

# WORKERS NORTH AND SOUTH

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One of the most puzzling developments of the closing decades of the twentieth century has been the precipitous decline of working-class consciousness and organization at a time of great numerical expansion of the world proletariat. What is most puzzling about this development is that it occurred in the wake of a deep crisis of global capitalism. It was not unreasonable to expect that the capitalist crisis of the 1970s would enhance rather than dampen the class consciousness of the expanding world proletariat. In the 1980s and 1990s, the crisis of capital turned instead into a crisis of labour, resulting in the destruction or fundamental restructuring of all the working-class organizations that had formed and consolidated over the preceding century.

The purpose of this paper is to highlight the relationship between the unevenness of capitalist development on a world scale and processes of working-class formation both before and during the current crisis. Our main argument is that, contrary to widespread opinion, the so-called North–South divide continues to constitute (as it has throughout the twentieth century) the main obstacle to the formation of a homogeneous world proletarian condition. In spite of the relocation of industrial activities from North to South typical of the current crisis, conditions of working-class formation remain thoroughly dependent on the huge and still widening gap that separates the wealth, status and power of a relatively small number of Western countries from those of the countries that contain the vast majority of the world's population. Any meaningful attempt to reconstruct socialist politics must put the overcoming of this gap at the centre of its theoretical and practical concerns.

## THE RISE AND DEMISE OF THE WORLD LABOUR MOVEMENT

The basic facts of the world labour movement in the twentieth century can be summed up in six propositions:

(1) Workers' rebellions have been a constant of recorded world history. Only in the twentieth century, however, did labour movements become a force capable of having a distinct and significant impact on world politics. They became such a force through a long-drawn out process that began in the course of the Great Depression of 1873–96 and materialized more than half a century later in a fundamental restructuring of the dominant strategies, structures and mode of operation of world capitalism. This fundamental restructuring occurred with the establishment under US hegemony of what Aristide Zolberg has characterized as a 'labour friendly' international regime.<sup>1</sup> To be sure, the 'labour friendly' reforms instituted with the establishment of US hegemony—e.g., macroeconomic policies favouring full employment—went hand-in-hand with fierce repression of any sectors of the labour movement that sought a deeper social transformation than the postwar social contract offered. Nevertheless, the reforms instituted under US hegemony marked a significant transformation in comparison with the *laissez-faire* model of global regulation characteristic of the period of British world hegemony.<sup>2</sup>

(2) The labour movements that forced this metamorphosis upon world capitalism developed along two distinct and increasingly divergent paths. One was the predominantly 'social' path of movements that nested at the point of production and whose main weapon of struggle was the disruptive power that mass production puts in the hands of strategically placed workers. It originated in late-nineteenth-century Britain but assumed almost ideal-typical form in the United States. The other was the predominantly 'political' path of movements that nested in the bureaucratic structures of political parties and whose main weapon of struggle was the seizure of state power and the rapid industrialization/modernization of the states that fell under their control. It originated in Continental Europe, most notably in Germany, but assumed its ideal-typical form in the USSR.<sup>3</sup>

(3) The strengthening of labour movements along both paths occurred in the context of escalating inter-imperialist conflicts among the world's leading capitalist states. In the first half of the twentieth century the temporal profile of labour unrest in 'core' capitalist countries was thoroughly shaped by the two world wars. The world wars were part of a series of 'vicious circles' of domestic and international conflict which resulted in major waves of labour unrest and revolutions. Both world wars are characterized by a similar pattern: overt labour militancy rose on the eve of the wars, declined temporarily during the wars themselves, and then exploded in their aftermath.<sup>4</sup> The Russian Revolution took place during the First World War wave of labour militancy, while the aftermath of the Second World War was associated with the spread of the Communist world to Eastern Europe, China, North Korea and Vietnam. It was

the combined impact of the post-Second World War explosion of labour unrest in core capitalist countries and the spread of Communist revolution in more peripheral countries that brought about the establishment of the US-sponsored labour-friendly international regime.<sup>5</sup>

(4) Inter-imperialist conflicts created a favourable environment not just for the explosion of labour unrest in wealthier countries and the spread of Communist revolution in poorer countries. Equally if not more important, they created a favourable environment for a generalized ‘revolt against the West’—in Geoffrey Barraclough’s assessment ‘the surest sign of the advent of a new era.’<sup>6</sup> Workers’ struggles often played a key role in the revolt, including demands by Third World workers for the extension to the colonies of extant living and working standards in metropolitan countries.<sup>7</sup> But it became clear to both the colonizing powers and the emerging hegemonic power that such an extension of rights would be far too expensive. Thus, the ‘labour friendly’ international regime that emerged at the end of the Second World War was not meant to include the forming (or re-forming) nations of the colonial and semi-colonial world. High mass consumption and full employment—the touchstones of the welfare state—were said to be beyond the reach of their ‘underdeveloped’ economies. What the US promised these nations instead, in direct competition with the USSR, was ‘national self-determination’ (that is, juridical sovereignty in a greatly expanded interstate system) and ‘development’ (that is, assistance in catching up with the standards of wealth established by the core capitalist countries).<sup>8</sup> They were promised, in President Truman’s words, a global ‘Fair Deal’ to be achieved through ‘a wider and more vigorous application of modern scientific and technological knowledge.’<sup>9</sup>

(5) The ‘labour-friendly’ (for rich countries) and ‘development-friendly’ (for poor countries) international regime established under US hegemony was quite successful in staving off the multiple crises that had destabilized world capitalism ever since the outbreak of the First World War. For about twenty years—during the so-called Golden Age of Capitalism of the 1950s and 1960s—labour unrest in core countries and communist revolution in more peripheral countries were contained. According to Thomas McCormick this was ‘the most sustained and profitable period of economic growth in the history of world capitalism.’<sup>10</sup> Whether or not this was indeed the case, the Golden Age of Capitalism, like comparable earlier periods of rapid growth of world trade and production, ended in a general crisis of over-accumulation. What was different in this crisis in comparison with analogous earlier ones is that the struggles of subordinate social groups (labour included) for a greater share of the pie was a driving force rather than a late development of the crisis. In earlier crises, the driving force was an intensification of inter-capitalist competition. This intensification, in turn, led to an intensification of social conflicts. In the late 1960s and early 1970s, in contrast, an explosion of social conflicts played a role in precipitating the crisis prior to the intensification of competition.<sup>11</sup>

(6) The deep capitalist crisis of the 1970s was first and foremost a reflection of the inability of world capitalism as instituted under US hegemony to deliver on the promises of a global New Deal—that is, as Immanuel Wallerstein has put it, to accommodate ‘the combined demands of the Third World (for relatively little per person but for a lot of people) and the Western working class (for relatively few people but for quite a lot per person).’<sup>12</sup> Throughout the 1970s, these combined demands put considerable downward pressure on returns to capital. US attempts to counter this pressure through loose monetary policies backfired, leading to an escalation of inflation at home and a weakening of the US dollar in world financial markets. It was only between 1979 and 1982 that the crisis was partially resolved through a radical change in US policies. This radical change consisted of a liquidation of the labour- and development-friendly international regime of the preceding thirty years in favour of a capital-friendly international regime reminiscent of late nineteenth- and early twentieth-century *laissez faire* capitalism.<sup>13</sup> Under the new regime, the crisis of capitalism quickly turned into a crisis of organized labour and of the welfare state in rich countries, and the crisis of Communism and of the developmental state in poorer countries. The collapse of Soviet Communism was only an episode in this double crisis.

#### GLOBALIZATION, LABOUR RIGHTS AND DEVELOPMENT

Three years before the unravelling of the Soviet-centred Second World, Nigel Harris announced that the emergence of ‘a global manufacturing system’ was making the very notion of a Third World hopelessly obsolete.

The conception of an interdependent, interacting, global manufacturing system cuts across the old view of a world consisting of nation-states as well as one of groups of countries, more or less developed and centrally planned—the First, the Third and the Second Worlds. Those notions bore some relationship to an older economy, one marked by the exchange of raw materials for manufacturing goods. But the new world that has superseded it is far more complex and does not lend itself to the simple identification of First and Third, haves and have-nots, rich and poor, industrialized and non-industrialized.<sup>14</sup>

Harris’ contention that the spatial restructuring of industrial activities constitutes a fundamental departure from the real or imagined polarized structure of the world into ‘First and Third, haves and have-nots, rich and poor, industrialized and non-industrialized’ has gained credence, in one variant or another, among some of the best-informed observers of globalization.<sup>15</sup> According to this view, polarizing tendencies are still at work but *within* rather than between North and South, First and Third Worlds. ‘Core-periphery’—in Ankie Hoogvelt’s words—‘is becoming a social relationship, and no longer a geographical one.’<sup>16</sup>

We are not sure exactly what this means, since ‘core-periphery’, as we understand it, is always a social relationship. It is a relationship between groups that nominally belong to the same social class (most notably, a world bourgeoisie or a world proletariat) but substantively are separated from one another by a radically unequal command over resources. The fact that, historically, political geography has been a major determinant of position in the core-periphery hierarchy does not mean that such a hierarchy was any less ‘social’. It simply means that political geography (as summed up in such categories as First, Second and Third Worlds, North and South, East and West, etc.) constituted an essential dimension of class politics on a world scale. From this standpoint, Hoogvelt’s (and Harris’) contention can only be interpreted as claiming that class politics has now emancipated itself from all (or most) previous geopolitical constraints and determinations.

The political significance of this contention is vividly illustrated by the disputes and conflicts that culminated in the ‘Battle of Seattle’ and the World Trade Organization (WTO) débâcle. An editorial of *The Nation* hailed Seattle as ‘a milestone for a new kind of politics’—the politics of ‘the fabled red-green alliance’ that had become quite prominent in Europe but had until now remained ‘a leftist fantasy’ in the United States.

Splits between labour and environmentalists, young and old, were not merely forgotten. They were actively overcome. Ageing boomers marvelled at the intelligence, discipline and imagination of a generation they had written off as slackers. Labour shed its nationalism for a new rhetoric of internationalism and solidarity.<sup>17</sup>

The greatest achievement of this new kind of politics was its contribution to the last-minute implosion of the WTO talks:

many dissident trade ministers, seeing the eroding support for the US agenda on Clinton’s own streets, felt less compelled to comply with US unilateralism in the convention halls. (Other factors range from resentment over US anti-dumping laws to Clinton’s call, quickly muted, to include labour rights in the agreement—which alienated many delegates from the Third World, where elites routinely exploit workers and ravage the environment.)<sup>18</sup>

This reading of the Seattle events implicitly concurs with the Harris/Hoogvelt contention that the North–South dimension of class struggle on a world-scale has for all practical purposes become irrelevant. From this point of view, Third World elites and multinational corporations are seen as close allies in the exploitation of workers and the ravaging of environments. At the same time, the WTO is seen as a key instrument of this alliance through its role in intensifying the worldwide competition that undergirds the heightened exploitation of workers and ravaging of environments. It follows from this imagery that the struggle of the new-born US red-green alliance

against the WTO is an act of internationalist solidarity with Third World workers.

Yet this is not the only possible interpretation of the Seattle events and WTO débâcle. Indeed, much of the evidence supports the radically different view that the débâcle was primarily the result of a growing North–South split over the modalities of further trade liberalization. According to this view, the seeds of the débâcle were sown in Geneva in the weeks before Seattle.

Developing countries voiced disappointment that five years after the WTO's creation they had not seen promised benefits. They put forward dozens of proposals, including changing some of the rules. Most of their demands were dismissed. The major economies pushed instead their own proposals to further empower the WTO by introducing new areas such as investment, competition, government procurement, and labour and environmental standards. Developing countries in general opposed these new issues, which would open up their markets more widely to the rich nations' big companies or would give these rich states new protectionist tools.<sup>19</sup>

These frustrations were heightened in Seattle when Third World delegates were excluded from key meetings held privately by rich countries. As William Finnegan put it: 'The leaders of the poorer countries, though often depicted as pawns of the major powers, content to offer their countries' workers to the world market at the lowest possible wages—and to pollute the air and water and strip-mine their natural resources in exchange for their own commissions on the innumerable deals that come with corporate globalizations—in reality, have to answer, in many cases, to complex constituencies at home, many of whom are alarmed about their own economic recolonization.'<sup>20</sup> For Finnegan, the revolt of the delegates from poorer countries 'echoed the fundamental questions being asked in the streets about the mandate of the WTO.'<sup>21</sup>

Nevertheless, Seattle also revealed a fundamental divide. Underneath the internationalist rhetoric of the protesters Third World delegates saw a national-protectionist agenda that US negotiators were ready to exploit in their attempts to extract more concessions from poor countries. Indeed, 'President Clinton had hoped that vigorous protests in Seattle—he had urged people to "get it all out of their system"—would move trade ministers to include concerns about the environment, labour and human rights.'<sup>22</sup> The fact that just a month before the big November 30 demonstration AFL-CIO President John Sweeney joined a group of business leaders in signing a letter endorsing the Clinton Administration's trade agenda for the WTO negotiations<sup>23</sup> provided additional evidence in support of this interpretation.

In sum, the forces that brought about the WTO débâcle had two radically different images of the confrontation. On the one hand, the loose alliance of labour and environmental groups that demonstrated in the streets saw themselves struggling against an alliance of multinational corporations and Third

World elites aimed at using the WTO as an instrument for increasing profits through the worldwide intensification of workers' exploitation and environmental destruction. In the words of Jay Mazur, Chair of the AFL-CIO International Affairs Committee: 'The divide is not between North and South, it is between workers everywhere and the great concentrations of capital and governments they dominate.'<sup>24</sup> On the other hand, the Third World delegates who torpedoed US attempts to launch a new round of trade liberalizing negotiations saw themselves as struggling against, among other things, an alliance of the US government and US labour and environmental groups aimed at using—in David Sanger's words—'higher labour and environmental standards to keep out their products, or at least to level the playing field by raising the costs of production in developing countries.'<sup>25</sup>

Taking issue with this characterization of poor countries as being fundamentally opposed to higher labour and environmental standards, William Greider has criticized the media for neglecting to mention that

the AFL-CIO collected endorsements for its demands from more than one hundred labour federations from around the world, including struggling independent union movements in the poorest places, where labour is often brutally suppressed by force. They know they're on a hopeless treadmill without international protection, because their wages and working conditions will be undercut by the next poor country below them on the food chain, bidding for industrial jobs by sacrificing workers.<sup>26</sup>

This, of course, is a reiteration of the Harris/Hoogvelt contention that the North-South conflict has been superseded by a fundamental unity of the class interests of Northern and Southern workers. Moreover, on the other side of the barricade, Greider sees a fundamental unity of interests between Northern capital and Southern elites. In line with this contention, he goes on to criticize the media for ignoring also that

India, Brazil and Pakistan could not prevail alone but were joined in opposition by the largest multinationals. Does Boeing support the idea of independent trade unions in China, where its workers are supervised and disciplined by CP cadres? ... No, of course not. In China, Mexico and many other low-wage production platforms, factory wages are effectively set by the government itself, not by free-market competition or collective bargaining. The companies like it that way. So, of course, do those governments.<sup>27</sup>

While reiterating the view of the 'Battle of Seattle' as the struggle of a potentially and embryonically united world working class against the alliance of multinational corporations and Third World elites, these passages highlight two closely related issues that constituted the subtext of the battle. The first is the issue of what mechanisms are most likely to ensure the universal protection of

the rights of labour. And the second is the issue of what mechanisms are most likely to ensure a minimally equitable distribution of the costs and benefits of world trade and production. Let us briefly examine each issue in turn.

#### LABOUR RIGHTS AND THE RACE TO THE BOTTOM: MYTHS AND REALITY

As Greider puts it in the passages quoted above, the US red-green alliance's case for enshrining higher labour standards for poor countries in the WTO agreements rests on two main assumptions. The first is that, without international protection, Southern workers are 'on a hopeless treadmill ... because their wages and working conditions will be undercut by the next poor country below them on the food chain, bidding for industrial jobs by sacrificing workers.' The second assumption is that Southern governments set wages and working conditions at lower levels than free-market competition or collective bargaining would.

There is undoubtedly some truth in both assumptions. Nevertheless, both assumptions ignore important tendencies of labour-capital relations on a world-scale before and during so-called 'globalization'. First, the relocation of industrial activities from richer to poorer countries has often led to the emergence of strong new labour movements in the low-wage sites of investment, rather than an unambiguous 'race to the bottom.' Although corporations were initially attracted to particular Third World sites because they appeared to offer cheap and docile workers (e.g., Brazil, South Africa, South Korea), the subsequent expansion of capital-intensive mass-production industries created new and militant working classes with significant disruptive power.<sup>28</sup> This tendency is particularly evident if we focus on the leading industries of so-called Fordism such as the automobile industry,<sup>29</sup> but can be seen also in less propitious environments such as electronics.<sup>30</sup>

These labour movements not only succeeded in raising wages, improving working conditions, and strengthening workers' rights, they also often played a leading role in democracy movements.<sup>31</sup> Moreover, labour militancy pushed on to the agenda social transformations that went well beyond those envisioned by pro-democracy elites. Thus, a recurrent pattern is visible: while labour-repressive regimes have created the conditions for rapid industrialization and proletarianization ('economic miracles'), industrialization and proletarianization themselves unleashed processes that eventually undermined these same regimes.<sup>32</sup> In many of these cases international solidarity was non-existent. Liberation from labour-repressive regimes was generally brought about by workers' struggles on the ground. And even where vigorous solidarity movements existed (e.g., for South Africa), grass-roots militancy at home, rather than international solidarity, played the decisive role in the transformation.

This does not mean that all is well for the workers of the world. Far from it. Apart from the fact that the process of 'strengthening through industrialization' has affected only a small percentage of the Southern proletariat, the greater

freedoms that have accrued to labour through the liquidation of labour repressive regimes have not always translated into greater welfare. For the latest spread of democracy has gone hand-in-hand with the liquidation of the development-friendly regime and the resurgence of a labour-*unfriendly* international regime. Under these circumstances, democratic governments are forced to make key economic and social policy decisions affecting living standards with 'an eye at least as much on pleasing the International Monetary Fund as appealing to an electorate.'<sup>33</sup>

As for the position of Northern workers, while it is unclear whether or not they have *on the whole* experienced a significant *absolute* worsening of their working and living conditions, the gap between rich and poor has widened rapidly, while conditions for those at the bottom of the wealth and income hierarchy have stagnated or declined. In Western Europe, massive unemployment (especially among youth) has been the main (but not only) form that the deterioration in conditions has taken since the 1980s. In the US, the portion of national income going to profits (rather than labour) has grown over the course of the past twenty years, erasing all of labour's gains from the 1960s and 1970s. And despite the long economic boom of the late 1990s, average real wages remain lower than they were thirty years ago.<sup>34</sup>

Thus, while all is far from well for the workers of the world, any observable *worsening* in their working and living conditions over the last 20–30 years *cannot* be attributed primarily (if at all) to either repressive Third World elites or the relocation of industrial activities from North to South. On the one hand, this period has been characterized by successive waves of democratization at the national level in the context of an increasingly labour-unfriendly international environment. On the other hand, had relocation been the main thrust of the ongoing restructuring of world capitalism, we would have most likely witnessed a general structural strengthening of labour, and it is unlikely that we would be speaking of a crisis of world labour today.<sup>35</sup> If we are speaking of such a crisis, it is because the spatial relocation of industrial activities to lower income countries—even the faster relocation made possible by the latest technological developments—is not the most fundamental aspect of the capitalist restructuring of the last 20–30 years.

As argued at length elsewhere,<sup>36</sup> the primary aspect of this restructuring is a change in the processes of capital accumulation on a world scale from material to financial expansion. This change is not an aberration but a normal development of the capitalist accumulation of capital. From its earliest beginnings 600 years ago down to the present, the capitalist world economy has always expanded through two alternating phases: a phase of material expansion—in the course of which a growing mass of money capital was channelled into trade and production—and a phase of financial expansion, in the course of which a growing mass of capital reverted to its money form and went into lending, borrowing and speculation. As Fernand Braudel remarked in pointing out the recurrence of this pattern in the sixteenth, eighteenth and nineteenth centuries,

‘every capitalist development of this order seems, by reaching the stage of financial expansion, to have in some sense announced its maturity: it was a sign of autumn.’<sup>37</sup>

As Braudel was writing, the great expansion of world trade and production of the 1950s and 1960s began announcing its own maturity by turning into the financial expansion of the 1970s and 1980s. In the 1970s, the expansion of financial activities was associated with, and in many ways contributed to, an expansion of capital flows from high- to lower-income countries. In the 1980s, cross-border borrowing and lending continued to grow exponentially—the stock of international bank lending rising from 4 percent of the total GDP of all OECD countries in 1980 to 44 percent in 1991.<sup>38</sup> But capital flows from high to lower income countries contracted sharply in the 1980s, from a net inflow of almost US \$40 billion in 1981 to a net *outflow* of almost \$40 billion in 1988.<sup>39</sup> In other words, the ultimate and privileged destination of the capital withdrawn from trade and production in core locations has not been lower income countries; rather it has been the locales and networks of financial speculation that connect high income countries to one another. It was this withdrawal, rather than the relocation of production, that in the 1980s precipitated the crisis of world labour.

It cannot be emphasized too strongly that this crisis and the underlying tendency towards the so-called financialization of capital were only in part due to a spontaneous capitalist reaction to the crisis of over-accumulation that resulted from the rapid expansion of world trade and production in the 1950s and 1960s. Equally essential was the change in government policies—a drastic contraction in money supply, higher interest rates, lower taxes for the wealthy and virtually unrestricted freedom of action for capitalist enterprise—through which between 1979 and 1982 the United States began to compete aggressively for capital world-wide. This change initiated and has kept alive the intense inter-state competition for mobile capital that has created the demand conditions for the great relocation of capital of the 1980s and 1990s from trade and production to financial intermediation and speculation.<sup>40</sup>

This relocation, rather than the incomparably smaller relocation of industrial activities from North to South, has been the main cause of whatever worsening of working and living conditions Northern and Southern workers have been experiencing over the past twenty years. More important, the world-wide relocation of capital to financial activities has benefited the North and South very unequally. What is forgotten by those who base their analysis on the North–South relocation of industrial activities is that the main direction of capital flows in the 1980s and 1990s has not been from North to South but from South to North (or wholly internal to the North). Crucial in this respect has been the transformation of the United States from being the main source of world liquidity and foreign investment—as it was through the 1950s and 1960s—to being the main debtor nation and largest recipient of foreign investment of the 1980s and 1990s.

This transformation radically changed the global context not just of labour–capital relations, North and South, but also and especially of Southern attempts to catch up with Northern standards of wealth. Contrary to Harris’ and Hoogvelt’s contention, the geographical dimension of core–periphery relations has become more rather than less marked, fully retaining its constraining and disposing influence on world-scale labour–capital relations. This brings us to the second issue raised by Greider in the passages quoted earlier on the issue of the inter-state distribution of the costs and benefits of world trade and production.

#### THE STRANGE DEATH OF THE THIRD WORLD

We have no dispute with Harris’, Hoogvelt’s and Greider’s explicit or implicit contention that the Third World, as a political-ideological force, collapsed in the 1980s. But we question whether this has been accompanied by any levelling of economic opportunities. For the process of dispersal of industrial capacity that Harris and many others take at face value as ‘development’ has in fact been associated with a widening of the income gap that separates the vast majority of the population of the Third World from that of the First. The Third World has collapsed, along with the Second World, precisely because of a generalized failure to translate rapid industrial expansion into an advance up the value-added hierarchy of the world economy.

What is ‘strange’ about this collapse is that it occurred abruptly when Third World states were not just industrializing rapidly but were also wielding unprecedented power and influence in world politics. The Third World was primarily a political and ideological formation. Born out of the struggle for national self-determination of the peoples of Asia and Africa and of the parallel struggle for world hegemony between the US and the USSR, the ‘Third World’ experienced growing power and influence throughout the Vietnam War and its aftermath. Partly related to the US military effort in Vietnam, the economic conjuncture at this time also seemed to favour Third World countries. Their natural resources were in great demand, as was their abundant and cheap capital. Agents of First World bankers were queuing up in the antechambers of Third (and Second) World governments offering at bargain prices the over-abundant capital that could not find profitable investment in their home countries. Terms of trade had turned sharply against First World countries, and the income gap between the latter and Third World countries seemed to be narrowing.

Shortly after the oil shock of 1979, however, it became clear that any hope (or fear) of an imminent equalization of the economic opportunities of the peoples of the world was, to say the least, premature. US competition for mobile capital in world money markets to finance both a new escalation in the Cold War and the ‘buying’ of electoral votes at home through tax cuts, suddenly dried up the supply of funds to Third and Second World countries and triggered a major contraction in world purchasing power. Terms of trade swung back in favour of First World countries as fast and sharply as they had swung against them in the 1970s, and the income gap between the First World

and the rest of the world became wider than ever. From 1982 onwards, it would no longer be First-World bankers begging Third World states to borrow their over-abundant capital; it would be Third World states begging First-World governments and bankers to grant them the credit needed to stay afloat in an increasingly integrated and competitive global economy. To make things worse for Third World states, they were soon joined in their cut-throat competition for mobile capital by Second-World states.

High finance is the arena where Third World solidarity, such as it was, was dissolved into cut-throat competition for mobile capital. This is the true significance of the Thatcher-Reagan counter-revolution. By shifting the terrain of the struggle to the arena of financial speculation, the counter-revolution threw the Third (and Second) Worlds into complete disarray and revived the fortunes of the First World, the United States in particular. This was not the only shift that enabled the First World to regain the upper hand. Militarily, for example, the Falkland/Malvinas War shifted the confrontation from the terrain of labour-intensive warfare to that of capital-intensive warfare, showing that, if Third World states could be drawn to fight on the latter terrain, all the disadvantages that had led to the defeat of the US in Vietnam would vanish. The validity of the lesson was confirmed most spectacularly by the Gulf War and again, though less spectacularly, in the 1999 war against Yugoslavia. But the most decisive weapon wielded by First World states under Anglo-American leadership in the destruction of the Second and Third Worlds was economic-financial rather than military-industrial. Third World states simply proved incapable of translating political-ideological power into economic-financial power.

This incapability had little, if anything, to do with deficiencies peculiar to Third World states. Rather, it had to do with law-like tendencies of the global capitalist system that buttress the existing hierarchy of wealth among countries. The durability of the global stratification of wealth has been documented for the 1938–1997 period in a series of studies.<sup>41</sup> Three findings deserve special attention. First, world population classified by the log of GNP per capita has tended to cluster into three strata (low-, middle-, and high-income) separated from one another by two low-frequency gaps. Second, while upward mobility of states across the two low-frequency gaps that separate the three strata occurred in the short run (one or two decades), it was rare for a country to be able to sustain an upward move in the long run (three or four decades)—a finding later replicated from a different perspective by Easterly et al.<sup>42</sup> As a result, only a few states have succeeded in consolidating their upward mobility from the low- to the middle-income stratum (Taiwan and South Korea) or from the middle- to the high-income stratum (Japan, Italy and, more recently, Singapore and Hong Kong as well). Moreover, owing to the faster demographic growth of the states in the lower-income strata, the relative demographic sizes of the three strata have remained roughly constant, in spite of these individual cases of upward mobility. Finally, starting in the 1960s, the difference in degree of industrialization between states in the high-income

stratum and states in the other two strata (especially in the middle-income stratum) has decreased significantly. But whereas in the 1970s this tendency was associated with a narrowing of the income gap between the upper and the lower strata, in the 1980s and 1990s the continued narrowing of the industrialization gap was associated with a major widening of the income gap. In 1997, the average per capita GNP for countries in the middle-income stratum was only \$2,465 or 12.5% of the average per capita GNP for countries in the high-income stratum; while the average per capita GNP of low-income countries was only \$466 or 2.4% of the high-income countries.<sup>43</sup>

The image of development that emerges from the identification of these tendencies is one of a race in which low- and middle-income states attempted to move up in the value-added hierarchy of the world economy by internalizing within their domains one aspect or another of the 'modernity' of the wealthy countries (most notably, industrialization). As these attempts became general, however, they tended to defeat their purpose by activating interstate competition over resources that were made ever more scarce by the generalization of modernizing efforts—a competition, what's more, in which states in the high-income stratum were generally better positioned than states in the lower strata to come out on top. The idea that all states could catch up with the standards of national wealth of the high-income countries by internalizing the latter's modernity thus turned out to be an illusion. The spread of industrialization efforts, in other words, resulted more in the downgrading of industrial activities in the value-added hierarchy of the world-economy than in the upgrading of the low- and middle-income economies that were becoming more industrial.<sup>44</sup>

This stability of world income inequalities can be conceptualized in terms of Roy Harrod's and Fred Hirsch's notion of 'oligarchic wealth'<sup>45</sup>—a kind of long-term income that bears no relation to the intensity and efficiency of the efforts of its recipients and is never available to all no matter how intense and efficient their efforts are. Much of the political turbulence of the 1980s, and the related crisis of all variants of developmentalist efforts, can be traced to a situation in which a generalized attempt to attain oligarchic wealth through modernization left low- and middle-income states stranded with most of the costs and few of the benefits of industrialization.<sup>46</sup>

From this perspective, the 'retreat' of core capital into financial intermediation and speculation was a reaction to the intensification of competitive pressure in industrial activities as well as to the demands of both Northern workers and Third (and Second) World countries for a greater share of the pie. As previously noted, this retreat was not the outcome of spontaneous market forces acting on their own. Rather, both were the outcome of market forces acting under the direction and with the support of the US government. The simultaneous liquidation of the ideology and practice of the welfare and developmentalist states transformed the crisis of capital of the 1970s into the crisis of labour and of the Third (and Second) Worlds in the 1980s and 1990s.

Third World elites were not the passive victims of the US liquidation of the

development project. At least some fractions of such elites were among the strongest supporters of the new Washington Consensus through which the liquidation was accomplished.<sup>47</sup> To the extent that this has been the case, Third World elites have been among the social forces that have promoted the liberalization of trade and capital movements.

But the same can be said of Northern workers' role in the liquidation of the welfare state. After all, it was a big swing in the US working-class vote (the so-called Reagan Democrats) that empowered the Republican Party to reverse New Deal policies in the United States and to escalate inter-state competition for mobile capital worldwide. And as the competition escalated, organized labour in Northern countries (the US in particular) generally supported their governments' efforts to out-compete one another (and especially poor countries) in attracting capital, thereby shifting competitive pressures onto workers elsewhere. While such efforts at 'self-protection' are hardly surprising, they do nothing to enhance the 'internationalist' credentials of Northern workers.

To be sure, such 'self-protection' efforts are not limited to Northern workers.<sup>48</sup> Nevertheless, it is difficult to place a significant share of the responsibility for the collapse of the developmental or welfare states on Southern workers. Indeed, if anything, the widespread and massive wave of anti-International Monetary Fund (IMF) protests carried out by Southern workers in the 1980s<sup>49</sup> slowed the transformation, well before the 'backlash' hit Paris in 1995<sup>50</sup> or Seattle in 1999.

In sum, it is plausible to conclude that both Third World elites and Northern workers have played some part in the success of the Reagan-Thatcher counter-revolution. The counter-revolution succeeded primarily because the welfare and developmental states had reached their limits in delivering on the promises of the global New Deal. But it also succeeded because the ruling groups of the United States managed to persuade Northern workers and Third World elites that, in order to break out of these limits, it was necessary to liquidate rather than preserve these two kinds of state.

The significance of Seattle is that Northern workers and Southern elites seem to have simultaneously realized that the dismantling of the welfare and developmental states benefited primarily Northern capital and did little or nothing in delivering on the unkept promises of the global New Deal. The positive outcome of this simultaneous realization has been to dramatize some of the limits and contradictions of the seemingly irresistible rise of US unilateralism in defining the rules of global competition. At the same time, however, this achievement was neither based upon, nor did it lead to the emergence of, a vision of labour-capital and core-periphery relations capable of constituting a more equitable alternative to US-sponsored globalization. On the contrary, Northern workers and Southern elites have so far seemed more inclined to pursue their own particularistic interests within the existing world order in opposition to one another, rather than join forces to figure out what alternative world order would make their interests converge.

## THE CHINA SYNDROME

The issue of the universal protection of the rights of capital and the issue of the distribution of the costs/benefits of globalization between North and South were not the only issues that constituted the subtext of the Battle of Seattle. There was a third issue that, in a sense, encompassed the previous two. This is the issue of China's entry into the WTO. Although it was not even on the agenda of the WTO meeting, by most accounts this was the single most important issue in the back of many demonstrators' minds.

'China, we're coming atcha' yells Mike Dolan, the Nader group's organizer in Seattle, as he discusses the next item of business. 'There's no question about it. The next item of business is China.' Jeff Faux, director of the AFL-CIO-backed Economic Policy Institute, tells reporters that with China in the WTO it will be impossible to get labour and environmental standards installed, because China's too big ... 'The China vote is going to become proxy for all our concerns about globalization' says Denise Mitchell of the AFL-CIO.<sup>51</sup>

While conceding that 'there are Chinese elites oppressing Chinese masses inflicting dreadful working conditions and pay scales', Alexander Cockburn confesses that the sight of Western progressives execrating China makes him uncomfortable. It reminds him of how the century began—with 'the troops of the Western powers [breaking] the Boxer siege of the embassies in Peking, [looting] the Empress Dowager's summer palace and thus [destroying] for a time the valiant nationalist effort to halt colonial exploitation of China.' In the intervening hundred years China experienced a series of revolutions—part of the broader revolt against the West by the impoverished countries of Asia and Africa. Land and wealth were redistributed and an industrial base built in an attempt to foster internal demand and get a fair price for the commodities poor countries needed to sell abroad.

The Western powers didn't care for that, any more than they liked the Boxers ... They never relented, never forgave. Some revolutions struggled on for several decades, in varying states of siege, boycotts, embargoes, economic sabotage ... The progressive intellectuals from the Economic Policy Institute who denounce China's 'state-controlled economic system' as 'market-distorting' ... aren't so far removed from those who have administered the siege of Cuba all these years. Many liberal NGO types are interventionist by disposition. The Somalia debacle, and to some extent the Kosovo nightmare, were their shows ... We don't need ... at the end of this imperial century to be signing on to a Yellow Peril campaign.<sup>52</sup>

The imperialist record of Western powers in dealing with China over the last 150 years is undoubtedly a good enough reason for feeling uncomfortable

with Western progressives execrating China. There are nonetheless two further reasons that bear directly on the issues of 'universal labour rights' and 'greater distributional justice' discussed earlier. One concerns the position of the Chinese working class in the world labour movement, and the other concerns the position of China in the global economy.

The historical record of the labour movement in China and in the North/West in the twentieth century lends no support to the Seattle demonstrators' claim that Northern pressures on the Chinese ruling elites are an essential condition for the emancipation of the Chinese working class from oppression and exploitation. On the one hand, the record shows that the militancy of the Chinese working class can be and has been second to none. The explosion of labour unrest in China of the 1920s was probably the greatest such explosion of the century in any country at China's level of proletarianization.<sup>53</sup> The explosion was drowned in blood by the Western-backed Guomintang regime. But the experience initiated that fundamental reorganization and reorientation of the policies of the Chinese Communist Party that eventually led to the establishment of a regime that by all available indicators did more for the improvement of the condition of the working class in China than any previous regime.<sup>54</sup>

On the other hand, organized labour in the North/West in general (and in the US in particular) did little or nothing to support the struggles of the Chinese working class. While Western support for the Guomintang repression of the Chinese workers' movement of the 1920s went largely unchallenged, the US-led siege, boycotts, and embargoes of Communist China enjoyed the full support of the AFL-CIO. Nor should we forget that some of the biggest US strikes of the late nineteenth and early twentieth century had among their targets the exclusion of Chinese workers from the US labour market, while the American Federation of Labour actively fanned the flames of anti-Chinese sentiment. In a 1905 speech Samuel Gompers assured his (presumably Caucasian) audience that 'Caucasians are not going to let their standard of living be destroyed by Negroes, Chinamen, Japs, or others.'<sup>55</sup> Indeed, according to Alexander Saxton:

Throughout the nineties and on into the twentieth century, the Federation [AFL] kept up a barrage, in openly racist terms, against the Chinese and other Orientals. Thus, [in 1893], the AFL convention resolved that Chinese brought with them 'nothing but filth, vice and disease'; that 'all efforts to elevate them to a higher standard have proven futile'; and that the Chinese were to blame for degrading 'a part of our people on the Pacific Coast to such a degree that could it be published in detail the American people would in their just and righteous anger sweep them from the face of the earth.'<sup>56</sup>

In light of all this, only a complete amnesia of the most basic facts of twentieth-century Chinese and world-labour history can give any credence to the claim that US labour's advocacy of the exclusion of China from the WTO is

primarily, if at all, motivated by international workers' solidarity. Throughout the century—from the Boxer Rebellion, through the great strike wave of the 1920s and the Revolution of 1949—the Chinese working class had to rely primarily on domestic alliances to emancipate itself from poverty, insecurity, and oppression. Why, all of a sudden, should it have become so incapable of taking care of its own further emancipation as to require the assistance of Northern organizations that throughout the century have been part of the problem rather than of the solution? It is, of course, possible that the kinds of concessions that the United States has already extracted from China as a condition for its admittance to the WTO make exclusion rather than inclusion more beneficial for Chinese workers. But even if that were the case, on what grounds should Chinese workers interpret US labour advocacy of Chinese exclusion as an act of international solidarity? Have they not many more grounds for detecting some fundamental continuity between US labour action at the beginning of the twentieth century aimed at excluding Chinese immigrant labour, and US labour action at the end of the century aimed at excluding the products of Chinese labour?

The fact that the AFL-CIO, while formally endorsing the April 2000 anti-IMF/World Bank demonstrations in Washington, chose to concentrate its political energies for the season on a separate campaign to block normal trade relations between the United States and China<sup>57</sup> is the latest reason to suspect the depth and sincerity of US labour's new internationalism. Arguably, IMF structural adjustment and debt policies have had a far greater negative impact on the world's workers (including their indirect impact on workers in the North through intensification of labour market competition) than Chinese exports; yet the obsession with China is paramount.

This brings us to the second issue, that is, of global distributional justice. With this issue in mind, it is especially disturbing to note that the execration of China by Western progressives comes at a time when China appears to be emerging as the only poor country that has any chance in the foreseeable future of subverting the Western-dominated global hierarchy of wealth. China is not the only poor country that has escaped the ravages brought upon the Third and Second Worlds by the neoliberal counter-revolution of the 1980s. Several other states did much better than China, most notably South Korea, Taiwan, Hong Kong and Singapore. Nevertheless, these are small states, jointly accounting for an insignificant fraction of world population, whose upward mobility in the global hierarchy of wealth left the hierarchy itself as entrenched as ever. The far more limited economic advance of China, in contrast, involving as it does about one-fifth of the world population and more than one-third of the total population of low-income countries, threatens to subvert the pyramidal structure of the global hierarchy of wealth itself, and not just statistically, but economically, politically and culturally as well.

There is no denying that China's rapid growth raises in a particularly acute form the problem of absolute and relative scarcity of natural resources—a

problem that the post-war world of oligarchic wealth accommodated through the exclusion of the majority of the world population from the mass consumption standards of the West. A new model of development that is less wasteful than the US-sponsored mass consumption model will be needed in a world of greater distributional justice. Unfortunately, there are few signs that China's ruling elites—any more than those of the West—are aware of the need to devise such an alternative model.

Granted this, directly or indirectly sabotaging China's further economic advance, as some Western progressives advocate, is not only morally untenable; it is in all likelihood a false solution of the problem. It is morally untenable because wealthy Western countries in general, and the United States in particular, have been and continue to be the world's leading polluters and destroyers of natural resources, both at home and abroad. And it is likely to be a false solution because the huge and growing disparities between the living standards of poor and wealthy countries are the single most important force that drives the elites of low- and middle-income countries into the adoption of the consumption norms and ecologically destructive practices of the wealthy countries.

For all the challenges it poses and continues to pose in this century, China's economic advance should be welcomed rather than feared and sabotaged by Western progressives, for two main reasons. One is that the advance is the most hopeful sign that the extreme global inequalities created under European colonial imperialism, and consolidated under US hegemony, will eventually give way to a more just and equal world. And the other is that its continuation is the best guarantee that a strong labour movement will emerge in China, capable of carrying one step further the 'long march' of the Chinese working classes towards their self-emancipation. Indeed, signs of such an emergent labour movement have grown together with China's industrialization/proletarianization.<sup>58</sup> Given the size and growing centrality of the Chinese working classes in world society, a strong Chinese labour movement would have a major invigorating impact on the world labour movement as a whole.

## CONCLUSIONS

In a contribution to a forum on the 'Problems and Prospects of a Global Labour Movement', Dan Clawson chides left-academics for dismissing the protectionist strategy of 'most workers and many unions' as politically retrograde.<sup>59</sup> While acknowledging the potential affinity of protectionist strategies with racism and xenophobia (and hence its serious dangers), Clawson argues that 'workers also hold an important truth, and we need to take it seriously.'

As an attempt to limit the impact of capital's internationalism, protectionism has almost invariably involved racist (e.g., anti-Japanese) and anti-immigrant stances ('they' are taking 'our' jobs; we need to keep 'them' out). But it is also an assertion that the economy should not be driven by an unfettered market, that limits need to be imposed on the

drive for profits, and that some means must be found to protect workers and the environment in order to put human needs above cost-benefit analysis.<sup>60</sup>

Clawson goes on to argue that we need a general theory of international labour solidarity that ‘recognizes the need for local community built on planning and some degree of protection from the unfettered market’, at the same time as it embraces international labour solidarity and rejects racism and xenophobia. How is such a balance to be struck?

In this essay we have argued that the crisis of labour was brought on by the massive shift of capital from investment in production and trade to finance and speculation, rather than by industrial relocation or most other phenomena associated with ‘globalization’. We also argued that the current financialization of capital is not unprecedented, and that the last analogous period at the end of the nineteenth and beginning of the twentieth centuries led to two world wars, imperialism and fascism. Both financial expansions—past and present—have been associated with a tremendous polarization of wealth within and between countries, and with rapid transformations that unsettled established ways of life and livelihood. National-protectionist reactions have been strong, with racist and xenophobic overtones.<sup>61</sup>

Labour movements, as we know, played at best an ambiguous role in the rise of national-protectionism and imperialism. As E. H. Carr noted in discussing the collapse of the Second International on the eve of the First World War:

In the nineteenth century, when the nation belonged to the middle class and the worker had no fatherland, socialism had been international. The crisis of 1914 showed in a flash that, except for backward Russia, this attitude was everywhere obsolete. The mass of workers knew instinctively on which side their bread was buttered ... International socialism ignominiously collapsed.<sup>62</sup>

To the extent that core labour movements once again decide that their ‘bread is buttered’ on the side of national-protectionism—that is, standing behind the power of their states to buttress global inequalities and divide the world’s workers—our risk of descending into another lengthy period of systemic chaos and ‘tribalism’ is dramatically increased.

While the motivation for national-protectionism (and any attendant racism) may be rooted in the real insecurities experienced by workers, we should not repeat the mistake of pandering to working-class racism made by socialists in the late nineteenth and early twentieth centuries. Indeed, as Alexander Saxton points out: while it was socialists alone among labour activists who mounted any criticism of the anti-Chinese crusade of the late-nineteenth century, even they made a tactical decision to ‘sail under the flag’ of ‘anti-coolieism’ as ‘a means of uniting and educating the working class.’ Yet ‘tactics ... have a way of becoming habits’, and when the socialists sought ‘to haul down the tactical

flag' and raise instead the 'strategic flag of working-class unity', they were no longer able to affect the course of events. Moreover, by allowing anti-Chinese rhetoric to go unchallenged they helped pave the way not only for the exclusion of the Chinese and other immigrants, but for a general turn to an openly racist labour-movement policy towards blacks.<sup>63</sup>

While standing firm against racism, we also need to push for a new labour-friendly international regime in order to provide a climate in which, in Clawson's words, local communities can make plans, workers' livelihoods are protected from an unfettered market, and human needs are put above cost-benefit analysis. As we have argued here, the financial expansion is the result of conscious profit strategies of firms and conscious power strategies of core states, especially the United States. Therefore, 'there is an alternative.' Labour activists should be struggling against policies at the national and international level that 'boost' the speculative bubble as well as in favour of policies that 'burst' it. From this point of view, the speech by the president of COSATU (South Africa's trade union federation) at a recent mass rally in Johannesburg is to be applauded. He called for an end to the private sector's 'investment strike' and demanded that capital invest in jobs rather than stock exchanges.<sup>64</sup>

But the solution ultimately must include a transformation at the international level. The vicious circle of domestic and international conflict was brought to an end in the mid-twentieth century only with the establishment of the labour-friendly and development-friendly international regime under US hegemony that, at least in part, addressed the demands explicitly and implicitly being thrown up by the movements from below. Nevertheless, the solution cannot be a simple return to the main elements of that regime. For in promising to meet the aspirations of the mass movements, the US-sponsored regime fudged several issues. In particular, the ideology of unlimited growth ignored both the capitalist limits and environmental limits to the promise that all could and would enter the Age of High Mass Consumption.

Contrary to its promises, the American Century has resulted in a consolidation of world inequalities in income and resource use/abuse. Moreover, the overlap between the racial and wealth divides on a world-scale has been consolidated, while environmental degradation has proceeded at a pace and scale that is unprecedented in human history. Indeed, to the extent the 'strike of productive capital' comes to an end, the environmental limits of universalized, rapid growth will come to the fore, bringing with it renewed impulses to exclude some large percentage of the world's population from the enjoyment of those resources. Here, ultimately, lies the great challenge that will face workers North and South in the twenty-first century: that is, the challenge to struggle, not just against exploitation and exclusion, but for consumption norms and secure livelihood standards that can be generalized to all and for policies that actually promote this generalization.

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