Perspectives on the Global Economy at the Dawn of the 21st Century: An Irish Bahá'í View

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Abstract

The purpose of this paper is to present perspectives on certain aspects of the global economy at the start of the 21st century. It is not intended to be a general Bahá'í critique of the world economy, or a set of comprehensive proposals for a new economic order.

The paper will focus on the globalisation of the world economy over the past two centuries, that process of the growing integration and interdependence of its different national economies. It will examine some characteristics of today's world economy, such as the recent development of a harsher free-market system, the lack of international accountability, returns on business investment, the valuation of financial assets and the proneness to sudden crises. It will comment on Ireland's recent economic transformation. The current challenges posed by unregulated free-market forces and competition will be considered, and the paper will conclude with a Bahá'í contribution to the issues raised.

Historical Background

Economics, or Political Economy, could be defined as that discipline concerned with the production and distribution of wealth. Today's economic system has its origin in the Enlightenment of the 18th century, when the Western elites began to move away from reliance on religion and tradition as guides to life, and to embrace material and social "Progress" directed by human reason. This facilitated the start of the Industrial Revolution, that sudden change in economic life that occurred in the second half of the 18th century, more specifically in Britain, the USA and Northern Europe. Improvements in technology in agriculture made possible a massive shift of employment from agriculture to industry and from countryside to city. This led to the emergence of the capitalist market economy, based on privately owned businesses competing in the production and sale of goods in the market, at a profit for their owners and providers of capital.

The "market" here means an area over which goods and services are sold and bought for money. The role of the market is to direct economic activity and the allocation of resources by providing continual information to sellers and buyers about prices, profits, interest rates and asset values. It is the scope of the market today that is a recent phenomenon. Up to the 18th century, local economic self-sufficiency and self-reliance, based on agriculture, were the norm for the great majority of people, and material life was at a very basic level by today's standards. Trading and market systems were marginal to society as a whole, and were strongly embedded in the milieu of local cultures and values. Long-term per capita economic growth, and population growth, moved at a snail's pace, a small fraction of one per cent per annum, and there were long periods of stagnation and even decline. Continuous rapid material progress as we know it today was unknown.

The intellectual underpinnings for the new system were expounded in Adam Smith's seminal 1776 work, *An Enquiry into the Causes of the Wealth of Nations*. In a famous analogy, Smith sought to show how the individual firm, acting in its own interests, would be guided by the "invisible hand" of the market to improve the welfare of society as a whole. However, it should be remembered that Smith assumed that the system operated within a framework of public morality and responsibility, something which is often forgotten today.

The new industrial system led to continual improvements in technology and in the productivity of the workforce, and significant sustained economic growth. Its striking feature over the past two centuries, synchronizing with the early stages of the Bahá'í Era, has been the spectacular and prodigious increase in material wealth and living standards for billions of people, even if the benefits have been extremely unevenly spread. Average life expectancy at birth has almost doubled. Advances in individual freedom have been equally impressive. These occurred despite the five-fold increase in the world's population from 1.0 billion in the early 19th century to 6.0 billion at the end of the 20th century. Per capita economic growth has been 1.0 - 2.0% per annum, and higher in the last half century. Consider the effects of compound growth: £1 invested at compound growth of even 1% per annum will accumulate over 200 years to £7.3. At growth of 2% per annum, it will accumulate to £52.

It has been a common phenomenon over the past few centuries that any society undergoing economic development, or a new phase of economic growth, including Ireland since 1994, has experienced increasing economic inequality. This is because such a change disrupts traditional patterns of economic life and requires a redistribution of income from consumption to investment and profits in the new industries. However, appropriate social policies can eventually mitigate the effects of this. The development and spread of capitalism created great misery and disruption for large numbers of people during the 19th century, both in the richer countries and in those colonised by the imperialist powers. Its excesses of inequality, poverty and exploitation provoked Karl Marx's famous critical analyses.

After the mid-19th century, material life for most people in the rich countries began to improve, Marx modifying his earlier views that growing impoverishment for the majority would lead to the collapse of the system and its overthrow in violent revolution. However, many of the issues he raised and the questions he asked are still valid today. More than other economists, he focused on the capitalist market system - driven by many competing firms acting according to their own judgement - as lacking overall planning and co-ordination. It is based on the spread of commodity production, where everything is bought and sold, and on the relentless encroachment of market forces into all areas of human life and social relations. It is cyclical, subject to regular crises of over-investment, overproduction and excess capacity. It is also prone to financial panics and speculative bubbles, where asset prices become inflated, based on expectations that others will pay still higher prices for them, rather than prices based on their true value. These excesses require regular adjustments in the form of recessions or depressions (a fall in economic activity), unemployment, and falling prices, to bring the system back to equilibrium.

In the laissez-faire economic system of the 19th century, with its minimum social role for the State, cyclical crises were sharp and painful but usually short-lived. By the late 19th and early 20th centuries, and influenced by the socialist and labour movement, it became gradually more accepted that the State should play a role in mitigating the excesses and inequalities of the system, through social security and income redistribution.

World War 1 and its aftermath destabilised the world economy and also acted as a catalyst for the Russian Revolution. The 1930s saw world-wide economic breakdown in the Great Depression, following the collapse of the American economic boom and speculative bubble in share prices of the 1920s, and the inability of the system to cope with inter-country debts and reparations incurred as a result of the War. The crisis was initially aggravated by the inability of many governments to rise above their laissez-faire, free-market ideologies, and by errors in economic policies. In fact, the Depression really ended only in the great mobilisation for World War 11. The apparent spectacular success in the 1930s of the Soviet communist regime's state-controlled and centrally planned economy posed a further challenge. From the 1930s to the 1960s, the Soviet model seemed to many to be the way of the future.

The intellectual contribution of John Maynard Keynes, the 20th century's outstanding economist, was the insight that the free-market system had to be managed by the State to prevent exaggerated booms and slumps, in particular the possibility of the market system remaining stuck in a permanent condition of stagnation and mass unemployment. The State should act in a counter-cyclical manner to smooth out booms and slumps. In economic slowdowns, it should stimulate the economy by increasing spending and reducing taxes, borrowing as necessary to cover its deficit. In boom times, it should restrain the economy, increasing taxes and decreasing spending, and paying back its debts from the surplus. Its social policies and programmes should exert a stabilising influence on the economy. Keynes was the leading intellectual architect of the post-World War 11 international monetary system, and of a new economic consensus based on full employment and greater economic equality. The period 1948-1973 witnessed the greatest economic boom the world has ever experienced. As the Bahá'í International Community's Office of Public Information wrote in 1999:

> A parallel process took place with respect to economic life. During the first half of the [20th] century, as a consequence of the havoc wrought by the Great Depression, many governments adopted legislation that created social welfare programmes and systems of financial control, reserve funds, and trade regulations that sought to protect their societies from a recurrence of such devastation. The period following WW2 brought the establishment of institutions whose field of operation is global... At century's end - whatever the intentions and however crude the present generation of tools - the masses of humanity have been shown that the use of the planet's wealth can be fundamentally reorganised in response to entirely new conceptions of need. (1)

Recent Developments

In the 1970s the Keynesian consensus broke down, due to both accelerating inflation and spiralling oil prices, which triggered two serious recessions in the West, and to changing technology, including the start of the computer and information technology revolution. However, one of the reasons for the constant and accelerating inflation was that governments had been doing only part of what Keynes prescribed. Under constant pressure from materialistic electorates, they did spend money and run up debts in times of slowdown, but never reduced spending or repaid debts in good times. This constant one-sided policy from the 1950s to the 1970s, together with upward pressure on labour costs in conditions of full employment, were major causes of unsustainable inflation.

The years 1979-80 saw a major shift to the right in the UK and the USA, China beginning a steady move away from central economic planning, and the clear emergence of a systemic crisis of inefficiency and stagnation in the Soviet bloc. This signalled the move to a harsher, more unequal market system, with “flexible” labour markets, where it is easy for firms to hire and fire, and the intensification of the globalisation process. This spread of free trade and free markets has been driven by technological change and by the State reducing its role in the economy. The USA has led this drive, and is today the world’s most productive and competitive economy. Other English-speaking countries are following the US model. West Europe is cautiously moving away from the Keynesian “social market” model. China and many other East Asian economies have had phenomenal economic growth in the past 20 years. However, China is now faced with destabilising social inequality and the prospect of scores of millions becoming unemployed as it joins the World Trade Organisation. The free-market polices, adopted by many countries of the former Soviet bloc, have been disastrous for large sections of their economies and populations. The collapse of Russian economic power is almost without precedent.

One of the key issues facing nations is what type of economic system they should, or rather, can have, given the materialistic outlook prevailing at present. There is an inexorable tendency for economies to be forced to the most ruthless and competitive models. Investors are not as confident in the European as in the US model; this is the root cause of the Euro’s fall in value.

Some characteristics of the present global free market system are worth noting:

1. Free Trade: The free movement of goods, people (labour), and capital (money), are essential for the continual growth of today’s system. But free trade has been a controversial issue in history, with many paying lip-service to it but practising it only when convenient. In early capitalism, the State played a major role in protecting infant industries from cheap imports. However, following from the lessons of the 1930s, there has been an enormous expansion of free trade since World War 11, helping in the spread of tremendous but unequal prosperity. Yet even today, Western states do not allow free trade in agricultural products from poorer countries, to the latter’s disadvantage.

Free Trade raises moral issues of a fair and level playing field. How can economically underdeveloped countries possibly compete with the industrialised nations? The Bahá’í Writings favour it in principle, but within a universal moral framework. Shoghi Effendi, in one of his 1930s World Order letters, referred to “a world community in which all economic barriers will have been permanently demolished and the interdependence of Capital and Labour definitely recognized.” (2)

2. Ownership and control of the big corporations: Today’s corporation is set up as a separate legal entity apart from its owners, the shareholders. It can enter into contracts, sue and be sued in its own name. It can acquire other companies. The liability of the owners for the debts of the company is limited to the loss of their investment, but no more. More important, ownership shares are transferable, and huge stock markets exist to facilitate the valuation, buying and selling of shares.

In big companies, the owners elect a board of directors to run the company on their behalf. Most shareholders are not individuals, but institutions set up as legal personalities, such as pension funds, mutual funds, and financial institutions like banks and insurance companies. Ultimate ownership and control of the huge corporations that dominate the world economy are frequently clouded in an almost impenetrable and unaccountable web of legal complexity.

The Bahá’í International Community provocatively stated in 1999:

> In humanity’s economic life, no matter how great the blessings brought by globalisation, it is apparent that this process has also created unparalleled concentrations of autocratic power that must be brought under international democratic control if they are not to produce poverty and despair for countless millions. (3)

3. Returns and Profitability on Investment: The modern industrial system is driven by investment in productive capacity. Investment involves the outlay of a large amount of cash now in the expectation of returns or profits over future years. The rate of return demanded by investors, whether shareholders/owners or lenders, consists of two main components. These are the risk-free rate of return (interest) obtainable from lending to the Government or from bank deposits, plus an additional premium to compensate for the perceived level of risk and uncertainty attaching to the investment. In the USA and UK, where financial markets have been most developed, the annual compound average rate of return on shares in large companies during much of the 20th century has been some 6% per annum above the return from lending to the Government, and some 8% per annum above the rate of inflation. This return has consisted of cash dividends paid out of profits, and increases in the value of shares as companies grew and expanded.

Albert Einstein is reputed to have said that the law of compound interest was the most important in finance and economics. The following table illustrates the effects of compound interest or growth over time:

Table: Amount to which £1 Today will accumulate in a Future Year

Fut Yr	Interest or Growth Rate 1%	3%	5%	10%
1	1.010	1.030	1.050	1.100
5	1.051	1.158	1.276	1.611
10	1.105	1.344	1.629	2.594
20	1.220	1.806	2.653	6.726
50	1.645	4.384	11.468	117.391
100	2.705	19.219	131.501	13,780
200	7.316	369.35	17,293	190 mil.
1,000	20,959			

The above table demonstrates the central role and implications of interest rates and growth rates in the economy, and how continuous economic growth eventually becomes unsustainable because of its exponential effects.

In the static economies of the past, religious teachings often forbade charging interest on loans because it effectively meant the transfer of resources from poor to rich. The Bahá'í Writings permit interest on loans, and by extension, a rate of profit on business investment, but subject to moral constraints. Bahá'u'lláh stated:

> As to thy question concerning interest... Many people stand in need of this. Because if there were no prospect for gaining interest, the affairs of men would suffer collapse or dislocation... Therefore as a token of favour towards men We have prescribed that interest on money should be treated like other business transactions that are current amongst men...
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> However, this is a matter that should be practised with moderation and fairness. Our Pen of Glory hath, as a token of wisdom and for the convenience of the people, desisted from laying down its limit. Nevertheless We exhort the loved ones of God to observe justice and fairness, and to do that which would prompt the friends of God to evince tender mercy and compassion towards each other...
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> Nevertheless the conduct of these affairs hath been entrusted to the men of the House of Justice that they may enforce them according to the exigencies of the time and the dictates of wisdom. (4)

4. Valuation of Financial Assets: The market value of financial assets - such as shares in companies - depends on the amount, timing, and risk of the future cash flows they are expected to earn.

Financial assets and shares generate cash flows over many future years. In the meantime the owner is forgoing immediate cash returns and is incurring the risk that the cash returns will not be received. Hence, in valuing financial assets, the market "discounts" or reduces these future cash returns to their "present value", i.e. their value as if they were received right now instead. This is the amount which, if received now, would accumulate along with interest or returns to the future amount to be received. Discounting is akin to compounding in reverse. The discount rate varies directly with the perceived level of risk of the expected future cash flows.

The following table shows the effects of discounting future cash over time:

Table: Present Value of £1 to be received in a Future Year

	Discount Rate			
Fut Yr	1%	3%	5%	10%
1	0.990	0.971	0.952	0.909
5	0.952	0.864	0.784	0.621
10	0.905	0.744	0.614	0.386
20	0.820	0.554	0.377	0.149
50	0.608	0.228	0.087	0.009
100	0.370	0.052	0.008	0.0001

The more distant the future year's cash flow, and the greater the discount rate due to greater risk, the lower is the present value of the future cash flow.

As the economy grows, company profits and cash flows grow over time. The expected rate of growth in profits and dividends - and their perceived risk - determines the value of shares in companies. Assuming constant growth rates per annum into the future, it can be shown that the present value of a share's future dividends is next year's dividend divided by the discount rate less the growth rate.

$$\text{Value of a Share today} = \frac{\text{Next year's dividend (= recent div + growth)}}{\text{Discount rate minus growth rate}}$$

Consider an example of a share whose most recent dividend was 10 pence and how its value changes under three different expected economic scenarios: average, good, bad:

	Average	**Good**	**Bad**
Discount rate	10%	9%	12%
Growth rate	7%	8%	6%
Value of Share in pence	$\frac{10 \times 1.07}{0.10 - 0.07}$	$\frac{10 \times 1.08}{0.09 - 0.08}$	$\frac{10 \times 1.06}{0.12 - 0.06}$
	= 357p	= 1,080p	= 177p

Note the huge changes in value as investors become more optimistic or pessimistic about the company's prospects, and as they adjust their discount rate and their estimates for future growth rates. Growing confidence in a stable long-term future causes investors to reduce their risk premiums and discount rate and increase their growth estimates, and vice versa.

The same principles apply to lending and debt. The willingness of banks and investors to lend, the conditions (including interest rates), under which they lend, and their inclination to call in or sell their debt, depend on their perception of the risk involved.

The big institutional shareholders today hold diversified portfolios of shares in different companies. They employ professional fund managers to manage their trillions of pounds worth of shares, and they constantly monitor their performance. Each fund manager is under constant pressure to maximise the returns on his portfolio, subject to the level of risk undertaken, by the appropriate buying, selling or holding of shares. The fund managers in turn expect the directors and management of companies to maximise their company's share price. The spread of cheap desktop computers and the development of new "Shareholder Value" models have added to the pressure on Fund Managers to maximise their returns, and on companies to maximise their share price. The whole milieu in which the fund managers operate leads to a herd mentality, and adds to the fickleness and volatility of equity markets.

The experts assure us that a collapse in share prices on the scale that followed the Wall Street crash of 1929, and the ensuing Great Depression of the 1930s, could never happen again. They argue that a particular combination of global circumstances and errors in policy led to the 1930s breakdown. Between 1929 and 1932-33 in the USA, shares lost almost 90% of their value, while economic output dropped by one third and unemployment rose to 25%. The situation was not as bad in the UK, but was worse in Germany.

However, speculative bubbles, volatility in the financial markets, and sudden crises of confidence remain a feature of the economic system. Share prices and property prices in Japan in the 1980s underwent a speculative bubble that burst in the early 1990s; in early 2001, prices are still down by 60-70% from their 1989 level. Fortunately, the impact on the real economy has not been as severe. However, sudden losses of confidence by international investors and the resulting financial panics, aggravated by the free withdrawal of capital, led to devastating, if sometimes short-lived, economic crises in Mexico in 1994, East Asia in 1997 and Russia in 1998. The scale of the 1997 East Asian crises and of the ensuing international rescue effort led the Universal House of Justice to refer in 1998 to "the dramatic recognition by world leaders in only recent months of what the interconnectedness of all nations in the matter of trade and finance really implies - a condition which Shoghi Effendi anticipated as an essential aspect of an organically unified world." (5).

Share prices in the USA in the 1990s enjoyed one of their greatest-ever bull market of rising prices as investors became very optimistic about the prospects for the US economy following the collapse of communism and the intensification of the information technology revolution with its prospects of higher productivity growth.

It became fashionable to believe, until late 2000, that the economic cycle had been abolished. In the late 1990s, the high technology NASDAQ share- price index underwent a classic speculative bubble, which burst in March 2000. The index in April-May 2001 is down some 60% from its March 2000 high. Broader share-price indices have fallen by some 20%. By all traditional valuation models, US shares are still over-valued. Worldwide equity values today, in relation to the size of the real economy, are by far their highest ever. Investor sentiment can be very fickle and volatile, and markets have a habit of undervaluing as well as overvaluing. A severe and widespread fall in US and world share prices is certainly one of the greatest risks facing the global economy, because of its depressing effect on the wealth, confidence and spending of consumers and business. Whether the sudden and unexpected economic slowdown that emerged in the US economy in late 2000 will turn out to be short and mild, or betoken a more serious crisis, remains to be seen.

Ireland's “Celtic Tiger” Economy

The first half of the 19th century, following re-incorporation into the UK, was an economic and human disaster for Ireland. In the potato famine of the 1840s, the suffering was aggravated by the prevailing laissez-faire, free-trade ideology. While the poor starved, food was still exported from the country. In 1847, a new British government more committed to this ideology largely abandoned the substantial relief effort, prolonging and intensifying the agony. Mass emigration became a defining feature of Irish life. In the second half of the century, this, together with more benign British policies, enabled economic conditions to improve for those who remained in Ireland.

Although always among the rich countries, Ireland’s economic performance between independence in the early 1920s, and the mid-1980s, was poor by European standards, and was blighted by high unemployment and emigration. From the 1930s to the 1950s, the new State adopted policies of economic self-sufficiency and cultural isolation. The decade 1948 to 1957, in particular, was a disaster. The country lost about 400,000 or one-eighth of its population to emigration, and the numbers at work fell by one sixth, from 1.2 to 1.0 million. In the late 1950s, the country began to open up economically, to embrace freer trade and foreign inward investment. It has pursued these policies since then, and the economy has achieved long-term economic growth of just over 4% per annum.

The early to mid-1980s was another period of crises. In the late 1970s the country began to live beyond its means. This aggravated the effects of the severe world recession of the early 1980s. The country endured a prolonged economic slowdown with huge budget deficits, accumulating national debt, high interest rates, and the resulting mass unemployment and emigration, before it mustered the collective will to rectify the situation.

A remarkable economic turnaround occurred in 1987, with the country embracing more firmly the values and requirements of the global economy. Based on a consultative partnership between the Government and the main economic and social interest groups, the country began to put its public finances in order, by reducing State spending and taxes as a percent of the economy. Central to the strategy were modest increases in incomes for employees in exchange for income-tax reductions, a consultative approach to industrial relations, and across-the-board reductions in business profits tax. From 1987, and particularly since 1994, Ireland has experienced, by conventional economic criteria, one of the most remarkable changes in economic fortunes ever achieved by a rich country. Average annual economic growth from 1987 to 2000 was 6%. In the same period, the national debt as a percent of the economy fell from 130% to under 50%. Inflation remained very low until the end of 1999. Irish living standards rose from 60% to almost 100% of the EU average. The economy coped relatively well with the world slowdown of the early 1990s.

For the seven years from 1994 to 2000, the economy grew at 8% per annum by conservative calculations, a cumulative growth of some 70%. The dominant feature of this boom has been the almost 50% increase in the numbers at work, and the ending of involuntary mass unemployment and emigration which has been a feature of Ireland for much of the past two centuries. In the early 1990s, unemployment was over 15%, and the numbers in work, at almost 1.2 million, had changed little since the early 1920s. At the end of 2000, the number at work was over 1.7 million and unemployment was below 4%. This was made possible by a big increase in the supply of labour coinciding with a big increase in the demand for labour. The former resulted from high unemployment, a population bulge in the 20s and 30s age group, and emigrants returning. The demand by business occurred as a result of the benign economic climate in Ireland, the willingness of those at work to accept modest increases in incomes, the extraordinary US economic boom resulting from the information technology revolution and the resulting volume of US corporate investment in Ireland, and the stimuli resulting from a fall in interest rates on joining the Euro, and from a weakening currency.

But the primary reason for the boom was the putting of the country's economic house or playing field in order, from the perspective of the global free-market system, and the consultative and partnership approach to achieving this. The last twenty-odd years of Irish economic history shows that even a tiny open economy can have a considerable measure of control over its own performance where the will to do so exists.

Full economic modernity and globalisation arrived belatedly in late 1990s Ireland. The negative aspects of the transformation are the increase in relative inequality, a deterioration in the quality of life for many due to growing congestion resulting from an increasingly inadequate infrastructure, and the effects of soaring house prices and rents since 1998, which, if not rectified, will destabilise the society and the economy. This society has become much more materialistic and individualistic, and the stock of social and moral capital, that delicate network of human reciprocity and trust, is in rapid decline. Like all affluent societies at present, Ireland has become a "fast lane" society whose energy is preoccupied with material things and where time has replaced money as the dominant constraint in people's lives.

Current Challenges

Unregulated market forces and competition are now presenting humanity with grave problems and challenges. In order to maintain their market share and grow their profits, companies must continuously innovate and come up with new or improved production methods and products. The 20th-century economist, Joseph Schumpeter, famously described this process as one of "creative destruction", and regarded it as capitalism's most essential characteristic. Unceasing economic growth, some 3% per annum even in the rich countries, becomes necessary to maintain employment and stability. The system depends on perpetual acquisition and consumption by consumers, based on the continual creation of new wants rather than needs. Bereft of a true moral vision and framework, capital and capitalism become social forces in themselves, out of control, with investors and managers becoming their mere agents. Economic growth and the technology that makes it possible have become the defining purpose of modern life; humanity and society have become secondary and incidental. All aspects of life and human relationships are being reduced to economic values and money transactions. The attitudes, concepts and assumptions underlying economic behaviour are entirely materialistic and cynical.

A strident ideological global crusade is underway to condition the world's governments and peoples to accept that there is no alternative to the current free-market system. An ever-more "dumbed down" and influential media - dominated by commercial interests - assists in this, and propagates a banal, superficial, voyeuristic culture. The paradox of this free-market ideology is that it seeks to minimise the role of the State in the economy, while depending on the State to maintain social and political stability, enforce the rule of law, and provide vital social services in areas where the market clearly fails, such as basic health and education, social welfare, and modest housing.

The Universal of Justice, in its 1985 Peace Statement, referred to the baneful effects of materialistic ideologies carried to excess, of which the current free-market ideology is the latest:

> ...religion and religious institutions have, for many decades, been viewed by increasing numbers of people as irrelevant to the major concerns of the modern world. In its place they have turned either to the hedonistic pursuit of material satisfactions or to the following of man-made ideologies designed to rescue society from the evident evils under which it groans. All too many of these ideologies, alas, instead of embracing the concept of the oneness of mankind and promoting the increase of concord among different peoples, have tended to deify the state, to subordinate the rest of mankind to one nation, race or class, to attempt to suppress all discussion and interchange of ideas, or to callously abandon starving millions to the operations of a market system that all too clearly is aggravating the plight of the majority of mankind, while enabling small sections to live in a condition of affluence scarcely dreamed of by our forebears...
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> Most particularly, it is in the glorification of material pursuits, at once the progenitor and common feature of all such ideologies, that we find the roots which nourish the falsehood that human beings are incorrigibly selfish and aggressive. It is here that the ground must be cleared for the building of a new world fit for our descendants. (6)

Increasing inequality and poverty are further effects of the free-market system that perpetuates a certain pattern of production and of income distribution, and involves many poor nations and peoples in a never-ending process of trying to catch up with the rich. Inequality has now reached grotesque proportions, both within countries and between the rich and poor countries. Huge numbers of poor people are becoming worse off, not just in relative but in absolute terms. About 30% of the world's workforce, or 1 billion people, are unemployed or under-employed. The Universal House of Justice in 1985 identified this issue as being of immediate relevance to the peace and stability of the world:

> The inordinate disparity between rich and poor, a source of acute suffering, keeps the world in a state of instability, virtually on the brink of war. Few societies have dealt effectively with this situation. The solution calls for the combined application of spiritual, moral and practical approaches. A fresh look at the problem is required, entailing consultation with experts from a wide spectrum of disciplines, devoid of economic and ideological polemics, and involving the people directly affected in the decisions that must urgently be made. It is an issue that is bound up not only with the necessity for eliminating extremes of wealth and poverty but also with those spiritual verities the understanding of which can produce a new universal attitude. Fostering such an attitude is itself a major part of the solution. (7)

Admittedly, in many poor countries, poverty is aggravated by endemic corruption and lack of trustworthiness, the AIDS epidemic, and by war and conflict. These problems are partly a result of the tragic legacy of colonialism. However, it is encouraging that the problem of world poverty, and the inability of market forces alone to solve it, is now being increasingly recognised, not least by such international institutions as the World Bank and the International Monetary Fund.

The emerging environmental crisis is also one that seems incapable of being seriously tackled by the present global economic system. The system lacks the mechanisms to conserve scarce resources, and unending competition between national and regional economies for diminishing resources increases the threat of war and conflict. Indeed, this crisis may be the one overriding factor that will force a change in economic direction in the foreseeable future. This is because of the constraints the crisis may impose on continuing uncontrolled economic growth and consumption. Even then, changing the character of over two centuries of material development will be a formidable challenge for humanity, and will require hitherto unprecedented levels of wisdom and responsibility, goodwill and cooperation.

Conclusion

Despite the growing awareness of the challenges facing the world economy, there is little evidence that governments and peoples, whether rich or poor, are prepared to make the necessary changes and sacrifices required for a radical change of direction. The competitive free-market system and unrestrained economic growth seem set to continue for a long time. It appears that only a major intense systemic crisis will force a change of attitude, and there is little evidence in 2001 that a crisis on such a scale is imminent. Yet who can confidently deny that at some time in the foreseeable future, an unforeseen combination of circumstances and economic policy errors might lead to a breakdown comparable to the 1930s, with its appalling consequences?

The essence of the Bahá'í approach to economics is summed up in the brief but profound statement by 'Abdu'l-Bahá that "the solution to the economic problem is divine in origin and is connected with the worlds of the heart and spirit." (8)

The economic condition of society is a reflection of moral, cultural and social values and attitudes, and will change as the Bahá'í spirit and ethos permeates society. This will reflect itself in values and attitudes, and thence in appropriate economic institutions, policies, and patterns of behaviour. Considering this, it becomes apparent that economics, or political economy, is the most subtle and sophisticated of the social and ethical disciplines.

A number of general Bahá'í economic principles are well known. Anchored in the recognition of the divine purpose to human existence and of the oneness and interdependence of the world's peoples, they are: cooperation rather than competition as the basis of economic life; the primacy of agriculture as the foundation of economic activity; the central importance of useful work for all; work regarded as worship, and motivated by service rather than gain; profit- sharing between employers and employees; limiting the degree of economic inequality through progressive taxation and a minimum guaranteed income for all; the importance of voluntary giving, including the discharge of Huqúqu'lláh; an environmentally sustainable system which regards the earth and its environment as a divine trust; and thrift, economy, and living within one's means being regarded as virtuous.

Like the family, some form of free-enterprise market economy is essential to a healthy human society. The family is a fundamental aspect of Bahá'í social teachings, although not the overly traditional and extended family of the past or the extreme nuclear family of today's suburbia. Similarly, Bahá'í teachings fully accept the need for private ownership of economic assets and a role for the market. However, they reject the extremes of the recent centrally planned economies and of today's unfettered free-market system. They distinguish between the principle of a free-enterprise market system per se, and the extreme individualist, decadent consumerism into which the affluent market economies have degenerated in recent decades.

The spectacular but destabilising economic development over the past two centuries is surely due to the forces released by the coming of Bahá'u'lláh (9), forces which have yet to be channelled in a spiritual direction: the Kingdom of God on earth is one of material as well as spiritual abundance. It is arguably in the economic and financial sphere that world unity and interdependence is most advanced. It is also this sphere of life that most strongly reinforces the competitive ethos with its dangerous consequences, and promotes the vices of greed, avarice, envy and discontent.

It is essential that the global economy be brought under international democratic accountability and moral control. It must be reorganised on a just, cooperative and sustainable footing, and reoriented to some extent from private profit to social and human need. It must be recognised that relying on unfettered market forces represents the abdication of moral and social responsibility. Market forces must be brought under social control and regulation.

It seems appropriate to conclude with the following references by Shoghi Effendi to the future Bahá'í World Commonwealth. The first and final paragraphs are particularly momentous in their implications, stating the clear need for global governance, regulation and coordination of the world economy:

> ...This commonwealth must, as far as we can visualize it, consist of a world legislature, whose members will, as the trustees of the whole of mankind, ultimately control the entire resources of all the component nations, and will enact such laws as shall be required to regulate the life,satisfy the needs and adjust the relationships of all races and peoples...
> ...a uniform and universal system of currency, of weights and measures, willsimplify and facilitate intercourse and understanding among the nations and races of mankind.
> ...The economic resources of the world will be organized, its sources of raw materials will be tapped and fully utilized, its markets will be coordinated and developed, and the distribution of its products will be equitably regulated.
> ...economic barriers and restrictions will be completely abolished, and the inordinate distinction between classes will be obliterated. Destitution on the one hand, and gross accumulation of ownership on the other, will disappear. The enormous energy dissipated and wasted on war... will be consecrated to such ends as will extend the range of human inventions and technical development, to the increase of the productivity of mankind... to the exploitation of the unused and unsuspected resources of the planet....
> A world federal system, ruling the whole earth and exercising unchallengeable authority over its unimaginably vast resources... and bent on the exploitation of all the available sources of energy on the surface of the planet, a system in which Force is made the servant of Justice, whose life is sustained by its universal recognition of one God and by its allegiance to one common Revelation - such is the goal towards which humanity, impelled by the unifying forces of life, is moving. (10)

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