Globalization: a new stage of capitalism

Despite the methodological problems with grand theories, despite the fact that much more research is necessary, it is still worthwhile to attempt to theorize globalization with the aid of the theory of stages that was set out in chapter 5. As Popper (1969: 295-6) argued:

'The growth of normal science, which is linked to the growth of Big Science, is likely to prevent, or even destroy, the growth of knowledge, the growth of great science. I regard this situation as tragic if not desperate; and the present trend in the so-called empirical investigations into the sociology of the natural sciences is likely to contribute to the decay of science. Superimposed upon this danger is another danger, created by Big Science: its urgent need for scientific technicians. More and more Ph.D. candidates receive a merely technical training, a training in certain techniques of measurement; they are not initiated into the scientific tradition, the critical tradition of questioning, of being tempted and guided by great and apparently insoluble riddles rather than the solubility of little puzzles. True, these technicians, these specialists, are usually aware of their limitations. They call themselves specialists and reject any claim to authority outside their specialities. Yet they do so proudly and proclaim that specialisation is a necessity. But this means flying in the face of the facts which show that great advances still come from those with a wide range of interests. If the many, the specialists, gain the day, it will be the end of science as we know it – of great science. It will be a spiritual catastrophe comparable in its consequences to nuclear armament.'

Interestingly, the same concern was voiced by Murray Gell-Mann, Nobel laureate, former professor of theoretical physics at Caltech and one of the founders of the Santa Fe Institute: 'Unfortunately, in a great many places in our society, including academia and most bureaucracies, prestige accrues principally to those who study carefully some [narrow] aspect of a problem, a trade, a technology, or a culture, while discussion of the big picture is relegated to cocktail party conversation. That is crazy. We have to learn not only to have specialists but also people whose specialty is to spot the strong interactions and the entanglements of the different
The aim of this chapter is therefore to conceptualize economic globalization as a new stage of capitalism, which came into existence after the post-Second World War boom came to an end. The ensuing, unprecedented internationalization of the three circuits of capital has been accompanied by a rather one-dimensional internationalization of institutions and regulation. By way of conclusion it will be argued that the way global capitalism has changed since the end of the post-Second World War expansion has raised the profit rate but is not conducive to the emergence of a new global long boom with growth levels as high as those in the 1960s and '70s.

The first section surveys central features of the restructuring of world capitalism since capitalism's golden years ended in the mid-1970s. The second section focuses more specifically on the requirements for accumulation laid out in chapter 5 and analyzes the accelerated internationalization of capital, which has become a dominant feature of the world economy. Finally the third section, concentrating on social and economic institutions, analyzes the internationalization of institutions and regulation.

7.1 Transition: the restructuring of global capitalism

The accumulation regime that brought high levels of accumulation and growth to most parts of the world economy for almost three decades after the Second World War ran into serious trouble in the early 1970s. Worldwide, corporate profitability declined substantially from the mid-1960s to the early '70s, dampening investment and resulting in a corresponding stagnation in aggregate output. The theory of stages laid out in chapter 5 would lead us to expect a transitional period of systemic restructuring once the expansionist period had ended and economic stagnation had set in.

dimensions, and then take a crude look at the whole. What we once considered the cocktail party stuff – that's a crucial part of the real story' (quoted in Friedman 1999: 23).

2 The rate of profit for the countries of the G7 went from 22,4% in 1965 via 20,3% in 1970 to 16,4% in 1975 (OECD 1994: annex).
This is indeed what happened. With the aim of pumping their profit rates back up, companies and their governmental allies began an offensive, whose contours are summarized as follows by Castells (1996: 10) in his widely acclaimed trilogy on 'the information age':

'When the oil price increases of 1974 and 1979 threatened to spiral inflation out of control, governments and firms engaged in a process of restructuring in a pragmatic process of trial and error that is still underway in the mid-1990s with a more decisive effort at deregulation, privatization and the dismantling of the social contract between capital and labor that underlay the stability of the previous growth model. In a nutshell, a series of reforms, both at the level of institutions and in the management of firms, aimed at four main goals: deepening the capitalist logic of profit-seeking in capital-labor relationships; enhancing the productivity of labor and capital; globalizing production, circulation, and markets, seizing the opportunity of the most advantageous conditions for profit-making everywhere; and marshaling the state's support for productivity gains and competitiveness of national economies, often to the detriment of social protection and public interest regulations.'

Firms reacted worldwide to falling profitability with new strategies, increasingly reliant on new information technologies, to reduce production costs (beginning with wage costs), increase productivity, expand markets and accelerate capital turnover. Governments turned from Keynesian to monetarist policies. As a result the institutional setup of the postwar accumulation regime came under pressure, and institutional pillars that were functional in the postwar boom were put in question.

3 For Teeple (2000: 76) the abandonment of Keynesian policies, which were 'reflective of the interests of national capital in an age of late industrialization of Fordism', was a result of the fact that they 'had lost their meaning as a philosophy of national economic management when the internationalization of capital began to undermine the economic policies of the nation-state.' As he sees it, 'the coming of monetarism did not represent a failure of Keynesianism, as some would argue, so much as a change of circumstances.' Monetarism 'represented the policies required by internationalized capital in a global economy, an arena in which political compromise with national working classes was a declining issue.' The turn to monetarism therefore 'represented the abandonment of national policies', and 'the introduction of laissez-faire conducive to international capital, to competition at the international level, and to the levelling of conditions of national economies to standards of a common denominator.'
Rapidly increasing unemployment and increasing international competition played a crucial role. The huge rise in unemployment had an impact above all on the mode of accumulation and the mode of organization of social relations. In times of almost full employment, wage earners are in a position of strength; improvements can be won more easily and the threat of worsening conditions is easier to ward off. A rise in unemployment leads to a weaker union movement, which gives employers the nerve to take the offensive and begin undermining wage earners’ rights and gains. So rapidly rising unemployment was used, as in earlier periods of history, to impose lower wages and more work on those who had not (yet) lost their jobs. Employers also began to reorganize labor processes, imposing more flexibility in working hours and the wage system. They launched a permanent process of restructuring, often including as an important element contracting out of work that was not – or no longer considered to be – part of their ‘core business’.

So as soon as the expansive phase was over, national compromises with unions and governments, which in the previously existing institutional framework had generally been advantageous for capital, began to be perceived as an obstacle to the measures needed to raise the rate of profit. Less money was spent on concessions to wage earners, since there was less need for it as a result of the changed relationship of forces between capital

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4 For Barsoc, as outlined in the previous chapter, these are the first and third domains of a productive order.

5 As Standing (1999: 49), senior economist at the International Labour Office, notes: ‘The notion of “labour market flexibility” has been a key euphemism of the last quarter of the twentieth century. It is not a neutral term: it is a euphemism for more than could be conveyed by any definition. Yet it prompts an image. Who could be against being “flexible” or in favour of being “inflexible”. Even more dubious uses of the term have been common. In many international reports and statements by public figures, calls for flexibility have been little more than ill-designed masks for proposals to lower wages or work protection. One claim or presumption of those who advocate more flexibility is that regulations, legislation, institutions and conventions apparently designed to protect workers and their families are often counter-productive, primarily because they raise unemployment. It is this that has given the topic of flexibility such a high profile.’

6 See e.g. Smith 1994; Smith 2000.
and labor. The postwar agreement was as it were unilaterally abrogated. A prolonged period of struggle began among companies, unions and governments, with far-reaching liberalization, deregulation, privatization, and dismantling of social security and the public sector as major aims.7

This made the 1980s the decade of the so-called ‘crisis of the welfare state’. A start was made with major reductions in social spending, as Keynesian policies were buried and replaced with a monetarist policy geared at maintaining price stability. ‘Liberalization’, ‘more competition’ and ‘more market’ became core concepts in the new hegemonic paradigm among politicians and economists and in (international) policy institutions. As Castells (1996: 20) records, ‘(r)estructuring proceeded on the basis of the political defeat of organized labor in major capitalist countries, and the acceptance of a common economic discipline by countries of the OECD area.’

Not only in the OECD countries, we should add. For many Third World countries the 1980-82 recession marked the real beginning of their troubles. As inflation declined, real interest rates skyrocketed on loans that they had easily obtained.8 At the same time their possibilities for economic growth declined drastically as a result of the new recession. The result was the debt crisis. In 1982, Mexico was the first to announce that it could not meet the payments on its foreign debt; other countries followed.9 This and

7 The magnitude of the changes that took place is described a bit provocatively by George (2000: 27): ‘In 1945 or 1950, if you had seriously proposed any of the ideas and policies of today’s standard neoliberal toolkit, you would have been laughed of the stage or sent off to the insane asylum. At least in Western countries, at the time, everyone was a Keynesian, a social democrat or a social-Christian democrat or some shade of Marxist. The idea that the market should be allowed to make major social and political decisions; the idea that the State should voluntarily reduce its role in the economy, or that corporations should be given total freedom; that trade unions should be curbed and citizens given much less rather than more social protection – such ideas were utterly foreign to the spirit of the time. Even if someone actually agreed with these ideas, he or she would have hesitated to take such a position in public, and would have had a hard time finding an audience.’

8 Western banks, who had had to find something to do with their ‘petrodollars’, had among other things gladly lent to credit-hungry Third World governments.

9 See Solomon (1995: 193-273) for a description of the emergence of this debt crisis, the potential consequences for hundreds of Western banks, and the measures taken by the main industrialized countries’ central banks and the IMF to prevent an international crisis of the financial system.
subsequent debt crises have been used by creditor countries and international organizations to impose the end of protectionist measures and import substitution strategies and to open up markets in the South to trade, capital flows and investment in production facilities in exchange for new loans.\textsuperscript{10}

The extension of potential markets thus obtained is one of the major changes that have taken place in the international division of labor.\textsuperscript{11} Another is the change in the position of the US, which up until the early 1970s was the world's dominant economic, military and political power. Its position had begun to come under pressure as soon as Japan and Western Europe rebuilt their economies, but grew even shakier as international competition intensified because of economic stagnation. The collapse of the Bretton Woods framework in the early 1970s meant not only the end of a more or less stable international monetary system, in which exchange rates could only be changed in exceptional circumstances, but also the end of controls on cross-border capital flows. In reaction to the protectionism of the 1930s, the postwar international system was geared mainly towards expanding trade. In order to maintain the fixed exchange rates considered necessary for this purpose, national economies were sheltered to a certain extent from the rest of the world.\textsuperscript{12} The existence of fixed exchange rates protected currencies from short-term fluctuations on the world market. At the same time countries kept a number of tools available to regulate international capital flows to a certain extent, through controls on cross-border capital transactions. Keeping these tools in reserve was a major element of the Keynesian conception of an active, interventionist state.\textsuperscript{13}

\textsuperscript{10} On the import substitution strategies see also chapter 2.

\textsuperscript{11} As outlined in the previous chapter, Barsoc calls this the fourth level of a productive order.

\textsuperscript{12} See also the first section of chapter 3 on the macroeconomic policy 'trilemma'.

\textsuperscript{13} 'Governments of the advanced industrialized nations have used capital controls as a key tool of economic policy. In the face of collapsing financial markets and downward spiraling trade, capital controls were employed primarily to try to stabilize currencies and prevent capital flight. (...) After World War II, however, a clear and distinctive justification for maintaining capital controls was articulated in
The end of the Bretton Woods system knocked these policy instruments out of governments’ hands, as borders were opened to an immense increase in international capital flows with all their destabilizing consequences.

Finally, there was of course another fundamental change in the world that had major consequences for the evolution of capitalism. The fall of the Berlin Wall and the subsequent collapse of bureaucratic regimes in Eastern Europe and the Soviet Union in the early 1990s rapidly opened up an extensive area that had previously been closed off. This brought new prospects for investment, trade, production and sales. The fall of the Wall did not only lead to the introduction of capitalist relations of production in Eastern Europe and the former Soviet Union; the tidal wave that swept across the world and successfully opened more and more Third World countries to capital and exports could also spread with fewer hindrances because there was no longer any ‘real world’ alternative to the IMF, World Bank and financial markets.

... Thus, after World War II, a tight matrix of capital controls was continued in many countries of the OECD, and these were viewed not only as an instrument of exchange rate stabilization, but as a means to secure full employment and other national economic priorities. Far from ensconcing principles of capital market liberalization parallel to those in the postwar institution for trade, the Bretton Woods agreement condoned capital controls not only for short-term management of balance-of-payment crises, but also for purposes of domestic economic management‘ (Simmons 1997: 37-8).

14 But as Rigacci (2000: 28) argues, ‘We can say that up until now the Chinese market, the Russian market or that of the countries of Eastern Europe have not constituted a significant outlet for the products of the industrialized countries. It is true that Chinese imports have grown notably in the 1990s (from 50 to 150 billion dollars), but exports also increased (from 60 to 180 billions). Result: China enjoys a large trade surplus. As to Russia and other countries of Eastern Europe, they have rather registered a slowing up in their trade. Conclusion: the countries of the former Soviet bloc and China remain, in the whole, marginal in relation to the world economy.’

15 Hutton (Giddens and Hutton 2000: 11) argues that the former Soviet Union ‘did have one good impact; it kept capitalism on its guard – in a sense it kept it aware that it had to have a human face’. Wilno (2000: 34) holds that ‘the collapse of the USSR which, although there were no tears to shed over what no longer constituted an alternative to capitalism, represented a considerable ideological victory for the latter, freeing it from any necessity of providing its legitimacy not only in the
All in all, the restructuring of global capitalism that has taken place since the mid-1970s has not just led to a substantial increase of firms' profitability, but also to a new configuration of capitalism.\(^6\) To get a feeling of the scope of changes that have taken place, it is illuminating to briefly look at the modifications in what were considered pillars of the postwar productive order.

*Taylorism.* In general the application of new communications technology and new management techniques in companies and institutions has changed the organization of labor or put it under increasing pressure, weakening employees' position and labor organizations.\(^7\) Nevertheless, talk of 'the end of Taylorism' is only partially justified. New management techniques with a greater emphasis on teamwork (sometimes called 'Toyotist'), while widespread, are still far from universal. Also 'the triumphalist discourse in the creation of "high tech" jobs does not appear economic but also in the social arena.' Another aspect was the support the Soviet Union sometimes used to give to Third World countries. This was of course not charity but a means of preserving its own sphere of influence, was (thus) not very reliable, and came with political strings attached. But sometimes it was better than nothing. Countries like Cuba lost an ally, major trading partner and economic patron almost overnight when the USSR collapsed.

\(^6\) 'In capitalist economies, firms and governments proceeded with a number of measures and policies that, together, led to a new form of capitalism. It is characterized by globalization of core economic activities, organizational flexibility, and greater power for management in its relation to labor. Competitive pressures, flexibility of work, and weakening of organized labor led to the retrenchment of the welfare state, the cornerstone of the social contract in the industrial era. New information technologies played a decisive role in facilitating the emergence of this rejuvenated, flexible capitalism, by providing the tools for networking, distant communication, storing processing of information, coordinated individualization of work, and simultaneous concentration and decentralization of decision-making. (...) In spite of a highly diversified social and cultural landscape, for the first time in history, the whole planet is organized around a largely common set of economic rules. It is, however, a different kind of capitalism than the one formed during the Industrial Revolution, or the one that emerged from the 1930s Depression and World War II, under the form of economic Keynesianism and social welfarism. It is a hardened form of capitalism, but it is incomparably more flexible than any of its predecessors in its means' (Castells 1998: 357-8).

\(^7\) See e.g. Coutrot 1998; Gadrey 2000.
well founded' (Wilno 2000: 30). In many expanding sectors, in fact, hierarchical management structures, rigid divisions of labor and repetitive work are overwhelmingly dominant.

**Fordism.** A fundamental break must be noted with ‘Fordism’ in the broad sense of the term, meaning the parallel, mutually reinforcing growth of production, labor productivity and working-class consumption. These postwar linkages have been pulled apart since the early 1980s. Increased productivity is no longer translated more or less automatically into increased working-class consumption.¹⁸

**Keynesianism,** as was outlined earlier, is discredited among most economists and policymakers. Only variants of neoclassical, pro-market policies are acceptable within the reigning economic consensus.¹⁹

**Absolute US economic hegemony,** as it existed in the first decades after the Second World War, is a thing of the past. But predictions that Europe or Japan would take over the US’ economic role, or that the world economy risked paralysis in the absence of a global hegemonic power, have turned out to be unwarranted, at least in the early years of the twenty-first century. Taking advantage of the dollar’s central role, the growing openness of the world economy and the strength of the North American economy, the US has increasingly managed to reclaim its position as the world’s most important economic and military power.²⁰ So although the Bretton Woods system has collapsed, the world has not become leaderless.

Because of the changes in the world economy and the introduction of new information technologies, international organizations and policymakers have become quite upbeat about the world economy’s future.²¹ Their

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¹⁹ See e.g. DeMartino 2000; Pollin and Zahrt 1997; Sengenberger 1996.

²⁰ See e.g. Achcar 1998; Brenner 1998; Gowan 1998.

²¹ According to a study by the Central Intelligence Agency (2000: 34) for example, the ‘global economy is well-positioned to achieve a sustained period of dynamism through 2015. Global economic growth will return to the high levels reached in the 1960s and early 1970s, the final years of the post-World War II “long boom”.’ Another example is IMF economist Mussa (2000: 19): ‘(T)he prospect is that the process of global economic integration – which is being driven by essentially irresistible forces of technological advance – will take place through voluntary
optimistic scenario is that a new global long boom – ‘where world GDP growth could be in the 4% per annum range and might lift world per capita GDP growth rates above the 3% mark’ (Michalski et al 1999: 8) – is around the corner. In a rare joint document, the IMF, OECD, UN and World Bank (2000: 22) argue for example along these lines, setting out a set of policies they consider necessary for growth sufficient to reduce poverty drastically:

‘Globalization offers enormous opportunities for the developing countries – better ways of tapping the world’s knowledge, better technology for delivering products and services, better access to the world’s markets. But taking advantage of the opportunities requires action. Countries have to lower their tariffs and other trade barriers and streamline their systems for the flow of imports, exports and finance. They also have to manage their inflation, interest and exchange rates – to be seen as good places for doing business. And they have to maintain consistent policies – to be credible to investors, both domestic and foreign. The high-income countries have their part to play too – reducing tariff and other trade barriers to imports from developing countries and providing assistance to build the capacity to trade effectively.’

But why proponents of the canonical policies of protecting internationalizing capital and capitalist relations expect such policies to lead to a new long global boom in the near future remains a mystery. The means. People around the world will decide to participate – through trade, through movements of people and capital, and through assessing information and taking advantage of new technologies – because they see the benefit to them of such participation. Unlike too many unfortunate episodes in the past, participation in the global economy will not occur at the point of a sword or facing the muzzle of a gun. This, perhaps more than anything else, provides the reasonable assurance that the fundamental forces that are driving global economic integration are, in fact, driving the world toward a better economic future.’ See also OECD 1999.

Similarly, the G7 heads of state committed themselves at their first meeting in 2001 to attaining the United Nations target of halving global poverty by 2015. As the Financial Times (19-2-2001) notes: ‘The target, which includes other goals such as universal primary education, was agreed in the early 1990s but has largely been seen as an aspiration rather than a policy guideline.’

Significantly, the International Fund for Agricultural Development (IFAD), a
long global boom does not seem to have begun so far, after all, despite two
decades of neoliberal policies. True, the restructuring of world capitalism
since the end of the post-Second World War long boom has had an impact
on profitability. International organizations and financial analysts have
reported that profit rates have increased to levels comparable to those of
the late 1960s. But it is remarkable that this upswing in the rate of profit
has not given rise to a new global boom with increased worldwide economic growth. The IMF’s World Economic Outlook (1999b: 3)
documents ‘an average growth rate of world output in the 1990s of only 3
percent, below the average growth rate of the 1980s (3.5 percent) and the
1970s (4.5 percent).’ The connections among accumulation, rising
productivity, economic growth and consumption that were characteristic of
the postwar period have been broken. But at the turn of the century they
had not (yet?) been replaced by a new self-reinforcing positive dynamic.

that the pledge to halve poverty by 2015 is doomed to failure: ‘Progress in reducing
rural poverty has stalled. In the 1990s, it fell to less than one third of the rate
needed to meet the United Nations’ commitment to halve world poverty by 2015.
Although three quarters of the world’s 1.2 billion extremely poor people live and
work in rural areas, aid to agriculture, their main source of income, has fallen by
two thirds.’

24 See e.g. Duménil and Lévy 2001 and Husson 1999.

25 Economic developments in the US at the end of the twentieth century have
sometimes been presented as the beginning of such a turnaround. But even the US
economy in the 1990s ‘did not remotely compare to that of the first three decades
of the post-war era. Even during its supposedly epoch-making four-year economic
expansion between 1995 and 1999, the business economy as a whole was unable to
match its twenty-three year economic expansion between 1950 and 1973 in terms
of the average annual growth of GDP (4.0 percent versus 4.2 percent), labour
productivity (2.5 percent versus 2.7 percent) or real wages (2.1 percent versus 2.7
percent), or the rate of unemployment (4.7 percent versus 4.2 percent)’ (Brenner
2001: 37).

26 In case the difference between these growth figures seem marginal, one way to
illustrate that 1.5% makes a big difference is to look at the implication of this extra
annual growth for the number of years necessary to double total world output. With
3% annual growth total world output doubles in a bit less than 24 years. With 4.5%
annual growth this takes roughly 16 years.
Lower growth on average, growing inequality, and financialization of the global economy (leading to short-termism and financial instability) make Boyer’s expectation (1995) that ‘bad capitalism’ tends to drive out forms of ‘good capitalism’ seem more plausible than optimistic visions of an immanent global long boom that will be advantageous for all.\(^{27}\)

In sum, our survey in this section shows the magnitude and depth of the changes that have taken place since the end of capitalism’s so-called golden years. A period of systemic reorganization, which began with the onset of a period of lower average growth rates, has resulted in across-the-board liberalization, deregulation, privatization, dismantling of social security and the public sector, and a turn from Keynesian to monetarist policies. In addition, liberalization and deregulation of financial markets since the end of the Bretton Woods system have undermined the margins for independent policy choices on a national level. Profitability has subsequently increased and new markets have been opened, but contrary to expectations and previous experience, this recovery of profit levels has not given rise to a new global long boom with a high level of growth. The following sections will take a closer look at the internationalization of capital (7.2) and institutions and regulation (7.3).

### 7.2 An unprecedented internationalization of capital

When the postwar productive order had lost its momentum and the long expansion ended, a period of reorganization began. One ensuing major change is the acceleration of international economic transactions. National states, which were previously rather autonomous, have faced what Boyer (2000\(^a\)) describes as ‘a growing extroversion’, that is the consequences of the extension of world trade, variable exchange rates and the increasing number of financial innovations intended to create more ‘globalized’ markets. This means for Boyer that ‘modes of regulation which were very largely autonomous have been increasingly subjected to

\(^{27}\) Significantly, Crafts (2000: 52) also expresses such doubts in an IMF Working Paper: ‘Finally, it should be recognized that the analysis in this section is quite skeptical of the projections of future growth performance that international organizations such as OECD seem to favor.’
the ups and downs of the international economy, over which national governments have little hold’.

Since the mid-1970s the world economy has rapidly become much more internationalized. Four developments stand out as especially important.

First, an increase in the number of really integrated global markets for goods and services, and especially for finance. This implies that the calculations behind economic decisionmaking must take global conditions and prices into account. Since the 1980s international trade in goods and services has on average increased twice as fast each year as world output; and as far as trade orientation is concerned, the world economy has never been as open as it is today. But financial markets are doubtless the most globalized markets, and financial globalization and the corresponding increase in speculation have been spectacular. Deregulation and financial innovations – in 1980 financial futures, swaps and options still hardly existed – have significantly increased the economic weight of financial markets. Bond markets, stock markets and currency markets are connected – and mutually dependent – worldwide to an extent that has never been seen before in history. While it was still possible in the early 1970s to speak of national financial markets, this is no longer the case.

Second, the role and weight of multinationals in the world economy has increased immensely. Companies prefer to plan and organize the conception, production, and distribution of their products and services not only regionally or bi-regionally but globally, with major consequences for their structures. Thanks to new information technology, production is increasingly being organized on an international scale. This implies for Standing (1999: 64) that ‘there is a long-term trend towards a single, borderless economy, which is being cemented by the trade liberalisation and the dismantling of tariff and non-tariff trade barriers under the aegis of the Uruguay Round and the World Trade Organization (WTO).’ The number of enterprises operating internationally is growing immensely. In 1999, according to UNCTAD (2000: xv), there were 63,000 of such companies with at least 690,000 foreign affiliates. As an indication of their

28 See e.g. Kitson and Michie 2000, chapter 4.

29 This is not to say that big companies are now footloose. For a healthy dose of skepticism about such claims see e.g. Ruigrok and Van Tulder 1995; Doremus et al 1998.

30 These developments are outstandingly documented in the World Investment Report published yearly by UNCTAD.
importance UNCTAD (2000: xv-xvi) calculates that sales by foreign affiliates worldwide – $14 trillion in 1999, compared with $3 trillion in 1980 – are now nearly twice as high as global exports. The gross product that can be associated with international production was approximately 10 percent of global GDP at the end of the twentieth century, compared with 5 percent in 1982. Finally, Vernon (1998: 10) gives still another indication of multinationals’ growing role in the world economy: ‘the biggest couple of thousand of these companies account for about half the world’s trade in goods, with about two-thirds of their trade taking place between related units of the same enterprise.’ The significance of these data is magnified by the fact that the biggest internationally operating companies are operating mainly in world economy’s most dynamic sectors, such as electronic products, chemicals, automobiles, drugs, machinery, and increasingly also in services such as banking and telecommunications. In sum, multinational companies have expanded considerably, both in number and in size, and gained in influence. The biggest companies’ annual sales now dwarf the annual GDP of most countries in the world.

Third, there has been a far-reaching globalization of a certain type of macroeconomic policies. This can be seen from the fact that variants of the same policy prescriptions are being followed – or pushed through, with the help of international organizations and the discipline imposed by ‘the financial markets’ – in all parts of the world. Creditor countries seized upon the 1980s debt crisis for example to end import-substitution strategies in the South and open Southern markets to trade and investment. Key elements of economic policies in the East, West, North and South are (a combination of) export-oriented growth, less governmental social policies, reduction of the public sector, deregulation, flexibilization, privatization, and priority to price stability.

Fourth, there is a trend towards more regional and global economic cooperation among countries. One expression of this trend is the

31 See Went (2000: 18-20) for a list of the world’s top 100 economies in 1998 (companies’ sales and countries’ GDP).
32 The same applies to the shock therapies in the East in the 1990s. See also George 2000.
33 See e.g. Cohn 2000.
increased role and weight of supranational organizations, such as the G7, IMF, WTO, BIS and OECD. Another is the multiplication of regional agreements and blocs, such as the EU, NAFTA and MERCOSUR. Many analysts and observers expect such international bodies and forms of cooperation to steadily gain importance and coordinate and take over functions previously performed by national states. More international cooperation seems a logical step for governments increasingly losing control over their own territories as a result of the internationalization of markets for goods, services and finance, companies, and economic policies.

Each of these features of contemporary internationalization taken separately is significant. Combined, they represent a break with the world as we knew it during the post-Second World War golden years. But the question has to be posed whether these developments represent a qualitative change. It is here that the concept of the ‘circuit of social capital’ becomes of great significance. As we saw in chapter 4, the analytical decomposition of this circuit into the three separate – but indivisible – circuits of money capital, commodity capital and production capital allows for a differentiation of degrees of internationalization.

If we look at the current global economy from this perspective, there are three important observations to be made.

First and most important, we can observe for the first time in history a combined internationalization of trade, finance and production. As outlined in chapter 4, internationalization of economic processes does not automatically involve the three circuits of capital in the same way. In the decades before the First World War, which are often compared with contemporary globalization, only trade and finance were strongly internationalized. While the combination of international trade and international capital flows is therefore not new, the accelerated internationalization of production capital since the early 1980s adds a new dimension to contemporary globalization, one that is without precedent.

34 This development is sometimes epitomized in social movements by the trinity of the global market, the global workshop (or global assembly line), and the global casino.

35 The use of information technology allows for a reduction of intra-firm and inter-firm information costs and transaction costs, permitting ‘multinational corporations to disperse their global production activities to a far greater extent than was hitherto possible and what emerges as a result is a correspondingly larger number of export
So although the world economy is still far from being as globalized as theoretically possible, there is now for the first time in history an increasing internationalization of all three circuits of capital. As we have seen, Ricardo held that international mobility of capital would undermine an essential assumption of his theory of comparative advantage from international trade. Subsequently, Keynes and others argued that the combination of free trade and free movement of capital reduces the national states' ability to decide their own fate. The addition of international production capital signifies that a qualitative new stage of internationalization has been reached. All the more after the transformations in Eastern Europe and China, capitalism has become truly global for the first time. Capital now has more leverage than ever over national states, being able – if considered necessary for profitability – to (threaten to) move goods and services, finance, and/or production facilities to pressure national and/or regional constituencies into more capital-friendly policies.

Platforms in an integrated system of production spread across a variety of different countries. “Foreign affiliates”, that is to say, “no longer need to be freestanding and miniature versions of parent firms. Rather, they can fulfil specialized tasks in the framework of a global intra-firm division of labour, and trade the results via international communication networks” (UNCTAD 1996: 106) (James 2001: 157-8).

As DeMartino (2000: 160) argues, this was different during the post-Second World War ‘golden age’: ‘By fixing capital (geographically, industrially), the state stripped the firm of the option of “exit” in pursuit of profits.’

See chapter 2.

See chapter 3.

Many ‘still view global competition through the 200-years-old eyes of Adam Smith and David Ricardo, who saw trade as the chief form of economic exchange’, Quinlan and Chandler (2001) argue, but foreign direct investment ‘has grown faster than either world output or global trade’ since the 1970s, and companies from the US, Europe and Japan now sell many more goods and services abroad through their foreign affiliates than by exporting.

As Terry McDonough pointed out to me, there is now in a more meaningful sense an international capitalist class, an international working class and an
Second, by contrast with capitalism’s golden years, ‘the dynamism of direct investment has supplanted that of trade, and in its turn financial capital is piloting the redeployment of productive capital’ (Boyer 2000b: 289).Finance capital is dominant, and financial norms, promoting shareholder value, affect companies’ mode of functioning and the distribution of income and wealth. Moreover, the ascendancy of finance has major consequences for nation-states’ maneuvering room. As a result of financial deregulation after the break-up of the Bretton Woods agreement, most transactions in exchange markets are now speculative, and exchange rates depend on capital flows rather than trade flows. Chesnais (1997a: 297) speaks about a ‘globalized regime of accumulation with financial predominance’, which is definitely more constraining for states and more homogenizing than the post-Second World War ‘Fordist accumulation regime’. Consequently, the space for different modalities of countries’ participation in the international system has been gradually reduced. The opening up of national financial markets since the mid-1970s, which meant a radical break with the postwar regime, was of course a precondition for these changes.

international reserve army of labor.

See e.g. also Boyer 2000a; Chesnais 1997a; Chesnais 1997b; Gowan 1998; Robinson and Harris 2000. Van der Pijl (2001: 12-13) argues that the ‘regression from the emerging productive world economy to financial speculation’ is one sign ‘that a crisis of exhaustion is threatening a global society held together by capitalist discipline.’

See e.g. Coutrot 1998; Coutrot 1999; Cutler and Wain 2001; Froud, Johal, Haslam and Williams 2001.

As Webber and Rigby (2001: 261) note, ‘large capital inflows fuel rising asset prices, which tend to stimulate currency revaluations even as they tend to increase the trade deficit. Currency values and trade deficits are thus increasingly moving in non-orthodox directions, tending to increase disequilibrium.’ See also Patomäki 2001.

The analysis of Bryan (1995a: 13, 61) goes in the same direction: ‘What makes the current period distinctive, is that the impact of “internationalisation” is more pervasive than cross-border flows. There is a breaking down of the difference between cross-border and domestic flows, for they are all becoming subject to the same calculation. So in addition to cross-national resource flows, and more importantly, recent internationalisation is reflected in the impact of international
Finally, and also as a caveat in the face of (too) schematic interpretations, it must be stressed that there are no firewalls between the three circuits, and that the three types of capital are in reality often intermingled. As Bryan (1995: 427) points out, ‘mobility of capital occurs within as well as between individual capitals’. Since the mid-1970s the distinction between financial institutions and manufacturing companies has become hazier. Many companies now work with advanced financial management techniques, and multinationals like Ford, General Motors, Toyota and General Electric have major divisions or subsidiaries that compete with banks. A number of multinationals is earning more through financial transactions than by producing and selling the products that once made their fortunes.\footnote{This raises a question, Nitzan and Bichler (2000: 81-82) argue: how are we ‘to classify conglomerates such as General Electric, DaimlerChrysler, or Philip Morris, which operate in hundreds of different sectors across the entire spectrum from finance, through raw materials, to trade, production, entertainment, advertising and distribution? Moreover, diversification has practically broken the functional connection between profit, which is reported in \textit{business firms}, and industrial classification which is based on the \textit{type of production} (...)}. The result is that the very meaning of “industrial”, “commercial” and “financial” profit is no longer clear. For instance, in the national accounts, “manufacturing” profits denote the earnings of firms whose largest \textit{single} line of business, measured in sales, is manufacturing. But if, as often is the case, manufacturing represents only a small part of such sales, the result is that the bulk of “manufacturing profit” in fact comes from lines of activity \textit{other than manufacturing!} And the problem does not go away even if we limit ourselves to an individual firm. The difficulty here is due to non-arm’s-length, intra-firm transactions and “transfer pricing”. For example, if GE Capital subsidizes GE’s jet-engine division by supplying it with cheap credit, the result is to lower profit in the former and raise in the latter, without any change in production and sales.'
and more people and more and more aspects of people’s lives, so as to be able to accumulate; this process also entails an expansion of the scale of production through the growth of individual capitals (concentration of capital) and the extension of command over capital via agglomeration of existing capitals, that is by way of mergers and acquisitions (centralization of capital). The magnitude of this difference of scale is clearly visible in the following comparison by UNCTAD (2000: 19) between the global mergers and acquisitions (M&As) boom at the turn of the millennium with a similar boom in the US a century earlier:

‘Both M&A waves have been affected by major technological developments, new means of financing M&As and regulatory changes. But while the recent wave is an international one, the older one was confined to the United States. And just as the earlier boom in the United States contributed to the emergence of a national market for goods and services, and a national production system, complemented by a national market for firms, so is the current international boom reinforcing the emergence of a global market for goods and services and the emergence of an international production system, complemented by an increasingly global market for firms.’

This development is clearly of great importance. Absolute and relative size make a big difference to the options available to companies that are involved in international trade, finance and/or production, and to their leverage over local, regional and national communities, authorities and interest groups. To caricature a bit: 63,000 multinationals operating in

46 See e.g. Foley 1986 and Mandel 1972.

47 An article in the Financial Times (3-1-2001) on the Finnish economy shows why this issue is not only important for economically underdeveloped countries: ‘The question, though, is whether Finland is becoming too dependent on Nokia. The company accounts for well over 20 per cent of Finland’s exports, about a third of R&D expenditure, and is predicted to have generated about a quarter of the country’s economic growth of nearly 6 per cent in 2000. Moreover, nearly all of Finland’s biggest taxpayers work at Nokia and the company accounts for a staggering 70 per cent of the market value of the Helsinki Stock Exchange. (...) But many small and medium-sized companies depend on Nokia’s continued success. And with slowing growth in demand for mobile phones and uncertainties surrounding the development of the mobile internet, Nokia is going to have to work hard to maintain its pre-eminence. “We have to hope that Nokia has made the right decisions on technology,” says Mr. Kotilainen’ head of forecasting at the Research
two or three countries each, with a negligible size compared to these countries' GDP, have much less weight and influence than a couple of thousand multinational companies concentrated in the most dynamic sectors of the world economy, which together account for half the world's trade in goods. As we have seen, the latter is currently the case.

This state of affairs is the outcome of a long process of international concentration and centralization of capital. Before the end of capitalism's golden years, Mandel (1972: 310-342) distinguished three stages in this evolution:

- The early capitalist era of so-called free competition: relative international immobility of capital. Concentration remained predominantly national and centralization exclusively so.
- The era of imperialism: an increasing international concentration of capital, but hardly international centralization of capital. As competitive struggles among the big imperialist powers and fights for control over geographical zones intensified, national monopolies were pitted against each other.  
- The decades after the Second World War: the international concentration of capital started to develop into international centralization, as multinational companies became more and more the determinant form of big capital.

The trend towards increasing international concentration and centralization of capital accelerated after the end of the postwar productive order. This is exemplified by the rapid growth in both number and size of the biggest multinationals – the companies involved in international trade, international finance and/or international production.

Institute of the Finnish Economy (Etla).

48 See also chapter 3.

49 As consecutive World Investment Reports of the authoritative UNCTAD testify. In its 1993 report UNCTAD (1993: 98) analyzes for example the causes of the cross-border 'mergers-and-acquisitions (M&As) boom' of the 1980s, while the 1999 report (UNCTAD 1999: 94-101) discusses the specific characteristics of the 'present wave of M&As', noting that 'the number and value of total cross-border M&As world-wide increased dramatically in 1998 over those in 1997'. See also the comparison earlier in this section between the contemporary global merger wave and an earlier US merger wave in the World Investment Report 2000.
In sum, the reorganization of the system that began after the end of the golden years has given rise to an unprecedented internationalization of the three circuits of commodity capital, money capital, and production capital, and to a concomitant accelerated internationalization of the concentration and centralization of capital.\textsuperscript{51} In the process, finance capital has become dominant. The next section investigates to what extent institutions and state functions have also been internationalized.

7.3 One-dimensional internationalization of institutions and state functions

The particular set of institutions that supported the expansionary phase after the Second World War ran out of steam in the mid-1970s. Worldwide, corporate profitability declined from the mid-1960s on, reducing accumulation and GDP growth. Since then sales, finance and production (all three circuits of capital), as well as the concentration and centralization of capital, have been internationalized to an extent that has never been seen before in history. As we saw in chapter 5, there is no spontaneous symmetry between the general requirements for accumulation and institutional developments. The relationships of forces in and among capital, labor and social movements co-determine the concrete forms and contents of regulation and state functions. The first section of this chapter showed that the restructuring of worldwide capitalism since the mid-1970s has proceeded on the basis of a reduction of the power and influence of organized labor in major capitalist countries and a narrowing of space for national development projects in the South. Fundamental changes in the conditions of accumulation have drastically shifted the relationships of

\textsuperscript{50} As argued before, there are no firewalls among the three circuits, and two or all three types of capital are in reality often integrated in one company.

\textsuperscript{51} As outlined in the previous chapter, the notion that national markets and so-called national ‘Fordist compromises’ became a straightjacket for firms and investors desperate for higher profits at the end of the postwar boom is generally accepted among long swing researchers. Nor is there disagreement about the results of the ensuing changes— which have been quite positive for capital in general: ‘By extending its global reach, integrating markets, and maximizing comparative advantages of location, capital, capitalists, and capitalist firms have, as a whole, substantially increased their profitability’ (Castells 1996: 85).
forces to the benefit of capital, which has taken advantage of sharply increased unemployment and the debt crisis. The development of state functions and regulation reflects these shifts.

The unprecedented internationalization of capital since the mid-1970s has been accompanied by a rather one-dimensional globalization of regulation and governance. As Grant (1997: 319) argues:

'The 1980s have seen an accelerating process of economic globalization, but a relatively limited development of political structures that can regulate this process. Indeed, the best developed mechanisms of governance that exist at the supranational level are intra- and interfirrm: coordination within the new “stateless firms” (...), and between firms through such devices as joint ventures and cartels. The chief executives of stateless firms claim with some justification that their enterprises “change relations between companies. We function as a lubricant for worldwide economic integration” (...). However, firms are not well placed to act as agents of international governance, particularly if the insertion of public policy objectives in the decision-making process is thought to be desirable. International firms create the need for improved international governance, but they do not and cannot provide it.’

Concretely, the post-golden age world has seen a multiplication of attempts and proposals to promote, establish or redefine the tasks and forms of (existing) international organizations. But in light of the changed relationships of forces, the internationalization of the three circuits of capital, and the predominance of market-oriented policies, it is no surprise that the most serious initiatives have concentrated on encouraging and facilitating internationalization of the three circuits of capital: international trade, international finance and international production.

To begin with, the World Trade Organization (WTO) was founded to guarantee the extension of international trade. Policymakers, economists, international organizations, and corporate lobbies use the comparative advantage theorem to present the increasing globalization of trade as being in the interest of all countries and peoples. International agreements therefore strongly discourage tariff and non-tariff restrictions on cross-border trade, or outlaw them outright, everywhere and in all situations, almost as a matter of principle. As outlined in chapter 1 social

52 See e.g. also Nadkarni 1999.
movements and people's organizations increasingly challenged the WTO's authority and jurisdiction at the end of the twentieth century, with demands that included prioritizing social and ecological needs over expansion of international trade.

Second, innumerable proposals have been made since the crisis broke out in Asia for reorganization of what is called the 'international financial architecture' and of the International Monetary Fund (IMF) in particular.\textsuperscript{54} Policymakers, economists, international organizations, and corporate lobbies present unrestricted international financial flows as conducive to global welfare, because they supposedly give rise to an efficient allocation of financial means; they therefore promote unrestricted financial flows all over the world. As was indicated in chapter 1, social movements from the North and South challenge this reasoning, pointing among other things to the social effects of the Asian crisis and the structural instability of globalized financial markets as a result of short-termism, herd behavior, and contagion.\textsuperscript{55} These problems are worrisome not only to critics of globalized finance but also to its supporters, because as Aglietta (2000: 57) argues, 'no central bank, not even among the most important, has today the clear mandate to take responsibility for the stability of the whole of the global financial system'. Therefore, 'in the absence of a lender of last resort, whose actions result from a well-defined political cooperation, the risk is to be confronted with situations in which the diagnosis of monetary authorities diverge and contradictory interests lead to inactivity in front of a spreading crisis.'\textsuperscript{56}

Finally, the last half of the twentieth century has seen a multiplication of initiatives to stimulate and facilitate international production. As was outlined above, the accelerated internationalization of the circuit of productive capital is a more recent phenomenon than the internationalization of trade and finance. This is reflected in what Estrella Tolentino (1999: 190-1) describes as the absence of international

\textsuperscript{53} See chapter 2.

\textsuperscript{54} See e.g. Eatwell and Taylor 2000; Eichengreen 1999; Harris 1999; Michie and Grieve Smith 1999.

\textsuperscript{55} See e.g. Bello, Bullard and Malhotra 2000.

\textsuperscript{56} To cure these grave deficiencies Eatwell and Taylor (2000) propose the inauguration of a new organization, the World Financial Authority.
institutional structures to deal with multinationals and foreign direct investment (FDI): ‘(A) truly comprehensive set of rules at the global level has yet to emerge despite a long process of international rule building since 1948’. In the evolution of instruments dealing with transnational companies (TNCs) three phases can identified since 1948, the last two decades of the twentieth century being the third:

(T)he dominant approach regarding international rules relating to TNCs over the past two decades has been the promotion or facilitation of FDI expansion by defining the responsibilities of countries towards foreign investors. This shift was manifested in a marked tendency towards liberalization at the national level of host government policies towards TNCs since the early 1980s’ (Estrella Tolentino 1999: 182-3).57

Again, while policymakers, economists, international organizations and corporate lobbies argue that international production by multinationals is in everybody’s interests, these companies have increasingly come under attack.58 The best known example of this critical mood is the failure of attempts by the Organization for Economic Cooperation and Development (OECD) to codify and harmonize the rights of investing companies all over the world in a Multilateral Agreement on Investment (MAI). As Braunstein and Epstein (1999: 127) argue, the MAI’s proponents failed to convince skeptical social movements – and in a country like France broader public opinion – of the treaty’s benefits, ‘often simply falling back on ideological or tautological claims.’

In light of the increased weight of international organizations like the IMF and WTO, some authors hold that the development of the world economy since the mid-1970s will lead to creation of a transnational state. Burbach and Robinson (1999: 27) argue that the ‘open-ended and unfinished’ process of globalization has by now evolved into a configuration where

57 As DeMartino (2000: 14) also notes: ‘Since the early 1980s in particular, nations across the globe have reduced or entirely rescinded all sorts of performance standards and other restrictions on foreign corporations in hopes of attracting investment, employment and income.’

58 One intriguing example is an opinion poll by Business Week (2000⁵), which showed that nearly three-quarters of North Americans believe that business has gained too much power over their lives.
‘(f)or the first time in history (...) we can speak of transnationalization of capital, a world in which markets are truly global and integrated. Capital ownership of the leading enterprises is also internationalized, with shareholders or financial institutions from various parts of the world being able to move their stockholdings in and out of any number of corporations and countries.’

Next these authors argue that ‘transnational class formation’ is occurring and that a ‘transnational capitalist class’ (TCC) is emerging. Robinson and Harris (2000: 21) for their part follow the logic of this argument to its conclusion with the thesis that economic forums like the IMF, World Bank, WTO, G7 and OECD constitute ‘an incipient TNS (transnational state) apparatus in formation.’

The development towards a TCC and TNS is presented by these authors as ‘a tendency’, and they point to conflicts of interest that may block the future evolution of a global-state-in-the-making. But they seem certain enough about the global economy’s future trajectory to exclude other possible international structures either explicitly (in the case of US dominance) or implicitly (in the case of continuing competition among blocs). However, the evidence they present boils down to an extrapolation of the dominant trends since the end of the 1970s analyzed above, and therefore does not warrant this conclusion. Since developments at the level of regulation and state functioning are not the mirror image of the conditions and requirements for accumulation but are mediated by relationships of forces in and among capital, labor and social movements, such a conclusion is premature; other options – such as for example US dominance, or competition among blocs – are still at least as (un)likely.

59 See also Van der Pijl 1998.

60 Robinson and Harris (2000: 50) stress among other things the essential point that ‘(n)o emergent ruling class can stabilize a new order without developing diverse mechanisms of legitimation and securing a social base.’

61 Boyer (2000a: 296) argues that in the present condition of the global economy ‘there does not exist – or, will not exist for a long time – a supranational state which centralizes and comprises all the functions that were previously provided by the various nation-states.’

62 Considering the relative strength of the US economy, the international role of the dollar, the growing dominance of shareholder value via globalized financial
It is of course quite possible that the one-dimensional internationalization of regulation described in this chapter will proceed further, because it is after all instigated by and advantageous for capital. But as increasing support for movements against (the consequences of) contemporary globalization shows, the dilemma faced by the IMF, WTO and MAI – or similar treaties and organizations in the future – is that international organizations and regulations have to be effective as well as legitimate.  

And as long as international regulation and governance is mainly directed towards facilitating expansion of international trade, international finance and international production, their effectiveness – no matter how well developed in itself – continually risks being undermined by their lack of legitimacy. It is therefore a serious deficiency that the increased internationalization of capital is not matched by a similar internationalization of provision of (global) public goods, guarantees of (global) democratic rights, establishment of a (global) civil society, transnational democracy, and protection of the (global) environment by international state-type organizations and institutions.  

To repair this shortcoming a number of economists and international organizations have put forward programs for what we can call a ‘global social contract’ or ‘new global compromise’. Their approach begins from the notion that the sustainability and credibility of globalization is not guaranteed under present conditions, but conditional on the fulfillment of a number of proposals to amend or improve the organization and functioning of the globalizing economy. The social-democratic International for markets, and US global military leadership, it would be unwise to exclude the first alternative so soon. The same is true for the second one given the dynamics of European integration (for example the EU’s initial steps towards an integrated European army and a rapid intervention force) and uncertainties about future developments in Asia.

63 See also chapter 1.

64 On global public goods see e.g. Kaul, Grunberg and Stern 1999. On transnational democracy see e.g. Giddens and Hutton 2000. On both issues see also DeMartino 2000.

65 Castells (1997: 253) argues for example that ‘(o)nly a global social contract (reducing the gap, without necessarily equalizing social and working conditions), linked to international tariff agreements, could avoid the demise of the most
example calls for ‘redefinition of the role of the Bretton Woods institutions’ and ‘a global recovery program promoting investment, trade, income, and employment’. It is of the opinion that ‘(to) regulate globalization and to globalize regulation is not only a matter of concern to international financial institutions. It should be the means for a new international order, which can reinforce democracy and promote solidarity’ (Socialist International Council 1998).

The International Labor Organization (ILO) is even more ambitious: ‘If trade unions and other groups concerned with social and economic progress are to mitigate the serious problems and maximize the potential benefits provided by the new economic framework, it will require concerted action and support from international organizations with a mandate to promote socially sustainable economic growth’ (Kyloh 1998: 15). Consequently, the ILO promotes five sets of policies at different levels, for what it calls the ‘governance of globalization’: (i) Rebuilding strong trade unions and promoting collective bargaining. (ii) Multinational agreements, codes of conduct and social labeling. (iii) Influencing macroeconomic policy and promoting full employment. (iv) Influencing coordination of economic and social policies. (v) International labor standards.

Taken individually these proposals are not very radical. Excepting the last point, one cannot fail to notice their resemblance to what was more or less general practice during the golden years. However, in the present relationship of forces the combination is rather ambitious, because their implementation would imply a confrontation with the vested interests behind the internationalization of the three circuits of capital and their facilitating international institutions. As trade unions and other social movements have already discovered, these proposals are thus very difficult to enact. The cumulative outcome of decades of deregulation and internationalization of trade, finance and production is a global configuration in which countries, peoples, communities, movements and organizations are permanently put in competition with each other – or threatened with competition from each other – for investments, jobs and generous welfare states.’

66 The blatant discrepancy between fine statements of this kind and the actual deeds of many of the organizations that issue them should not go unmentioned.

67 Many will for that reason support Castells’ gloomy conclusion (1997: 253) that ‘a far-reaching social contract is unlikely.’
welfare provisions – or inversely but with similar consequences, to pick up the bill for the provision of global public goods. Rodrik (2000: 182-3) argues that commentators are ‘on to something’ when they note that ‘(g)overnments today actively compete with each other by pursuing policies that they believe will earn them market confidence and attract trade and capital inflows; tight money, small governments, low taxes, flexible labor legislation, deregulation, privatization, and openness all around. These are the policies that comprise what Thomas Friedman (...) has aptly termed the Golden Straightjacket.’

Contemporary globalization has in this way created a global prisoner’s dilemma that will be hard to break out of, even if the political will to do so becomes much greater than it has been so far.68

The bottom line of this analysis is that the economic and institutional changes that have taken place in global capitalism since the mid-1970s have not only been insufficient for a new global growth regime, but are even counterproductive for such a perspective. The rise in inequality of income and wealth in and among countries since the end of the post-Second World War boom has become functional for the world economy, which is increasingly oriented towards the provision of luxury goods for the well-off and the short-termism of the financial sector. Widening social differences and uneven growth have thus become characteristic of the new accumulation regime.69 As Durand (2000: 21) puts it, the current mode of

68 This is also the case with proposals to fundamentally alter the international monetary system, such as the one suggested by Guttmann (1994: 427): ‘The emerging global accumulation regime requires an additional layer of management and regulation, based on new multilateral arrangements and international policy-making institutions. One of the most pressing issues in this transformation is the replacement of our current multicurrency system with a new kind of universal credit-money that provides the world economy with sufficient liquidity and balanced adjustments.’

69 As Mishel, Bernstein and Schmitt (2001: 3) show in their authoritative study on the US: ‘Income inequality continued to grow in the 1990s, though at a slower rate than in the 1980s. Between 1989 and 1999, the share of total income received by the bottom 20% of households fell 0.3 percentage points, while the share received by the top 5% grew from 17.9% in 1989 to 20.3% in 1999. Income inequality continued to grow even during the boom in the second half of the 1990s. From
accumulation of capital is ‘geographically and socially exclusionary’. The implementation of new technologies ‘comes up against a commodity logic that impoverishes their social effects.’ The mode of social regulation ‘functions on a mode of denial’, because public services and social protection are being cut back everywhere. And the international division of labor, which is to the benefit of vested interests, ‘is founded on a profoundly unequal development and restores the most classic imperialist processes.’

This balance sheet of the restructuring of global capitalism since the mid-1970s raises the problem of a further delay of the dawn of a new global golden age. There is no inherent reason why capitalism cannot continue to function in this way for a prolonged period. But in the longer term the biggest weakness of a productive order that is not giving rise to a new global long boom with a high level of growth, and that is structurally incapable of distributing the fruits of its success in an egalitarian manner, is its increasing lack of legitimacy.

In sum, the unprecedented internationalization of capital since the end of the golden age has been accompanied by important institutional changes that have facilitated the international expansion of trade, finance and production. Although the weight and role of international organizations such as the IMF and WTO have been strengthened, growing support for movements against (the consequences of) contemporary globalization points to the fact that international organizations and regulations have to be legitimate as well as effective. As long as international regulation and governance are one-sidedly directed towards facilitating expansion of international trade, international finance and international production, their effectiveness continually risks being undermined by their lack of legitimacy. Several international organizations and economists have therefore advanced programs for a ‘global social contract’ or ‘new global compromise’. However, trade unions and other social movements have discovered that such proposals are very difficult to enact; contemporary

1995 to 1999, the real incomes of low-income families, or families in the 20th percentile, grew 2.6% each year, the same as for families in the middle (60th percentile) but far slower than the 3.5% rate for families at the top (95th percentile).

70 The four elements discussed are similar to Barso’s four domains of a productive order, which were reviewed in the previous chapter.
globalization has created a global prisoner’s dilemma that will be hard to break out of.

For the moment prospects for a new worldwide long boom are dim. The rise in inequality of income and wealth in and among countries since the end of the post-Second World War boom has become functional for the world economy, which is increasingly oriented towards the provision of luxury goods for the well-off and the short-termism of the financial sector. In the longer term the biggest weakness of a productive order that is not giving rise to a new global long boom with a high level of growth, and that is structurally incapable of distributing the fruits of its success in an egalitarian manner, is its increasing lack of legitimacy.

Summary and conclusion

Even if methodologically rigorous explanations of the development of capitalism are still a bridge too far, we can at least attempt to theorize globalization with the stages framework that was set out in chapter 5. This chapter therefore conceptualized economic globalization as a new stage of capitalism, which came into existence after the end of the post-Second World War long boom.

Our survey of the changes that took place after the end of capitalism’s golden years shows that the ensuing systemic reorganization has resulted in across-the-board liberalization, deregulation, privatization, dismantling of social security and the public sector, and a turn away from Keynesian policies. In addition, since the end of the Bretton Woods system liberalization and deregulation of financial markets have undermined the margins for independent policy choices on a national level. Profitability has subsequently increased and new markets have been opened. But contrary to many economists and policymakers’ expectations and predictions and earlier historical experience, this recovery of profit levels has not resulted in a new global long boom with high growth figures.

The reorganization of the system that began after the end of the golden years has given rise to an unprecedented internationalization of the three circuits of commodity capital, money capital, and production capital, and a concomitant accelerated internationalization of concentration and centralization of capital. In the process, finance capital has become dominant. This unparalleled internationalization of capital has been accompanied and supported by institutional changes meant to facilitate
international expansion of trade, finance and production. But although the weight and role of international organizations such as the IMF and WTO has been strengthened accordingly, growing support for movements against (the consequences of) contemporary globalization points to the fact that international organizations and regulations have to be legitimate as well as effective. As long as international regulation and governance are one-sidedly directed at facilitating expansion of international trade, international finance and international production, their effectiveness continually risks being undermined by their lack of legitimacy.

A number of international organizations and economists have therefore advanced programs for a ‘global social contract’ or ‘new global compromise’. However, trade unions and other social movements have discovered that such proposals are very difficult to enact, since contemporary globalization has created a global prisoner’s dilemma that will be hard to break out of. For the moment prospects that this new stage of capitalism will give way to a new worldwide long boom with high growth levels cutting across short-term upturns and downturns are therefore dim. The rise in inequality of income and wealth since the end of the post-Second World War boom has become functional for the world economy, which is increasingly oriented towards the provision of luxury goods for the well-off and the short-term thinking prevailing in the financial sector. In the longer term the biggest weakness of this new stage of capitalism is its increasing lack of legitimacy.