

GLOBAL BUT LEADERLESS? THE NEW CAPITALIST ORDER'

Andrew **Glyn** and Bob Sutcliffe

Globalization and hegemony

It has become very common in the history of socialist political economy to see capitalism as a system in the process of becoming progressively more internationalized or, in a more trendy term, globalized. Marx, in particular, saw capitalism as having a constant tendency to expand without limit and become the world's first worldwide economic system. And this was an aspect of capitalism which to many socialists at the start of the century indicated the ripeness of the system for revolution since in theory socialism was conceived of in almost exclusively international terms. Today there is again a very widespread belief that capitalism has recently and rather suddenly become much more globalized. In an age, however, where socialism, if it is conceived at all, is conceived in much more national terms, this is often seen less as a precursor of the system's demise and more as a source of difficulty in controlling or transforming it.

The globalization of capitalism could mean one of two things. In the first place it can refer to the spread of capitalist relations of production. In this sense the last 40 years period has seen the continuation and probably the acceleration of a very long term trend towards the extension of capitalism. There have been a number of sharp changes. The postwar incorporation of women into the paid labour force on a large scale in some industrialized countries has meant a partial transfer of labour from non-capitalist household relations to capitalist relations. There has since the start of the 1980s been a wave of denationalizations which represent a shift from state capitalism to a more pure market-regulated capitalism. And finally since 1989 there has been the overthrow of 'actually existing socialism' and its replacement with capitalist relations.

The disruptions caused by this latter process bear some relationship to the process described by Marx as primary accumulation which ushered in the industrial capitalist system. In that case a 'free' labour force was created by the destruction of the feudal rights of peasants on the land and thus to a means of livelihood which was not dependent on market forces. Workers in Eastern Europe and the USSR had similarly 'feudal' rights to

employment relatively independently of the market value of what they produced. They are now losing those rights in a new large scale creation of a 'free' labour force in the formerly socialist countries.

In the Third World more people have been separated from pre-capitalist rights than have been absorbed into new employment under capitalist relations. In fact the failure of that employment to appear has led to the emergence on a large scale of petty commodity production (the so-called informal sector). Nonetheless, all in all as far as this first meaning of globalization is concerned, capitalism has become more globalized, in some respects in a quite dramatic sense, in recent years. Not only in absolute numbers but also relative to the population, more people today than at any time in history work under classically capitalist relations (i.e. they live off profits or interest or they sell their labour power to a capitalist institution which produces a marketed commodity).

The second possible meaning of globalization refers to an increase in the international interdependence of the world economic system. Some major form of interdependence has clearly existed for centuries. The origins of modern capitalist accumulation in the 18th century, as has often been analysed, were based on a world economy in which industrial production in Western Europe, the slave trade from Africa and slave plantations in the Americas were interdependent. And thereafter successful accumulation in the industrial countries was closely related to economic transformation, and often deterioration, in the Third World. Nowadays when the Third World, as we shall see, plays a diminished role in the world economy, interdependence is more often interpreted as referring to the different advanced capitalist countries.

The implicit definition of globalization defined as interdependence is composed of various elements, including the following:

—national economies are increasingly interlinked, the health of one being considered to be conditional on the health of the others. Consequently economic fluctuations have become more coordinated among the major economic powers. This might be called macroeconomic unification since it represents the idea that the world is now really a single economy in the macroeconomic sense. That means that the main determinants of income and employment can now only be understood at a global and no longer a national level. A corollary of this idea is that the national state retains very little power of macroeconomic management because the major economic variables are strongly influenced by macroeconomic trends and policies elsewhere.

—the patterns of production and consumption in the world are increasingly interdependent. The international division of labour has changed in a way that each nation or region now depends more and more on others for its supplies of goods and for markets for its own products.

—markets are more integrated in a more general sense: the market for goods and services, the market for capital and financial instruments and

the market for labour are characterized by high levels of exchange and few obstacles.

—a more microeconomic definition based not on the national economy but on the firm. In this sense the world economy is regarded as dramatically more global because corporations are dramatically more global. There are two aspects to this: one is that corporations are more global in the location of their assets or their markets or in their personnel and management and so are less rooted in any one nation state; the other is that they operate a more global division of labour within the firm by locating different parts of their manufacturing processes in different countries.

Globalization is one of the criteria by which the condition of the world economy can be characterized at a particular historical moment. There are, of course, others. And of these one of the most important is the extent to which any nation exercises hegemony over the rest. Hegemony here means the domination of the system by one country resulting from its inordinate economic weight or the ability to impose certain rules of economic behaviour on the rest of the world which produces for the hegemonic nation exceptional international power or exceptional advantages or both.

During the last two hundred years the fundamental nature of the world economy has changed on several occasions in respect both of its degree of globalization and also of the extent to which one nation is hegemonic. Just as there is a widespread belief that it has recently become unprecedentedly global, so there is also a matching belief that it is undergoing a major shift of hegemony, concretely that the period of US hegemony is coming to an end.

The purpose of this article is to evaluate these two beliefs. In order to do so it is useful to characterize the state of the system at any moment along these two dimensions: globalization and hegemony. First, how 'open' is the system, in terms of the importance of trade and capital flows, and thus how closely are individual countries tied to one another and disciplined by forces operating at the international level? Second, to what extent is there a hegemonic power which can enforce certain rules of the international economic game?

Such a dual characterization generates in principle four polar cases. Hegemonic systems, with relatively open or closed economies; leaderless ones with relatively open or closed economies. Very schematically, the gold standard represented a hegemonic system (UK dominance) but with market forces imposing discipline on relatively open economies, the centre of gravity being represented by the policies and performance of the UK. The 1920s and 1930s represented a non-hegemonic system with relatively closed economies pursuing independent **policies**.² In the 1950s and 1960s the USA was the hegemonic power presiding over relatively closed economies and with discipline exerted through IMF and other non-market

channels of US power as well as through markets. Finally the decline of US domination left the world economy leaderless in the 1970s and **1980s** with increasingly open economies disciplined by market forces, but without a unique centre of gravity.

The world economy has now experienced all of the four possible options under this schema. Now, therefore, the alternatives are for the present pattern to continue or for the system to revert to a previous one, or at least a variant of a previous one. This would involve either the evolution of a new leader (or conceivably a coherent leadership group) or a reversal of the trend towards openness or both.

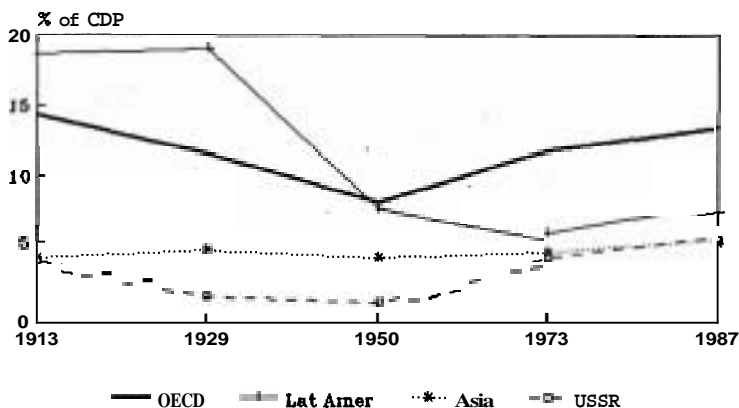
Degrees of openness

(a) *Trade*

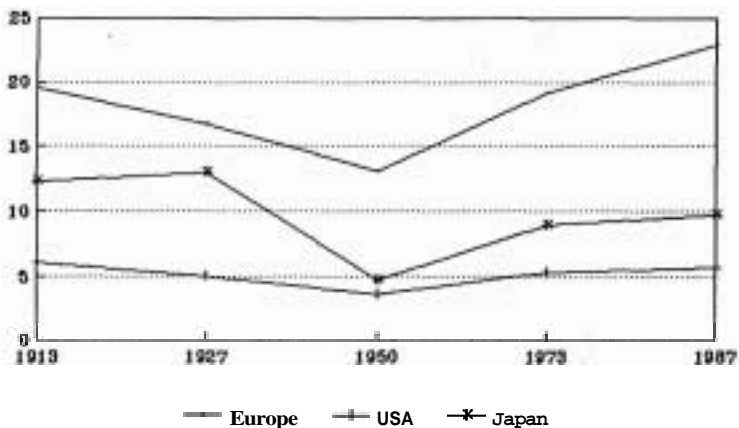
It is a commonplace of analyses of the long-boom of the 1950s and **1960s** that trade was an engine of growth, and indeed the volume of trade grew one and a half times as fast as production. Since 1973 the discrepancy has been less, but trade growth has still been one third faster than output growth.' The result has been to increase export shares of GDP, implying that an increasing proportion of production is for international markets. This in turn increases the roles played by the expansion of those markets and individual countries' competitiveness within them. Since one country's exports are another's imports, increased penetration of domestic markets is implied (in the four big European economies imports of manufactures took around 30% of domestic markets by the mid-1980s). Such competition within the domestic market reinforces the impact through exports of the country's *relative* competitiveness on its *absolute* performance.

It is important to keep this rise in export shares in historical perspective. Figure 1 presents figures for export shares of the OECD countries taken as a whole, of Latin America, of Asia and of the USSR. The increase in the share of exports in GDP for the OECD countries during the 1950s and **1960s** conforms to expectations. The rise was slower after 1973 and, most strikingly, even by the late 1980s exports had not regained the share of GDP achieved before World War I. For Latin America the export share was far lower throughout the whole post-war period; in both Asia and the USSR the post-war increases left the shares at low levels, hardly exceeding those of **1913**. The second part of the figure shows the evolution of export shares for the main blocs of OECD countries. Even within Europe, where the thrust towards trade liberalization was strongest, export shares by the end of the **1980s** were only a little above those of 1913. So the relatively rapid expansion of OECD trade after 1950 represented a reversal of the

Export Shares 1913-87
Merchandise Exports % of GDP



Export Shares: ACCs 1913-87
Exports as % GDP, current prices



Source: calculated from Maddison, A. *Dynamic Forces in Capitalist Development*, op cit table F7. Maddison, A. *The World Economy in the Twentieth Century*, op cit tables A2, D4.

Note: for Latin America, Asia (excludes Japan) and USSR data is at constant prices, all averages are weighted by GDP.

introversion of the world of the previous 40 years, rather than a move towards a qualitatively new level of internationalization.'

This data excludes trade in services, but since exports of services amounted to a little less than 4% of GDP in 1989 (as compared to 14.5% for goods), they do not greatly affect trends. Indeed the rising importance of services, which are traded only to a very limited extent, is a major reason for the rather slow growth of export shares since the 1970s. Within manufacturing an increasing proportion of market shares are met by imports. But the impact of this on trade shares was muted by the decline in the importance of manufacturing in GDP – for the OECD as a whole this fell by one fifth during the period 1960–67 to 1980–89 (29.3% to 23.1%). During the same period the services sector, which **only accounted** for one sixth of world trade, increased its share of GDP from 53.8% to ~~62.6%~~.¹ Another factor limiting further increases in trade shares has been that the process of tariff reduction which helped boost trade has been practically exhausted. By 1980 industrial countries tariffs averaged less than 10% (down from some 25% in 1950), and by 1990 were around 5%. Moreover 'non-tariff barriers' such as the Voluntary Export Restraints which limit Japanese car exports into Europe and USA have risen in importance (by 1986 covering 18% of industrial country trade).² The OECD noted that only Australia, Japan, New **Zealand** and Turkey amongst its 24 members 'ended the 1980s with trade regimes that were more liberal than at the beginning.' And one market is characterized by high and universal protectionism – that for agricultural goods. The rise in agricultural trade is not the result of opening markets but of managed trade, especially from North America to the USSR and China.

The basic conclusions are that, whilst the post-war period has seen a rapid increase in trade shares for the ACCs (advanced capitalist countries), (a) the increase has broadly returned these economies back to the position before the First World War; (b) it does not apply outside the ACCs; (c) if intra-European trade is excluded and Europe is regarded as one unit, then trade shares for the main blocs of ACCs, let alone Asia and the ex-USSR, are extremely small (Europe's total commodity trade was 22.9% of GDP, but extra-European trade only 6.5%); and (d) further increases are limited by the rising importance of services (even in the absence of more intense protectionism).

An evaluation of the interrelation between the various trading blocks **depends** on the direction of trade as well as its overall amount. The **importance** of various trading areas in 1989 for each other is shown in Table 1 below. Japan is the most important trading partner for no other trading area and second most important only for the Asian bloc. Intra-bloc trade is overwhelmingly important for Western Europe and very important for N. America (if Mexico were included to reflect its role in the Free Trade Area intra-trade would be even more dominant). For the less

developed areas N. America is overwhelmingly important for Latin America, and most important for **Asia**;⁸ Europe is overwhelmingly important for Africa, the Middle East and Eastern Europe. Japan's exports to developing areas are concentrated in Asia, N. America's in Asia and Latin America whilst Europe has a much broader spread. Comparison with 1979 suggests the increasing importance of the N. American market for Japan and for the rest of Asia; elsewhere both Latin America and Africa seem to have been increasing their concentration of trade (with N. America and Europe respectively). Intra-trade (eg trade within Europe), as a percentage of trade with all advanced countries, has become a little less important for both Europe and N. **America**.⁹ All the blocs of advanced countries show strongly increased proportions of trade with each other (Japan being the most spectacular case with its share of trade with **ACCs** rising from 41% to 57%, one important influence being the fall in oil prices). The Middle East and to a lesser extent Africa and the Eastern block have declined in importance amongst less developed markets, whilst Asia has increased vastly in significance.

(b) Capital flows

Even if the story of openness to trade is more complex than might be imagined, surely capital flows show unprecedentedly increased internationalization. A valuable paper by Robert Zevin demonstrates that in fact the position is rather similar to that in trade. There have of course been major increases since the 1960s in international flows and thus the integration of national financial markets. But the starting point was the very closed post-1945 economy, with strong controls on movements of capital; and it is difficult to support the claim that the financial markets now are qualitatively more internationalized than before World War I. **Zevin's** discussion of co-movement between interest rates and share prices in different national financial markets before World War I 'confirm the high degree of international capital market integration . . . for the gold standard era. . . data on international assets and liabilities relative to domestic assets and income tell a similar story: higher in the nineteenth century than today, highest by far in the gold standard era . . . measures [proportions of foreign securities traded on national markets] of transnational securities trading and ownership are substantially greater in the years before the First World War than they are at present. More generally, every available descriptor of financial markets in the late nineteenth and early twentieth centuries suggests that they were more fully integrated than they were before or have been since.'"

The one aspect of capital flows not discussed in the above account is possibly the most important for overall integration of the world economy. Gross flows of financial investment (eg **UK** purchases of **US** equities and **US** banks lending to **UK** firms) make owners of financial assets less

Table 1: Patterns of trade, 1989

% of area's trade with	Trading Area							
	N. America	W. Europe	Japan	Lat. America	SE Asia	Mid. East	Africa	East Bloc
Advanced capitalist countries	69	84	57	71	63	63	74	32
of which:								
North America	45	10	58	62	40	21	17	13
Western Europe	31	85	32	30	27	53	76	70
Japan	21	4		7	30	23	5	15
Developing countries plus east bloc	31	16	43	29	37	27	26	68
of which:								
Latin America	34	13	7					
South East Asia	50	27	63					
Middle East	8	16	15					
Africa	5	17	2					
Eastern Bloc	6	27	13					

Source: Calculated from GATT, International Trade, 1989/190 table A3, Geneva 1991.

Note: Trade is commodity imports and exports.

ACCs include Australasia.

dependent on economic developments in their own countries as their portfolios are 'diversified'. The abolition of exchange controls, pioneered by the Thatcher government in 1979, has undoubtedly generated much greater integration of financial markets. But internationalization of production takes place only through 'direct' foreign investment overseas in production facilities. From low rates in the 1950s, even from the USA, it grew to reach 10–15% of home investment firstly in the USA in the 1960s, then in Germany in the 1970s and finally in Japan in the 1980s (see Table 2). These are substantial figures, but with the exception of the UK (and one or two smaller countries like Switzerland and the Netherlands), domestic investment by domestic capital easily dominates both direct investment overseas and foreign investment at home.

Nonetheless, an important new feature of contemporary globalization has been the growth of the multinational or transnational corporation, still only in its infancy by the time of World War I. Most large industrial and financial **corporations** are in some sense multinational. In the mid-1980s nearly one **third** of the sales and more than one third of the employment by the world's 68 largest manufacturing corporations (those with annual sales greater than \$10 billion) was accounted for by their foreign subsidiaries."

Much of what is counted as direct investment, however is not of archetypal multinational kind – invasion of a domestic market, for instance Nissan setting up near Sunderland. Rather it represents what is really a 'portfolio' investment by a holding company with very little implication for the industrial structure of the host country, as when Hanson Trust purchases a US industrial company or a Japanese financial institution buys an office block in Manhattan. This is not so far removed from the investment in foreign bonds which was typical of foreign investment in the nineteenth century.

Foreign investment and trade are both alternative and complementary forms of globalization. They are alternatives because firms may try to conquer foreign markets either through exporting from a home base like most Japanese companies until recently or through setting up foreign subsidiaries like many European and US companies. They are complements when the international division of labour within companies (a **long** established characteristic of multinationals with raw material production activities abroad and a growing feature of other manufacturing multinationals) leads to the movement of goods across national borders as part of the same integrated production process. The GATT has roughly estimated that around one third of what appears in the figures as world trade consists in fact of movement of goods between different branches of the same multinational **corporation**.¹²

Trade for the major ACC blocks of 5–10% of GDP combined with foreign ownership of domestic capital and domestic ownership of foreign capital of order 5–10% of domestic capital stock presents a picture of

Table 2. Direct foreign investment (% of net domestic business investment)

<i>Outward</i>	1960s	1970s	1980s
USA	13.3	15.2	7.7
Japan	1.1	4.7	10.3
Germany	3.7	10.6	16.1
UK	9.3	37.2	65.6
<i>Inward</i>			
USA	1.8	6.3	13.6
Japan	0.5	0.4	0.3
Germany	5.7	6.4	2.9
UK	5.4	27.3	29.4

Source: OECD *Industrial Policy*, Paris 1989; Armstrong, P., Glyn A. & Harrison, J. *Capitalism Since 1945*, Blackwell, Oxford, 1991. Table A5.

important, but hardly overwhelming internationalization of production. Overwhelmingly production is nationally (or in the case of Europe, regionally) owned and oriented.

A recent UN report has highlighted the pattern of foreign investment, which in many respects parallels that of trade described above. Of the European Community's overseas investment, the proportion located in other EC countries rose from one quarter to one third during the 1980s; even excluding this intra-investment, the stock of EC investment reached the same level as that of the US. The stock of Japanese investment was growing much more rapidly, but had only reached about one third of the US or EC level by the end of the 1980s. The great bulk of this direct investment from ACCs was to other advanced countries, with inflows into both US and UK being especially strong (see Table 2). During the 1980s the developing countries share of foreign investment declined from around one quarter during 1980–84 to one sixth during 1988–89.¹³ Different parts of the developing world were primarily associated with the same particular ACC blocs as is the case for trade (US with Latin America, Japan with Asia, W. Europe with East Europe), but the USA was also the dominant investor in some Asian countries. There is some indication that US domination of foreign investment in some parts of Latin America is being ceded to Europe (eg Brazil) and in some parts of Asia to Japan (Taiwan and Singapore).

(c) Labour

If goods and capital markets have become more but not unprecedentedly open the same is not at all true of the labour market. On the contrary, the

1970s and 1980s have seen in most of the ACC countries a strong tendency to tighten immigration controls and to restrict in particular the immigration of unskilled workers from the Third World.

There have been three large waves of such immigration during the postwar period. The first was from North Africa, the Caribbean, Turkey and Yugoslavia to Western Europe during the height of the postwar boom. This came to an end with the crisis which opened in 1973 and today there are increasing demands in Europe to limit immigration even further and even to repatriate earlier immigrants. Immigrants now compose a significant proportion of the population in a number of Western European countries (7 percent in France, 5 percent in Germany and around 3 percent in the UK, Belgium and the Netherlands; in all cases the percentage of the labour force is higher).

The second wave was from the Middle East, South and South East Asia to the oil producing countries of the Gulf. This began in 1973 with the rise in the oil price and rapidly tapered off after the fall in oil prices in the mid 1980s. It was also dealt a major blow by the war against Iraq in 1991. By the mid **1980s**, however, immigrant workers composed the majority of the workforce in some of the Gulf states (over 60% in Saudi Arabia, over 70% in Kuwait and over 80% in the United Arab Emirates).

The third wave of immigration has been from Central America and East Asia to the United States. This is the only one which continues even though there too there is some tendency to tighten controls. The balance of forces for and against immigration is very different from that in Europe; in the USA it is politically more difficult to implement draconian immigration controls due in part to the strength of established immigrant communities and to the greater power of anti-racist forces compared to Western Europe. During the 1980s it is estimated that there were around 1 million immigrants a year, representing an addition of about 4 percent to the existing population per decade.

The world labour market is not homogeneous. The market for some skills is very global. It is relatively easy for a highly skilled worker such as an atomic physicist or an airline pilot or a surgeon to migrate where they want. But the market for **unskilled** labour is hardly at all globalized and shows every sign of becoming even less so. This is a very important limitation to the globalization of the world economy. The monstrous bureaucracy which controls **unskilled** immigration in the world (passports, visas, work permits, immigration services) is a construction which has grown almost continuously since 1913. In the late nineteenth century the world was in principle more open from this point of view than today. There were less restrictions on moving across national borders, many of which had not yet been fully defined. And in countries such as Italy and Ireland emigration led to a bigger relative outflow of population than any country of emigration today; while in countries like the United States and **Aus-**

tralia the number of immigrants was a much higher proportion of the existing population than today.

US leadership

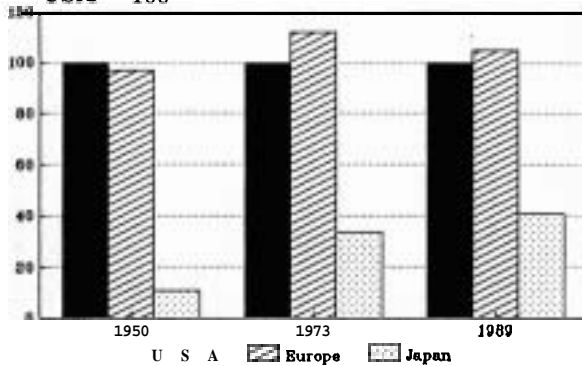
Figure 2 presents the most basic data indicating the relative strength of the USA in relation to Europe and Japan. Whether we look at production, exports or, even more crucially, average labour productivity in the economy as a whole, and in the manufacturing sector which is so central to trade, the process of 'catch-up' with the USA is evident for the period up to 1973. Japan, starting from by far the lowest level, is clearly the more spectacular case; but Europe overtook the USA in total production and caught up substantially in terms of productivity. If the pre-1973 trends had continued Europe would have overtaken the US in manufacturing productivity by 1988 and Japan by 1983.

But compared to its rivals, US performance was less weak after 1973. Just as the golden age was less spectacular in the USA, so the extent of tarnishing after 1973 was less extreme. Indeed in terms of both total production, and of manufacturing productivity, the USA has actually grown a little faster than Europe. Moreover whilst growth in Japan has continued to exceed that in the USA, the differential is far smaller than in the 1960s. If the trends in the US and Japan continued as in the period 1973–87 it would not be until **2003** that Japan overhauls the US in manufacturing productivity and not until 2065 that Japan would exceed the USA in terms of total **production**.¹⁴

So why has the 1980s been a period of such perceived US weakness, reflected in humiliating lectures on fiscal orthodoxy being delivered to the US by European and Japanese leaders at G7 meetings? The weakness of the trade balance, with the current account in deficit to the tune of 1.7% of GDP on average has been seen as the crucial problem. Whilst a number of OECD countries experienced deficits twice as large or more in relation to their **GDPs** (New Zealand, Ireland, Portugal, Australia, Greece and Denmark), the very size of the USA, and the centrality of the dollar in the international monetary system, guaranteed that prominence would be accorded to its deficit.

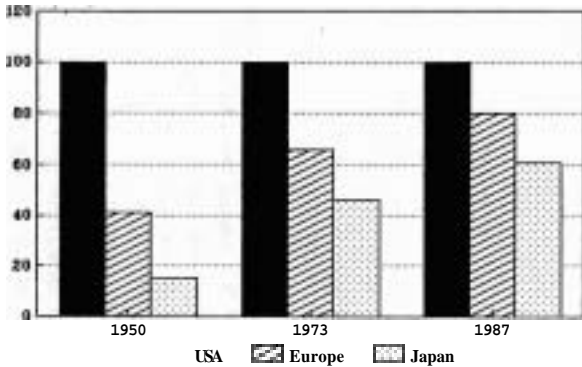
The position of the USA in world trade is further clarified by Table 3. The USA ended the 1980s still more or less level with Germany as top merchandise exporter; and between 1973 and 1989 lost much less of its share of manufacturing exports (down from 12.9% to 12.4%) than did Germany (down from 16.8% to 14.0%). But the USA was no longer leading exporter in any one of the major manufacturing categories; moreover its imports of manufactures rose hugely (from 11.8% of total world imports in 1973 to 16.4% in 1989). Indeed chemicals was the only manufacturing category in which US exports exceeded imports in 1989.

Total Production (GDP)
USA = 100



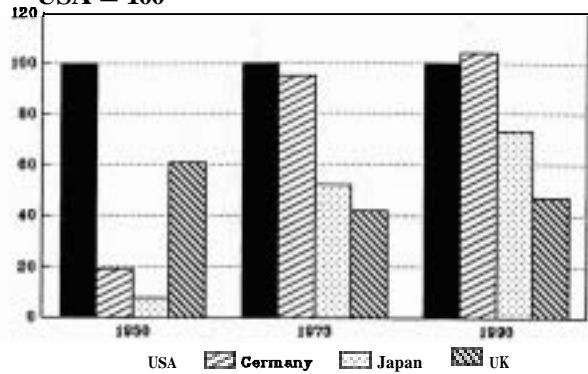
Source: Maddison, A. *Dynamic Forces*, op cit table A2

Productivity (GDP per hour)
USA = 100



Source: Maddison, A. *Dynamic Forces*, op cit table 3.4

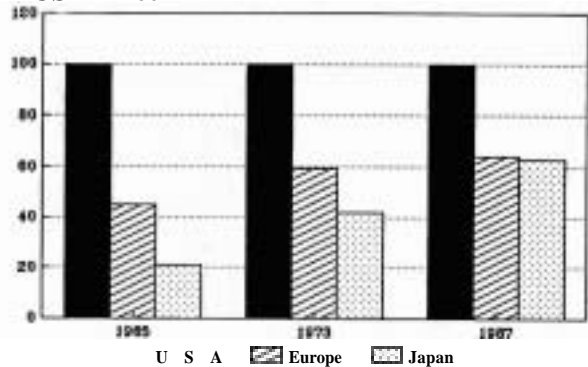
Exports (\$ values)
USA = 100



Source: IMF *International Financial Statistics*

Manufacturing Productivity

USA = 100



Source: Hooper, P. and Larrin, K. 'International comparisons of labour costs in manufacturing' *Review of Income and Wealth*, December 1989.

figure here

The huge US deficits in machinery and transport equipment accounted for much of the overall deficit and was taken as the key symbol of US industrial decline. Of the USA's chief rivals, the continued breadth of German manufacturing export success (including textiles and clothing) stands out despite its loss of world trade share. Such breadth is in strong contrast to Japan's narrower focus on machinery and transport equipment (with an astounding surplus of \$165 billion).

Table 3. Export Rankings 1989

Leading exporters by categories	USA	Germany	Japan	Net US Exports (\$bn)
Total Merchandise	1	2	3	-128.9
Services	1	4	5	24.5
Food	1	4		14.6
Materials	1	8	-	5.7
Metals	1	3	14	-5.1
Fuels	11	-	-	-46.1
Manufactures	2	1	3	-99.7
Iron & Steel	11	=1	=1	-7.7
Chemicals	2	1	6	16.1
Machinery & Trans. Equip.	=2	=2	1	-54.8
Office Eq.	2	3	1	-15.8
Automobiles	3	2	1	-47.9
Textiles	10	1	5	-2.0
Clothing	12	5	-	-23.8

Source: calculated from GATT *International Trade* 1989-90 Geneva 1991 tables IV.3-IV.55; - means that the country is not in the first 15 exporters.

The disastrous trade performance of the US reflected a number of factors. In the early 1980s the soaring dollar dealt a drastic blow to manufacturing industries. The subsequent decline in the dollar did help to close the trade gap, but studies **suggest**¹⁵ that even when the dollar falls sufficiently to ensure that US costs rise no faster than in its competitors, there is still a trend to deterioration in the trade balance; so that it requires progressive real devaluation of the dollar of perhaps 1% per year to overcome the underlying weakness of US industry as compared to its rivals.

The trade deficit has had a serious impact. The stock of US net assets held overseas has been run down so that the US became a large net debtor (nearly \$300 billion by the end of 1989, when calculated at current market values,¹⁶ obliterating the net receipts of investment income from abroad

THE SOCIALIST REGISTER 1992

which during the 1980s had paid for about one seventh of merchandise exports. The dollar's status as the reserve currency weakened. Its share in official reserves of foreign exchange fell from 78.4% at the beginning of 1973 to 56.4% at the end of 1990 (whilst the share of D Marks rose from 5.5% to 19.7% and the share of Yen from zero to 9.1%).¹⁷ The decline in the share of the dollar may seem rather modest in the light of its embattled position in the later 1980s. In fact, however, it partly reflects that embattled position since the central banks of surplus countries were forced to acquire vast holdings of US dollars when they sold their domestic currencies to prevent their values rising against the dollar. Such a greater depreciation of the dollar would have increased its competitiveness and restored the US trade balance, but at the expense of reduced competitiveness, and thus reduced profits from exports, of the surplus countries (Japan, Germany, Taiwan, Korea).

The Third World

If the present degree of globalization of capitalism in the world as a whole can partly be seen as regaining the levels of globalization attained before 1913, this conclusion does not apply to the position of the Third World. The share of Africa, Asia and Latin America in world trade is now substantially lower than before 1913. This reflects a major decline in the relative importance of tropical raw materials in world trade which has become increasingly the exchange of manufactured goods for manufactured goods.

This long-term structural reason for the decline of the trading importance of the Third World has been joined in the period since 1973 by a major short-term crisis in many poorer countries which has led to a new sharp collapse in their relative participation in the world trading system. Latin America's share of world exports fell from 12.4 percent in 1950 to 5.5 percent in 1980 and only 3.9 percent in 1990; Asia's was 13.1 percent in 1950, rose to 17.8 percent in 1980 and fell back again to 14 percent in 1990. And Africa's share all but disappeared: in 1950 it was 5.2 percent, in 1980 4.7 percent and in 1990 only 1.9 percent. In 1955 exports from Africa were three times those of Japan; by 1986 the exports of Japan were four times the exports from Africa.

How does this square with the often-trumpeted fact that the share in world trade of the Third World as a whole has risen? The answer is that while the advanced capitalist countries have become more homogeneous during the last 50 years the countries of the Third World have experienced a sharp polarization. Only a few have entered in an important way into the expansion of world trade and most of these are in Asia (especially the so-called Newly Industrializing Countries). Four Asian countries (South

Korea, Taiwan, Hong Kong and Singapore) produce between them about one half of the total manufactured exports of the Third World.

The picture for international investment is rather similar. Between 1950 and 1980 the share of all foreign investment going to the Third World held roughly constant at about 25 percent. But after 1984 the share fell sharply to well under 20 percent. As with the case of trade, investment in Third World countries is very unequally distributed. It goes in significant quantities to only a few resource-rich countries and the newly industrializing countries (including China) while the so-called 'least developed countries' are increasingly excluded. In the second half of the 1980s this group received only 0.1 percent of all foreign investment, down from 0.4 percent in the first half of the decade. Once again Africa and most of Latin America as well as some Asian countries are failing to participate in the growing globalization of the rest of the world. And this is not because they have an alternative economic system but because they are increasingly marginalized within the system of which they form a part.

Conclusions

During the period since World War II the nature of the world economy has changed very considerably. There has been a vast extension of capitalism to areas and activities not previously organized in a capitalist way. And there has been a vast growth of capitalist production. Neither of these processes has been smooth and continuous. Growth has been punctuated by crises and is now much slower than 20 years ago. And capitalism has expanded very suddenly by the reincorporation of the formerly socialist countries.

The system has also become more integrated or globalized in many respects. Both international trade and international investment have expanded faster in nearly all years than production. There have been many new projects of economic integration and cooperation and many barriers to international economic relations have fallen. Nonetheless what has resulted is still very far from a globally integrated economy. Protectionism is widespread and in some of its forms is growing. Agriculture is universally protected and controlled. The labour market is hardly at all global. In short the world economy is considerably more globalized than 50 years ago; but much less so than is theoretically possible. In many ways it is less globalized than 100 years ago. The widespread view that the present degree of globalization is in some way new and unprecedented is, therefore, false. One reason perhaps why this false view has gained credence on the left is that it seems to explain a loss of national economic independence which in turn has contributed to the decline of socialism. It is interesting to contrast this with the attitude of the left towards the internationalization of the world economy before World War I when it was

almost universally welcomed as a natural prelude to the arrival of socialism.

The 20th century is sometimes known as the American century. At the economic level the United States has been a hegemonic power for possibly 30 years of the century. But it is evident that in many ways US hegemony has been eroded during the last 20 years. US hegemony, like British hegemony in the century before, was in part the consequence of its military victories and the way those were achieved. If it is true, as Wallerstein has rather convincingly **argued**,¹⁸ that hegemony requires major military victories by the hegemonic power, it does not look as if any newly hegemonic power will challenge the USA in the medium term. The USA has lost its unchallenged economic superiority but retains its military dominance; this probably allows it to retain more of the prerogatives of hegemony than its purely economic position would warrant.

The Gulf War raised in a sharp way the possibility that the USA would attempt again to use its military muscle to reassert its dominant position. But as Arthur **MacEwan** persuasively **argues**¹⁹, it will be increasingly difficult for the USA to play this card given the end of the Cold War. And securing massive contributions from **Germany** and Japan towards the cost of the war will not restore the USA's economic dominance; it will simply spread the costs of policing the world.

In any case, it seems inconceivable that either Japan or Europe could secure the necessary degree of economic dominance over the USA and Japan by the end of the century.²⁰ Differences in growth rates are too small at present to change the relative weights of the major blocs decisively in anything other than the very long term, short of a major catastrophe befalling one or more of them."

The fundamental issue, then, seems to be whether the organization of the world economy will become increasingly polarized and conflictual or whether the trend will be towards increasing co-operation between the USA, Europe and Japan. One important trend noted already is towards the relations of each major blocs with the **LDCs** becoming increasingly polarized (Europe with Africa and E. Europe, Japan with E. Asia, North America with Latin America). In Asia a whole range of co-operative patterns are being canvassed with Japan (see **Itoh** this volume); enlargement of the EC to include E. European countries is also in prospect. This does not seem necessarily to indicate either conflict or co-operation. The crucial point here is the interpenetration, by trade and investment, among the major blocs. Whilst this interpenetration is limited it must be a factor increasing the likelihood of co-operation. Co-operation has been evident in the area of stabilization of exchange rates (with \$150 billion reputedly being spent by central banks to stabilize the dollar after the Louvre Accord in 1987). The Uruguay Round hangs in the balance whilst some success is still possible. But we should be warned against

assuming that, just because co-operation seems rational in the self-interest of nations, it will actually take place. Only a few months before the guns opened fire in 1914, Norman Angell, a famous contemporary economic pundit had predicted in his book *The Age of Illusion* that the degree of interdependence of the major European economies had made war no longer conceivable.

There are forces making for the new emergence of confrontation between the major capitalist powers after a long period of relative peace and co-operation. One is the collapse of the common enemy, the USSR, with China still a not very plausible successor. The second is the existence of economic competition between the major powers, exacerbated by the international slump of the beginning of the 1990s, which is already producing a rising level of verbal and economic conflict between the three major capitalist power centres. But things are a long way from a military trial of strength let alone the emergence of a new hegemonic power.

At a minimum it seems safe to predict that the world economy will continue without a clear leader and that this situation will result in a higher level of conflict between the major powers than in the previous 50 years. Whether these conflicts will remain at the level of bickering or whether they will lead to major structural changes, in particular to the consolidation of economic blocs which already to some extent exist in practice, is impossible to predict. The world shows almost no signs of moving from a high level of economic globalization towards the formation of a serious **global** state.

NOTES

1. Our thanks to Bob **Rowthorn** and the editors for comments.
2. Charles Kindleberger is responsible for one of the most **influential** analyses in these terms: '... the international economic and monetary system needs leadership, a country **which is** prepared, consciously or unconsciously, under some set of rules that it has internationalized, to set standards of conduct for other countries; and to seek to get others to follow them, to take an undue share of the burdens of the system, and in particular to take on its support in adversity. ... Britain performed this role in the century up to **1913**; the United States in the period after the end of the Second World War. ...' (Kindleberger, *C. The World in Depression 1929-39* Allen Lane, London, **1973**, p. 28).
3. For **1950-73** the figures are 7.7% pa for exports as compared to **5.1%** pa for GDP, for **1973-87** 4.5% pa for exports, **3.4%** pa for GDP. The source is Maddison, A. *The World Economy in the 20th Century*, OECD, Paris, **1989** tables 3.3, D.5; these data refer to 32 countries of which half belong to OECD.
4. Figure 1 shows OECD exports as a share of GDP at **current** rather than constant prices. This makes a significant difference because exports are concentrated in manufactures, whose prices have risen systematically lower than those of production as a whole because of faster productivity growth in manufacturing. For Germany between **1950** and **1973** the share of exports in current prices slightly more than doubled, whilst in constant prices the rise was fourfold. The share of exports in current prices is the best indicator of the share of the country's resources which are devoted to production of exports (since the same increase in productivity which reduces relative prices also implies relatively less labour is employed per unit of output). For other **countries/blocs** only the constant price figures are given by Maddison.

5. OECD *Historical Statistics 1960–89*, OECD, Paris, 1991 tables 5.2–5.4.
6. *Economist*, 20 September, 1990.
7. *Financial Times*, July 15, 1991.
8. For what is described as 'East Asia', including Japan, Australia and New Zealand and the NICs, but excluding China and India, trade with North America is as important as intra-bloc trade (Schott, J. 'Trading Blocs and the World Trading System' *World Economy*, March 1991 table 1A).
9. European intra-trade has increased as a proportion of its total trade, but this reflects declining importance of trade with developing areas. As a measure of integration, intra-trade as a proportion of trade with advanced countries is the best measure.
10. Zevin, R. 'Are World Financial Markets More Open? If So, Why and With What Effects?' in T. Banuri & J. Schor (eds) *Financial Openness*, Oxford University Press, 1992, pp. 51–2.
11. Calculated from Appendix Table B1, United Nations Centre on Transnational Corporations, *Transnational Corporations in World Development*, United Nations, New York, 1988.
12. See David Gordon, 'The global economy: new edifice or crumbling foundations', *New Left Review*, March/April 1988.
13. United Nations Centre on Transnational Corporations, *World Investment Report 1991: The Triad in Foreign Direct Investment*, United Nations, New York, 1991.
14. International comparisons of output and productivity are notoriously tricky and the figures used in the chart, showing Japanese productivity only 63% of the US level in 1987 may seem rather low. In particular the EC Commission has produced figures showing that Japanese manufacturing productivity reached the US level in 1985. But the EC figures are per worker rather than per hour and Japanese workers are estimated by Maddison, A. *Dynamic Forces in Capitalist Development*, Oxford University Press 1991 table C9 to work about 25% longer hours per year than US; so the EC figures suggest hourly productivity around 80% of the US level. Moreover the series used in the chart do not seem far out of line with other estimates for earlier periods. It seems unlikely, therefore, that by the mid-1980s Japanese manufacturing productivity was much above 70% of the US level, which would imply a level of about 75% in 1992. The EC figures are valuable in underscoring big differences within manufacturing; they show output per worker in electrical and electronic goods more than twice as high in Japan than in the USA, whilst in food, beverages and tobacco and in construction materials it was around 40% of the US level in 1985 (Emerson, M. *The Economics of 1992*, Oxford University Press 1988 table 1.1.3).
15. Lawrence, R. 'Current Account Adjustment – An Appraisal', *Brookings Papers on Economic Activity*, 1990, II pp. 343–382.
16. *Financial Times*, June 10, 1991.
17. *IMF Annual Report*, Washington 1991 table 1.12.
18. Immanuel Wallerstein, *The Politics of the World Economy*, Cambridge, 1984, pp. 37–46.
19. MacEwan, A. 'Why the Emperor can't afford new clothes', *Monthly Review*, July/August 1991.
20. Writing in 1973 Kindleberger considered only the rise of Europe relatively to the USA, raised the possibility of one or another assuming a dominant position and then pondered on w-operative versus conflictual solutions if there continued to be no dominant power (op. cit, p. 308). Aglietta (Aglietta, M. 'Capitalism in the Eighties', *New Left Review*, November/December 1982) also discounts the ability of Japan to continue its rapid growth, and raises the possibilities that either the USA will recover its economic dynamism and thus its leadership role, or else a fracturing into regions will occur with the potential both for Europe to recover its dynamism and for destructive inter-capitalist rivalry, especially in the context of an international credit crisis. Bob Rowthorn (Rowthorn, B. 'Imperialism in the Seventies – Unity or Rivalry', *New Left Review*, September–October 1971) raised the likelihood of economic conflict between Japan, a more unified Europe and the USA.
21. Projections of post 1973 differences of productivity growth rates on to 2020 show Japan about 50% above that of the USA and most Western European countries around the US level (Rowthorn, R.E. 'Productivity and American Leadership' review of Baumol et al,

forthcoming in *Review of Income and Wealth*, table 8). In the very long term, therefore, *if existing trends continue*, Japan will acquire a decisive productivity advantage (see also the broadly similar conclusions in Baumol, W., Batey Blackburn, S. & Woolf, E. *Productivity and American Leadership*, MIT Press, 1989 chapter 12 which occasioned Rowthorn's alternative, perhaps more plausible estimates).