IS GLOBALIZATION AND ITS SUCCESS A MYTH?

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I. THE 'GREAT STAGNATION': THE HISTORICAL CONTEXT FOR GLOBALIZATION

1. In the decade of the 1960s the world economy grew at the rate of 5.0 per cent (Thurow, 1996: 1—2). In the 1970s the real growth rate dropped to 3.6 per cent. By the 1980s the rate had dropped to 2.8 per cent, and continued this decline in the 1990s, when it fell to 2.0 per cent. In two decades capitalism lost 60 per cent of its macroeconomic momentum. Through the 1990s the overall European unemployment rate remained in double digits, while the Japanese economy has been stagnating for a decade. The recent capitalist convert, Russia, appears to be demodernizing to Third World levels, while much of the Southern hemisphere has seen its social indicators deteriorating from already disastrous levels.

1. THEORETICAL CONTEXT

2. There is a significant body of evidence suggesting that capitalism entered into an economic crisis phase in the late 1960s, due to a fall in the rate of profit as a consequence of the costs of production rising faster than productivity and/or price (Brenner, 1998; Cherry,

1987). Crisis in this context does not mean catastrophic economic breakdown or the end of capitalist social relations. Nor does it mean capitalism in the usual sense of how it has operated since 1945. The difference between capitalism's business cycles and an economic crisis is that normal economic activity during a non—crisis phase of the business cycle is, within the context of prevailing social relationships, sufficient to restore prosperity (Gordon, 1980). By contrast, economic crisis undermines the stability of the institutional framework, because as accumulation slackens, less profit is available for the maintenance of those institutions whose relative stability and reproducibility permit the repeated fulfilment of an important socio—economic function.

3. Capitalism runs on profit. Without adequate profits, firms cannot invest in order to lower their costs of production, promote research and design in order to invent new products, produce new plant and equipment to meet increases in demand, or generate dividends for their owners. The same firm will, without profits, not be able to pay debts or advertise; in a word, they cannot compete and stay in business. Those firms with higher profits are better able to lower their costs of production, invent new products, and advertise to tell about their 'successes' in production. Investments that generate less profit, because the costs of raw materials, machines and/or labour are rising faster than productivity and/or price, diminish the capacity and incentive to invest again. If this situation becomes the average condition for firms in an economy, stagnation or depression is the expected result. It is thus the rate of profit that provides the capitalist class with the product to invest as well as the motive. As the rate of profit falls there is a tendency for investment, productivity, economic growth and tax revenue to follow, while unemployment rises.

2. EVIDENCE

4. By standard accounting methods between 1965 and 1973 the rate of profit in the US manufacturing and private business sectors fell by 40.9 per cent and 29.3 per cent respectively. The profitability decline in the US economy did not bottom out until the early 1980s (Brenner, 1998: 95). The rate of profit declined in the other major capitalist economies as well (Brenner, 1998; Cherry, 1987), albeit not necessarily on the same precise schedule, resulting in global stagnation and the creation of a crisis far more serious and enduring than a normal cyclical downturn. As a result capitalism has been suffering from a quarter century of economic slowdown. Stagnation has been the manifestation of this crisis in all of the advanced capitalist countries. While the crisis came earlier for some countries than others the profitability crisis is a global capitalist phenomena.

5. The US is the country that appeared to be the first to emerge from the crisis. However, as late as the period between 1989 and 1997 the US economy grew at an average of 2.3 per cent a year, which was less than Germany's 2.6 per cent and less than Japan's 2.4 per cent. Indeed, even in the period between 1994 and 1997 US growth of 3.0 per cent a year was not significantly higher than Europe's 2.4 per cent (Left Business Observer, 1998: 3). It is in only in 1997 that the US appeared to emerge with signs of an apparently more vital macroeconomy. The question that arises then is how has capitalism managed its profitability crisis?

3. CORPORATE AND STATE POLICY RESPONSES TO THE CRISIS OF PROFITABILITY

6. In the face of falling profits corporations are compelled to find means of reducing their costs by lowering their wages and taxes and/or raising their productivity. Some of these methods represent advanced capitalism's 'intensive' method of reducing costs through increases in productivity by means of mechanization. However, other methods of responding to profitability crises have included a return to 'extensive' methods, including longer hours, lower wages, and deteriorating low cost working and environmental conditions. A generation of high national and international levels of unemployment and globalization have made labour more vulnerable. The real and threatened effects of unemployment and globalization, in the form of capital flight, tend to lower worker's expectations with respect to wages, benefits and working conditions as well as citizens' expectations with respect to health, education and welfare.

7. During this period of crisis the conditions of economic stagnation have given rise to a corresponding political response. The real or increased threat of capital flight due to competitive pressures imposed on governments the need to introduce attacks on labour in general and state salaried employees in particular. This threat was enhanced by growth in the technological possibilities that could be used to assist capital flight. Thus, attacks on the welfare state, in the form of the war on deficits, debt, wages, unions and government in general are, along with the socialization of private debt, arguably attempts by capital to restore profitability by using its increased influence over the state in its own interest.

8. Declining investment, in the form of an effective capital strike, is, along with increasing unemployment, increasing poverty, falling real wages, shortages in tax revenues, attacks on the welfare state, and qualitative social and institutional changes, part of the process of restoring profitability. For capital the resolution to the crisis requires restoring profitability. A number of strategies have been employed to this end over the past quarter century, the most marked of which is anti—inflation policy. Contemporary economic orthodoxy has failed to establish that inflation rates of up to 8 per cent have any negative impact on the economy or that zero inflation maximizes economic growth (Sarel, 1996). Nonetheless, the US central bank has, along with many other central banks, made the attack on inflation its prime goal over the past few decades. The war on inflation is accomplished by restricting the availability of money and credit and therefore keeping interest rates high. This discourages investment and makes it more difficult for low profit firms, with their relatively inefficient capital, to stay in business. At the same time, this strategy facilitates the lowering of wages and reduces resistance to increases in labour intensity by increasing unemployment and lowering workers' expectations. This helps industry while preserving the value of the debt and therefore the source of profits of the financial industry.

9. In addition to anti—inflation policy, capital has other means to assist in the restoration of profitability. One obvious means is to use the threat of capital flight and capital strikes as a means of pressuring a largely sympathetic state to promulgate tax cuts for the corporate sector and the wealthy, which helps to redistribute income upwards to the capitalist class. The state can also assist in the restoration of profitability by reducing government—imposed regulations, which tends to lower prices in the affected industry and the wages of its workers. Finally, a strategic obsession with government deficits and debt, the corresponding attack on the welfare state, and the lowering of the taxes of corporations and the wealthy can increase the insecurity and dependency of everybody else. The emphasis on

the market, the minimalist state and individual and family responsibility are thus all soldiers in the war against the welfare state, and reflected in declining state expenditures and the privatization of the public sector. Together, these state—focused strategies assist in an institutional transformation that benefits capital, as firms are able to re—regulate industries so that they may better determine wages and benefits.

10. Such re—regulation is facilitated by corporate strategies that emphasize the threat of and foreign direct investment (FDI) in non—unionized countries and in areas of developed countries where wages, taxes and environmental regulation tends to favour business by offering lowers costs and thus higher profits. Concurrently, the weeding out of all but the most productive and profitable means of production results in less capital available, as well as layoffs, wage reductions, benefit cuts and speedups at work. Thus, the same profitability crisis that led to the downsizing process and the merger movement resulted in a massive number of bankruptcies and a destruction of capital not seen since the Great Depression. The general effect of this is that only more efficient and profitable capital is left standing.

II. IS GLOBALIZATION THE BEST EXPLANATION FOR OUR CHANGING POLITICAL AND ECONOMIC ENVIRONMENT?

11. It would be hard to exaggerate the degree to which the concept of globalization has penetrated our culture. It is treated at once as an economic tidal wave and as a paralyzer of the state. It has been used to justify deregulation, privatization, environmental degradation, free trade, deficit and debt mania, high interest rates, zero inflation targets, anti—labour legislation, and cuts to social spending and upper income and corporate taxes. These policies are of course executed by individual nation states. The rationale in defence of these policy changes is that the rules established by the now dominant transnational corporations (TNCs) and the uncontrollable high—speed market highway they travel on must be obeyed lest you be run over and/or left behind. The trouble with this concept of globalization, whether it is explicitly or implicitly adopted, is that objectively it is largely a myth. However, the consequences of its power to organize our thoughts as to how the world works has real effects.

12. Weiss (1997) identifies a spectrum of hypotheses with respect to globalization, ranging from strong to weak. The strong globalization hypothesis views the rapid growth of economic interdependence as a reflection of an emerging supra—national phenomenon. This is distinct from the three decades following the Second World War, when the expansion of world trade and finance was primarily led by the concerted efforts of nation states through the creation of an international financial system and successive rounds of multilateral tariff reductions under the General Agreement on Tariffs and Trade (GATT). According to this view, the era of state—led internationalism has run it course. It has given way to a new phase of international political economy——a new ‘globalism’ or ‘borderless’ economy, in which the internationalization of production is identified as the driving mechanism of economic integration.

13. In such a borderless world it is claimed that footloose TNCs, rather than nation states, are spearheading global economic interdependence, eroding national differences and making domestic strategies of national economic management increasingly irrelevant

(Ohmae, 1990; Reich, 1992; Horsman and Marshall, 1994; Hamdani, 1997). In this view, TNCs are claimed to be the dominant economic entities. Truly global TNCs own and control subsidiaries in a number of countries. They engage in business alliances and networks in different locations of the borderless world. They source their inputs of labour, capital, raw materials and intermediate products from whenever it is the best to do so. Finally, they sell their goods and services in each of the main markets of the world (Dunning, 1997). Globalization is therefore, according to this view, ‘triggering a process of systematic convergence in which all governments face pressures to pursue more or less similar policies to enhance their national (or regional) competitiveness, vis—a—vis other countries, as locations for international production’ (Hamdani, 1997: 3). The erosion of state power is however, contested by a second hypothesis of globalization, which holds that states never had the macroeconomic planning power that some claim before the emergence of globalization. However, those powers that it had and continues to have are significant (The Economist, 1995).

14. In contrast to the strong hypotheses of globalization, the weak hypotheses view the rapid expansion of cross—border trade, investment and technological transfer, and the greater integration of national economies not so much as a reflection of a globalized world, but rather as a more internationalized world where national and regional differences, including national institutions, remain substantial (Chang, 1998; Dymski and Isenberg, 1998; Hirst and Thompson, 1996; Weiss 1997). From this perspective the external and internal constraints that strong internationalization tendencies impose on nation states are viewed to be relative rather than absolute, and they represent an evolving history of state adaptation to both external and internal challenges rather than ‘the end of state history’. According to this view, many of the recent difficulties national policy makers have experienced with macroeconomic management, such as balancing budgets, have more to do with internal fiscal difficulties caused by the years of slow economic growth, prolonged recessions and demographic changes, than with globalization tendencies. As will be demonstrated below, the available evidence demonstrates that the world is not becoming globalized so much as more internationalized—the impact of external and internal constraints remain relative, and thus national and regional differences remain critical.

III. GLOBALIZATION VERSUS REGIONALIZATION IN THE WORLD ECONOMY

15. To assess the extent and patterns of globalization, its limits and its counter—tendencies, we follow the commonly used quantitative approach, with its focus on trade flows of goods and services, and capital flows. All interpretations of globalization recognize the sheer volume of cross—border flows of capital, goods and services and the growing interdependence and integration among the main world markets. However, the central issues in the debate are three: (i) do these trade and investment flows indicate an historically unprecedented trend?; (ii) how substantive are these flows compared to their corresponding flows in earlier periods?; and (iii) to what extent are these flows world—wide in scope?

1. TRADE FLOWS

16. In their historical comparison, Hirst and Thompson (1996) compare the history of the

international economy and its regimes of regulation during the period between 1880 and 1914 when the gold standard structured international trade with that of the international economy during the 1980s and early 1990s. Hirst and Thompson look at a wide range of measures of integration, including the share of merchandise exports and imports in output, defined as gross national product (GNP). Their results indicate that our highly internationalized economy is not unprecedented. Indeed, in some respects the current international economy is less open than the system that prevailed during the gold standard. Table 1 indicates the extent of internationalization, as measured by the sum of exports plus imports as a percentage of GNP of a number of advanced industrialized countries. In 1973, the share of exports and imports in GNP in most industrialized countries was lower than in 1913.

INSERT TABLE 1 HERE

17. The degree of integration into the world economy has been even more limited for most regions of the developing world, with the exception of East Asia. For the developing countries as whole the share of exports plus imports in GNP rose from an average annual rate of 28 per cent during the 1960s to 34.4 per cent in the 1970s and 38.4 per cent in the 1980s (Hirst and Thompson, 1996: 28). When compared to the developed market economies, this is not a significant degree of integration. The only region of the developing countries that underwent a great deal of internationalization was East Asia, where the share exports plus imports in GNP rose from 47 per cent in the 1960s to 69.5 per cent in the 1970s and 87.2 per cent in the 1980s. Africa's share of exports plus imports in GNP actually dropped slightly between the 1970s and 1980, as did the Middle East's, where the downturn in oil prices reduced the region's share of exports and imports in GNP.

2. GEOGRAPHIC PATTERN OF TRADE FLOWS

18. In order to assess the extent to which recent increases in trade flows have been global in scope, it is necessary to examine trade flows by region of origin and destination. Table 2 indicates that trade flows are highly concentrated among the rich Organization for Economic Co—operation and Development (OECD) countries in general, and in particular within the three large regional trading blocks of the European Union (EU), North America and Japan. In 1996, export and imports by the OECD countries accounted for three—quarters of total world exports and imports. It is of interest to note that the EU as a trading block does not appear to be more integrated into the world economy. Intra—EU exports and imports have continued to account for almost 62 per cent of total of EU exports and imports. Thus, the growing importance of intra—EU trade indicates a clear trend towards 'Europeanization' rather than towards globalization, as suggested by globalization theorists. At the same time, the growing importance of Japan's trade flows with the dynamic Asian economies also indicates a trend towards 'Asianization' rather than globalization. As Table 2 indicates, Japanese exports to the dynamic Asian economies more than doubled over the period between 1972 and 1996, thus reversing the traditional dominance of trade with the United States. Therefore, Table 2 suggests that there has been a growth in internationalization within regions of the world economy, which could be called 'regionalization', rather than globalization. Japanese, American and European states played essential roles in the regionalization of the worlds major economies. The difference

between globalization and regionalization is the degree to which already existing state institutions are able to regulate actually existing economic and environmental activity. The problem with the globalization myth is that policy changes supposedly take place outside the range of state powers as opposed the current reality where the states fingerprints are all over free trade agreements and World Trade Organization documents.
INSERT TABLE 2 HERE

3. NET CAPITAL FLOWS

19. There are various measures of capital mobility. According to one broad definition, net capital mobility is measured as the absolute value of current account divided by gross domestic product (GDP). According to this measure of capital mobility, current net capital flows are huge in terms of their absolute size, but they are not historically unprecedented. The peak peace—time years for net capital flows for 11 OECD countries and Argentina were between 1870 and 1889, followed by the period between 1890 and 1913 when international capital flows topped 3.7 and 3.2 per cent of GDP, respectively (Obstfeld, 1998: Table 1). The corresponding ratio for the period between 1990 and 1996 was 2.3 per cent.

4. FOREIGN DIRECT INVESTMENT

20. If trends in trade cannot be used to support the thesis of globalization then it might be suggested that FDI would. After all, in a truly globalized economy FDI might be expected to replace exports, as capital, free to move where it wants, locates in low wage, low tax countries. Indeed, one of the key structural changes in the world economy during the post war period has been the change in the relative importance of trade and FDI. The total accumulated inward stock of FDI grew at an average annual rate of 18.2 per cent during the period between 1986 and 1990, and 9.7 per cent during the period between 1991 and 1995 (United Nations, 1998: 2). Over the same two periods the total nominal value of exports of goods and services grew at average annual rate of 14.6 and 8.9 per cent, respectively (United Nations, 1998: 2). Thus, there has been a decline in the relative importance of trade in the world economy since the early 1980s.
21. The rapid growth in FDI is often taken by theorists as proxies for the globalization of production in general and the dominance of TNCs in manufacturing production in particular. Instead of exporting goods, TNCs are serving foreign markets by building factories. However, a careful analysis of aggregate FDI figures reveals the inappropriateness of these proxies, and thus the misleading conclusions drawn from these figures (Weiss 1997: 9). For a start, not all FDI flows are normally directed towards the establishment of new investment in manufacturing and other productive sectors of the economy of the host country. ‘Non productive’ and speculative ventures, such as real estate and the cross—border merger and acquisition activity of TNCs, are estimated to account for a major portion of aggregate FDI flows (Weiss, 1997: 8—9). Cross—border merger and acquisition activity alone accounted for over one half of FDI flows in the second half of the 1980s, and as much as 58 per cent of FDI flows in 1997 (United Nations, 1998: 19). Indeed, it is within this context that the dramatic expansion of merger and acquisition activity in the United States in the 1980s and 1990s should be conceptualized. In 1997, merger and acquisition by

foreign TNCs accounted for some 90 percent of FDI flows into the United States (United Nations, 1998: 13). The corresponding ratios for the first and second half of the 1980s were 67 and 80 per cent, respectively (Hirst and Thompson, 1996: 71). The significance of cross—border mergers and acquisitions is that what is taking place is simply a transfer of ownership, as TNCs attempt to consolidate their positions within the three trading blocks, rather than the creation of new productive capacity.

22. The available evidence also indicates a redistribution of the stock of outward FDI from primary and secondary towards the tertiary sector services over the period between 1975 and 1990 (United Nations, 1992: 18). As it is not possible to internationally trade many services, TNCs must invest abroad to provide these location—specific services. With the growing importance of services in the high—wage economies, investments in services by TNCs can be expected to grow in the future.

23. To judge the significance of and recent trends in the internationalization of production, it may be useful to look at the share of inward and outward FDI flows relative to total fixed capital formation in building, plants, machinery and equipment. If the strong globalization hypothesis holds, the data should show a large and increasing share of FDI in total investment. Taking the aggregate FDI figures at their face value, Table 3 indicates that this is clearly not the case. FDI accounted for a small share of investment in both developed and developing countries and there is little indication that these shares are rising.

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5. THE GEOGRAPHIC DISTRIBUTION OF FOREIGN DIRECT INVESTMENT

24. Like trade flows, investment flows are also almost exclusively concentrated in the advanced industrial states and a small number of rapidly developing industrial economies. In the beginning of the 1990s, 75 per cent of the total accumulated stock of FDI was located in three trading blocks of North America, the EU and Japan (Hirst and Thompson, 1996: 63), a proportion which has not changed much since the end of 1970s (Brandt Commission, 1980). This ‘triad’, consisting of the EU, Japan and the United States, also received approximately 70 per cent of world—wide FDI inflows in 1990, a proportion unchanged from the average of the decade of the 1980s (United Nations, 1992: 20). The dynamic Asian economies accounted for over 60 per cent of investment in the developing countries by TNCs. This concentration dropped only moderately in the early 1990s, as the major economies experienced a recession (United Nations, 1998: 5). This geographic distribution of investment by the TNCs is clearly in conflict with the strong globalization hypothesis, according to which a growing portion of investment by TNCs should be world—wide in scope, and the low—wage and low tax developing economies should attract an increasing share of investment by footloose TNCs. It is however consistent with the thesis of a growing internationalization predicated upon regionalization, which has already been discussed in the context of trade flows.

25. Several explanations are provided in the literature for the concentration of TNC activity, and especially core technological activity such as research and development, in high—wage and high tax countries. First, concentration in the same country/region provides a pooled market for knowledge—intensive labour, which tends to be treated increasingly as a fixed cost. With new technologies placing a premium on fixed costs, including machinery,

equipment and specialized skills, the importance of raw material, wages and other variable costs is reduced. Second, concentration allows for a close link between producers and specialized suppliers of inputs, especially in non—assembly operations. Third, locating within high—wage high tax OECD economies provides TNCs with a national institutional support system, including relationships with trade associations, training institutions, and more importantly local and national governments. The latter supporting relationship is of particular importance because ‘(b)eing generally exclusive rather than open to all, support relationships of this kind constitute a competitive advantage’ (Weiss, 1997: 10). Thus, in Hirst and Thompson’s (1996: 96) examination of the home bias of US, Japanese, German and British manufacturing TNCs, parent operations accounted for between 62 and 97 per cent of total assets, and between 65 and 75 per cent of total sales, in 1992 and 1993. Similar findings are reported by Tyson (1991), where US manufacturing parent operations accounted for 78 per cent of total assets, 70 per cent of total sales, and 70 per cent of total employment in 1988. This evidence suggests that labelling firms with international economic activity as TNCs is a misnomer. The vast majority of corporations require state support, and a home base for labour, capital and markets. It is therefore more appropriate to call them multinational corporations (MNCs), and not TNCs.

6. FINANCIAL FLOWS

26. In the case of money and capital markets, progressive internationalization has been even more impressive, especially since the collapse of the Bretton Woods system in the early 1970s, and the subsequent liberalization of exchange and capital controls, as indicated in Table 4. The daily turnover on the world’s major exchange markets rose four fold between 1986 and 1993, reaching US$1.0 trillion a day, or about US$250 trillion a year (International Monetary Fund (IMF), 1993: 24), which is 33 times the total value of world trade.

INSERT TABLE 4 HERE

27. The progressive internationalization of money and capital is a marked change that distinguishes the late 1980s and 1990s from the post war period up to the mid 1980s. However, whether this progressive internationalization signifies a radical change, indicating a globalized financial market or a tendency towards a globalized financial market, is not clear, for at least two reasons. First, to assess whether the explosion in cross—border financial flows represents a new phase in the international economy or simply a greater internationalization of finance we need to have some relatively clear model of what a truly global financial market would look like. Dymski and Isenberg (1998: 221) provide such as a rigorous model:

28. A financial market is internationalized when assets with idiosyncratic risk/return characteristics——that is, whose risks and returns are unique to the regulatory and banking structure of the country of origin——are sold offshore as well as domestically. A financial market is considered to be truly globalized when it involves the continuous exchange in financial centers around the world of assets whose risk/return characteristics are independent of national regulatory and banking structures...Globalization is, in effect, the end point of a process of the separation of financial asset characteristics (including prices) from the idiosyncrasies of their countries of origin.

29. Despite the explosion in cross—border financial flows during recent years, the penetration of foreign assets into domestic financial markets is still relatively light, and confined within the three trading blocks (Hirst and Thompson, 1996: 40—44). The available evidence from several large industrial economies also suggests that ‘home asset bias’—the tendency to invest in local assets—is strong even in financial markets. Investors in the United States have been among the least diversified, with the percentage of equity portfolio held in domestic equities equal to 98 per cent in 1987. The US is followed by Japan at 87 per cent, the United Kingdom at 78 per cent, Germany at 75 per cent, and France at 64 per cent (Cooper and Kaplanis, 1994). Moreover, whether internationalizing financial markets will lead to a globalizing financial market remains in dispute (Boyer, 1996; Wade, 1996).

30. Second, at least some of the recent growth in international financial flows and liquidity were brought about by policy specific and conjunctural factors. These include the international recession, the growth in government debt through the 1990s, the abandonment of capital controls, the emergence of structural imbalances in payments for a number of large economies, and the liberalization and deregulation of financial markets by national governments. However, as these changes are policy specific and conjunctural, they may be temporary (Hirst and Thompson, 1996). In this regard, it is important to recall that the classic gold standard years between 1889 and 1914 can be distinguished as a period with low interest rate parity between the world’s two financial centers in New York and London. Thus, when interest rate parity is measured by the standard deviation of the difference between one—year interest rates on sterling—denominated assets sold in New York and those sold in London, such parity was extremely low during this period (Obstfeld, 1998: Figure 1). Nevertheless, the shift in the policy regime and fresh conjunctural factors during the 1920s led to a marked retreat in the internationalization of financial flows and liquidity during the 1930s.

31. The progressive internationalization of money and capital markets acts as a double—edged sword. To the extent that cross—border financial flows spread risk across assets of various nationalities and redistribute savings across nations, such flows may enhance efficiency and capital accumulation. However, greater internationalization of financial markets also broadens the scope for financial speculation and the redistribution of income, wealth, and political power toward a growing worldwide rentier class. As the most recent Asian and Mexican crises indicate, the internationalization of ‘casino capitalism’ not only makes national economies more vulnerable to short—term capital and money movements but also contributes to greater interest rate and exchange rate volatility (Felix, 1998). As Keynes (1967: 159) reminded us in 1936, ‘Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by—product of the activities of a casino, the job is likely to be ill—done.’

IV. WHAT WOULD CAPITALISM LIKE TO DO TO INCREASE ITS PROFITABILITY? THE WORLD TRADE ORGANIZATION IN CONTEXT

32. In the first section of the paper we gave an account of the changes that took place within

the nation state as a response to capitalism's profitability crisis, which in part was justified as made necessary by the forces of globalization. In the second section of this paper it was established that the internationalization of trade, production and finance is not as great as has been suggested, and that in any event that internationalization that has taken place since the mid 1980s has been predicated upon regionalization. Together, this suggests that globalization is not by and large the way MNCs have responded to the economics of their profitability problem. However, if globalization is not an economic fact but rather largely an economic myth that has been used to effectively reshape society in the interest of increasing capital accumulation, the data in the first section of the paper suggests that, as a political project, globalization has not, as yet, been successful, in that the rate of profit has appeared to continue to fall. The response to this contradiction has been the attempt to create a set of international rules that can be used to both further MNC interests as well as overcome domestic resistance to those interests. It is within this context that national governments have ceded economic power to the World Trade Organization (WTO).

33. In 1995 the WTO replaced the GATT. The WTO agreement is an extensive list of policies, laws, and regulations that are removed from the prerogative of national governments (Shrybman, 1999: 6). As a consequence, the WTO has extended the reach of trade rules into every sphere of economic, social and cultural activity. Historically, trade agreements were concerned with the international trade of goods such as manufactured products and commodities. The WTO extended the ambit of international trade agreements to include investment measures, intellectual property rights, domestic regulations of all kinds, and services——areas of government policy and law that have very little, if anything, to do with trade, per se. It is now difficult to identify any issue of social, cultural, economic or environmental significance that would not be covered by these new rules of 'trade' (Shrybman, 1999: 4).

34. Trade related investment measures demonstrate the significance of the change. As a consequence of the WTO agreement, all sections of a nation's economy become open to foreign investment. This is achieved by preventing governments from favouring domestic corporations while at the same time establishing the pre—eminence of corporate rights and enabling foreign investors to enforce their new rights directly. Thus, the WTO agreement on trade in services in the area of health and education has the potential to effectively undermine the mechanisms with which publicly funded commitments to health care and education are made. This is because the agreement can be interpreted as requiring governments to provide the same subsidies and funding support to private hospitals and schools as it makes available to non—profit institutions in the public sector (Shrybman, 1999: 16).

35. These rules of course do not apply to any government or community that attempts to infringe on MNC 'rights'.

36. Here are some examples of typical US state laws or legal principles that conflict with the WTO: laws that promote investment in recycled material markets; that allocate public deposits or banking business based on community reinvestment performance or local presence; that impose 'buy local' requirements of preferences for state procurement; and that make state procurement contingent on certain social or human rights considerations, like the Macbride principles and Burma—selective purchase laws. Ninety—five laws have

been identified as potentially ‘WTO—illegal’ in California alone, according to the Georgetown University Law Center. How do we know this? Japan, the European Union and Canada publish documents every year that list American laws they consider WTO illegal (Borosage, 1999: 21).

37. In this light, it is hardly surprising that WTO rules have been described as international bill of rights for corporations (Shybman, 1999).

38. WTO authority stems from its powerful enforcement tools that ensure that all governments respect the new limits it places on their authority, namely trade sanctions that can cost hundreds of millions of dollars. While previous trade agreements allowed for similar sanctions, they could only be imposed with the consent of all GATT members, including the offending country. Now WTO rulings are automatically implemented unless blocked by a consensus of WTO members (Shrybman, 1999). In so doing, the WTO has the potential to greatly improve the profitability of MNCs by lowering their taxes and their costs of production through its effects labour and environmental legislation. At the same time, the WTO expands the sphere of activities that MNCs can enter into, effectively commodifing much of what was out of the reach of the for—profit sector. As one of capital’s staunchest advocates, The Economist (2000: 9) has put it,

39. Footloose capital is free riding on less mobile taxpayers, getting the benefit of services provided by governments in high—taxing countries while paying taxes in low—tax jurisdictions, if at all…Some EU governments also argue that tax competition makes it ever harder to tax mobile factors of production such as capital. Instead, they complain, they have to increase taxes on less mobile factors, notably labor, which may drive jobs away.

40. Of course, the WTO did not invent opportunities for footloose capital. However, it does provide footloose capital with a greater range of possibilities. Moreover, so—called globalization cannot explain the ability of MNCs to take advantage of this greater range of possibilities by extorting low taxes from the state or the effective privatization of the health or education sectors. These are quintessentially political acts, reflecting the relative power of capital at this juncture in our history. As Weiss (1999: 31) notes, while the external world of capital flows exerts real constraints on how governments can behave, so too does the internal world of regime orientations, institutions, and domestic politics. Failure to understand the power of path dependency and the pull of domestic pressures leads many globalists systematically to overstate both the power of globalization to determine domestic outcomes and its casual importance in constraining policy choice.

41. One important implication is that the most important limitations on the scope of state involvement in the economy and what it can ‘responsibly’ do to enhance productivity—enhancing growth and provide social protection may be self—imposed rather than externally induced. This is clear in the United States, where a two decade long self—imposed neo—liberalism has already exposed the acute contradictions of neo—liberalism and its application to areas known for their spill over effects and market failures, such as education and training.

42. One clear example of the impact of neo—liberalism on spillover effects and market failure is in research and development activities in the US. The President’s Information Technology Advisory Committee (PITAC, 1999) asks the question whether it is to be expected that information technology research be funded primarily by commercial interests.

Their answer is no. The report argues that in the US essential long—term high—risk investments in the information technology (IT) sector are being sacrificed, in part because of near term market pressures. This committee, made up of IT corporate executives and academics in related fields, go on to explain that it is the federal government that has, since World War II, provided the funding for IT research and has ‘trained most of our IT researchers’ (PITAC, 1999: 8). The effect of this is to have ‘seeded high risk research and yielded an impressive list of billion dollar IT industries’ (PITAC, 1999: 8). However, in both the public and private sectors investment in technology research and development has, the committee argues, slowed to a relative trickle. American businesses, in an ever shrinking and more highly competitive world, have devoted less of their resources to long term research and development, directing their efforts instead towards reducing costs and getting new products into the pipeline today at the expense of the future. The federal government has mirrored this trend because of dramatically increasing pressures on the research and development budgets, with only modest increase in funding levels.

43. Lester Thurow (1999) has identified the necessity of recognizing capitalism’s tendency to market failure with respect to long—term investment. He points out that private rates of return for research and development investment are on average less than half the social rate of return accruing to society as a whole. There is powerful evidence that there are positive spillovers from research and development but that left to themselves firms will spend too little because they cannot capture all the benefits that flow from these investments. In addition to these disadvantages of self—interest in a competitive economy, there is also the issue of the time frame that often dominates the competitive firm’s decision making. The private sector, with its preoccupation with shareholder’s rates of return and competition, has a short—run time frame and therefore tends not to invest in advancing basic knowledge. Very few companies are able to invest for a payoff that is years away. Thus, as Thurow (1999: 291) writes, The only private labs that have ever focused on anything other than short—run results are those such as Bell Labs and the IBM labs that were run by quasi—monopolies. The minute AT&T (forced by government) and IBM (forced by the market) joined the normal competitive capitalistic world, they cut long—term research out of their laboratory budgets.

44. In both the IT sector and biotechnology it is the state that did the high risk investment and then turned over the results to the private sector. ‘Moreover, many advances are broad in their applicability and complex enough to take several engineering iterations to get right, and so the key insights become public and a single company cannot recoup the research investment’ (PITAC, 1999: 79). Governments tend to be more indifferent as to who reaps the benefits from investments in research and development, while firms tend to focus on their own rate of profit and this plays an essential role in the long—term investment decision in capitalist economies.

45. What is true for research is, in varying degrees, also true for education and training, albeit different capitalist formations have different histories. Some capitalist private sectors invest more in education and training than do others. This does not change the basic role of the state with respect to research and training. Profit maximizing firms prefer to train those already educated. As with research and development the state, unlike the private sector, does not have to concern itself with losing an investment or training an employee to another

firm.
46. The disadvantage of an unadulterated neo—liberal strategy is thus that it can inhibit the production of basic research and the critical mass of workers with the vital skills required to ameliorate the accumulation crisis. Who then is going to do the inventing, problem solving and symbolic analysis for the system? The corporate world is not becoming a simpler place; nor is its rate of change slowing. These examples of the essential role of the capitalist state with respect to capital accumulation are just that: examples. Similar cases could be made for the state’s role in public health, the environment and legitimation crises.

V. IS THERE ANYTHING ELSE GOING ON BESIDE THE “RACE TO THE BOTTOM”? “THE CLIMB TO THE TOP FOR A FEW”

47. The concentration of trade and investment flows among the three trading blocks and the small size of these flows relative to GDP in many countries suggest that these flows by themselves are likely to have a modest direct economic effect on the trajectory of the world economy. However, in their ‘race to the bottom’, nothing has prevented MNCs and domestic firms from playing workers, communities and nations against one another as they demand tax, regulation, and wage concessions. Imposing the lowest environmental standards, wages, work and safety conditions, taxes and social services, which has been referred to as ‘social dumping’, is an important part of MNC strategy to restore profitability. The problem for MNCs and the governments that serve them is that these strategies are only a partial answer to their problems. In reality MNCs and those governments serving their needs for accumulation often must follow a segmented strategy that incorporates both a ‘race to the bottom’ and ‘the climb to the top’. While a climb to the top may induce governments to provide a well—educated labor force and high—quality infrastructure in order to retain and attract FDI it falls short of and is often inconsistent with the needs of the environment, labour and the citizenry.
48. Progressive economists find nothing inherently problematic with foreign trade or FDI as long as the interests of labour, the environment and the citizens of all the participating countries are protected and enhanced. Given that the evidence suggests that the bulk of trade and production still take place in the ‘core economies’, policies to ensure and improve this protection could in part be achieved by making use of already existing structures and laws. The most globalized of the factors of so—called globalization, short—term international financial flows, are also the most destructive and therefore require a somewhat more unconventional policy response.
49. The Europeanization and Asianization character of the regionalization of the world discussed above suggests ready solutions for the social service, environmental and labour problems that are the result of neoliberal policies. A charter of economic and human rights reflecting a ‘climb to the
top’ could act as a counter weight to the WTO and could mean that Swedish and Japanese standards rather than British and Chinese standards would become ‘the floor’ when trade and FDI take place. Foreign investors would have to comply with the highest standards prevailing in either their home or host jurisdiction, whichever is higher. All governments would have the right to regulate the activities of both foreign and domestic investors, in

order to ensure that their activities conform to the public interest. In the event of conflict with international environmental and labour agreements these agreements should prevail over investment and trade agreements (Shrybman, 1999: 141). Instead of treating citizen's and labour rights and services and environmental issues as afterthoughts, as with the trade agreements in North America, regulation on a national, regional and where necessary global basis becomes integral to such agreements.

50. On the domestic front, central bank strategies must be broadened beyond the anti—inflation theme to include full employment and real investment strategies. These banks can become a source of credit for increased public investment, including community venture investment. Tax policy should be shifted away from promoting personal investment income and speculation and towards tax credits for real investments by companies as well as by non—profit community investment activities (Stanford, 1999: 310).

51. On the international front there are at least two sorts of policy directions that need to be changed. The IMF's policy conditionality results in privatization, the opening up sections of the economy to foreign ownership, undermining labour arrangements regarding wages and job security, attacks on living standards, and the downsizing of government programs. As with central banks, these policies must be reoriented to focus on reducing unemployment and poverty, which history suggests is consistent with economic growth. The World Bank and the IMF would have to abandon their ideological attachment to free capital flows and uniform investment rules, leaving such issues to be determined. democratically, by member governments (Loxley, 1999: 102).

52. Short—term financial movements that are often destabilizing and where the motivation is often speculation, should be discouraged and/or penalized. A Tobin tax on short—term financial exchanges could discourage short—term capital movements by penalizing them without affecting long—term foreign investment. Borrowing countries could take the initiative by restricting certain capital inflows. Higher reserve requirements on banks borrowing abroad, especially on a short—term basis, and/or differential tax treatment on short— versus long—term borrowing, could also reduce the destabilizing effects of speculative borrowing (Loxley, 1999: 103—104).

53. As was suggested at the beginning of this paper the trouble with the concept of globalization is that objectively it is largely a myth, while the consequences of its power to organize our thoughts as to how the world works has real effects. Certainly the effects of the race to the bottom are real.

They are the result of political—economic decisions, the product of capitalism's laws of motion and therefore not the product of inexorable human laws. The fact that MNCs and the governments that represent them are engaged in this process is both a problem and an opportunity for environmentalists, unions, anti—poverty organizations and human rights activists. The same forces that provide the MNCs with their opportunities can be used to produce historically significant alternatives.

VI. CONCLUSION

54. We have argued that the context for so—called globalization is that capitalism entered into an economic crisis phase in the late 1960s. Crisis in this context does not mean

catastrophic economic breakdown nor does it mean capitalism as usual. In this conjuncture normal economic activity is not sufficient to restore prosperity because as accumulation slackens less profit is available for the maintenance of those institutions whose relative stability and reproducibility permit the repeated fulfillment of an important socio—economic function.

55. Multinationals and their national governments have attempted to free themselves from constraints with respect to regulations, labour, and taxes. Old institutions are contracted and/or transformed while new ones are formed as the system struggles to restore accumulation. The WTO and other free trade agreements can be seen as a strategy to use international rules to overcome domestic resistance to transnational interests. However, this attempt at turning the world into a free enterprise zone has led to global legitimation problems for capital, as environmentalists, unions, and anti—poverty activists have coalesced to resist. They have abandoned parliamentary politics as the domain of capital and have declared their opposition in large numbers everywhere capital attempts to organize those rules, with the noteworthy exceptions of meetings in police states.

56. Interestingly, decades of neo—liberal rule does not seem to have restored a golden hew to capitalism. The period between 1948 and 1973 exceeded the 1995 to 2000 period, even in the United States, in every respect——productivity, inflation, unemployment and profits. The only exception was stock market valuations, and recent scandals demonstrate the illusion of those valuations. This did not stop the system's cheerleaders in the economics profession and mainstream media from ignoring this reality. As in the 1960s we began to hear the triumphant end to the business cycle. Even if the so—called decade long boom did occur in one country—and that, given recent revelations, may be open to doubt——all that was needed was to emulate the neo—liberal American model and all would prosper. Peruse the pages of Business Week or The Economist over the past few years and you can read the chorus in action.

57. The current world recession and the aftermath of September 11 has undermined neo—liberal faith in the market and brought the state back into the management of the economy as governments promise subsidies to ailing sectors, use fiscal stimulus, and revert to military Keynesianism to mitigate the effect of crisis. Five years or so of apparent American economic success and decades of neo—liberalism appear to have done little to restore global capital accumulation. What it may have done, however, is resurrected political opposition——some of it reactionary, some of it progressive.

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Table 1. Exports and imports as a percentage of GNP

	1913	1950	1973	1994
France	30.0	21.4	29.2	34.2
Germany	36.1	20.1	35.3	39.3
USA	11.2	6.9	10.8	17.8
Japan	30.1	16.4	18.2	14.6

Sources: Madison (1995); OECD (1998).

Table 2. Geographical structure of OECD trade

		Source of imports			Destination of exports		
Area/country	Source/destination	1962	1972	1996	1962	1972	1996
OECD	OECD	72.5	77.7	74.7	72.0	78.5	75.0
European Union	European Union	49.7	59.6	61.5	54.3	61.5	62.2
Japan	United States	32.1	24.9	22.9	28.7	31.3	27.5
	DAEs[1] + China	10.2	12.8	29.3	15.5	16.5	33.2
	European Union	9.6	9.3	14.2	12.1	14.9	15.3
United States	OECD	64.6	77.0	68.0	60.3	73.1	70.1
	DAEs + China	9.0	6.3	19.1	2.4	4.3	12.9

Note: 1. DAEs are the Dynamic Asian Economies, and consist of Taiwan, Hong Kong, Malaysia, Philippines, Singapore, and Thailand.

Source: OECD 1998.

Table 3. Inward and outward foreign direct investment flows
(as a per cent of gross fixed investment)

	Annual averages	
	1986-1991	1992-1996
Total		
Inward	3.6	4.7
Outward	4.1	5.1
European Union		
Inward	5.7	6.0
Outward	8.4	8.6
United States		
Inward	6.5	5.0
Outward	3.4	7.4
Japan		
Inward	--	0.2
Outward	4.0	1.4
Developing countries		
Inward	3.4	6.8
Outward	1.3	2.9

Source: United Nations 1998.

Table 4. Cross-border transactions in bonds and equities[a]
(as a per cent of gross domestic product)

	1975	1980	1985	1990	1995	1997
United States	4	9	35	89	135	213
Japan	2	8	62	119	65	96
Germany	5	7	33	57	172	253
France	-	5	21	54	187	313
Italy	1	1	4	27	253	672
Canada	3	9	27	65	189	358

Note: a. Gross purchases and sales of securities between residents and non-residents.

Source: Bank for International Settlements 1998.