AICEI PROCEEDINGS

AICEI Proceedings, 2009, Volume 4, Issue1, DOI: 10.5281/zenodo.4513992

Viktor Gjorgjieski

Arguments for and against Neoliberal Economic Systems and the Way to Solve the Current Economic Crisis in Europe

Abstract

As the most-discussed topic of the recent period, the world's economic crisis has attracted the attention of most scholars, analysts, and politicians who try to find a quick solution for a problem generated during the last couple of decades. While some believe that the current crisis is just a descending curve of the life cycle of the world economy, something that is far from curious and unpredictable, others, such as the influential George Soros, predict an end of the current economic system. Where does the current crisis stand and what is a solution for it? Being the most discussed topic in the last period, the world's economic crisis attracted the attention of most scholars, analysts, and politicians who try to find a quick solution for a problem generated during the last couple of decades. On one hand some believe that the current crisis is just a descending curve of the life cycle of the world economy, something that is far from curious and unpredictable. On the other hand, however, there are those, among whom is the influential George Soros, who go very far and predict an end of the current economic system. Where does the current crisis stand and what is a solution for it? The aim of this paper is to first analyze the pros and cons of 'free market' approach to development, then decide whether the current crisis is as dangerous as some predict, and finally provide the solution to it.

Keywords: *free market, economic systems, neoliberalism, crises, Europe*

Introduction

"The essence of the neo-liberal position on international commerce is the proposition that economic growth will be most rapid when the movement of goods, services and capital is unimpeded by government regulations".[28] In another words, the neo-liberal argument states that in order for governments to pursue economic growth it is necessary for them to adopt free trade which would mean that the movement of goods, services and capital over boundaries will be unregulated. More broadly, free trade is just a part of what is known as structural adjustment which

[28] MacEwan, 31

embodies the neoclassical theory. Structural adjustment aims at making both the state and the market more efficient in order to help them accelerate growth which ultimately leads to development. Apart from free trade, structural adjustment aims at putting the market at center stage, gives the state a secondary role in development, and "puts its faith in the potential of unfettered individual initiatives, creativity, and ingenuity.[29] Concrete reforms that states need to undertake in order for structural adjustment to achieve its goals are: fiscal austerity (reduction in government spending), privatization (private ownership of state-owned companies), trade liberalization (elimination of qualitative and quantitative restrictions on imports, thus allowing a free flow of goods, services, and capital across national borders), currency devaluation (gives the producers of export goods an incentive to increase production), abolition of marketing boards (enables producers obtain better prices on their sales), and retrenchment and deregulation (frees up the market and reduces the inhibitions on private entrepreneurs).[30]

"Free market" theory "contains two elements: a set of arguments demonstration that trade will maximize welfare in a stable fashion, and another set laying out the conditions that must be brought into existence to enable this to occur".[31] According to "free market" theory, the only function of the government is to ensure that the benefits that arrive from free trade are secured. Brett states four main functions of the government which pursues "free market" approach to development. First of all, the government needs to make sure that foreign competitors and domestic producers have equal access to domestic markets. Second, the government must not organize the payments in a way that it will favor their domestic competitors. Third, governments need to ensure the provision of credit to countries that are in deficit. And fourth, it is the obligation of the government to put in place domestic policies which transform the deficit into surplus.[32] Thus, having in mind these four functions of the government incorporated in the "free market" approach it can be clearly concluded that the government has a very limited function and by no means has rights to use protection mechanism as a way to favor domestic production.

One of the examples that Brett uses with the aim to present the advantages of "free market" approach to development is in relations the

[29] Rapley, J., 79
[30] Rapley, J., 79-83
[31] Brett, 32
[32] Brett, 37

above mentioned currency devaluation. Namely, the exchange rate of a country will tend to fall in the case where the balance of payments is in deficit which causes the central bank to lose its result. On the other hand, the exchange rate rises when the balance of payments is in surplus and the central bank is accumulating reserves. In the case when the balance of payments is in deficit, central banks tend to borrow money. The good thing about borrowing is the fact that it will enable the government to avoid having to impose different more direct controls over trade or money, or in the same time might enable it to defeat the speculators.[33] However, the borrowing by the government is considered to be wrong by “free market” theorists who argue that it would be better if instead of borrowing money in order to defend an ‘overvalued’ exchange rate the central bank devaluates the currency and the government undergoes domestic economic policies which would aim at making home production more competitive.[34] In addition, in the case when a country’s balance of payments is in deficit, that country needs to find a way to cut imports and to increase exports. A way to do it is through governmental intervention through protection of the domestic market or by providing subsidies to exporters.[35] However, Brett argues, government intervention is not useful since the market itself will deal with the balance of payments, one of the main claims by “free market” approach to development.

Sometimes theory does not correlate with practice, but for the purpose of this paper I will mainly focus on the theoretical part. Namely, in the following part of the paper I will mainly focus on free trade as a part of the free market approach to development, while in the final part through presenting the advantages and weaknesses of the free market approach to development I will conclude whether this approach is efficient or not.

After the industrialization of the Western world, it was widely believed that new industries in the poor countries are unable to compete with already established industries in the developed world thus it is necessary for the states to protect them during its initial phase. As a result, import-substitution policies became the center-point of development strategies for manufacturing, and the underlying rationale for trade policy.[36] However, according to Krueger, nowadays it is generally accepted

[33] Brett, 42
[34] Brett, 42.
[35] Brett, 42
[36] Krueger, A., 4

that import substitution is no more useful and liberalization of trade and payments is crucial for both industrialization and economic development.[37] Dornbusch identifies four main reasons why there is a global shift in trade policies. First of all is the anti-statism or the fact that the world has experienced a broad intellectual swing away from emphasizing the beneficial role of the state beginning in 1980s. The second reason for the shift from import-substitution to free trade policies is the poor economic performance in many developing countries mainly caused by the populist macroeconomic policies that engendered debt crises and hyperinflation. As a third reason for the shift in policies is the fact that people worldwide have greater access to information about what is going on abroad than they were couple of decades ago. Final reason for the shift is World Bank's pressure and the evidence of success of free trade strategies.[38]

Since a big portion of the neoliberal argument for development rests with free trade and free trade is the center point of structural adjustment, that's the reason I would like to explain the way free trade leads to development. Namely, trade has been the driving force of world economic growth since WWII, when trade flows increased much faster than world population, and even faster than overall world economic growth.[39] Initially trade expansion fuelled the post-war economic miracles in Germany and Japan. More recently, newly industrialized economies such as the four tigers, Hong Kong, Singapore, South Korea, and Taiwan, have all been open to trade in the past forty years and moreover all have been entirely free of poverty for more than a decade. On the contrary, India remained closed to trade during 1960s and 1970s and experienced no reduction in poverty during that period.[40]

Among the many reasons why openness to trade promotes growth are, first, the fact that entrepreneurs are forced to become more and more efficient due to the fact that they will have to compete with the best in the world to survive, and second, openness provides access to the best technology and makes it possible for countries to specialize in what they do best thus allowing them to not produce everything on their own. For example, one of the main reasons for the break-up of the Soviet Union was its inability to access cutting-edge technologies, compete in the world market against other world-class producers, and its inability to specialize in

[37] Krueger, A., 1
[38] Dornbusch, R., 69-70
[39] BBC News.
[40] Panagariya, A.

production.[41] In the following I will present the arguments made by Arvind Panagariya who presents great explanations of some of the main debates about free trade and its impact on development.

First of all, Panagariya claims that it is true that economies that are open to trade grow faster since all developing countries which experienced rapid growth did it by having open trade policies or by declining trade protection. According to him, the best recent examples of states which in the 1980s started with relatively closed trade policy regimes and achieved accelerating growth while opening their economies are China and India. Moreover, Panagariya argues that claim that freer trade increases poverty in the third world is not true. Namely, there are three channels through which rapid growth helps the poor while trade helps produce rapid growth. According to Panagariya, tte first channel is the notion that "sustained growth rapidly absorbs the poor into gainful employment". Second, "rapidly growing economies can generate vast fiscal resources that can be used for targeted anti-poverty programs", and third, poor families are better able to access public services such as education and health due to the fact that growth helps raise their income.[42] Furthermore, Panagariya argues that even in case where rich countries maintain high trade barriers, poor countries should unilaterally dismantle their own protectionist policies which would ultimately increase trade and stimulate economic growth. Finally, Panagariya explains that it a false notion that the World Trade Organization harms poor countries and the opposite is true, and that is WTO is best friend available to exporters in poor countries and as a result of the Uruguay Round, developing countries liberalized more, convinced the developed states to dismantle quotas on imports of textiles and clothing, and it opened a way for liberalization of the agricultural markets, an area which is crucial for the developing world.[43] Thus, Panagariya clearly outlines some of the arguments about the way free trade leads to development.

Rudiger Dornbusch clearly presents the gains from trade liberalization in developing countries. First of all, he argues that trade liberalization brings improved resource allocation in line with social marginal costs and benefits due to the fact that resources are used more efficiently because there is no need to be used in the production of goods which can be imported at a lower price.[44] Moreover, trade liberalization

[41] Panagariya, A.
[42] Panagariya, A.
[43] Panagariya, A.
[44] Dornbusch, R., 74

brings access to better technologies, inputs and intermediate goods because once a country has no limits in importing appropriate intermediate goods it can easily become an exporter of labor intensive tasks. Furthermore, trade liberalization brings an economy better able to take advantage of economies of scale and economies of scope since markets in countries which practice protectionism are narrow and lack competitors thus making domestic firms unable to compete on world markets.[45] Finally, Dornbusch argues that trade liberalization brings availability of favorable growth externalities such as the transfer of know-how due to the fact that once a country eliminates protectionism it opens the doors for multinationals to bring direct foreign investment, technology and knowledge. Thus, Dornbusch makes a clear explanation how beneficial is trade liberalization in the process of development of countries.

In the following part of this paper I will present some of the problems that arise during the process of development in countries that use the “free market approach”. Apart from a political problem for trade reform caused by those who benefit from protectionism, Dornbusch recognizes another risk which comes from the exchange rate. More specifically, he argues that the “elimination of obstacles to trade invariable creates an immediate increase in imports”, however, “although inputs become more readily available and technology improves, the beneficial rise in exports does not happen immediately, even if a real depreciation is undertaken”.[46] Thus, a real depreciation is needed since exports won’t be able to compensate for the higher imports. However, real depreciation is perceived to be a problem because it is translated in a fall in real wages unless the standard of living have increased as a result of the process of liberalization which isn’t often the case. As a result, in order to overcome the negative consequences of depreciation, Dornbusch advises for a more gradual approach to liberalization of the trade policy.[47]

Another scholar who presents great evidence of the downsides of “free market” approach to development is Anwar Shaikh. He argues that although neoliberal theory assumes that market forces automatically eliminate trade imbalances, there is no empirical evidence to back up this assumption. Namely, the first problem Shaikh recognizes is the never in the past have trade imbalances automatically eliminated neither in developing nor in developed states regardless of whether those states are under fixed

[45] Dornbusch, R., 75
[46] Dornbusch, R., 81-82
[47] Dornbusch, R., 82

or flexible exchange rates.[48] As an example he uses the United States and Japan, the former as a country that has been running on trade deficit for almost 30 years, and the latter as a country which has been having a trade surplus for almost four decades. Moreover, the second problem that Shaikh recognizes is that although neoliberal theory claims, it is never true that full employment is a natural consequence of competitive markets. For example, in the last decade of the previous century the unemployment rate in developed countries ranged among 3-25%, while according to ILO statistics, in 2001 there were 1.3 trillion unemployed or underemployed people in the developing world.[49] This certainly doesn't go along with neoliberal claims.

Further problem recognized by Shaikh is the fact that economists contradict themselves when they treat competition within a country and competition between countries as different phenomena. The logic here is that economists claim as a result of the fact that within a region with low cost producers will enjoy regional trade surplus in relation to high cost producers, people will loose jobs in the latter one, but that shouldn't be a problem since they will be able to find jobs in the stronger one.[50] However, according to Shaikh, the same economists discuss competition between countries as it is a different thing. Namely, they argue that "[w]hereas competition within a country is said to punish the weak and reward the strong, competition between countries is said to fortify the weak and enervate the strong".[51] Shaikh believes to be exactly the opposite and he argues that real international competition is no different than national competition due to the notion that it favors the competitively strong over the competitively weak. Thus, the country with lower costs of production will enjoy a national trade surplus, and the other trade deficit, which negates the neoliberal claims that free trade automatically eliminates trade imbalances.

I will end this part of the paper which explains the disadvantages of "free market" approach to development by the arguments stated by Arthur MacEwan in "International commerce and Economic Development". According to him, despite the fact that the doctrine of free trade remains to be the most accepted one among U.S. economists, it is increasingly recognized now that purely economic arguments are insufficient to support

[48] Shaikh, A.
[49] Shaikh, A.
[50] Shaikh, A.
[51] Shaikh, A.

the free-trade position.[52] MacEwan comes up with six arguments which challenge the neoliberal theory of international commerce.

Fist among those, as he calls 'flaws' of the theory of trade is its failure to take account of the ways in which production itself has an impact on the change in technology.[53] As time passes, the initial costly production takes a different form after people accumulate experience ("learning-by-doing), and that is in another words they change the technology. MacEwan argues that "learning-by-doing" might never develop if those people since the beginning compete with already established enterprises in other countries which has already gone through the process of "learning-by-doing". Therefore, the only way for new domestic firms to become fully competitive is through governmental protection from foreign competition during the initial phase which would allow them to accumulate enough experience.[54]

Second flaw which MacEwan recognizes is the wrong assumption by theory of trade that every society operates at full employment or the assumption that when pattern of trade and production, labor will move from one activity to another instantaneously thus not causing any significant change on the level of employment. However, he argues, the reality is that, first, in most low-income countries the levels of unemployment and underemployment are very high, second, it isn't true that the pattern of trade doesn't affect employment levels, and third, labor markets adjust to change relatively slowly.[55]

MacEwan's third disagreement with the neoliberal theory is about its assumption that in a case where the government makes no intervention and doesn't regulate international commerce, "the economy would operate in a competitive manner with advantageous results".[56] However, he states, trade is usually dominated by few very large firms which operate in a monopolistic manner. The free trade theory doesn't take into account that, in fact, it is monopolistic competition and not price competition as assumed in its argument. What is more important, these same very large firms don't necessarily engage in patterns of trade and production which are in line with the long-run development interests of a particular country.[57]

[52] MacEwan, 43.
[53] MacEwan, 43.
[54] MacEwan, 43.
[55] MacEwan, 48.
[56] MacEwan, 50.
[57] MacEwan, 51.

What wasn't considered as a problem in the 19th century when the free trade theory was developed is seen by MacEwan as one of the biggest flaws of that same theory. Namely, back then was made a division of labor between few European and North American countries which specialized in the production and export of manufactured goods and several others which specialized in the production and export of primary products. Today, the former are part of the developed world while the latter are low-income countries.[58] In addition, primary product specialization is a characteristic of many low-income countries even today. The problem with that is the fact that, first, the prices of primary products are unstable and the demand is very price elastic, and second, their general average prices are not 'reasonable' because the demand for the products is subject to long-term downward pressure.[59] Thus, the division of labor is one of the explanations of the problems that low-income countries experience in their process of development.

MacEwan discovers two issues which explain the flaws of the neoliberal theory of international investment. The first issue is "the way a firm's national identity affects its strategy and thereby affects its impact on a country's economic development". However, depending on the country of origin, first of all, firms differ in size, and for multinationals which invest abroad, the pressures to maximize profits and the pressures of competition are not felt the same because they have different historical experience (which varies along with national identity) which has an impact on the process of choosing strategies.[60] Moreover, firms that come from different countries have different sets of information and networks that constrain their operations differently and, as a consequence, they choose different strategies to reach the common goal of maximizing profits. Finally, national identity matters in international investment because of the fact that the firms which come from more advanced states bring with them more advanced technologies which means that certain foreign firms' strategies can be favorable to a low-income country's economic development.[61]

The sixth and final flaw of free trade theory recognized by MacEwan is related to trade and income distribution and power. According to him, neoliberal theory is wrong largely because it is simplistically narrow and fails to deal with many causal relationships that are central to

[58] MacEwan, 52
[59] MacEwan, 53.
[60] MacEwan, 55.
[61] MacEwan, 56

economic development. Particularly, the neoliberal theory is wrong when it assumes that social structure is not affected by change in international trade. MacEwan argues that if neoliberal theory is to be the motor force of change in economic development, then it must alter social structure and the altered structure must perforce have an impact on international trade and the economic development of that country.[62] Thus, MacEwan's six flaws of neoliberal theory conclude this second part of my paper which was dedicated to the disadvantages of "free market" approach to development.

Thus, among the many who have presented evidence which shows that protection can yield success is Dornbusch who argues that Korea, Brazil and Japan are the best examples for it because are the three countries with the highest growth rates of GDP and total factor productivity in the 1965-80 period when none of them were free traders. However, Dornbusch continues by arguing that the story does not end in 1980 and during the 1980s, first of all, Brazil crashed, second of all, Korea's massive investment in the heavy industry was seen as a blunder, and the Argentine protectionism proved to be disastrous as well.[63] Thus, I would argue that during the initial phase, government intervention can be somewhat useful in low-income countries that lack technology until their people accumulate experience and become able to compete with already established foreign firms. However, in the long-run, government interventions only disrupt the processes of the "free market" approach to development which in a sense weakens the benefits that go along with that approach and are clearly stated in this paper.

To conclude, having in mind all these pros and cons of 'free market' economy, I argue that the current crisis does not broadcast an end of the current economic system, but it is a period during which the world's economy moves downwards on its life cycle and it is just a matter of time when it will be back on its feet. It is a period during which the disadvantages of 'free market' economy come to surface, but it is false to believe that the system needs to be replaced by another type. Europe greatly depends on the recovery of the American economy since it is its main strategic partner, thus, in the following, I will present how Europe indirectly will benefit the sooner the American economy is back on track.

Open-door policy an answer to the crisis

[62] MacEwan, 58-59.
[63] Dornbusch, R.,80

In the conclusion of the previous part I mentioned that Europe greatly depends on the American economic recovery and that is why in this final part of the paper I will focus on the best path for American recovery.

It a deeply rooted American belief that political and economic liberalism cannot prosper at home unless they are safe abroad. Open Door is not only an explanation of the role of economic factors in the US grand strategy, but an ideology that America's domestic economic and political system can be safeguarded only in a world that is sympathetic ideologically to the US. This is the reason why Open Door is the explanation of US grand strategy after WWII and the explanation how the economic and ideological concerns drove America's hegemonic expansion after WWII. The goal was to create an international system where other states would accept US liberal values and will be open to US economic penetration.

The call for a continuity of a conscious, aggressive, expansionist and self-interested America by the Open Door school dates back to the 1890s. After fulfilling the manifest destiny, America tried to expand its power globally. At first US expansion was primarily economic and not territorial. However, later, U.S. used its economic strength to expand its political influence abroad. Open Door economic expansion required international political environment that is friendly to openness and the US sought to create such one by becoming a regional stabilizer in the regions where it had the biggest economic interests. In order to make it easier, U.S. started cracking down hard revolutionary, nationalist governments that threatened to close their countries to U.S. economic penetration and instead, starting in the 1890s in the Caribbean and Latin America installed "right" kinds of governments. Moreover, the Open Door explains the reasons for the U.S. hostility toward Russia after 1917 and Germany and Japan during the 1930s.

The post war Open Door strategy was planned and crafted during the war. Although it was supposed to be a joint strategy with the British, America found a way to prevent the British of becoming a great power and made them a junior partner. That was because the U.S. policymakers envisioned the new international system as one in which America would be a bigger hegemony than anyone else.

Even before America engaged in WWII, the U.S. policymakers were talking about the U.S. objectives after the war is over. One of the crucial objectives, and probably best explicit, was in regards to the world economic order. Starting with the Atlantic Charter of 1941[64] which outlined the objectives of the Anglo-American alliance during the war, America started to push the idea that after the war all states will have free access to economic opportunities, trade, and raw materials. Cordell Hull, the Secretary of State during Roosevelt's era was convinced that the collapse of the world structure and the development of isolated economies during the interwar period was a huge threat to the peace in the world. Even as early as 1940, Hull envisioned the postwar world and said that states will rebuild their economies around liberal principles and in the center of it will be a trade agreements program. Thus, a rationally ordered world economy is the best solution for the problems.

As a lesson from the 1930s depression, U.S. didn't only want to reconstruct the world economy but to reconstruct it differently. The breakdown of the world economy, to which the US contributed heavily in its high-tariff Fodney-McCumber Act of 1929 and refusal to commit itself to making a success of the London Economic Conference of 1933[65], affected the U.S. more than any other nation, for employment and industrial and economic activity declined more precipitously and for a longer time in the US than in any other industrial nation. During the decade, American direct investment oversees stagnated and declined, the sterling area trade blocks excluded America, the division of the world into self-sufficient blocs as much as any consequence of the world depression greatly alarmed the Americans.

Having in mind this, in May 1941 Hull announced the main principles of American foreign economic policy. The first principle excluded excessive trade restrictions after the war of being a way to express extreme nationalism. Second, principle is that non-discrimination in international economic relations must be a rule. Third, raw materials must be available to all nations without discrimination. Finally, the institutions and arrangements of international finance must be set up that they lend aid to the essential enterprises and the continuous development of all countries, and permit the payment through processes of trade consonant with the welfare of all countries.

One of the main steps that US took toward constructing the basis for the new international order was making Britain the junior partner in the Anglo-American alliance. The Treasury department coerced Britain to

[64] The Avalon Project. "Atlantic Charter"
[65] Clavin, Patricia.

accept postwar international financial system based on currency convertibility that would make Britain dependent on the US. Moreover, the State Department took control over the key raw material sources such as Middle Eastern oil and made Britain open its protected imperial trade system.

The Lend-Lease Agreement[66] (February 23, 1942) between U.S. and U.K. helped Britain to continue the war, but it remained the main instrument of American foreign economic policy. As it is known, to receive Lend-Lease assistance, London was forced to endorse the U.S. Open Door vision of a nondiscriminatory multilateral postwar international economic order. America expected British repayment not in money but in a commitment to America's conception of post-war world economy. Thus, due to the desperate need of money, Britain accepted to end import controls and free convertibility of the sterling.

In 1943 the American policymakers were convinced that after the war American domestic market would not be able to absorb the enormously increased production. Thus, America will need access to as many foreign markets as it can. Trade cooperation will also preserve private enterprise and will improve the security around the world. Moreover, U.S. will be willing to have opportunities to invest abroad which will benefit both U.S. and the world. Furthermore, America needed raw materials possessed by other states. Thus, at that point Open Door doctrine became much relevant since it calls for equal opportunity for every state to participate in the ownership and development of natural resources.

All these principles of U.S. policymakers during the war were institutionalized by the Bretton Woods Agreements of 1944. It made currency more convertible which would serve as a measure of stability in the world financial system. It created IMF and the World Bank. IMF dedicated itself to the harmonization of national policies to promote a multilateral system of payments and the elimination of foreign exchange restrictions which hamper the growth of world trade. IMF must agree in case where members want to modify exchange rates. The members that have biggest proportion of capital contribution have the biggest voice, thus US has can exert dominating influence. The World Bank on the other hand gave reconstruction loans to promote private investment. It also provided leans to states to develop their infrastructure which in the long run would

[66] The Avalon Project. "A Decade of American Foreign Policy 1941-1949 Master Lend-Lease Agreement".

be critical for profitable private investment. To make it clear, the Bretton Woods Agreement wasn't meant to deal with the war debts and reconstruction but it rather provided a structure for a normal world economy such as the one envisioned by the American leadership during the war. The idea was to have a world in which international trade and international investment can be carried on by businessmen or business principles and on the bases of fair currency rules.

The Marshall Plan and the Truman Doctrine were designed to prevent communism from spreading in non-communist states. The Marshall Plan successfully stabilized the economies of Western Europe and prevented from coming to power of any communist or nationalist governments which are sympathetic to isolation from America. In a sense, the Marshall Plan, the Truman Doctrine and the NSC-68 accelerated the CW, however, the driving force behind it was the preservation of an open economic international system.

Due to the lessons learned from the interwar period and due to the terrible consequences of American isolationism during that period, US was the one which pushed for the reconstruction and militarization of Germany and Japan and for the unification of Western Europe. The motive behind that was having wealthy economies in Europe would open the possibility for US exports to reach the EU markets. Thus, since trade leads to overall economic growth, having trade relations with economically strong EU will benefit both US and EU and the world as a whole.

The wars in Korea and Vietnam and the many unilateral interventions abroad (Guatemala, Panama, the Dominican Republic, Laos, Grenada, Cuba) during the CW were struggles to maintain the democratic order in those countries which would not threaten the open international system. Even when the CW ended, Clinton's administration continued to "democratize" the world through various military interventions.

To conclude, the pursuit for Open Door objectives caused the US to adopt hegemonic grand strategy. First, US after WWII had an economic and financial dominance which helped them to create and maintain an open international economic system in which Open Door economic interest (opposed to closure, mercantilism, national economic self sufficiency) could be reached. Second, the overwhelming military power allowed them to maintain order and stability in the international system and deterred the others from closing their economic systems. Thus, in a sense, US used its military power to protect the international economic system from closure. Finally, US Open Door ambition which is the very backbone of its strategy transcended the cold war and that explains why US remains present in Europe after the collapse of the Soviet Union and why it continues to act as the continent's hegemonic stabilizer.

References

The Avalon Project. "Atlantic Charter". <http://avalon.law.yale.edu/wwii/atlantic.asp>. Accessed on: Mar 5, 2009

The Avalon Project. "A Decade of American Foreign Policy 1941-1949 Master Lend-Lease Agreement". <http://avalon.law.yale.edu/20th_century/decade04.asp>. Accessed on: Mar 5, 2009

BBC News. "The engine of economic growth". <http://news.bbc.co.uk/1/hi/special_report/1999/11/99/battle_for_free_trade/525225.stm>. Posted on: Nov 24, 1999. Accessed on: Feb 19, 2008.

Brett, E. A. *The World Economy since the War the Politics of Uneven Development.* New York, NY Eastbourne: Praeger, 1985. Chapter 2

Clavin, Patricia. "London Economic conference of 1933". <http://www.novelguide.com/a/discover/egd_02/egd_02_00334.html>. Accessed on: March 5, 2009.

Dornbusch, Rudiger. (1992) "The Case for Trade Liberalization in Developing Countries". *Journal of Economic Perspectives*. 6(1): 69-85

Krueger, A. (1997). "Trade Policy and Economic Development: How We learn." *American Economic Review* 87(1): 1-22.

MacEwan, A. (1999). Neo-liberalism or democracy? : economic strategy, markets alternatives for the 21st century. London, Zed Brooks. Chapter 2 'International Commerce and Economic Development' pp. 25-65

Panagariya, A. (2002). "Think Again: International Trade" *Foreign Policy* (November/December 2002)

Rapley, J. (2007). *Understanding development : theory and practice in the third world* (3rd ed. ed.) Boulder, Colo.: Lynne Rienner.

Shaikh, Anwar. "The Economic Mythology of Neoliberalism." In *Neoliberalism: A Critical Reader,* edited by A. Saad-Pilho and D. Johnston: Pluto Press, 2005.