context may now be right.

Events are unfolding as this article goes to print. In Europe the balance of political forces has moved to the right and governments are implementing drastic cuts in the attempt to lower the national debts. This strategy has many risks attached to it. First, the risk of a second dip in the recession. This would make the strategy self-defeating because the resultant lower fiscal revenue would make it impossible to cut the debts and might even increase them. Second, a risk of social instability as most burden for the cuts will
fall on the low and middle income groups. Social problems may be stored up for decades as unemployment hits hard the young people, both skilled and unskilled. Third, the risk of moral hazard as the people and institutions most responsible for the crisis will see other groups in society bear the burden of the problems they caused.

It is difficult to see what is at the basis of such destructive and self-defeating strategy of public sector cuts while the recovery is still so fragile. The strategy could be the results of 30 years of single paradigmatic teaching of economics. The politician and their advisers now in their early fifties or younger have learned only the neo-classical theory in economics and how the public sector crowds out the market economy; they may be unable to conceive of any policy other than supply side ones. However, the strategy of cuts to the public sector and of light-hand regulation of the financial sector could have different causes. There may be an underlying fear that, if the provision of public services is increased a ratchet effect sets in leading to more and more state intervention and to increased power for the working class. Thus the present strategy of cuts could be the result of a desire to shift the balance of class forces further away from labour by creating more unemployment. This was indeed the strategy implemented by the Thatcher government in the 1980s. Whether the economic and social system will withstand this overall strategy remains to be seen.

Given the above comments, I should point out that I do not hold the view that the large government debts in western countries should be ignored. They are a problem to be reckoned with. However, I question two elements of the current strategies of public sector cuts. First, the timing. The economies are still too fragile and they need stimuli for growth rather than cuts to overcome the crisis. Indeed the strategies of reduction in public expenditure will make the reduction in national debts more difficult. Second, who is to pay for the remaining debts not absorbed by growth? It should be mainly the financial sector and the richer strata of society who have caused the crisis and who have benefitted most from rents in the last 30 years.

3.2 The international arena

A brief mention was made above about the need for international regulation of the financial sector. The issue of accountability, transparency and fair contribution to state revenues from international operations goes well beyond the financial sector.

Moreover, as the recession bites there are strong signs of retrenchment into protectionism. The experience of the last few decades tells us that when barriers to trade increase, TNCs overcome them by direct investment and production. However, the problem now is that investment opportunities leading to extra capacity are low everywhere due to lack of effective demand. What we are beginning to see is merger activity leading to worldwide reduction in capacity as in the motor industry. This again may be the continuation of a trend: foreign direct investment (FDI) has taken the mergers and acquisition (M&As) modality for many years as documented in [7]; now the chances of this continuing and leading to reduction in capacity are even stronger.

So far the transnational corporations’ stage has been dominated by TNCs from developed countries. The recession may increase opportunities for TNCs from other geographical areas and particularly from emerging countries – especially China and
Russia – to increase their acquisitions abroad. It is possible to envisage a very different geographical structure of TNCs and their activities in ten years time.

This is one of the many structural changes that are likely to happen. In the medium to long term there are others. It was mentioned above that the ICTs have had a great impact on the production process but less so on the demand side because they have not generated a very large range of new products to be sold on the market. Moreover, the internet is undermining and likely to destroy many information industries: from music to media to publishing [20]. What may be destroyed is the possibility of producing music or media or books profitably. But, if whole industries – and all in the cultural domain – are likely to collapse as private sector industries, can governments sit back and watch the process? Are we not likely to see pressure for state involvement? If so what are the implications for the supply of information and cultural products? The social changes emerging from this as well as from a wider use of the internet may be very substantial as discussed in [21].

The inevitable process of restructuring in old and newer industries is bound to be conducted mainly by TNCs which may emerge comparatively stronger not weaker from the crisis: the restructuring is likely to hit harder smaller firms including those operating as suppliers and contractors to large TNCs.

So far we have been used to large – and increasingly less large – firms operating transnationally, that is planning, controlling and managing across nation states. But as communication and transportation become cheaper and more widely used other actors – and particularly labour – can potentially operate transnationally. A more transnational organization of trade unions would put labour in a stronger position in its negotiations with companies that are truly transnational. The last thirty years have seen labour relegated to a Cinderella role on the national and world stages. A more powerful International Labour Office (ILO) with the same degree of legal and negotiating relevance as the World Trade Organization (WTO) would benefit labour – and, indeed, the economy at large - and would also provide a counterbalancing pole to misuse of power by the rich and the politicians. Palma [8, p. 33] writes on this point: “...an economic system (neo-liberal or not) in which the elite faces little challenge either politically or ideologically not only becomes inefficient, but also prone to self-destruct”

Nonetheless, there are tensions and conflicts within labour. On one hand transnational linkages would strengthen the labour movement in its dealings with the TNCs. On the other hand the recession and resultant unemployment is leading many workers into nationalistic retrenchment. It is difficult to predict how things will develop.

For two decades we have been bombarded with the idea that liberalization – of financial and labour markets – is part and parcel of globalization and that the benefits of globalization cannot be had without liberalization. The globalization process has, on the whole, been analysed mainly from the perspective of financial flows and their liberalization. However, it is possible to see globalization as the outcome of the development of the productive forces due to (a) organizational – including the internationalization of production - and technological innovation via the ICTs. These are forces of great progress; other elements of the globalization process – such as unregulated and uncontrolled financial flows are not; quite the opposite. What would a globalization process focused on the productive forces and with controls over rent-seeking elements look like? What would a globalization process with more rights for
workers look like? These are among the questions that economists may want to start asking themselves. To more questions, arising from the above analysis, for economics in general we now turn.

3.3 Economics

The last 30 years or so have seen the triumph of neo-classical economics and the concomitant marginalization of other approaches to the subject [see 29]. The present crisis makes the continuation of this trend more problematic. General equilibrium analysis and mathematical sophistication have, in the past, proved very good for acquiring Nobel Prizes; less so for gaining insights into the working of the economic system. Here I shall briefly mention some areas of economics which are particularly affected by the trends in the last few decades and by the current economic crisis. These areas are well ripe for new approaches to economic analysis.

For a long time neo-classical economists as well as those from other schools used to teach about market failures and externalities, i.e. effects on third parties to a transaction. They also used to teach about aggregation problems and fallacy of composition: how conclusions valid for individual consumers or firms may not apply at the macro level. I do not know the extent to which these two interconnected issues are still taught and considered by conventional economics. However, a recent event involving the top echelons of British economics raises concern. The facts are as follows.

In November 2008 at the peak of concern over the financial crisis, the British Queen during a visit to the London School of Economics asked one of the economists present why no one had noticed that the crisis was on its way. In answer to her question, a group of top economists wrote her a letter – under the aegis of the British Academy – in July 2009.

In one paragraph of the letter [30, p. 3] we read that: ‘Everyone seemed to be doing their own job properly on its own merit. And according to standard measures of success, they were often doing it well. The failure was to see how collectively this added up to a series of interconnected imbalances over which no single authority had jurisdiction. … Individual risks may rightly have been viewed as small, but the risk to the system as a whole was vast.’

Thus economists and policy makers failed to see that financial transactions generated effects and risks not only for the individual parties to the transaction but also for others and indeed for the economic system and society as a whole. In other words they failed to see and/or take account of externalities and of possible divergences at micro and macro levels. For economists working for – or close to – policy development the oversight of effects and risks to the system is inexcusable. Her Majesty might wonder what her economists dealing with the country’s policies do if they do not consider the effects/risks on the system as a whole. However, we should not forget that the oversight may be the product of the prevalent ideology based on the assumption that what is good for the market is good for society.

It is to be hoped that economists and policy makers will never again forget that the aggregate effects on the macro system can be very different from the sum of individual effects on micro transactions. These are among the key issues that should be aired in the classrooms of economics university students across the world. The shift to the
right in European politics raises fears that it might not happen. Nonetheless there are currently pressures for more pluralistic approaches and this may affect the ideological landscape in future years.

There are several areas in which the organizational and technological developments of the last few decades may play a role in shaping the agenda of economic research and pedagogy. The TNCs are the main institutions on the international business stage. They are also a by-product and the main shapers of organizational developments. Indeed they are also the main players in the technological developments taking place in our societies via their adoption of ICTs and via the impact that ICTs have had on their growth, management and organization. On the latter point it is worth remembering that the ICTs have a relevant effect on the establishment, spread and management of TNCs’ international networks some of which are internal to the company, via their subsidiaries, and some are external to it such as the ones with suppliers and distributors or partners in business ventures or research 16.

It is thus a matter of concern that for years the study of TNCs has been relegated into Business Schools and Departments and not much of interest in economics departments [33]. This is changing and economics departments are increasing their interest in the TNCs. However, the change is brought about by incorporating the study mainly into the neo-classical general equilibrium framework as in the New Trade theories applied to the TNCs. Most of this analysis is based on cost minimization in conditions of multi-plant – not multi-nations – production as argued in [34]. There is no attempt to take into consideration strategic elements or the specificity of nation-states for TNCs’ strategies.

In the literature on international business in general, not enough attention has been paid, so far, to the role that strategies towards other actors in the economic system play in the decisions of TNCs, be these decisions on where to invest or on other modalities of international activities. Some attention is given to strategies towards rival firms but less so to strategies towards labour or suppliers or governments [see 35, ch. 15; and 36].

If the pressure for a more pluralistic approach to the study and teaching of economics continues we may see changes in the role that TNCs will play in theories and in teaching. It may be that we shall also see developments in the study of TNCs in the contexts of their dealings with other actors in the economic system. There is a need to study the TNCs more in the context of their relations and strategic interaction with other actors, be they rival firms, governments, labour or suppliers [37].

As regards technological innovation, there is a wealth of studies on the full implications of the ICTs [see for example 38]. Nonetheless two areas should be mentioned in which research is underdeveloped and needed. They are areas which will increasingly impose themselves to the attention of researchers.

The first is a by product of the destruction of industries that is the result of the free accessibility by the consumer to information and cultural products on the internet. So far, most discussion seemed to have centred on strategies – whether technological or organizational or political – to try and maintain the profitability of the sectors. In the long term these strategies are bound to fail because, historically, the forces of technology tend to prevail; it is a game of cats and mice in which the mice will win. These sectors are likely to be lost to the profit-making areas of the economy. As State intervention may
become necessary, attention may have to be devoted to: (a) how to secure pluralism of views, ideologies and opinions in these cultural sectors once they are funded/supported by the State; and (b) whether there can still be a role for the private sector in cultural/information industries and what that might be. In all this we should not forget that a large section of the cultural industries though run by the private sector, are already indirectly supported by the taxpayer. This is the case of academic publishing that relies heavily on State-funded libraries, on the demand by State-funded academics and students and on the production by academics which is free to the publishers because the academics are supported through salaries paid by the State. These are areas in need of more research.

The second area relates to the implications of the ICTs for our understanding of development and growth which have, so far, been analysed mainly within a specific sectoral framework: agriculture, manufacturing and services. Indeed, the original distinction between primary, secondary and tertiary sectors was developed by Fisher and Clark because they were identified as sectors with different growth rates of productivity and therefore different potential contribution to development. The sectoral structure of production developed by economists was linked to the employment potential and to the process of development. The traditional taxonomy, therefore, reflected the underlying theory behind the explanation of development and employment potential.

Other authors have later used the taxonomy to explain growth in developed countries. Traditionally, manufacturing was considered to have wider scope for technical progress which resulted in higher levels and growth rates of productivity within it compared to agriculture and services as argued in [42 and 43].

Is this traditional taxonomy still appropriate in the era of ICTs? Is the demarcation manufacturing versus services the best one to capture the contribution of industries and sectors to the economic performance of countries? Three major elements due to the ICTs are creating the need to rethink this traditional Fisher-Clark sectoral taxonomy. First, the wider scope for increased complementarity between manufacturing and services that the ICTs generate. Second, the fact that the introduction of new technologies goes hand-in-hand with changes in the organization of the production process in all industrial sectors and that, indeed, organizational as well as technological changes contribute to the performance of various industries. The third element and probably the most important one is the actual and potential contribution that the widespread use of ICTs can make to productivity and growth. Before I consider this issue, a word on the problem of the ICTs and the productivity changes.

There has always been a prima facie expectation that the widespread use of ICTs would affect the productivity of both manufacturing and services. However, it has taken some time to have evidence on the effects of ICTs on productivity. Some early literature has pointed out that even in countries with high ICTs intensities, productivity did not appear to have increased substantially and/or throughout many industries. In 1987 Robert Solow [44, p. 36], while discussing the slowdown in productivity world wide, came out with his now famous paradox: “You can see the computer age everywhere but in the productivity statistics.”. Scepticism on the productivity increases due to ICTs was shown also in [45].

However, in spite of these sceptical positions, evidence of increased productivity has been coming through at a fast pace as argued in [46 and 47]. The latter work finds
evidence of a lag between the introduction of information technologies and the increase in productivity. The lags can be explained by the fact that the technologies result in productivity gains only after the introduction of considerable organizational changes [48 and 49].

Thus several authors stress the positive effects of the ICTs on productivity. However, the introduction of organizational changes alongside the ICTs seems to be a necessary condition for reaping the full productivity effects. In the pre-ICT era organizational changes at the firm and industry levels were part and parcel of technological changes whether brought about by economies of scale [see 50 and 51] or by the desire to cut down market transaction costs [52, 53 and 54]. In the new technological environment, organizational changes are seen as necessary as technological ones in order to gain increases in productivity. The combination of technological and organizational innovation takes time and therefore productivity improvements may have longish lags in relation to the introduction of the new technologies. This explains why the growth in productivity appears to be significant only from the mid-1990s onwards.

The strong role of the new technologies in the production processes means that high levels and growth of productivity are increasingly more likely to be linked to the intensity of use of such technologies whether they occur in the production of goods or services: productivity growth may no longer be the prerogative of manufacturing only, therefore the scope for analyses of development and growth based on the Fisher-Clark sectoral demarcation can be called into question. A new demarcation based on ICT intensity that cuts across the manufacturing versus services divide may become more appropriate for the analysis of development, growth and employment potential in the twenty first century. This is one of the areas in which further research might bring useful results.

4. Summary and discussion

The paper starts with a list of stylized facts on economic trends in the last few decades; particular attention is given to international elements. A very brief analysis of the current economic crisis is then presented. The root cause, the *causa causans* of the excessive growth of the financial sector and the inevitable current crisis is identified in the lack of profitable investment opportunities in the real sector of advanced capitalist systems. The short term remedies include a shift in income distribution to increase the consumption component of effective demand; it also includes serious regulation of the financial sector at both national and international levels. In the medium to longer term governments should consider engaging in large investment projects such as alternative sources of energy, transport as well as in public services. This might help to improve conditions for profitable private sector investment, thus benefiting the workers and the capitalists operating in the real sector and in those financial sectors involved in essential intermediation at the expense of the rent-seekers.

The paper then draws some inference on key elements likely to impact on futures, particularly with respect to internationalization and the two types of innovation identified in the stylized facts: organizational and technological. The inference is drawn with respect to the economic system as well as to economics as a scientific and academic field. It is claimed that the TNCs are likely to play a bigger role in both economic systems and
As the ICTs become more widespread, other institutions are likely to play a bigger transnational role particularly those that are closely involved with TNCs. The ICTs and their impact on industries affected by the internet are discussed also in terms of the future of industries that are becoming unprofitable because of free information on the internet. There is also a discussion of the appropriateness of the traditional sectoral taxonomy in the era of ICTs. The equivalence between globalization and liberalization is rejected in favour of a system that combines the advantages of organization of production across nation-states and the use of technology without the social problems of financial liberalization.

The paper identifies areas where changes in the economic system are likely to occur as well as areas where economic analysis is particularly needed and within a pluralistic framework to the study of economics.

The reader can see three strands to the paper, all rooted into contemporary economies and economics: (1) the current economic crisis, its root causes and possible policies; (2) the international business arena including the related areas of organizational and technological innovation; and (3) economics as a discipline and the economics curricula in the light of (1) and (2). Each of these areas is large enough to have the potential for several books and many articles. What is presented in the paper is a tentative analysis of problems, issues and linkages.

The analysis of the economic crisis forms a constraint and gives the background against which international business is likely to develop. The following specific areas are considered: (a) M&As rather than greenfield mode as likely developments in FDI; (b) impact of the internet on the future of some cultural industries such as media, music and publishing; and (c) the role of labour in international business and specifically in its relationship with the TNCs.

As regards economics, the current crisis is calling into question – and not only in this paper – its direction and its role in policies as well as its pedagogic side. The following areas are seen as ripe for further research and for inclusion into university curricula. They are all areas in which the three elements (1-3 above) are interrelated. (i) Market failures/externalities and divergences between micro and macro effects particularly in relation to individual versus systemic risks and effects; (ii) a wider role for the TNC and international business in general in the curricula of economics departments; (iii) a more strategically-based approach to the study of TNCs; and (iv) the role of technological and organizational innovation in productivity levels and growth and thus in our understanding of the process of development and growth traditionally dominated by the sectoral taxonomy between agriculture, manufacturing and services.

Many of the points made in the paper are necessarily sketchy, indeed no more than suggestions arising from the theoretical analysis. The topics considered are only part of the areas in which the current economic crisis may impact on international business. As most works in the social sciences, the paper contains value judgments which are here made fairly explicit.

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References


[30] Letter to Her Majesty The Queen, [http://media.ft.com/cms/3e3b6ca8-7a08-11de-b86f-00144feabdc0.pdf](http://media.ft.com/cms/3e3b6ca8-7a08-11de-b86f-00144feabdc0.pdf)


1 The transnational corporations – also known as multinational corporations or international firms – are characterized by direct production as well as ownership of assets in at least two countries.

2 In classical economics rents are incomes accruing to landowners. In the last few decades and particularly since the publication of [10] the term has been used to indicate also incomes extracted through monopolistic position of any type of assets and/or through the extraction of incomes against which no (or little) contribution to production is made. The concept is not entirely unambiguous though it is widely used.

3 Warren Buffett in his 2002 Berkshire Hathaway letter to shareholders refers to derivatives as “weapons of mass destruction”.

4 Readers will here see the influence stagnationist theories and in particular of [14] in this part of the analysis.

5 Imbalances in some countries are, of course, possible and can be sustained for many years adding to the political and economic problems as in the case of Chinese surpluses and US deficits.

6 The constraints on consumption caused by the shifts in income distribution are analysed in [11].

7 Evidence on this is in [17]. The theoretical rational for private provision of health care services is given in [18]; a critique of this approach is in [19].

8 There are indications that the Chinese government wants to improve conditions for the low income groups following social unrest. Income and wealth distribution in China has become very unequal in the last couple of decades.

9 The public bears the consequences of an uncompetitive industry twice: first through the high costs of borrowing by consumers and businesses and second because, when banks fail, the taxpayers have to foot the bill for their rescue.

10 James Tobin proposed a tax on foreign exchange transactions in 1978 to curb speculation on currencies. The tax would have some added advantages including putting breaks on financial speculation in general and raising revenue for international humanitarian and infrastructural projects.

11 See [22 and 23] and in particular the following works in these special issues: [24 and 25].

12 I owe this point to Mario Tiberi.

13 There are exceptions such as [26 and 27].

14 This approach is developed in [5, ch. 10].

15 [28] also advocates cross-border capital controls.

16 See other contributions in this Special Issue and, in particular, [31 and 32].

17 Roberts [21], in her analysis of commercial versus community (open source) software, sees the possibility of some absorption of community production into the private sector.

18 These points are developed further in [39].