

# CAPITALISM AND THE NATION STATE IN THE DOG DAYS OF THE TWENTIETH CENTURY

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## Introduction

With global capitalism triumphant, the idea that humanity must ultimately choose between socialism or barbarism would seem preposterous if working people's historic gains were not being reversed, if political extremism was not flourishing, if economic and social polarisation were not growing, if nations and societies were not disintegrating, if ethnic, religious and imperialist wars were not proliferating and if lean and mean ideologies were not diluting compassion and destroying the meaning of responsible citizenship. As it is, it is not so surprising that some people claim to be able to hear the faint hoofbeats of barbarism in the stillness of the early dawn.

The hegemonic ideology counters such hysteria by endlessly repeating its dog-eared promises of progress and efficiency, but careful observers note that, as they lose credibility, these promises are being steadily diluted. Gone is the dream of the leisure society, along with that of full employment, that of a regular, secure job and that of a compassionate society. Is there an end to this? And where does barbarism begin?

A new realism is changing the terms of our debates. The ghost of Malthus stalks the land declaring human progress a delusion, asserting the iron law of poverty, defining the crisis of the developing world as a problem of 'surplus population'. The ghost of Hitler beckons with dreams of pure ethnic or religious states, promising desperate people some ground on which to make a stand against the faceless forces destroying their lives. And in the belly of the beast, the ghost of Reagan poisons the political process with its insidious appeals to a crass individualism that teaches people to hate taxes and politics and to put their trust in personal wealth, however obtained.

And now some influential mainstream voices claim to have heard the hoofbeats at close range and have declared barbarism imminent and inevitable, allegedly driven by 'exogenous' factors, like population growth, resource scarcity (sic) and 'differences among civilizations'. Taking the social and political disintegration that attends globalisation as a

given, they announce barbarism's arrival and tell people they must accept it. Once again, it seems that 'there is no alternative'! And if globalisation continues, unchecked, they may be right.

Samuel P. Huntington forecasts a future full of bloody 'culture wars' spawned by 'differences among civilizations' which he claims to be 'not only real' but 'basic'.<sup>7</sup> This crude and ultimately racist assertion obviously need not be true since history is full of examples of cultural assimilation and coexistence. But it is actually coming true as globalisation forces weak, indebted and disempowered nations to accept policies that radically expose them to fierce competitive pressures from an unstable and volatile global economy. Under these conditions they are often unable to maintain the delicate political balances on which social cohesion, political stability and cultural coexistence so often depend.

More recently Robert Kaplan has delivered a similar message, inviting us to think about the 'extremely unpleasant' possibility that the world faces 'an epoch of themeless juxtapositions, in which the classificatory grid of nation-states is going to be replaced by a jagged-glass pattern of city-states, shanty-states, nebulous and anarchic regionalisms'. Today's West Africa is said to be the picture of this future, showing

what war, borders, and ethnic policies will be like a few decades hence . . . West Africa is becoming the symbol of worldwide demographic, environmental and societal stress, in which criminal anarchy emerges as the real "strategic" danger. Disease, overpopulation, unprovoked crime, scarcity of resources, refugee migrations, the increasing erosion of nation-states and international borders, and the empowerment of private armies, security firms, and international drug cartels are now most tellingly documented through a West African prism. . . . (It) provides an appropriate introduction to the issues . . . that will soon confront our civilization . . . it is a microcosm of what is occurring, albeit in a more tempered and gradual manner, throughout . . . much of the developing world; the withering away of central governments, the rise of tribal and regional domains, the unchecked spread of disease, and the growing pervasiveness of war.<sup>8</sup>

But Africa was not always like this, nor was its present plight inevitable. The comprehensive disaster that has befallen it was ushered in when its intransigent creditors imposed radical neoliberal policies on weak, indebted and distressed economies. It was their claim that these policies would lead to accelerated development: but they actually led to a predictable disaster. Thus, in 1983, a reviewer of the World Bank's 'Berg Report' wrote that he regarded

the document as a whole fundamentally wrong in its analysis; self-serving in its implicit allocation of responsibility for current problems; misleading in its broad policy prescriptions, and totally unrealistic both with respect to the social and political implications of its 'solutions' and with respect to its assumptions about real aid flows, price and market prospects for African exports and the robustness of Africa's struggling institutional structure.

It is both arrogant and meaningless for the Bank to assert in that context that . . . the way forward lies through a greater concern with technical expertise and a greater reliance on the market. Such advice cannot be followed for any length of time under current circumstances because the social and political consequences . . . would be so dramatic that the policies would be devastated by the political whirlwinds which would be unleashed. As in the past

these domestic political responses could then be blamed for the disasters which follow, rather than being seen as more or less direct consequences of the acceptance of the (se) externally designed policy prescriptions.<sup>5</sup>

By 1985, the World Bank complained that 'borrowers and lenders often fail to take account of the institutional, social, and political rigidities that restrict a country's capacity to adjust',<sup>6</sup> and by 1988, its Chief Economist for Africa lamented that 'we did not think that the human cost of these programs could be so great, and economic gains so slow in coming!'

Neoliberalism was not the only cause of Africa's problems but its crude ideological prescriptions made many bad situations worse. Certainly the current turmoil was not the inevitable result either of government intervention in the economy, or of the tribal or ethnic heterogeneity of most African states. The latter claim is especially pernicious in its implicit suggestion that only ethnically homogeneous states can be viable, a misconception based on the tautology that successful states eventually appear homogeneous. Moreover, it **ignores** the fact that ethnic homogeneity is an illusion, as illustrated by the fact that many Ethiopians used to think the Somalians lucky because they all came from the same tribe; until that country exploded into clan warfare.

This does not mean that culture or history do not matter; only that the trajectory of history is not genetically defined; and that material circumstances have a powerful bearing on the scope for cultural coexistence or merger. That **scope** is reduced when nations lose their sovereign power to mediate potential internal conflicts and to manage the competitive process in ways that are sensitive to domestic social and political circumstances. The resulting risks are even higher in the case of technologically and administratively weak, or politically and culturally divided, societies like those of Africa. Which is why the imposition of these policies was especially indefensible there, and why it is now so distressing to see the perpetrators blame the victims.

Lest anyone doubt the ability of neoliberal policies to produce disastrous results when applied radically and insensitively to inappropriate situations, they need only look to Eastern Europe. Here these policies have decimated living standards and undermined institutions, social cohesion and political stability. As a result, the growth rates of secessionist movements, civil wars, ethnic conflicts, racism and fascism have been rivalled only by those of crime, poverty, prostitution and the Warsaw stock market **index**.<sup>8</sup> And amidst this carnage the IMF and the US government insist that these policies must be sustained or intensified, even as they profess their deep commitment to democracy. But,

by demanding draconian economic changes, by giving full unconditional support to the Yeltsin team and by ostracizing the previous Parliament - thereby contributing to the collapse of the political centre - the Clinton Administration (along with the international financial institutions) has contributed to the Zhirinovskiy phenomenon . . . Ironically, what the West predicted would happen without Yeltsin - that is, the rise of a nationalist-

**Communist movement – has happened because of him. . . The boosters of shock therapy should be chastened by what they have wrought. In the future they must pay more attention to the virtues of stability and consensus.<sup>9</sup>**

Of course, the market extremists will deny responsibility and blame some allegedly exogenous factors (like corruption or the lack of entrepreneurship) for these failures, apparently unaware that policies must be designed for the real world, not for the text book **models**.<sup>10</sup>

It should be a sobering thought that the same institutions that are 'managing' these developments in Africa and Eastern Europe are using the same logic and the same policy prescriptions to push globalisation in the rest of the world. Their performance in these regions can leave no doubt in anyone's mind as to their commitment to these policies and their determination not to be deflected from them by mere political opposition or by some 'transitional' costs, no matter how high, how general or how permanent.

That is why the prophets of barbarism must be taken seriously, but it is also why we must reject their phoney fatalism. So long as globalisation continues to undermine the capacity of national governments to manage the competitive process in accordance with socially and politically derived limits and priorities, West Africa and Eastern Europe do afford us a glimpse of our future. But it will be so only if we allow it to be so; if we remain deaf to the cries of help from the societies presently being destroyed; or to the voices of those who still believe in the possibility of building stable, prosperous societies in which people can live in harmony with nature and with each other, while spending less time in less stressful, more interesting jobs and devoting an increasing part of their lives to social and cultural pursuits. Technology has made this dream a possibility; politics must realise it.

This dream is all but universal, and it contains the essence of the socialist dream. Its realisation must be the central focus of our political efforts to develop a plausible politics for the twenty first century. And our struggle must begin by rescuing the secular, territorial nation state from those who would abandon it, and from those who would replace it with the disastrous notion of ethnic or religious states. We must do so not because, once rescued, the nation state would necessarily allow us to achieve our goal, but because its loss would leave us in a barbaric global wilderness for a hundred years.

To those arguing that we must accept a barbaric future because there is no alternative, we reply that the prospect of barbarism will provide the stimulus needed to renew the struggle for democratic socialism, now as in the past.

## Positive Promises and Hegemonic Ideologies

Meanwhile the mainstream continues to promise prosperity and welfare gains through globalisation, while **downsizing** its promises in accordance with the harsh facts of economic life. But it is gradually losing its capacity to persuade a sceptical population that globalisation serves their long term interests and this threat to its status as a hegemonic ideology has led to two responses: more rhetoric about measures to ameliorate the transitional welfare losses responsible for this erosion of support; and a much heavier emphasis on the alleged irreversibility of globalisation. The message is now subtly altered to read: the process serves your interests, as well as possible, under difficult circumstances; transitional costs can, and will, be substantially ameliorated; and, in any event, 'there is no alternative'.

Given that what appears to be possible under these conditions does not include full employment, or protection of incomes, of the social wage or of working conditions, it is not surprising that this message is difficult to sell to a generation that has just lived through twenty-five years of that which is now said to be impossible, namely stable and dynamic growth, with full employment, increasing income equality, increasing leisure, improved working conditions and social and political stability. To such people these promises look more like threats.

But then, these promises were even further diluted in an even tougher and more realistic restatement of the positive promise of globalisation in Robert Reich in *The Work of Nations*.<sup>12</sup> Since Reich's previous work had emphasised the important positive contributions historically made by national industrial policies, and since he writes as a political liberal, explicitly concerned with the welfare of America's working people, it comes as a surprise that he now accepts globalisation as the only option, even though he acknowledges that it threatens to undermine the living conditions of the majority of those people. So what is the promise held out by this vision of globalisation? And how plausible are the arguments that lead to these conclusions?

Reich believes that globalisation implies a peaceful, prosperous and dynamic future for the world economy as a whole, but that only a minority of America's working people are in a position to share in the resulting benefits. Meanwhile, the majority face a long term decline in their standards of living, unless their skills can be substantially enhanced. The central challenge is, therefore, 'whether there is still enough concern about American society to elicit sacrifices' to finance the training that would 'help the majority regain the ground it has lost and fully participate in the new global economy'. Unfortunately, in the absence of any external threat to the US, after the collapse of the Soviet Union, 'it is far from clear . . . whether it is possible to rediscover our identity, and our natural responsibility' to the degree necessary.

Despite his explicit concern for the welfare of America's working people, and his appeals to the charitable instincts of America's skilled (comprador?) elite, Reich's argument provides that elite with the perfect rationale for a unilateral declaration of independence. By accepting that in a global world the legal, moral and material foundations of citizenship have become all but meaningless, he legitimises and encourages the view that individuals have no self interested reasons to be concerned about the welfare of their fellow citizens; that a failure to fund the training on which the future welfare of the majority depends, would have no significant impact on that elite's quality of life. No wonder that Reich ultimately has so little faith in his own appeals to that rich minority's charitable instincts. One can but agree that, in a world as Reich presents it, the minority would be most unlikely to rise to the challenge that he poses.

Reich's analysis is based on four indefensible premises. Globalisation is inevitable and irreversible; a globalised world would provide the rich minority with a steadily improving quality of life; a world of five billion individuals would be dynamic and efficient; and America's (and the world's) working majorities could be rescued from impoverishment by increased training. These premises engender complacency among an elite that actually has a lot to lose from unchecked globalisation, and false hopes among a working majority whose economic decline is not going to be arrested by training funded through the charitable (or waning patriotic) instincts of the fortunate few. Let us examine these premises more closely.

### Irreversibility, Inevitability and the Real World

Reich's conclusion that globalisation must be accepted as a *fait accompli* must be, and is, primarily based on its assumed irreversibility. It cannot be based on any positive benefits, since these accrue only to a minority, while the majority is threatened with an open ended, permanent decline in its standard of living. Moreover, this decline could only be averted if the skilled minority were prepared to finance the upgrading of their skills out of compassion, or a vestigial sense of social responsibility which Reich considers no more than a remote possibility, since that minority is rapidly divesting itself of the responsibilities of citizenship. On these terms, no responsible union leader, or citizen, could consider accepting globalisation on its merits, which is why Reich has to base his case for its acceptance on the claim that there is no choice, that globalisation is inevitable and irreversible.

To emphasise this fact he begins with a graphic description of a world in which alternative 'national' policies have become more or less inconceivable. In this world, a nation's citizens are no longer 'bound together. . . by a common economic fate' and

As almost every factor of production – money, technology, factories, and equipment – moves effortlessly across borders, the very idea of an American economy is becoming meaningless, as are the notions of an American corporation, American capital, American products, and American technology.

In response, America can only try 'to increase the potential value of what its citizens can add to the global economy, by enhancing their skills and capacities and by improving their means of linking those skills and capacities to the world market'. Only then could it alter the fact that, at present, only 'a small portion of America's workers' are able to seize the opportunities presented by globalisation, while 'the majority of Americans (are) losing out in global competition'. Unfortunately, such an initiative is not very likely 'when the very idea of an American economy is becoming meaningless', and since things may get a lot worse yet. Indeed, with the collapse of its traditional 'enemy' in Eastern Europe, America may face an even more dramatic political disintegration.

**America may simply explode into a microcosm of the entire world. It will contain some of the world's richest people and some of the world's poorest, speaking innumerable languages, owning many allegiances, celebrating many different ideals. These individuals will be efficiently connected to the rest of the globe – both economically and culturally – but not necessarily to one another. Our collective identity will fade. There will be no national purpose, and no pretence of one.**

Reich can only accept this disastrous vision of the future because his belief in the irreversibility of globalisation appears to be absolutely unconditional, and because he appears to believe that such an America could remain dynamic, efficient and stable enough to provide the skilled elite (his 'symbolic analysts') with a steadily improving quality of life. The former assumption is illogical and untenable, as argued below, the latter is unlikely to prove justified, as the following two sections will show.

The irreversibility of globalisation cannot be treated as unconditional since both the erosion, and the restoration, of national sovereignty is necessarily a matter of degree. Hence, when extreme consequences threaten, the demand for policy reversals at the margin can and will become overwhelming. The limits of the politically possible will alter. People will demand consideration even of policies that may initially be difficult to implement, remembering that short term pain can be justified by long term gain. In this process, things deemed impossible yesterday, will emerge as feasible options today. Who could have imagined the New Deal in 1929. And who would have thought that in 1992 *The Economist* would call for a restoration of international capital controls, or that, in the same year, a regular correspondent of the *Financial Times* would argue that the 'nationalisation of the banks' was now the only way to deal with Britain's financial woes?<sup>12</sup> Unfortunately Reich quite inexplicably chooses not to explore or discuss such possibilities, but to declare the 'old nationalist policies' unconditionally off limits and irrelevant. This is a shame, and a worry.

The worry turns to confusion, or consternation, when Reich reveals, much later in the book, that he also believes that any attempt to reverse globalisation would be necessarily bad. Thus, whatever the circumstances, he warns that nations must,

**eschew trade barriers . . . as well as obstacles to the movement of money and ideas across borders . . . (because these) . . . would only serve to reduce the capacity of each nation's work force to enjoy the fruits of investments made in them.**<sup>13</sup>

But if this is true, then why is America's majority now threatened with a pervasive decline in a standard of living that was sustained over many years and that was achieved at a time when profits were higher, labour less well trained, the economy more protected and productivity lower? And how does he reconcile this claim with his earlier work showing that many of the nationalist policies he now decries were not detrimental to **welfare** or efficiency? And why the earlier emphasis on irreversibility? Ultimately one suspects that it is Reich's commitment to globalisation itself that has become unconditional, though for reasons that remain unclear.

The irreversibility of globalisation becomes important for its proponents only when its inherent desirability is in doubt. At that point the argument for globalisation must come to depend on the stick, rather than the carrot. It must now be accepted, however reluctantly, because there is no alternative. But this demobilising conclusion follows only if the process is truly irreversible, because it is driven by some exogenous factor, like technical change. The implication would be quite different if the driving force turned out to be primarily political, namely the rules and regulations of institutions designed to produce and protect the globalisation process because it serves certain specific interests at the majority's expense. In this case the claim that these policies were irreversible would cease to be demobilising and would turn into a rallying cry for those who recognise that the interests of the majority require a reversal of those political choices.

So is globalisation technologically driven? The claim is most common and most plausible in the case of financial deregulation where the proliferation of electronic media has, indeed, created formidable problems for national regulators. However, even here, the evidence shows the claim to be clearly indefensible. In fact, financial deregulation was, and is, primarily politically driven.

The claim that financial regulation has become impossible for technical reasons is obviously untenable. First because many of the world's most successful economies were slow to liberalise their financial markets and still regulate them extensively today." Second, because, where there is the political will, as with the laundering of drug money, regulation is generally agreed to be feasible, even though it may be difficult. Third, when the World Bank advises countries to liberalise financial markets slowly, in order to minimise the risk of speculative destabilisation, it implicitly

**confirms** both that such regulation is currently occurring and that it is feasible in **future**.<sup>15</sup> And, finally, the fact that almost everyone accepts global financial regulation as both necessary and feasible, implies the feasibility of national regulation, both because global regulation is far more difficult, and because it would, in any case, require regulators to monitor transactions at some sub-global (or national?) level.

The inescapable conclusion is that financial liberalisation is politically driven, and that technology has been both a means and an excuse. The incentive was the opportunity to make enormous fortunes by creating mountains of credit – and debt – 'in a wonderful country called Offshore . . . where there were no rules at all, because there was no country'.<sup>16</sup> And those fortunes continue to grow, despite the global economy's sluggish performance. In fact, 1993 was a bumper year for the folks in finance, as

**Goldman, Sachs offered bonuses of at least \$5 million each to its 160 partners. . . the top hedge funds reaped profits of hundreds of millions of dollars, and a fund's manager gets the lion's share of that. . . even the not so top dogs made out like bandits (so that) hundreds of investment bankers who aren't partners will clear the million dollar bonus hurdle . . . and even junior investment bankers, five years out of business school will take home bonuses of \$250,000.<sup>17</sup>**

And all this in a country where 'real average wages have declined by 18% between 1972 and 1990',<sup>18</sup> where unemployment remains persistently high, where poverty is on the rise, where urban decay has reached unimaginable levels and where the casualisation of labour is rampant. The real question is not whether this pattern of development is reversible, but how long it can last?

To be sure, for the moment these 'deregulated financial markets' have given those who control the flows of international **finance** a 'stranglehold . . . on government monetary **policy**',<sup>19</sup> and a veto power over attempts to reregulate finance. But before those same people start talking about irreversibility and 'the end of history', they might reflect on the fact that it is the real economy that ultimately gives money its value. With electronic money, you can't even light a fire to keep warm.

In the final analysis, financial regulation depends on the political will to enforce adequate sanctions, so that, given the risk of discovery, the majority of people will observe the law. The fact that such laws can always be technically evaded (by some, for a time) is not an argument against them or their enforcement, any more than the existence of unsolved murders constitutes an argument against the homicide laws. In fact, the biggest obstacle to the enforcement of financial regulations today, is not the computer or the fax machine, but the poisonous individualism of the eighties which has undermined people's willingness to observe the law by corroding the ethical and ideological foundations on which law enforcement, taxation and the ability to justify social investment ultimately rest. But such fashions change. People are not born with such venal views, and throughout history, popular uprisings have persuaded many a surprised

ruling class suddenly to rediscover its sense of social responsibility when it thought it no longer needed one.

The alleged irreversibility of globalisation will be increasingly challenged as more people experience its costs and recognise that these are not due to minor or temporary disturbances afflicting a small minority, but are part of an open ended and long term challenge to the majority's **quality** of life. Once that majority also understands that the obstacles standing in the way of a reversal of these trends are not immutable historical laws or technological inevitabilities, but political choices imposed on them by a venal and short sighted minority, the time will be ripe for change.

In the meantime, it is worth noting that the **global** elite itself clearly does not believe in irreversibility. Otherwise it would not be so actively creating new international institutions and agreements to threaten any country contemplating such a reversal with collective retaliation. And the range of policy instruments being made subject to retaliation in this way is constantly being extended by agreements like the Canada-US Free Trade Agreement (CUFTA), the North American Free Trade Agreement (NAFTA) and the Uruguay Round of the GATT, which are all much more than trade agreements. They are explicit attempts to roll back national sovereignty.

Thus, the new GATT agreement has so narrowed the range of policy options available to **governments** in the developing world that a critic, writing before the final agreement was signed, described its potential impact as follows:

**The powers and position of TNCs would be enhanced, the sovereign space of countries would be reduced and the process of transnationalisation of the world economy (and of the Third World) would be carried forward to an extent where it would not be easily reversible. It will divide the world between the "knowledge-rich" and "knowledge-poor", with the latter permanently blocked from acquiring the knowledge and capacity to be rich. . . . In economic and social terms, Third World countries and their people could be said to be on the point of being rolled back to the colonial era.<sup>20</sup>**

Some take comfort in the thought that countries generally only enter such agreements voluntarily, but this is to ignore the fact that what appears to be voluntary, is often tinged with more than a hint of blackmail and **coercion.**<sup>21</sup> **Moreover, these governments** in question frequently do not represent the national interest in any real sense. In fact, governments dominated by small global elites or by international capital, often seek to enter such agreements to protect their interests from domestic political challenges.

Canada's experience provides a particularly explicit example. Thus, when its Mulroney government broke an explicit promise by announcing its intention to seek a Free Trade Agreement with the United States, the Minister for International Trade, told a reporter that 'the main reason' why Canada needed such an agreement was 'to ensure that no future Canadian government could ever return to those bad old nationalist

policies of the past'.<sup>12</sup> It is a sad comment on Canada's democracy that this treasonable and utterly undemocratic statement did not lead to the Minister's, let alone the Government's resignation.

In such a world, collective security takes on a whole new meaning, as the national fractions of a global elite seek multilateral protection from domestic political forces, be they Chiapas Indians, Moscow conservatives or persistent social democrats. But, as these elites sit ensconced in their rich ghettos, behind their electric fences and their security guards, declaring this new world inevitable and irreversible, their actions speak louder than their words. And these show clearly that they know it is not so.

Globalisation is not inevitable and certainly not irreversible. Moreover, the main obstacles to its reversal are the institutional and legal barriers erected by international capital to extend its power and to protect its interests. This means that something can be done. And, eventually, something **will** be done. We can only hope that when countries finally begin to push for policy reversals at the margin, those who are now holding the world to ransom do not make good on their threats to respond with massive retaliation. And if they do, we must hope that the world's intellectuals have not been so mystified and suborned that they blame the ensuing disaster on those who dared to begin the reversal of a process that was always bound to lead to disaster.

#### What future awaits the 'fortunate few'?

The second promise of Reich's argument is that globalisation promises the skilled minority a wonderful future of health, wealth and happiness in a stable, dynamic and efficient world. Even though Reich points out that 'the peace of mind potentially offered by platoons of security guards, state-of-the-art alarm systems, and a multitude of prisons is **limited**',<sup>13</sup> there is no doubt that he presents their future as a beguiling and seductive one. Globalisation will serve their long term interests and they are quite rational, from a self interested point of view, to be preparing to 'complete their secession from the union'. Moreover, by doing so, they will not significantly impair their quality of life.

But this vision is based on a narrow, materialistic definition of the quality of life, an extremely individualistic view of the world and a naive view of the political process. In fact, the mismatch between this vision and the actual future is likely to be even greater than that between today's Los Angeles, and the **1994** Los Angeles people would have imagined in the fifties.

The truth is that in an ever more fragmented, volatile and competitive world this minority's gains will be shallow and precarious. Material gains will be offset by other losses, like increased personal and economic insecurity, more fragmented and transitory family and community **rela-**

tionships and an increasing incapacity to protect spiritual, ethical or environmental standards from erosion by the forces of competition. In fact, it is doubtful whether such a society could prevent competitive pressures from pushing people systematically beyond the limits of the law in the desperate struggle for economic survival. Corporate competition would come to resemble the world of organised crime, where people have to take responsibility for their own security and for the enforcement of contracts and the law, as each actor defines them.

Life will become extremely uncertain, even for the fortunate few. Their skills will be constantly threatened by technical change, by competition and by changing patterns of corporate control over assets (physical and financial), the knowledge and the media outlets, needed for the minority to exercise its skills. In short, the markets for those skills will become ever more unstable and oligopolistic. The Russia of the nineties will be the model of this future; a future that will be truly barbaric, as law enforcement is 'privatised', economic security is abolished and trust is all but eliminated. In such a world, even the elite's quality of life would be desperately low by any reasonable definition.

The 'Malibu forever' future that Reich promises the global elite is thus a delusion. In the fiercely individualistic and competitive world that he envisages, society will lose its capacity to manage the resulting centrifugal forces. Efficiency will eventually take a back seat to survival, and technology will lose its lustre and even its value. In a chaotic and barbaric world a computer cannot do much to raise efficiency. Indeed, for most of the people trapped in such a nightmare, it will be just another useless thing you cannot eat.

These issues are politically important because it is not unreasonable to think that, given a clearer appreciation of the future that actually awaits them, many members of the global elite would be willing to sacrifice some personal income in return for the chance to live in diverse, peaceful communities able to satisfy the basic human need for 'both affection, generated in small groups, and respect, gained by activities that are consonant with community values and that respond to shared **concerns**'.<sup>24</sup> Unfortunately, such choices are now being unwittingly foreclosed in the insane scramble for a socially destructive form of efficiency that is being enforced by today's unregulated competitive markets. People must be freed from the misapprehension that increased wealth necessarily means increased choice and, hence, increased happiness. We need to give more thought to the choices foreclosed in the process of attaining that wealth. Too often our political choices are pre-empted by hostages that have been given to fortune in the process of creating undesirable and irrational economic obligations.

As Stephen Marglin has reminded us,

We torture language when we say our young people "choose" to join one or another of the authoritarian or destructive cults that abound. Many of them seem to be searching, however desperately, for the community and family that our single-minded attention to GNP has helped to destroy. In short, rather than expanding the domain of choice uniformly, growth expands choice in some dimensions but restricts it in others.<sup>25</sup>

And globalisation is foreclosing many choices as it shapes the choices of the future. Even if the global elite could continue to enjoy an ever rising aggregate income, it would have to endure its good fortune in a grim world ravaged by crime, social polarisation, political instability, the intensification of work, personal isolation and pervasive economic insecurity. No doubt people would adjust to such a life and they might even come to love it, given the alternative of life among the dispossessed. But that does not mean they would have chosen it had they been given a genuine choice. At the end of the day, what they get will not be what they would have wanted, had they made their choices before the options were decimated. That is why time is of the essence.

### Instability and Inefficiency in a Globalised World

But the news for the global elite and others is even worse than this, since an unregulated global economy is unlikely to remain dynamic and efficient, so that not even the promise of higher aggregate material incomes is likely to be fulfilled. Although most mainstream economists insist on claiming that further economic liberalisation will always tend to increase both efficiency and total output, those claims are based more on ideology and (bad) theory, than on history or science.

Most neoliberals do not appear to realise just how much is implied by their injunction that even a minimalist state must be responsible for contract enforcement. This is not simply a matter of drafting some laws, paying a police force and hiring some prosecutors. It requires the creation of a society in which the vast majority of people are prepared to obey the law voluntarily, settle most of their differences without recourse to the law, or to violence; pay their taxes because they are 'the price of **civilisation**';<sup>26</sup> restrain their search for immediate personal advantage in line with ethical standards; and ultimately define their self interest as members of society, not as pure individuals.

Reich clearly values people's sense of social responsibility but fails to realise that, in its absence, contract enforcement at reasonable cost becomes impossible. And with it goes the promise of efficiency, prosperity and stable growth, on which the prosperity of the skilled minority also depends.

Nor can the contract enforcement function be delegated upwards to the global level as is suggested when people propose global regulation, say, of something like finance. This is to confuse a political task with a technical one. Such regulation has to be embedded in a political process capable of

writing rules with enough legitimacy to allow them to be enforced at reasonable cost and with a minimum of coercion. It is because **globalisation** is not creating such a framework, that the word does not describe a positive process of global construction, but a negative process of national disintegration. Moreover, effective international regulation will only become possible when stable and cohesive nation states, broadly representative of their people, cooperate to establish and enforce mutually agreeable rules at an international level. In the same way as those nation states should be based on smaller, viable communities through which people could exercise their responsibilities as citizens and define themselves a social beings.

The issue of contract enforcement is but one of the many ways in which the social and political context has to be a critically important determinant of economic efficiency. Competition cannot lead to true and sustained efficiency unless it is embedded in a social and political matrix capable of restraining the struggle for economic efficiency sufficiently, to allow society to make genuine choices trading efficiency off against other objectives like environmental protection, social cohesion, political stability or the ability to maintain full employment. But such choices can only be made within political entities that have sufficient sovereignty to enforce them, and that are sufficiently open and democratic to legitimise them. Such entities are termed 'generic nation states' for the purposes of this discussion and they are an essential prerequisite for the efficient functioning of markets.

More broadly, economic theory itself understands quite clearly that the consequences of the deregulation of markets can range from increased efficiency and growth to chronic instability and even crisis, depending on the place, the extent and the context of that deregulation. And the process of globalisation has tended to push deregulation too far, too fast almost everywhere, partly because the debt crises have increased the leverage of those who benefit from globalisation, and partly because the destruction of the sovereign powers of nation states makes it more difficult to manage the resulting pressures in accordance with local circumstances. As a result, it becomes more and more difficult to make good economic or social policy as globalisation increases the distance between the policy makers and the real world. The result is a reminder that 'the quality of information on which all investment decisions must **rely** tends to deteriorate with **distance**'.<sup>27</sup>

Globalisation has made national economic management far more difficult, but it has not created a global economy. Indeed, even in finance, where this process has probably gone furthest, it remains true that 'there are only limited examples of truly global financial services, markets or products'. Moreover, even the trend has not been uniformly in the direction of more globalisation, as indicated in a February 1993 issue of the

AMEX Bank Review, which reported 'an observed retreat of financial firms away from global expansion, returning to **national/local** bases' and then explained this 'observed withdrawal of financial firms from their global ambitions (as) more a reflection of the over capacities in certain **markets**'.<sup>28</sup> Those global markets that do exist are largely unregulated and this has tended to make them relatively volatile, unpredictable and irrational. They have performed poorly by almost any standard; they are partly responsible for the global economy's present inability to return to steady growth; and they are substantially responsible for the disaster that befell so many developing economies in the eighties; and there is every reason to think that they will generate similar, or larger, problems in the future. Certainly the record of the recent past lends little support to the claim that globalisation will foster dynamic economic growth. In fact, fifteen years of aggressive neoliberal deregulation have produced the most disappointing economic performance since the war.

That unregulated markets should have performed so badly should not have come as a surprise. Frank Hahn, writing from a neoclassical perspective, warned in 1982 that the neoliberal 'advocates say much more than even pure theory allows them to say, and infinitely more than the applicability of that theory permits'.<sup>29</sup> In particular, they fail to take adequate account of the dangers posed by the inherent instability of the investment function, whose dependence on highly subjective expectations can potentially lead it to generate large and extremely wasteful deviations from an economically efficient growth path. That is why so many successful countries used various non-economic mechanisms to manage their economies at the national level. His argument is worth citing at some length.

If the invisible hand is to operate there must be sufficient opportunities for intertemporal and contingent intertemporal trade. In fact that there are not enough of these opportunities. The lack of contingent markets means that the market economy is associated with more uncertainty than pure theory allows. The lack of intertemporal markets means that great weight must rest on market expectations. The Rational Expectations hypothesis substitutes an internal and psychic hand for the market. Each individual somehow has learned how the invisible (hand) would have performed if it had been given markets within which to perform. If it is agreed that this is not of high descriptive merit, there is, in fact, no obvious mechanism by which intertemporal decisions can be co-ordinated. This was Keynes's view. I have yet to see it refuted. The French drew the conclusion that they at least required indicative planning. The Japanese have for a long time employed non-market institutions to supplement private investment decisions. In Germany, the banks seem to act as market substitute. In Britain, where politicians now follow gums rather than arguments we are all set to rely on the invisible hand doing a job which, in practice, it will not and cannot do.<sup>30</sup>

Five years later, a paper by Professors Dornbusch and Frankel showed that exchange rates had become far more volatile since their deregulation in the seventies, and that the proportion of those fluctuations that could be explained by changes in the underlying economic fundamentals – ie relative inflation rates, productivity growth, costs of production – was

'close to zero'!<sup>21</sup> The fluctuations were therefore irrational, costly and distorting.

Another study, assessing the performance of deregulated international exchange rate markets led Paul **Krugman** to a forthright and blunt conclusion that stands in sharp contrast to the repeated claims that the deregulation of these markets must yield substantial benefits and poses no speculative risks.

**At this point, belief in the efficiency of the foreign exchange market is a matter of pure faith; there is not a shred of positive evidence that the market is efficient, and . . . similar results obtain for other asset markets. . . that is, both the bond and the stock market. . . . The bottom line is that there is no positive evidence in favour of efficient markets, and if anything a presumption from the data that (these) markets are not efficient. . . . The important conclusion . . . is that we are freed from Friedman's . . . argument. . . that an efficient market could not exhibit destabilizing speculation. . . . Now we know that in fact no evidence supports this hypothesis— that is one maintained purely on faith.**<sup>22</sup>

This is a devastating conclusion for those, including Reich, who confidently assert that globalisation will yield efficiency gains, and that its reversal must yield commensurate losses. In their more candid moments, the World Bank and the IMF also acknowledge the ambiguity of the impact of deregulation. The Bank has even described the seventies lending spree, that created the devastating debt crisis of the eighties, as evidence 'that competitive financial markets . . . can still make mistakes', having already pointed out that deregulated financial markets frequently 'tend towards instability and fraud'."

The IMF, too, has discovered a downside to its financial policy prescriptions. It has warned that financial liberalization 'may . . . result in destabilizing and inefficient capital market speculation';<sup>23</sup> and that the economic recovery of the early nineties has been so slow and hesitant because the collapse of earlier speculative booms has led to 'the wealth losses and financial sector repercussions associated with asset price declines (that) have restrained consumption and investment'.<sup>24</sup> The same point was made rather more forthrightly in 1991 by a senior US banking official who declared that 'the borrowing binge of the past decade is the key reason why lending is tight'.<sup>25</sup>

The problems to which these statements refer are not minor ones. The human, social and economic losses imposed on much of the developing world by the debt crisis of the eighties were enormous, as are the costs of the delayed recovery of the early nineties. Moreover, the mechanisms that produced these problems, as well as the \$5 million annual bonuses for the partners at **Goldman, Sachs**, remain in place and are presently stimulating new speculative asset inflations whose costs will come due in a few years time. Undoubtedly they will again be paid for by the poor and the middle classes of the world through wage reductions, cuts in social services and taxes to fund public bailouts of the same speculators who caused the

problem in the first place, whose losses are, in fact, merely paper losses reflecting the reversal of irrational and unwarranted **speculative** gains.

Only a Gilbert and Sullivan opera could do justice to this global shell game. Until it is written, some passages from a recent IMF report on *International Financial Markets* will serve. Referring to recent difficulties encountered by banks in various industrial countries, the report says,

A crucial question to ask . . . is why after a long postwar period of **stability** have banking problems become so widespread and occurred with such frequency? What is it that induces banks in different countries to abandon – seemingly periodically – the principles of sound **banking**. Although no single answer can do full justice . . . at least one common thread running through many recent **banking** crises merits attention. That thread is the recognition that the competitive pressures unleashed by financial liberalization do not merely increase efficiency; they also carry risks, as banks and other institutions alter their **behaviour** to ward off institutional downsizing.

Faced with a potential downsizing of their operations, many banks responded to this new, less **hospitable** environment by **increasing** the riskiness of their **portfolios**.

**In the end, the increased risks taken by banks** were often exposed and turned into losses by a significant shift in economic conditions. . . . Where these risks were not adequately **protected** . . . the losses subsequently spilled over into the public **domain**.<sup>27</sup>

A rough translation of this tortured language would begin by recalling the warning delivered to the Canadian government by the Chairman of Sun Life Assurance, to the effect that 'a very liberal regulatory regime is an invitation to get yourself into **trouble**'.<sup>28</sup> The 'trouble' in question results from the speculative bubbles often created by the credit expansion made possible by deregulation. Participation in these binges is all but obligatory since fund managers who fail to participate will generally be unemployed long before their caution is vindicated. After all, to most people, \$5 million in the hand makes the number of birds in the bush academic.

Ironically, the cautious fund managers who did not participate in such booms would not even turn out to be right from his institution's, or profit maximising client's point of view, though he would be right from the economy's point of view. Such **boom/bust** cycles are, indeed, highly undesirable and wasteful; distort prices and misallocate capital; redistribute income in a highly regressive manner; and bankrupt many otherwise viable and desirable businesses. But from a narrow institutional perspective he would have missed out on a 'glorious' opportunity to cash in on the run up of the boom and, if he'd been clever enough to bet on the subsequent fall in the futures market, he could have made big money in both directions. George Soros, now famous for making one billion dollars in ten days speculating against the British pound, explained it all in his book *The Alchemy of Money*.

Commercial banks . . . seek to maximize their profits within the framework of existing regulations and they cannot afford to pay **too** much attention to the systemic effects of their activities. A commercial banker who refuses to go after what seems like a profitable business is liable to be pushed aside, and even if a bank decided to abstain there are many others anxious to take its place. Thus, even those who realized that the international lending boom was unsound found themselves obliged to participate or lose their places.

There is an important lesson here: participants are not in a position to prevent a boom from developing even if they recognize that it is bound to lead to a bust. That is true of all **boom/bust** sequences. Abstaining altogether is neither possible nor advisable. For instance, in my analysis of mortgage trusts I clearly predicted a bad end, yet my advice was to buy now because the shares would have to rise substantially before they crashed."

To be fair to Soros, he wrote all this as a warning, making it clear that he considered these events to be wasteful, destructive and inherently undesirable. Indeed, he even identified and advocated the only solution that is available to deal with such problems when he said:

The lesson to be learned is that **financial** markets need to be **supervised**. Only some kind of **intervention**, be it legislative, regulatory, or a gentle hint from a central bank, can prevent **boom/bust** sequences from getting out of **hand**.<sup>43</sup>

Unfortunately, globalisation makes this more difficult by undermining the national capacity to regulate these processes. As a result, **boom/bust** cycles proliferate and expand, leaving Mr. Soros to make more billions in **1993** as one of the most successful hedge fund managers on Wall Street. It was not as if he hadn't warned us.

And the gyrations continue. Asian property and stock market shares are the current favourites. The results will be the same, only more so. And their costs will come on top of those still being borne from the previous cycles. These things don't come cheap, as the IMF reminds us.

When such banking and financial crises occur, their resolution can be costly. For example it has been estimated that the saving and loan crisis on the United States carried a \$180 billion price tag for the tax payer (**equivalent** to over 3 percent of **GDP**).<sup>44</sup>

No wonder governments everywhere have to cut social services and curb their **profligate** spending on education and unemployment insurance. No wonder social democracy is on the run. Somebody has to pay for those \$5 million dollar bonuses!

Eventually these bills will become unpayable. Once wages have been slashed to the bone, unemployment insurance abolished and everything from policing to education privatised, the bailouts will have to stop, since, by then, public sector revenues will have collapsed as the real economy falters under the weight of accumulated debt, the burden of unemployment and weak consumer spending. Then there will be a financial crash, maybe a depression and if we are unlucky, a war. And soon economists will start preaching the benefits of deregulation again. Or maybe not?

The possibility of another depression has even been raised in the pages of *The Economist* which published a special section on international finance that began by noting that, in the eighties, the world economy had undergone a 'decisive change' in which 'many of the boundaries between national financial markets (had been) dissolved'. The results were said to be disturbing, since 'the trend towards financial integration . . . makes exchange rates ever more volatile, harder to control, more disruptive of economic policy-making and ever more of a nuisance to companies that

trade and invest across borders'. In fact, 'financial dread' was said to be 'the mood of the moment', including dread of another depression.

**The changes in international finance of recent years have not made . . . a crisis any less likely. In some ways, quite the reverse. . . . Just as the new international dimension of finance has added to some risks that may help to start a crisis – greater instability in currencies, faster transmission of economic disturbances across borders, new opportunities for leverage, increased susceptibility to the illusion of liquidity and so on – so it has also weakened (or anyway complicated) the traditional remedies of economic policy. In the new world of finance, the seas are rougher and the life-rafts flimsier.**<sup>42</sup>

The bottom line is that unregulated markets are dangerously unstable and ultimately economically inefficient. At the same time, their social and political consequences are both deeply undesirable and ultimately **unsustainable**. In Karl Polanyi's words 'such an institution could not exist for any length of time without annihilating the human and natural substance of **society**'.<sup>43</sup> And globalisation is nothing but a renewed attempt to create such an impossibility. There can be no such thing as one single global economy, since there is – and there could be – no meaningful global political process to manage that market. And without such management, a global market could not function either efficiently or effectively. That is **why**

**it was not simply 'capitalist production' which historically demonstrated its relative superiority in the competitive struggle. It was 'capitalism, as organised in an effective, modern nation state', which must claim this distinction. The qualification is most important.**<sup>44</sup>

For all these reasons, Reich's naively optimistic prognosis for America's (and the globe's) fortunate minorities misses the mark. Even this group has many reasons to be concerned about the future if globalisation continues on its present course. It must be persuaded by argument and by the threat of political opposition to accept a political compromise through which it can regain its social and political legitimacy, in return for agreeing to recreate sovereign political spaces within which capital, labour, and other constituencies can bargain and in which the resulting agreements can be enforced, in which the political process can establish social, political, ethical and environmental priorities and trade them off against efficiency; and in which full employment can be pursued as an overriding priority. In the early post war era, capital was persuaded to accept such an agenda due to the realism inspired by the disaster of the twenties, the depression, the war and the communist threat. We can only hope, this time, a similar result can be achieved with less costly and terrible inducements. The first step is to disabuse the fortunate few of the notion that **all** is well for them. It is not.

Why is the training solution so popular when it can't work?

This brings us to the fourth and last pillar of Reich's liberal version of the neoconservative defence of globalisation, namely the claim that the **major-**

ity of America's **working** people, who are threatened by globalisation, can be 'saved' by training schemes financed by the fortunate few. This claim is crucial, since no ideology could hope to remain hegemonic by promising the majority of the population steady immiserisation, on top of the chronic economic insecurity and the social disintegration people are already being asked to accept as an inevitable part of this lean and mean world. Unfortunately the promise that training will – or even could – protect the threatened majorities of the world from a pervasive decline in their standards of living is totally implausible.

The training gospel has three features that explain its enormous popularity in circles otherwise adamantly opposed to government **intervention** in the economy. It is vague enough that it can be supported by almost everyone; it implicitly places the blame for their plight on the victims; and, if successful in increasing their supply, it will actually reduce the 'privileges' enjoyed by the few workers still able to command a high wage. Let us explore each of these features in turn.

Why the broad appeal? Training is a motherhood issue because it sounds positive but has so little content that it is compatible with any political position. A commitment to training need not lead to any action, partly because it is so difficult to tell whether it has done so. This is because every country is already training people on a large scale; no one knows what sort of training is actually needed in a globalising world; any training initiatives will remain subject to the existing fiscal constraints; and the success or failure of training schemes is very difficult to establish since no one can be expected to forecast the detailed skills required. The market establishes success or failure *ex post*. Hence this commitment need not and often does not lead to significant action or expenditure. At the same time, the training issue can be used to undermine some remaining bastions of opposition to the rollback of the welfare state. As a result, adoption of the training myth can actually lead to 'less than nothing' as far as **working** people are concerned.

For example, the issue can be, and is being, used to undermine the principle of unemployment insurance. If **skills** are the central problem, then the state can limit its responsibility to the provision of some training, however flimsy or irrelevant, and then wash its hands of the unemployed. This represents an abdication of a fundamental social and moral responsibility, in a world in which access to productive assets and opportunities is increasingly restricted by highly concentrated and oligopolistic property rights. And the training myth makes it easier for the state to slide out from under this obligation by diverting unemployment insurance funds to training schemes that would have been created in any case. In addition, the focus on training can also provide a good platform from which to intensify the attack on **working** conditions more generally. Slogans like the need for 'permanent retraining' or for 'lifetime learning' are widely used to describe

and **justify** the casualisation of labour which is creating a world in which workers are paid what it takes to get them to the factory gate each day, hoping the straw boss will give them the nod. This is the ultimate logic of the fully deregulated labour market now being touted as the next big policy issue by the international financial **institutions**.<sup>45</sup> And finally, the training issue provides a good basis from which to push education, even further into a purely instrumentalist path, leaving ideas like education for its own sake, for socialisation or for citizenship, to fall by the wayside. More choices foreclosed!

The second feature that makes the emphasis on training so attractive to many is that it makes the individual responsible for his or her plight. To reject this argument is not to reject the ideal of personal responsibility, or to deny the value of training. It is to question the implicit removal of responsibility from an economic system in which unregulated markets are undermining the social fabric, **misallocating** resources, reducing efficiency on any reasonable definition and destroying people's access to work under conditions compatible with broader social and ethical objectives.

The idea that it is the deficient skills of the unemployed that are the cause of their problem also implies that training could restore full employment – in good jobs! But, this claim really cannot be taken seriously. Since millions of highly trained people are unemployed today, the argument must assume that someone, somewhere knows a different kind of training that would alter this outcome, at an acceptable cost and within an acceptable time frame. But this is simply foolishness, even though there is no shortage of snake oil peddlers claiming to have solutions among the ranks of the management gurus and the 'Training for Success' entrepreneurs.

The third reason for the popularity of the training panacea in right wing circles is the fact that the good jobs now held by Reich's skilled minority, command high wages because of their relative scarcity. If training initiatives had a significant impact on the supply of those skills, this would tend to reduce those wages – or 'privileges'. Although it would also raise the standard of living of some of the marginalised majority, the ultimate result would be to increase the proportion of working people in the marginalised group, at least so long as labour remained in surplus at the global level. This is because in a competitive economy with surplus labour, the wage is determined by labour's supply price, irrespective of its average productivity.

Ultimately, the threat to the majority of the world's working people will only be lifted with the arrival, or the achievement, of global full employment and that is not imminent or likely in the absence of a global political mechanism to make it happen. Until then, globalisation will continue to depress the direct wage, the social wage and the living conditions of most working people and this will intensify if access to productive assets,

including information and knowledge, is placed even more firmly in the hands of large corporate entities that have no explicit social responsibilities and that cannot be directly influenced through democratic political processes. In such a world, the main impact of training will be to reduce the size of the 'fortunate minority' and increase the size of the 'declining majority'.

To solve the unemployment problem, capital and capitalists, must once again be embedded in a system in which the pursuit of profit is undertaken within clearly defined social and political constraints, including the need to construct jobs and careers in ways that accommodate the needs of individuals as people, and the needs of communities as social and cultural entities. In the absence of such conditions, full employment will either remain an unattainable mirage, or be achieved at such a desperately low level of wages and under such deplorable social and working conditions that it will be self-defeating and ultimately even inefficient.

Of course, training could improve the position of specific groups, like Reich's American majority, or maybe Canada's workers, since it is possible for a society to capture a larger share of the good jobs that remain in a slowly growing, 'downsizing' world. However, such success will be largely (even if not entirely) at someone else's expense, and can therefore be expected to lead to increasing conflict. Moreover, success in that struggle is most likely to be achieved by countries able to maintain a high degree of social cohesion and political stability, precisely because efficiency is increasingly a social phenomenon, **depending** on reliable human relations, social stability, good communications and low costs of law enforcement or essential environmental clean ups. Ironically, countries that have achieved success on such a basis, are currently being pressed to alter their policies by countries that have been far less successful, but that have more power. In this way, inferior policies (both economically and socially) are displacing superior ones. In fact a Toronto based consultant recently reported a conversation in which a former **US** trade negotiator is said to have acknowledged that, in his opinion, Japan's industrial policies have been very successful but, since the **US** could not reproduce them, the Japanese would have to be persuaded, or forced, to abandon them. Whether true or not, the report illustrates some of the dangers, and the potential irrationality, one should expect when intense economic rivalry occurs in an unregulated world.

Finally, training must not be treated as a 'cargo cult.'" To be effective, it must always be accompanied by other initiatives and by investment in infrastructure, industry and technology. In fact, a recent comprehensive study of this issue concluded that success is likely only when 'investment in vocational education (occurs) . . . in those skills relevant to rapidly growing industries, and, more generally, in industrially dynamic economies.'" The same was true if education was to have an impact on poverty:

to reduce poverty, the public sector has to invest in education, to plan balanced growth, and to manage an incomes policy that "lifts all boats"."

Of course, the training mystique, like the promise of prosperity, is rapidly losing credibility as growing armies of retrained people wait for the illusory good jobs. Thus Canada, which has strongly encouraged students to study science and engineering for many years, has just been told that

because of the slow economy, cost reductions and corporate efforts to improve productivity, there will be little or no growth in R&D employment (in Canada) over the next five years. . . . (since) the current aim of the corporation is to achieve higher productivity with the same or already diminished number of employees."

To assess the training argument in the face of such evidence, one cannot just 'take everything as given' and tell the frustrated graduates they must make the best of an uncertain world. One needs to acknowledge that the training argument was used to sell a very risky policy to people who feared just such an outcome. Those who claimed that other good jobs would come along, now have a responsibility to justify those claims, not so that we can gloat at their discomfort, but so that people will be a little less gullible next time around.

Ultimately the claim that training would protect the majority never had a chance because it was both politically and analytically wrong. It was politically wrong, because the promised training effort never had a chance of materialising, since financial constraints were bound to get in the way of good intentions;" since the fortunate few were never likely to fund those activities on a charitable basis, (as Reich anticipated); and since many politicians never had any intention of keeping those promises." It was analytically wrong because even if a big training effort had been funded, it would not have solved the problem. In fact, even of the relatively few people that were trained for high skill jobs in Canada, only a few got even close to a well paying, secure job. In the world as presently constructed, training would not have solved the problem even had there been much more of it.

### Protectionism: The Great Taboo of the Postmodern Age

For **all** these reasons, even Reich's sober reassessment of globalisation's promise is far too sanguine. Irreversibility is a threat, not a promise; the global elite's future is not assured; and the majority's immiserisation will not soon be arrested. Barbarism beckons unless the mindless destruction of the social fabric and of existing political identities is arrested, but this cannot begin until the discussion of protectionism can be rescued from the realm of religious fanaticism and returned to that of rational discourse. It has become the great taboo of the age. Economists regularly frighten the children, and each other, with gruesome tales of the ravages inflicted by this unspeakable evil: in the thirties, in the developing world and, **espe-**

cially, in their economic models. As with all irrational taboos, the foundation of this repressed hysteria is pure ideology. The true believers espouse it as a matter of faith, while those whose interests it serves, worship it as the basis of their power.

The endlessly repeated claim is that protectionism, in all its various forms, would reduce welfare, destroy efficiency and increase conflict. That is the message that reaches the people after the complex underlying debates have been simplified for public consumption by the media, the respectable experts and the great institutions, established to pronounce on such matters – and to promote globalisation. To hear them say it, one would think the truth about these matters had been unambiguously established. Thus, the Managing Director of the **IMF** told the world at the end of the disastrous eighties that:

**There is at the present time a kind of silent revolution in the world. More and more countries recognize that there are good policies and there are bad policies . . . that removing all structural impediments to growth is the only way to progress.**<sup>33</sup>

Such blanket assertions cannot begin to be supported by the empirical evidence, by history or even by neoclassical theory. What support they do have stems almost entirely from models constructed on the assumption that economic liberalisation increases efficiency, growth and welfare; models based on a theory that defines optimal outcomes as, 'outcomes produced by perfectly competitive markets'. When economists abandon this tautology and address the real world, blanket condemnations of protection, or of national intervention, turn out to be utterly untenable.

In fact, the case for positive industrial strategies, using a variety of protective devices to build a strong national industrial and technological base, is both historically and theoretically strong. At a minimum, this is because many economies do not possess the internal conditions needed to respond positively and constructively to an intensification of international competition, and 'when the first-best policies are either unavailable or damaging on other dimensions, a proindustry trade regime has a **second-best** role to play'."

The theoretical case for a proactive industrial policy has a long history," and was confirmed once again by the experience of the East Asian **NICs**,<sup>34</sup> leading one authority to remark that

**the typically applied rule of thumb in evaluating infant industry protection – learning periods of about five years and a maximum effective production of 10-20 per cent optimally administered through subsidies rather than tariff or import controls – would seem to be much too conservative, judging at least from the historical experience of South Korea and Taiwan."**

These insights were reflected in the so-called 'new trade theory', which showed that, even within a neoclassical framework, a number of interventionist policies in trade and industry can be shown to enhance efficiency

and strengthen the relative competitive position of the instigating economy, once oligopoly, imperfect information flows, externalities and learning effects are taken into account." However, by undermining the general case for economic liberalisation, this argument opened a **Pandora's Box** of possibilities and reminded everyone how little economists had to contribute to policy discussions in an imperfect, disequilibrium world.

Many economists must therefore have been relieved when these open ended policy conclusions were generally reversed, once the threat of trade (or other?) retaliation was taken into account. Retaliation could be shown to negate both the advantages to the instigating country and the potential efficiency gains. On this basis, the consensus in favour of market deregulation and non-intervention was restored, though with some notable exceptions.<sup>59</sup> Indeed, the case now appeared even stronger because it could claim to have taken full account of real world imperfections.

But there is all the difference in the world between a defence that rests on the intrinsic merits of non-intervention, and one based on the threat of retaliation. The latter is essentially a coercive argument and, moreover, applies only to individual economies making policy choices within a particular international trade regime, that defines the likelihood and the extent of retaliation. In such a case, the threat of retaliation has to be factored into any decision, but even then, it does not have to be accepted as immutable. Trade regimes are subject to change in time.

For a discussion of the merits of particular international trade regimes, the fact that a wide range of interventionist, national policies can be dynamically efficient has far reaching implications, however. If global efficiency and welfare are to be maximised, such trade regimes should give member states enough sovereign power to make use of such dynamically efficient interventionist policies, and protect them against unwarranted retaliation for doing so. That is what the early Bretton Woods agreement attempted to do, with its explicit provision for capital controls and for temporary trade restrictions (when 'material damage' was inflicted on an economy). And it was this feature of the agreement that allowed member states to sustain full employment, and to implement national political compromises on issues like income distribution, working conditions and social conditions. This in turn contributed to the fact that the period during which these rules prevailed was the most stable, egalitarian and successful period of economic growth in history. There is no reason why the world could not do as well in future, if it restored the necessary conditions of national sovereignty. Unfortunately, the international trade regime is currently being pushed in exactly the opposite direction from that required.

As for the historical evidence regarding protection, the two most common generalisations are that the depression of the thirties conclusively demonstrated the evils of nationalism and protection, and that the great

success of the early post war period illustrates the desirability of trade liberalisation. Neither claim is persuasive.

Polanyi's interpretation of the depression is very different and far more persuasive. It argues that the terrible events of the thirties were the painful and ultimately inevitable result of the excessive economic liberalisation of the twenties, which had produced ever greater economic, social and political turmoil. The resulting contradictions eventually triggered political upheavals in which societies reasserted control over their economies in ways ranging from those of the Fascists, to the New Deal and to Sweden's social democracy.<sup>60</sup>

This argument is far more plausible than that which claims that, after decades of success and prosperity, governments suddenly abandoned free trade in favour of protectionism for no material reason, and then added insult to injury by massively deflating their economies in the midst of a recession.<sup>61</sup> In fact, Polanyi's account brilliantly documents the world's long desperate struggle, under the leadership of the League of Nations, to use neoliberal policies to resolve the persistent contradictions then afflicting the world economy; and as, despite the intensity and the persistence of these efforts, the debts, the economic imbalances and the social dislocation continued to grow, eventually producing painful and, in some cases, barbaric policy reversals.

Polanyi's account of the twenties ought to sound eerily familiar to students of today's crisis. The problems that had accumulated and that eventually had to be resolved, included: an explosion of unserviceable debt that eventually induced economic stagnation, low investment and rising unemployment; extreme economic instability, leading to speculative boom/bust cycles that misallocated resources; fuelled economic insecurity and destroyed otherwise viable assets and skills; and a dramatic increase in income inequality, which undermined the moral and political legitimacy of political and economic systems.

The converse claim that the extended economic boom of the post-war period can be ascribed to economic liberalisation was always less well founded and has been further discredited by the deplorable economic, social and political results associated with accelerated economic deregulation over the past two decades. Indeed, these have recently persuaded even *The Economist* to call for the restoration of some national controls over capital,<sup>62</sup> recalling an earlier assessment that had appeared in *The Financial Times* in the wake of the 1987 stock market crash, which had echoed Polanyi's assessment of the depression, by suggesting that there might now be an urgent need to reassess the merits of deregulation and globalisation.

*The post-war economic system was designed by people who had endured the chaos of the 1930s. They may have erred too far on the side of controls and constraints on markets – although it is at least arguable that the "golden era" of trade expansion was possible only because the regime governing capital flows was so illiberal (emphasis added).*

It now seems increasingly clear, however, that the reaction against government intervention and managed markets in the 1970s and early 1980s went too far. There was a pervasive retreat from responsibility.<sup>43</sup>

By now that retreat from responsibility has gone very much further and the difficulties standing in the way of its restoration have grown; but so has the recognition that there is a problem and that it requires a solution. This will eventually provide the basis for the political response that is needed. And that political response can only occur within sovereign political spaces, within which a democratic process can define and implement the kind of framework that is required if markets are to serve societies, rather than destroying them.

### Towards a Positive Nationalism

So far this paper has argued that globalisation is essentially a destructive process, creating a world that will not be stable, efficient or socially desirable. As it gradually destroys the capacity of nation states to manage economic processes to some broad social purpose, it does not, and cannot, replace these capacities at a global level. As a result the competitive process will become increasingly unstable and destructive, threatening social cohesion, political stability and human welfare. Even economic efficiency, the one thing the process was supposed to deliver with certainty, is increasingly undermined by instability, uncertainty, speculation, the persistent creation of excess capacity and the stifling presence of unserviceable mountains of debt. And there is no reason to believe that this process is about to stabilise. In fact, the opposite is more likely, as contradictions grow more severe and as governments further lose their ability to deal with domestic fiscal problems and external obligations in ways that can be reconciled either with their social responsibilities or with the need for internal political stability.

The current situation is made more dangerous because the international **financial** institutions have clearly decided that the way out of this impasse is to accelerate further the deregulation of markets, focusing especially on the deregulation of labour markets which is likely to have particularly explosive social and political consequences. It is nothing short of incredible, that these institutions are advocating the US labour market model for Europe, thereby revealing the full extent of their inability to distinguish between socially destructive and socially desirable sources of efficiency. Together with their demonstrated willingness to accept unlimited social, human and economic costs as the price of transition in Eastern Europe, no one can doubt their open ended commitment to the ideology of the market. Although, within that paradigm they would prefer to see welfare conditions improve, this is a secondary concern which must be addressed within the framework of 'sound economic policies'. They do not entertain the thought that, in an unregulated world, it is those 'sound policies' that

create the 'facts of economic life' within which welfare **services**, labour laws, social services and progressive income taxes have to be progressively dismantled, because 'efficiency' demands it.

The solution to this crisis will not, therefore, come from those international institutions, as some optimists believe. And this is not only because of their blinkered ideological approach, but also because they are not embedded in a political process that could make their policies truly sensitive to local circumstances, or that could lend those policies the legitimacy they need to be effectively implementable. 'Generic nation states' have been defined as the political entities that must fulfill those tasks. But what are their prospects? Is their resurgence a real possibility, or is it a functionalist dream? And if their revival is possible, is it likely to take a positive or desirable form? The answers to these questions are far from clear.

The need for such states arises from the fact that unregulated markets are not viable, not efficient and not socially desirable. That is why the link between nation state and market has been so very close from the outset; why both emerged more or less simultaneously in history. Mercantilism was the economic ideology of the monarchical state, but its limitations were exposed with the accelerated growth of rationalism and commerce in the eighteenth century. This new world demanded a new way of defining the link between the individual and society, as the divine right of hereditary status and the absolute teaching of the church lost their power to induce people to internalise the rules and values of the social order. A new basis had to be found for providing people with the possibility of defining themselves as members of 'a society', as social beings. And this vacuum was filled intellectually by theories ranging from Rousseau's social contract, in which the object was achieved almost entirely through positive inducement (the carrot), to the Hobbesian state, reluctantly accepted as a necessary evil (the stick). In practice, the void was filled by nationalism, a term that first came into use in the middle of the eighteenth century and that dominated the landscape by its end. As compared to the monarchical state, the nation was an egalitarian, populist concept, and those who brought it into use tended to equate 'nation' with 'people'.

**It was the 1750s . . . that saw new intellectual distinctions being made between the monarchical state (the government) and the nation. In 1755 an obscure (French) cleric named G. F. Coyer, condemning his more sophisticated contemporaries, began to preach that no love was so pure as that felt for the nation, and that this embraced both the state and all orders of society. Amidst the growth of French cultural nationalism. . . a new political attitude, a "new patriotism", . . . was coming into existence, pairing together king and the whole French people as the proper objects of patriotic feeling'. These inchoate beginnings appear to have culminated in the concept of 'nationalism' only after the French Revolution had brought these beliefs to power – and to grief – in a major nation.<sup>64</sup>**

Ever since, the nation state has been an essential mechanism for the management of increasingly complex societies and economies. Some regard it as the root of all evil; others as a means through which humanity

can aspire to the highest ideals of selfless devotion to society. And both may be right, since nationalism has probably approximated both judgments at some time or other. The truth is that the political content of this political entity is undefined, and must remain so. It is, after **all**, one of the purposes and attractions of national sovereignty to enable societies to make choices that allow them to be different; to live by different cultural or social norms; to set different priorities between efficiency and other social objectives.

But why, at the dawn of the twenty-first century, should we pin our hopes of rescuing the social vision with which we began, on the nation state? Has this particular political and ideological solution to the problem of reconciling our individuality with our essence as social beings, not been overtaken by history? And do we not know that the nation state has historically been merely a vehicle for capital to enforce the logic of the market, while covering its tracks with fine sounding phrases about social responsibility and patriotism?

These fundamental questions have to be incorporated into the discussion of the 'generic nation state'. The question that is posed by history, is: In what form can we realistically hope, at the end of the twentieth century, to redefine and reconstruct political entities that would allow us to manage the increasingly destructive and irrational forces of global competition, while providing individuals with the capacity to define themselves as social beings and while containing the risk of **conflict** between such political entities? The 'generic nation state' is defined as any political entity that performs the first two of these functions. The answer to the third has to be defined in terms of some positive model of international cooperation, that will protect the sovereignty of those generic states and discourage predatory behaviour through collective security provisions.

This paper cannot hope to deal adequately with these enormous issues. It will merely reflect on some of the difficulties that will be encountered as we prepare to meet this challenge. Three questions will be addressed: Why nation states? What are the prospects for a restoration of national sovereignty? And, what are the prospects for a restoration of a positive, humane nationalism?

The focus on nation states derives primarily ~~from~~ a pragmatism ~~born~~ of a total inability to conceive, let alone construct, a meaningful political process at the global level. The truth is that **Trotsky** and the international socialists were always right, analytically, but their message was always politically useless. In fact, it tended to lead either to paralysis or to a **Warrenite**<sup>65</sup> acceptance of globalisation as a positive process, left to develop the forces of production and the conditions for socialism. Well, we are there now. The forces of production have been developed to a level that unquestionably makes it possible to provide all people with a comfortable material existence with only a moderate expenditure of effort by each

person. But where are the conditions for socialism? As we address the question of how to bring those forces of production under social control, we must begin somewhere, and it cannot be the world. Not only would this be utterly impractical, it would imply and require a degree of centralisation in a political discussion and organisation that would be extremely dangerous, and very difficult to reconcile with the diversity that is surely one of our objectives. In short, just as global financial regulation can only be built on effective national regulatory systems, so the global management of the competitive process, or of a socialist economy, must be built on sub global units, namely our 'generic nation states'.

The emphasis on 'generic' nation states makes the point that these need not be the existing nations, as bequeathed by history; that it is possible for these to be either larger, supranational entities (like Europe), or smaller, sub-national ones (like Croatia). However, this does not mean that such changes should, or could, be achieved or undertaken lightly. They are always fraught with enormous dangers and will almost always be positively retrograde when they lead to a demand for ethnically defined states, on the spurious grounds that only such states are legitimate or viable. The current proliferation of such demands reflects the growing instability and economic insecurity spawned by globalisation and the growing inability of existing, territorial states to manage the regional or ethnic issues within their borders. But the creation of ethnic splinter states will not solve these problems and will generally create new and even bigger ones. After all these little states will still have the global market to contend with. In short, the resurgence of the ethnic state must be regarded as a major step in the direction of barbarism. Once the rights of citizenship depend on our ethnic genealogy, we will all end up living in apartheid South Africa.

The future must lie in restoring the sovereignty of existing territorial states, within which such ideals as equality, non racism and an unqualified acceptance of a sense of social responsibility are, at least, conceivable and realistic objectives. That sovereignty must then be used to create the political space that is needed to restore the gentler, more humane societies that people clearly want, and that they know to be possible. On such secure foundations, such nations could then possibly seek to unite with others in larger regional political entities (such as Europe), once a sufficiently coherent political process has allowed the conditions for democratic legitimacy to be established at that higher level. The power to manage the centrifugal forces of competition should then reside at these higher levels, embedded in regional political process. And the space thereby created for social and cultural diversity should be used to give more power to lower levels of government and administration, and to the organs of civil society. The principle of subsidiarity is a useful way of thinking about this devolution of power, although its real impact will naturally depend on the way it is actually defined in practice."

But even if a focus on the nation state could be defended, is it a feasible or realistic objective today? No doubt much conspires against it. Indeed, most of this paper has shown that globalisation has substantially undermined the material base of the nation state and has erected serious institutional obstacles to block attempts to reverse this process. However, it has also shown that those developments are not inherently irreversible, and that the growing conflict between the demands of an increasingly unstable and illegitimate economic system and gradually disintegrating social systems, are presently transforming the political landscape and shifting the limits of the politically possible. It is in this context that it is vitally important to channel people's rising anger in a positive and constructive direction, rather than allowing it to sweep them away on the rising tide of fascism, monarchism, religious fundamentalism or ethnic nationalism.

Of course, the fate of recent social democratic governments shows clearly just how difficult it is to realise any alternative vision, no matter how moderate, in the world as presently constructed. But these failures must merely lead to a redoubling of our efforts, secure in the knowledge that the consequences of the present policies will continue to swell the ranks of the politically disaffected and will continue to intensify and legitimate the search for an alternative. After all, who would have thought that, in 1992, one would find a long time correspondent of the *Financial Times* of London considering the nationalisation of the banks as a serious policy option for Britain?

**The latest analysis from the invaluable Professor Tim Congdon . . . which examines the current state of British banks, savings institutions and insurance companies. . . describes a catastrophe waiting to happen. . . This crisis of the financial intermediaries rules out any domestic recovery for years, even assuming that it can be contained. Congdon puts the earliest date at the late 1990s. That could be optimistic. The private sector's boot-straps are broken. . . There is one tried and proved remedy: bank nationalisation.<sup>67</sup>**

In short, people are seriously discussing policy choices that would have been deemed unthinkable only a few years ago. This does not mean that they are now on the side of the people. They may want to nationalise the banks in order to bail out the speculators with public money. But the change is significant because it means that new political coalitions are possible, new possibilities are arising. Moreover, through links between similar coalitions in many nations, one can begin to discuss the shape of a new set of international institutions, that must one day be constructed to secure and protect national sovereignty in a context where member states are encouraged and advised to use their sovereign powers to **pursue** domestic full employment growth, as an overriding priority, and to reconcile their other objectives and their trading relationships with that commitment.

Such initiatives may not succeed immediately, since the obstacles now standing in their way are formidable. But the struggle must continue, because the current process is not viable and, unless the explosive political forces now being generated, can be channelled in a positive direction, barbarism may become the only option. Let us remember that it is not the option people would choose. And that if they appear to choose it at some stage, it will be because they were given the choice only when it was no longer a choice, but a *fait accompli*.

And so we come to the final question: What chance of a positive, constructive nationalism? Again, there can be no doubt that the odds are long. The post war world demonstrated that it is possible for nations to provide a context within which working people can strike bargains with capital that can transform their lives, allowing them to live a better, more secure life, working in more pleasant working conditions for higher wages and in relatively stable communities. Historically these gains were enormous, though enormous problems also remained. But it represented a historic achievement, and there was no reason, in principle, why that process could not have continued, if those political entities had retained sufficient control of their economies to allow those national bargaining processes to continue. But once capital slipped out from under these arrangements, it soon undermined them through the forces of unregulated international competition. The rest, as they say, is history.

Now some would argue, with some reason, that it is not possible to manage capital. That the dissolution of that post war phase of stable, widespread prosperity was inevitable and that social democrats never seem to learn. They make a very important point that needs to be addressed when we discuss the kinds of controls that should and could be exercised over the competitive process in order to ensure that it can serve our social objectives. Here, another version of the principle of subsidiarity might again be helpful: allow as much freedom for decentralised decision making in the market, as is compatible with the objective of a dynamic, stable economy capable of functioning within socially and politically defined constraints reflecting social, political, cultural, ethical and environmental objectives. No doubt that question will never be answered definitively, but then, only a fool would expect it to be. Bertrand Russell once said: 'Education is a process of becoming confused at a higher level'. To which we need only add that: 'History is the ultimate process of education'.

#### NOTES

1. S. P. Huntington (1993) 'The Clash of Civilizations' *Foreign Affairs*, Summer.
2. S. P. Huntington (1993) 'The Clash of Civilizations' *Foreign Affairs*, Summer. It is surely appropriate that this prediction of inevitable culture wars should emanate from the same

- mind that coined the phrase 'forced draft urbanisation' to describe the flood of refugees created by U.S. bombing and defoliation campaigns at the height of the Vietnam war. Since urbanisation was universally associated with 'development', he described this displacement of rural people as an unexpected benefit of those campaigns.
3. R. D. Kaplan, 'The Coming Anarchy' *Atlantic Monthly*, February 1994, pp. 46 and 48. All of the following quotations are from this article.
  4. World Bank (1981) *Accelerated Development in Sub-Saharan Africa: an Agenda for Action*, World Bank: Washington D.C.; also known as 'The Berg Report', after its chief author Elliot Berg.
  5. M. A. **Bienefeld** (1983) 'Efficiency, Expertise, the NICs and the Accelerated Development Report', *IDS Bulletin*, 14:1, Institute of Development Studies: Sussex UK, pp. 18 and 22.
  6. World Bank (1985) *World Development Report 1985*, World Bank: Washington D.C., p. 2.
  7. Cited in *The Toronto Globe and Mail*, 22nd June 1988.
  8. This rose by over **700 percent** in 1993 and was, therefore, termed the most successful stock market in some of the financial press. No doubt this was meant to be whimsical. The 'market' trades in the shares of seven firms, and is a particularly crass example of a speculatively driven, **destabilising** and irrational phenomenon.
  9. Editorial *The Nation*, 3/10 January, 1994, p. 3/4.
  10. The World Bank has actually described the policy prescriptions which it imposed on its clients during the first decade of its policy lending, as 'text **book**' policies which took inadequate account of local social and economic realities. World Bank, *Adjustment Lending: An Evaluation of Ten Years of Experience*, Washington, D.C.: World Bank, 1988, p. 66.
  11. The arguments presented in Reich's book attracted special attention because the author was a leading liberal democrat, who has since become Secretary of Labour in an administration that garnered much electoral support by voicing 'grave, but unspecified' reservations about NAFTA, and then proceeded to make its passage an overriding policy priority, achieving its Congressional victory on the basis of a Republican majority voting with Democratic minority. R. B. Reich, *The Work of Nations*, New York: Vintage Books, 1992. The quotations which follow all come from pages 3 to 8, or 321 to 323.
  12. Laurence Harris *The (London) Financial Times*, October, 1992.
  13. Reich, *op. cit.*, p. 312.
  14. This has been especially true of Japan and South Korea. Thus a special report on 'offshore banking in Asia', in the *Far Eastern Economic Review*, described the rapid expansion of this phenomenon in each of seven Asian countries and then concluded with a report on Japan which declared that in Japan such flows were still almost completely under the control of the government authorities. Typically, the Review then proceeded to denounce the 'anachronistic bureaucratic culture' that was clearly impeding progress in Japan. This despite the fact that the section had begun by announcing that the entire offshore phenomenon was primarily driven by the desire to avoid taxation! *Far Eastern Economic Review*.
  15. Obviously if one can deregulate slowly, then the degree of regulation is matter of policy choice, not a technological given. These issues are more extensively discussed in M. A. **Bienefeld** 'Financial Deregulation: Disarming the Nation State', *Studies in Political Economy*, No. 37, Spring 1992.
  16. A. Smith, *The Roaring Eighties*, Toronto: Summit Books, 1988, p. 19.
  17. **Amey Stone**, 'Sorry, This Year your bonus is only . . . \$5 million', *Business Week*, 17 January 1994, p. 27.
  18. A. Donner, 'Canada's Economic and industrial Outlook', Speaking Notes (mimeo), January 1994.
  19. J. Toporowski, 'Why the World needs a Financial Crash' *The (London) Financial Times*, February 1986, p. 21.
  20. C. Raghavan, *Recolonization: GATT, the Uruguay Round and the Third World*, London: Zed Books, 1990, p. 45.

21. **CUFTA**, NAFTA and the Uruguay Round were all negotiated against the background of the implicit or explicit threat of trade sanctions. The fact that these threats were usually not 'official' threats made by the negotiating parties does not preclude their effectiveness.
22. Pat Carney as cited in *The Toronto Globe and Mail*.
23. Reich, *op. cit.*, p. 302.
24. A. Etzioni, *An Immodest Agenda: Rebuilding America Before the 21st Century*, Toronto: McGraw-Hill, 1983, p. 33.
25. S. Marglin, 'The Wealth of Nations' in *The New York Review*, XXXI:12, July 19, 1994, pp. 41-44.-(A' review of I. M. D. Little *Economic Development: Theory, Policy, and International Relations*, New York: Basic Books, 1984)
26. This felicitous phrase was coined by one of FDR's advisors and is a useful antidote to the fecklessly selfish messages emanating from the tax revolts of the neoliberal age.
27. Economic Council of Canada. *A New Frontier: Globalization and Canada's Financial Markets*, Ottawa, 1989, p. 25.
28. AMEX Bank Review, *Globalisation, Regional Blocks and Local Finance*, 20:2, 22 February 1993.
29. F. Hahn 'Reflections on the Invisible Hand', *Lloyd's Bank Review*, No. 142, April 1982, p. 20.
30. *Ibid.*, p. 12.
31. R. Dornbusch and J. Frankel 'The Flexible Exchange Rate System: Experience and Alternatives', Paper presented to the International Economic Association Basle Round Table conference on *Survival and Growth in a Polycentric Economy*, October 1987.
32. P. Krugman 'The Case for Stabilizing Exchange Rates', *The Oxford Review of Economic Policy*, 15:3, Autumn 1989, pp. 65-66.
33. World Bank, *World Development Report 1989*, World Bank: Washington D.C., p. 4.
34. IMF, *Staff Studies for the World Economic Outlook*, Washington D.C.: IMF, August 1989, pp. 8-9.
35. IMF, *World Economic Outlook*, IMF: Washington D.C., October 1993, p. 10.
36. *The Toronto Globe and Mail*, 8 October 1991, p. B6.
37. IMF, *International Financial Markets: Part II. Systemic Issues in International Finance*, IMF: Washington D.C., pp. 2/3.
38. John McNeil, Chairman of Sun Life Assurance Co. of Canada as cited in K. Dougherty, 'Open war feared in finance reform', *The (Toronto) Financial Post*, 13 November 1990.
39. G. Soros, *The Alchemy of Finance*, Toronto: Simon and Shuster, 1987, p. 100.
40. *Ibid.*, p. 101.
41. IMF, *International Financial Markets: Part II. Systemic Issues in International Finance*, IMF: Washington D.C., p. 2.
42. 'Peaceful Co-existence' in 'World Economy: Survey' section, *The Economist*, 19th September 1992, p. 46.
43. K. Polanyi, *The Great Transformation*, p. 3.
44. M. A. Bienefeld 'The International Context for National Development Strategies: Constraints and Opportunities in a Changing World' in M. A. Bienefeld and M. Godfrey (eds) *The Struggle for Development*, Toronto: Wiley, 1982, p. 31.
45. IMF World Economic Outlook, IMF: Washington D.C., October 1993, Chapter IV.
46. For a fuller discussion of this issue see: M. A. Bienefeld 'Basic Needs & the Competitive Economy' *IDS Bulletin, Sussex (England)*: Institute of Development Studies (University of Sussex), 9:4, June 1978; and M. A. Bienefeld 'The International Context for National Development Strategies: Constraints and Opportunities in a Changing World' in M. A. Bienefeld and M. Godfrey (eds) *The Struggle for Development*, Toronto: Wiley, 1982.
47. The term stems from several documented instances in which residents of some remote Pacific islands, responded to the cessation of air traffic at the end of WWII by clearing 'runways' in the bush, hoping that this would bring back the planes on which they had come to depend for many things.
48. W. H. Haddad, M. Carnoy et al 'Education and Development: Evidence for New Priorities', *World Bank Discussion Paper No. 95*, Washington D.C.: World Bank, 1990, p. 49.
49. *Ibid.*, p. 15.

50. P. Hadelkel 'Future bleak for R&D students' *The Onawa Citizen*, 24 December 1993, p. F1. The article summarises the findings of a survey of the research and development spending plans of 160 companies, undertaken by the Conference Board of Canada.
51. The mainstream would argue that these financial constraints would have been worse without their liberalisation policies. However, this claim is generally no more than a pure tautology, reflecting their unshakeable, but indefensible, faith in the idea that freely functioning markets yield optimal results. The neoclassical theory of the second best shows that this faith is utterly misplaced when applied to the real world. It shows that even if one accepts all of the restrictive and unreal assumptions of that theory, it is impossible to say anything about how the removal of some market imperfections will affect a world with many such imperfections. The result may be an increase or a decrease in both welfare and efficiency. In the real world, on the other hand, we have seen that leading neoclassical theorists, the World Bank, the IMF and The Economist all accept that it is likely that the liberalisation of the global economy – and especially that of global financial markets – has led to unnecessary **instability**, excessively high risk taking, inordinately high interest rates, an extensive misallocation of resources reflected in a **stifling** burden of uncollectible debt and unwarranted and unethical shifts in income distribution.
52. Maybe the most crass example of this process was the promise of 'special **compensation**' for Canadians who stood to lose their jobs as a result of the **CUFTA**. This was much advertised and promised and played a significant role in calming people's fears. Then, immediately after the agreement was signed, the government announced that it could not keep this promise because it was impossible to **tell** which people lost their jobs as result of the agreement, and which lost their jobs for other reasons. The case is noteworthy because it is so obvious that the government was fully aware of this difficulty from the outset, and because it did not feel the need to mince words or to allow a decent interval to elapse before telling people they had been had.
53. IMF, *IMF Survey*, 18 October 1989, p. 290.
54. D. Rodrik, 'Conceptual Issues in the Design of Trade Policy for Industrialization', *World Development*, 20:3, 1992, p. 312.
55. F. List, R. G. Harris, *Trade, Industrial Policy and International Competition*, Toronto: UofT Press, 1985.
56. R. Wade *Governing the Market*, Stanford University Press, 1992.
57. H. D. Evans *Comparative Advantage and Growth: Trade and Development in Theory and Practice*, London: Harvester Wheatsheaf, 1989, p. 309.
58. P. **Krugman**, 'Scale Economies, Product Differentiation, and the Pattern of Trade', *American Economic Review*, Vol. 70, 1980, pp. 950–59.
59. Some neoclassical economists did not share this view and concluded that, even after accepting the risks of retaliation, there was still a case to be made for 'targeted, ~~firm~~ specific intervention' designed to strengthen specific, high value added parts of the manufacturing sector. In Canada this view eloquently and forcefully presented by Professor Richard Harris in a study written for the *Royal Commission on the Economic Union and Development Prospects* ('the McDonald Commission'). However, the Commissioners, in their wisdom, summarily dismissed this argument without refuting any of its central propositions. See R. G. Harris, *Trade, Industrial Policy and International Competition*, Toronto: UofT Press, 1985.
60. For a fuller discussion of this argument and of its relevance to the current crisis, see M. A. Bienefeld, 'The Lessons of History and the Developing World', *Monthly Review*, 41:3, July–August 1989.
61. **Kindleberger**. Galbraith.
62. 'Peaceful Co-existence' in 'World Economy: Survey' section, *The Economist*, 19th September 1992, p. 46.
63. M. Prowse, 'The **message** of the markets', *The (British) Financial Times*, 24th October 1987, p Weekend FT 1.
64. G. **Newman**, *The Rise of English Nationalism*, London: St Martin's Press, 1987, pp. 162–163.
65. Bill Warren *Imperialism: Pioneer of Capitalism*.

66. Subsidiarity is defined as a principle which states that, given certain defined objectives, power should remain at the most decentralised level that is compatible with their successful achievement.
67. L. Harris, 'Time to nationalise private sector debt', *The (London) Financial Times*, 19th October 1992, p. 23.