The Globalization and Development Reader

Perspectives on Development and Global Change

Second Edition

Edited by J. Timmons Roberts,
Amy Bellone Hite, and Nitsan Chorev

WILEY Blackwell

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John Wiley & Sons, Ltd, The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ, UK

Editorial Offices
350 Main Street, Malden, MA 02148-5020, USA
9600 Garsington Road, Oxford, OX4 2DQ, UK
The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ, UK

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Preface and Acknowledgments

You may wonder, "Why do we need yet *another* book about globalization and development?" "Globalization" – the spread of economies, cultures, and power across national borders – has become a buzzword which is usually evoked unquestioningly. It is used so sloppily that it often produces little illumination. Because it is widely seen as inevitable and nearly inalterable, globalization is often presented as a force that must be embraced without reserve, but doing so benefits some people while putting others at grave risk. The term "development" is loaded enough to turn off thoughtful people of many ideological stripes. Leonard Frank once called development "a whore of a word," since it hid within its rosy and altruistic-sounding exterior the selfish interests of imperialistic governments, expansionist firms, careerist professionals, and international "humanitarian" agencies that benefit from the neediness of poor nations. So do we simply throw these terms in the rubbish bin?

We don't believe so. These terms, when used carefully, are useful not only to policy wonks, corporate visionaries, academic types, or empire-builders, but to everyone concerned about the world's future, and their own. Our goal in compiling the selections for this book and its previous edition has been to demystify the social impacts of large-scale global economic change by offering non-specialist audiences carefully selected and manageable excerpts of both classic and current path-breaking scholarship. We hope these provide readers with tools to understand globalization and development better, to clarify the scope of this field, to question the causes and consequences of these processes, and to rethink their inevitability and direction.

The Globalization and Development Reader, published in 2007, was actually a substantial revision of our 2000 Reader, *From Modernization to Globalization*. We compiled both of those volumes to give students and other interested readers a taste of the best readings in the field – broadly social science perspectives on international development and global change. As we considered the request from Wiley-Blackwell for another update, we envisioned substantial changes and sought new and fresh perspectives on the field by inviting Nitsan Chorev as an additional editor. This volume is the fruit of this latest collaboration, offering a major revision and something of an expansion: of the book's 33 selections, 21 are new.

First of all, we've maintained most of the classics from the previous editions, even restoring one from the first volume, the controversial 1968 Lewis piece about slum culture and development. The first two sections maintain the great foundational pieces and thinkers, like Marx and Engels, Weber, Rostow, Huntington, Frank, Cardoso, Wallerstein, and Gereffi, while adding the classic 1962 Gerschenkron piece on economic backwardness in Part I and three new pieces in Part II. Those are Amsden's 1979 analysis of Taiwan's state-led approach to development, an evaluative summary of scholarship on gender and development by Pearson and Jackson, and an innovative 2004 article by Ramamurthy that attends to gender in the "commodity chain" approach, which studies supply chains of products from extraction to producer to marketer and consumer.

We almost entirely revamped the latter three sections, with large numbers of new and recent pieces. Just four of the 20 pieces in Parts III, IV, and V appeared in the first edition (Fröbel, Heinrichs, and Kreye; Norberg; Friedman; and part of the original Keck and Sikkink). For several selections, we include more recent work by key scholars: McMichael, Sassen, Harvey, Sklair, Rodrik, and Evans. Several of these and the other new readings are already classics; some we believe should be a part of core development studies canons. Many build upon each other in useful ways or take opposing views that allow the reader to contrast their positions.

In addition to updating the selections by leaders in this field, we selected the new 21 pieces based on suggestions from reviewers and readers, as well as the global social changes affecting the world in the last half-decade. We include more focus on India and China, whose rise has reshaped the global economic and geopolitical systems. We have added a series of pieces that seek to capture the reshaped globe after the 2008–10 "Great Recession" in the global North, and what it has meant for developing countries. We have added pieces on gender, on the role of cities, on agriculture, and on the governance of pharmaceuticals and climate change politics. We finish the volume with some new classics.

The need for a globally sophisticated generation of students, scholars, and practitioners has never been greater. We have sought to make this Reader useful for teaching and learning about critical and rapidly changing global issues. However, we must remind readers of the limitations of such a text. First, we always sought pieces accessible to upper level undergraduates and early graduate students, and our introductions and abridging were completed with them in mind. Second, in spite of careful abridging and succinct introductions, page limitations inevitably result in the exclusion of many great pieces. We thank our many reviewers of the previous editions and our proposed revisions for this one, who alerted us to important omissions and possible additions. We were unable to include all the important work suggested, and we had to shorten some pieces more than might have been ideal: we hope readers will take up these authors' work more fully. We hope the discussions that result from teaching these works are exciting, and that emerging scholars in this field will find inspiration in what is here as well as in what is missing.

In addition to the authors of the selections we present here, many individuals contributed to this volume. At Blackwell, we owe special thanks to Justin Vaughan and Ben Thatcher. Their patience and support for the project were invaluable. Ann Bone did the most thorough and extremely competent copy editing work we have ever seen. Given her ability to improve stylistic and substantive elements of the manuscript, we'd grant her an honorary degree if we could. Zeb Korycinska came in with a wonderfully thorough and useful index that creates a whole new perspective on the volume. We're grateful for all their work, and for that of the typesetters. Finally, we owe many, many thanks for the love and support our families have offered as we pored over this manuscript during hours that were rightly theirs.

Timmons Roberts, Amy Bellone Hite, and Nitsan Chorev
Providence, New Orleans, and Princeton

Globalization and Development: Recurring Themes

Amy Bellone Hite, J. Timmons Roberts, and Nitsan Chorev

One week in April 2013 brought home how global forces of change affect our lives, and how important it is to understand development and the international system to know how we might respond.

- A huge factory in Bangladesh producing cheap goods for the global market collapsed, killing over 1,100 people and injuring 2,500 others. The Rana Plaza workers were earning under US$50 per month sewing garments for giant firms like Walmart, J. C. Penney, Dress Barn, and Primark.
- Two ethnic Chechen immigrants who came to the United States from Dagestan, a region long oppressed by Russian occupation, placed homemade bombs at the finish line of the Boston Marathon, killing three people and wounding over 200 spectators.
- Tensions between China and Japan over islands between them impeded economic growth for both countries, a tremor felt around the world since they are both important customers, lenders, and investors.
- The six-month anniversary for victims of Superstorm Sandy was the filing deadline for federal disaster assistance in the eastern United States. Estimates of damage had risen to over 70 billion US dollars, an amount only surpassed by Hurricane Katrina in 2005. These kinds of extreme events are expected more often with climatic change induced by human beings.
- Negotiations in Bonn, Germany sought to craft an international response to climate change, by small groupings of countries and in the United Nations Framework Convention on Climate Change process, now two decades old. Among those pushing for rapid action were Bangladesh, Haiti, and Pacific Island atolls, all facing devastating coastal flooding as oceans warm and expand and the polar icecaps melt.

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Production, trade, investment, terror, security, climate change, and statesmanship all involve new types and intensities of flows of goods, people, greenhouse gas molecules, and ideas around the world. Meanwhile, the unevenness of economic development and cultural and social change around the globe continues to present us with stark paradoxes and contrasts.[1] These contrasts of the hypermodern with traditional ways of life, often in the same place and at the same time, are microcosms of inequality between the two worlds that exist on our one planet: the so-called "developed" and the "underdeveloped" worlds, the "First World" and the "Third World,"[2] the poor and the rich nations, the "global North" and "global South," Americanization and Africanization, "McWorld" and Islam. Within most poor nations, the great divides that pervade the globe are more startling because the contrasts are so close together.

Why should people in wealthy nations, which also face many disparities and contradictions, care about these poorer countries' economic development and their experiences with social change? A hundred people would give as many answers. Some people in the wealthier nations are excited about economic opportunities in what might be a booming market for export products in the "developing South." Some see a source of cheap imports to keep inflation down. Others want to know about development because they worry about losing jobs to new industries in the South or about losing European and US control over the world's political and economic arenas. Some experts worry about political instability or extremism in developing countries threatening business interests abroad or security at home. There is grave concern in some places about large-scale immigration from poorer areas of the world. Many people appreciate the close association between poverty and disease, and worry that the next pandemic will be caused by inadequate public health and medical infrastructure in the poorer parts of the world. Others still are troubled about the global environment and are aware of poorer nations' crucial role for climate change, pollution, biodiversity, or species preservation. Others care about developing countries because they have experienced their warm beaches, jungles, mountains, pyramids, and temples. These are some concrete reasons to care.

Some people's concern springs from very different places, based in moral, religious, or purely academic roots. Some specialists who have devoted their lives to "development studies" or who work in development agencies are aware that of the world's more than 7 billion people, over 3 billion live in countries where the average income is less than $2.50 a day.[3] Oxfam International reports that the richest 85 individuals in the world have as much wealth as the poorest 3 billion people combined.[4]

Many religious groups have targeted these billions as the greatest potential growth areas for their churches, sending missionaries, money, and material aid. Some are concerned with converting all the world's major population groups to hasten or to be prepared for the Second Coming of Christ. Other religious groups might be concerned with studying and documenting gaps in development, so that their populations might live without the daily indignities of poverty. Some people want to understand the roots and potential cures of the problems that cause the desperate poverty of which we are reminded on television ads for groups who bring aid.

Finally, a few people point out that in countries where Western economic and social systems have not fully penetrated, there remains a possible alternative to the development model followed in wealthy countries. Beyond the material level, many authors are now proposing that we can learn from aboriginal cultures not just their medicinal uses of plants and land-use, but also their cosmology and non-materialist values. More concretely, education and health techniques have "trickled up" from Brazil and Central America to wider application in the rich nations. Under duress from the collapse of the Soviet empire and an embargo from the United States, for example, Cuban agriculture conducted the largest experiment ever in organic farming. Innovative urban solutions of mass transit, recycling, and job training are coming from the city of Curitiba in the south of Brazil.[5]

People, then, have diverse and often multiple reasons to care about what happens to the poor nations, and it is critical to grasp the roots of their interest to understand the approach they take and the conclusions they reach. This volume puts at your fingertips the original words of scholars attempting to understand how societies are changing. The goal of this introduction is to provide some context for new readers and some framework for old hands. It begins with a discussion of the deep divide in our society over who people believe are to blame for the poverty of poor nations. This divide runs through the decades of debate about international development, which this reader attempts to chronicle. We then introduce the five sections of the book by briefly discussing their contexts, main questions, and approaches.

This volume chronicles two major social revolutions and the transition between them: the industrial revolution and the shift to global economic production. Part I, which covers the earliest theories of social change and the development of capitalism, begins the volume with two "classical" pieces by pivotal thinkers on these questions: Karl Marx/Friedrich Engels and Max Weber, and then moves on to W. W. Rostow and Alexander Gerschenkron's classic pieces on economic growth, Oscar Lewis's controversial piece on "the culture of poverty," and Samuel Huntington on politics and change. Part II includes seven pieces from what some argue was the earliest "globalization" theorizing, by writers who developed what came to be called the "dependency" and "world-systems" approaches. Parts III, IV, and V contain 20 path-breaking pieces on the relationship between globalization and development, of which 16 are new for this edition.

The first of these three sections on globalization represents a segment of the array of conceptualizations of economic globalization. Part III features a classic description of the global division of labor by Fröbel, Heinrichs, and Kreye, Johan Norberg's positive assessment of global capitalism, Greta Krippner's piece on financialization, and Thomas Friedman's famous argument that "the world is flat." In addition to Krippner's work, Part III features three additional selections (by Sklair, Babb, and Harvey) pertaining to the 2008–10 economic crisis (and its roots in financialization of the economy), and what the crisis can teach us about how the global and national economies function. As globalization has unfolded, there have been strong debates about what role foreign aid and international banks should play, described in Part IV by Steven Radelet and Patrick Bond. Also in Part IV, McMichael and Sassen take up globalization's impact on the countryside and the cities respectively, while Bardhan compares the rise of China and India, and Rodrik explores the limits to democracy and globalization. The volume concludes with a sampling of pieces we describe as "Global Themes Searching for New Paradigms," which includes descriptions of new forms of governance, by Anne-Marie Slaughter and by Margaret Keck and Kathryn Sikkink, and analyses of international debates over environment and health by Roberts and Chorev. The book ends with three thought-provoking selections assessing possibilities for progressive change from Amartya Sen, Michael Burawoy, and Peter Evans.

This introduction, then, seeks to set some of the historical stage for the current debate over globalization and development, and to provide background on where some of these debates originated and where they have been. To do a complete job of this is of course impossible, but we use a few themes to illustrate abiding, opposing positions in at least the broadest strokes. For more detailed discussions of the distinctions among the theories represented in this volume, we have provided new introductory material at the start of each of the five sections. These commentaries are designed to quickly orient readers, tell them about the authors, and summarize a few of each piece's key points. The limitations of culling excerpts is apparent throughout the book, since nearly every author has generated a lifetime of intricate, elaborate, and evolving ideas. Nonetheless, we hope that this introductory material will provide a simple but useful framework of the most basic ideas of each group, upon which readers can build the nuance these authors deserve. In turn, we hope that readers will someday explore the original works more fully to avoid the risks of oversimplifying the bodies of literature from the few small excerpts we can fit in this volume.[6]

Why Are the Poor Countries Poor? Diverging Opinions

"Why are the poor countries poor?" This seemingly simple question has elicited widely polarized views and driven starkly divergent national and international policies. Debates about developing countries reflect a similar chasm within most societies over whether individuals are poor due to factors that are within or out of their control. Who is to blame: the poor or their society? This debate not only runs through the classic works of philosophy and religion, but also engages politicians, business groups, labor unions, and advocates for the poor. In both Britain and the United States, the division often seems to split us along party lines. On one side are those who believe that poor people are lazy and will only improve their lot if they "pull themselves up by their own bootstraps," finding ways to make themselves rich by their own inventiveness. On the other side are those who see poor people as victims of their birth into bad conditions, of economic hard times like mass layoffs as industries close or move location, or as victims of discrimination based on having the "wrong" skin color, gender, or ethnicity. There is similarly deep disagreement among social scientists about the ability of individuals to change things.

Given the state's central role of linking individuals to their larger structural contexts, it is difficult to overstate how profoundly this split over the role of the state affects the roles of national governments and international organizations. Should "the state" step in and try to overcome some of the structural barriers that create poverty? Or should states get out of the way and let ingenuity and the market solve the problem? Throughout the readings in this volume, the "proper" role and size of states are constantly reverberating themes.

There are surprising parallels between these acrimonious national debates and those over why poor countries are poor and what we should do about them. This book is a vehicle for gaining familiarity with the most important of the many, complex theories that explain national poverty, development, and distributions of wealth. One guidepost for navigating this complexity is to consider whether authors believe national poverty or "backwardness" is due to *internal* or *external* factors. That is, are nations poor because their society lacks key elements like an efficient government or freely operating markets, or is their situation the product of centuries of colonial exploitation and continuing political and economic domination by more powerful imperialist nations like Holland, Spain, Britain, the United States, and Japan? From the beginning to the end of this volume, you should see that debates about development are both stark and long raging. The "modernization theorists" we introduce in the following section, for example, see *internal* factors as what drives development; the authors represented in Part II of the volume, however, stress the importance of *external* factors in the development process. More recently, international financial institutions representing the interests of world powers championed a brand of development policy during the 1980s and 1990s known as the "Washington Consensus." This dominant ideological current promoted the liberation of markets from ineffective governments as the key to moving countries out of poverty. Parts IV and V show just how unsettled this debate is: the "consensus" is now being openly challenged.

Social Turmoil and the Classical Thinkers

To understand the startling contrasts and bewildering changes globalization foments, contemporary "development" thinkers often look back to earlier changes associated with the age of industrialization. Political, economic, scientific, and social turmoil served as the backdrop for the work of eighteenth- and nineteenth-century theorists such as Scottish economist Adam Smith (1723–90), German theorists Karl Marx (1818–83), Friedrich Engels (1820–95), and Max Weber (1864–1920), and the Frenchman Émile Durkheim (1858–1917). Albeit with many decades of layers of sophistication superimposed on their core ideas, these theorists' work serves as bedrock for many contemporary explanations of development and social change.

Adam Smith's landmark book of 1776, *An Inquiry into the Nature and Causes of the Wealth of Nations*, is the classic treatise on economic liberalism (free markets), and that era's best description of what was the emerging capitalist system. Smith argued that human selfishness is universal and, left untouched in the area of production and trade, would create benefits for the whole society, as freely operating markets would lead selfish actors to seek the greatest profits, which they would make by meeting the greatest human needs. At a time when the economy was based largely on merchants buying in one area and selling in another (mercantilism), nations were adding regulations, tariffs, and quotas to try to protect their own industries and to raise money for their armies and growing bureaucracies. Smith suggested that the best way to meet the needs of the people was not through such regulation but through letting selfish human forces loose, while reserving policy-making for non-market aspects of society. Smith called the impersonal force of markets creating an overall benefit to society the "invisible hand":

> he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. (Book 4, ch. 2)

Smith's book is the foundation for modern economics; its description of human action forms the basis for countless analyses of whether economic systems are working as they should or whether government interventions are distorting them. On protecting national industries through the imposition of tariffs on imports – what he refers to above as affecting "trade for the public good" – Smith argues:

> By restraining, either by high duties, or by absolute prohibitions, the importation of such goods from foreign countries as can be produced at home, the monopoly of the home-market is more or less secured to the domestic industry employed in producing them. Thus the … high duties upon the importation of corn, which in times of moderate plenty amount to a prohibition, give a like advantage to the growers of that commodity … That this monopoly of the home-market frequently gives great encouragement to that particular species of industry which enjoys it … cannot be doubted. But whether it tends either to increase the general industry of the society, or to give it the most advantageous direction, is not, perhaps, altogether so evident. (Book 4, ch. 2)

Smith insists that areas should specialize in production according to their special endowments, what he termed a "comparative advantage." "The natural advantages which one country has over another in producing particular commodities are sometimes so great, that it is acknowledged by all the world to be in vain to struggle with them" (Book 4, ch. 2).

In many ways, Smith's great book on the wealth of nations sought to reassure readers that capitalism, including the great disruptions and inequality that economic growth and free markets were bringing, would ultimately serve the greater good. His argument was clear: stay out of the way and allow humans to solve these problems. These same points will be made again and again as successive periods of change reverberate through the world economy, right up to the current debates over globalization. As the selections throughout this volume illustrate, the nature of a society's specialization, or comparative advantage, has monumental consequences.

Many people were not so assured about the future as was Adam Smith. While factories, railroads, and cities were proliferating, centuries-old institutions such as religion, intimate communities, and the authority of traditional rulers like kings and lords were unraveling before everyone's eyes. As colonial rebellion and then industrial revolution rocked Europe, fear of its disruptions spread. Poor peasants lost their land to "enclosures" by capitalist ranchers. Old, moneyed, landowning classes saw their power to control government weaken as urban-based businesspeople gained influence in first economic, and then political circles. But, perhaps most frightening to many people were the masses of urban unemployed and industrial workers hired up in the sprawling new factories. These workers' brusque, unrefined ways offended many "proper" urbanites; and as living conditions were often tight and unsanitary, physical disease, problematic social patterns, promiscuity, and unrest were seen as deplorable or inevitable. Factory work and city life were changing peasants into a new type of proletarian laborer. Controlling them and planning for the future required understanding the fundamental but unknown implications of this enormous class.

Just as current efforts to explain "globalization" give a clear sense that society is in the midst of fundamental social, political, and economic change, during the mid to late nineteenth century there was a similar sense among these important theorists that fundamental change was happening before their very eyes. It was very apparent that modern Western society was fundamentally different from anything that had come before. The new developments seemed to correspond to eroding political, economic, and social structures, without there being a clear notion of what would emerge in place of the old. Social theorists asked how new social structures emerged and how they were engendering different ways of thinking, working, and organizing.

Addressing these big questions were two major German social theorists, whose works are presented in the first section of readings: Karl Marx (1818–83), in collaboration with Friedrich Engels (1820–95), and Max Weber (1864–1920).[7] The authors whose words we print here, and many others, saw a sharp shift from "traditional" to "modern" ways of life that manifested in myriad ways. They documented a breakdown of the ties and institutions governing those "traditional" societies. These theorists observed and documented a process of *increased division of labor*. That is, they saw different members of a society increasingly specializing in specific tasks (such as trading, banking, carpentry, fishing, etc.). Perhaps most importantly, they observed that society was changing from one where authority and beliefs stemmed from traditions, superstitions, fatalism, or emotions, to one dominated by the application of reason and practicality, an appreciation of efficiency and the ability to explain the world scientifically. This new complex of beliefs – that nature could be understood and controlled and that life should be organized with a goal of efficiency – they termed "rationalization."

In general, all of these classic social theorists saw this shift to modernity in terms of increased complexity. In other words, what people do and how they do it, how people relate to one another, how people envision their universe, how individuals organize as a group, and how people make decisions all become more specialized, segmented, and complex. For example, someone working in a modern factory and living in a city might specialize in creating one thing in exchange for a daily wage and would use new technologies in production. This "modern" person might not know his or her neighbors. Instead of believing in natural forces, they would put faith in and base decisions on science, law, and accounting. Instead of knowing only a few people intimately, they might have daily but superficial contact with hundreds of individuals very different from themselves. Their interactions with these near-strangers would be based on their survival needs of making an exchange of money for goods, services, or work.

Factory work and city life were changing former peasants into a new type of laborer, becoming what Marx labeled "proletarians." Controlling them, and planning for the future, required an understanding of the fundamental but unknown implications of these new relationships and the new, enormous groups industrialization created. For Marx, this led to important questions about how economic relations created social and political groups, and how these groups negotiate capitalism. For Weber, these developments led him to attempt to explain how these changes arose, what the relationship between people's "mindsets" and their production was, and how changes in economic and social organization were associated with changes in the type of authority that controlled society. Marx's and Weber's focus on the relationship between capitalism and social change begin Part I, as those perspectives brought us into the twentieth century, when social sciences began to flourish.

Becoming Modern

Why do some countries remain poor and "backward" despite exposure to capitalism and other aspects of modern life? What can be done to make capitalism develop further in these countries? These were the questions addressed by a group of theorists whose ideas heavily influenced US efforts to foster capitalist development in poorer nations, then called the "Third World."[8]

After World War II, the United States found itself alone at the top of the world power structure. It was the only nation on either side of the war that had its physical and economic infrastructure intact. It had a near monopoly on new technology, and the industry in place to produce goods that would sell for a high price around the world. Nevertheless, without functioning economies to buy these products, the growth of the US economy was limited. Promoting the recovery of Europe and Asia through a massive aid program called the "Marshall Plan" was not only a pragmatic solution to debilitated foreign markets, but it was also a mechanism to stem the spread of communism.

Coupled with US concern for the well-being of trading and military partners in Europe was worry about what was to become of the billions of people living in the poor, sometimes newly independent nations in the southern hemisphere. On the one hand, there was a fear among people in wealthier countries of the kind of social unrest that could result from such widespread poverty in a world of modernity and prosperity. On the other hand, there was an even larger, more evident threat: the Soviet Union. The Soviet Union offered a solution to development that had strong mass appeal and something of a proven track-record. Politicians, development experts, academicians, and the public were afraid that people in Latin America and Africa would decide that communism was a surer path to development than capitalism. In response, theories about development that were generated in the 1950s and 1960s in the United States provided an explicitly non-communist solution to poverty and underdevelopment.

A group of influential development experts saw three obvious problems impeding the industrialization of poorer countries. First, companies there simply were not big enough to construct the modern factories needed to compete with the huge corporations of the big powers of Europe and North America. Second, access to great amounts of capital allowed corporations in "industrialized" nations to continually develop and adapt new technologies, and this was sorely lacking in the poor nations. Third, and most important for our discussion here, they saw the cultural, institutional, and organizational features of poorer countries as roadblocks in their attempts to develop and to democratize. Therefore, according to this group of "modernization theorists," poorer nations are poor because they lack adequate capital, technology, and modern social organization and values.[9] This group of theorists set out to explain the reasons for these absences and laid out policy recommendations to overcome them. The introduction to Part I reviews these theories in detail, and then offers several classic examples.

After two decades of dominance in development circles, modernization theory came under attack from several angles. First, it was ahistorical: modernization theory failed to make distinctions between countries, regions, structural conditions, or specific historical experiences. For example, modernization theorists did not address the fact that these poorer regions exhibited not one situation of poverty or one type of society, but multiple "premodernities." Many of the countries that would be classified as "undeveloped" in fact already had "modern" industries, educational systems, or the other "precursors" that were thought necessary for modernity. Second, critics alleged that "modernization" was only a euphemism for "Americanization," a point supported by a closer read of several early authors in the lineage. The field was therefore labeled ethnocentric and pro-capitalist, an explicit tool of the American Cold War anticommunist effort. Third, by emphasizing nations' internal problems as the cause of underdevelopment, modernization theory seemed to blame the victims themselves for their poverty. Finally, critics claimed that important external causes of poverty and underdevelopment were ignored.

Some modernization ideas have come back into fashion both on what is called the right, and from some surprising quarters of the left. Two 1998 pieces serve as examples. On the right, the monumental book by Landes, *The Wealth and Poverty of Nations*, concludes that "Some people [respond to markets] better than others, and culture can make all the difference." On the other side of the spectrum, Cristóbal

Kay endorses Osvaldo Sunkel's 1993 opinion that "The heart of development lies in the supply side: quality, flexibility, the efficient combination and utilisation of productive resources, the adoption of technological development, an innovative spirit, creativity, the capacity for organisation and social discipline …"[10] Some postmodernists hold that culture has now become more important than economics in driving social change, and that in fact it probably always was so. As argued below, analyses of development which entirely ignore internal "cultural" variables between (and even within) nations will fail to provide complete answers to the question of why the different parts of the world are diverging under globalization. Finally, many theories of social change continue to include expectations that nations will move through a series of necessary stages, a central tenet of the modernizationists.

Dependency Theory and World-Systems Analysis

By focusing on internal factors and arguing that poor nations lacked the right cultural values, were modernizationists "blaming the victims"? Beginning in the late 1950s, harsh refutation of the modernizationists' ideas came from a steadily growing group of scholars and planners in Latin America and Africa, a group whose formative critiques of colonial and neocolonial relationships would come to be called "dependency theory."

Dependency theorists, and the World-Systems researchers who were influenced by them, all tied "globalization" – referring not to the current term so much as to international political economy – to the colonial era starting around 1500, and to the long-term exploitation of the people and resources of Africa, South America, and Asia by wealthy countries in Europe and North America. Rather than saying that global trade and its impacts are brand new, dependency theorists argued that this history goes back hundreds of years, at least to the rise of mercantile capitalism, which relied on trading goods across these regions of rich and poor, or imperialist and colonized. Thus, dependency theorists were reacting explicitly to "modernization theories" that said that poor nations lacked the capital (investable piles of money in a few hands), values (of hard work and investment), and business practices (like modern accounting) to make firms and nations succeed. Dependency theorists considered this "blaming the victims."

The earliest ideas came from a group of economists working in Santiago, Chile in the Economic Commission for Latin America (ECLA), a United Nations agency that analyzed how development could be achieved in the region.[11] When Raúl Prebisch led ECLA in the 1950s there emerged a theory that because of colonial and later neocolonial relationships, European powers had subordinated the "Third World," linking to them merely as a source for cheap raw materials and as a market for its more expensive manufactures.[12] The problem with this arrangement was that while the value of manufactures has a tendency to rise steadily over time, the value of raw materials and primary foodstuffs generally declines. ECLA identified this trend of *declining terms of trade* as a key reason why Latin America remained less developed than wealthier nations: poor countries had to sell more and more goods to get the same or less in return. The readings in this volume testify to the importance of terms of trade by consistently returning to this historical pattern of relationships and its impacts on development and social change.

Dependency theorists paid special attention to explaining the savage inequalities in poor nations, tying them to colonial histories of those regions and to current economic and political systems of exclusion and repression of the masses. They thought that arguing that later industrialization should be as easy as early industrialization, while ignoring colonial legacies, was blatantly self-serving for the rich nations. Dependency theorists did not put all the blame for the poorer nations' poverty outside the nations, however. Fernando Henrique Cardoso, Alain de Janvry, and several others identified local elites (meaning within the poorer nations) as agents of dependency and underdevelopment because they profit from paving the way for transnational corporations, so that unfavorable trade and banking arrangements are maintained. In other words, dependency theorists mainly saw foreign groups "feasting" at the table of poorer nations, but elites from those same poorer countries, they theorized, were the ones who "set the table."

By the late 1960s, the fusion of elements of ECLA's work with that of neo-Marxist theory emerged as a serious theoretical challenge to the US-led modernization theory.[13] Some members of this new "dependency school" were ECLA economists, others were academics, some were members of a vibrant Latin American leftist movement. While dependency theory was already influencing policy in Latin America in the 1950s, it was not until the late 1960s that authors like Andre Gunder Frank "popularized" the theory and development scholars in the rich nations began to take note. Frank simplified many of the dependency group's ideas and was the first author widely published in English.[14] In the era of Vietnam and other military interventions by the US around the world, the dependency theory's ideas were a welcome alternative approach that profoundly questioned the direction of mainstream social science.

Reviewed in more depth at the beginning of Part II of this volume, dependency theory took many forms, ranging quite significantly in complexity and in the degree to which the theorists saw the possibility of developing nations escaping this exploitative relationship. In particular, some dependency theorists, most notably Andre Gunder Frank, viewed a situation of dependency as inescapable as long as poorer nations participated in the capitalist world economy. Other dependency theorists, represented in this volume by Fernando Henrique Cardoso, saw opportunities for various nations at various historical junctures to adjust this system of exploitation in their favor.

Emerging from this latter variant of dependency theory, and taking into account the many critiques of dependency, is World-Systems analysis. Criticisms of dependency theory centered on its difficulty in generating testable hypotheses, as well as its lack of explanatory power. Furthermore, after dependency theory's initial splash in the development theory arena, many analysts sought to move beyond the rather crude dichotomy of core–periphery (as outsiders often mistakenly portrayed it) and to engage in more rigorous attention to the impact of historical contexts. The result of this splitting off from dependency theory (especially its initial variants) was an attempt to analyze development in a manner more comprehensive than ever before (perhaps with the exception of Weber's work). It also was the "Americanization" of a development theory that was quite opposite to the dominant, modernist, US theories of development. As such, world-systems research became increasingly cross-sectional (using data about one point in time) and quantitative.[15] This was not always the case, as the historical works of Fernand Braudel and Immanuel Wallerstein attest.[16] World-systems analysis attempted a comprehensive study of the development process not only from a historical perspective, but also through systematic analyses of the operation of capitalism and the global economic system. While groups of sociologists and geographers using world-systems and other political economy perspectives advanced their analysis of global systems of production and power, a new literature on "globalization" sprouted from other fields and from the popular press.

From Development to Globalization

From the earliest social theorists all the way through the dependency theorists of the 1950s and 1960s, the literature on social change and development was largely associated with industrialization and the gaps between wealthier and poorer nations. Marx and Weber wrote about and analyzed the industrial revolution; modernization theorists thought an urban, industrial milieu was a sort of school for modernity; and many dependency theorists thought that if Latin America wished to become part of the "developed world" it would need to have more national industries. Since then, theorists from all geographical, disciplinary, and ideological corners are moving beyond this industrial milieu. Contributions to the three latter sections of this volume perceive development differently. First, it is no longer a given that building factories and infrastructure is sufficient for raising well-being of a nation or its people. Rather, economic development is increasingly linked to access to information, technology, and innovation capabilities. Second, it is also no longer a given that development should be understood in economic terms. Concerns with social development – the needs of the population – have moved from the margins of the discussion to the halls (and websites) of institutions such as the World Bank. Third, much of the new literature on globalization moves beyond the "poor versus rich" image of nations grouped into distinct "worlds." Instead, this literature conceptualizes a highly interdependent and integrated world. The sentinel piece by Fröbel, Heinrichs, and Kreye coined the term "the global assembly line" back in 1980, noticing how closing factories in Europe and the US was tied to new strategies by large corporations of moving the labor-intensive stages of their production process overseas. Twenty-five years later, in 2005, Thomas Friedman's bestselling book *The World Is Flat*, and his article reprinted here, insisted that this process had continued and accelerated after the year 2000, to the point where the world had become "flat." Friedman argues that quantum leaps in technology and advances in education and global sourcing spread economic opportunity and risk everywhere, to the point that old boundaries simply no longer apply. Peter Dicken, author of *Global Shift*, would characterize as "hyperglobalist" Friedman's ideas that globalization is leveling the playing field and is inevitable.[17]

Despite a plethora of scholarship and decades of use, the term "globalization" is still too often used without clarification. First, and most broadly, globalization refers to a set of processes that increasingly make the parts of the world interdependently integrated.[18] Although the world has long had important international linkages, globalization refers to functional integration where firms are interdependent, production is linked on a global scale, there is a dramatic increase in visible and invisible trade, and national economies are linked. Beyond this increase in trade and globally organized production, for some authors globalization means also the control of decision-making by a new, global, political and economic elite, or more critically and explicitly, the "Wall Street–US Treasury–IMF/World Bank complex."[19] For these authors, globalization is significant not just because of economic integration, but in its association with centralized, homogenized, control. There is sharp debate about both of these dimensions of globalization.

Debt has played an important part in the globalization process. The poorer nations took on heavy debts in the 1960s and 1970s to try to build their industrial sectors and infrastructures to catch up with the core nations. Loans allowed these poor nations to finally do some development planning, building factories, roads, airports, new capitals, dams, and oil refineries. But the rates for their loans were often adjustable, and like a credit card or house mortgage debt with an adjustable rate, an increase in US interest rates – which was triggered by the oil crisis – exponentially increased the total debt burden of these countries. In 1982 Mexico and then Brazil said they could not pay their debts, and soon the list of defaulting nations grew. To continue to get the money they needed to pay even just the interest they owed, these nations had to secure more loans, but by then it was only multinational agencies like the World Bank and International Monetary Fund (IMF) that agreed to lend to them. In exchange for these loans, the heavily indebted nations had to submit to a sweeping program of cuts in food, housing and transport subsidies, privatization of state-run companies, and lowering tariff barriers to force local industries to face global competition.[20] These sweeping reforms (which the banks called structural adjustment programs) were the subject of two decades of bitter debate, protests, riots and even rebellions across the global South and even in European countries in need of the backing of these international financial institutions.[21] Cutting government intervention in the economy, changing political and economic structures and acting to stabilize macroeconomic indicators is more broadly called "neoliberalism," referencing the liberal economic policies long ago advocated by Adam Smith. This shift toward embracing free, global trade and promoting smaller, less intrusive states is the context to which the majority of the selections in the latter three parts of this volume are responding.

At the crux of economic globalization, of course, is trade. In recent decades, debates about the merit or menace of free trade have moved well beyond the category of esoteric, academic debates. While most non-specialists are thinking more about trade policy, much less understood are the current global efforts to forge regulatory frameworks for what already is a completely global system of trade. What is unique about trade in this current era is the complexity and depth of interactions (both direct and indirect) among actors. Communication and transportation technologies allow companies to place an order to a factory halfway around the world and have it met in as little or less time than by a factory down the street. What's more, the goods from a complex web of suppliers around the world can be orchestrated to come together at precisely the right time at assembly sites which can be strategically located nearly anywhere. Also unique is the expansion of world trade not just to goods, but to services as well. Our phone calls are often answered half a world away; our rebates and forms are processed anywhere in the world; and the money we set aside to invest could be at work for us in almost any place in the world.

Some have argued that by being so tightly reliant on people around the world, a more peaceful "global society" has emerged. Production is entirely globalized; this means that, to the extent that trade is a social process, we are intimately and continuously linked to people of nationalities, classes, social and cultural groups vastly different from our own in this "global society." In another sense, however, vast differences remain in the world between rich and poor, "global North" and "global South," or among "less developed"/developing and developed nations. Critics point out that growing social inequality makes it difficult to conceptualize a "global society" as any sort of coherent social group. In what is perhaps the great paradox of our time, our economic lives are more interdependent than ever, yet these interdependencies coexist alongside vast differences in cultures, wealth, and social or political organization.

Part III offers readers various perspectives to clarify what globalization means, and what we can learn from global economic crises such as the most recent Great Recession of 2008–10. Reflecting this volume's focus on economic development and social change, we have limited these selections to those focused on *economic* globalization, so we have by necessity largely excluded the vast literature that explores globalization as a phenomenon with dimensions that are revolutionizing arenas as diverse as the media, culture, states, and international relations. Even so, readers can note how vast the linkages and effects associated with globalization are.

The debates over what is globalization, which we have emphasized so far, may seem benign compared to debates over the effects of globalization. The stakes, indeed, are incredibly high. Those who support neoliberal economic policies and the global processes they induce claim that globalization has led to unprecedented economic growth in different parts of the world, and those countries that were left behind suffer from not enough neoliberal reforms rather than from too many. But whether or not neoliberal economic reforms led to economic growth is fiercely debated. Of greater significance are the equally contentious questions of whether neoliberalism and globalization have reduced poverty and inequality. These are extremely important empirical questions that are strongly contested partly because data is difficult to collect and hard to interpret. Part IV offers a number of critical accounts of globalization that highlight the cost of global processes by looking at

Africa's experience of structural adjustment programs, the fate of food, and, in Saskia Sassen's piece, the increasing vulnerability of women. These critics are effective in calling our attention to globalization's many "losers." Others, in turn, contest that positive results – such as the unprecedented economic growth in some countries, including China and India – are due to what Rodrik calls hyperglobalization. Many have argued that those countries that have shown promising economic growth have done so by rejecting hyperliberalization rather than by embracing it.

Following the logic of earlier debates on development, the pieces in Part IV think of globalization as a political–economic project. Part V, which concludes the Reader, brings politics back in. The readings remind us both of the ways in which globalization is transforming politics, both national and international, as well as of the potential for local, national, and international politics to transform globalization. In the mid-1990s, the same moment in which scholarship "invented" globalization, parallel scholarship considered the fate of the nation-state. The free flow of capital, in particular, suggested a weakening control of governments over their economies and therefore, as Susan Strange (among many) has predicted, the "retreat" of the state.[22] The pieces by Bardhan and Rodrik in Part IV suggest that this has not necessarily been the case. Others argued, instead, that if the state did not retreat, at minimum it transformed. As a result, so did international organizations, as described by Slaughter in Part V. Social movements, too, have adapted to the new reality – or, possibly, created it – by mobilizing in ways that transform the traditional boundaries of domestic politics. The result, as Roberts shows in his discussion on international environmental negotiations and Chorev shows in her discussion on international negotiations over access to medicines, is different types of coalitions, processes, and, eventually, international policy outcomes. Whether the outcomes of either transnational or domestic politics could be progressive is a question that concludes this section and our Reader. Nobel Laureate Amartya Sen offers one of the most promising discussions on development by redefining it as freedom. Freedom, like development, is likely only to be achieved by social demand. Michael Burawoy offers a pessimistic account of the possibility for social change, but we conclude with an uplifting piece by Peter Evans who draws on Sen's work for describing the contours of the twenty-first-century developmental state and outlining the conditions under which such socially oriented states could emerge.

Before finishing, we need to express one great hesitation. The modernizationists and dependency theorists agreed on far more than they might admit, as Bob Sutcliffe once wrote in a piece called "Development after Ecology."[23] He argues that both left and right shared the view "that development was desirable" (that it would solve the human welfare needs of the majority), that whole nations develop or don't as a whole, and that any obstacles were human: social, economic, or political. While other critics were chiseling away at modernity and development, profound environmental concerns surfaced about the desire for nations to rise from poverty. The most uncomfortable point for many of us is the realization that "the globalization of the characteristics of developed countries would surely make the planet uninhabitable." Sutcliffe stated flatly that, "the development of underdevelopment has also been the development of unsustainability." This suggests simply that development is going in the wrong direction. It is the underdeveloped countries, he asserted, which provide better models for sustainable societies than do developed ones. Even as development agencies and firms have hijacked the term "sustainability" for their own ends and then moved on to the next fad, the profound ecological critique put forward by Sutcliffe is the 500-pound gorilla which is essentially ignored by virtually all social studies of development. The only encouraging sign is the dawning realization of the complex interweaving of climate change, development issues, and cultural survival.

We believe that social scientists working in the area of development need to be aware of the debates that preceded them so that they can glean insights and avoid repeating old mistakes. We hope this volume provides readers with the opportunity to begin to examine this crucial debate over the past century and a half. Though helping the poor nations should be enough reason to care, the social sciences of development are no longer only about helping the poor nations. The emerging work on globalization and on the environmental consequences of development has taken away any doubt from the proposition that our fate is intricately linked to those of the other 7 billion souls with whom we share the planet.

Why are the poor countries poor? Who are the winners and losers from globalization? Who's to blame for the unintended consequences of development? And what can be done? Should states step in and try to overcome some of the structural barriers that create poverty, or should they get out of the way and let ingenuity and the market solve the problem? These audacious questions – those of the well-being and survival of 3 or perhaps all 7 billion of the world's population – are the ones that the readings in this volume explicitly attempt to address.

Notes

1 Many of the terms used here are highly debated, perhaps none so much as the term "development" itself. Rather than enter into that debate here, we follow Kincaid and Portes in conceptualizing national development as change in economic growth, social welfare, and citizenship (political rights). A. Douglas Kincaid and Alejandro Portes, *Comparative National Development: Society and Economy in the New Global Order* (Chapel Hill: University of North Carolina Press, 1994), p. 2.

2 In what is now outdated, Cold War terminology, the first world consisted of Western Europe, the United States, and Canada, while the second world was the communist bloc of the Soviet Union and its allies. The rest was the Third World.

3 Anup Shah, "Poverty Facts and Stats" (based on World Bank Development Indicators 2008), at http://www.globalissues.org/article/26/poverty-facts-and-stats (accessed May 2014).

4 Oxfam International, "Working for the Few: Political Capture and Economic Policy," Briefing Paper, 20 Jan. 2014, at http://www.oxfam.org/sites/www.oxfam.org/files/bp-working-for-few-political-capture-economic-inequality-200114-en.pdf (accessed June 2014).

5 J. Timmons Roberts and Nikki Demetria Thanos, *Trouble in Paradise: Globalization and Environmental Crises in Latin America* (New York: Routledge, 2003).

6 Our goal in excerpting has been to maintain the central points of each reading while shortening them enough to fit the variety of authors in this volume. We regret the possible confusion and lost arguments that such excerpting requires; we also removed most of the footnotes with more nuanced arguments.

7 In addition to these German theorists, Frenchman Émile Durkheim (1858–1917) also studied carefully and scientifically the division of labor in society and the process of social change. All three of these authors analyzed many of the same social processes, but there are two major differences between the work of Marx and Engels and Weber, on the one hand, and that of Durkheim, on the other. First, Marx, Engels, and Weber are what we call "macro" theorists, meaning that they focused on "the big picture" and the major historical trends. Durkheim often focused more on what we think of as the "micro" level, trying to understand how more intimate relationships work. Although Durkheim's work was tremendously influential for social theorists who followed and we included some in the first volume in this series (*From Modernization to Globalization*), it is this micro orientation that has led us to omit his work from among the classic pieces in Part I.

8 See footnote 2.

9 We acknowledge the excellent framework from lectures by geographer Maria Patricia Fernandez-Kelly.

10 Quoted in Cristóbal Kay, "Relevance of Structuralist and Dependency Theories in the Neoliberal Period: A Latin American Perspective," Working Paper Series No. 281, Institute of Social Studies, The Hague, 1998, p. 18.

11 The group's Spanish acronym is CEPAL; "and the Caribbean" was later added to its English name: it is now named ECLAC.

12 African theorist Samir Amin called this "unequal exchange."

13 Peter F. Klarén. "Lost Promise: Explaining Latin American Underdevelopment," in Peter F. Klarén and Thomas J. Bossert (eds), *Promise of Development: Theories of Change in Latin America* (Boulder: Westview Press, 1986), p. 14.

14 By contrast, Fernando Henrique Cardoso's more subtle analysis excerpted here was initially published in 1971 but didn't get published in English until 1979.

15 Instead of one or two cases, some world-systems theory analyses used statistics to examine patterns among samples of dozens or over one hundred countries.

16 See Fernand Braudel, *Civilization and Capitalism, 15th–18th Century*, vols. 1–3 (New York: Harper & Row, 1982).

17 Peter Dicken, *Global Shift*, 4th edn (New York: Guilford, 2003), p. 11.

18 Peter Dicken, *Global Shift*, 3rd edn (New York: Guilford, 1998), p. 5.

19 This phrase is an adaptation of a coinage by Robert Wade and Frank Veneroso in *New Left Review* (1998), cited in Kay, "Relevance of Structuralist and Dependency Theories."

20 Philip McMichael, "Globalization: Myths and Realities;" *Rural Sociology*, 61.1 (1996): 25–55.

21 See e.g. John Walton, "Debt, Protest, and the State in Latin America," in Susan Eckstein (ed.), *Power and Popular Protest* (Berkeley: University of California Press, 1998), pp. 299–328.

22 Susan Strange, *The Retreat of the State: The Diffusion of Power in the World Economy* (Cambridge: Cambridge University Press, 1996).

23 See J. Timmons Roberts and Amy Hite (eds), *From Modernization to Globalization: Perspectives on Development and Social Change* (Oxford: Blackwell, 2000), ch. 21.

Part I

Formative Approaches to Development and Social Change

Introduction

What are the forces that drive society to change? Marx and Weber saw ample evidence that capitalism was an enormously powerful, efficient force capable of producing unprecedented wealth; alongside this evidence, however, there was competing evidence of the poverty, social upheaval, inequality, and political crisis it seemed to bring. It was trying to understand these contradictions and consequences of capitalism that drove the theories of the "formative" authors represented in this section. In the interests of expanding the variety of perspectives on globalization in this volume, the selection here is admittedly quite brief. Nonetheless, what follows demonstrates the distinctiveness of both Marx (and Engels) and Weber's theories, as well as their most notable conceptualizations about the relationship between social and economic change. The latter four selections are North Americans writing almost a century later and expressing views on the relationship between social and economic change, albeit from a very different perspective.

Karl Marx (1818–83), known as a historical materialist, once wrote: "Men make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given and transmitted from the past."[1] For Friedrich Engels (1820–95) and Marx, the point in studying history was not just memorizing the details of individuals or their actions, but understanding the evolving structure of things. They saw history as a series of types of production, each type corresponding to ways of organizing and thinking. Economic relationships structured people's lives; what and how they produce things, relationships among workers, tools, and ownership of inputs can all explain people's daily actions, choices, feelings, and even beliefs.

The Globalization and Development Reader: Perspectives on Development and Global Change, Second Edition. Edited by J. Timmons Roberts, Amy Bellone Hite, and Nitsan Chorev.

Moreover, Marx and Engels viewed conflict over these relationships as omnipresent and a primary source of social change: the economy drives the system.

Marx and his long-time colleague Friedrich Engels were especially interested in the latest mode of economic organization, capitalism. In the capitalist system, they saw wage labor and exchange for profit as an overarching, all-encompassing structure that breeds exploitative economic relationships among individuals, classes, and regions. These economic relationships, in turn, determine how people think – they influence prevailing ideologies and behaviors. Marx's work is essentially a critique of capitalism. This critique stems from one central idea: that the human relationships required by capitalism do not allow people to reach their full, creative potential, or to exercise free will, which he conceives as fundamental parts of human nature. Marx argued that one of the ways capitalist production exploits workers is by making them feel estranged from the products of their own hands. Alienation occurs when social relationships created by a system out of our control come to dominate us. In "Alienated Labor" Marx explains how capitalism's negative effects extend well beyond the workplace.

Marx's greatest legacy is probably his contention that all history is a story of struggles between those who own factories and tools to produce goods (the bourgeoisie), and those who own so little that they must sell their labor in order to purchase the goods they need to survive (the proletariat). This separation of society into workers and owners means that in capitalist society there is a constant struggle over the difference between what workers are paid and the final price of what they create. For example, using modern production techniques workers might create 100 pairs of shoes per day, each of which might sell for, say, $75. Yet, each worker might only earn $3 a day. In capitalism, there is a constant struggle between workers and owners over the difference between the cost of production and the price that products command on the market. As long as workers are unable to capture the surplus value of what they produce (the difference between the cost of producing 100 pairs of shoes and the total price the shoes sell for), conflict permeates economic and social relationships. It is conflict in the form of exploitation of labor that both characterizes capitalism as a system and will, according to Marx and Engels, lead to its demise.

From the early twentieth century, the revolutionary message of the *Communist Manifesto* influenced billions of lives. Marx and Engels penned this "Manifesto" as a program for a new socialist league of German journeymen living in Paris, Brussels, and London. As with all of Marx's work (and that of Engels as well), the *Communist Manifesto* is a critique of modern (to him this was "capitalist") society. According to Marx and Engels, capitalism was merely a historical stage, albeit a crucial one, in which all relationships are mediated by the exchange of things that can be bought and sold. Confronted with what they saw as this dehumanizing and seemingly overwhelming force of capitalism, Marx and Engels were nonetheless hopeful that contradictions within capitalism would ultimately lead to its replacement by a new social order. Notwithstanding the political controversy this manifesto inspired, or its errant predictions on capitalism's demise and its replacement with a new order, this pamphlet has inspired both revolutionary leaders and social scientists for generations. As with Adam Smith's *Wealth of Nations*, in piece after piece in this book, the ideas in the clear, strident, and political *Communist Manifesto* are incorporated, expanded, refuted, and directly critiqued by social scientists of all stripes that followed.

About a half-century after Marx and Engels, German sociologist Max Weber (1864–1920) wrote in response to Marx and Engels to demonstrate that social change goes beyond mere economic relationships. In his 1905 excerpt "The Protestant Ethic and the Spirit of Capitalism," Weber proposed that in addition to the economic system driving social change, religious ideas were crucial in the development of capitalism in Europe. In addition to this theoretical disagreement, Weber was less interested in presenting a political agenda and more interested in explaining the underlying forces that allowed the new society around him to develop. Because his project was more academic than polemical, Weber laid out a more complex and less deterministic theory of how societies were changing.

For centuries, sources of traditional authority – the church, the crown, or the landed elite – dominated European society. Virtue was independent of excelling in one's work, but rather work was not for "proper" people at all; they focused on fineries and "courtly love." Similarly, the way to properly show God's glory was through art, poetry, or music. As society urbanized and industrialized, the power of these traditional sources of authority eroded quickly, as an almost scientific pursuit of moneymaking emerged as the dominating force of the era. People were more interested in investing their surplus in productive investments than in merely spending it on luxury goods. Weber noted that this new approach to work and money brought with it profound attitudinal and behavioral changes, a veritable "Spirit of Capitalism."

In the excerpt of this work reprinted here, Weber traces how the initial development of Protestantism in Europe and North America contributed to the economic arrangements of that specific era. For example, early Protestants advocated devoting one's life to a calling to demonstrate one's willingness to serve God's will. Therefore, hard work in a specific area was a virtue and laziness or idleness considered sinful. This devotion to a calling, coupled with the belief in the sinfulness of an unproductive accumulation of wealth (evidence of a lack of grace), led to vocational specialization and the reinvestment of capital. It was only the Protestant attitude toward wealth, argued Weber, which resulted in capital being viewed as something to reinvest judiciously. Similarly, specialization according to one's calling infused work with religious meaning and made hard work, efficiency, and asceticism inherently virtuous, since the accumulation of wisely invested wealth demonstrated a state of grace. Ultimately, capitalism was no longer imbued with Protestantism but emerged as an independent force. Specifically, Weber argued that certain Protestant religious practices had become secularized and developed into a new type of authority.

This change following the Protestant Reformation was a profound one. Weber explained how society went from valuing tradition toward being dominated by new, more objective practices and values such as the written contract, merit, expertise, universal standards, and established methods and procedures for completing tasks. In short, he explained that society had come to value rational procedures more than traditional authority. Weber asks: How did written rules, limited jurisdictions, limited powers, record-keeping, separation of public and private life, and the following of documented, comprehensive procedures come almost to replace religion and lineage as a source of authority? His answer is that the ideas accompanying the emergence of Protestantism and rational bureaucratic organization spilled over and even dominated an economic system, modern capitalism. In this sense Weber differs greatly from Marx: where Marx believed economic arrangements determined ideology (ideas) and nearly everything else, Weber believed in the possibility that the ideas of people could lead the process of economic development. In this case, Protestant ideas helped shape the rise of capitalism in its modern form.

The influence of Weber's observations cannot be overstated: "modernization theorists" writing on developing nations many decades later held the implicit assumption that there is something inherently morally superior in the investment of wealth, harder work, efficiency, and strict bureaucratic structures. They called these traits in a society "modern" and "rational," labeling the others as leftovers of previous social structures, as "irrational," "backward," or as impediments to progress. These ideas continue to hold sway in national and multilateral agency centers: billions of dollars in foreign assistance are currently being allotted based on whether nations fit this vision of what a "modern" society is. Many other ideas have been carried forward from Weber's work. For example, some authors included in the final sections of this volume take up Weber's assertion that power is based not just on relations of production (i.e., on money), but on factors like access to information, cultural identification, and organizational potential. And his attention to social status and the role of the state (the government) has informed a new generation of "neo-Weberian" scholarship on social change and development.

Following the examples of Marx and Weber's theories about capitalism and social change are samples of "modernization theory," an approach outlined briefly in the introductory chapter to the book. To understand the gap between wealthier and poorer nations, modernization theorists explored the process of development and offered a composite portrait of what it means to be "modern." In short, "modernization" involves the adoption of new ways of material life – like how work and community are organized, or how technology or governments are dealt with – and it also changes, or rather "improves," our education system and our most basic values and attitudes. In modernization theory's dualistic schema, societies go from being one type of society (traditional or undeveloped) to another type of society (modern, or developed). Samuel Huntington, whose work ends this section of the Reader, explained that modernization is an evolutionary process that changes societies in a revolutionary manner.[2]

Although different academic disciplines produced their own species of these theories, they all set up dichotomies and perceived development as a process that involved social, psychological, economic, cultural, political, or even biological sequences of changes from point A to point B along a single trajectory. Different theorists saw varied "motors" as the key to movement from traditional to modern. Some modernization theorists, such as W. W. Rostow, thought that an increased accumulation of capital would lead a modernization process that would then affect other elements of a society such as politics and values. Others considered non-economic factors the most important in explaining why poorer countries are poor and why some countries have been unable to generate sufficient capital and technology to "modernize." Bert Hoselitz, for example, perceived entrepreneurs as key figures in a society's shift in attitude from traditional to modern.[3] In a traditional society, the entrepreneur is a social deviant because he is doing something new and different and individualistic; in a modern society change is routine, innovation is valued, and the entrepreneur esteemed. D. C. McClelland saw the "need for achievement" as a key factor in distinguishing "modern" individuals.[4] For Daniel Lerner it was "projection" – the individual believing that others are like them – and "introjection" – an enlarged sense of oneself that includes new ideas and habits.[5] Everett Hagen's theory was also psychological – he said that what motivates modern individuals was creativity and anxiety, the latter due to an uneasy feeling when they weren't being productive, a product of their mother's insatiable demands.[6]

So what does modernization theory suggest nations should do to become more "developed"? Although the major thrust of modernization implied that nations should focus on changing their internal society by rationalizing it, many also believed that "developed" countries could play a pivotal role by assisting and guiding the modernization of later developers. Rostow, for example, argued that investments and the transfer of technology by wealthier countries would allow "backward" societies to become modern at a faster rate than earlier developers. Lerner suggested that the media would act as an accelerator of change because people would be exposed to abstract situations and forced to think beyond their own lives. Gino Germani thought that a process of diffusion and demonstration of innovations would accelerate the development in late modernizers.[7]

For these late modernizers the prescription was the same: borrow, import, imitate, and rationalize. To get investments flowing, to break the nation out of the cycle of poverty and lack of investment, nations should allow large firms from wealthy countries free access to their national markets, labor and resources. Some of this production would be for local and some for export markets, but at least money would finally be flowing where before it was lacking entirely or locked up in the overly cautious and fragmented hands of wealthy landed elites who had no experience in industry. This lack of concentrated industrial capital also suggested that borrowing money might be necessary to jump-start an economy.

The analyses this body of theorists produced carried weight in US foreign policy. W. W. Rostow, for example, served in both the Kennedy and Johnson administrations. The United States Agency for International Development programs based policies on the concepts of modernization theory (e.g., the Alliance for Progress, Peace Corps). And the ideas are still very much alive: many of the policy programs stemming from this era are still influential in policy-making circles today, including among planners in many poorer nations.

"The Stages of Economic Growth: A Non-Communist Manifesto" by economist Walt W. Rostow (1916–2003) is based on a 1958 series of lectures for a non-professional audience. The theory he expresses in this selection posits that all nations pass through the same five stages of economic development: preconditions for take-off, take-off, the drive to maturity, the age of high mass consumption, and beyond consumption. Rostow's views were especially attractive to planners and countries who wished to increase productivity and achieve sustained economic growth. For Rostow, technology, savings, entrepreneurialism, and the correct political systems were all key motors in moving countries along this path. He also argues that countries that begin to achieve sustained economic growth later (i.e., poorer countries) may move through the stages much faster. Regardless of the influence Rostow's ideas had on policy-makers in the United States and elsewhere, his ideas were severely critiqued by non-economist academics for making such gross generalizations about poorer countries and for only examining internal conditions as variables in obstacles to development. Despite theories of development moving drastically away from Rostow's early notions of comparative international development, his characterization of development as a relatively homogeneous experience still influences many policy recommendations for developing economies.

In his 1962 piece on "Economic Backwardness in Historical Perspective," Russian-born Harvard economic historian Alexander Gerschenkron sets out to understand how development is different in "backwards" societies. Much of his piece compared industrial development in Britain, which was the leader in sectors like textiles, to that of Russia, Germany, France, and other European countries. He observes that institutions like banks have behaved very differently in the backward countries, having to overcome structural problems in their national economies. In the case of France, for example, he points out how the old banks had to transform themselves into a sort of coordinating service for major industries. Gerschenkron also pointed to the emancipation of serfs across Europe and Russia as one of the key prerequisites for the take-off of industrialization. Emancipation was necessary, but not sufficient: in Russia, Gerschenkron observes that the state had to take on the role of banker and and leader of the economy's development, with huge national projects like the construction of the railways and heavy industries to support its military ambitions. Gerschenkron points to systemic corruption in Russia as a major problem in its precommunist development, but still heavy industry got its start, and industrialization became broader as time went on.

A core argument of Gerschenkron's is that national economies need the right *kind* of banks and government interventions for the stage of development in which they find themselves. He argues that the psychological element is also pivotal: "to break through the barriers of stagnation … what is needed to remove the mountains of routine and prejudice is faith – faith, in the words of Saint-Simon, that the golden age lies not behind but ahead of mankind … a new deal of emotions," especially among those with money. Rather than being a one-size-fits-all system of economic growth, Gerschenkron argues that "native elements" (local social norms, institutions and ideologies) will always be part of the development of backward economies. At the height of the Cold War, Gerschenkron's piece ends with a warning based on Soviet Russia's experience: that "advanced countries cannot afford to ignore economic backwardness" anywhere in the world, and that a more understanding and flexible view is needed on how development might occur.

The concept of a "culture of poverty," explained here by Oscar Lewis (1914–70), has been a subject of much debate since its introduction in the 1960s. The idea came from Lewis's observations of poor communities in Puerto Rico and Mexico. The crux of the argument is that people who live in a community where poverty is pervasive share a culture distinct from mainstream consciousness; their values, behavior, and view on society differ from the non-poor. This culture is characterized not only by material deprivation, but also by crime, alcoholism, and a lack of hope for mobility. These traits help the poor survive in the short term, but block them in the long run. In other words, it is not circumstances that determine the behavior of the poor so much as the behavior and values of the poor that seal their fate as poor. Like other modernization theorists, Lewis turned attention away from structural causes of poverty like inequality, toward causes based in the individual, family, or community. Although Lewis focused on the individual in his explanation of why poor people are poor, the work bears on more "macro" development issues as well. Because his ideas were popular, and because contemporaneous theory focused on similar explanations of poverty, the concept of a culture of poverty was extended by some to refer to whole societies, and not just a subculture, as intended by Lewis. For example, some theorists have suggested that Latin American countries had trouble developing because of traditional values and non-capitalistic behaviors.

Completing this section of classics, Harvard political scientist Samuel Huntington emphasized the disruptive nature of modernization, which he says occurs on many dimensions: it is an individual experience; it happens in many different arenas (social, educational, economic, and political); it is an interrelated process; and, although it is revolutionary in magnitude, it is a very slow process occurring in several stages. The selection by Huntington here, from his 1968 book *Political Order in Changing Societies*, suggests that a modern political system requires not only a high degree of political participation, but also a high level of political institutionalization and organization of politics. Huntington perceives these as the outcome of political modernization that goes well beyond parties, elections and leaders. Political stability in a modernized political system is only the result of a multifaceted process of change that includes organization, education, a growing middle class, and economic development.

The paradox of political modernization that Huntington identifies is that although the result is a stable political system that allows for universal participation, getting to that point means a society must pass through extremely disruptive and violent phases. He sees political systems that emerge in developing countries as symptoms of the disruption caused by rapid development. Again, while subsequent theorists have taken exception to the generalizations embedded in theories such as Huntington's, such assumptions still pervade many foreign policy and academic approaches to political modernization in the expectation that societies will ultimately "modernize" to liberal democracies. The sharpest challenges to the ideas put forward in these classic texts came first from the developing world itself, as we'll see in the following section.

Notes

1 Karl Marx, *The Eighteenth Brumaire of Louis Bonaparte* (1852), in Karl Marx and Friedrich Engels, *Collected Works*, vol. 11 (London: Lawrence & Wishart, 1979).
2 Samuel Huntington, "The Change to Change: Modernization, Development, and Politics," *Comparative Politics*, 3 (April 1971), p. 288.
3 Bert F. Hoselitz, *Sociological Aspects of Economic Growth* (Glencoe, IL: Free Press, 1964).
4 D. C. McClelland, *The Achieving Society* (Princeton: Van Nostrand, 1961).
5 Daniel Lerner, *The Passing of Traditional Society* (Glencoe, IL: Free Press, 1958).
6 Everett Hagen, *On the Theory of Social Change* (Homewood, IL: Dorsey Press, 1962).
7 Gino Germani, "Stages in Modernization in Latin America," *Studies in Comparative International Development*, 5.8 (1969–70).

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Manifesto of the Communist Party (1848) and Alienated Labour (1844)

Karl Marx and Friedrich Engels

Manifesto of the Communist Party

[…]

Bourgeois and Proletarians

The history of all hitherto existing society is the history of class struggles.

Freeman and slave, patrician and plebeian, lord and serf, guild-master and journeyman, in a word, oppressor and oppressed, stood in constant opposition to one another, carried on an uninterrupted, now hidden, now open fight, a fight that each time ended, either in a revolutionary re-constitution of society at large, or in the common ruin of the contending classes.

In the earlier epochs of history, we find almost everywhere a complicated arrangement of society into various orders, a manifold gradation of social rank. In ancient Rome we have patricians, knights, plebeians, slaves; in the Middle Ages, feudal lords, vassals, guild-masters, journeymen, apprentices, serfs; in almost all of these classes, again, subordinate gradations.

The modern bourgeois society that has sprouted from the ruins of feudal society, has not done away with class antagonisms. It has but established new classes, new conditions of oppression, new forms of struggle in place of the old ones.

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Our epoch, the epoch of the bourgeoisie, possesses, however, this distinctive feature: it has simplified the class antagonisms. Society as a whole is more and more splitting up into two great hostile camps, into two great classes directly facing each other: Bourgeoisie and Proletariat.

From the serfs of the Middle Ages sprang the chartered burghers of the earliest towns. From these burgesses the first elements of the bourgeoisie were developed.

The discovery of America, the rounding of the Cape, opened up fresh ground for the rising bourgeoisie. The East Indian and Chinese markets, the [colonisation] of America, trade with the colonies, the increase in the means of exchange and in commodities generally, gave to commerce, to navigation, to industry, an impulse never before known, and thereby, to the revolutionary element in the tottering feudal society, a rapid development.

The feudal system of industry, under which industrial production was monopolised by close guilds, now no longer sufficed for the growing wants of the new markets. The manufacturing system took its place. The guild-masters were pushed on one side by the manufacturing middle class; division of labour between the different corporate guilds vanished in the face of division of labour in each single workshop.

Meantime the markets kept ever growing, the demand, ever rising. Even manufacture no longer sufficed. Thereupon, steam and machinery revolutionised industrial production. The place of manufacture was taken by the giant, Modern Industry, the place of the industrial middle class, by industrial millionaires, the leaders of whole industrial armies, the modern bourgeois.

Modern industry has established the world-market, for which the discovery of America paved the way. This market has given an immense development to commerce, to navigation, to communication by land. This development has, in its turn, reacted on the extension of industry; and in proportion as industry, commerce, navigation, railways extended, in the same proportion the bourgeoisie developed, increased its capital, and pushed into the background every class handed down from the Middle Ages.

We see, therefore, how the modern bourgeoisie is itself the product of a long course of development, of a series of revolutions in the modes of production and of exchange.

Each step in the development of the bourgeoisie was accompanied by a corresponding political advance of that class. An oppressed class under the sway of the feudal nobility, an armed and self-governing association in the mediaeval commune; here independent urban republic (as in Italy and Germany), there taxable "third estate" of the monarchy (as in France), afterwards, in the period of manufacture proper, serving either the semi-feudal or the absolute monarchy as a counterpoise against the nobility, and, in fact, corner-stone of the great monarchies in general, the bourgeoisie has at last, since the establishment of Modern Industry and of the world-market, conquered for itself, in the modern representative State, exclusive political sway. The executive of the modern State is but a committee for managing the common affairs of the whole bourgeoisie.

The bourgeoisie, historically, has played a most revolutionary part.

The bourgeoisie, wherever it has got the upper hand, has put an end to all feudal, patriarchal, idyllic relations. It has pitilessly torn asunder the motley feudal ties that bound man to his "natural superiors," and has left remaining no other nexus between man and man than naked self-interest, than callous "cash payment." It has drowned the most heavenly ecstasies of religious fervour, of chivalrous enthusiasm, of philistine sentimentalism, in the icy water of egotistical calculation. It has resolved personal worth into exchange value, and in place of the numberless indefensible chartered freedoms, has set up that single, unconscionable freedom – Free Trade. In one word, for exploitation, veiled by religious and political illusions, it has substituted naked, shameless, direct, brutal exploitation.

The bourgeoisie has stripped of its halo every occupation hitherto honoured and looked up to with reverent awe. It has converted the physician, the lawyer, the priest, the poet, the man of science, into its paid wage-labourers.

The bourgeoisie has torn away from the family its sentimental veil, and has reduced the family relation to a mere money relation.

The bourgeoisie has disclosed how it came to pass that the brutal display of vigour in the Middle Ages, which Reactionists so much admire, found its fitting complement in the most slothful indolence. It has been the first to show what man's activity can bring about. It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals; it has conducted expeditions that put in the shade all former Exoduses of nations and crusades.

The bourgeoisie cannot exist without constantly revolutionising the instruments of production, and thereby the relations of production, and with them the whole relations of society. Conservation of the old modes of production in unaltered form, was, on the contrary, the first condition of existence for all earlier industrial classes. Constant revolutionising of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses, his real conditions of life, and his relations with his kind.

The need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle everywhere, establish connexions everywhere.

The bourgeoisie has through its exploitation of the world-market given a cosmopolitan character to production and consumption in every country. To the great chagrin of Reactionists, it has drawn from under the feet of industry the national ground on which it stood. All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilised nations, by industries that no longer work up indigenous raw material, but raw material drawn from the remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe. In place of the old wants, satisfied by the productions of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes. In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal inter-dependence of nations. And as in material, so also in intellectual production. The intellectual creations of individual nations become common property. National one-sidedness and narrow-mindedness become more and more impossible, and from the numerous national and local literatures there arises a world-literature.

The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilisation. The cheap prices of its commodities are the heavy artillery with which it batters down all Chinese walls, with which it forces the barbarians' intensely obstinate hatred of foreigners to capitulate. It compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilisation into their midst, i.e., to become bourgeois themselves. In one word, it creates a world after its own image.

The bourgeoisie has subjected the country to the rule of the towns. It has created enormous cities, has greatly increased the urban population as compared with the rural, and has thus rescued a considerable part of the population from the idiocy of rural life. Just as it has made the country dependent on the towns, so it has made barbarian and semi-barbarian countries dependent on the civilised ones, nations of peasants on nations of bourgeois, the East on the West.

The bourgeoisie keeps more and more doing away with the scattered state of the population, of the means of production, and of property. It has agglomerated population, centralised means of production, and has concentrated property in a few hands. The necessary consequence of this was political centralisation. Independent, or but loosely connected provinces, with separate interests, laws, governments and systems of taxation, became lumped together into one nation, with one government, one code of laws, one national class-interest, one frontier and one customs-tariff.

The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together. Subjection of Nature's forces to man, machinery, application of chemistry to industry and agriculture, steam-navigation, railways, electric telegraphs, clearing of whole continents for cultivation, canalisation of rivers, whole populations conjured out of the ground – what earlier century had even a presentiment that such productive forces slumbered in the lap of social labour?

We see then: the means of production and of exchange on whose foundation the bourgeoisie built itself up, were generated in feudal society. At a certain stage in the development of these means of production and of exchange, the conditions under which feudal society produced and exchanged, the feudal organisation of agriculture and manufacturing industry, in one word, the feudal relations of property became no longer compatible with the already developed productive forces; they became so many fetters. They had to burst asunder; they were burst asunder.

Into their places stepped free competition, accompanied by a social and political constitution adapted to it, and by the economical and political sway of the bourgeois class.

A similar movement is going on before our own eyes. Modern bourgeois society with its relations of production, of exchange and of property, a society that has conjured up such gigantic means of production and of exchange, is like the sorcerer, who is no longer able to control the powers of the nether world whom he has called up by his spells. For many a decade past the history of industry and commerce is but the history of the revolt of modern productive forces against modern conditions of production, against the property relations that are the conditions for the existence of the bourgeoisie and of its rule. It is enough to mention the commercial crises that by their periodical return put on its trial, each time more threateningly, the existence of the entire bourgeois society. In these crises a great part not only of the existing products, but also of the previously created productive forces, are periodically destroyed. In these crises there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity – the epidemic of over-production. Society suddenly finds itself put back into a state of momentary barbarism; it appears as if a famine, a universal war of devastation had cut off the supply of every means of subsistence; industry and commerce seem to be destroyed; and why? Because there is too much civilisation, too much means of subsistence, too much industry, too much commerce. The productive forces at the disposal of society no longer tend to further the development of the conditions of bourgeois property; on the contrary, they have become too powerful for these conditions, by which they are fettered, and so soon as they overcome these fetters, they bring disorder into the whole of bourgeois society, endanger the existence of bourgeois property. The conditions of bourgeois society are too narrow to comprise the wealth created by them. And how does the bourgeoisie get over these crises? On the one hand by enforced destruction of a mass of productive forces; on the other, by the conquest of new markets, and by the more thorough exploitation of the old ones. That is to say, by paving the way for more extensive and more destructive crises, and by diminishing the means whereby crises are prevented.

The weapons with which the bourgeoisie felled feudalism to the ground are now turned against the bourgeoisie itself.

But not only has the bourgeoisie forged the weapons that bring death to itself; it has also called into existence the men who are to wield those weapons – the modern working class – the proletarians.

In proportion as the bourgeoisie, i.e., capital, is developed, in the same proportion is the proletariat, the modern working class, developed – a class of labourers, who live only so long as they find work, and who find work only so long as their labour increases capital. These labourers, who must sell themselves piecemeal, are a commodity, like every other article of commerce, and are consequently exposed to all the vicissitudes of competition, to all the fluctuations of the market.

Owing to the extensive use of machinery and to division of labour, the work of the proletarians has lost all individual character, and, consequently, all charm for the workman. He becomes an appendage of the machine, and it is only the most simple, most monotonous, and most easily acquired knack, that is required of him. Hence, the cost of production of a workman is restricted, almost entirely, to the means of subsistence that he requires for his maintenance, and for the propagation of his race. But the price of a commodity, and also of labour, is equal to its cost of production. In proportion, therefore, as the repulsiveness of the work increases, the wage decreases. Nay more, in proportion as the use of machinery and division of labour increases, in the same proportion the burden of toil also increases, whether by prolongation of the working hours, by increase of the work exacted in a given time, or by increased speed of the machinery, etc.

Modern industry has converted the little workshop of the patriarchal master into the great factory of the industrial capitalist. Masses of labourers, crowded into the factory, are organised like soldiers. As privates of the industrial army they are placed under the command of a perfect hierarchy of officers and sergeants. Not only are they the slaves of the bourgeois class, and of the bourgeois State; they are daily and hourly enslaved by the machine, by the over-looker, and, above all, by the individual bourgeois manufacturer himself. The more openly this despotism proclaims gain to be its end and aim, the more petty, the more hateful and the more embittering it is.

The less the skill and exertion or strength implied in manual labour, in other words, the more modern industry becomes developed, the more is the labour of men superseded by that of women. Differences of age and sex have no longer any distinctive social validity for the working class. All are instruments of labour, more or less expensive to use, according to their age and sex.

No sooner is the exploitation of the labourer by the manufacturer, so far, at an end, that he receives his wages in cash, than he is set upon by the other portions of the bourgeoisie, the landlord, the shopkeeper, the pawnbroker, etc.

The lower strata of the middle class – the small tradespeople, shopkeepers, and retired tradesmen generally, the handicraftsmen and peasants – all these sink gradually into the proletariat, partly because their diminutive capital does not suffice for the scale on which Modern Industry is carried on, and is swamped in the competition with the large capitalists, partly because their specialised skill is rendered worthless by new methods of production. Thus the proletariat is recruited from all classes of the population.

The proletariat goes through various stages of development. With its birth begins its struggle with the bourgeoisie. At first the contest is carried on by individual labourers, then by the work-people of a factory, then by the operatives of one trade, in one locality, against the individual bourgeois who directly exploits them. They direct their attacks not against the bourgeois conditions of production, but against the instruments of production themselves; they destroy imported wares that compete with their labour, they smash to pieces machinery, they set factories ablaze, they seek to restore by force the vanished status of the workman of the Middle Ages.

At this stage the labourers still form an incoherent mass scattered over the whole country, and broken up by their mutual competition. If anywhere they unite to form more compact bodies, this is not yet the consequence of their own active union, but of the union of the bourgeoisie, which class, in order to attain its own political ends, is compelled to set the whole proletariat in motion, and is moreover yet, for a time, able to do so. At this stage, therefore, the proletarians do not fight their enemies, but the enemies of their enemies, the remnants of absolute monarchy, the landowners, the non-industrial bourgeois, the petty bourgeoisie. Thus the whole historical movement is concentrated in the hands of the bourgeoisie; every victory so obtained is a victory for the bourgeoisie.

But with the development of industry the proletariat not only increases in number; it becomes concentrated in greater masses, its strength grows, and it feels that strength more. The various interests and conditions of life with the ranks of the proletariat are more and more equalised, in proportion as machinery obliterates all distinctions of labour, and nearly everywhere reduces wages to the same low level. The growing competition among the bourgeois, and the resulting commercial crises, make the wages of the workers ever more fluctuating. The unceasing improvement of machinery, ever more rapidly developing, makes their livelihood more and more precarious; the collisions between individual workmen and individual bourgeois take more and more the character of collisions between two classes. Thereupon the workers begin to form combinations (Trades Unions) against the bourgeois; they club together in order to keep up the rate of wages; they found permanent associations in order to make provision beforehand for these occasional revolts. Here and there the contest breaks out into riots.

Now and then the workers are victorious, but only for a time. The real fruit of their battles lies, not in the immediate result, but in the ever-expanding union of the workers. This union is helped on by the improved means of communication that are created by modern industry, and that place the workers of different localities in contact with one another. It was just this contact that was needed to centralise the numerous local struggles, all of the same character, into one national struggle between classes. But every class struggle is a political struggle. And that union, to attain which the burghers of the Middle Ages, with their miserable highways, required centuries, the modern proletarians, thanks to railways, achieve in a few years.

This organisation of the proletarians into a class, and consequently into a political party, is continually being upset again by the competition between the workers themselves. But it ever rises up again, stronger, firmer, mightier. It compels legislative recognition of particular interests of the workers, by taking advantage of the divisions among the bourgeoisie itself. Thus the ten-hours' bill in England was carried.

Altogether collisions between the classes of the old society further, in many ways, the course of development of the proletariat. The bourgeoisie finds itself involved in a constant battle. At first with the aristocracy; later on, with those portions of the bourgeoisie itself, whose interests have become antagonistic to the progress of industry; at all times, with the bourgeoisie of foreign countries. In all these battles it sees itself compelled to appeal to the proletariat, to ask for its help, and thus, to drag it into the political arena. The bourgeoisie itself, therefore, supplies the proletariat with its own elements of political and general education, in other words, it furnishes the proletariat with weapons for fighting the bourgeoisie.

Further, as we have already seen, entire sections of the ruling classes are, by the advance of industry, precipitated into the proletariat, or are at least threatened in their conditions of existence. These also supply the proletariat with fresh elements of enlightenment and progress.

Finally, in times when the class struggle nears the decisive hour, the process of dissolution going on within the ruling class, in fact with the whole range of old society, assumes such a violent, glaring character, that a small section of the ruling class cuts itself adrift, and joins the revolutionary class, the class that holds the future in its hands. Just as, therefore, at an earlier period, a section of the nobility went over to the bourgeoisie, so now a portion of the bourgeoisie goes over to the proletariat, and in particular, a portion of the bourgeois ideologists, who have raised themselves to the level of comprehending theoretically the historical movements as a whole.

Of all the classes that stand face to face with the bourgeoisie today, the proletariat alone is a really revolutionary class. The other classes decay and finally disappear in the face of Modern Industry; the proletariat is its special and essential product.

The lower-middle class, the small manufacturer, the shopkeeper, the artisan, the peasant, all these fight against the bourgeoisie, to save from extinction their existence as fractions of the middle class. They are therefore not revolutionary, but conservative. Nay more, they are reactionary, for they try to roll back the wheel of history. If by chance they are revolutionary, they are so, only in view of their impending transfer into the proletariat, they thus defend not their present, but their future interests, they desert their own standpoint to place themselves at that of the proletariat.

The "dangerous class," the social scum, that passively rotting mass thrown off by the lowest layers of old society, may, here and there, be swept into the movement by a proletarian revolution; its conditions of life, however, prepare it far more for the part of a bribed tool of reactionary intrigue.

In the conditions of the proletariat, those of old society at large are already virtually swamped. The proletarian is without property; his relation to his wife and children has no longer anything in common with the bourgeois family-relations; modern industrial labour, modern subjection to capital, the same in England as in France, in America as in Germany, has stripped him of every trace of national character. Law, morality, religion, are to him so many bourgeois prejudices, behind which lurk in ambush just as many bourgeois interests.

All the preceding classes that got the upper hand, sought to fortify their already acquired status by subjecting society at large to their conditions of appropriation. The proletarians cannot become masters of the productive forces of society, except by abolishing their own previous mode of appropriation, and thereby also every other previous mode of appropriation. They have nothing of their own to secure and to fortify; their mission is to destroy all previous securities for, and insurances of, individual property.

All previous historical movements were movements of minorities, or in the interest of minorities. The proletarian movement is the self-conscious, independent movement of the immense majority, in the interest of the immense majority. The proletariat, the lowest stratum of our present society, cannot stir, cannot raise itself up, without the whole superincumbent strata of official society being sprung into the air.

Though not in substance, yet in form, the struggle of the proletariat with the bourgeoisie is at first a national struggle. The proletariat of each country must, of course, first of all settle matters with its own bourgeoisie.

In depicting the most general phases of the development of the proletariat, we traced the more or less veiled civil war, raging within existing society, up to the point where that war breaks out into open revolution, and where the violent overthrow of the bourgeoisie, lays the foundation for the sway of the proletariat.

Hitherto, every form of society has been based, as we have already seen, on the antagonism of oppressing and oppressed classes. But in order to oppress a class, certain conditions must be assured to it under which it can, at least, continue its slavish existence. The serf, in the period of serfdom, raised himself to membership in the commune, just as the petty bourgeois, under the yoke of feudal absolutism, managed to develop into a bourgeois. The modern labourer, on the contrary, instead of rising with the progress of industry, sinks deeper and deeper below the conditions of existence of his own class. He becomes a pauper, and pauperism develops more rapidly than population and wealth. And here it becomes evident, that the bourgeoisie is unfit any longer to be the ruling class in society, and to impose its conditions of existence upon society as an over-riding law. It is unfit to rule, because it is incompetent to assure an existence to its slave within his slavery, because it cannot help letting him sink into such a state, that it has to feed him, instead of being fed by him. Society can no longer live under this bourgeoisie, in other words, its existence is no longer compatible with society.

The essential condition for the existence, and for the sway of the bourgeois class, is the formation and augmentation of capital; the condition for capital is wage-labour. Wage-labour rests exclusively on competition between the labourers. The advance of industry, whose involuntary promoter is the bourgeoisie, replaces the isolation of the labourers, due to competition, by their involuntary combination, due to association. The development of Modern Industry, therefore, cuts from under its feet the very foundation on which the bourgeoisie produces and appropriates products. What the bourgeoisie therefore produces, above all, is its own grave-diggers. Its fall and the victory of the proletariat are equally inevitable.

[…]

Alienated Labour

[…]

We shall begin from a *contemporary* economic fact. The worker becomes poorer the more wealth he produces and the more his production increases in power and extent. The worker becomes an ever cheaper commodity the more goods he creates. The *devaluation* of the human world increases in direct relation with the *increase in value* of the world of things. Labour does not only create goods; it also produces itself and the worker as a *commodity*, and indeed in the same proportion as it produces goods.

This fact simply implies that the object produced by labour, its product, now stands opposed to it as an *alien being*, as a *power independent* of the producer. The product of labour is labour which has been embodied in an object and turned into a physical thing; this product is an *objectification* of labour. The performance of work is at the same time its objectification. The performance of work appears in the sphere of political economy as a *vitiation* [debasement] of the worker, objectification as a *loss* and as *servitude to the object*, and appropriation as *alienation*.

So much does the performance of work appear as vitiation that the worker is vitiated to the point of starvation. So much does objectification appear as loss of the object that the worker is deprived of the most essential things not only of life but also of work. Labour itself becomes an object which he can acquire only by the greatest effort and with unpredictable interruptions. So much does the appropriation of the object appear as alienation that the more objects the worker produces the fewer he can possess and the more he falls under the domination of his product, of capital.

All these consequences follow from the fact that the worker is related to the *product of his labour* as to an *alien* object. For it is clear on this presupposition that the more the worker expends himself in work the more powerful becomes the world of objects which he creates in face of himself, the poorer he becomes in his inner life, and the less he belongs to himself. It is just the same as in religion. The more of himself man attributes to God the less he has left in himself. The worker puts his life into the object, and his life then belongs no longer to himself but to the object. The greater his activity, therefore, the less he possesses. What is embodied in the product of his labour is no longer his own. The greater this product is, therefore, the more he is diminished. The *alienation* of the worker in his product means not only that his labour becomes an object, assumes an *external* existence, but that it exists independently, *outside himself*, and alien to him, and that it stands opposed to him as an autonomous power. The life which he has given to the object sets itself against him as an alien and hostile force.

[…]

(The alienation of the worker in his object is expressed as follows in the laws of political economy: The more the worker produces the less he has to consume; the more value he creates the more worthless he becomes; the more refined his product the more crude and misshapen the worker; the more civilised the product the more barbarous the worker; the more powerful the work the more feeble the worker; the more the work manifests intelligence the more the worker declines in intelligence and becomes a slave of nature.)

Political economy conceals the alienation in the nature of labour insofar as it does not examine the direct relationship between the worker (work) and production. Labour certainly produces marvels for the rich but it produces privation for the worker. It produces palaces, but hovels for the worker. It produces beauty, but deformity for the worker. It replaces labour by machinery, but it casts some of the workers back into a barbarous kind of work and turns the others into machines. It produces intelligence, but also stupidity and cretinism for the workers.

The direct relationship of labour to its products is the relationship of the worker to the objects of his production. The relationship of property owners to the objects of production and to production itself is merely a *consequence* of this first relationship and confirms it… .

2

The Protestant Ethic and the Spirit of Capitalism (1905)

Max Weber

[…]

In order to understand the connection between the fundamental religious ideas of ascetic Protestantism and its maxims for everyday economic conduct, it is necessary to examine with especial care such writings as have evidently been derived from ministerial practice. For in a time in which the beyond meant everything, when the social position of the Christian depended upon his admission to the communion, the clergyman, through his ministry, Church discipline, and preaching, exercised an influence … which we modern men are entirely unable to picture. In such a time the religious forces which express themselves through such channels are the decisive influences in the formation of national character.

For [present] purposes we can treat ascetic Protestantism as a single whole. But since that side of English Puritanism which was derived from Calvinism gives the most consistent religious basis for the idea of the calling, we shall place one of its representatives at the centre of the discussion. Richard Baxter stands out above many other writers on Puritan ethics… .

Now, in glancing at Baxter's *Saints' Everlasting Rest*, or his *Christian Directory*, or similar works of others, one is struck at first glance by the emphasis placed, in the discussion of wealth and its acquisition, on the ebionitic elements of the New Testament. Wealth as such is a great danger; its temptations never end, and its pursuit is not only senseless as compared with the dominating importance of the Kingdom of

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God, but it is morally suspect. Here asceticism seems to have turned much more sharply against the acquisition of earthly goods than it did in Calvin, who saw no hindrance to the effectiveness of the clergy in their wealth, but rather a thoroughly desirable enhancement of their prestige. Hence he permitted them to employ their means profitably. Examples of the condemnation of the pursuit of money and goods may be gathered without end from Puritan writings, and may be contrasted with the late mediæval ethical literature, which was much more open-minded on this point.

Moreover, these doubts were meant with perfect seriousness; only it is necessary to examine them somewhat more closely in order to understand their true ethical significance and implications. The real moral objection is to relaxation in the security of possession, the enjoyment of wealth with the consequence of idleness and the temptations of the flesh, above all of distraction from the pursuit of a righteous life. In fact, it is only because possession involves this danger of relaxation that it is objectionable at all. For the saints' everlasting rest is in the next world; on earth man must, to be certain of his state of grace, "do the works of him who sent him, as long as it is yet day". Not leisure and enjoyment, but only activity serves to increase the glory of God, according to the definite manifestations of His will.

Waste of time is thus the first and in principle the deadliest of sins. The span of human life is infinitely short and precious to make sure of one's own election. Loss of time through sociability, idle talk, luxury, even more sleep than is necessary for health, six to at most eight hours, is worthy of absolute moral condemnation. It does not yet hold, with Franklin, that time is money, but the proposition is true in a certain spiritual sense. It is infinitely valuable because every hour lost is lost to labour for the glory of God. Thus inactive contemplation is also valueless, or even directly reprehensible if it is at the expense of one's daily work. For it is less pleasing to God than the active performance of His will in a calling… .

Accordingly, Baxter's principal work is dominated by the continually repeated, often almost passionate preaching of hard, continuous bodily or mental labour. It is due to a combination of two different motives. Labour is, on the one hand, an approved ascetic technique, as it always has been in the Western Church, in sharp contrast not only to the Orient but to almost all monastic rules the world over. It is in particular the specific defence against all those temptations which Puritanism united under the name of the unclean life, whose rôle for it was by no means small. The sexual asceticism of Puritanism differs only in degree, not in fundamental principle, from that of monasticism; and on account of the Puritan conception of marriage, its practical influence is more far-reaching than that of the latter. For sexual intercourse is permitted, even within marriage, only as the means willed by God for the increase of His glory according to the commandment, "Be fruitful and multiply." Along with a moderate vegetable diet and cold baths, the same prescription is given for all sexual temptations as is used against religious doubts and a sense of moral unworthiness: "Work hard in your calling." But the most important thing was that even beyond that labour came to be considered in itself the end of life, ordained as such by God. St Paul's "He who will not work shall not eat" holds unconditionally for everyone. Unwillingness to work is symptomatic of the lack of grace.

Here the difference from the mediæval view-point becomes quite evident. Thomas Aquinas also gave an interpretation of that statement of St Paul. But for him labour is only necessary *naturali ratione* for the maintenance of individual and community. Where this end is achieved, the precept ceases to have any meaning. Moreover, it holds only for the race, not for every individual. It does not apply to anyone who can live without labour on his possessions, and of course contemplation, as a spiritual form of action in the Kingdom of God, takes precedence over the commandment in its literal sense. Moreover, for the popular theology of the time, the highest form of monastic productivity lay in the increase of the *Thesaurus ecclesiæ* through prayer and chant.

Not only do these exceptions to the duty to labour naturally no longer hold for Baxter, but he holds most emphatically that wealth does not exempt anyone from the unconditional command. Even the wealthy shall not eat without working, for even though they do not need to labour to support their own needs, there is God's commandment which they, like the poor, must obey. For everyone without exception God's Providence has prepared a calling, which he should profess and in which he should labour. And this calling is not, as it was for the Lutheran, a fate to which he must submit and which he must make the best of, but God's commandment to the individual to work for the divine glory. This seemingly subtle difference had far-reaching psychological consequences, and became connected with a further development of the providential interpretation of the economic order which had begun in scholasticism.

The phenomenon of the division of labour and occupations in society had, among others, been interpreted by Thomas Aquinas, to whom we may most conveniently refer, as a direct consequence of the divine scheme of things. But the places assigned to each man in this cosmos follow *ex causis naturalibus* and are fortuitous (contingent in the Scholastic terminology). The differentiation of men into the classes and occupations established through historical development became for Luther, as we have seen, a direct result of the divine will. The perseverance of the individual in the place and within the limits which God had assigned to him was a religious duty… .

But in the Puritan view, the providential character of the play of private economic interests takes on a somewhat different emphasis. True to the Puritan tendency to pragmatic interpretations, the providential purpose of the division of labour is to be known by its fruits. On this point Baxter expresses himself in terms which more than once directly recall Adam Smith's well-known apotheosis of the division of labour. The specialization of occupations leads, since it makes the development of skill possible, to a quantitative and qualitative improvement in production, and thus serves the common good, which is identical with the good of the greatest possible number. So far, the motivation is purely utilitarian, and is closely related to the customary view-point of much of the secular literature of the time.

But the characteristic Puritan element appears when Baxter sets at the head of his discussion the statement that "outside of a well-marked calling the accomplishments of a man are only casual and irregular, and he spends more time in idleness than at work", and when he concludes it as follows: "and he [the specialized worker] will carry out his work in order while another remains in constant confusion, and his business knows neither time nor place … therefore is a certain calling the best for everyone". Irregular work, which the ordinary labourer is often forced to accept, is often unavoidable, but always an unwelcome state of transition. A man without a calling thus lacks the systematic, methodical character which is, as we have seen, demanded by worldly asceticism.

The Quaker ethic also holds that a man's life in his calling is an exercise in ascetic virtue, a proof of his state of grace through his conscientiousness, which is expressed in the care and method with which he pursues his calling. What God demands is not labour in itself, but rational labour in a calling. In the Puritan concept of the calling the emphasis is always placed on this methodical character of worldly asceticism, not, as with Luther, on the acceptance of the lot which God has irretrievably assigned to man.

Hence the question whether anyone may combine several callings is answered in the affirmative, if it is useful for the common good or one's own, and not injurious to anyone, and if it does not lead to unfaithfulness in one of the callings. Even a change of calling is by no means regarded as objectionable, if it is not thoughtless and is made for the purpose of pursuing a calling more pleasing to God, which means, on general principles, one more useful.

It is true that the usefulness of a calling, and thus its favour in the sight of God, is measured primarily in moral terms, and thus in terms of the importance of the goods produced in it for the community. But a further, and, above all, in practice the most important, criterion is found in private profitableness. For if that God, whose hand the Puritan sees in all the occurrences of life, shows one of His elect a chance of profit, he must do it with a purpose. Hence the faithful Christian must follow the call by taking advantage of the opportunity.

> If God show you a way in which you may lawfully get more than in another way (without wrong to your soul or to any other), if you refuse this, and choose the less gainful way, you cross one of the ends of your calling, and you refuse to be God's steward, and to accept His gifts and use them for Him when He requireth it: you may labour to be rich for God, though not for the flesh and sin.

Wealth is thus bad ethically only in so far as it is a temptation to idleness and sinful enjoyment of life, and its acquisition is bad only when it is with the purpose of later living merrily and without care. But as a performance of duty in a calling it is not only morally permissible, but actually enjoined. The parable of the servant who was rejected because he did not increase the talent which was entrusted to him seemed to say so directly. To wish to be poor was, it was often argued, the same as wishing to be unhealthy; it is objectionable as a glorification of works and derogatory to the glory of God. Especially begging, on the part of one able to work, is not only the sin of slothfulness, but a violation of the duty of brotherly love according to the Apostle's own word.

The emphasis on the ascetic importance of a fixed calling provided an ethical justification of the modern specialized division of labour. In a similar way the providential interpretation of profit-making justified the activities of the business man. The superior indulgence of the *seigneur* and the parvenu ostentation of the *nouveau riche* are equally detestable to asceticism. But, on the other hand, it has the highest ethical appreciation of the sober, middle-class, self-made man. "God blesseth His trade" is a stock remark about those good men who had successfully followed the divine hints. The whole power of the God of the Old Testament, who rewards His people for their obedience in this life, necessarily exercised a similar influence on the Puritan who, following Baxter's advice, compared his own state of grace with that of the heroes of the Bible, and in the process interpreted the statements of the Scriptures as the articles of a book of statutes.

Of course, the words of the Old Testament were not entirely without ambiguity. We have seen that Luther first used the concept of the calling in the secular sense in translating a passage from Jesus Sirach. But the book of Jesus Sirach belongs, with the whole atmosphere expressed in it, to those parts of the broadened Old Testament with a distinctly traditionalistic tendency, in spite of Hellenistic influences. It is characteristic that down to the present day this book seems to enjoy a special favour among Lutheran German peasants, just as the Lutheran influence in large sections of German Pietism has been expressed by a preference for Jesus Sirach.

The Puritans repudiated the Apocrypha as not inspired, consistently with their sharp distinction between things divine and things of the flesh. But among the canonical books that of Job had all the more influence. On the one hand it contained a grand conception of the absolute sovereign majesty of God, beyond all human comprehension, which was closely related to that of Calvinism. With that, on the other hand, it combined the certainty which, though incidental for Calvin, came to be of great importance for Puritanism, that God would bless His own in this life – in the book of Job only – and also in the material sense. The Oriental quietism, which appears in several of the finest verses of the Psalms and in the Proverbs, was interpreted away, just as Baxter did with the traditionalistic tinge of the passage in the 1st Epistle to the Corinthians, so important for the idea of the calling.

But all the more emphasis was placed on those parts of the Old Testament which praise formal legality as a sign of conduct pleasing to God. They held the theory that the Mosaic Law had only lost its validity through Christ in so far as it contained ceremonial or purely historical precepts applying only to the Jewish people, but that otherwise it had always been valid as an expression of the natural law, and must hence be retained. This made it possible, on the one hand, to eliminate elements which could not be reconciled with modern life. But still, through its numerous related features, Old Testament morality was able to give a powerful impetus to that spirit of self-righteous and sober legality which was so characteristic of the worldly asceticism of this form of Protestantism.

Thus when authors, as was the case with several contemporaries as well as later writers, characterize the basic ethical tendency of Puritanism, especially in England, as English Hebraism they are, correctly understood, not wrong. It is necessary, however, not to think of Palestinian Judaism at the time of the writing of the Scriptures, but of Judaism as it became under the influence of many centuries of formalistic, legalistic, and Talmudic education. Even then one must be very careful in drawing parallels. The general tendency of the older Judaism toward a naïve acceptance of life as such was far removed from the special characteristics of Puritanism. It was, however, just as far – and this ought not to be overlooked – from the economic ethics of mediæval and modern Judaism, in the traits which determined the positions of both in the development of the capitalistic ethos. The Jews stood on the side of the politically and speculatively oriented adventurous capitalism; their ethos was, in a word, that of pariah-capitalism. But Puritanism carried the ethos of the rational organization of capital and labour. It took over from the Jewish ethic only what was adapted to this purpose.

To analyse the effects on the character of peoples of the penetration of life with Old Testament norms – a tempting task which, however, has not yet satisfactorily been done even for Judaism – would be impossible within the limits of this sketch. In addition to the relationships already pointed out, it is important for the general inner attitude of the Puritans, above all, that the belief that they were God's chosen people saw in them a great renaissance. Even the kindly Baxter thanked God that he was born in England, and thus in the true Church, and nowhere else. This thankfulness for one's own perfection by the grace of God penetrated the attitude toward life of the Puritan middle class, and played its part in developing that formalistic, hard, correct character which was peculiar to the men of that heroic age of capitalism.

Let us now try to clarify the points in which the Puritan idea of the calling and the premium it placed upon ascetic conduct was bound directly to influence the development of a capitalistic way of life. As we have seen, this asceticism turned with all its force against one thing: the spontaneous enjoyment of life and all it had to offer. This is perhaps most characteristically brought out in the struggle over the *Book of Sports* which James I and Charles I made into law expressly as a means of counteracting Puritanism, and which the latter ordered to be read from all the pulpits. The fanatical opposition of the Puritans to the ordinances of the King, permitting certain popular amusements on Sunday outside of Church hours by law, was not only explained by the disturbance of the Sabbath rest, but also by resentment against the intentional diversion from the ordered life of the saint, which it caused. And, on his side, the King's threats of severe punishment for every attack on the legality of those sports were motivated by his purpose of breaking the anti-authoritarian ascetic tendency of Puritanism, which was so dangerous to the State. The feudal and monarchical forces protected the pleasure seekers against the rising middle-class morality and the anti-authoritarian ascetic conventicles, just as to-day capitalistic society tends to protect those willing to work against the class morality of the proletariat and the anti-authoritarian trade union.

As against this the Puritans upheld their decisive characteristic, the principle of ascetic conduct. For otherwise the Puritan aversion to sport, even for the Quakers, was by no means simply one of principle. Sport was accepted if it served a rational purpose, that of recreation necessary for physical efficiency. But as a means for the spontaneous expression of undisciplined impulses, it was under suspicion; and in so far as it became purely a means of enjoyment, or awakened pride, raw instincts or the irrational gambling instinct, it was of course strictly condemned. Impulsive enjoyment of life, which leads away both from work in a calling and from religion, was as such the enemy of rational asceticism, whether in the form of seigneurial sports, or the enjoyment of the dance-hall or the public-house of the common man.

Its attitude was thus suspicious and often hostile to the aspects of culture without any immediate religious value. It is not, however, true that the ideals of Puritanism implied a solemn, narrow-minded contempt of culture. Quite the contrary is the case at least for science, with the exception of the hatred of Scholasticism. Moreover, the great men of the Puritan movement were thoroughly steeped in the culture of the Renaissance… .

But the situation is quite different when one looks at non-scientific literature, and especially the fine arts. Here asceticism descended like a frost on the life of "Merrie old England." And not only worldly merriment felt its effect. The Puritan's ferocious hatred of everything which smacked of superstition, of all survivals of magical or sacramental salvation, applied to the Christmas festivities and the May Pole and all spontaneous religious art… .

The theatre was obnoxious to the Puritans, and with the strict exclusion of the erotic and of nudity from the realm of toleration, a radical view of either literature or art could not exist. The conceptions of idle talk, of superfluities, and of vain ostentation, all designations of an irrational attitude without objective purpose, thus not ascetic, and especially not serving the glory of God, but of man, were always at hand to serve in deciding in favour of sober utility as against any artistic tendencies. This was especially true in the case of decoration of the person, for instance clothing. That powerful tendency toward uniformity of life, which to-day so immensely aids the capitalistic interest in the standardization of production, had its ideal foundations in the repudiation of all idolatry of the flesh.

[…]

Although we cannot here enter upon a discussion of the influence of Puritanism in all these directions, we should call attention to the fact that the toleration of pleasure in cultural goods, which contributed to purely æsthetic or athletic enjoyment, certainly always ran up against one characteristic limitation: they must not cost anything. Man is only a trustee of the goods which have come to him through God's grace. He must, like the servant in the parable, give an account of every penny entrusted to him, and it is at least hazardous to spend any of it for a purpose which does not serve the glory of God but only one's own enjoyment. What person, who keeps his eyes open, has not met representatives of this view-point even in the present? The idea of a man's duty to his possessions, to which he subordinates himself as an obedient steward, or even as an acquisitive machine, bears with chilling weight on his life. The greater the possessions the heavier, if the ascetic attitude toward life stands the test, the feeling of responsibility for them, for holding them undiminished for the glory of God and increasing them by restless effort. The origin of this type of life also extends in certain roots, like so many aspects of the spirit of capitalism, back into the Middle Ages. But it was in the ethic of ascetic Protestantism that it first found a consistent ethical foundation. Its significance for the development of capitalism is obvious.

This worldly Protestant asceticism, as we may recapitulate up to this point, acted powerfully against the spontaneous enjoyment of possessions; it restricted consumption, especially of luxuries. On the other hand, it had the psychological effect of freeing the acquisition of goods from the inhibitions of traditionalistic ethics. It broke the bonds of the impulse of acquisition in that it not only legalized it, but (in the sense discussed) looked upon it as directly willed by God. The campaign against the temptations of the flesh, and the dependence on external things, was, as besides the Puritans the great Quaker apologist Barclay expressly says, not a struggle against the rational acquisition, but against the irrational use of wealth.

But this irrational use was exemplified in the outward forms of luxury which their code condemned as idolatry of the flesh, however natural they had appeared to the feudal mind. On the other hand, they approved the rational and utilitarian uses of wealth which were willed by God for the needs of the individual and the community. They did not wish to impose mortification on the man of wealth, but the use of his means for necessary and practical things. The idea of comfort characteristically limits the extent of ethically permissible expenditures. It is naturally no accident that the development of a manner of living consistent with that idea may be observed earliest and most clearly among the most consistent representatives of this whole attitude toward life. Over against the glitter and ostentation of feudal magnificence which, resting on an unsound economic basis, prefers a sordid elegance to a sober simplicity, they set the clean and solid comfort of the middle-class home as an ideal.

On the side of the production of private wealth, asceticism condemned both dishonesty and impulsive avarice. What was condemned as covetousness, Mammonism, etc., was the pursuit of riches for their own sake. For wealth in itself was a temptation. But here asceticism was the power "which ever seeks the good but ever creates evil"; what was evil in its sense was possession and its temptations, For, in conformity with the Old Testament and in analogy to the ethical valuation of good works, asceticism looked upon the pursuit of wealth as an end in itself as highly reprehensible; but the attainment of it as a fruit of labour in a calling was a sign of God's blessing. And even more important: the religious valuation of restless, continuous, systematic work in a worldly calling, as the highest means to asceticism, and at the same time the surest and most evident proof of rebirth and genuine faith, must have been the most powerful conceivable lever for the expansion of that attitude toward life which we have here called the spirit of capitalism.

When the limitation of consumption is combined with this release of acquisitive activity, the inevitable practical result is obvious: accumulation of capital through ascetic compulsion to save. The restraints which were imposed upon the consumption of wealth naturally served to increase it by making possible the productive investment of capital. How strong this influence was is not, unfortunately, susceptible of exact statistical demonstration. In New England the connection is so evident that it did not escape the eye of so discerning a historian as Doyle. But also in Holland, which was really only dominated by strict Calvinism for seven years, the greater simplicity of life in the more seriously religious circles, in combination with great wealth, led to an excessive propensity to accumulation.

That, furthermore, the tendency which has existed everywhere and at all times, being quite strong in Germany to-day, for middle-class fortunes to be absorbed into the nobility, was necessarily checked by the Puritan antipathy to the feudal way of life, is evident. English Mercantilist writers of the seventeenth century attributed the superiority of Dutch capital to English to the circumstance that newly acquired wealth there did not regularly seek investment in land. Also, since it is not simply a question of the purchase of land, it did not there seek to transfer itself to feudal habits of life, and thereby to remove itself from the possibility of capitalistic investment. The high esteem for agriculture as a peculiarly important branch of activity, also especially consistent with piety, which the Puritans shared, applied (for instance in Baxter) not to the landlord, but to the yeoman and farmer, in the eighteenth century not to the squire, but the rational cultivator. Through the whole of English society in the time since the seventeenth century goes the conflict between the squirearchy, the representatives of "merrie old England", and the Puritan circles of widely varying social influence. Both elements, that of an unspoiled naïve joy of life, and of a strictly regulated, reserved self-control, and conventional ethical conduct are even to-day combined to form the English national character. Similarly, the early history of the North American Colonies is dominated by the sharp contrast of the adventurers, who wanted to set up plantations with the labour of indentured servants, and live as feudal lords, and the specifically middle-class outlook of the Puritans.

As far as the influence of the Puritan outlook extended, under all circumstances – and this is, of course, much more important than the mere encouragement of capital accumulation – it favoured the development of a rational bourgeois economic life; it was the most important, and above all the only consistent influence in the development of that life. It stood at the cradle of the modern economic man.

To be sure, these Puritanical ideals tended to give way under excessive pressure from the temptations of wealth, as the Puritans themselves knew very well. With great regularity we find the most genuine adherents of Puritanism among the classes which were rising from a lowly status, the small bourgeois and farmers, while the *beati possidentes*, even among Quakers, are often found tending to repudiate the old ideals. It was the same fate which again and again befell the predecessor of this worldly asceticism, the monastic asceticism of the Middle Ages. In the latter case, when rational economic activity had worked out its full effects by strict regulation of conduct and limitation of consumption, the wealth accumulated either succumbed directly to the nobility, as in the time before the Reformation, or monastic discipline threatened to break down, and one of the numerous reformations became necessary.

In fact the whole history of monasticism is in a certain sense the history of a continual struggle with the problem of the secularizing influence of wealth. The same is true on a grand scale of the worldly asceticism of Puritanism. The great revival of Methodism, which preceded the expansion of English industry toward the end of the eighteenth century, may well be compared with such a monastic reform. We may hence quote here a passage from John Wesley himself which might well serve as a motto for everything which has been said above… .

> I fear, wherever riches have increased, the essence of religion has decreased in the same proportion. Therefore I do not see how it is possible, in the nature of things, for any revival of true religion to continue long. For religion must necessarily produce both industry and frugality, and these cannot but produce riches. But as riches increase, so will pride, anger, and love of the world in all its branches. How then is it possible that Methodism, that is, a religion of the heart, though it flourishes now as a green bay tree, should continue in this state? For the Methodists in every place grow diligent and frugal; consequently they increase in goods. Hence they proportionately increase in pride, in anger, in the desire of the flesh, the desire of the eyes, and the pride of life. So, although the form of religion remains, the spirit is swiftly vanishing away. Is there no way to prevent this – this continual decay of pure religion? We ought not to prevent people from being diligent and frugal; *we must exhort all Christians to gain all they can, and to save all they can; that is, in effect, to grow rich.*

[…]

As Wesley here says, the full economic effect of those great religious movements, whose significance for economic development lay above all in their ascetic educative influence, generally came only after the peak of the purely religious enthusiasm was past. Then the intensity of the search for the Kingdom of God commenced gradually to pass over into sober economic virtue; the religious roots died out slowly, giving way to utilitarian worldliness …

[…]

A specifically bourgeois economic ethic had grown up. With the consciousness of standing in the fullness of God's grace and being visibly blessed by Him, the bourgeois business man, as long as he remained within the bounds of formal correctness, as long as his moral conduct was spotless and the use to which he put his wealth was not objectionable, could follow his pecuniary interests as he would and feel that he was fulfilling a duty in doing so. The power of religious asceticism provided him in addition with sober, conscientious, and unusually industrious workmen, who clung to their work as to a life purpose willed by God.

Finally, it gave him the comforting assurance that the unequal distribution of the goods of this world was a special dispensation of Divine Providence, which in these differences, as in particular grace, pursued secret ends unknown to men. Calvin himself had made the much-quoted statement that only when the people, i.e. the mass of labourers and craftsmen, were poor did they remain obedient to God. In the Netherlands (Pieter de la Court and others), that had been secularized to the effect that the mass of men only labour when necessity forces them to do so. This formulation of a leading idea of capitalistic economy later entered into the current theories of the productivity of low wages. Here also, with the dying out of the religious root, the utilitarian interpretation crept in unnoticed, in the line of development which we have again and again observed.

Mediæval ethics not only tolerated begging but actually glorified it in the mendicant orders… . It remained for Puritan Asceticism to take part in the severe English Poor Relief Legislation which fundamentally changed the situation. And it could do that, because the Protestant sects and the strict Puritan communities actually did not know any begging in their own midst.

On the other hand, seen from the side of the workers, the Zinzendorf branch of Pietism, for instance, glorified the loyal worker who did not seek acquisition, but lived according to the apostolic model, and was thus endowed with the *charisma* of the disciples. Similar ideas had originally been prevalent among the Baptists in an even more radical form.

Now naturally the whole ascetic literature of almost all denominations is saturated with the idea that faithful labour, even at low wages, on the part of those whom life offers no other opportunities, is highly pleasing to God. In this respect Protestant Asceticism added in itself nothing new. But it not only deepened this idea most powerfully, it also created the force which was alone decisive for its effectiveness: the psychological sanction of it through the conception of this labour as a calling, as the best, often in the last analysis the only means of attaining certainty of grace. And on the other hand it legalized the exploitation of this specific willingness to work, in that it also interpreted the employer's business activity as a calling. It is obvious how powerfully the exclusive search for the Kingdom of God only through the fulfilment of duty in the calling, and the strict asceticism which Church discipline naturally imposed, especially on the propertyless classes, was bound to affect the productivity of labour in the capitalistic sense of the word. The treatment of labour as a calling became as characteristic of the modern worker as the corresponding attitude toward acquisition of the business man… .

Calvinism opposed organic social organization in the fiscal-monopolistic form which it assumed in Anglicanism under the Stuarts, especially in the conceptions of Laud, this alliance of Church and State with the monopolists on the basis of a Christian-social ethical foundation. Its leaders were universally among the most passionate opponents of this type of politically privileged commercial, putting-out, and colonial capitalism. Over against it they placed the individualistic motives of rational legal acquisition by virtue of one's own ability and initiative. And, while the politically privileged monopoly industries in England all disappeared in short order, this attitude played a large and decisive part in the development of the industries which grew up in spite of and against the authority of the State. The Puritans (Prynne, Parker) repudiated all connection with the large-scale capitalistic courtiers and projectors as an ethically suspicious class. On the other hand, they took pride in their own superior middle-class business morality, which formed the true reason for the persecutions to which they were subjected on the part of those circles. Defoe proposed to win the battle against dissent by boycotting bank credit and withdrawing deposits. The difference of the two types of capitalistic attitude went to a very large extent hand in hand with religious differences. The opponents of the

Nonconformists, even in the eighteenth century, again and again ridiculed them for personifying the spirit of shopkeepers, and for having ruined the ideals of old England. Here also lay the difference of the Puritan economic ethic from the Jewish; and contemporaries (Prynne) knew well that the former and not the latter was the bourgeois capitalistic ethic.

One of the fundamental elements of the spirit of modern capitalism, and not only of that but of all modern culture: rational conduct on the basis of the idea of the calling, was born – that is what this discussion has sought to demonstrate – from the spirit of Christian asceticism. One has only to re-read the passage from Franklin, quoted at the beginning of this essay, in order to see that the essential elements of the attitude which was there called the spirit of capitalism are the same as what we have just shown to be the content of the Puritan worldly asceticism, only without the religious basis, which by Franklin's time had died away… .

The Puritan wanted to work in a calling; we are forced to do so. For when asceticism was carried out of monastic cells into everyday life, and began to dominate worldly morality, it did its part in building the tremendous cosmos of the modern economic order. This order is now bound to the technical and economic conditions of machine production which to-day determine the lives of all the individuals who are born into this mechanism, not only those directly concerned with economic acquisition, with irresistible force. Perhaps it will so determine them until the last ton of fossilized coal is burnt. In Baxter's view the care for external goods should only lie on the shoulders of the "saint like a light cloak, which can be thrown aside at any moment". But fate decreed that the cloak should become an iron cage.

Since asceticism undertook to remodel the world and to work out its ideals in the world, material goods have gained an increasing and finally an inexorable power over the lives of men as at no previous period in history. To-day the spirit of religious asceticism – whether finally, who knows? – has escaped from the cage. But victorious capitalism, since it rests on mechanical foundations, needs its support no longer. The rosy blush of its laughing heir, the Enlightenment, seems also to be irretrievably fading, and the idea of duty in one's calling prowls about in our lives like the ghost of dead religious beliefs. Where the fulfilment of the calling cannot directly be related to the highest spiritual and cultural values, or when, on the other hand, it need not be felt simply as economic compulsion, the individual generally abandons the attempt to justify it at all. In the field of its highest development, in the United States, the pursuit of wealth, stripped of its religious and ethical meaning, tends to become associated with purely mundane passions, which often actually give it the character of sport.

No one knows who will live in this cage in the future, or whether at the end of this tremendous development entirely new prophets will arise, or there will be a great rebirth of old ideas and ideals, or, if neither, mechanized petrification, embellished with a sort of convulsive self-importance. For of the last stage of this cultural development, it might well be truly said: "Specialists without spirit, sensualists without heart; this nullity imagines that it has attained a level of civilization never before achieved."

But this brings us to the world of judgments of value and of faith, with which this purely historical discussion need not be burdened. The next task would be rather to show the significance of ascetic rationalism, which has only been touched in the foregoing sketch, for the content of practical social ethics, thus for the types of organization and the functions of social groups from the conventicle to the State. Then its relations to humanistic rationalism, its ideals of life and cultural influence; further to the development of philosophical and scientific empiricism, to technical development and to spiritual ideals would have to be analysed. Then its historical development from the mediæval beginnings of worldly asceticism to its dissolution into pure utilitarianism would have to be traced out through all the areas of ascetic religion. Only then could the quantitative cultural significance of ascetic Protestantism in its relation to the other plastic elements of modern culture be estimated.

Here we have only attempted to trace the fact and the direction of its influence to their motives in one, though a very important point. But it would also further be necessary to investigate how Protestant Asceticism was in turn influenced in its development and its character by the totality of social conditions, especially economic. The modern man is in general, even with the best will, unable to give religious ideas a significance for culture and national character which they deserve. But it is, of course, not my aim to substitute for a one-sided materialistic an equally one-sided spiritualistic causal interpretation of culture and of history. Each is equally possible, but each, if it does not serve as the preparation, but as the conclusion of an investigation, accomplishes equally little in the interest of historical truth.

3

The Stages of Economic Growth: A Non-Communist Manifesto (1960)

W. W. Rostow

The Five Stages-of-Growth – A Summary

It is possible to identify all societies, in their economic dimensions, as lying within one of five categories: the traditional society, the preconditions for take-off, the take-off, the drive to maturity, and the age of high mass-consumption.

The Traditional Society

First, the traditional society. A traditional society is one whose structure is developed within limited production functions, based on pre-Newtonian science and technology, and on pre-Newtonian attitudes towards the physical world. Newton is here used as a symbol for that watershed in history when men came widely to believe that the external world was subject to a few knowable laws, and was systematically capable of productive manipulation.

The conception of the traditional society is, however, in no sense static; and it would not exclude increases in output. Acreage could be expanded; some *ad hoc* technical innovations, often highly productive innovations, could be introduced in trade, industry and agriculture; productivity could rise with, for example, the improvement of irrigation works or the discovery and diffusion of a new crop. But

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the central fact about the traditional society was that a ceiling existed on the level of attainable output per head. This ceiling resulted from the fact that the potentialities which flow from modern science and technology were either not available or not regularly and systematically applied.

Both in the longer past and in recent times the story of traditional societies was thus a story of endless change. The area and volume of trade within them and between them fluctuated, for example, with the degree of political and social turbulence, the efficiency of central rule, the upkeep of the roads. Population – and, within limits, the level of life – rose and fell not only with the sequence of the harvests, but with the incidence of war and of plague. Varying degrees of manufacture developed; but, as in agriculture, the level of productivity was limited by the inaccessibility of modern science, its applications, and its frame of mind.

Generally speaking, these societies, because of the limitation on productivity, had to devote a very high proportion of their resources to agriculture; and flowing from the agricultural system there was an hierarchical social structure, with relatively narrow scope – but some scope – for vertical mobility. Family and clan connexions played a large role in social organization. The value system of these societies was generally geared to what might be called a long-run fatalism; that is, the assumption that the range of possibilities open to one's grandchildren would be just about what it had been for one's grandparents. But this long-run fatalism by no means excluded the short-run option that, within a considerable range, it was possible and legitimate for the individual to strive to improve his lot, within his lifetime. In Chinese villages, for example, there was an endless struggle to acquire or to avoid losing land, yielding a situation where land rarely remained within the same family for a century.

Although central political rule – in one form or another – often existed in traditional societies, transcending the relatively self-sufficient regions, the centre of gravity of political power generally lay in the regions, in the hands of those who owned or controlled the land. The landowner maintained fluctuating but usually profound influence over such central political power as existed, backed by its entourage of civil servants and soldiers, imbued with attitudes and controlled by interests transcending the regions.

In terms of history then, with the phrase "traditional society" we are grouping the whole pre-Newtonian world: the dynasties in China; the civilization of the Middle East and the Mediterranean; the world of medieval Europe. And to them we add the post-Newtonian societies which, for a time, remained untouched or unmoved by man's new capability for regularly manipulating his environment to his economic advantage.

To place these infinitely various, changing societies in a single category, on the ground that they all shared a ceiling on the productivity of their economic techniques, is to say very little indeed. But we are, after all, merely clearing the way in order to get at the subject of this book; that is, the post-traditional societies, in which each of the major characteristics of the traditional society was altered in such ways as to permit regular growth: its politics, social structure, and (to a degree) its values, as well as its economy.

The Preconditions for Take-Off

The second stage of growth embraces societies in the process of transition; that is, the period when the preconditions for take-off are developed; for it takes time to transform a traditional society in the ways necessary for it to exploit the fruits of modern science, to fend off diminishing returns, and thus to enjoy the blessings and choices opened up by the march of compound interest.

The preconditions for take-off were initially developed, in a clearly marked way, in Western Europe of the late seventeenth and early eighteenth centuries as the insights of modern science began to be translated into new production functions in both agriculture and industry, in a setting given dynamism by the lateral expansion of world markets and the international competition for them. But all that lies behind the break-up of the Middle Ages is relevant to the creation of the preconditions for take-off in Western Europe. Among the Western European states, Britain, favoured by geography, natural resources, trading possibilities, social and political structure, was the first to develop fully the preconditions for take-off.

The more general case in modern history, however, saw the stage of preconditions arise not endogenously but from some external intrusion by more advanced societies. These invasions – literal or figurative – shocked the traditional society and began or hastened its undoing; but they also set in motion ideas and sentiments which initiated the process by which a modern alternative to the traditional society was constructed out of the old culture.

The idea spreads not merely that economic progress is possible, but that economic progress is a necessary condition for some other purpose, judged to be good: be it national dignity, private profit, the general welfare, or a better life for the children. Education, for some at least, broadens and changes to suit the needs of modern economic activity. New types of enterprising men come forward – in the private economy, in government, or both – willing to mobilize savings and to take risks in pursuit of profit or modernization. Banks and other institutions for mobilizing capital appear. Investment increases, notably in transport, communications, and in raw materials in which other nations may have an economic interest. The scope of commerce, internal and external, widens. And, here and there, modern manufacturing enterprise appears, using the new methods. But all this activity proceeds at a limited pace within an economy and a society still mainly characterized by traditional low-productivity methods, by the old social structure and values, and by the regionally based political institutions that developed in conjunction with them.

In many recent cases, for example, the traditional society persisted side by side with modern economic activities, conducted for limited economic purposes by a colonial or quasi-colonial power.

Although the period of transition – between the traditional society and the take-off – saw major changes in both the economy itself and in the balance of social values, a decisive feature was often political. Politically, the building of an effective centralized national state – on the basis of coalitions touched with a new nationalism, in opposition to the traditional landed regional interests, the colonial power, or both, was a decisive aspect of the preconditions period; and it was, almost universally, a necessary condition for take-off.

There is a great deal more that needs to be said about the preconditions period, but we shall leave it for chapter 3, where the anatomy of the transition from a traditional to a modern society is examined.

The Take-Off

We come now to the great watershed in the life of modern societies: the third stage in this sequence, the take-off. The take-off is the interval when the old blocks and resistances to steady growth are finally overcome. The forces making for economic progress, which yielded limited bursts and enclaves of modern activity, expand and come to dominate the society. Growth becomes its normal condition. Compound interest becomes built, as it were, into its habits and institutional structure.

In Britain and the well-endowed parts of the world populated substantially from Britain (the United States, Canada, etc.) the proximate stimulus for take-off was mainly (but not wholly) technological. In the more general case, the take-off awaited not only the build-up of social overhead capital and a surge of technological development in industry and agriculture, but also the emergence to political power of a group prepared to regard the modernization of the economy as serious, high-order political business.

During the take-off, the rate of effective investment and savings may rise from, say, 5 per cent of the national income to 10 per cent or more; although where heavy social overhead capital investment was required to create the technical preconditions for take-off the investment rate in the preconditions period could be higher than 5 per cent, as, for example, in Canada before the 1890s and Argentina before 1914. In such cases capital imports usually formed a high proportion of total investment in the preconditions period and sometimes even during the take-off itself, as in Russia and Canada during their pre-1914 railway booms.

During the take-off new industries expand rapidly, yielding profits a large proportion of which are reinvested in new plant; and these new industries, in turn, stimulate, through their rapidly expanding requirement for factory workers, the services to support them, and for other manufactured goods, a further expansion in urban areas and in other modern industrial plants. The whole process of expansion in the modern sector yields an increase of income in the hands of those who not only save at high rates but place their savings at the disposal of those engaged in modern sector activities. The new class of entrepreneurs expands; and it directs the enlarging flows of investment in the private sector. The economy exploits hitherto unused natural resources and methods of production.

New techniques spread in agriculture as well as industry, as agriculture is commercialized, and increasing numbers of farmers are prepared to accept the new methods and the deep changes they bring to ways of life. The revolutionary changes in agricultural productivity are an essential condition for successful take-off; for modernization of a society increases radically its bill for agricultural products. In a decade or two both the basic structure of the economy and the social and political structure of the society are transformed in such a way that a steady rate of growth can be, thereafter, regularly sustained.

As indicated in a later chapter, one can approximately allocate the take-off of Britain to the two decades after 1783; France and the United States to the several decades preceding 1860; Germany, the third quarter of the nineteenth century; Japan, the fourth quarter of the nineteenth century; Russia and Canada the quarter-century or so preceding 1914; while during the 1950s India and China have, in quite different ways, launched their respective take-offs.

The Drive to Maturity

After take-off there follows a long interval of sustained if fluctuating progress, as the now regularly growing economy drives to extend modern technology over the whole front of its economic activity. Some 10–20 per cent of the national income is steadily invested, permitting output regularly to outstrip the increase in population. The make-up of the economy changes unceasingly as technique improves, new industries accelerate, older industries level off. The economy finds its place in the international economy: goods formerly imported are produced at home; new import requirements develop, and new export commodities to match them. The society makes such terms as it will with the requirements of modern efficient production, balancing off the new against the older values and institutions, or revising the latter in such ways as to support rather than to retard the growth process.

Some sixty years after take-off begins (say, forty years after the end of take-off) what may be called maturity is generally attained. The economy, focused during the take-off around a relatively narrow complex of industry and technology, has extended its range into more refined and technologically often more complex processes; for example, there may be a shift in focus from the coal, iron, and heavy engineering industries of the railway phase to machine-tools, chemicals, and electrical equipment. This, for example, was the transition through which Germany, Britain, France, and the United States had passed by the end of the nineteenth century or shortly thereafter. But there are other sectoral patterns which have been followed in the sequence from take-off to maturity, which are considered in a later chapter.

Formally, we can define maturity as the stage in which an economy demonstrates the capacity to move beyond the original industries which powered its take-off and to absorb and to apply efficiently over a very wide range of its resources – if not the whole range – the most advanced fruits of (then) modern technology. This is the stage in which an economy demonstrates that it has the technological and entrepreneurial skills to produce not everything, but anything that it chooses to produce. It may lack (like contemporary Sweden and Switzerland, for example) the raw materials or other supply conditions required to produce a given type of output economically;

but its dependence is a matter of economic choice or political priority rather than a technological or institutional necessity.

Historically, it would appear that something like sixty years was required to move a society from the beginning of take-off to maturity. Analytically the explanation for some such interval may lie in the powerful arithmetic of compound interest applied to the capital stock, combined with the broader consequences for a society's ability to absorb modern technology of three successive generations living under a regime where growth is the normal condition. But, clearly, no dogmatism is justified about the exact length of the interval from take-off to maturity.

The Age of High Mass-Consumption

We come now to the age of high mass-consumption, where, in time, the leading sectors shift towards durable consumers' goods and services: a phase from which Americans are beginning to emerge; whose not unequivocal joys Western Europe and Japan are beginning energetically to probe; and with which Soviet society is engaged in an uneasy flirtation.

As societies achieved maturity in the twentieth century two things happened: real income per head rose to a point where a large number of persons gained a command over consumption which transcended basic food, shelter, and clothing; and the structure of the working force changed in ways which increased not only the proportion of urban to total population, but also the proportion of the population working in offices or in skilled factory jobs – aware of and anxious to acquire the consumption fruits of a mature economy.

In addition to these economic changes, the society ceased to accept the further extension of modern technology as an overriding objective. It is in this post-maturity stage, for example, that, through the political process, Western societies have chosen to allocate increased resources to social welfare and security. The emergence of the welfare state is one manifestation of a society's moving beyond technical maturity; but it is also at this stage that resources tend increasingly to be directed to the production of consumers' durables and to the diffusion of services on a mass basis, if consumers' sovereignty reigns. The sewing-machine, the bicycle, and then the various electric-powered household gadgets were gradually diffused. Historically, however, the decisive element has been the cheap mass automobile with its quite revolutionary effects – social as well as economic – on the life and expectations of society.

For the United States, the turning point was, perhaps, Henry Ford's moving assembly line of 1913–14; but it was in the 1920s, and again in the post-war decade, 1946–56, that this stage of growth was pressed to, virtually, its logical conclusion. In the 1950s Western Europe and Japan appear to have fully entered this phase, accounting substantially for a momentum in their economies quite unexpected in the immediate post-war years. The Soviet Union is technically ready for this stage, and, by every sign, its citizens hunger for it; but Communist leaders face difficult political and social problems of adjustment if this stage is launched.

Beyond Consumption

Beyond, it is impossible to predict, except perhaps to observe that Americans, at least, have behaved in the past decade as if diminishing relative marginal utility sets in, after a point, for durable consumers' goods; and they have chosen, at the margin, larger families – behaviour in the pattern of Buddenbrooks dynamics. Americans have behaved as if, having been born into a system that provided economic security and high mass-consumption, they placed a lower valuation on acquiring additional increments of real income in the conventional form as opposed to the advantages and values of an enlarged family. But even in this adventure in generalization it is a shade too soon to create – on the basis of one case – a new stage-of-growth, based on babies, in succession to the age of consumers' durables: as economists might say, the income-elasticity of demand for babies may well vary from society to society. But it is true that the implications of the baby boom along with the not wholly unrelated deficit in social overhead capital are likely to dominate the American economy over the next decade rather than the further diffusion of consumers' durables.

Here then, in an impressionistic rather than an analytic way, are the stages-of-growth which can be distinguished once a traditional society begins its modernization: the transitional period when the preconditions for take-off are created generally in response to the intrusion of a foreign power, converging with certain domestic forces making for modernization; the take-off itself; the sweep into maturity generally taking up the life of about two further generations; and then, finally, if the rise of income has matched the spread of technological virtuosity (which, as we shall see, it need not immediately do) the diversion of the fully mature economy to the provision of durable consumers' goods and services (as well as the welfare state) for its increasingly urban – and then suburban – population. Beyond lies the question of whether or not secular spiritual stagnation will arise, and, if it does, how man might fend it off: a matter considered in a later chapter.

In the four chapters that follow we shall take a harder, and more rigorous look at the preconditions, the take-off, the drive to maturity, and the processes which have led to the age of high mass-consumption. But even in this introductory chapter one characteristic of this system should be made clear.

A Dynamic Theory of Production

These stages are not merely descriptive. They are not merely a way of generalizing certain factual observations about the sequence of development of modern societies. They have an inner logic and continuity. They have an analytic bone-structure, rooted in a dynamic theory of production.

The classical theory of production is formulated under essentially static assumptions which freeze – or permit only once-over change – in the variables most relevant to the process of economic growth. As modern economists have sought to merge classical production theory with Keynesian income analysis they have introduced the dynamic variables: population, technology, entrepreneurship, etc. But they have tended to do so in forms so rigid and general that their models cannot grip the essential phenomena of growth, as they appear to an economic historian. We require a dynamic theory of production which isolates not only the distribution of income between consumption, saving, and investment (and the balance of production between consumers and capital goods) but which focuses directly and in some detail on the composition of investment and on developments within particular sectors of the economy. The argument that follows is based on such a flexible, disaggregated theory of production.

When the conventional limits on the theory of production are widened, it is possible to define theoretical equilibrium positions not only for output, investment, and consumption as a whole, but for each sector of the economy.[1]

Within the framework set by forces determining the total level of output, sectoral optimum positions are determined on the side of demand, by the levels of income and of population, and by the character of tastes; on the side of supply, by the state of technology and the quality of entrepreneurship, as the latter determines the proportion of technically available and potentially profitable innovations actually incorporated in the capital stock.[2]

In addition, one must introduce an extremely significant empirical hypothesis: namely, that deceleration is the normal optimum path of a sector, due to a variety of factors operating on it, from the side of both supply and demand.[3]

The equilibria which emerge from the application of these criteria are a set of sectoral paths, from which flows, as first derivatives, a sequence of optimum patterns of investment.

Historical patterns of investment did not, of course, exactly follow these optimum patterns. They were distorted by imperfections in the private investment process, by the policies of governments, and by the impact of wars. Wars temporarily altered the profitable directions of investment by setting up arbitrary demands and by changing the conditions of supply; they destroyed capital; and, occasionally, they accelerated the development of new technology relevant to the peacetime economy and shifted the political and social framework in ways conducive to peacetime growth.[4] The historical sequence of business-cycles and trend-periods results from these deviations of actual from optimal patterns; and such fluctuations, along with the impact of wars, yield historical paths of growth which differ from those which the optima, calculated before the event, would have yielded.

Nevertheless, the economic history of growing societies takes a part of its rude shape from the effort of societies to approximate the optimum sectoral paths.

At any period of time, the rate of growth in the sectors will vary greatly; and it is possible to isolate empirically certain leading sectors, at early stages of their evolution, whose rapid rate of expansion plays an essential direct and indirect role in maintaining the overall momentum of the economy.[5] For some purposes it is useful to characterize an economy in terms of its leading sectors; and a part of the technical basis for the stages of growth lies in the changing sequence of leading sectors.

In essence it is the fact that sectors tend to have a rapid growth-phase, early in their life, that makes it possible and useful to regard economic history as a sequence of stages rather than merely as a continuum, within which nature never makes a jump.

The stages-of-growth also require, however, that elasticities of demand be taken into account, and that this familiar concept be widened; for these rapid growth phases in the sectors derive not merely from the discontinuity of production functions but also from high price- or income-elasticities of demand. Leading sectors are determined not merely by the changing flow of technology and the changing willingness of entrepreneurs to accept available innovations: they are also partially determined by those types of demand which have exhibited high elasticity with respect to price, income, or both.

The demand for resources has resulted, however, not merely from demands set up by private taste and choice, but also from social decisions and from the policies of governments – whether democratically responsive or not. It is necessary, therefore, to look at the choices made by societies in the disposition of their resources in terms which transcend conventional market processes. It is necessary to look at their welfare functions, in the widest sense, including the non-economic processes which determined them.

The course of birth-rates, for example, represents one form of welfare choice made by societies, as income has changed; and population curves reflect (in addition to changing death-rates) how the calculus about family size was made in the various stages; from the usual (but not universal) decline in birth-rates, during or soon after the take-off, as urbanization took hold and progress became a palpable possibility, to the recent rise, as Americans (and others in societies marked by high mass-consumption) have appeared to seek in larger families values beyond those afforded by economic security and by an ample supply of durable consumers' goods and services.

And there are other decisions as well that societies have made as the choices open to them have been altered by the unfolding process of economic growth; and these broad collective decisions, determined by many factors – deep in history, culture, and the active political process – outside the market-place, have interplayed with the dynamics of market demand, risk-taking, technology and entrepreneurship, to determine the specific content of the stages of growth for each society.

How, for example, should the traditional society react to the intrusion of a more advanced power: with cohesion, promptness, and vigour, like the Japanese; by making a virtue of fecklessness, like the oppressed Irish of eighteenth century; by slowly and reluctantly altering the traditional society, like the Chinese?

When independent modern nationhood is achieved, how should the national energies be disposed: in external aggression, to right old wrongs or to exploit newly created or perceived possibilities for enlarged national power; in completing and refining the political victory of the new national government over old regional interests; or in modernizing the economy?

Once growth is under way, with the take-off, to what extent should the requirements of diffusing modern technology and maximizing the rate of growth be moderated by the desire to increase consumption *per capita* and to increase welfare?

When technological maturity is reached, and the nation has at its command a modernized and differentiated industrial machine, to what ends should it be put, and in what proportions: to increase social security, through the welfare state; to expand mass-consumption into the range of durable consumers' goods and services; to increase the nation's stature and power on the world scene; or to increase leisure?

And then the question beyond, where history offers us only fragments: what to do when the increase in real income itself loses its charm? Babies, boredom, three-day week-ends, the moon, or the creation of new inner, human frontiers in substitution for the imperatives of scarcity?

In surveying now the broad contours of each stage-of-growth, we are examining, then, not merely the sectoral structure of economies, as they transformed themselves for growth, and grew; we are also examining a succession of strategic choices made by various societies concerning the disposition of their resources, which include but transcend the income- and price-elasticities of demand.

Notes

1 W. W. Rostow, *The Process of Economic Growth* (Oxford, 1953), esp. ch. IV. Also "Trends in the Allocation of Resources in Secular Growth," ch. 15 of Leon H. Dupriez (ed.), with the assistance of Douglas C. Hague, *Economic Progress* (Louvain, 1955).

2 In a closed model, a dynamic theory of production must account for changing stocks of basic and applied science, as sectoral aspects of investment, which is done in Rostow, *Process of Economic Growth*, esp. pp. 22–5.

3 Ibid., pp. 96–103.

4 Ibid., ch. VII, esp. pp. 164–7.

5 For a discussion of the leading sectors, their direct and indirect consequences, and the diverse routes of their impact, see Rostow, "Trends in the Allocation of Resources in Secular Growth."

4

Economic Backwardness in Historical Perspective (1962)

Alexander Gerschenkron

[...]

The Elements of Backwardness

A good deal of our thinking about industrialization of backward countries is dominated – consciously or unconsciously – by the grand Marxian generalization according to which it is the history of advanced or established industrial countries which traces out the road to development for the more backward countries. "The industrially more developed country presents to the less developed country a picture of the latter's future."[1] There is little doubt that in some broad sense this generalization has validity. It is meaningful to say that Germany, between the middle and the end of the last century, followed the road which England began to tread at an earlier time. But one should beware of accepting such a generalization too whole-heartedly. For the half-truth that it contains is likely to conceal the existence of the other half – that is to say, in several very important respects the development of a backward country may, by the very virtue of its backwardness, tend to differ fundamentally from that of an advanced country.

It is the main proposition of this essay that in a number of important historical instances industrialization processes, when launched at length in a backward country, showed considerable differences, as compared with more advanced countries, not only with regard to the speed of the development (the rate of industrial growth) but also with regard to the productive and organizational structures of industry which

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emerged from those processes. Furthermore, these differences in the speed and character of industrial development were to a considerable extent the result of application of institutional instruments for which there was little or no counterpart in an established industrial country. In addition, the intellectual climate within which industrialization proceeded, its "spirit" or "ideology," differed considerably among advanced and backward countries. Finally, the extent to which these attributes of backwardness occurred in individual instances appears to have varied directly with the degree of backwardness and the natural industrial potentialities of the countries concerned.

Let us first describe in general terms a few basic elements in the industrialization processes of backward countries as synthesized from the available historical information on economic development of European countries in the nineteenth century and up until the beginning of the First World War. Thereupon, on the basis of concrete examples, more will be said on the effects of what may be called "relative backwardness" upon the course of industrial development in individual countries.

The typical situation in a backward country prior to the initiation of considerable industrialization processes may be described as characterized by the tension between the actual state of economic activities in the country and the existing obstacles to industrial development, on the one hand, and the great promise inherent in such a development, on the other. The extent of opportunities that industrialization presents varied, of course, with the individual country's endowment of natural resources. Furthermore, no industrialization seemed possible, and hence no "tension" existed, as long as certain formidable institutional obstacles (such as the serfdom of the peasantry or the far-reaching absence of political unification) remained. Assuming an adequate endowment of usable resources, and assuming that the great blocks to industrialization had been removed, the opportunities inherent in industrialization may be said to vary directly with the backwardness of the country. Industrialization always seemed the more promising the greater the backlog of technological innovations which the backward country could take over from the more advanced country. Borrowed technology, so much and so rightly stressed by Veblen, was one of the primary factors assuring a high speed of development in a backward country entering the stage of industrialization. … [T]he contingency of large imports of foreign machinery and of foreign know-how, and the concomitant opportunities for rapid industrialization with the passage of time, increasingly widened the gulf between economic potentialities and economic actualities in backward countries.

The industrialization prospects of an underdeveloped country are frequently judged, and judged adversely, in terms of cheapness of labor as against capital goods and of the resulting difficulty in substituting scarce capital for abundant labor. Sometimes, on the contrary, the cheapness of labor in a backward country is said to aid greatly in the processes of industrialization. The actual situation, however, is more complex than would appear on the basis of simple models. In reality, conditions will vary from industry to industry and from country to country. But the overriding fact to consider is that industrial labor, in the sense of a stable, reliable, and disciplined group that has cut the umbilical cord connecting it with the land and has become suitable for utilization in factories, is not abundant but extremely scarce in a backward country. Creation of an industrial labor force that really deserves its name is a most difficult and protracted process. The history of Russian industry provides some striking illustrations in this respect. Many a German industrial laborer of the nineteenth century had been raised in the strict discipline of a Junker estate which presumably made him more amenable to accept the rigors of factory rules. And yet the difficulties were great, and one may recall the admiring and envious glances which, toward the very end of the century, German writers like Schulze-Gaevernitz kept casting across the Channel at the English industrial worker, "the man of the future … born and educated for the machine … [who] does not find his equal in the past." In our time, reports from industries in India repeat in a still more exaggerated form the past predicaments of European industrializations in the field of labor supply.

Under these conditions the statement may be hazarded that, to the extent that industrialization took place, it was largely by application of the most modern and efficient techniques that backward countries could hope to achieve success, particularly if their industrialization proceeded in the face of competition from the advanced country. The advantages inherent in the use of technologically superior equipment were not counteracted but reinforced by its labor-saving effect. This seems to explain the tendency on the part of backward countries to concentrate at a relatively early point of their industrialization on promotion of those branches of industrial activities in which recent technological progress had been particularly rapid; while the more advanced countries, either from inertia or from unwillingness to require or impose sacrifices implicit in a large investment program, were more hesitant to carry out continual modernizations of their plant. Clearly, there are limits to such a policy, one of them being the inability of a backward country to extend it to lines of output where very special technological skills are required. Backward countries (although not the United States) were slow to assimilate production of modern machine tools. But a branch like iron and steel production does provide a good example of the tendency to introduce most modern innovations, and it is instructive to see, for example, how German blast furnaces so very soon become superior to the English ones, while in the early years of this century blast furnaces in still more backward southern Russia were in the process of outstripping in equipment their German counterparts. Conversely, in the nineteenth century, England's superiority in cotton textile output was challenged neither by Germany nor by any other country.

To a considerable extent (as in the case of blast furnaces just cited), utilization of modern techniques required, in nineteenth-century conditions, increases in the average size of plant. Stress on bigness in this sense can be found in the history of most countries on the European continent. But industrialization of backward countries in Europe reveals a tendency toward bigness in another sense. The use of the term "industrial revolution" has been exposed to a good many justifiable strictures. But, if industrial revolution is conceived as denoting no more than cases of sudden considerable increases in the rate of industrial growth, there is little doubt that in several important instances industrial development began in such a sudden, eruptive, that is, "revolutionary," way.

The discontinuity was not accidental. As likely as not the period of stagnation (in the "physiocratic" sense of a period of low rate of growth) can be terminated and industrialization processes begun only if the industrialization movement can proceed, as it were, along a broad front, starting simultaneously along many lines of economic activities. This is partly the result of the existence of complementarity and indivisibilities in economic processes. Railroads cannot be built unless coal mines are opened up at the same time; building half a railroad will not do if an inland center is to be connected with a port city. Fruits of industrial progress in certain lines are received as external economies by other branches of industry whose progress in turn accords benefits to the former. In viewing the economic history of Europe in the nineteenth century, the impression is very strong that only when industrial development could commence on a large scale did the tension between the preindustrialization conditions and the benefits expected from industrialization become sufficiently strong to overcome the existing obstacles and to liberate the forces that made for industrial progress.

This aspect of the development may be conceived in terms of Toynbee's relation between challenge and response. His general observation that very frequently small challenges do not produce any responses and that the volume of response begins to grow very rapidly (at least up to a point) as the volume of the challenge increases seems to be quite applicable here. The challenge, that is to say, the "tension," must be considerable before a response in terms of industrial development will materialize.

The foregoing sketch purported to list a number of basic factors which historically were peculiar to economic situations in backward countries and made for higher speed of growth and different productive structure of industries. The effect of these basic factors was, however, greatly reinforced by the use in backward countries of certain institutional instruments and the acceptance of specific industrialization ideologies. Some of these specific factors and their mode of operation on various levels of backwardness are discussed in the following sections.

The Banks

The history of the Second Empire in France provides rather striking illustrations of these processes. The advent of Napoleon III terminated a long period of relative economic stagnation which had begun with the restoration of the Bourbons and which in some sense and to some extent was the result of the industrial policies pursued by Napoleon I. Through a policy of reduction of tariff duties and elimination of import prohibitions, culminating in the Cobden-Chevalier treaty of 1860, the French government destroyed the hothouse in which French industry had been kept for decades and exposed it to the stimulating atmosphere of international competition. By abolishing monopoly profits in the stagnating coal and iron production, French industry at length received profitable access to basic industrial raw materials.

To a not inconsiderable extent, the industrial development of France under Napoleon III must be attributed to that determined effort to untie the strait jacket in which weak governments and strong vested interests had inclosed the French economy. But along with these essentially, though not exclusively, negative policies of the government, French industry received a powerful positive impetus from a different quarter. The reference is to the development of industrial banking under Napoleon III.

The importance of that development has seldom been fully appreciated. Nor has it been properly understood as emanating from the specific conditions of a relatively backward economy. In particular, the story of the Crédit Mobilier of the brothers Pereire is often regarded as a dramatic but, on the whole, rather insignificant episode....

In saying that, one has in mind, of course, the immediate effects of creating financial organizations designed to build thousands of miles of railroads, drill mines, erect factories, pierce canals, construct ports, and modernize cities. The ventures of the Pereires and of a few others did all that in France and beyond the boundaries of France over vast areas stretching from Spain to Russia. This tremendous change in economic scenery took place only a few years after a great statesman and a great historian of the July monarchy assured the country that there was no need to reduce the duties on iron because the sheltered French iron production was quite able to cope with the iron needs of the railroads on the basis of his estimate of a prospective annual increase in construction by some fifteen to twenty miles.

But no less important than the actual economic accomplishments of a few men of great entrepreneurial vigor was their effect on their environment. The Crédit Mobilier was from the beginning engaged in a most violent conflict with the representatives of "old wealth" in French banking, most notably with the Rothschilds. It was this conflict that had sapped the force of the institution and was primarily responsible for its eventual collapse in 1867. But what is so seldom realized is that in the course of this conflict the "new wealth" succeeded in forcing the old wealth to adopt the policies of its opponents. The limitation of old wealth in banking policies to flotations of government loans and foreign-exchange transactions could not be maintained in the face of the new competition. When the Rothschilds prevented the Pereires from establishing the Austrian Credit-Anstalt, they succeeded only because they became willing to establish the bank themselves and to conduct it not as an old-fashioned banking enterprise but as a crédit mobilier, that is, as a bank devoted to railroadization and industrialization of the country.

This conversion of the old wealth to the creed of the new wealth points out the direction of the most far-reaching effects of the Crédit Mobilier. Occasional ventures of that sort had been in existence in Belgium, Germany, and France herself. But it was the great eruptive effect of the Pereires that profoundly influenced the history of Continental banking in Europe from the second half of the past century onward. The number of banks in various countries shaped upon the image of the Pereire bank was considerable. But more important than their slavish imitations was the creative adaptation of the basic idea of the Pereires and its incorporation in the new type of bank, the universal bank, which in Germany, along with most other countries on the Continent, became the dominant form of banking. The difference between banks of the crédit-mobilier type and commercial banks in the advanced industrial country of the time (England) was absolute. Between the English bank essentially designed to serve as a source of short-term capital and a bank designed to finance the long-run investment needs of the economy there was a complete gulf. The German banks, which may be taken as a paragon of the type of the universal bank, successfully combined the basic idea of the crédit mobilier with the short-term activities of commercial banks.

They were as a result infinitely sounder financial institutions than the Crédit Mobilier, with its enormously swollen industrial portfolio, which greatly exceeded its capital, and its dependence on favorable developments on the stock exchange for continuation of its activities. But the German banks, and with them the Austrian and Italian banks, established the closest possible relations with industrial enterprises. A German bank, as the saying went, accompanied an industrial enterprise from the cradle to the grave, from establishment to liquidation throughout all the vicissitudes of its existence. Through the device of formally short-term but in reality long-term current account credits and through development of the institution of the supervisory boards to the position of most powerful organs within corporate organizations, the banks acquired a formidable degree of ascendancy over industrial enterprises, which extended far beyond the sphere of financial control into that of entrepreneurial and managerial decisions.

It cannot be the purpose of this presentation to go into the details of this development. All that is necessary is to relate its origins and effects to the subject under discussion. The industrialization of England had proceeded without any substantial utilization of banking for long-term investment purposes. The more gradual character of the industrialization process and the more considerable accumulation of capital, first from earnings in trade and modernized agriculture and later from industry itself, obviated the pressure for developing any special institutional devices for provision of long-term capital to industry. By contrast, in a relatively backward country capital is scarce and diffused, the distrust of industrial activities is considerable, and, finally, there is greater pressure for bigness because of the scope of the industrialization movement, the larger average size of plant, and the concentration of industrialization processes on branches of relatively high ratios of capital to output. To these should be added the scarcity of entrepreneurial talent in the backward country.

It is the pressure of these circumstances which essentially gave rise to the divergent development in banking over large portions of the Continent as against England. The continental practices in the field of industrial investment banking must be conceived as specific instruments of industrialization in a backward country. It is here essentially that lies the historical and geographic locus of theories of economic development that assign a central role to processes of forced saving by the money-creating activities of banks. As will be shown presently, however; use of such instruments must be regarded as specific, not to backward countries in general, but rather to countries whose backwardness does not exceed certain limits. And even within the latter for a rather long time it was mere collection and distribution of available funds in which the banks were primarily engaged. This circumstance, of course, did not detract from the paramount importance of such activities on the part of the banks during the earlier industrialization periods with their desperate shortages of capital for industrial ventures.

The effects of these policies were far-reaching. All the basic tendencies inherent in industrial development in backward countries were greatly emphasized and magnified by deliberate attitudes on the part of the banks. From the outset of this evolution the banks were primarily attracted to certain lines of production to the neglect, if not virtual exclusion, of others. To consider Germany until the outbreak of World War I, it was essentially coal mining, iron- and steelmaking, electrical and general engineering, and heavy chemical output which became the primary sphere of activities of German banks. The textile industry, the leather industry, and the foodstuff-producing industries remained on the fringes of the banks' interest. To use modern terminology, it was heavy rather than light industry to which the attention was devoted.

Furthermore, the effects were not confined to the productive structure of industry. They extended to its organizational structure. The last three decades of the nineteenth century were marked by a rapid concentration movement in banking. This process indeed went on in very much the same way on the other side of the English Channel. But in Britain, because of the different nature of relations between banks and industry, the process was not paralleled by a similar development in industry.

It was different in Germany. The momentum shown by the cartelization movement of German industry cannot be fully explained, except as the natural result of the amalgamation of German banks. It was the mergers in the field of banking that kept placing banks in the positions of controlling competing enterprises. The banks refused to tolerate fratricidal struggles among their children. From the vantage point of centralized control, they were at all times quick to perceive profitable opportunities of cartelization and amalgamation of industrial enterprises. In the process, the average size of plant kept growing, and at the same time the interests of the banks and their assistance were even more than before devoted to those branches of industry where cartelization opportunities were rife.

Germany thus had derived full advantages from being a relatively late arrival in the field of industrial development, that is to say, from having been preceded by England. But, as a result, German industrial economy, because of specific methods used in the catching-up process, developed along lines not insignificantly different from those in England.

The State

The German experience can be generalized. Similar developments took place in Austria, or rather in the western sections of the Austrian-Hungarian Empire, in Italy, in Switzerland, in France, in Belgium, and in other countries, even though there were differences among the individual countries. But it certainly cannot be generalized for the European continent as a whole, and this for two reasons: (1) because of the existence of certain backward countries where no comparable features of industrial development can be discovered and (2) because of the existence of countries where the basic elements of backwardness appear in such an accentuated form as to lead to the use of essentially different institutional instruments of industrialization.

Little need be said with reference to the first type of country. The industrial development of Denmark may serve as an appropriate illustration. Surely, that country was still very backward as the nineteenth century entered upon its second half. Yet no comparable sudden spurts of industrialization and no peculiar emphasis on heavy industries could be observed. The reasons must be sought, on the one hand, in the paucity of the country's natural resources and, on the other hand, in the great opportunities for agricultural improvement that were inherent in the proximity of the English market. The peculiar response did not materialize because of the absence of the challenge.

Russia may be considered as the clearest instance of the second type of country. The characteristic feature of economic conditions in Russia was not only that the great spurt of modern industrialization came in the middle of the 1880s, that is to say, more than three decades after the beginning of rapid industrialization in Germany; even more important was the fact that at the starting point the level of economic development in Russia had been incomparably lower than that of countries such as Germany and Austria.

The main reason for the abysmal economic backwardness of Russia was the preservation of serfdom until the emancipation of 1861. In a certain sense, this very fact may be attributed to the play of a curious mechanism of economic backwardness, and a few words of explanation may be in order. In the course of its process of territorial expansion, which over a few centuries transferred the small duchy of Moscow into the huge land mass of modern Russia, the country became increasingly involved in military conflicts with the West. This involvement revealed a curious internal conflict between the tasks of the Russian government that were "modern" in the contemporaneous sense of the word and the hopelessly backward economy of the country on which the military policies had to be based. As a result, the economic development in Russia at several important junctures assumed the form of a peculiar series of sequences: (1) Basic was the fact that the state, moved by its military interest, assumed the role of the primary agent propelling the economic progress in the country. (2) The fact that economic development thus became a function of military exigencies imparted a peculiarly jerky character to the course of that development; it proceeded fast whenever military necessities were pressing and subsided as the military pressures relaxed. (3) This mode of economic progress by fits and starts implied that, whenever a considerable upsurge of economic activities was required, a very formidable burden was placed on the shoulders of the generations whose lifespan happened to coincide with the period of intensified development. (4) In order to exact effectively the great sacrifices it required, the government had to subject the reluctant population to a number of severe measures of oppression lest the burdens imposed be evaded by escape to the frontier regions in the southeast and east. (5) Precisely because of the magnitude of the governmental exactions, a period of rapid development was very likely to give way to prolonged stagnation, because the great effort had been pushed beyond the limits of physical endurance of the population and long periods of economic stagnation were the inevitable consequences. The sequences just mentioned present in a schematic way a pattern of Russian economic development in past centuries which fits best the period of the reforms under Peter the Great, but its applicability is by no means confined to that period.

What must strike the observer of this development is its curiously paradoxical course. While trying, as Russia did under Peter the Great, to adopt Western techniques, to raise output and the skills of the population to levels more closely approaching those of the West, Russia by virtue of this very effort was in some other respects thrown further away from the West. Broadly speaking, placing the trammels of serfdom upon the Russian peasantry must be understood as the obverse side of the processes of Westernization. Peter the Great did not institute serfdom in Russia, but perhaps more than anyone else he did succeed in making it effective. When in subsequent periods, partly because of point 2 and partly because of point 5 above, the state withdrew from active promotion of economic development and the nobility emancipated itself from its service obligations to the government, peasant serfdom was divested of its connection with economic development. What once was an indirect obligation to the state became a pure obligation toward the nobility and as such became by far the most important retarding factor in Russia's economic development.

Readers of Toynbee's may wish to regard this process, ending as it did with the emancipation of the peasantry, as an expression of the "withdrawal and return" sequence. Alternatively they may justifiably prefer to place it under the heading of "arrested civilizations." At any rate, the challenge-response mechanism is certainly useful in thinking about sequences of that nature. It should be noted, however, that the problem is not simply one of quantitative relationship between the volume of the challenge and that of the response. The crucial point is that the magnitude of the challenge changes the *quality* of the response and, by so doing, not only injects powerful retarding factors into the economic process but also more likely leads to a number of undesirable noneconomic consequences. To this aspect, which is most relevant to the current problem of industrialization of backward countries, we shall advert again in the concluding remarks of this essay.

To return to Russian industrialization in the eighties and the nineties of the past century, it may be said that in one sense it can be viewed as a recurrence of a previous pattern of economic development in the country. The role of the state distinguishes rather clearly the type of Russian industrialization from its German or Austrian counterpart.

Emancipation of the peasants, despite its manifold deficiencies, was an absolute prerequisite for industrialization. As such it was a negative action of the state designed to remove obstacles that had been earlier created by the state itself and in this sense was fully comparable to acts such as the agrarian reforms in Germany or the policies of Napoleon III which have been mentioned earlier. Similarly, the great judicial and administrative reforms of the sixties were in the nature of creating a suitable framework for industrial development rather than promoting it directly.

The main point of interest here is that, unlike the case of Western Europe, actions of this sort did not per se lead to an upsurge of individual activities in the country; and for almost a quarter of a century after the emancipation the rate of industrial growth remained relatively low. The great industrial upswing came when, from the middle of the eighties on, the railroad building of the state assumed unprecedented proportions and became the main lever of a rapid industrialization policy. Through multifarious devices such as preferential orders to domestic producers of railroad materials, high prices, subsidies, credits, and profit guaranties to new industrial enterprises, the government succeeded in maintaining a high and, in fact, increasing rate of growth until the end of the century. Concomitantly, the Russian taxation system was reorganized, and the financing of industrialization policies was thus provided for, while the stabilization of the ruble and the introduction of the gold standard assured foreign participation in the development of Russian industry.

The basic elements of a backward economy were, on the whole, the same in Russia of the nineties and in Germany of the fifties. But quantitatively the differences were formidable. The scarcity of capital in Russia was such that no banking system could conceivably succeed in attracting sufficient funds to finance a large-scale industrialization; the standards of honesty in business were so disastrously low, the general distrust of the public so great, that no bank could have hoped to attract even such small capital funds as were available, and no bank could have successfully engaged in long-term credit policies in an economy where fraudulent bankruptcy had been almost elevated to the rank of a general business practice. Supply of capital for the needs of industrialization required the compulsory machinery of the government, which, through its taxation policies, succeeded in directing incomes from consumption to investment. There is no doubt that the government as an *agens movens* of industrialization discharged its role in a far less than perfectly efficient manner. Incompetence and corruption of bureaucracy were great. The amount of waste that accompanied the process was formidable. But, when all is said and done, the great success of the policies pursued under Vyshnegradski and Witte is undeniable. Not only in their origins but also in their effects, the policies pursued by the Russian government in the nineties resembled closely those of the banks in Central Europe. The Russian state did not evince any interest in "light industry." Its whole attention was centered on output of basic industrial materials and on machinery production; like the banks in Germany, the Russian bureaucracy was primarily interested in large-scale enterprises and in amalgamations and coordinated policies among the industrial enterprises which it favored or had helped to create. Clearly, a good deal of the government's interest in industrialization was predicated upon its military policies. But these policies only reinforced and accentuated the basic tendencies of industrialization in conditions of economic backwardness.

Perhaps nothing serves to emphasize more these basic uniformities in the situation and the dependence of actual institutional instruments used on the degree of backwardness of the country than a comparison of policies pursued within the two halves of the Austrian-Hungarian monarchy, that is to say, within one and the same political body. The Austrian part of the monarchy was backward in relation to, say, Germany, but it was at all times much more advanced than its Hungarian counterpart. Accordingly, in Austria proper the banks could successfully devote themselves to the promotion of industrial activities. But across the Leitha Mountains, in Hungary, the activities of the banks proved altogether inadequate, and around the turn of the century the Hungarian government embarked upon vigorous policies of industrialization. Originally, the government showed a considerable interest in developing the textile industry of the region. And it is instructive to watch how, under the pressure of what the French like to call the "logic of things," the basic uniformities asserted themselves and how the generous government subsidies were more and more deflected from textile industries to promotion of heavy industries.

The Gradations of Backwardness

To return to the basic German-Russian paradigm: what has been said in the foregoing does not exhaust the pattern of parallels. The question remains as to the effects of successful industrializations, that is to say, of the gradual diminution of backwardness.

At the turn of the century, if not somewhat earlier, changes became apparent in the relationship between German banks and German industry. As the former industrial infants had grown to strong manhood, the original undisputed ascendancy of the banks over industrial enterprises could no longer be maintained. This process of liberation of industry from the decades of tutelage expressed itself in a variety of ways. Increasingly, industrial enterprises transformed connection with a single bank into cooperation with several banks. As the former industrial protectorates became economically sovereign, they embarked upon the policy of changing alliances with regard to the banks. Many an industrial giant, such as the electrical engineering industry, which could not have developed without the aid and entrepreneurial daring of the banks, began to establish its own banks. The conditions of capital scarcity to which the German banks owed their historical position were no longer present. Germany had become a developed industrial country. But the specific features engendered by a process of industrialization in conditions of backwardness were to remain, and so was the close relation between banks and industry, even though the master-servant relation gave way to cooperation among equals and sometimes was even reversed.

In Russia the magnificent period of industrial development of the nineties was cut short by the 1900 depression and the following years of war and civil strife. But, when Russia emerged from the revolutionary years 1905–1906 and again achieved a high rate of industrial growth in the years 1907–1914, the character of the industrialization processes had changed greatly. Railroad construction by the government continued but on a much smaller scale both absolutely and even more so relatively to the increased industrial output. Certain increases in military expenditures that took place could not begin to compensate for the reduced significance of railroad-building. The conclusion is inescapable that, in that last period of industrialization under a prerevolutionary government, the significance of the state was very greatly reduced.

At the same time, the traditional pattern of Russian economic development happily failed to work itself out. The retrenchment of government activities led not to stagnation but to a continuation of industrial growth. Russian industry had reached a stage where it could throw away the crutches of government support and begin to walk independently – and, yet, very much less independently than industry in contemporaneous Germany, for at least to some extent the role of the retreating government was taken over by the banks.

A great transformation had taken place with regard to the banks during the fifty years that had elapsed since the emancipation. Commercial banks had been founded. Since it was the government that had fulfilled the function of industrial banks, the Russian banks, precisely because of the backwardness of the country, were organized as "deposit banks," thus resembling very much the type of banking in England. But, as industrial development proceeded apace and as capital accumulation increased, the standards of business behavior were growingly Westernized. The paralyzing atmosphere of distrust began to vanish, and the foundation was laid for the emergence of a different type of bank. Gradually, the Moscow deposit banks were overshadowed by the development of the St. Petersburg banks that were conducted upon principles that were characteristic not of English but of German banking. In short, after the economic backwardness of Russia had been reduced by state-sponsored industrialization processes, use of a different instrument of industrialization, suitable to the new "stage of backwardness," became applicable.

Ideologies of Delayed Industrializations

Before drawing some general conclusions, a last differential aspect of industrialization in circumstances of economic backwardness should be mentioned. So far, important differences with regard to the character of industrial developments and its institutional vehicles were related to conditions and degrees of backwardness. A few words remain to be said on the ideological climate within which such industrialization proceeded.

Again we may revert to the instructive story of French industrialization under Napoleon III. A large proportion of the men who reached positions of economic and financial influence upon Napoleon's advent to power were not isolated individuals. They belonged to a rather well-defined group. They were not Bonapartists but Saint-Simonian socialists… .

It could be argued that Saint-Simon was in reality far removed from being a socialist; that in his vision of an industrial society he hardly distinguished between laborers and employers; and that he considered the appropriate political form for his society of the future some kind of corporate state in which the "leaders of industry" would exercise major political functions. Yet arguments of that sort would hardly explain much. Saint-Simon had a profound interest in what he used to call the "most numerous and most suffering classes"; more importantly, Saint-Simonian doctrines, as expanded and redefined by the followers of the master (particularly by Bazard), incorporated into the system a good many socialist ideas, including abolition of inheritance and establishment of a system of planned economy designed to direct and to develop the economy of the country. And it was this interpretation of the doctrines which the Pereires accepted.

It is more relevant to point to the stress laid by Saint-Simon and his followers upon industrialization and the great task they had assigned to banks as an instrument of organization and development of the economy. This, no doubt, greatly appealed to the creators of the Crédit Mobilier, who liked to think of their institution as of a "bank to a higher power" and of themselves as "missionaries" rather than bankers. That Saint-Simon's stress upon the role to be played by the banks in economic development revealed a truly amazing – and altogether "unutopian" – insight into the problems of that development is as true as the fact that Saint-Simonian ideas most decisively influenced the course of economic events inside and outside France. But the question remains: why was the socialist garment draped around an essentially capitalist idea? And why was it the socialist form that was so readily accepted by the greatest capitalist entrepreneurs France ever possessed?

It would seem that the answer must again be given in terms of basic conditions of backwardness. Saint-Simon, the friend of J. B. Say, was never averse to ideas of laissez-faire policies. Chevalier, the coauthor of the Franco-English treaty of commerce of 1860 that ushered in the great period of European free trade, had been an ardent Saint-Simonian. And yet under French conditions a laissez-faire ideology was altogether inadequate as a spiritual vehicle of an industrialization program.

To break through the barriers of stagnation in a backward country, to ignite the imaginations of men, and to place their energies in the service of economic development, a stronger medicine is needed than the promise of better allocation of resources or even of the lower price of bread. Under such conditions even the businessman, even the classical daring and innovating entrepreneur, needs a more powerful stimulus than the prospect of high profits. What is needed to remove the mountains of routine and prejudice is faith – faith, in the words of Saint-Simon, that the golden age lies not behind but ahead of mankind.

[…]

[I]n an advanced country rational arguments in favor of industrialization policies need not be supplemented by a quasi-religious fervor. Buckle was not far wrong when in a famous passage of his *History* he presented the conversion of public opinion in England to free trade as achieved by the force of incontrovertible logic. In a backward country the great and sudden industrialization effort calls for a New Deal in emotions. … Capitalist industrialization under the auspices of socialist ideologies may be, after all, less surprising a phenomenon than would appear at first sight.

Similarly, Friedrich List's industrialization theories may be largely conceived as an attempt, by a man whose personal ties to Saint-Simonians had been very strong, to translate the inspirational message of Saint-Simonism into a language that would be accepted in the German environment, where the lack of both a preceding political revolution and an early national unification rendered nationalist sentiment a much more suitable ideology of industrialization.

After what has been just said it will perhaps not seem astonishing that, in the Russian industrialization of the 1890s, orthodox Marxism can be said to have performed a very similar function. Nothing reconciled the Russian intelligentsia more to the advent of capitalism in the country and to the destruction of its old faith in the mir and the artel than a system of ideas which presented the capitalist industrialization of the country as the result of an iron law of historical development. It is this connection which largely explains the power wielded by Marxist thought in Russia when it extended to men like Struve and in some sense even Milyukov, whose Weltanschauung was altogether alien to the ideas of Marxian socialism. In conditions of Russian "absolute" backwardness, again, a much more powerful ideology was required to grease the intellectual and emotional wheels of industrialization than either in France or in Germany. The institutional gradations of backwardness seem to find their counterpart in men's thinking about backwardness and the way in which it can be abolished.

Conclusions

The story of European industrialization in the nineteenth century would seem to yield a few points of view which may be helpful for appreciation of present-day problems.

1 If the spurtlike character of the past century's industrialization on the European continent is conceived of as the result of the specific preindustrial situations in backward countries and if it is understood that pressures for high-speed industrializations are inherent in those situations, it should become easier to appreciate the oft-expressed desires in this direction by the governments of those countries. Slogans like "Factories quick!" which played such a large part in the discussions of the pertinent portions of the International Trade Organization charter, may then appear less unreasonable.
2 Similarly, the tendencies in backward countries to concentrate much of their efforts on introduction of the most modern and expensive technology, their stress on large-scale plant, and their interest in developing investment-goods industries need not necessarily be regarded as flowing mainly from a quest for prestige and from economic megalomania.
3 What makes it so difficult for an advanced country to appraise properly the industrialization policies of its less fortunate brethren is the fact that, in every instance of industrialization, imitation of the evolution in advanced countries appears in combination with different, indigenously determined elements. If it is not always easy for advanced countries to accept the former, it is even more difficult for them to acquiesce in the latter. This is particularly true of the institutional

> instruments used in carrying out industrial developments and even more so of ideologies which accompany it. What can be derived from a historical review is a strong sense for the significance of the native elements in the industrialization of backward countries.

A journey through the last century may, by destroying what Bertrand Russell once called the "dogmatism of the untravelled," help in formulating a broader and more enlightened view of the pertinent problems and in replacing the absolute notions of what is "right" and what is "wrong" by a more flexible and relativistic approach.

It is, of course, not suggested here that current policies vis-à-vis backward areas should be formulated on the basis of the general experience of the past century without taking into account, in each individual instance, the degree of endowment with natural resources, the climatic disabilities, the strength of institutional obstacles to industrialization, the pattern of foreign trade, and other pertinent factors. But what is even more important is the fact that, useful as the "lessons" of the nineteenth century may be, they cannot properly be applied without understanding the climate of the present century, which in so many ways has added new and momentous aspects to the problems concerned.

Since the present problem of industrialization of backward areas largely concerns non-European countries, there is the question of the effects of their specific preindustrial cultural development upon their industrialization potentialities. Anthropological research of such cultural patterns has tended to come to rather pessimistic conclusions in this respect. But perhaps such conclusions are unduly lacking in dynamic perspective. At any rate, they do not deal with the individual factors involved in terms of their specific changeabilities. At the same time, past Russian experience does show how quickly in the last decades of the past century a pattern of life that had been so strongly opposed to industrial values, that tended to consider any nonagricultural economic activity as unnatural and sinful, began to give way to very different attitudes. In particular, the rapid emergence of native entrepreneurs with peasant-serf backgrounds should give pause to those who stress so greatly the disabling lack of entrepreneurial qualities in backward civilizations. Yet there are other problems.

In certain extensive backward areas the very fact that industrial development has been so long delayed has created, along with unprecedented opportunities for technological progress, great obstacles to industrialization. Industrial progress is arduous and expensive; medical progress is cheaper and easier of accomplishment. To the extent that the latter has preceded the former by a considerable span of time and has resulted in formidable overpopulation, industrial revolutions may be defeated by Malthusian counterrevolutions.

Closely related to the preceding but enormously more momentous in its effects is the fact that great delays in industrialization tend to allow time for social tensions to develop and to assume sinister proportions. As a mild example, the case of Mexico may be cited, where the established banks have been reluctant to cooperate in industrialization activities that are sponsored by a government whose radical hue they distrust. But the real case in point overshadowing everything else in scope and importance is, of course, that of Soviet Russia.

If what has been said in the preceding pages has validity, Soviet industrialization undoubtedly contains all the basic elements that were common to the industrializations of backward countries in the nineteenth century. The stress on heavy industry and oversized plant is, as such, by no means peculiar to Soviet Russia. But what is true is that in Soviet Russia those common features of industrialization processes have been magnified and distorted out of all proportion.

The problem is as much a political as it is an economic one. The Soviet government can be properly described as a product of the country's economic backwardness. Had serfdom been abolished by Catherine the Great or at the time of the Decembrist uprising in 1825, the peasant discontent, the driving force and the earnest of success of the Russian Revolution, would never have assumed disastrous proportions, while the economic development of the country would have proceeded in a much more gradual fashion. If anything is a "grounded historical assumption," this would seem to be one: the delayed industrial revolution was responsible for a political revolution in the course of which the power fell into the hands of a dictatorial government to which in the long run the vast majority of the population was opposed. It is one thing for such a government to gain power in a moment of great crisis; it is another to maintain this power for a long period. Whatever the strength of the army and the ubiquitousness of the secret police which such a government may have at its disposal, it would be naive to believe that those instruments of physical oppression can suffice. Such a government can maintain itself in power only if it succeeds in making people believe that it performs an important social function which could not be discharged in its absence.

Industrialization provided such a function for the Soviet government. All the basic factors in the situation of the country pressed in that direction. By reverting to a pattern of economic development that should have remained confined to a long-bygone age, by substituting collectivization for serfdom, and by pushing up the rate of investment to the maximum point within the limits of endurance of the population, the Soviet government did what no government relying on the consent of the governed could have done. That these policies, after having led through a period of violent struggles, have resulted in permanent day-to-day friction between the government and the population is undeniable. But, paradoxical as it may sound, these policies at the same time have secured some broad acquiescence on the part of the people. If all the forces of the population can be kept engaged in the processes of industrialization and if this industrialization can be justified by the promise of happiness and abundance for future generations and – much more importantly – by the menace of military aggression from beyond the borders, the dictatorial government will find its power broadly unchallenged. And the vindication of a threatening war is easily produced, as is shown by the history of the cold-war years. Economic backwardness, rapid industrialization, ruthless exercise of dictatorial power, and the danger of war have become inextricably intertwined in Soviet Russia.

This is not the place to elaborate this point further with regard to Soviet Russia. The problem at hand is not Soviet Russia but the problem of attitudes toward industrialization of backward countries. If the Soviet experience teaches anything, it is that it demonstrates *ad oculos* the formidable dangers inherent in our time in the existence of economic backwardness. There are no four-lane highways through the parks of industrial progress. The road may lead from backwardness to dictatorship and from dictatorship to war. In conditions of a "bipolar world" this sinister sequence is modified and aggrandized by deliberate imitation of Soviet policies by other backward countries and by their voluntary or involuntary incorporation in the Soviet orbit.

Thus, conclusions can be drawn from the historical experience of both centuries. The paramount lesson of the twentieth century is that the problems of backward nations are not exclusively their own. They are just as much problems of the advanced countries. It is not only Russia but the whole world that pays the price for the failure to emancipate the Russian peasants and to embark upon industrialization policies at an early time. Advanced countries cannot afford to ignore economic backwardness. But the lesson of the nineteenth century is that the policies toward the backward countries are unlikely to be successful if they ignore the basic peculiarities of economic backwardness. Only by frankly recognizing their existence and strength, and by attempting to develop fully rather than to stifle what Keynes once called the "possibilities of things," can the experience of the nineteenth century be used to avert the threat presented by its successor.

Note

1 Karl Marx, *Das Kapital* (1st ed.), preface.

5

A Study of Slum Culture: Backgrounds for La Vida (1968)

Oscar Lewis

The Culture of Poverty

As an anthropologist I have tried to understand poverty and its associated traits as a culture or, more accurately, as a subculture[1] with its own structure and rationale, as a way of life that is passed down from generation to generation along family lines. This view directs attention to the fact that the culture of poverty in modern nations is not only a matter of economic deprivation, of disorganization, or of the absence of something. It is also something positive and provides some rewards without which the poor could hardly carry on.

In my book *Five Families: Mexican Case Studies in the Culture of Poverty*, I suggested that the culture of poverty transcends regional, rural–urban, and national differences and shows remarkable cross-national similarities in family structure, interpersonal relations, time orientation, value systems, and spending patterns. These similarities are examples of independent invention and convergence. They are common adaptations to common problems.

The culture of poverty can come into being in a variety of historical contexts. However, it tends to grow and flourish in societies with the following set of conditions: (1) a cash economy, wage labor, and production for profit;[2] (2) a persistently high rate of unemployment and underemployment for unskilled labor; (3) low wages; (4) the failure to provide social, political, and economic organization, either

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on a voluntary basis or by government imposition, for the low-income population; (5) the existence of a bilateral kinship system rather than a unilateral one; and finally, (6) the existence in the dominant class of a set of values that stresses the accumulation of wealth and property, the possibility of upward mobility, and thrift and that explains low economic status as the result of personal inadequacy or inferiority.

The way of life that develops among some of the poor under these conditions is the culture of poverty. It can best be studied in urban or rural slums and can be described in terms of some seventy interrelated social, economic, and psychological traits. However, the number of traits and the relationships between them may vary from society to society and from family to family. For example, in a highly literate society, illiteracy may be more diagnostic of the culture of poverty than in a society where illiteracy is widespread and where even the well-to-do may be illiterate, as in some Mexican peasant villages before the revolution.

The culture of poverty is both an adaptation and a reaction of the poor to their marginal position in a class-stratified, highly individuated, capitalistic society. It represents an effort to cope with feelings of hopelessness and despair that develop from the realization of the improbability of achieving success in terms of the values and goals of the larger society. Indeed, many of the traits of the culture of poverty can be viewed as attempts at local solutions for problems not met by existing institutions and agencies because the people are not eligible for them, cannot afford them, or are ignorant or suspicious of them. For example, unable to obtain credit from banks, they are thrown upon their own resources and organize informal credit devices without interest.

The culture of poverty, however, is not only an adaptation to a set of objective conditions of the larger society. Once it comes into existence, it tends to perpetuate itself from generation to generation because of its effect on the children. By the time slum children are age six or seven they have usually absorbed the basic values and attitudes of their subculture and are not psychologically geared to take full advantage of the changing conditions or increased opportunities that may occur in their lifetime.

Most frequently the culture of poverty develops when a stratified social and economic system is breaking down or is being replaced by another, as in the case of the transition from feudalism to capitalism or during periods of rapid technological change. Often the culture of poverty results from imperial conquest in which the native social and economic structure is smashed and the natives are maintained in a servile colonial status, sometimes for many generations. It can also occur in the process of detribalization, such as that now going on in Africa.

The most likely candidates for the culture of poverty are the people who come from the lower strata of a rapidly changing society and are already partially alienated from it. Thus, landless rural workers who migrate to the cities can be expected to develop a culture of poverty much more readily than migrants from stable peasant villages with a well-organized traditional culture. In this connection there is a striking contrast between Latin America, where the rural population has long ago made the transition from a tribal to a peasant society, and Africa, which is still close to its tribal heritage. The more corporate nature of many of the African tribal societies as compared to Latin American rural communities and the persistence of village ties tend to inhibit or delay the formation of a full-blown culture of poverty in many of the African towns and cities. The special conditions of apartheid in South Africa, where the migrants are segregated into separate "locations" and do not enjoy freedom of movement, create special problems. Here the institutionalization of repression and discrimination tends to develop a greater sense of identity and group consciousness.

The culture of poverty can be studied from various points of view: the relationship between the subculture and the larger society; the nature of the slum community; the nature of the family; and the attitudes, values, and character structure of the individual.

The lack of effective participation and integration of the poor in the major institutions of the larger society is one of the crucial characteristics of the culture of poverty. This complex matter results from a variety of factors, which may include lack of economic resources, segregation and discrimination, fear, suspicion or apathy, and the development of local solutions for problems. However, participation in some of the institutions of the larger society – for example, in the jails, the army, and the public relief system – does not per se eliminate the traits of the culture of poverty. In the case of a relief system that barely keeps people alive, both the basic poverty and the sense of hopelessness are perpetuated rather than eliminated.

Low wages and chronic unemployment and underemployment lead to low income, lack of property ownership, absence of savings, absence of food reserves in the home, and a chronic shortage of cash. These conditions reduce the possibility of effective participation in the larger economic system. And as a response to these conditions we find in the culture of poverty a high incidence of pawning of personal goods, borrowing from local moneylenders at usurious interest rates, spontaneous informal credit devices organized by neighbors, use of secondhand clothing and furniture, and the pattern of frequent buying of small quantities of food many times a day as the need arises.

People with a culture of poverty produce very little wealth and receive very little in return. They have a low level of literacy and education, do not belong to labor unions, are not members of political parties, generally do not participate in the national welfare agencies, and make very little use of banks, hospitals, department stores, museums, or art galleries. They have a critical attitude toward some of the basic institutions of the dominant classes, hatred of the police, mistrust of government and those in high position, and a cynicism that extends even to the church. These factors give the culture of poverty a high potential for protest and for being used in political movements aimed against the existing social order.

People with a culture of poverty are aware of middle-class values; they talk about them and even claim some of them as their own, but on the whole they do not live by them. Thus, it is important to distinguish between what they say and what they do. For example, many will tell you that marriage by law, by the church, or by both is the ideal form of marriage; but few marry. For men who have no steady jobs or other source of income, who do not own property and have no wealth to pass on to their children, who are present-time oriented and want to avoid the expense and legal difficulties involved in formal marriage and divorce, free unions or consensual marriages make a lot of sense. Women often turn down offers of marriage because they feel that it ties them down to men who are immature, punishing, and generally unreliable. Women feel that consensual union gives them a better break; it gives them some of the freedom and flexibility that men have. By not giving the fathers of their children legal status as husbands, the women have a stronger claim on their children if they decide to leave their men. It also gives women exclusive rights to a house or any other property they own.

In describing the culture of poverty on the local community level, we find poor housing conditions, crowding, gregariousness, and, above all, a minimum of organization beyond the level of the nuclear and extended family. Occasionally there are informal temporary groupings or voluntary associations within slums. The existence of neighborhood gangs that cut across slum settlements represents a considerable advance beyond the zero point of the continuum that I have in mind. Indeed, it is the low level of organization that gives the culture of poverty its marginal and anachronistic quality in our highly complex, specialized, organized society. Most primitive peoples have achieved a higher level of sociocultural organization than our modern urban slum dwellers.

In spite of the generally low level of organization, there may be a sense of community and esprit de corps in urban slums and in slum neighborhoods. This can vary within a single city or from region to region or country to country. The major factors that influence this variation are the size of the slum, its location and physical characteristics, length of residence, incidence of homeownership and landownership (versus squatter rights), rentals, ethnicity, kinship ties, and freedom or lack of freedom of movement. When slums are separated from the surrounding area by enclosing walls or other physical barriers, when rents are low and fixed and stability of residence is great (twenty or thirty years), when the population constitutes a distinct ethnic, racial, or language group or is bound by ties of kinship or *compadrazgo*,[3] and when there are some internal voluntary associations, then the sense of local community approaches that of a village community. In many cases this combination of favorable conditions does not exist. However, even where internal organization and esprit de corps are at a bare minimum and people move around a great deal, a sense of territoriality develops that sets off the slum neighborhoods from the rest of the city. In Mexico City and San Juan this sense of territoriality results from the unavailability of low income housing outside of the slum areas. In South Africa the sense of territoriality grows out of the segregation enforced by the government, which confines the rural migrants to specific locations.

On the family level the major traits of the culture of poverty are the absence of childhood as a specially prolonged and protected stage in the life cycle; early initiation into sex; free unions or consensual marriages; a relatively high incidence of the abandonment of wives and children; a trend toward female- or mother-centered families, and consequently a much greater knowledge of maternal relatives; a strong predisposition to authoritarianism; lack of privacy; verbal emphasis upon family solidarity, which is only rarely achieved because of sibling rivalry; and competition for limited goods and maternal affection.

On the level of the individual the major characteristics are strong feelings of marginality, of helplessness, of dependence, and of inferiority. I found this to be true of slum dwellers in Mexico City and San Juan among families who do not constitute a distinct ethnic or racial group and who do not suffer from racial discrimination. In the United States, of course, the culture of poverty of the Negroes has the additional disadvantage of racial discrimination, but as I have already suggested, this additional disadvantage contains a great potential for revolutionary protest and organization that seems to be absent in the slums of Mexico City or among the poor whites in the South.

Other traits include high incidence of maternal deprivation, of orality, and of weak ego structure; confusion of sexual identification; lack of impulse control; strong present-time orientation, with relatively little ability to defer gratification and to plan for the future; sense of resignation and fatalism; widespread belief in male superiority; and high tolerance for psychological pathology of all sorts.

People with a culture of poverty are provincial and locally oriented and have very little sense of history. They know only their own troubles, their own local conditions, their own neighborhoods, their own way of life. Usually they do not have the knowledge, the vision, or the ideology to see the similarities between their problems and those of their counterparts elsewhere in the world. They are not class conscious although they are very sensitive indeed to status distinctions.

In considering the traits discussed above, the following propositions must be kept in mind. (1) The traits fall into a number of clusters and are functionally related within each cluster. (2) Many, but not all, of the traits of different clusters are also functionally related. For example, men who have low wages and suffer chronic unemployment develop a poor self-image, become irresponsible, abandon their wives and children, and take up with other women more frequently than do men with high incomes and steady jobs. (3) None of the traits, taken individually, is distinctive per se of the subculture of poverty. It is their conjunction, their function, and their patterning that define the subculture. (4) The subculture of poverty, as defined by these traits, is a statistical profile; that is, the frequency of distribution of the traits both singly and in clusters will be greater than in the rest of the population. In other words, more of the traits will occur in combination in families with a subculture of poverty than in stable working-class, middle-class, or upper-class families. Even within a single slum there will probably be a gradient from culture of poverty families to families without a culture of poverty. (5) The profiles of the subculture of poverty will probably differ in systematic ways with the difference in the national cultural contexts of which they are a part. It is expected that some new traits will become apparent with research in different nations.

I have not yet worked out a system of weighting each of the traits, but this could probably be done and a scale could be set up for many of the traits. Traits that reflect lack of participation in the institutions of the larger society or an outright rejection – in practice, if not in theory – would be the crucial traits; for example, illiteracy, provincialism, free unions, abandonment of women and children, lack of membership in voluntary associations beyond the extended family.

When the poor become class conscious or active members of trade-union organizations or when they adopt an internationalist outlook on the world, they are no longer part of the culture of poverty although they may still be desperately poor. Any movement – be it religious, pacifist, or revolutionary – that organizes and gives hope to the poor and effectively promotes solidarity and a sense of identification with larger groups destroys the psychological and social core of the culture of poverty. In this connection, I suspect that the civil-rights movement among the Negroes in the United States has done more to improve their self-image and self-respect than have their economic advances, although, without doubt, the two are mutually reinforcing. … I have found very little revolutionary spirit or radical ideology among low-income Puerto Ricans. On the contrary, most of the families I studied were quite conservative politically, and about half of them were in favor of the Republican Statehood Party. It seems to me that the revolutionary potential of people with a culture of poverty will vary considerably according to the national context and the particular historical circumstances. In a country like Algeria, which was fighting for its independence, the lumpen proletariat was drawn into the struggle and became a vital force. However, in countries like Puerto Rico in which the movement for independence has very little mass support and in countries like Mexico that achieved their independence a long time ago and are now in their post-revolutionary period, the lumpen proletariat is not a leading source of rebellion or of revolutionary spirit.

In effect, we find that in primitive societies and in caste societies the culture of poverty does not develop. In socialist, fascist, and highly developed capitalist societies with a welfare state, the culture of poverty tends to decline. I suspect that the culture of poverty flourishes in, and is generic to, the early free-enterprise stage of capitalism and that it is also endemic to colonialism.

It is important to distinguish between different profiles in the subculture of poverty, depending upon the national context in which these subcultures are found. If we think of the culture of poverty primarily in terms of integration in the larger society and a sense of identification with the great tradition of that society or with a new emerging revolutionary tradition, then we will not be surprised that some slum dwellers with a low *per capita* income may have moved further away from the core characteristics of the culture of poverty than others with a higher *per capita* income. For example, Puerto Rico has a much higher *per capita* income than Mexico, yet Mexicans have a deeper sense of personal and national identity. In Mexico even the poorest slum dweller has a much richer sense of the past and a deeper identification with the great Mexican tradition than do Puerto Ricans with their tradition. In both countries I presented urban slum dwellers with the names of national figures. In Mexico City quite a high percentage of the respondents, including those with little or no formal schooling, knew about Cuauhtémoc, Hidalgo, Father Morelos, Juárez, Díaz, Zapata, Carranza, and Cárdenas. In San Juan the respondents showed an abysmal ignorance of Puerto Rican historical figures. The names of Ramón Power, José de Diego, Baldorioty de Castro, Ramón Betances, Nemesio Canales, and Lloréns Torres rang no bell. For the lower-income Puerto Rican slum dweller, history begins and ends with Muñoz Rivera, his son Muñoz Marín, and *doña* Felisa Rincón!

I have listed fatalism and a low level of aspiration as key traits of the subculture of poverty. Here too, however, the national context makes a big difference. Certainly the level of aspiration of even the poorest sector of the population in a country like the United States with traditional ideology of upward mobility and democracy is much higher than in more backward countries like Ecuador and Peru, where both the ideology and the actual possibilities of upward mobility are extremely limited and where authoritarian values still persist in both the urban and the rural milieu.

Because of the advanced technology, the high level of literacy, the development of mass media, and the relatively high aspiration level of all sectors of the population, especially when compared with underdeveloped nations, I believe that although there is still a great deal of poverty in the United States (estimates range from 30 to 50 million people) there is relatively little of what I would call the culture of poverty. My rough guess would be that only about 20 percent of the population below the poverty line (from 6 to 10 million people) in the United States have characteristics that would justify classifying their way of life as that of a culture of poverty. Probably the largest sector within this group consists of very low-income Negroes, Mexicans, Puerto Ricans, American Indians, and southern poor whites. The relatively small number of people in the United States with a culture of poverty is a positive factor because it is much more difficult to eliminate the culture of poverty than to eliminate poverty per se.

Middle-class people – and this would certainly include most social scientists – tend to concentrate on the negative aspects of the culture of poverty. They tend to associate negative valences to such traits as present-time orientation and concrete versus abstract orientation. I do not intend to idealize or romanticize the culture of poverty. As someone has said, "It is easier to praise poverty than to live in it"; yet some of the positive aspects that may flow from these traits must not be overlooked. Living in the present may develop a capacity for spontaneity, for the enjoyment of the sensual, for the indulgence of impulse, which is often blunted in the middle-class, future-oriented man. Perhaps it is this reality of the moment that the existentialist writers are so desperately trying to recapture but that the culture of poverty experiences as natural, everyday phenomena. The frequent use of violence certainly provides a ready outlet for hostility so that people in the culture of poverty suffer less from repression than does the middle class.

In the traditional view, anthropologists have said that culture provides human beings with a design for living, with a ready-made set of solutions for human problems so that individuals in each generation do not have to begin all over again from scratch. That is, the core of culture is its positive adaptive function. I, too, have called attention to some of the adaptive mechanisms in the culture of poverty – for example, the low aspiration level helps to reduce frustration, the legitimization of short-range hedonism makes possible spontaneity and enjoyment. Indeed, it seems that in some ways the people with a culture of poverty suffer less from alienation than do those of the middle class. However, on the whole it seems to me that it is a thin, relatively superficial culture. There is a great deal of pathos, suffering, and emptiness among those who live in the culture of poverty. It does not provide much support or satisfaction, and its encouragement of mistrust tends to magnify helplessness and isolation. Indeed, the poverty of culture is one of the crucial aspects of the culture of poverty.

The concept of the culture of poverty provides a high level of generalization that, hopefully, will unify and explain a number of phenomena that have been viewed as distinctive characteristics of racial, national, or regional groups. For example, matrifocality, a high incidence of consensual unions, and a high percentage of households headed by women, which have been thought to be distinctive characteristics of Caribbean family organization or of Negro family life in the United States, turn out to be traits of the culture of poverty and are found among diverse peoples in many parts of the world and among peoples who have had no history of slavery.

The concept of a cross-societal subculture of poverty enables us to see that many of the problems we think of as distinctively our own or as distinctively Negro problems (or as those of any other special racial or ethnic group) also exist in countries where there are no distinct ethnic minority groups. This concept also suggests that the elimination of physical poverty per se may not eliminate the culture of poverty, which is a whole way of life.

What is the future of the culture of poverty? In considering this question, one must distinguish between those countries in which it represents a relatively small segment of the population and those in which it constitutes a very large one. Obviously, the solutions will differ in these two situations. In the United States, the major solution proposed by planners and social workers in dealing with multiple-problem families and the so-called hard core of poverty has been to attempt to raise slowly their level of living and to incorporate them into the middle class. Wherever possible, there has been some reliance upon psychiatric treatment.

In the underdeveloped countries, however, where great masses of people live in the culture of poverty, a social-work solution does not seem feasible.[4] Because of the magnitude of the problem, psychiatrists can hardly begin to cope with it. They have all they can do to care for their own growing middle class. In these countries the people with a culture of poverty may seek a more revolutionary solution. By creating basic structural changes in society, by redistributing wealth, by organizing the poor and giving them a sense of belonging, of power, and of leadership, revolutions frequently succeed in abolishing some of the basic characteristics of the culture of poverty even when they do not succeed in abolishing poverty itself.

Some of my readers have misunderstood the subculture of poverty model and have failed to grasp the importance of the distinction between poverty and the subculture of poverty. In making this distinction I have tried to document a broader generalization; namely, that it is a serious mistake to lump all poor people together, because the causes, the meaning, and the consequences of poverty vary considerably in different sociocultural contexts. There is nothing in the concept that puts the onus of poverty on the character of the poor. Nor does the concept in any way play down the exploitation and neglect suffered by the poor. Indeed, the subculture of poverty is part of the larger culture of capitalism, whose social and economic system channels wealth into the hands of a relatively small group and thereby makes for the growth of sharp class distinctions.

I would agree that the main reasons for the persistence of the subculture are no doubt the pressures that the larger society exerts over its members and the structure of the larger society itself. However, *this is not the only reason*. The subculture develops mechanisms that tend to perpetuate it, especially because of what happens to the world view, aspirations, and character of the children who grow up in it. For this reason, improved economic opportunities, though absolutely essential and of the highest priority, are not sufficient to alter basically or eliminate the subculture of poverty. Moreover, elimination is a process that will take more than a single generation, even under the best of circumstances, including a socialist revolution.

Some readers have thought that I was saying, "Being poor is terrible, but having a culture of poverty is not so bad." On the contrary, I am saying that it is easier to eliminate poverty than the culture of poverty. I am also suggesting that the poor in a precapitalistic caste-ridden society like India had some advantages over modern urban slum dwellers because the people were organized in castes and panchayats and this organization gave them some sense of identity and some strength and power. Perhaps Gandhi had the urban slums of the West in mind when he wrote that the caste system was one of the greatest inventions of mankind. Similarly, I have argued that the poor Jews of eastern Europe, with their strong tradition of literacy and community organization, were better off than people with the culture of poverty. On the other hand, I would argue that people with the culture of poverty, with their strong sense of resignation and fatalism, are less driven and less anxious than the striving lower middle class, who are still trying to make it in the face of the greatest odds.

[…]

Notes

1 Although the term "subculture of poverty" is technically more accurate, I shall use "culture of poverty" as a shorter form.
2 Although the model presented here is concerned with conditions in contemporary urban slums, I find remarkable similarities between the culture of poverty and the way of life of Negro slaves in the antebellum South of the United States.
3 *Compadrazgo* is a system of relationships and obligations between godparents (*padrinos*) and godchildren (*ahijados*) and between godparents and parents, who are *compadres*.
4 Indeed, it is doubtful how successful the social-work solution can be in the United States!

6

Political Participation: Modernization and Political Decay (1968)

Samuel Huntington

Modernization and Political Consciousness

[…]

Those aspects of modernization most relevant to politics can be broadly grouped into two categories. First, social mobilization, in Deutsch's formulation, is the process by which "major clusters of old social, economic and psychological commitments are eroded or broken and people become available for new patterns of socialization and behavior."[1] It means a change in the attitudes, values, and expectations of people from those associated with the traditional world to those common to the modern world. It is a consequence of literacy, education, increased communications, mass media exposure, and urbanization. Secondly, economic development refers to the growth in the total economic activity and output of a society. It may be measured by per capita gross national product, level of industrialization, and level of individual welfare gauged by such indices as life expectancy, caloric intake, supply of hospitals and doctors. Social mobilization involves changes in the aspirations of individuals, groups, and societies; economic development involves changes in their capabilities. Modernization requires both.

… [T]he most crucial aspects of political modernization can be roughly subsumed under three broad headings. First, political modernization involves the rationalization of authority, the replacement of a large number of traditional, religious, familial, and ethnic political authorities by a single secular, national political authority.

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This change implies that government is the product of man, not of nature or of God, and that a well-ordered society must have a determinate human source of final authority, obedience to whose positive law takes precedence over other obligations. Political modernization involves assertion of the external sovereignty of the nation-state against transnational influences and of the internal sovereignty of the national government against local and regional powers. It means national integration and the centralization or accumulation of power in recognized national lawmaking institutions.

Secondly, political modernization involves the differentiation of new political functions and the development of specialized structures to perform those functions. Areas of particular competence – legal, military, administrative, scientific – become separated from the political realm, and autonomous, specialized, but subordinate organs arise to discharge those tasks. Administrative hierarchies become more elaborate, more complex, more disciplined. Office and power are distributed more by achievement and less by ascription. Thirdly, political modernization involves increased participation in politics by social groups throughout society. Broadened participation in politics may enhance control of the people by the government, as in totalitarian states, or it may enhance control of the government by the people, as in some democratic ones. But in all modern states the citizens become directly involved in and affected by governmental affairs. Rationalized authority, differentiated structure, and mass participation thus distinguish modern polities from antecedent polities.

It is, however, a mistake to conclude that in practice modernization means the rationalization of authority, differentiation of structure, and expansion of political participation. A basic and frequently overlooked distinction exists between political modernization defined as movement from a traditional to a modern polity and political modernization defined as the political aspects and political effects of social, economic, and cultural modernization. The former posits the direction in which political change theoretically should move. The latter describes the political changes which actually occur in modernizing countries. The gap between the two is often vast. Modernization in practice always involves change in and usually the disintegration of a traditional political system, but it does not necessarily involve significant movement toward a modern political system. Yet the tendency has been to assume that what is true for the broader social processes of modernization is also true for political changes. Social modernization, in some degree, is a fact in Asia, Africa, Latin America: urbanization is rapid, literacy is slowly increasing; industrialization is being pushed; per capita gross national product is inching upward; mass media circulation is expanding. All these are facts. In contrast progress toward many of the other goals which writers have identified with political modernization – democracy, stability, structural differentiation, achievement patterns, national integration – often is dubious at best. Yet the tendency is to think that because social modernization is taking place, political modernization also must be taking place …

In actuality, only some of the tendencies frequently encompassed in the concept "political modernization" characterized the "modernizing" areas. Instead of a trend toward competitiveness and democracy, there was an "erosion of democracy" and a tendency to autocratic military regimes and one-party regimes.[2] Instead of stability, there were repeated coups and revolts. Instead of a unifying nationalism and nation-building, there were repeated ethnic conflicts and civil wars. Instead of institutional rationalization and differentiation, there was frequently a decay of the administrative organizations inherited from the colonial era and a weakening and disruption of the political organizations developed during the struggle for independence. Only the concept of political modernization as mobilization and participation appeared to be generally applicable to the "developing" world. Rationalization, integration, and differentiation, in contrast, seemed to have only a dim relation to reality.

More than by anything else, the modern state is distinguished from the traditional state by the broadened extent to which people participate in politics and are affected by politics in large-scale political units… .

The disruptive effects of social and economic modernization on politics and political institutions take many forms. Social and economic changes necessarily disrupt traditional social and political groupings and undermine loyalty to traditional authorities… . Modernization thus tends to produce alienation and anomie, normlessness generated by the conflict of old values and new. The new values undermine the old bases of association and of authority before new skills, motivations, and resources can be brought into existence to create new groupings.

The breakup of traditional institutions may lead to psychological disintegration and anomie, but these very conditions also create the need for new identifications and loyalties. The latter may take the form of reidentification with a group which existed in latent or actual form in traditional society or they may lead to identification with a new set of symbols or a new group which has itself evolved in the process of modernization. Industrialization, Marx argued, produces class consciousness first in the bourgeoisie and then in the proletariat. Marx focused on only one minor aspect of a much more general phenomenon. Industrialization is only one aspect of modernization and modernization induces not just class consciousness but new group consciousness of all kinds: in tribe, region, clan, religion, and caste, as well as in class, occupation, and association. Modernization means that all groups, old as well as new, traditional as well as modern, become increasingly aware of themselves as groups and of their interests and claims in relation to other groups. One of the most striking phenomena of modernization, indeed, is the increased consciousness, coherence, organization, and action which it produces in many social forces which existed on a much lower level of conscious identity and organization in traditional society….

[…]

The same group consciousness, however, can also be a major obstacle to the creation of effective political institutions encompassing a broader spectrum of social forces. Along with group consciousness, group prejudice also "develops when there is intensive contact between different groups, such as has accompanied the movement toward more centralized political and social organizations."[3] And along with group prejudice comes group conflict. Ethnic or religious groups which had lived peacefully side by side in traditional society become aroused to violent conflict as a result of the interaction, the tensions, the inequalities generated by social and economic modernization. Modernization thus increases conflict among traditional groups, between traditional groups and modern ones, and among modern groups. The new elites based on Western or modern education come into conflict with the traditional elites whose authority rests on ascribed and inherited status. Within the modernized elites, antagonisms arise between politicians and bureaucrats, intellectuals and soldiers, labor leaders and businessmen. Many, if not most, of these conflicts at one time or another erupt into violence.

Modernization and Violence

[…]

The gap hypothesis. Social mobilization is much more destabilizing than economic development. The gap between these two forms of change furnishes some measure of the impact of modernization on political stability. Urbanization, literacy, education, mass media, all expose the traditional man to new forms of life, new standards of enjoyment, new possibilities of satisfaction. These experiences break the cognitive and attitudinal barriers of the traditional culture and promote new levels of aspirations and wants. The ability of transitional society to satisfy these new aspirations, however, increases much more slowly than the aspirations themselves. Consequently, a gap develops between aspiration and expectation, want formation and want satisfaction, or the aspirations function and the level-of-living function.[4] This gap generates social frustration and dissatisfaction. In practice, the extent of the gap provides a reasonable index to political instability.

The reasons for this relationship between social frustration and political instability are somewhat more complicated than they may appear on the surface. The relationship is, in large part, due to the absence of two potential intervening variables: opportunities for social and economic mobility and adaptable political institutions… . Consequently, the extent to which social frustration produces political participation depends in large part on the nature of the economic and social structure of the traditional society. Conceivably this frustration could be removed through social and economic mobility if the traditional society is sufficiently "open" to offer opportunities for such mobility. In part, this is precisely what occurs in rural areas, where outside opportunities for horizontal mobility (urbanization) contribute to the relative stability of the countryside in most modernizing countries. The few opportunities for vertical (occupational and income) mobility within the cities, in turn, contribute to their greater instability. Apart from urbanization, however, most modernizing countries have low levels of social-economic mobility. In relatively few societies are the traditional structures likely to encourage economic rather than political activity. Land and any other types of economic wealth in the traditional society are tightly held by a relatively small oligarchy or are controlled by foreign corporations and investors. The values of the traditional society often are hostile to entrepreneurial roles, and such roles consequently may be largely monopolized by an ethnic minority (Greeks and Armenians in the Ottoman Empire; Chinese in southeast Asia; Lebanese in Africa). In addition, the modern values and ideas which are introduced into the system often stress the primacy of government (socialism, the planned economy), and consequently may also lead mobilized individuals to shy away from entrepreneurial roles.

In these conditions, political participation becomes the road for advancement of the socially mobilized individual. Social frustration leads to demands on the government and the expansion of political participation to enforce those demands. The political backwardness of the country in terms of political institutionalization, moreover, makes it difficult if not impossible for the demands upon the government to be expressed through legitimate channels and to be moderated and aggregated within the political system. Hence the sharp increase in political participation gives rise to political instability… .

[…]

Political instability in modernizing countries is thus in large part a function of the gap between aspirations and expectations produced by the escalation of aspirations which particularly occurs in the early phases of modernization… .

[…]

Modernization affects economic inequality and thus political instability in two ways. First, wealth and income are normally more unevenly distributed in poor countries than in economically developed countries.[5] In a traditional society this inequality is accepted as part of the natural pattern of life. Social mobilization, however, increases awareness of the inequality and presumably resentment of it. The influx of new ideas calls into question the legitimacy of the old distribution and suggests the feasibility and the desirability of a more equitable distribution of income. The obvious way of achieving a rapid change in income distribution is through government. Those who command the income, however, usually also command the government. Hence social mobilization turns the traditional economic inequality into a stimulus to rebellion.

Secondly, in the long run, economic development produces a more equitable distribution of income than existed in the traditional society. In the short run, however, the immediate impact of economic growth is often to exacerbate income inequalities. The gains of rapid economic growth are often concentrated in a few groups while the losses are diffused among many; as a result, the number of people getting poorer in the society may actually increase. Rapid growth often involves inflation; in inflation prices typically rise faster than wages with consequent tendencies toward a more unequal distribution of wealth. The impact of Western legal systems in non-Western societies often encourages the replacement of communal forms of land ownership with private ownership and thus tends to produce greater inequalities in land ownership than existed in the traditional society. In addition, in less developed societies the distribution of income in the more modern, non-agricultural sector is typically more unequal than it is in the agricultural. In rural India in 1950, for instance, 5 per cent of the families received 28.9 per cent of the income; but in urban India 5 per cent of the families received 61.5 per cent of the income.[6] Since the overall distribution of income is more equal in the less agricultural, developed nations, the distribution of income within the nonagricultural sector of an underdeveloped country is much more unequal than it is in the same sector in a developed country.

[…]

Economic development increases economic inequality at the same time that social mobilization decreases the legitimacy of that inequality. Both aspects of modernization combine to produce political instability… .

Notes

1 Karl W. Deutsch, "Social Mobilization and Political Development," *American Political Science Review*, 55 (Sept. 1961), 494.

2 On the "erosion of democracy" and political instability, see Rupert Emerson, *From Empire to Nation* (Cambridge, Harvard University Press, 1960), ch. 5; and Michael Brecher, *The New States of Asia* (London, Oxford University Press, 1963), ch. 2.

3 Robert A. LeVine and Donald T. Campbell, "Report on Preliminary Results of Cross-Cultural Study of Ethnocentrism," *Carnegie Corporation of New York Quarterly* (Jan. 1966), 7.

4 These are terms employed by Deutsch, "Social Mobilization," pp. 493 ff.; James C. Davies, "Toward a Theory of Revolution," *American Sociological Review*, 27 (Feb. 1952), 5 ff.; Feierabend, "Aggressive Behaviors," pp. 256–62; Charles Wolf, *Foreign Aid: Theory and Practice in Southern Asia* (Princeton, Princeton University Press, 1960), pp. 296 ff.; and Manus Midlarsky and Raymond Tanter, "Toward a Theory of Political Instability in Latin America," *Journal of Peace Research*, 4 (1967), 271 ff.

5 See Simon Kuznets, "Qualitative Aspects of the Economic Growth of Nations: VIII. Distribution of Income by Size," *Economic Development and Cultural Change*, 11 (Jan. 1963), 68; UN Social Commission, *Preliminary Report on the World Social Situation* (New York, United Nations, 1952), pp. 132–3; Gunnar Myrdal, *An International Economy* (New York, Harper, 1956), p. 133.

6 Kuznets, "Qualitative Aspects," pp. 46–58.

Part II

Dependency and Beyond

Introduction

This section features pieces by a group of thinkers who tied globalization to the colonial era starting around 1500, and to the long-term exploitation of the people and resources of Africa, South America, and Asia by wealthy countries in Europe and North America. They fall into two major groups: dependency and world-systems theorists; and among the dependency theorists there are "structuralists" and a more radical camp. Rather than saying globalization and its impacts are brand-new, dependency and world-systems theorists argued that this history goes back hundreds of years, at least to the rise of mercantile capitalism which traded goods across these regions of rich and poor. As described in the introductory chapter to this volume, these dependency school theorists wrote in reaction to "modernization theories," which said that poor nations lacked the capital (investable piles of money in a few hands), values (of hard work and investment), and business practices (like modern accounting) to make firms and nations succeed. Dependency theorists considered this "blaming the victims."

Dependency theories conceptualize the world as consisting of two poles: wealthy countries are the "center" (core) of the global capitalist system, and poor countries are its "satellite" or "periphery." Peripheral countries have low wages enforced by coercive regimes that undermine independent labor unions and social movements. Because there are few members of dependent nations to make up a local market for a range of products, these nations depend on nations in the core for exporting their products. For its part, the core exploits them for the cheap labor, raw materials, and larger markets they need to increase their own wealth. Moreover, class conflicts in the center nations are temporarily resolved by their (imperialistic) ability to exploit the periphery.

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For dependency theorists, underdevelopment in the periphery is the direct result of development in the center, and vice versa. The center–periphery hierarchy and its exploitation was repeated along a chain from wealthy nations to capital cities in poor nations, to their regional cities and then to their hinterlands. Flowing up the chain of unequal relations were power, natural resources, and "surplus value" from labor kept so cheap in the periphery. Flowing down the chain were control, ideology, and expensive products and services.

Dependency theorists identified several key agents that promote and thrive on a situation of dependency: foreign capital such as multinational corporations based in core nations, elites within nations of the periphery, and national governments. In some cases, the state served to assure cooperation by the masses. Gereffi's excerpt in this volume clearly demonstrates that the different paths Latin American and East Asian nations took to achieve development are substantially attributable to differences in how these peripheral nations were governed, and earlier to social inequality.

Dependency theory highlights the global nature of capitalism: the poor and wealthy nations are parts of the same global capitalist system, not similar entities at different stages of development (as modernizationists conceived). Dependency theory also illustrates that capitalist expansion is the result not just of economic growth, but of specific relationships of economic development that have differential rewards. Furthermore, the center–periphery analogy emphasizes the inherently hierarchical nature of capitalist relationships, on both a global and national scale. While previous development theories treated capitalism as a homogeneous force, dependency and world-systems theorists focus on the inequalities created by this set of international economic relationships.

This section of the Reader begins with the work of Andre Gunder Frank. Born in Berlin, Gunder Frank (1929–2004) was educated in the United States and between 1963 and 1973 taught in universities in Brazil, Mexico and Chile before returning to an academic career in the United States. While preceded by scholars of the Chile-based United Nations Economic Commission for Latin America (ECLA) such as Raúl Prebisch, Paul Baran, and Fernando Henrique Cardoso, Gunder Frank was the first major dependency theorist to present these ideas in English. Writing in the wake of the likes of Rostow, Huntington and other influential "modernization theorists" of the 1960s, Gunder Frank brought back with him a succinct and controversial set of ideas that were an attractive critique of both capitalism and the dominant perspectives on development as a path. Moreover, the ideas Gunder Frank popularized in dependency theory were the first explanations of why poorer nations are poor that actually originated in those nations whose development or lack of development had for years been explained thoroughly by US academics and policymakers.

It is the question of whether and how the situation of dependency can be "fixed" that roughly divides dependency theorists into two schools. The first, of which Gunder Frank's piece is exemplary, argues that underdevelopment is not a phase but a permanent, inescapable condition, only remedied by escaping the entire capitalist system. In this more radical camp Gunder Frank is joined by others, such as Paul

Baran, Theotonio dos Santos, and Samir Amin. These authors argue that the capitalist system is not a competitive one, but one based on monopolies. Therefore, poorer countries cannot expect to change their situation through competition. For example, Baran argues that places like Latin America are not engaged in a process of becoming more capitalistic. Instead, their historical experience resulted in their being stuck in what he called an "imperialist" stage of capitalism.[1] Similarly, in his more radical or orthodox version of the dependency perspective, Gunder Frank characterizes the poverty of less developed nations and their dependence on wealthier nations as inescapable; he claims that relations of imperialism and domination trapped poor nations at the bottom of the global economy. At the same time that capitalism produces wealth and furthers development in the "core" countries, it creates poverty and underdevelopment in the "satellite" countries. This underdevelopment, according to Gunder Frank, will not just dissipate with time or even with social change; the only recourse for poorer nations is to strongly protect their markets from relationships with richer ones, relationships that are ultimately exploitative.

These theorists have been criticized widely on the basis that they do not really offer any feasible solutions. This strain of dependency theory also seemed to lack mechanisms for analyzing change (especially upward mobility experienced by some peripheral countries), for recognizing substantial heterogeneity within the periphery, or for acknowledging any vulnerability on the part of the world's center nations. For example, when dependency theory suggests that capitalism produces permanent, unalterable relationships, it fails to explain why there appear to be different levels of exploitation over time or why there are significant differences among poorer countries. These theories may be more useful in furthering specific political agendas than actually explaining processes of development or underdevelopment.

The other school of dependency theory acknowledges the crucial impacts of situations of dependency, but envisions a *possibility* for some degree of development within this relationship, what is called "associated" and "dependent" development.[2] In such circumstances, poorer countries are subject to a situation of dependency, yet manage to develop to some extent. Through a set of policies known as import substitution industrialization, ECLA advocated the development of domestic industries as a way to develop a comparative advantage in products with higher values and reduce the dependency of Latin American countries on center countries. This type of policy was an effort to acknowledge dependency, but it attempts to ameliorate its effects by pursuing development in only relative isolation from the damaging relations with the wealthy nations.

Representing this "structuralist" variant of dependency theory in this volume is the work of Brazilian sociologist Fernando Henrique Cardoso. As an exile in Chile following Brazil's military coup of 1964, Cardoso worked with other development theorists associated with ECLA. He took their economistic ideas in new social and political directions, with a more strongly historical approach than the main dependency theorists. When he returned to Brazil in the 1980s, he served as a governor and senator, became economic minister, and was then elected President in 1995.

In his work, Cardoso pays especially close attention to how elites in poorer nations have historically allied themselves with foreign interests to their benefit and to the detriment of the poorer masses in their countries. His historical analysis also shows how wealthier nations and wealthier people in poorer nations have used imperialist tactics to keep poorer countries producing cheaper things like raw materials and food, so that these things are available to further economic development and industrialization in wealthier countries. Because he pays attention to the nuances within the economies and societies of poorer countries, Cardoso, unlike many other dependency theorists, is able to show how limited forms of development occur despite consistent subordination by wealthier nations. Believing that poorer nations must navigate toward what development they can within the global economy makes Cardoso an important intellectual and political leader of the more moderate "structuralist" group of dependency theorists.

Later North American authors such as Gary Gereffi and Peter Evans further developed the notion of dependent development by exploring how economic structure and/or specific state policies may perpetuate dependency or foment development within a context of dependency. They also worked toward more systematic comparisons of economic resource bases, elite actions, types of governance, and relationships among actors in the periphery to highlight key historical and indigenous differences among nations of the periphery. They found that differences among various types of elites in the periphery can help explain different political regimes, economies. and class relationships within the periphery. Evans even goes further in his perceptions of possibilities for autonomous action by asking what challenges to the situation of dependency have arisen, especially from peripheral economies (specifically, Brazil).[3] Ultimately, in response to critiques and under the leadership of theorists such as Immanuel Wallerstein, dependency theories gave way to a distinct "world-systems theory." For example, Christopher Chase-Dunn, Peter Evans, and Gary Gereffi all did early work that could have been classified as dependency theory, and later became key contributors to world-systems theory.

It was Immanuel Wallerstein's three-volume *The Modern World-System* – the first of which was published in 1974 – that marked the birth of the subdiscipline in the United States. This work describes four core postulates of world-systems theory. First, that there is one single underlying set of processes in the world-system, to which all economies are subject. Any history of a location must include an understanding of the history of the whole. Therefore, the nation-state, although an important variable in development, is not the only level of analysis in understanding processes of development. Instead, there are worldwide processes that serve as key determinants of development and change.

Second, and elaborating on the work of the dependency theorists, this worldwide system is a hierarchy consisting of three situations, or zones: the core, semiperiphery, and periphery. Based on the unit of the nation-state, as well as international and national class alliances, the core of the world-system extracts wealth and, through various types of relationships, controls nations in the periphery, which are dependent on trade and relationships with the core. The semiperipheral zone includes nations like Brazil and South Africa which have features of both the rich and poor countries, and which act as intermediaries in the processes of exploitation of the periphery by the core. Wallerstein's approach to the "socialist" nations was that they were merely "state capitalist," that is, their governments were acting as the owners, and trading in a world capitalist system where markets were determining prices. It is important to note that unlike the crudest forms of dependency theory, world-systems theory allows for the possibility of mobility in the hierarchy of this single global system, though most countries have not been able to move up.

Third, the processes by which wealth is extracted from the periphery are similar to those described by the dependency theorists: unequal exchange, active or subtle repression, and the control of marketing and the high value ends of commodity chains (see Gereffi). Finally, world-systems theory proposes that in addition to cycles, capitalism has some crucial secular trends. These include the broadening of the areas of the world participating in capitalist exchange, and the deepening which occurs by attaching a price to everything (commodification), mechanization, making everyone a wage-worker (proletarianization), and the polarization of social classes.

Alice Amsden (1943–2012) was an early scholar seeking to understand the unusual ascendence of the "Asian Tigers": Taiwan in her work reprinted here and also, in a later book, South Korea. A professor of political economics at MIT, she also taught in the Department of Urban Studies and Planning, and was appointed to a United Nations Committee on Development Policy. Amsden sees explanations for the nature of Taiwan as an "economic miracle" in the guiding role taken on by its state. She describes right at the outset of the article that this puts her explanation far from those in the neoclassical economics camp who would point out the free market elements of Taiwan's trade policy. She also argues that Taiwan is an interesting case of a nation taking the "high road" to innovation and efficiency, rather than depending upon low pay and long hours. This kind of high-road development path was seen as unattainable for developing countries by stricter dependency theorists. Rather, Amsden argues that imperialism doesn't explain the Taiwan case so much as the internal factors, like the legacy of Japanese occupation, which brought about the acceptance of strong state intervention in the economy and a scientific approach to agriculture, and resulted in land reforms which sharply reduced inequality.

With huge state intervention in rice marketing, the Taiwanese peasantry gained in its living standards as its crop productivity improved. In industry, Amsden recounts how Taiwan advanced with production for export and openness to trade and foreign investment at a very favorable geographical location and moment in history. She points out that success in Taiwan is more due to "local class relationships" than unequal exchange with other countries, as dependency theory would have it. The most "special case" features of Taiwan's history, she reaffirms, are the positive elements brought by Japanese scientific agriculture and the "externally engineered" land reform (pushed by the Guomindang and the United States without the ability of local elites to resist). Amsden puts Taiwan forward as an important test of economic theories of development, but also admits it is no model for other nations: "This was a most unusual situation, and unlikely to be repeated."

Within a cadre of world-systems theorists, Duke University sociologist Gary Gereffi (1948–) pioneered the "commodity chain" approach and has made some of the most important contributions in recent decades to the comparative study of development. Gereffi argues that poorer countries were able to develop only to a certain degree because they were selling their goods on unfavorable terms, for example, in contracting arrangements which meant that US firms like Nike carried out the marketing of shoes produced cheaply in Korea or China. In "Rethinking Development Theory: Insights from East Asia and Latin America," first published in 1989, Gereffi points out the differences and similarities in the trajectories of Latin American and Asian developing nations, comparing Brazil and Mexico with Korea and Taiwan. He examines the question of why East Asian countries were able to maintain growth in the 1970s and 1980s when other nations endured the effects of a global recession. His work is useful in tracing the stages of policies taken by nations in the two regions, showing how production for export (Asia) or internal markets (Latin America) was based on and later influenced many aspects of the nation's social structure, such as income distribution or politics.

Despite their close attention to class inequalities, critiques of capitalism such as the dependency and world-systems approaches have long been criticized for under-theorizing the relationships between capitalism and the other system of exploitation it tends to run with, patriarchy. Even though economic change and development can actively marginalize women's productive and reproductive labor, too often women's work is entirely invisible in the academic literature explaining development. While many have documented how capitalist development affects women, efforts to explain how gender affects the biggest structures of the global economy are much less elaborated in mainstream world-systems literature and instead somewhat marginalized in "feminist" literatures on women and development.

In 1998, Ruth Pearson and Cecile Jackson coordinated a conference and an influential edited volume entitled *Feminist Visions of Development*. Their piece we excerpt here is from the introduction to that volume, reviewing some of the major trends in the gender and development literature, and some of the contributions of the leading voices they gathered. They describe how many of the original efforts in their field sought to point out the work of women and and their unpaid contributions to national economic development, and the need to gear development projects and policy interventions explicitly to address women's special needs. This approach, called "women in development" (WID), was expanded to the broader "gender analysis in development" (GAD) approach, which saw the problem as much larger:

> it is not women *per se* who are to be problematised, but gender relations in which women are subordinated … This implies … the extension of analysis from issues which were clearly concerned with women's reproductive roles (health, family planning, education), through economic roles (employment, income generation, household budgeting) to generic issues of macro-economic planning, structural adjustment and debt, environmental degradation and conservation and civil and political organization … (see Chapter 12 below)

The necessity of bringing in a full complement of development issues to understand women's fate was clear.

Pearson and Jackson go on to review some of the difficulties of incorporating the strong relativism of cross-cultural differences in gender roles, and how doing so has sometimes disabled political action by women. In a process often seen in official negotiations, "the institutionalization of gender has been experienced as depoliticising by women's organizations, and in the analyses of feminist critics who see bureaucratised gender concepts stripped of political content deployed towards other development ends …" Pearson and Jackson do have a political agenda, and propose that "Ways out of this impasse are indicated in notions of a politics of coalition …" They go on to review work by several authors, including Spivak, on the need not to misrepresent the "diverse positions of different women" and not to assume that Western women know what's best for women of color in developing countries. They call for gender analysis to take on the central political economy texts of their time, and not to rest on "easy-to-digest" positions about gender roles in development. For example, they point to work critiquing how women are often seen as obvious leaders in environmental aid projects, and assumptions that wage labor will liberate women.

We conclude Part II with a fascinating 2004 piece by Priti Ramamurthy, chair of the Department of Gender, Women and Sexuality Studies at the University of Washington. Ramamurthy dissects advertising for "Madras" cotton clothing in a Lands' End catalogue, to discover the gendered process of its production and delivery. She springboards from that advertising to critique commodity chain analysis developed by world-systems theorists like Gary Gereffi, which focuses entirely on the capturing of value at different points along the supply chain of material moving from the source of a raw material to its processing, manufacturing, and marketing. Ramamurthy then goes on to develop a "feminist commodity chain analysis," which provides a series of insights into the impacts of globalized production and consumption. She shows how race and gender biases are amplified by the process, and "individual and collective identities are constituted in the process of production." That is, people's self-conception is built around the work they do, which is shaped by global commodity chains. She focuses much more on the consumption side than other "realist" commodity chain analysts, talking about how the images in advertising influence how we think we fit in the world. This is as true for the consumers as for those working on "the global assembly line." All kinds of myths and half-truths are created by these advertisements, she argues, obscuring women's labor and the sometimes dangerous, toxic work of farming and dying cotton. The result of successfully hiding the reality behind the production system is that neoliberal globalization gains the consent of people all along the chain.

Four additional critiques of world-systems theory merit a few words, as a final point of introduction to this section. First is that the theory is too economistic, that is, the economy is assumed to be determining everything else. For example, is the state merely a governing board of the industrial bourgioisie? Research in recent decades, including that by Gereffi, exemplifies strong efforts by world-systems researchers to incorporate the state more directly in their theorizing; but they have yet to do much with culture as causation. Thomas Shannon also accuses world-systems theory of bordering on teleology – assuming that the capitalist world-system is driving toward some end, and ascribing agency and functionalist needs to the capitalist system itself.[4] And finally, world-systems theory, like many of the theories in this volume, is based on propositions that are still not especially testable. Sociologist Alejandro Portes levels a harsh critique at world-systems theory for often remaining at high levels of abstraction and failing to capitalize on the burgeoning awareness that the economy had indeed gone global.[5] World-systems theorists had been saying this for years; they had a globalized perspective on trade and investment, but their ideas were not taken into the mainstream.[6]

Notes

1 Peter F. Klarén and Thomas J. Bossert, *The Promise of Development: Theories of Change in Latin America* (Boulder: Westview, 1986), p. 17.

2 See Fernando Enrique Cardoso and Enzo Faletto, *Dependency and Development in Latin America* (Berkeley: University of California Press, 1979) and Peter Evans, *Dependent Development: The Alliance of Multinational, State and Local Capital in Brazil* (Princeton: Princeton University Press, 1979). Cristóbal Kay reminds us that this line is "structuralism," while the more radical line is true "dependency" theory, see his "Relevance of Structuralist and Dependency Theories in the Neoliberal Period: A Latin American Perspective," Working Paper Series No. 281, Institute of Social Studies, The Hague, 1998, and *Latin American Theories of Development and Underdevelopment* (New York: Routledge, 1989). A 2005 issue of the *Latin American Research Review* (40.3) includes a research forum reevaluating structuralism and its descendants, and Fernando Ignacio Leiva takes this forward with a 2008 book on *Latin American Neostructuralism: The Contradictions of Post-Neoliberal Development* (Minneapolis: University of Minnesota Press).

3 Evans, *Dependent Development*.

4 Thomas R. Shannon, *An Introduction to the World-System Perspective*, vol. 2 (Boulder: Westview Press, 1989).

5 Alejandro Portes, "Neoliberalism and the Sociology of Development: Emerging Trends and Unanticipated Facts," *Population and Development Review*, 23.2 (1997): 229–59.

6 The field of world-systems theory remains alive in sociology and political science in the United States, but its growth was curtailed by the postmodernist critique that *no* overarching theory of development could be possible; see Roberts, J. Timmons and Peter E. Grimes, "World-System Theory and the Environment: Toward a New Synthesis," in Riley E. Dunlap et al. (eds), *Sociological Theory and the Environment: Classical Foundations, Contemporary Insights* (Lanham, MD: Roman & Littlefield, 2002). It should be pointed out that several of the authors presented under the following sections on globalization are in fact active in networks of world-systems scholars; they are here attempting to explain globalization from world-systems perspectives.

7

The Development of Underdevelopment (1969)

Andre Gunder Frank

I

We cannot hope to formulate adequate development theory and policy for the majority of the world's population who suffer from underdevelopment without first learning how their past economic and social history gave rise to their present underdevelopment. Yet most historians study only the developed metropolitan countries and pay scant attention to the colonial and underdeveloped lands. For this reason most of our theoretical categories and guides to development policy have been distilled exclusively from the historical experience of the European and North American advanced capitalist nations.

Since the historical experience of the colonial and underdeveloped countries has demonstrably been quite different, available theory therefore fails to reflect the past of the underdeveloped part of the world entirely, and reflects the past of the world as a whole only in part. More important, our ignorance of the underdeveloped countries' history leads us to assume that their past and indeed their present resembles earlier stages of the history of the now developed countries. This ignorance and this assumption lead us into serious misconceptions about contemporary underdevelopment and development. Further, most studies of development and underdevelopment fail to take account of the economic and other relations between the metropolis and its economic colonies throughout the history of the world-wide expansion and development of the mercantilist and capitalist system. Consequently, most of our theory fails to explain the structure and development of the capitalist

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system as a whole and to account for its simultaneous generation of underdevelopment in some of its parts and of economic development in others.

It is generally held that economic development occurs in a succession of capitalist stages and that today's underdeveloped countries are still in a stage, sometimes depicted as an original stage of history, through which the now developed countries passed long ago. Yet even a modest acquaintance with history shows that underdevelopment is not original or traditional and that neither the past nor the present of the underdeveloped countries resembles in any important respect the past of the now developed countries. The now developed countries were never *under*developed, though they may have been *un*developed. It is also widely believed that the contemporary underdevelopment of a country can be understood as the product or reflection solely of its own economic, political, social, and cultural characteristics or structure. Yet historical research demonstrates that contemporary underdevelopment is in large part the historical product of past and continuing economic and other relations between the satellite underdeveloped and the now developed metropolitan countries. Furthermore, these relations are an essential part of the structure and development of the capitalist system on a world scale as a whole. A related and also largely erroneous view is that the development of these underdeveloped countries and, within them of their most underdeveloped domestic areas, must and will be generated or stimulated by diffusing capital, institutions, values, etc., to them from the international and national capitalist metropoles. Historical perspective based on the underdeveloped countries' past experience suggests that on the contrary in the underdeveloped countries economic development can now occur only independently of most of these relations of diffusion.

Evident inequalities of income and differences in culture have led many observers to see "dual" societies and economics in the underdeveloped countries. Each of the two parts is supposed to have a history of its own, a structure, and a contemporary dynamic largely independent of the other. Supposedly, only one part of the economy and society has been importantly affected by intimate economic relations with the "outside" capitalist world; and that part, it is held, became modern, capitalist, and relatively developed precisely because of this contact. The other part is widely regarded as variously isolated, subsistence-based, feudal, or precapitalist, and therefore more underdeveloped.

I believe on the contrary that the entire "dual society" thesis is false and that the policy recommendations to which it leads will, if acted upon, serve only to intensify and perpetuate the very conditions of underdevelopment they are supposedly designed to remedy.

A mounting body of evidence suggests, and I am confident that future historical research will confirm, that the expansion of the capitalist system over the past centuries effectively and entirely penetrated even the apparently most isolated sectors of the underdeveloped world. Therefore, the economic, political, social, and cultural institutions and relations we now observe there are the products of the historical development of the capitalist system no less than are the seemingly more modern or capitalist features of the national metropoles of these underdeveloped countries.

Analogously to the relations between development and underdevelopment on the international level, the contemporary underdeveloped institutions of the so-called backward or feudal domestic areas of an underdeveloped country are no less the product of the single historical process of capitalist development than are the so-called capitalist institutions of the supposedly more progressive areas. In this paper I should like to sketch the kinds of evidence which support this thesis and at the same time indicate lines along which further study and research could fruitfully proceed.

II

The Secretary General of the Latin American Center for Research in the Social Sciences writes in that Center's journal: "The privileged position of the city has its origin in the colonial period. It was founded by the Conqueror to serve the same ends that it still serves today; to incorporate the indigenous population into the economy brought and developed by that Conqueror and his descendants. The regional city was an instrument of conquest and is still today an instrument of domination."[1] The Instituto Nacional Indigenista (National [Indigenous] Institute) of Mexico confirms this observation when it notes that "the mestizo population, in fact, always lives in a city, a center of an intercultural region, which acts as the metropolis of a zone of indigenous population and which maintains with the underdeveloped communities an intimate relation which links the center with the satellite communities."[2] The Institute goes on to point out that "between the mestizos who live in the nuclear city of the region and the Indians who live in the peasant hinterland there is in reality a closer economic and social interdependence than might at first glance appear" and that the provincial metropoles "by being centers of intercourse are also centers of exploitation."[3]

Thus these metropolis–satellite relations are not limited to the imperial or international level but penetrate and structure the very economic, political, and social life of the Latin American colonies and countries. Just as the colonial and national capital and its export sector become the satellite of the Iberian (and later of other) metropoles of the world economic system, this satellite immediately becomes a colonial and then a national metropolis with respect to the productive sectors and population of the interior. Furthermore, the provincial capitals, which thus are themselves satellites of the national metropolis – and through the latter of the world metropolis – are in turn provincial centers around which their own local satellites orbit. Thus, a whole chain of constellations of metropoles and satellites relates all parts of the whole system from its metropolitan center in Europe or the United States to the farthest outpost in the Latin American countryside.

When we examine this metropolis–satellite structure, we find that each of the satellites, including now-underdeveloped Spain and Portugal, serves as an instrument to suck capital or economic surplus out of its own satellites and to channel part of this surplus to the world metropolis of which all are satellites. Moreover, each national and local metropolis serves to impose and maintain the monopolistic structure and exploitative relationship of this system (as the Instituto Nacional Indigenista of Mexico calls it) as long as it serves the interests of the metropoles which take advantage of this global, national, and local structure to promote their own development and the enrichment of their ruling classes.

These are the principal and still surviving structural characteristics which were implanted in Latin America by the Conquest. Beyond examining the establishment of this colonial structure in its historical context, the proposed approach calls for study of the development – and underdevelopment – of these metropoles and satellites of Latin America throughout the following and still continuing historical process. In this way we can understand why there were and still are tendencies in the Latin American and world capitalist structure which seem to lead to the development of the metropolis and the underdevelopment of the satellite and why, particularly, the satellized national, regional, and local metropoles in Latin America find that their economic development is at best a limited or underdeveloped development.

III

That present underdevelopment of Latin America is the result of its centuries-long participation in the process of world capitalist development, I believe I have shown in my case studies of the economic and social histories of Chile and Brazil. My study of Chilean history suggests that the Conquest not only incorporated this country fully into the expansion and development of the world mercantile and later industrial capitalist system but that it also introduced the monopolistic metropolis–satellite structure and development of capitalism into the Chilean domestic economy and society itself. This structure then penetrated and permeated all of Chile very quickly. Since that time and in the course of world and Chilean history during the epochs of colonialism, free trade, imperialism, and the present, Chile has become increasingly marked by the economic, social, and political structure of satellite underdevelopment. This development of underdevelopment continues today, both in Chile's still increasing satellization by the world metropolis and through the ever more acute polarization of Chile's domestic economy.

The history of Brazil is perhaps the clearest case of both national and regional development of underdevelopment. The expansion of the world economy since the beginning of the sixteenth century successively converted the Northeast, the Minas Gerais interior, the North, and the Center-South (Rio de Janeiro, São Paulo, and Paraná) into export economies and incorporated them into the structure and development of the world capitalist system. Each of these regions experienced what may have appeared as economic development during the period of its respective golden age. But it was a satellite development which was neither self-generating nor self-perpetuating. As the market or the productivity of the first three regions declined, foreign and domestic economic interest in them waned; and they were left to develop the underdevelopment they live today. In the fourth region, the coffee economy experienced a similar though not yet quite as serious fate (though the development of a synthetic coffee substitute promises to deal it a mortal blow in the not too distant future). All of this historical evidence contradicts the generally accepted theses that Latin America suffers from a dual society or from the survival of feudal institutions and that these are important obstacles to its economic development.

IV

During the First World War, however, and even more during the Great Depression and the Second World War, São Paulo began to build up an industrial establishment which is the largest in Latin America today. The question arises whether this industrial development did or can break Brazil out of the cycle of satellite development and underdevelopment which has characterized its other regions and national history within the capitalist system so far. I believe that the answer is no. Domestically the evidence so far is fairly clear. The development of industry in São Paulo has not brought greater riches to the other regions of Brazil. Instead, it converted them into internal colonial satellites, de-capitalized them further, and consolidated or even deepened their underdevelopment. There is little evidence to suggest that this process is likely to be reversed in the foreseeable future except insofar as the provincial poor migrate and become the poor of the metropolitan cities. Externally, the evidence is that although the initial development of São Paulo's industry was relatively autonomous it is being increasingly satellized by the world capitalist metropolis and its future development possibilities are increasingly restricted. This development, my studies lead me to believe, also appears destined to limited or underdeveloped development as long as it takes place in the present economic, political, and social framework.

We must conclude, in short, that underdevelopment is not due to the survival of archaic institutions and the existence of capital shortage in regions that have remained isolated from the stream of world history. On the contrary, underdevelopment was and still is generated by the very same historical process which also generated economic development: the development of capitalism itself. This view, I am glad to say, is gaining adherents among students of Latin America and is proving its worth in shedding new light on the problems of the area and in affording a better perspective for the formulation of theory and policy.

V

The same historical and structural approach can also lead to better development theory and policy by generating a series of hypotheses about development and underdevelopment such as those I am testing in my current research. The hypotheses are derived from the empirical observation and theoretical assumption that within this world-embracing metropolis–satellite structure the metropoles tend to develop and the satellites to underdevelop. The first hypothesis has already been mentioned above: that in contrast to the development of the world metropolis which is no one's satellite, the development of the national and other subordinate metropoles is limited by their satellite status. It is perhaps more difficult to test this hypothesis than the following ones because part of its confirmation depends on the test of the other hypotheses. Nonetheless, this hypothesis appears to be generally confirmed by the non-autonomous and unsatisfactory economic and especially industrial development of Latin America's national metropoles, as documented in the studies already cited. The most important and at the same time most confirmatory examples are the metropolitan regions of Buenos Aires and São Paulo whose growth only began in the nineteenth century, was therefore largely untrammelled by any colonial heritage, but was and remains a satellite development largely dependent on the outside metropolis, first of Britain and then of the United States.

A second hypothesis is that the satellites experience their greatest economic development and especially their most classically capitalist industrial development if and when their ties to their metropolis are weakest. This hypothesis is almost diametrically opposed to the generally accepted thesis that development in the underdeveloped countries follows from the greatest degree of contact with and diffusion from the metropolitan developed countries. This hypothesis seems to be confirmed by two kinds of relative isolation that Latin America has experienced in the course of its history. One is the temporary isolation caused by the crises of war or depression in the world metropolis. Apart from minor ones, five periods of such major crises stand out and seem to confirm the hypothesis. These are: the European (and especially Spanish) Depression of the seventeenth century, the Napoleonic Wars, the First World War, the Depression of the 1930s, and the Second World War. It is clearly established and generally recognized that the most important recent industrial development – especially of Argentina, Brazil, and Mexico, but also of other countries such as Chile – has taken place precisely during the periods of the two World Wars and the intervening Depression. Thanks to the consequent loosening of trade and investment ties during these periods, the satellites initiated marked autonomous industrialization and growth. Historical research demonstrates that the same thing happened in Latin America during Europe's seventeenth-century depression. Manufacturing grew in the Latin American countries, and several of them such as Chile became exporters of manufactured goods. The Napoleonic Wars gave rise to independence movements in Latin America, and these should perhaps also be interpreted as confirming the development hypothesis in part.

The other kind of isolation which tends to confirm the second hypothesis is the geographic and economic isolation of regions which at one time were relatively weakly tied to and poorly integrated into the mercantilist and capitalist system. My preliminary research suggests that in Latin America it was these regions which initiated and experienced the most promising self-generating economic development of the classical industrial capitalist type. The most important regional cases probably are Tucumán and Asunción, as well as other cities such as Mendoza and Rosario, in the interior of Argentina and Paraguay during the end of the eighteenth and the beginning of the nineteenth centuries. Seventeenth- and eighteenth-century São Paulo, long before coffee was grown there, is another example. Perhaps Antioquia in Colombia and Puebla and Querétaro in Mexico are other examples. In its own way, Chile was also an example since, before the sea route around the Horn was opened, this country was relatively isolated at the end of the long voyage from Europe via Panama. All of these regions became manufacturing centers and even exporters, usually of textiles, during the periods preceding their effective incorporation as satellites into the colonial, national, and world capitalist system… .

VI

A corollary of the second hypothesis is that when the metropolis recovers from its crisis and re-establishes the trade and investment ties which fully re-incorporate the satellite into the system, or when the metropolis expands to incorporate previously isolated regions into the world-wide system, the previous development and industrialization of these regions is choked off or channelled into directions which are not self-perpetuating and promising. This happened after each of the five crises cited above. The renewed expansion of trade and the spread of economic liberalism in the eighteenth and nineteenth centuries choked off and reversed the manufacturing development which Latin America had experienced during the seventeenth century, and in some places at the beginning of the nineteenth. After the First World War, the new national industry of Brazil suffered serious consequences from American economic invasion. The increase in the growth rate of Gross National Product and particularly of industrialization throughout Latin America was again reversed and industry became increasingly satellized after the Second World War and especially after the post-Korean War recovery and expansion of the metropolis. Far from having become more developed since then, industrial sectors of Brazil and most conspicuously of Argentina have become structurally more and more underdeveloped and less and less able to generate continued industrialization and/or sustain development of the economy. This process, from which India also suffers, is reflected in a whole gamut of balance-of-payments, inflationary, and other economic and political difficulties, and promises to yield to no solution short of far-reaching structural change.

Our hypothesis suggests that fundamentally the same process occurred even more dramatically with the incorporation into the system of previously unsatellized regions. The expansion of Buenos Aires as a satellite of Great Britain and the introduction of free trade in the interest of the ruling groups of both metropoles destroyed the manufacturing and much of the remainder of the economic base of the previously relatively prosperous interior almost entirely. Manufacturing was destroyed by foreign competition, lands were taken and concentrated into latifundia by the rapaciously growing export economy, intraregional distribution of income became much more unequal, and the previously developing regions became simple satellites of Buenos Aires and through it of London. The provincial centers did not yield to satellization without a struggle. This metropolis–satellite conflict was much of the cause of the long political and armed struggle between the Unitarists in Buenos Aires and the Federalists in the provinces, and it may be said to have been the sole important cause of the War of the Triple Alliance in which Buenos Aires, Montevideo, and Rio de Janeiro, encouraged and helped by London, destroyed not only the autonomously developing economy of Paraguay but killed off nearly all of its population which was unwilling to give in. Though this is no doubt the most spectacular example which tends to confirm the hypothesis, I believe that historical research on the satellization of previously relatively independent yeoman-farming and incipient manufacturing regions such as the Caribbean islands will confirm it further. These regions did not have a chance against the forces of expanding and developing capitalism, and their own development had to be sacrificed to that of others. The economy and industry of Argentina, Brazil, and other countries which have experienced the effects of metropolitan recovery since the Second World War are today suffering much the same fate, if fortunately still in lesser degree.

VII

A third major hypothesis derived from the metropolis–satellite structure is that the regions which are the most underdeveloped and feudal-seeming today are the ones which had the closest ties to the metropolis in the past. They are the regions which were the greatest exporters of primary products to and the biggest sources of capital for the world metropolis and which were abandoned by the metropolis when for one reason or another business fell off. This hypothesis also contradicts the generally held thesis that the source of a region's underdevelopment is its isolation and its precapitalist institutions.

This hypothesis seems to be amply confirmed by the former super-satellite development and present ultra-underdevelopment of the once sugar-exporting West Indies, Northeastern Brazil, the ex-mining districts of Minas Gerais in Brazil, highland Peru, and Bolivia, and the central Mexican states of Guanajuato, Zacatecas, and others whose names were made world famous centuries ago by their silver. There surely are no major regions in Latin America which are today more cursed by underdevelopment and poverty; yet all of these regions, like Bengal in India, once provided the life blood of mercantile and industrial capitalist development – in the metropolis. These regions' participation in the development of the world capitalist system gave them, already in their golden age, the typical structure of underdevelopment of a capitalist export economy. When the market for their sugar or the wealth of their mines disappeared and the metropolis abandoned them to their own devices, the already existing economic, political, and social structure of these regions prohibited autonomous generation of economic development and left them no alternative but to turn in upon themselves and to degenerate into the ultra-underdevelopment we find there today.

VIII

These considerations suggest two further and related hypotheses. One is that the latifundium, irrespective of whether it appears as a plantation or a hacienda today, was typically born as a commercial enterprise which created for itself the institutions which permitted it to respond to increased demand in the world or national market by expanding the amount of its land, capital, and labor and to increase the supply of its products. The fifth hypothesis is that the latifundia which appear isolated, subsistence-based, and semi-feudal today saw the demand for their products or their productive capacity decline and that they are to be found principally in the above-named former agricultural and mining export regions whose economic activity declined in general. These two hypotheses run counter to the notions of most people, and even to the opinions of some historians and other students of the subject, according to whom the historical roots and socio-economic causes of Latin American latifundia and agrarian institutions are to be found in the transfer of feudal institutions from Europe and/or in economic depression.

The evidence to test these hypotheses is not open to easy general inspection and requires detailed analyses of many cases. Nonetheless, some important confirmatory evidence is available. The growth of the latifundium in nineteenth-century Argentina and Cuba is a clear case in support of the fourth hypothesis and can in no way be attributed to the transfer of feudal institutions during colonial times. The same is evidently the case of the postrevolutionary and contemporary resurgence of latifundia particularly in the North of Mexico, which produce for the American market, and of similar ones on the coast of Peru and the new coffee regions of Brazil. The conversion of previously yeoman-farming Caribbean islands, such as Barbados, into sugar-exporting economies at various times between the seventeenth and twentieth centuries and the resulting rise of the latifundia in these islands would seem to confirm the fourth hypothesis as well. In Chile, the rise of the latifundium and the creation of the institutions of servitude which later came to be called feudal occurred in the eighteenth century and have been conclusively shown to be the result of and response to the opening of a market for Chilean wheat in Lima.[4] Even the growth and consolidation of the latifundium in seventeenth-century Mexico – which most expert students have attributed to a depression of the economy caused by the decline of mining and a shortage of Indian labor and to a consequent turning in upon itself and ruralization of the economy – occurred at a time when urban population and demand were growing, food shortages became acute, food prices skyrocketed, and the profitability of other economic activities such as mining and foreign trade declined. All of these and other factors rendered hacienda agriculture more profitable. Thus, even this case would seem to confirm the hypothesis that the growth of the latifundium and its feudal-seeming conditions of servitude in Latin America has always been and still is the commercial response to increased demand and that it does not represent the transfer or survival of alien institutions that have remained beyond the reach of capitalist development. The emergence of latifundia, which today really are more or less (though not entirely) isolated, might then be attributed to the causes advanced in the fifth hypothesis – i.e., the decline of previously profitable agricultural enterprises whose capital was, and whose currently produced economic surplus still is, transferred elsewhere by owners and merchants who frequently are the same persons or families. Testing this hypothesis requires still more detailed analysis, some of which I have undertaken in a study on Brazilian agriculture.

IX

All of these hypotheses and studies suggest that the global extension and unity of the capitalist system, its monopoly structure and uneven development throughout its history, and the resulting persistence of commercial rather than industrial capitalism in the underdeveloped world (including its most industrially advanced countries) deserve much more attention in the study of economic development and cultural change than they have hitherto received. Though science and truth know no national boundaries, it is probably new generations of scientists from the underdeveloped countries themselves who most need to, and best can, devote the necessary attention to these problems and clarify the process of underdevelopment and development. It is their people who in the last analysis face the task of changing this no longer acceptable process and eliminating this miserable reality.

They will not be able to accomplish these goals by importing sterile stereotypes from the metropolis which do not correspond to their satellite economic reality and do not respond to their liberating political needs. To change their reality they must understand it. For this reason, I hope that better confirmation of these hypotheses and further pursuit of the proposed historic, holistic, and structural approach may help the peoples of the underdeveloped countries to understand the causes and eliminate the reality of their development of underdevelopment and their underdevelopment of development.

Notes

1 *América Latina*, Año 6, No. 4 (Oct.–Dec. 1963), p. 8.
2 Instituto Nacional Indigenista, *Los centros coordinadores indigenistas* (Mexico City, 1962), p. 34.
3 *Ibid.*, pp. 33–4, 88.
4 Mario Góngora, *Origen de los "inquilinos" de Chile central* (Santiago: Editorial Universitaria, 1960); Jean Borde and Mario Góngora, *Evolución de la propriedad rural en el Valle del Puango* (Santiago: Instituto de Sociología de la Universidad de Chile); Sergio Sepúlveda, *El trigo chileno en el mercado mundial* (Santiago: Editorial Universitaria, 1959).

8

Dependency and Development in Latin America (1972)

Fernando Henrique Cardoso

The theory of imperialist capitalism, as is well known, has so far attained its most significant treatment in Lenin's works. This is not only because Lenin attempts to explain transformations of the capitalist economies that occurred during the last decade of the 19th century and the first decade of the 20th, but mainly because of the political and historical implications contained in his interpretations. In fact, the descriptive arguments of Lenin's theory of imperialism were borrowed from Hobson's analysis. Other writers had already presented evidence of the international expansion of the capitalist economies and nations. Nevertheless, Lenin, inspired by Marx's views, was able to bring together evidence to the effect that economic expansion is meaningless if we do not take into consideration the *political* and *historical* aspects with which economic factors are intimately related. From Lenin's perspective, imperialism is a new form of the capitalist mode of production. This new form cannot be considered as a *different* mode of economic organization, in so far as capital accumulation based on private ownership of the means of production and exploitation of the labour force remain the basic features of the system. But its significance is that of a new *stage* of capitalism. The historical "momentum" was a new one, with all the political consequences of that type of transformation: within the dominant capitalist classes, new sectors tried to impose their interests and ideologies; the State, the Army and all basic social and political institutions were redefined in order to assure expansion abroad. At the same time new types of liberation and social struggles came onto the historical scene – the colonial liberation

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movements and the fight against "trade unionism", the latter a struggle against an initial form of working-class compromise with the bourgeoisie made possible by the exploitation of the colonial world.

From that broad picture of a new historical stage of capitalist development Lenin inferred new political tasks, tactics and strategies for socialist revolution.

Lenin's Characterization of Imperialism

The main points of Lenin's characterization of imperialism that are essential to the present discussion can be summarized as follows:

(a) the capitalist economy in its "advanced stages" involves a concentration of capital and production (points that were well established by Marx in *Capital*) in such a way that the competitive market is replaced in its basic branches by a monopolistic one.

(b) this trend was historically accomplished through internal differentiation of capitalist functions, leading not only to the formation of a financial stratum among entrepreneurs but to the marked prominence of the banking system in the capitalist mode of production. Furthermore, the fusion of industrial capital with financial capital under the control of the latter turned out to be the decisive feature of the political and economic relations within capitalist classes, with all the practical consequences that such a system of relations has in terms of state organization, politics and ideology.

(c) capitalism thus reached its "ultimate stage of development" both internally and externally. Internally, control of the productive system by financiers turned the productive forces and the capital accumulation process toward the search for new possibilities for investment. The problem of "capital realization" became in this way an imperative necessity to permit the continuing of capitalist expansion. In addition there were internal limits that impeded the continuous reinvestment of new capital (impoverishment of the masses, a faster rate of capital growth than that of the internal market, and so on). *External outlets* had to be found to ensure the continuity of capitalist advance and accumulation.

(d) the increased and increasing speed of the development of productive forces under monopolistic control also pushed the advanced capitalist countries toward the political control of foreign lands. The search for control over *raw materials* is yet another reason why capitalism in its monopolistic stage becomes expansionist.

In short, Lenin's explanation of why advanced capitalist economies were impelled toward the control of backward lands was based on two main factors. One stressed movements of capital, the other outlined the productive process. Both were not only linked to each other but also related to the global transformation of the capitalist system that had led to the control of the productive system by financiers. It is not difficult to see that such modifications deeply affected state organization and functions as well as the relationships among nations, since a main thrust of capitalist development in the stage of imperialism was toward the territorial division of the world among the leading capitalist countries. This process guaranteed capital flows from the over-capitalized economies to backward countries and assured provision of raw materials in return.

Imperialism and Dependent Economies

From that perspective, the consequence of imperialism with respect to dependent economies and nations (or colonies) was the integration of the latter into the international market. Inequality among nations and economies resulted from imperialism's development to the extent that import of raw materials and export of manufactured goods were the bases of the imperialist-colonial relationship. The reproduction and amplification of inequality between advanced economies and dependent economies developed as a by-product of the very process of capitalist growth.

Certainly, Lenin was aware of particular types of interconnections, as in Argentina and other economies dependent on Great Britain, where local bourgeoisies controlled sectors of the productive system creating more complex patterns of exploitation. The same was true with respect to the political aspects of dependency in those countries where the state tried to defend the national bourgeoisie against imperialist pressures.

Nevertheless, from the theoretical point of view, as a mode of exploitation, imperialism should tend to restrict the economic growth of backward countries to mineral and agricultural sectors in order to assure raw materials for the advanced capitalist nations in their drive for further industrialization. For the same reasons the indigenous labour force could be kept at low wage and salary levels. By that means the dominant central economies were assured of cheap raw material prices. Consequently, in colonized or dependent nations, internal markets did not have any special strategic significance.

Of course, in terms of "capital realization", selling products abroad had importance. But even so, the main imperialistic tie in terms of direct capital investment was oriented toward the concession of loans to the dependent State or to private local entrepreneurs. In both cases, however, political and financial guarantees were assured by the State or the administration of the receiver country.

In short, imperialist profit was based on unequal trade and financial exploitation. The latter could be measured by the increasing indebtedness of exploited economies to the central economies. The former was evidenced through the different types of products exchanged, i.e. raw materials for manufactured goods. This process of exploitation of the indigenous labour force thus insured an unevenness in both types of economies. Moreover, technological advances in the industrial sectors of central economies provided a high level of exploitation, increasing the relative surplus value extracted through a continuously advancing technology of production (leading in turn to unevenness of the rate of organic composition of capital), while in the dominated economies the direct over-exploitation of labour prevailed in the productive system.

Politically, this type of economic expansion thus reinforced colonial links, through wars, repression and subjugation of peoples that previously were not only marginal to the international market, but were culturally independent and structurally did not have links with the Western world. Such were the African and Asian regions where nations, in spite of previous commercial–capitalist expansion, remained largely untouched in terms of their productive systems.

Latin America from the beginning was somewhat different in its links to the imperialist process. It is true that this process of colonialistic penetration obtained with respect to some countries (mainly the Caribbean nations). Yet throughout most of Latin America, the imperialistic upsurge occurred by way of a more complex process, through which Latin American countries kept their political independence, but slowly shifted from subordination to an earlier British influence to American predominance.

Ownership of the productive system was the site of the main differences. Some Latin American economies, even after imperialist predominance, were able to cope with the new situation by maintaining proprietorship of the local export economy in the hands of native bourgeoisies. Thus in some countries (such as Argentina, Brazil, Uruguay, Colombia, Chile), the export sector remained at least to some extent controlled by the local bourgeoisie and the links of dependence were based more on trade and financial relations than directly on the productive sectors. In some countries the internal financial system was itself mainly dominated by internal bankers, and financial dependence was based on international loans contracted, as noted above, by the State or under State guarantees.

In spite of numerous political and economic variations, Lenin's basic picture remained valid: the internal market of Latin American countries grew in a limited way during the period of the first imperialist expansion; the industrial sector was not significantly expanded; external financial dependence grew enormously; raw materials including foodstuffs constituted the basis of export economies.

At the same time not only were the majority of Latin American countries unable to keep control of the export sector, but some of the countries that had previously retained dominance of raw materials or food production now lost that capacity (as in the Chilean mineral economy).

New Patterns of Capital Accumulation

In spite of the accuracy of Lenin's insights as measured against historical events during the first half of the century in many parts of the world, some important recent changes have deeply affected the pattern of relationship between imperialist and dependent nations. These changes demand a reappraisal of emergent structures and their main tendencies. Even if these modifications are not so deep as the shift that enabled Lenin to characterize a new stage of capitalism during the period of imperialist expansion, they are marked enough to warrant a major modification of the established analyses of capitalism and imperialism. Nevertheless, contemporary international capitalist expansion and control of dependent economies undoubtedly prove that this new pattern of economic relationships among nations remains imperialist. However, the main points of Lenin's characterization of imperialism and capitalism are no longer fully adequate to describe and explain the present forms of capital accumulation and external expansion.

With respect to changes that have occurred within the more advanced capitalist economies (chiefly the rise of monopoly capital and corporate enterprise) there are some consistent analyses. Baran and Sweezy's works, as well as those of Magdoff, Mandel and O'Connor, come to mind. These offer a comprehensive body of descriptive and explanatory material showing the differences between capitalism now and during Lenin's life.

In spite of some recent criticism, Baran and Sweezy argued convincingly (and Sweezy's article on "The Resurgence of Financial Control: Fact or Fancy?"[1] helps to affirm that conviction) that corporations operate as quasi-self-sufficient units of decision and action vis-à-vis capital accumulation. Hence previous notions of banking control over industry need to be rethought. Similarly, the conglomerate form of present big corporations and the multinational scope of the production and marketing adds considerable novelty to the capitalist form of production.[2]

These transformations (and we are only suggesting some of the principal ones which affect all processes of capitalist transformation) have led to important consequences that have been already analysed by the authors noted, as well as others. These writers stress, for instance, the increasing secular growth of profit rates under administered prices in a monopoly system. Of course, this is a central point in Marxian theory and in Lenin's analysis. Yet now important modifications, such as those mentioned, alter the type of political response that the capitalist system is able to produce in order to cope with the challenging situations created by its expansion.

It is equally necessary to approach the problem of surplus realization with a fresh perspective. In this connection some authors have considered the strengthened ties between militarist expansion and the reinforcement of military control over society, through a war economy, as the basic means of capital realization. As a second argument, but a still important factor, State expenditures in welfare are emphasized as alternative outlets for capital accumulation.

Though the adequacy of this analysis may be questioned, Marxist authors have carried out a fairly comprehensive *economic* reinterpretation of the mode of functioning of monopoly capitalism. The same is not true, however, when one considers the *political* aspects of the problem and especially the *politico-economic* consequences of monopoly capitalism in dependent economies. Let us start with the last aspect of the question.

New Forms of Economic Dependency

… [F]oreign investment in the new nations and in Latin America is moving rapidly away from oil, raw materials and agriculture and in the direction of the industrial sectors. Even where the bulk of assets continues to remain in the traditional sectors of imperialist investment, the rate of expansion of the industrial sector is rapid. This is true not only for Latin America but also for Africa and Asia.

The point is not only that multinational corporations are investing in the industrial sectors of dominated economies, instead of in the traditional agricultural and mineral sectors. Beyond that, even when "traditional" sectors of dependent economies, they are operating in technically and organizationally advanced modes, sometimes accepting local participation in their enterprises. Of course, these transformations do not mean that previous types of imperialistic investment, i.e. in oil or metals, are disappearing, even in the case of the most industrialized dependent economies, i.e. Argentina, Brazil and Mexico in Latin America. However, the dominant traits of imperialism in those countries, as the process of industrialization continues, cannot be adequately described and interpreted on the basis of frames of reference that posit the exchange of raw material for industrialized goods as the main feature of trade, and suppose virtually complete external ownership of the dependent economies' means of production.

Even the mineral sector (such as manganese in Brazil, copper in Chile during Frei's government, or petro-chemicals in various countries) is now being submitted to new patterns of economic ownership. The distinguishing feature of these new forms is the joint venture enterprise, comprising local state capital, private national capital and monopoly international investment (under foreign control in the last analysis).

As a consequence, in some dependent economies – among these, the so-called "developing countries" of Latin America – foreign investment no longer remains a simple zero-sum game of exploitation as was the pattern in classical imperialism. Strictly speaking – if we consider the purely economic indicators – it is not difficult to show that *development* and *monopoly penetration* in the industrial sectors of dependent economies are not incompatible. The idea that there occurs a kind of development of underdevelopment, apart from the play on words, is not helpful. In fact, *dependency*, *monopoly capitalism* and *development* are not contradictory terms: there occurs a kind of *dependent capitalist development* in the sectors of the Third World integrated into the new forms of monopolistic expansion.

As a result in countries like Argentina, Brazil, Mexico, South Africa, India, and some others, there is an internal structural fragmentation, connecting the most "advanced" parts of their economies to the international capitalist system. Separate although subordinated to these advanced sectors, the backward economic and social sectors of the dependent countries then play the role of "internal colonies". The gap between both will probably increase, creating a new type of dualism, quite different from the imaginary one sustained by some non-Marxist authors. The new structural "duality" corresponds to a kind of internal differentiation of the same unity. It results directly, of course, from capitalist expansion and is functional to that expansion, in so far as it helps to keep wages at a low level and diminishes political pressures inside the "modern" sector, since the social and economic position of those who belong to the latter is always better in comparative terms.

If this is true, to what extent is it possible to sustain the idea of *development* in tandem with dependence? The answer cannot be immediate. First of all I am suggesting that the present trend of imperialist investment allows some degree of local participation in the process of economic production. Let us indicate a crucial feature in which present and past forms of capitalism differ. During the previous type of imperialism, the market for goods produced in dependent economies by foreign enterprise was mostly, if not fully, the market of the advanced economies: oil, copper, coffee, iron bauxite, manganese, etc., were produced to be sold and consumed in the advanced capitalist countries. This explains why the internal market of dependent economies was irrelevant for the imperialist economies, excepting the modest portion of import goods consumed by the upper class in the dominated society.

Today for G.M. or Volkswagen, or General Electric, or Sears Roebuck, the Latin American market, if not the particular market in each country where those corporations are producing in Latin America, is the immediate goal in terms of profit. So, at least to some extent, a certain type of foreign investment needs some kind of internal prosperity. There are and there will be some parts of dependent societies, tied to the corporate system, internally and abroad, through shared interests.

On the other hand, and in spite of internal economic development, countries tied to international capitalism by that type of linkage remain economically dependent, insofar as the production of the means of production (technology) are concentrated in advanced capitalist economies (mainly in the US).

In terms of the Marxist scheme of capital reproduction, this means that sector I (the production of means of production) – the strategic part of the reproductive scheme – is virtually non-existent in dependent economies. Thus, from a broad perspective, the realization of capital accumulation *demands* a productive complementarity which does not exist within the country. In Lenin's interpretation the imperialist economies needed external expansion for the realization of capital accumulation. Conversely, within the dependent economies capital returns to the metropole in order to complete the cycle of capitalist reproduction. That is the reason why "technology" is so important. Its "material" aspect is less impressive than its significance as a form of maintenance of control and as a necessary step in the process of capital accumulation. Through technological advantage, corporations make secure their key roles in the global system of capital accumulation. Some degree of local prosperity is possible insofar as consumption goods locally produced by foreign investments can induce some dynamic effects in the dependent economies. But at the same time, the global process of capitalist development determines an interconnection between the sector of production of consumption goods and the capital goods sector, reproducing in this way the links of dependency.

One of the main factors which explained imperialist expansion in Lenin's theory was the search for capitalist investment. Now since foreign capital goes to the industrial sector of dependent economies in search of external markets, some considerable changes have occurred. First, in comparison with expanding assets of foreign corporations, the net amount of foreign capital actually invested in the dependent economies is decreasing: local savings and the reinvestment of profits realized in local markets provides resources for the growth of foreign assets with limited external flow of new capital. This is intimately related to the previously discussed process of expansion of the local market and it is also related to the mounting of "joint ventures" linking local capitalists and foreign enterprise.

Secondly, but no less important, statistics demonstrate that dependent economies during the period of monopolistic imperialist expansion are *exporting* capital to the dominant economies.

As a reaction against that process, some dependent countries have tried to limit exportable profits. Nevertheless, international corporations had the foresight to sense that the principal way to send returns abroad is through the payment of licenses, patents, royalties and related items. These institutional devices, together with the increasing indebtedness of the exploited nations vis-à-vis international agencies and banks (in fact controlled by the big imperialist countries), have altered the main forms of exploitation.

It is not the purpose of this presentation to discuss all the consequences of this for a monopoly capitalist economy. However, some repercussions of the new pattern of imperialism on the US and other central economies are obvious. If a real problem of capital realization exists under monopoly capitalism, the new form of dependency will increase the necessity to find new fields of application for the capital accumulated in the metropolitan economies. Witness the push toward more "technical obsolescence" administered by corporations. Military expenditures are another means of finding new outlets for capital.

Nevertheless, I am not considering the whole picture. In fact, some of these conclusions might change if the capital flows and trade interrelations among advanced capitalist economies were taken into consideration. Thus the preceding remarks are presented with the single aim of stressing that the present trend of capital export from the underdeveloped countries to the imperialist ones leads to a redefinition of the function of foreign expansion for capital realization.

The idea that the growth of capitalism depends on Third World exploitation requires some further elaboration. In fact, the main trends of the last decade show that Latin American participation in both the expansion of international trade and investment is decreasing. If we accept the distinction between two sectors of international trade – the Centre and the Periphery – one finds that the trade rate of growth was 7.9 per cent per year in the central economies and 4.8 per cent in the peripheral ones. As a consequence, exports of the peripheral economies which reached a peak in 1948 (32 per cent of the international trade) decreased to 26 per cent in 1958 and to 21 per cent in 1968 (below the 28 per cent of the pre-war period). In the Latin American case this participation decreased from 12 per cent in 1948 to 6 per cent in 1968. The same is happening with respect to the importance that the periphery has for US investments. The periphery absorbed 55 per cent of the total US direct investment in 1950 and only 40 per cent in 1968. Latin American participation in this process fell in the same period from 39 per cent to 20 per cent.

Of course, these data do not show the increase of "loans and aid" which – as was stressed before – has been of increasing importance in economic imperialism. However, the fact that the interrelations among the most advanced economies are growing cannot be utilized as an argument to infer the "end of imperialism". On the contrary, the more appropriate inference is that the relations between advanced capitalist countries and dependent nations lead rather to a "marginalization" of the latter within the global system of economic development (as Anibal Pinto has outlined).

Some Political Consequences

The new forms of dependency will undoubtedly give rise to novel political and social adaptations and reactions inside the dependent countries. If my analysis is correct, the above-mentioned process of fragmentation of interests will probably lead to an internal differentiation that in very schematic terms can be suggested as follows. Part of the "national bourgeoisie" (the principal one in terms of economic power – agrarian, commercial, industrial or financial) is the direct beneficiary, as a junior partner, of the foreign interest. I refer not only to the direct associates, but also to economic groups that benefit from the eventual atmosphere of prosperity derived from dependent development (as is easily demonstrated in Brazil or Mexico). The process goes further and not only part of the "middle class" (intellectuals, state bureaucracies, armies, etc.) are involved in the new system, but even part of the working class. Those employed by the "internationalized" sector structurally belong to it.

Of course, structural dependence does not mean immediate political co-option. Effective political integration of groups and persons depends on the political processes, movements, goals and alternatives that they face.

Nevertheless, as the process of internationalization of dependent nations progresses, it becomes difficult to perceive the political process in terms of a struggle between the Nation and the anti-Nation, the latter conceived as the Foreign Power of Imperialism. The anti-Nation will be inside the "Nation" – so to speak, among the local people in different social strata. Furthermore, to perceive that, in these terms, the Nation is an occupied one, is not an easy process: there are very few "others" in cultural and national terms physically representing the presence of "the enemy".

I do not wish to give the impression that I conceive the political process in a mechanistic way. Consequently, my intention is not to "derive" some political consequences from a structural economic analysis. Rather, the point is that most socialist interpretations of the Latin American political situation not only run in that direction but also assume the wrong structural point of departure.

Some more general remarks can be summarized thus:

(a) Analysis which is based on the naive assumption that imperialism unifies the interests and reactions of dominated nations is a clear oversimplification of what is really occurring. It does not take into consideration the internal fragmentation of these countries and the attraction that development exerts in different social strata, and not only on the upper classes.
(b) The term 'development of underdevelopment' (in A. G. Frank) summarizes another mistake. In fact, the assumption of a structural 'lack of dynamism' in dependent economies because of imperialism misinterprets the actual forms of economic imperialism and presents an imprecise political understanding of the situation. It is necessary to understand that in specific situations it is possible to expect *development* and *dependency*.

It would be wrong to generalize these processes to the entire Third World. They only occur when corporations reorganize the international division of labour and include parts of dependent economies in their plans of productive investment.

Thus the majority of the Third World is not necessarily involved in this specific structural situation. To assume the contrary will lead to political mistakes equivalent to those derived from, for instance, Debray's analysis of Latin America. Debray once accepted the view that imperialism homogenized all Latin American countries (with one or two exceptions) and assumed a frame of reference which stressed the old fashioned type of imperialist exploitation with its attendant reinforcement of oligarchic and landlord-based types of dominance.

Now, I am assuming that there are different forms of dependency in Latin America and that in some of them, development produces a shift in internal power, displacing the old oligarchical power groups and reinforcing more "modern" types of political control. In that sense, the present dictatorships in Latin America, even when militarily based, do not express, by virtue of pure structural constraints, a traditional and "anti-developmentalist" (I mean anti-modern capitalism) form of domination.

It is hardly necessary to repeat that from the left's point of view there are strong arguments to maintain its denunciation of both new forms of imperialism or dependency and political authoritarianism. But clearly, new political analyses are needed to explain the bureaucratic-technocratic form of authoritarian state which serves the interests of the internationalized bourgeoisie and their allies.

In this context, and in order to avoid a mechanistic approach, a correct orientation of the struggles against capitalist imperialism demands special attention to cultural problems and the different forms of alienation.

If the capitalist pattern of development in industrialized dependent countries pushes toward internal fragmentation and inequalities, values related to national integrity and social participation might be transformed into instruments of political struggle. To permit the State and bourgeois groups to command the banner of nationalism – conceived not only in terms of sovereignty but also of internal cohesion and progressive social integration – would be a mistake with deep consequences. I am not supporting the idea that the strategic (or revolutionary) side of dependent industrialized societies is the "marginalized sector". But denunciation of marginalization as a consequence of capitalist growth, and the organization of unstructured masses, are indispensable tasks of analysis and practical politics.

For this reason it is not very realistic to expect the national bourgeoisie to lead resistance against external penetration. Consequently, denunciation of the dependency perspective cannot rest on values associated with bourgeois nationalism. National integrity as cited above means primarily popular integration in the nation and the need to struggle against the particular form of development promoted by the large corporations.

In the same way that trade unionism may become a danger for workers in advanced capitalist societies, development is a real ideological pole of attraction for middle class *and workers'* sectors in Latin American countries. The answer to that attractive effect cannot be a purely ideological denial of economic progress, when it occurs. A reply must be based on values and political objectives that enlarge the awareness of the masses with respect to social inequalities and national dependency.

Notes

1 See P. Sweezy, "The Resurgence of Financial Control: Fact or Fancy?" *Socialist Revolution*, 8:2:2 (Mar.–Apr. 1972), 157–92.

2 See H. Magdoff and P. Sweezy, "Notes on the Multinational Corporation," in K. T. Fann and D. C. Hodges, *Readings in U.S. Imperialism* (Boston, 1972), pp. 93–116.

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The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis (1979)

Immanuel Wallerstein

The growth within the capitalist world-economy of the industrial sector of production, the so-called "industrial revolution", was accompanied by a very strong current of thought which defined this change as both a process of organic development and of progress. There were those who considered these economic developments and the concomitant changes in social organization to be some penultimate stage of world development whose final working out was but a matter of time. These included such diverse thinkers as Saint-Simon, Comte, Hegel, Weber, Durkheim. And then there were the critics, most notably Marx, who argued, if you will, that the nineteenth-century present was only an antepenultimate stage of development, that the capitalist world was to know a cataclysmic political revolution which would then lead in the fullness of time to a final societal form, in this case the classless society.

One of the great strengths of Marxism was that, being an oppositional and hence critical doctrine, it called attention not merely to the contradictions of the system but to those of its ideologists, by appealing to the empirical evidence of historical reality which unmasked the irrelevancy of the models proposed for the explanation of the social world. The Marxist critics saw in abstracted models concrete rationalization, and they argued their case fundamentally by pointing to the failure of their opponents to analyze the social whole. As Lukács put it, "it is not the primacy of economic motives in historical explanation that constitutes the decisive difference between Marxism and bourgeois thought, but the point of view of totality".[1] . . .

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Shall we then turn to . . . Marxism, to give us a better account of social reality? In principle yes; in practice there are many different, often contradictory, versions extant of "Marxism". But what is more fundamental is the fact that in many countries Marxism is now the official state doctrine. Marxism is no longer exclusively an oppositional doctrine as it was in the nineteenth century.

The social fate of official doctrines is that they suffer a constant social pressure towards dogmatism and apologia, difficult although by no means impossible to counteract, and that they thereby often fall into the same intellectual dead end of ahistorical model building. . . .

Nothing illustrates the distortions of ahistorical models of social change better than the dilemmas to which the concept of stages gives rise. If we are to deal with social transformations over long historical time (Braudel's "the long term"), and if we are to give an explanation of both continuity and transformation, then we must logically divide the long term into segments in order to observe the structural changes from time A to time B. These segments are however not discrete but continuous in reality; *ergo* they are "stages" in the "development" of a social structure, a development which we determine however not *a priori* but *a posteriori*. That is, we cannot predict the future concretely, but we can predict the past.

The crucial issue when comparing "stages" is to determine the units of which the "stages" are synchronic portraits (or "ideal types", if you will). And the fundamental error of ahistorical social science (including ahistorical versions of Marxism) is to reify parts of the totality into such units and then to compare these reified structures.

For example, we may take modes of disposition of agricultural production, and term them subsistence cropping and cash cropping. We may then see these as entities which are "stages" of a development. We may talk about decisions of groups of peasants to shift from one to the other. We may describe other partial entities, such as states, as having within them two separate "economies", each based on a different mode of disposition of agricultural production. If we take each of these successive steps, all of which are false steps, we will end up with the misleading concept of the "dual economy" as have many liberal economists dealing with the so-called underdeveloped countries of the world. Still worse, we may reify a misreading of British history into a set of universal "stages" as Rostow does.

Marxist scholars have often fallen into exactly the same trap. If we take modes of payment of agricultural labor and contrast a "feudal" mode wherein the laborer is permitted to retain for subsistence a part of his agricultural production with a "capitalist" mode wherein the same laborer turns over the totality of his production to the landowner, receiving part of it back in the form of wages, we may then see these two modes as "stages" of a development. We may talk of the interests of "feudal" landowners in preventing the conversion of their mode of payment to a system of wages. We may then explain the fact that in the twentieth century a partial entity, say a state in Latin America, has not yet industrialized as the consequence of its being dominated by such landlords. If we take each of these successive steps, all of which are false steps, we will end up with the misleading concept of a "state dominated by feudal elements", as though such a thing could possibly exist in a capitalist world-economy. . . .

Not only does the misidentification of the entities to be compared lead us into false concepts, but it creates a non-problem: can stages be skipped? This question is only logically meaningful if we have “stages” that “coexist” within a single empirical framework. If within a capitalist world-economy, we define one state as feudal, a second as capitalist, and a third as socialist, then and only then can we pose the question: can a country “skip” from the feudal stage to the socialist stage of national development without “passing through capitalism”?

But if there is no such thing as “national development” (if by that we mean a natural history), and if the proper entity of comparison is the world system, then the problem of stage skipping is nonsense. If a stage can be skipped, it isn’t a stage. And we know this *a posteriori*.

If we are to talk of stages, then – and we should talk of stages – it must be stages of social systems, that is, of totalities. And the only totalities that exist or have historically existed are minisystems and world-systems, and in the nineteenth and twentieth centuries there has been only one world-system in existence, the capitalist world-economy.

We take the defining characteristic of a social system to be the existence within it of a division of labor, such that the various sectors or areas within are dependent upon economic exchange with others for the smooth and continuous provisioning of the needs of the area. Such economic exchange can clearly exist without a common political structure and even more obviously without sharing the same culture.

A minisystem is an entity that has within it a complete division of labor, and a single cultural framework. Such systems are found only in very simple agricultural or hunting and gathering societies. Such minisystems no longer exist in the world. Furthermore, there were fewer in the past than is often asserted, since any such system that became tied to an empire by the payment of tribute as “protection costs”[2] ceased by that fact to be a “system”, no longer having a self-contained division of labor. For such an area, the payment of tribute marked a shift, in Polanyi’s language, from being a reciprocal economy to participating in a larger redistributive economy.[3]

Leaving aside the now defunct minisystems, the only kind of social system is a world-system, which we define quite simply as a unit with a single division of labor and multiple cultural systems. It follows logically that there can, however, be two varieties of such world-systems, one with a common political system and one without. We shall designate these respectively as world-empires and world-economies.

It turns out empirically that world-economies have historically been unstable structures leading either towards disintegration or conquest by one group and hence transformation into a world-empire. Examples of such world-empires emerging from world-economies are all the so-called great civilizations of premodern times, such as China, Egypt, Rome (each at appropriate periods of its history). On the other hand, the so-called nineteenth-century empires, such as Great Britain or France, were not world-empires at all, but nation-states with colonial appendages operating within the framework of a world-economy.

World-empires were basically redistributive in economic form. No doubt they bred clusters of merchants who engaged in economic exchange (primarily long-distance trade), but such clusters, however large, were a minor part of the total economy and not fundamentally determinative of its fate. Such long-distance trade tended to be, as Polanyi argues, "administered trade" and not market trade, utilizing "ports of trade".

It was only with the emergence of the modern world-economy in sixteenth-century Europe that we saw the full development and economic predominance of market trade. This was the system called capitalism. Capitalism and a world-economy (that is, a single division of labor but multiple polities and cultures) are obverse sides of the same coin. One does not cause the other. We are merely defining the same indivisible phenomenon by different characteristics. . . .

On the "feudalism" debate, we take as a starting point Frank's concept of "the development of underdevelopment", that is, the view that the economic structures of contemporary underdeveloped countries is not the form which a "traditional" society takes upon contact with "developed" societies, not an earlier stage in the "transition" to industrialization. It is rather the result of being involved in the world-economy as a peripheral, raw material producing area, or as Frank puts it for Chile, "underdevelopment . . . is the necessary product of four centuries of capitalism itself".[4]

This formulation runs counter to a large body of writing concerning the underdeveloped countries that was produced in the period 1950–70, a literature which sought the factors that explained "development" within non-systems such as "states" or "cultures" and, once having presumably discovered these factors, urged their reproduction in underdeveloped areas as the road to salvation.

Frank's theory also runs counter, as we have already noted, to the received orthodox version of Marxism that had long dominated Marxist parties and intellectual circles, for example in Latin America. This older "Marxist" view of Latin America as a set of feudal societies in a more or less prebourgeois stage of development has fallen before the critiques of Frank and many others as well as before the political reality symbolized by the Cuban revolution and all its many consequences. Recent analysis in Latin America has centered instead around the concept of "dependence".[5]

However, recently, Ernesto Laclau has made an attack on Frank which, while accepting the critique of dualist doctrines, refuses to accept the categorization of Latin American states as capitalist. Instead Laclau asserts that "the world capitalist system . . . includes, *at the level of its definition*, various modes of production". He accuses Frank of confusing the two concepts of the "capitalist mode of production" and "participation in a world capitalist economic system".[6]

Of course, if it's a matter of definition, then there can be no argument. But then the polemic is scarcely useful since it is reduced to a question of semantics. Furthermore, Laclau insists that the definition is not his but that of Marx, which is more debatable. . . .

There is . . . a substantive issue in this debate. It is in fact the same substantive issue that underlay the debate between Maurice Dobb and Paul Sweezy in the early

1950s about the "transition from feudalism to capitalism" that occurred in early modern Europe.[7] The substantive issue, in my view, concerns the appropriate unit of analysis for the purpose of comparison. Basically, although neither Sweezy nor Frank is quite explicit on this point, and though Dobb and Laclau can both point to texts of Marx that seem clearly to indicate that they more faithfully follow Marx's argument, I believe both Sweezy and Frank better follow the spirit of Marx if not his letter[8] and that, leaving Marx quite out of the picture, they bring us nearer to an understanding of what actually happened and is happening than do their opponents.

What is the picture, both analytical and historical, that Laclau constructs? The heart of the problem revolves around the existence of free labor as the defining characteristic of a capitalist mode of production:

> The fundamental economic relationship of capitalism is constituted by the *free* [italics mine] labourer's sale of his labour-power, whose necessary precondition is the loss by the direct producer of ownership of the means of production . . .[9]

. . . There in a nutshell it is. Western Europe, at least England from the late seventeenth century on, had primarily landless, wage-earning laborers. In Latin America, then and to some extent still now, laborers were not proletarians, but slaves or "serfs". If proletariat, then capitalism. Of course. To be sure. But is England, or Mexico, or the West Indies a unit of analysis? Does each have a separate "mode of production"? Or is the unit (for the sixteenth–eighteenth centuries) the European world-economy, including England *and* Mexico, in which case what was the "mode of production" of this world-economy?

Before we argue our response to this question, let us turn to quite another debate, one between Mao Tse-Tung and Liu Shao-Chi in the 1960s concerning whether or not the Chinese People's Republic was a "socialist state". This is a debate that has a long background in the evolving thought of Marxist parties.

Marx, as has been often noted, said virtually nothing about the post-revolutionary political process. Engels spoke quite late in his writings of the "dictatorship of the proletariat". It was left to Lenin to elaborate a theory about such a "dictatorship", in his pamphlet *State and Revolution*, published in the last stages before the Bolshevik takeover of Russia, that is, in August 1917. The coming to power of the Bolsheviks led to a considerable debate as to the nature of the regime that had been established. Eventually a theoretical distinction emerged in Soviet thought between "socialism" and "communism" as two stages in historical development, one realizable in the present and one only in the future. In 1936 Stalin proclaimed that the USSR had become a socialist (but not yet a communist) state. Thus we now had firmly established *three* stages after bourgeois rule: a post-revolutionary government, a socialist state, and eventually communism. When, after the Second World War, various regimes dominated by the Communist Party were established in various east European states, these regimes were proclaimed to be "peoples' democracies", a new name then given to the post-revolutionary stage one. At later points, some of these countries, for example Czechoslovakia, asserted they had passed into stage two, that of becoming a socialist republic.

In 1961, the 22nd Congress of the CPSU invented a fourth stage, in between the former second and third stages: that of a socialist state which had become a "state of the whole people", a stage it was contended the USSR had at that point reached. The Programme of the Congress asserted that "the state as an organization of the entire people will survive until the complete victory of communism".[10] One of its commentators defines the "intrinsic substance (and) chief distinctive feature" of this stage: "The state of the whole people is the first state in the world with no class struggle to contend with and, hence, with no class domination and no suppression."[11]

One of the earliest signs of a major disagreement in the 1950s between the Communist Party of the Soviet Union and the Chinese Communist Party was a theoretical debate that revolved around the question of the "gradual transition to Communism". Basically, the CPSU argued that different socialist states would proceed separately in effectuating such a transition whereas the CCP argued that all socialist states would proceed simultaneously.

As we can see, this last form of the debate about "stages" implicitly raised the issue of the unit of analysis, for in effect the CCP was arguing that "communism" was a characteristic not of nation-states but of the world-economy as a whole. This debate was transposed onto the internal Chinese scene by the ideological debate, now known to have deep and long-standing roots, that gave rise eventually to the Cultural Revolution.

One of the corollaries of these debates about "stages" was whether or not the class struggle continued in post-revolutionary states prior to the achievement of communism. The 22nd Congress of the CPSU in 1961 had argued that the USSR had become a state without an internal class struggle, there were no longer existing antagonistic classes within it. Without speaking of the USSR, Mao Tse-Tung in 1957 had asserted in China:

> The class struggle is by no means over . . . It will continue to be long and tortuous, and at times will even become very acute . . . Marxists are still a minority among the entire population as well as among the intellectuals. Therefore, Marxism must still develop through struggle . . . Such struggles will never end. This is the law of development of truth and, naturally, of Marxism as well.[12]

If such struggles *never* end, then many of the facile generalizations about "stages" which "socialist" states are presumed to go through are thrown into question.

During the Cultural Revolution, it was asserted that Mao's report *On the Correct Handling of Contradiction Among the People* cited above, as well as one other, "entirely repudiated the 'theory of the dying out of the class struggle' advocated by Liu Shao-Chi . . ."[13] Specifically, Mao argued that "the elimination of the system of ownership by the exploiting classes through socialist transformation is not equal to the disappearance of struggle in the political and ideological spheres".[14]

Indeed, this is the logic of a *cultural* revolution. Mao is asserting that even if there is the achievement of *political* power (dictatorship of the proletariat) and *economic* transformation (abolition of private ownership of the means of production), the revolution is still far from complete. Revolution is not an event but a process. This process Mao calls "socialist society" – in my view a somewhat confusing choice of words, but no matter – and "socialist society covers a fairly long historical period".[15] Furthermore, "there are classes and class struggle throughout the period of socialist society".[16] The Tenth Plenum of the 8th Central Committee of the CCP, meeting from 24 to 27 September 1962, in endorsing Mao's views, omitted the phrase "socialist society" and talked instead of "the historical period of proletarian revolution and proletarian dictatorship, . . . the historical period of transition from capitalism to communism", which it said "will last scores of years or even longer" and during which "there is a class struggle between the proletariat and the bourgeoisie and struggle between the socialist road and the capitalist road".[17]

We do not have directly Liu's counter arguments. We might however take as an expression of the alternative position a recent analysis published in the USSR on the relationship of the socialist system and world development. There it is asserted that at some unspecified point after the Second World War, "socialism outgrew the bounds of one country and became a world system . . ."[18] It is further argued that: "Capitalism, emerging in the 16th century, became a world economic system only in the 19th century. It took the bourgeois revolutions 300 years to put an end to the power of the feudal elite. It took socialism 30 or 40 years to generate the forces for a new world system."[19] Finally, this book speaks of "capitalism's international division of labor"[20] and "international socialist cooperation of labor"[21] as two separate phenomena, drawing from this counterposition the policy conclusion: "Socialist unity has suffered a serious setback from the divisive course being pursued by the incumbent leadership of the Chinese People's Republic", and attributes this to "the great-power chauvinism of Mao Tse-Tung and his group".[22]

Note well the contrast between these two positions. Mao Tse-Tung is arguing for viewing "socialist society" as process rather than structure. Like Frank and Sweezy, and once again implicitly rather than explicitly, he is taking the world-system rather than the nation-state as the unit of analysis. The analysis by USSR scholars by contrast specifically argues the existence of *two* world-systems with two divisions of labor existing side by side, although the socialist system is acknowledged to be "divided". If divided politically, is it united economically? Hardly, one would think; in which case what is the substructural base to argue the existence of the system? Is it merely a moral imperative? And are then the Soviet scholars defending their concepts on the basis of Kantian metaphysics?

Let us see now if we can reinterpret the issues developed in these two debates within the framework of a general set of concepts that could be used to analyze the functioning of world-systems, and particularly of the historically specific capitalist world-economy that has existed for about four or five centuries now.

We must start with how one demonstrates the existence of a single division of labor. We can regard a division of labor as a grid which is substantially interdependent. Economic actors operate on some assumption (obviously seldom clear to any individual actor) that the totality of their essential needs – of sustenance, protection, and pleasure – will be met over a reasonable time span by a combination of their own productive activities and exchange in some form. The smallest grid that would substantially meet the expectations of the overwhelming majority of actors within those boundaries constitutes a single division of labor.

The reason why a small farming community whose only significant link to outsiders is the payment of annual tribute does not constitute such a single division of labor is that the assumptions of persons living in it concerning the provision of protection involve an "exchange" with other parts of the world-empire.

This concept of a grid of exchange relationships assumes, however, a distinction between *essential* exchanges and what might be called "luxury" exchanges. This is to be sure a distinction rooted in the social perceptions of the actors and hence in both their social organization and their culture. These perceptions can change. But this distinction is crucial if we are not to fall into the trap of identifying *every* exchange activity as evidence of the existence of a system. Members of a system (a minisystem or a world-system) can be linked in limited exchanges with elements located outside the system, in the "external arena" of the system.

[. . .]

We are, as you see, coming to the essential feature of a capitalist world-economy, which is production for sale in a market in which the object is to realize the maximum profit. In such a system production is constantly expanded as long as further production is profitable, and men constantly innovate new ways of producing things that will expand the profit margin. The classical economists tried to argue that such production for the market was somehow the "natural" state of man. But the combined writings of the anthropologists and the Marxists left few in doubt that such a mode of production (these days called "capitalism") was only one of several possible modes.

Since, however, the intellectual debate between the liberals and the Marxists took place in the era of the industrial revolution, there has tended to be a *de facto* confusion between industrialism and capitalism. This left the liberals after 1945 in the dilemma of explaining how a presumably non-capitalist society, the USSR, had industrialized. The most sophisticated response has been to conceive of "liberal capitalism" and "socialism" as two variants of an "industrial society", two variants destined to "converge". This argument has been trenchantly expounded by Raymond Aron.[23] But the same confusion left the Marxists, including Marx, with the problem of explaining what was the mode of production that predominated in Europe from the sixteenth to the eighteenth centuries, that is before the industrial revolution. Essentially, most Marxists have talked of a "transitional" stage, which is in fact a blurry non-concept with no operational indicators. This dilemma is heightened if the unit of analysis used is the state, in which case one has to explain why the transition has occurred at different rates and times in different countries.

Marx himself handled this by drawing a distinction between "merchant capitalism" and "industrial capitalism". This I believe is unfortunate terminology, since it leads to such conclusions as that of Maurice Dobb who says of this "transitional" period:

> But why speak of this as a stage of capitalism at all? The workers were generally not proletarianized: that is, they were not separated from the instruments of production, nor even in many cases from occupation of a plot of land. Production was scattered and decentralized and not concentrated. *The capitalist was still predominantly a merchant* [italics mine] who did not control production directly and did not impose his own discipline upon the work of artisan-craftsmen, who both laboured as individual (or family) units and retained a considerable measure of independence (if a dwindling one).[24]

One might well say: why indeed? Especially if one remembers how much emphasis Dobb places a few pages earlier on capitalism as a mode of *production* – how then can the capitalist be primarily a merchant? – on the concentration of such ownership in the hands of a few, and on the fact that capitalism is not synonymous with private ownership, capitalism being different from a system in which the owners are "small peasant producers or artisan-producers". Dobb argues that a defining feature of private ownership under capitalism is that some are "obliged to [work for those that own] since [they own] nothing and [have] no access to means of production [and hence] have no other means of livelihood".[25] Given this contradiction, the answer Dobb gives to his own question is in my view very weak: "While it is true that at this date the situation was transitional, and capital-to-wage-labour relations were still immaturely developed, the latter were already beginning to assume their characteristic features".[26]

If capitalism is a mode of production, production for profit in a market, then we ought, I should have thought, to look to whether or not such production was or was not occurring. It turns out in fact that it was, and in a very substantial form. Most of this production, however, was not industrial production. What was happening in Europe from the sixteenth to the eighteenth centuries is that over a large geographical area going from Poland in the northeast westwards and southwards throughout Europe and including large parts of the Western Hemisphere as well, there grew up a world-economy with a single division of labor within which there was a world market, for which men produced largely agricultural products for sale and profit. I would think the simplest thing to do would be to call this agricultural capitalism.

This then resolves the problems incurred by using the pervasiveness of *wage* labor as a defining characteristic of capitalism. An individual is no less a capitalist exploiting labor because the state assists him to pay his laborers low wages (including wages in kind) and denies these laborers the right to change employment. Slavery and so-called "second serfdom" are not to be regarded as anomalies in a capitalist system. Rather the so-called serf in Poland or the Indian on a Spanish *encomienda* in New Spain in this sixteenth-century world-economy were working for landlords who "paid" them (however euphemistic this term) for cash crop production. This is a relationship in which labor power is a commodity (how could it ever be more so than under slavery?), quite different from the relationship of a feudal serf to his lord in eleventh-century Burgundy, where the economy was not oriented to a world market, and where labor power was (therefore?) in no sense bought or sold.

Capitalism thus means labor as a commodity to be sure. But in the era of agricultural capitalism, wage labor is only one of the modes in which labor is recruited and recompensed in the labor market. Slavery, coerced cash-crop production (my name for the so-called "second feudalism"), sharecropping, and tenancy are all alternative modes. It would be too long to develop here the conditions under which differing regions of the world-economy tend to specialize in different agricultural products. I have done this elsewhere.[27]

What we must notice now is that this specialization occurs in specific and differing geographic regions of the world-economy. This regional specialization comes about by the attempts of actors in the market to avoid the normal operation of the market whenever it does not maximize their profit. The attempts of these actors to use nonmarket devices to ensure short-run profits makes them turn to the political entities which have in fact power to affect the market – the nation-states. . . .

. . . In any case, the local capitalist classes – cash-crop landowners (often, even usually, nobility) and merchants – turned to the state, not only to liberate them from non-market constraints (as traditionally emphasized by liberal historiography) but to create new constraints on the new market, the market of the European world-economy.

By a series of accidents – historical, ecological, geographic – northwest Europe was better situated in the sixteenth century to diversify its agricultural specialization and add to it certain industries (such as textiles, shipbuilding, and metal wares) than were other parts of Europe. Northwest Europe emerged as the core area of this world-economy, specializing in agricultural production of higher skill levels, which favored (again for reasons too complex to develop) tenancy and wage labor as the modes of labor control. Eastern Europe and the Western Hemisphere became peripheral areas specializing in export of grains, bullion, wood, cotton, sugar – all of which favored the use of slavery and coerced cash-crop labor as the modes of labor control. Mediterranean Europe emerged as the semiperipheral area of this world-economy specializing in high-cost industrial products (for example, silks) and credit and specie transactions, which had as a consequence in the agricultural arena sharecropping as the mode of labor control and little export to other areas.

The three structural positions in a world-economy – core, periphery, and semiperiphery – had become stabilized by about 1640. How certain areas became one and not the other is a long story. The key fact is that given slightly different starting points, the interests of various local groups converged in northwest Europe, leading to the development of strong state mechanisms, and diverged sharply in the peripheral areas, leading to very weak ones. Once we get a difference in the strength of the state machineries, we get the operation of "unequal exchange"[28] which is enforced by strong states on weak ones, by core states on peripheral areas. Thus capitalism involves not only appropriation of the surplus value by an owner from a laborer, but an appropriation of surplus of the whole world-economy by core areas. And this was as true in the stage of agricultural capitalism as it is in the stage of industrial capitalism.

[. . .]

Capitalism was from the beginning an affair of the world-economy and not of nation-states. It is a misreading of the situation to claim that it is only in the twentieth century that capitalism has become "world-wide", although this claim is frequently made in various writings, particularly by Marxists. . . . capital has never allowed its aspirations to be determined by national boundaries in a capitalist world-economy, and that the creation of "national" barriers – generically, mercantilism – has historically been a defensive mechanism of capitalists located in states which are one level below the high point of strength in the system.

. . . In the process a large number of countries create national economic barriers whose consequences often last beyond their initial objectives. At this later point in the process the very same capitalists who pressed their national governments to impose the restrictions now find these restrictions constraining. This is not an "internationalization" of "national" capital. This is simply a new political demand by certain sectors of the capitalist classes who have at all points in time sought to maximize their profits within the real economic market, that of the world-economy.

If this is so, then what meaning does it have to talk of structural positions within this economy and identify states as being in one of these positions? And why talk of three positions, inserting that of "semiperiphery" in between the widely used concepts of core and periphery? The state machineries of the core states were strengthened to meet the needs of capitalist landowners and their merchant allies. . . .

The strengthening of the state machineries in core areas has as its direct counterpart the decline of the state machineries in peripheral areas. . . . In peripheral countries, the interests of the capitalist landowners lie in an opposite direction from those of the local commercial bourgeoisie. Their interests lie in maintaining an open economy to maximize their profit from world-market trade (no restrictions in exports and access to lower-cost industrial products from core countries) and in elimination of the commercial bourgeoisie in favor of outside merchants (who pose no local political threat). Thus, in terms of the state, the coalition which strengthened it in core countries was precisely absent.

The second reason, which has become ever more operative over the history of the modern world-system, is that the strength of the state machinery in core states is a function of the weakness of other state machineries. Hence intervention of outsiders via war, subversion, and diplomacy is the lot of peripheral states.

All this seems very obvious. I repeat it only in order to make clear two points. One cannot reasonably explain the strength of various state machineries at specific moments of the history of the modern world-system primarily in terms of a genetic-cultural line of argumentation, but rather in terms of the structural role a country plays in the world-economy at that moment in time. To be sure, the initial eligibility for a particular role is often decided by an accidental edge a particular country has, and the "accident" of which one is talking is no doubt located in part in past history, in part in current geography. But once this relatively minor accident is given, it is the operations of the world-market forces which accentuate the differences, institutionalize them, and make them impossible to surmount over the short run.

The second point we wish to make about the structural differences of core and periphery is that they are not comprehensible unless we realize that there is a third structural position: that of the semiperiphery. This is not the result merely of establishing arbitrary cutting-points on a continuum of characteristics. . . . The semiperiphery is needed to make a capitalist world-economy run smoothly. Both kinds of world-system, the world-empire with a redistributive economy and the world-economy with a capitalist market economy, involve markedly unequal distribution of rewards. Thus, logically, there is immediately posed the question of how it is possible politically for such a system to persist. Why do not the majority who are exploited simply overwhelm the minority who draw disproportionate benefits? The most rapid glance at the historic record shows that these world-systems have been faced rather rarely by fundamental system-wide insurrection. While internal discontent has been eternal, it has usually taken quite long before the accumulation of the erosion of power has led to the decline of a world-system, and as often as not, an external force has been a major factor in this decline.

There have been three major mechanisms that have enabled world-systems to retain relative political stability (not in terms of the particular groups who will play the leading roles in the system, but in terms of systemic survival itself). One obviously is the concentration of military strength in the hands of the dominant forces. The modalities of this obviously vary with the technology, and there are to be sure political prerequisites for such a concentration, but nonetheless sheer force is no doubt a central consideration.

A second mechanism is the pervasiveness of an ideological commitment to the system as a whole. I do not mean what has often been termed the "legitimation" of a system, because that term has been used to imply that the lower strata of a system feel some affinity with or loyalty towards the rulers, and I doubt that this has ever been a significant factor in the survival of world-systems. I mean rather the degree to which the staff or cadres of the system (and I leave this term deliberately vague) feel that their own well-being is wrapped up in the survival of the system as such and the competence of its leaders. It is this staff which not only propagates the myths; it is they who believe them.

But neither force nor the ideological commitment of the staff would suffice were it not for the division of the majority into a larger lower stratum and a smaller middle stratum. Both the revolutionary call for polarization as a strategy of change and the liberal encomium to consensus as the basis of the liberal polity reflect this proposition. The import is far wider than its use in the analysis of contemporary political problems suggests. It is the normal condition of either kind of world-system to have a three-layered structure. When and if this ceases to be the case, the world-system disintegrates.

In a world-empire, the middle stratum is in fact accorded the role of maintaining the marginally desirable long-distance luxury trade, while the upper stratum concentrates its resources on controlling the military machinery which can collect the tribute, the crucial mode of redistributing surplus. By providing, however, for an access to a limited portion of the surplus to urbanized elements who alone, in premodern societies, could contribute political cohesiveness to isolated clusters of primary producers, the upper stratum effectively buys off the potential leadership of coordinated revolt. And by denying access to political rights for this commercial-urban middle stratum, it makes them constantly vulnerable to confiscatory measures whenever their economic profits become sufficiently swollen so that they might begin to create for themselves military strength.

In a world-economy, such "cultural" stratification is not so simple, because the absence of a single political system means the concentration of economic roles vertically rather than horizontally throughout the system. The solution then is to have three *kinds* of states, with pressures for cultural homogenization within each of them – thus, besides the upper stratum of core states and the lower stratum of peripheral states, there is a middle stratum of semiperipheral ones.

This semiperiphery is then assigned as it were a specific economic role, but the reason is less economic than political. That is to say, one might make a good case that the world-economy as an economy would function every bit as well without a semiperiphery. But it would be far less *politically* stable, for it would mean a polarized world-system. The existence of the third category means precisely that the upper stratum is not faced with the *unified* opposition of all the others because the *middle* stratum is both exploited and exploiter. It follows that the specific economic role is not all that important, and has thus changed through the various historical stages of the modern world-system. . . .

Where then does class analysis fit in all of this? And what in such a formulation are nations, nationalities, peoples, ethnic groups? First of all, without arguing the point now, I would contend that all these latter terms denote variants of a single phenomenon which I will term "ethno-nations".

Both classes and ethnic groups, or status groups, or ethno-nations are phenomena of world-economies and much of the enormous confusion that has surrounded the concrete analysis of their functioning can be attributed quite simply to the fact that they have been analyzed as though they existed within the nation-states of this world-economy, instead of within the world-economy as a whole. This has been a Procrustean bed indeed.

The range of economic activities being far wider in the core than in the periphery, the range of syndical interest groups is far wider there.[29] Thus, it has been widely observed that there does not exist in many parts of the world today a proletariat of the kind which exists in, say, Europe or North America. But this is a confusing way to state the observation. Industrial activity being disproportionately concentrated in certain parts of the world-economy, industrial wage workers are to be found principally in certain geographic regions. Their interests as a syndical group are determined by their collective relationship to the world-economy. Their ability to influence the political functioning of this world-economy is shaped by the fact that they command larger percentages of the population in one sovereign entity than another. The form their organizations take have, in large part, been governed too by these political boundaries. The same might be said about industrial capitalists. Class analysis is perfectly capable of accounting for the political position of, let us say, French skilled workers if we look at their structural position and interests in the world-economy. Similarly with ethno-nations. The meaning of ethnic consciousness in a core area is considerably different from that of ethnic consciousness in a peripheral area precisely because of the different class position such ethnic groups have in the world-economy.

Political struggles of ethno-nations or segments of classes within national boundaries of course are the daily bread and butter of local politics. But their significance or consequences can only be fruitfully analyzed if one spells out the implications of their organizational activity or political demands for the functioning of the world-economy. . . .

The functioning then of a capitalist world-economy requires that groups pursue their economic interests within a single world market while seeking to distort this market for their benefit by organizing to exert influence on states, some of which are far more powerful than others but none of which controls the world market in its entirety. Of course, we shall find on closer inspection that there are periods where one state is relatively quite powerful and other periods where power is more diffuse and contested, permitting weaker states broader ranges of action. We can talk then of the relative tightness or looseness of the world-system as an important variable and seek to analyze why this dimension tends to be cyclical in nature, as it seems to have been for several hundred years.

We are now in a position to look at the historical evolution of this capitalist world-economy itself and analyze the degree to which it is fruitful to talk of distinct stages in its evolution as a system. The emergence of the European world-economy in the "long" sixteenth century (1450–1640) was made possible by an historical conjuncture: on those long-term trends which were the culmination of what has been sometimes described as the "crisis of feudalism" was superimposed a more immediate cyclical crisis plus climatic changes, all of which created a dilemma that could only be resolved by a geographic expansion of the division of labor. Furthermore, the balance of intersystem forces was such as to make this realizable. Thus a geographic expansion did take place in conjunction with a demographic expansion and an upward price rise.

[. . .]

. . . Each of the states or potential states within the European world-economy was quickly in the race to bureaucratize, to raise a standing army, to homogenize its culture, to diversify its economic activities. By 1640, those in north-west Europe had succeeded in establishing themselves as the core states; Spain and the northern Italian city-states declined into being semiperipheral; northeastern Europe and Iberian America had become the periphery. At this point, those in semiperipheral status had reached it by virtue of decline from a former more pre-eminent status.

It was the system-wide recession of 1650–1730 that consolidated the European world-economy and opened stage two of the modern world-economy. For the recession forced retrenchment, and the decline in relative surplus allowed room for only one core state to survive. The mode of struggle was mercantilism . . . In this struggle England first ousted the Netherlands from its commercial primacy and then resisted successfully France's attempt to catch up. As England began to speed up the process of industrialization after 1760, there was one last attempt of those capitalist forces located in France to break the imminent British hegemony. This attempt was expressed first in the French Revolution's replacement of the cadres of the regime and then in Napoleon's continental blockade. But it failed.

Stage three of the capitalist world-economy begins then, a stage of industrial rather than of agricultural capitalism. Henceforth, industrial production is no longer a minor aspect of the world market but comprises an ever larger percentage of world gross production – and even more important, of world gross surplus. This involves a whole series of consequences for the world-system.

First of all, it led to the further geographic expansion of the European world-economy to include now the whole of the globe. This was in part the result of its technological feasibility both in terms of improved military firepower and improved shipping facilities which made regular trade sufficiently inexpensive to be viable. But, in addition, industrial production *required* access to raw materials of a nature and in a quantity such that the needs could not be supplied within the former boundaries. At first, however, the search for new markets was not a primary consideration in the geographic expansion since the new markets were more readily available within the old boundaries, as we shall see.

The geographic expansion of the European world-economy meant the elimination of other world-systems as well as the absorption of the remaining minisystems. The most important world-system up to then outside of the European world-economy, Russia, entered in semiperipheral status, the consequence of the strength of its state machinery (including its army) and the degree of industrialization already achieved in the eighteenth century. The independences in the Latin American countries did nothing to change their peripheral status. They merely eliminated the last vestiges of Spain's semiperipheral role and ended pockets of noninvolvement in the world-economy in the interior of Latin America. Asia and Africa were absorbed into the periphery in the nineteenth century, although Japan, because of the combination of the strength of its state machinery, the poverty of its resource base (which led to a certain disinterest on the part of world capitalist forces), and its geographic remoteness from the core areas, was able quickly to graduate into semiperipheral status. . . .

The creation of vast new areas as the periphery of the expanded world-economy made possible a shift in the role of some other areas. Specifically, both the United States and Germany (as it came into being) combined formerly peripheral and semiperipheral regions. The manufacturing sector in each was able to gain political ascendancy, as the peripheral subregions became less economically crucial to the world-economy. Mercantilism now became the major tool of semiperipheral countries seeking to become core countries, thus still performing a function analogous to that of the mercantilist drives of the late seventeenth and eighteenth centuries in England and France. To be sure, the struggle of semiperipheral countries to "industrialize" varied in the degree to which it succeeded in the period before the First World War: all the way in the United States, only partially in Germany, not at all in Russia.

The internal structure of core states also changed fundamentally under industrial capitalism. For a core area, industrialism involved divesting itself of substantially all agricultural activities (except that in the twentieth century further mechanization was to create a new form of working the land that was so highly mechanized as to warrant the appellation industrial). Thus whereas, in the period 1700–40, England not only was Europe's leading industrial exporter but was also Europe's leading agricultural exporter – this was at a high point in the economy-wide recession – by 1900, less than 10 percent of England's population were engaged in agricultural pursuits.

At first under industrial capitalism, the core exchanged manufactured products against the periphery's agricultural products – hence, Britain from 1815 to 1873 as the "workshop of the world". Even to those semiperipheral countries that had some manufacture (France, Germany, Belgium, the US), Britain in this period supplied about half their needs in manufactured goods. As, however, the mercantilist practices of this latter group both cut Britain off from outlets and even created competition for Britain in sales to peripheral areas, a competition which led to the late nineteenth-century "scramble for Africa", the world division of labor was reallocated to ensure a new special role for the core: less the provision of the manufactures, more the provision of the machines to make the manufactures as well as the provision of infrastructure (especially, in this period, railroads).

The rise of manufacturing created for the first time under capitalism a large-scale urban proletariat. And in consequence for the first time there arose what Michels has called the "anti-capitalist mass spirit",[30] which was translated into concrete organizational forms (trade unions, socialist parties). This development intruded a new factor as threatening to the stability of the states and of the capitalist forces now so securely in control of them as the earlier centrifugal thrusts of regional anti-capitalist landed elements had been in the seventeenth century.

At the same time that the bourgeoisies of the core countries were faced by this threat to the internal stability of their state structures, they were simultaneously faced with the economic crisis of the latter third of the nineteenth century resulting from the more rapid increase of agricultural production (and indeed of light manufactures) than the expansion of a potential market for these goods. Some of the surplus would have to be redistributed to someone to allow these goods to be bought and the economic machinery to return to smooth operation. By expanding the purchasing power of the industrial proletariat of the core countries, the world-economy was unburdened simultaneously of two problems: the bottleneck of demand, and the unsettling "class conflict" of the core states – hence, the social liberalism or welfare-state ideology that arose just at that point in time.

The First World War was, as men of the time observed, the end of an era; and the Russian Revolution of October 1917 the beginning of a new one – our stage four.

This stage was to be sure a stage of revolutionary turmoil but it also was, in a seeming paradox, the stage of the *consolidation* of the industrial capitalist world-economy. The Russian Revolution was essentially that of a semiperipheral country whose internal balance of forces had been such that as of the late nineteenth century it began on a decline towards a peripheral status. . . . The Revolution brought to power a group of state managers who reversed each one of these trends by using the classic technique of mercantilist semiwithdrawal from the world-economy. In the process of doing this, the now USSR mobilized considerable popular support, especially in the urban sector. At the end of the Second World War, Russia was reinstated as a very strong member of the semiperiphery and could begin to seek full core status. . . .

It was the Second World War that enabled the United States for a brief period (1945–65) to attain the same level of primacy as Britain had in the first part of the nineteenth century. United States growth in this period was spectacular and created a great need for expanded market outlets. The Cold War closure denied not only the USSR but eastern Europe to US exports. And the Chinese Revolution meant that this region, which had been destined for much exploitative activity, was also cut off. Three alternative areas were available and each was pursued with assiduity. First, western Europe had to be rapidly "reconstructed", and it was the Marshall Plan which thus allowed this area to play a primary role in the expansion of world productivity. Secondly, Latin America became the reserve of US investment from which now Britain and Germany were completely cut off. Thirdly, southern Asia, the Middle East and Africa had to be decolonized. On the one hand, this was necessary in order to reduce the share of the surplus taken by the western European intermediaries, as Canning covertly supported the Latin American revolutionaries against Spain in the 1820s.[31] But also, these countries had to be decolonized in order to mobilize productive potential in a way that had never been achieved in the colonial era. Colonial rule after all had been an *inferior* mode of relationship of core and periphery, one occasioned by the strenuous late-nineteenth-century conflict among industrial states but one no longer desirable from the point of view of the new hegemonic power.[32]

But a world capitalist economy does not permit true imperium. Charles V could not succeed in his dream of world-empire. The Pax Britannica stimulated its own demise. So too did the Pax Americana. . . .

Such a decline in us state hegemony has actually *increased* the freedom of action of capitalist enterprises, the larger of which have now taken the form of multinational corporations which are able to maneuver against state bureaucracies whenever the national politicians become too responsive to internal worker pressures. Whether some effective links can be established between multinational corporations, presently limited to operating in certain areas, and the USSR remains to be seen, but it is by no means impossible.

This brings us back to one of the questions with which we opened this paper, the seemingly esoteric debate between Liu Shao-Chi and Mao Tse-Tung as to whether China was, as Liu argued, a socialist state, or whether, as Mao argued, socialism was a *process* involving continued and continual class struggle. No doubt to those to whom the terminology is foreign the discussion seems abstrusely theological. The issue, however, as we said, is real. If the Russian Revolution emerged as a reaction to the threatened further decline of Russia's structural position in the world-economy, and if fifty years later one can talk of the USSR as entering the status of a core power in a *capitalist* world-economy, what then is the meaning of the various so-called socialist revolutions that have occurred on a third of the world's surface? First let us notice that it has been neither Thailand nor Liberia nor Paraguay that has had a "socialist revolution" but Russia, China and Cuba. That is to say, these revolutions have occurred in countries that, in terms of their internal economic structures in the pre-revolutionary period, had a certain minimum strength in terms of skilled personnel, some manufacturing, and other factors which made it plausible that, within the framework of a capitalist world-economy, such a country could alter its role in the world division of labor within a reasonable period (say 30–50 years) by the use of the technique of mercantilist semi-withdrawal. (This may not be all that plausible for Cuba, but we shall see.) Of course, other countries in the geographic regions and military orbit of these revolutionary forces had changes of regime without in any way having these characteristics (for example, Mongolia or Albania). It is also to be noted that many of the countries where similar forces are strong or where considerable counterforce is required to keep them from emerging also share this status of minimum strength. I think of Chile or Brazil or Egypt – or indeed Italy.

Are we not seeing the emergence of a political structure for *semiperipheral* nations adapted to stage four of the capitalist world-system? The fact that all enterprises are nationalized in these countries does not make the participation of these enterprises in the world-economy one that does not conform to the mode of operation of a capitalist market system: seeking increased efficiency of production in order to realize a maximum price on sales, thus achieving a more favorable allocation of the surplus of the world-economy. If tomorrow US Steel became a worker's collective in which all employees without exception received an identical share of the profits and all stockholders are expropriated without compensation, would US Steel thereby cease to be a capitalist enterprise operating in a capitalist world-economy?

What then have been the consequences for the world-system of the emergence of many states in which there is no private ownership of the basic means of production? To some extent, this has meant an internal reallocation of consumption. It has certainly undermined the ideological justification in world capitalism, both by showing the political vulnerability of capitalist entrepreneurs and by demonstrating that private ownership is irrelevant to the rapid expansion of industrial productivity. But to the extent that it has raised the ability of the new semiperipheral areas to enjoy a larger share of the world surplus, it has once again depolarized the world, re-creating the triad of strata that has been a fundamental element in the survival of the world-system.

Finally, in the peripheral areas of the world-economy, both the continued economic expansion of the core (even though the core is seeing some reallocation of surplus internal to it) and the new strength of the semiperiphery has led to a further weakening of the political and hence economic position of the peripheral areas.

The pundits note that "the gap is getting wider", but thus far no one has succeeded in doing much about it, and it is not clear that there are very many in whose interests it would be to do so. Far from a strengthening of state authority, in many parts of the world we are witnessing the same kind of deterioration Poland knew in the sixteenth century, a deterioration of which the frequency of military coups is only one of many signposts. And all of this leads us to conclude that stage four has been the stage of the *consolidation* of the capitalist world-economy.

Consolidation, however, does not mean the absence of contradictions and does not mean the likelihood of long-term survival. . . .

There are two fundamental contradictions, it seems to me, involved in the workings of the capitalist world-system. In the first place, there is the contradiction to which the nineteenth-century Marxian corpus pointed, which I would phrase as follows: whereas in the short run the maximization of profit requires maximizing the withdrawal of surplus from immediate consumption of the majority, in the long run the continued production of surplus requires a mass demand which can only be created by redistributing the surplus withdrawn. Since these two considerations move in opposite directions (a "contradiction"), the system has constant crises which in the long run both weaken it and make the game for those with privilege less worth playing.

The second fundamental contradiction, to which Mao's concept of socialism as process points, is the following: whenever the tenants of privilege seek to coopt an oppositional movement by including them in a minor share of the privilege, they may no doubt eliminate opponents in the short run; but they also up the ante for the next oppositional movement created in the next crisis of the world-economy. Thus the cost of "cooption" rises ever higher and the advantages of cooption seem ever less worthwhile.

There are today no socialist systems in the world-economy any more than there are feudal systems because there is only *one* world-system. It is a world-economy and it is by definition capitalist in form. Socialism involves the creation of a new kind of *world*-system, neither a redistributive world-empire nor a capitalist world-economy but a socialist world-government. I don't see this projection as being in the least utopian but I also don't feel its institution is imminent. It will be the outcome of a long struggle in forms that may be familiar and perhaps in very few forms, that will take place in *all* the areas of the world-economy (Mao's continual "class struggle"). Governments may be in the hands of persons, groups or movements sympathetic to this transformation but *states* as such are neither progressive nor reactionary. It is movements and forces that deserve such evaluative judgment.

Notes

1 George Lukács, "The Marxism of Rosa Luxemburg," in *History and Class Consciousness* (London: Merlin Press, 1968), p. 27.

2 See Frederic Lane's discussion of "protection costs" which is reprinted in part 3 of *Venice and History* (Baltimore: Johns Hopkins University Press, 1966). For the specific discussion of tribute, see pp. 389–90, 416–20.

3 See Karl Polanyi, "The Economy as Instituted Process," in Karl Polanyi, Conrad M. Arsenberg and Harry W. Pearson (eds), *Trade and Market in the Early Empire* (Glencoe: Free Press, 1957), pp. 243–70.

4 Andre Gunder Frank, "The Myth of Feudalism," in *Capitalism and Under-development in Latin America* (New York: Monthly Review Press, 1967), p. 3.

5 See Theotonio Dos Santos, *La Nueva Dependencia* (Buenos Aires: s/ediciones, 1968).

6 Ernesto Laclau, "Feudalism and Capitalism in Latin America," *New Left Review*, 67 (May–June 1971), 37–8.

7 The debate begins with Maurice Dobb, *Studies in the Development of Capitalism* (London: Routledge & Kegan Paul, 1946). Paul Sweezy criticized Dobb in "The Transition from Feudalism to Capitalism," *Science and Society*, 14: 2 (Spring 1950), 134–57, with a "Reply" by Dobb in the same issue. From that point on many others got into the debate in various parts of the world. I have reviewed and discussed this debate *in extenso* in *The Modern World-System: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century* (New York: Academic Press, 1974), ch. 1.

8 It would take us into a long discursus to defend the proposition that, like all great thinkers, there was the Marx who was the prisoner of his social location and the Marx, the genius, who could on occasion see from a wider vantage point. The former Marx generalized from British history. The latter Marx is the one who has inspired a critical conceptual framework of social reality. W. W. Rostow incidentally seeks to refute the former Marx by offering an alternative generalization from British history. He ignores the latter and more significant Marx. See *The Stages of Economic Growth: A Non-Communist Manifesto* (Cambridge: Cambridge University Press, 1960).

9 Laclau, "Feudalism and Capitalism," pp. 25, 30.

10 Cited in F. Burlatsky, *The State and Communism* (Moscow: Progress Publishers, n.d. [1961]), p. 95.

11 Ibid., p. 97.

12 Mao Tse-Tung, *On the Correct Handling of Contradictions among the People*, 7th edn, revised translation (Peking: Foreign Languages Press, 1966), pp. 37–8.

13 *Long Live the Invincible Thought of Mao Tse-Tung!*, undated pamphlet, issued between 1967 and 1969, translated in *Current Background*, 884 (18 July 1969), 14.

14 This is the position taken by Mao Tse-Tung in his speech to the Work Conference of the Central Committee at Peitaiho in August 1962, as reported in the pamphlet, *Long Live . . .*, p. 20. Mao's position was subsequently endorsed at the 10th Plenum of the 8th CCP Central Committee in September 1962, a session this same pamphlet describes as "a great turning point in the violent struggle between the proletarian headquarters and the bourgeois headquarters in China." Ibid., p. 21.

15 Remarks made by Mao at 10th Plenum, cited in ibid., p. 20.

16 Mao Tse-Tung, "Talk on the Question of Democratic Centralism," 30 Jan. 1962, in *Current Background*, 891 (8 Oct. 1969), 39.

17 "Communiqué of the 10th Plenary Session of the 8th Central Committee of the Chinese Communist Party," *Current Background*, 691 (5 Oct. 1962), 3.

18 Yuri Sdobnikov (ed.), *Socialism and Capitalism: Score and Prospects* (Moscow: Progress Publications, 1971), p. 20.

19 Ibid., p. 21.

20 Ibid., p. 26.

21 Ibid., p. 24.

22 Ibid., p. 25.
23 Say Raymond Aron, *Dix-huit leçons de la société industrielle* (Paris: Gallimard, 1962).
24 Maurice Dobb, *Capitalism Yesterday and Today* (London: Lawrence & Wishart, 1958), p. 21.
25 Ibid., pp. 6–7.
26 Ibid., p. 21.
27 See my *The Modern World-System*, ch. 2.
28 See Arghiri Emmanuel, *Unequal Exchange* (New York: Monthly Review Press, 1972).
29 "Range" in this sentence means the number of different occupations in which a significant proportion of the population is engaged. Thus peripheral society typically is overwhelmingly agricultural. A core society typically has its occupations well-distributed over all of Colin Clark's three sectors. If one shifted the connotation of range to talk of style of life, consumption patterns, even income distribution quite possibly one might reverse the correlation. In a typical peripheral society, the differences between a subsistence farmer and an urban professional are probably far greater than those which could be found in a typical core state.
30 Robert Michels, "The Origins of the Anti-Capitalist Mass Spirit", in *Man in Contemporary Society* (New York: Columbia University Press, 1955), vol. 1, pp. 740–65.
31 See William W. Kaufman, *British Policy and the Independence of Latin America, 1804–28* (New Haven: Yale University Press, 1951).
32 Cf. Catherine Coquery-Vidrovitch, "De l'impérialisme britannique à l'impérialisme contemporaine – l'avatar colonial," *L'Homme et la société*, 18 (Oct.–Dec. 1970), 61–90.

10

Taiwan's Economic History: A Case of Etatisme and a Challenge to Dependency Theory (1979)

Alice H. Amsden

Introduction

Taiwan distinguishes itself as one of the few non-socialist economies since Japan to rise from the grossest poverty and to enter the world of the developed. As if this were not enough, and if the figures are correct, income distribution has also been far less inequitable in Taiwan than in other poor "market economies." Both phenomena together have earned Taiwan the title of "economic miracle."

In seeking an explanation for these phenomena, which *are* rather miraculous in the context of continued underdevelopment in the rest of the Third World, we have come face to face with two schools of thought: neoclassical and dependency theory. The former, to generalize somewhat, sees the explanation for the Taiwan "miracle" in the application of free market principles. The latter ignores Taiwan altogether, probably because it sees it as a "special case" undeserving attention.

Concerning the popular conception of Taiwan as an economy wherein market forces guide capital accumulation, it is quite true today that government interference does not assume the form it has taken in many other Third World countries, i.e., heavy protection and price "distortion" to facilitate industrialization based on the home market. Nevertheless, it is our contention that both in the past and at present, the state in Taiwan has acted as a key agent in the process of capital accumulation: not because it has kept aloof from it, but because it has very much dominated it. In general, the role of the state in Third World economies exceeds that elsewhere.

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Of late, however, the degree of "étatisme" has been seen to be growing or greater than once believed. Surprisingly, Taiwan appears to fall closer to the end of the spectrum of state activity which is unusual rather than commonplace.

It is particularly with respect to dependency theory that Taiwan emerges as an interesting case history. The major thesis of dependency theory is that the rise of foreign trade and the arrival of foreign capital from the "core" lie at the heart of underdevelopment in the "periphery." Taiwan, however, presents dependency theory with a paradox. It is both more integrated in world capitalism than other poor market economies and more developed. However miserable the level of real wages in Taiwan (as elsewhere), full employment has emerged and capital accumulation proceeds both on the basis of relative and absolute surplus value extraction, with an emphasis on the former. That is, capital accumulation proceeds on the basis of technological innovation and greater efficiency rather than on the basis of longer hours of work and more intensive effort *alone*. This is what we mean by "developed."

We argue that dependency theory is unable to come to grips with the Taiwan paradox because it employs a methodology which elevates imperialism to the primary analytical category. Only when endogenous productive and social relations are taken as primary can both successful and unsuccessful instances of development be understood. Throughout the Third World, trade and investment from the core created pressures to develop the productive forces. But class and productive relations within Taiwan made such pressures general. Specifically, étatisme and a land reform mediated the effects of imperialism to advantage. Many features make Taiwan an unrealistic "model" of capitalist development for other Third World countries to copy. They do not, however, render Taiwan constitutionally unsuited to assess the usefulness of dependency theory.

Etatisme, law and order, and much else, have their roots in the Japanese occupation of Taiwan. The section which follows, therefore, examines the Japanese interlude in some detail.

The Colonial Period: 1895–1945

It is a misconception that the Taiwan miracle commenced with the export of labor-intensive manufactures and a reduction of government management of trade and monetary matters in the decade of the 1960s. … Taiwan already enjoyed a relatively fast-rising real Gross Domestic Product (GDP) in the 1950s, when agriculture was the dominant sector and the economic regime in industry, as in many other underdeveloped countries, was one of protection of infant industries. Growth was also rapid under the years of Japanese domination (1895–1945). Excluding the war years of 1941–1945, the per capita income of the agricultural sector almost doubled in half a century. This is a rather impressive figure given that population rose by approximately 43% (Koo, 1968: 8).

The economy which the Japanese fashioned in Taiwan was achieved by means of deliberate planning and government ownership of major resources (in partnership with private Japanese capitalists). The dominance of the Japanese colonial administration in Taiwan's economy mirrored the dominant role of the Meiji Government in Japan proper, which distinguished it in important respects from the colonial offices of England and France (Chang and Myers, 1963; Ho, 1971). The "indirect rule" of the British and French Colonial Offices involved the protection of private property with the assistance of local satraps. The rule of the Japanese imperialists was much more direct and involved production by the state itself and oppression by a ubiquitous Japanese police force. The Jiang Jie-shi forces benefited enormously from their inheritance of Japanese state monopolies, and the whole interventionist approach taken by the Japanese to the development of an occupied territory was not lost to the Guomindang.

From the start, Taiwan was regarded as an agricultural appendage to be developed as a complement to Japan. A two-crop economy (sugar and rice) was encouraged much in the classical imperial pattern. But one aspect which sets Taiwan's colonial experience apart from the rest is that primary production was not confined to a foreign enclave with limited spillover on subsistence agriculture. Many farmers with access to arable land produced rice for market to meet the ever escalating needs of Japanese consumers. Although sugar cane is frequently cultivated on large plantations in some Third World countries, in Taiwan it was grown by small owner-operators and tenants as well as on large land tracts owned by Japanese sugar manufacturers. Thus, agriculture in Taiwan was quickly and generally commercialized (Myers, 1972).

… [T]he Japanese administration undertook its own land reform, which left the existing social structure of landlordism intact while allowing for new farming practices to be assimilated (Ho, 1971; Wickberg, 1970). The land reform had much in common with changes introduced in rural Japan itself after the Meiji Restoration. Landlords were given incentives to produce more, thus minimizing their opposition to taxation, while their tenants were squeezed to the maximum. Under the reform, the tenant landlords became the legal owners of the land, directly responsible for taxes. The clarification of property rights was judged by the Japanese administration as the key prerequisite for investment in land development under non-communal farming. A flat tax on land, rather than a proportional tax on output, was also viewed as an incentive to greater production. Meanwhile, ground rents amounting to 50% and occasionally as much as 70% of a tenant's main crop yield were common.

A scientific approach to agriculture was the main ingredient of rural policy. To make it still more profitable for landlords to expand production for the Japanese market, the colonialists pioneered important technological advances. New seed strains suitable to the Taiwanese ecology were experimented with and perfected by various research agencies supported by the state. A host of technological advances were achieved (long before the "Green Revolution" became a twinkle in the eye of the Rockefeller Foundation) and set in motion the application of science to farming which characterizes the rural economy of Taiwan today (Ho, 1968; Myers and Ching, 1964; Christensen, 1968; Hsieh and Lee, 1966; Lee, 1971).

Significantly, the oppressive land tenure arrangements (which persisted even after the "great landlords" had been exorcised) did not seemingly obstruct the march of technological progress. Tenant farmers applied improved technology, fertilizers and other inputs to increase crop yields. (About 65%–70% of the total crop of Taiwan in the 1930s was produced by peasants on rented land. Grajdanzev, 1941: 78.) Presumably, either tenants' net incomes would have been lower or their leases would not have been renewed had they not done so. By way of encouragement, an elaborate network of agricultural associations, under the aegis of the government and rich landlords, provided peasants with extension education, the cooperative purchase of fertilizers, warehousing, and other services. Where persuasion failed, the police were employed to force modern techniques onto rural communities which resisted change (Myers and Ching, 1964). The experience which small tenants gained in experimenting with new seed strains and their familiarization with scientific farming would also prove of immense usefulness to the later land reform efforts of the Chinese Nationalists. The extensive network of agricultural associations which the Japanese introduced was created to facilitate police surveillance and control over the local population. Today, these associations persist and are an important element in the government's management of agriculture.

In the 1930s, Japan reshaped its policy of transforming Taiwan into a source of food supply for the home market. The shift in policy can only be understood in the context of Japan's increasing militarism and expansionism in the Pacific. Belatedly and frantically, Japan sought to refashion Taiwan as an industrial adjunct to its own war preparations and ambitions in Southeast Asia and South China…

The new economic policy of the Japanese administration resulted in a diversification of agriculture as new crops for industrial use were introduced. These raw materials were processed in Taiwan, adding to the industrial base, as did the processing of raw materials which were imported into Taiwan from Southeast Asia. While industry had not been specifically prohibited in Taiwan before the 1930s, the fact that the gains from Taiwan's growth largely gravitated to Japan meant that only those industries with a locational advantage (e.g., cement and sugar refining) could survive in the absence of a sizable domestic market and the influx of duty-free Japanese imports. After 1930, however, locational advantages grew more decisive. The construction of a hydroelectric power installation in 1934 gave rise to the beginnings of metallurgical and chemical sectors, both of which rely heavily on low-cost power. As Japan's military buildup escalated, and finally, as World War II erupted, the traffic in Japanese goods to Taiwan dwindled and then ceased. As a consequence there was evidence of the beginnings of the local manufacture of some goods which had previously been imported from Japan. It needs to be added that, as in Japan itself, it was semiofficial enterprise which realized the various industrial projects on the government's drawing board (United States Navy, 1944: Chs. 6–9).

The industrial transformation of Taiwan did not progress much under Japanese rule. For one thing, the policy to build Taiwan into an industrial bridgehead to South Asia was in effect for only a short time before World War II halted it. Moreover, as Ho notes, the early policies of the government frustrated its later designs (Ho, 1971: 325). For obvious political reasons, the Japanese colonial authority had underinvested in education. Although allocations for education were eventually increased, providing Taiwan with one of the most literate populations among the underdeveloped countries, such expenditures came too late to furnish the trained manpower which industrialization required. Similarly, Taiwan's infrastructure was initially designed to support agriculture. While the last-minute efforts to construct transport and harbor facilities suited to military and industrial needs proved highly beneficial in postwar years, many projects remained on the drawing board when war erupted.

Thus, economic growth in Taiwan under Japanese rule went about as far as it could go, given the internal contradictions of imperialism. Growth included a rise in per capita incomes: indeed, the welfare of the Taiwanese peasant in the first half of the twentieth century may have exceeded that of the Japanese peasant – according to such welfare indices as type of wearing apparel, housing, local bank deposits, and the like) – (Ouchi, 1967). The most enduring legacy of the Japanese occupation, however, was less the betterment of living standards than the building of a foundation for subsequent development. Whereas much of the gains in per capita income were lost as a consequence of war and an influx of Mainlanders following the Communist victory in China (and were not regained until the 1950s and 1960s), the economic structure implanted by the Japanese survived. This structure encompassed agriculture, industry, and social overhead, including law and order – something at which both the Japanese and later the Chinese Nationalists excelled.

The Japanese Interlude and Formosan Nationalism

An interesting feature of the Japanese interlude was its romanticization, after the war and at least through the 1960s, by those of the middle class in Taiwan with a taste for Formosan (i.e., Taiwanese) nationalism.

[…]

Finally, in March 1947, a mass rebellion against the Mainland government erupted. The demands of the Formosan nationalist leaders are indicative of the character they lent to the popular uprising. Demands were avowedly "reformist" (an end to bribes and corruption, management of government monopolies by Taiwanese, and the like), rather than revolutionary or even "rebellious" (the severing of ties with China). … According to one American academic sympathetic to the Formosan cause (and, like many other academics with similar sympathies, anticommunist as well), "Naturally, the Japanese regime did its best to supress, subvert, or disrupt extremist Formosan political movements. It encouraged the moderates" (Mendel, 1970: 24). Undoubtedly, "extremist" elements attracted a larger following and were more active in the 1947 uprising than most accounts of the events indicate. Nevertheless, it is clear that if nothing else, the Japanese colonial authority helped determine that the most vocal liberation movement in Taiwan to date has had a character which is distinctly bourgeois.

Land to the Tiller

Agriculture was by far the most important sector in Taiwan in the late 1940s, accounting for twice as much of domestic product as industry and over 90% of exports. Not unnaturally then, the attention of the Nationalists was first turned to reforming the countryside. This is not to suggest that rural Taiwan was at the boiling point when land was redistributed. The 1947 uprising had been largely urban based. But the potential threat of an impoverished peasantry had been driven home to the Nationalists on the Mainland and they reacted accordingly.

Agriculture was reformed in three stages. First, in early 1949, farm rent was limited to a maximum of 37.5% of the total main crop yield. Second, in June 1951, public land formerly owned by Japanese nationals was distributed on easy terms, with preference given to the tenant claimants. Third, in 1953, landlords were obliged to divest themselves of their holdings above a minimal size and sell out to their tenants under the Land-to-the-Tiller Act. This end to landlordism and the creation of a class of small holders was the grand inspiration of Dr. Sun Yat-sen. The Guomindang's land-to-the-tiller program had amounted to sheer rhetoric in China during the 1930s and 1940s because would-be expropriated landlords were stalwarts of the Nationalists. In Taiwan, by contrast, the Mainlander Government was under no obligation to the rural *Taiwanese* elite. Landlords were given land bonds in kind and stocks in public enterprise in exchange for the compulsory divestiture of their holdings. Some landlords profited from their stock ownership and became successful industrialists. Others went into bankruptcy (Koo, 1968). The landlord class, however, sank into social oblivion, as the great landlord class had done half a century earlier.

Thus, almost overnight the countryside in Taiwan ceased to be oppressed by a small class of large landlords and became characterized by a large number of owner-operators with extremely small holdings. By 1973, almost 80% of the agricultural population was owner-cultivators and another tenth was part-owners (Department of Agriculture, 1974: 49). Only 6% of farm income accrued to landlords and money lenders (Lee, 1971: 75). This undoubtedly underscores the fact that income distribution (by household) in Taiwan is far less inequitable than in most other Third World countries and is more like the pattern in advanced capitalist countries – which is not to say, however, that income distribution is equitable (Kuo, 1976). The average area of cultivated land per farm family has also steadily decreased, from its already handkerchief size in 1953. In 1970, 90% of all farms in Taiwan had less than two hectares (and only 0.06 had above 10 ha. *Report*, 1971).

The fact that parcellation was engineered by an exogenous military force (backed up by U.S. aid and hardware) is clearly of immense significance for drawing comparisons between Taiwan's economic history and that of other underdeveloped countries. The issue is treated separately later on. What follows now is a discussion of agricultural performance in the postreform period.

Agriculture 1953–1968

The years 1953–1968 witnessed annual growth rates in agricultural output that were impressive by any standard. Equally impressive was the spillover effect on industry. … Fast growth and a transfer of agricultural resources to the towns, however, were neither the outcome of free market forces nor the automatic result of purely technical phenomena – the Green Revolution. Rather, they reflected the structure of ownership in the countryside and state management of almost every conceivable economic activity.

In the decade and a half following the end of World War II, multiple cropping and the use of fertilizer accounted for most of the growth in agricultural output. By contrast, both structural shifts away from traditional crops, and the introduction of fixed capital (i.e., tractors and livestock) and current inputs other than fertilizer (e.g., herbicides and insecticides) were mainly responsible for output gains in the 1960s (agricultural output showed signs of stagnation after 1968) [Lee and Shen, 1974]. Nevertheless in both periods, higher yields per hectare or the expansion of higher-value crops, rather than increased labor input or the expansion of cultivated area, accounted for the lion's share of growth. This is quite significant. A defining characteristic of production, is rising output as a consequence of greater efficiency rather than greater effort: the difference between relative and absolute surplus value on which Marx elaborated. Taiwan's agriculture has developed in the former critical sense.

This is not to ignore the fact that over time, Taiwanese farmers have worked longer and perhaps harder. The annual average number of working days per farm worker increased from 117 working days in the period 1911–1915, to 143 working days in 1926–1930; decreased to 115 working days in 1946–1950; and then increased again to 155 working days after the land reform (Lee, 1971: 58). Nevertheless, labor productivity has risen since the war both per farm laborer *and per working day*…[1]

It is well known that in developing countries there have been big gains in income among the few (i.e., the bigger farmers) when the new technology associated with the Green Revolution has been introduced. But the problem is, the so-called Green Revolution has not been introduced in most developing countries very widely. Small-scale peasants, tenants and sharecroppers have been restricted to old techniques because for the most part they have not gained access to the complementary inputs which the implementation of the Green Revolution demands. The allocation of resources in agriculture and the efficiency with which they are used are, in theory, unaffected by agrarian structure. It is a matter of indifference in neoclassical theory whether landowners have a share-cropping or lease-hold contract with a tenant, farm the land themselves or hire labor: so long as factor and product markets are competitive. But such markets are typically far from competitive and "under rationed conditions, it is the larger farmers who obtain the fertilizer and receive the irrigation water" (Griffin, 1974: 30).

By contrast, the Green Revolution in Taiwan has transformed the life of almost every peasant. Furthermore, such an extensive application of science appears to hinge on government control over capital accumulation. The state distributes resources equally among all peasants – as the market mechanism might not do. Hence, there have been large gains among the many. A small class of big landowners has not yet resurfaced (nor, consequently, has a potentially cohesive source of opposition to the state). It is, then, a defining characteristic of Taiwan's agriculture that a multiplicity of small peasant proprietors exist in conformity with the bourgeois model of individualistic family farming while directing this drama is a highly centralized government bureaucracy.

…In 1965, government agencies or related credit institutions supplied 65% of all agricultural loans. Before land reform, private moneylenders, particularly landlords, accounted for 82% of credit (Christensen, 1968: 57). With respect to activities like agricultural education and marketing, the government exerts its control through the elaborate network of agricultural associations laid down by the Japanese.

A cruder form of state power with a purpose altogether unrelated to economic planning was also remarked upon by Wang and Apthorpe (1974: 10):

> At least for as long as relations between island and continental China continue in their present form presumably a justification will be found for continuing a form of reliance on the kind of police methods which have now become part and parcel of everyday life. The Minister of the Interior in the Nationalist government used very often in 1971 for instance, to the astonishment of persons familiar with a very different tradition, to speak of the policeman as the most important resource person of all for community development in the island. Villagers, too, speak of the intimacy of police participation in parts of their daily life.

It was especially through its control of fertilizers, which Taiwanese farmers relied on and used intensively, that the government gained leverage over economic matters. The distribution (and production) of fertilizers was until recently monopolized by the government. Whether from the perspective of economic management or from the perspective of prolonging egalitarianism in the countryside, the importance of this monopoloy cannot be overstated. As observed by Professor Falcon (1974: 4):

> It permitted all farmers to obtain *the* key modern input. It provided a source of credit that was an alternative to rural money-lenders. And it reduced price risks to farmers. (Widespread emphasis on risk-reduction is evident in Taiwan's agricultural policies and seems to be one of its important lessons.)

A monopoly over fertilizers made every peasant – without discrimination – beholden to the state. Such a monopoly also allowed the state to determine the crucial equation in economic development: the transfer of surplus from agriculture to industry.

The Squeeze on Agriculture

The barter of fertilizer for rice was until recently the major mechanism for transferring surplus out of the countryside.…

Other mechanisms were also used to transfer real net surplus out of agriculture: land taxes, compulsory rice purchases by the government, loan repayments and repayment for land resold to tenants under "land-to-the-tiller."… All such collections were made in kind. All amounted to "hidden rice taxes" because the government's purchase prices were considerably lower than implicit market prices. Together, such collections brought more than half of the marketed surplus of rice into government hands after the war (Lee, 1971: 89). About half the rice collected by the government was rationed to the military and civil servants, including teachers and their dependents; 20% was sold on the free market for revenue and price stabilization purposes; the remaining 30% was exported (Christensen, 1968:64). The government's gains through rice collection were enormous. The hidden rice tax exceeded total income-tax revenue every year before 1963 (Kuo, 1976).

It is interesting that in spite of the high degree of commercialization of Taiwanese agriculture, the government placed minimal reliance on market forces to extract a surplus from the countryside. Rice collections were made in kind and rice was *bartered* for fertilizer. Indicative of the government's avoidance of the market mechanism were its attempts (albeit unsuccessful) to barter rice not only for fertilizer but also for cotton cloth, bicycles, soybean cakes, and the like (Kuo, 1976).

In general, the terms of trade have been unfavorable to farmers (Christensen, 1968: 13, 65; Shen, 1974; Lee, 1971: 90). Whether for rice or for other crops, the government has manipulated prices through monopsonistic buying arrangements. About 70% of total sugar cane acreage is grown by small private holders. They contract with the government-owned Taiwan Sugar Corporation, whose monopoly in sugar refining allows it to set the price for cane. (In 1961–1965, rice and sugar cane together accounted for over 60% of total crop area excluding acreage devoted to sweet potatoes, a subsistence crop.) The government-owned Tobacco and Wine Monopoly Bureau contracts with individual farmers for the purchase of tobacco leaves. There are no price support programs for field crops (cotton, wheat, soybeans, corn and other feed grains) but government import controls affect local prices (Hsu, 1974).

It is proverbial in Taiwan that the goat has been fed as it has been milked. Health, sanitation, and education; caloric intake; overall consumption and other indices of welfare in the countryside have increased through the years in tandem with surplus extraction. Publication by the government of annual statistics on the percentage of farmers owning household appliances like electric fans and even color televisions, should alert social scientists of the need to discard any outmoded conceptions of an impoverished Taiwanese peasantry. Nevertheless, it is well to emphasize the sources which are responsible for improvements in living standards in recent years. It is highly significant that even in Taiwan, where small-scale agriculture has had such an impressive record, most of the gains in farm household income have come from *non*-farm sources. The contribution of off-farm work to farm household income rose from 29% in 1962 to 66% in 1972 (Statistical tables, 1974). The gap in per capita income between farm and nonfarm families has widened since the 1950s. Farm families have entered the factory to close the gap. By 1970, income per head of farm people was a third lower than that of non-farm people and 72% of all farms in Taiwan were classified as part-time …

The State and Surplus Extraction

Generally, the private vice of profitability and the public virtue of maximum production are least antagonistic under conditions of competition. But even under competitive conditions, small farms which make minimal use of hired labor may be expected to produce more per acre than farms which use hired labor as standard procedure. This is because "labor costs" are valued differently by self-employed peasants than by capitalist farmers. Self-employed peasants may be expected to work long hours to maximize output per hectare, which is ideal from the viewpoint of the state, whereas the dictates of profitability under capitalist farming may lead to fewer hired working hours of input. Even before the stage is reached when the implementation of advanced technology requires larger landholdings than the average peasant owns, however, small-peasant farming is typically vexed by two problems. First, it is generally unproductive because it is unscientific. Second (according to an argument popularized by Stalin in defense of collectivization), peasant production frustrates the extraction of a surplus by the state because at a low level of per capita income farmers are said to consume their incremental output rather than market it, i.e., they may be more resistant to exploitation. In land-scarce Taiwan, the state managed to overcome both problems. The second problem resolved itself as scientific agriculture raised per capita income and forced the peasantry to part with its crop in order to obtain fertilizer and socially necessary items of consumption.

Hla Myint (1964: 48) points to an additional problem historically encountered in peasant production. When peasants become full-time producers for the market,

> [they] cease to be self-financing and have to borrow from the chief source available to them – the money-lenders who charge them high rates of interest. With their ignorance of the rapidly changing market conditions, they tend to get heavily into debt, and where land is alienable, they lose their land in default of loans and get reduced to the status of tenants.

Economic history in Taiwan, by contrast, saw the state effectively preserve an agrarian structure of small-peasant holdings by stabilizing prices and by making credit generally available (i.e., by simulating a perfect credit market by having no market at all). The Jiang Jie-shi government also dispensed with foreign middlemen, who typically exercised monopoly power in rural areas of other economies, by itself buying cash crops cheap from the peasantry and selling them dear (Shen, 1974).

Thus, a self-exploitative peasantry, working long hours to maximize production per hectare, and a superexploitative state, ticking along effectively to extract the fruits of the peasantry's labor, operated hand-in-hand in Taiwan to great advantage until the late 1960s.

The only question which remains is: to *whose* advantage in particular? For Taiwan is not a classless entity and the state acted in the interests of an elite when it squeezed the countryside. Unfortunately, whereas a voluminous amount of statistical information is available about Taiwan, very little by way of class analysis has been published. Clearly, however, the historical roots of the Guomindang's étatisme, and its class affiliations, are traceable not only to Japanese colonialism, but also to events on the Mainland. We may hypothesize that the system of "bureaucratic capitalism" of late imperial China, with its total interpenetration of public and private interests, was transplanted into Taiwan, along with the Mainlanders. Under bureaucratic capitalism, public office (or office in public corporations) provided a source of private gain, and private enterprise was profitable only in close alliance with the state (Balazs, 1972). Initially, the Jiang Jie-shi regime in Taiwan took a direct role in realizing surplus value for the dominant Mainlander bureaucratic capitalist class. Later, the Nationalist Government appropriated the surplus value produced by the peasantry and proletariat for the benefit of the increasingly dominant industrial capitalist class (by now composed of Mainlanders as well as Taiwanese and foreign firms). While historical conditions were unpropitious for economic development under bureaucratic capitalism in China, they were favorable in Taiwan. The 1953 land reform and subsequent agricultural development breathed new life into the Guomindang apparatus and the bureaucratic capitalism of the Guomindang regime sustained the life of the reform and small-scale farming.

In summary, agriculture in Taiwan gave industrial capital a labor force, a surplus, and foreign exchange. Even during the immediate postwar years of economic chaos and a world-record rate of population growth, agriculture managed to produce a food supply sufficient to meet minimum domestic consumption requirements as well as a residual for export (Hsieh and Lee, 1966: 90). Good rice harvests have been a major factor behind price (and real wage) stability. The foreign exchange *saved* as a result of high productivity in agriculture has been equally important. Even after the export of labor intensive manufactures got underway, Taiwan ran a trade deficit. The trade balance remained negative until 1969. It became negative again in 1974, 1975, and 1977 (Economic Planning Council, 1976: Table 10-4). This is a consequence of the fact that per capita income has been growing rapidly and so, too, have imports. Much exporting also relies on imported inputs. Had Taiwan's agriculture not been so productive, the strain on the balance of payments would have been greater. Agriculture also managed to provide an important source of demand for Taiwan's industrial output, particularly chemicals and tools, and a mass market for consumption goods. The agrarian structure provided a degree of political stability sufficient to draw the most timid of foreign firms to the island. Agriculture has been sufficiently productive to set a floor on industrial wages that has lately taken effect. Factory women who returned home to the farm during the depression of 1974–1975 subsequently refused to return to wage employment at prevailing rates (*Free China Review*, March 1976). A labor shortage symbolizes Taiwan's introduction to the problems of capitalist development rather than underdevelopment, and it is to industrialization that attention is now turned.

Industrialization

Taiwan's record in the industrial arena has been described often. Consequently, we are less concerned with detailing it than with dispelling four myths which have surrounded it. The mythology amounts to the following: first, that the seed of industrialization bore fruit in Taiwan because the environment which succored it was free of state interference; second, that Taiwan, unlike the Latin American countries, resisted the temptations of infant industry protection and a regime of import substitution industrialization; third, that industrialization in Taiwan remains superficial insofar as production is limited to little more than light manufactures; fourth, that ownership of the economy rests for all practical purposes in foreign hands.

An OECD study published in 1970, comparing industrialization in Brazil, Mexico, Argentina, India, Pakistan, the Philippines, and Taiwan, made a start towards correcting a few of these misconceptions (Little, Scitovsky and Scott, 1960). The study showed that a regime of import substitution preceded the export of labor intensive manufactures in Taiwan. Nor was infant industry protection a trivial episode in Taiwan's economic history. A policy of inward-oriented growth was introduced in 1949 partly by default – Taiwan's traditional agricultural exports no longer found protected or preferential markets in Japan and China – and partly by design – it was politically expedient to aid the class of small capitalists which had acquired a portion of the old Japanese facilities. Small enterprises were in serious trouble by 1949 as a result of the loss of the Mainland market and the reappearance of competitive Japanese goods (Lin, 1973: 43). Import, foreign exchange, and licensing controls were introduced by the government to salvage small establishments from extinction and to ease the critical balance of payments situation. The scope and height of such controls in the 1950s rivaled similar measures designed to protect infant industries in the OECD's sample of Third World countries well known for protectionism.[2]

Protection in Taiwan soon outlived its usefulness. While it conferred high profits to some, it also conferred inflation, monopoly, excess capacity, a reliance on American donations of hard currency, and corruption to all. It was only after manufacturing had made a fair start, however, that the Taiwanese Government curtailed its import controls and charted a new course. The economy was propelled in the direction of export-led growth and instead of protecting private capital from foreign competition, the state began protecting exporters from competition with each other. Monetary and fiscal policies were redesigned and inflation was brought under control. These changes have earned the title "liberalization" and have earned for Taiwan its reputation for successful development with the "right" formulae.

Even under export-led growth, however, production and distribution have been carried out under the shadow of the state. For the Guomindang government has resorted to the free trade nemesis of cartels wherever expedient. It has also offered both local and foreign exporters an impressive battery of incentives. While economists have viewed a regime of export-led growth as being more in keeping with the wisdom of neoclassical theory, the Taiwanese government has not been guided by any theoretical orthodoxy to turn a profit. A civil servant writes:

> Unorganized production and export often lead to excessive production and cut-throat competition in foreign markets, which inevitably cause a sharp decline in price, deterioration in quality, and finally loss of the export market. To combat these shortcomings, the government has encouraged unified and joint marketing of exports in foreign markets through limitation of production by means of export quotas, improvement of quality, and unified quotation of export prices [Fong, 1968].

The subsidization of exports by means of domestic sales, moreover, has not been confined to peripheral products. Cartels, in whatever variant, have covered many of Taiwan's exports: textiles, canned mushrooms and asparagus, rubber, steel and paper products, and the like. The government has been particularly energetic in trying to get the marketing of all exports into Taiwanese hands because both bureaucrats and businessmen alike are sensitive to the inroads in overseas marketing made by large Japanese trading companies.

Taiwan's foreign trade is also characterized by a fair degree of concentration. Many firms participate in the export trade. In 1966, 3,935 firms exported a total of US$569 million worth of industrial and agricultural goods. But over 94% of this value was accounted for by less than 30% of such firms. Among the 629 private industrial enterprises (with annual exports of over $50,000 each) exporting a total of $300 million worth of industrial products in 1966, 46% was contributed by only 37 firms (Fong, 1968).

Rates of growth of GDP, manufacturing output, and both private consumption expenditure and total gross investment, accelerated dramatically *after* liberalization was introduced and the exporting of manufactures commenced on a massive scale. These relationships have been seen as a vindication of free trade theory, but three points need to be stressed in this connection. First, as just indicated, liberalization should in no way be interpreted as a restoration in Taiwan of a pure "market-economy." Government management of capital accumulation has continued. Second, growth rates were quite high before massive exporting, and the cumulative effects of long-term developments in agriculture and import substitution under heavy protection cannot be minimized. To credit fast growth exclusively to a policy of liberalization is to be ahistorical. The extent to which full employment is attributable to exporting should also not be exaggerated. Tyler (1974) estimated that in 1969 only 16.7% of the labor force in Taiwan was employed directly or indirectly in manufacturing for export. Third, Taiwan's export boom and dramatic growth rates coincided with an extraordinarily favorable international situation. Worldwide trade flows were growing at an unprecedented rate and credit availability in the Eurodollar market was exceptionally easy in the late 1960s and early 1970s. The Viet Nam war was also very good business for Taiwan. Growth rates may well have been lower (as they subsequently were) had the international situation not been so propitious. Indeed, it may be unrealistic to hold Taiwan up as a "model" for other Third World countries to aspire to if only because the exceptional international boom which provided Taiwan with a critical "plus" cannot be counted on to reoccur.

State Enterprise

To appreciate the extent of bureaucratic capitalism in Taiwan, attention must focus on ownership of the means of production as well as on policies which affect capital accumulation.

In 1952, as much as 56% of total industrial production (value added at 1966 prices), as well as 56% of manufacturing output, were accounted for by public corporations (Economic Planning Council, 1974, Table 5-6). Partly under the persuasion of US AID, majority or 100% equity in four public corporations (one highly profitable, two others distinctly less so) were transferred to landlords in 1954 as partial compensation for confiscations carried out under the 1953 land reform. Recently there has been mounting pressure for denationalization from local capital, who want to share in the action of lucrative state enterprises. But enthusiasm for denationalization wanes as profitability decreases, especially in the case of unprofitable state enterprises with externalities that subsidize the private sector. Government policy towards public enterprise mirrors these divergent demands. Thus, on the one hand, in some new industries (e.g., plate glass) the government, as in Japan, has built new factories which, once in the black, have been transferred to private owners (Hsing, 1971: 201). On the other hand, in industries deemed essential for industrialization but in which private capital has been reluctant to invest, the government has stepped in.…

The government has been slow to divest itself of its holdings for additional reasons. In the postwar years, as noted above, public enterprise served to consolidate the power of the Mainlander bureaucracy. In recent years, public enterprise has allowed the Guomindang to buttress its own power vis-à-vis foreign capital. One of the fundamental consequences of public enterprise has been the control by the state rather than by the multinationals of key sectors in the economy. This is not to belittle the power of the multinationals. Nor to suggest the absence of an organic solidarity between the productive activities of the state and foreign investors. In many sectors, particularly petroleum, they have allied to form a nucleus of expansion. But the state has held its own in several crucial respects. The government did not abandon its traditionally conservative attitude toward foreign investment until the export boom of the late 1960s had gotten underway. Only then did foreign firms begin arriving in Taiwan in significant numbers. By 1971, overseas Chinese and other foreign investments were substantial and together amounted to roughly one-seventh of total registered capital (about the same proportion as in Brazil). (*Industrial and Commercial*

Census, 1971: Table 16; Bacha, 1977). Foreign investments, however, are concentrated in electronics, chemicals, and textiles destined for export. The Jiang Jie-shi government cannot be said to have delivered Taiwan into foreign hands, either by letting merchant capital dominate foreign trade or by letting monopoly capital dominate manufacturing. Key manufacturing sectors remain wholly or partly in state hands. Automobile production, which in other Third World countries is the bastion of foreign domination, in Taiwan is controlled by a partnership of Japanese capital and a Mainlander firm which has long enjoyed the support of the Guomindang machine. Still other sectors in Taiwan such as food processing, are shielded from foreign influence either by the relatively small size of the Taiwanese market or by the endurance of indigenous tastes for traditional goods. What the Jiang Jie-shi regime did allow foreign (and local) capital to do was exploit Taiwanese labor. What it provided capital with were favorable investment terms and political stability (underwritten by U.S. and Japanese aid).

By the early 1970s, the share of the public sector in manufacturing production had fallen to less than 20%. Nevertheless, the government remains dominant in such fields as heavy machinery, steel, aluminum, shipbuilding, petroleum, synthetics, fertilizers, and last but not least, banking. Almost all banks in Taiwan (foreign banks were not allowed to establish operations until 1969) are wholly or partially owned by the state. The lending activities of all financial institutions have been under strict state supervision (Hsing, 1971: 224). If the government in Taiwan does not quite "control the commanding heights," it goes a long way towards doing so.

As far as capital formation is concerned, the public sector is still very important. The state accounted for as much as 40% of gross domestic investment in 1972 (down from a high of 60% in 1958; Economic Planning Council, 1974: Table 3-8b; *Wall Street Journal*, March 24, 1977).

In an environment made more rational and remunerative by the state, manufacturing in Taiwan, both public and private, has progressed in breadth (the percentage of manufacturing in GDP) and in depth (the percentage of "sophisticated" products and processes in total manufacturing output). Whereas in 1952 agriculture accounted for 35% of net domestic product and industry for only a tenth, agriculture now accounts for only 15% and industry for almost 40%… By 1973, 23% of all workers (15 and over) were engaged in the industrial sector (Economic Planning Council, 1974). Since the early 1970s there has been a decline in the *absolute* number of workers in the agricultural labor force. In historical perspective, this is highly significant. In the United States, absolute declines in the farm population did not begin until the 1930s (Lebergott, 1960).

Nor has manufacturing been confined to "wigs and wallets," as myth would have it. In 1974, for example, Taiwan ranked twenty-eighth among world producers of machine tools. The world's third largest ship, a 445,000 ton oil tanker, is nearing completion in the Gaoxiong yards (*Free China Weekly*, January 9, 1977). In the course of five indicative plan periods, important structural changes have occurred within manufacturing. Along with these changes in product mix have come changes in input mix: capital-intensive production techniques, and especially skill-intensive production techniques, have grown in importance. Textiles and food processing were the leading sectors during the first two plan periods (1953–1956 and 1957–1960).[3] During the second plan period, however, the relative contribution of nondurable consumer goods, particularly food processing, declined, while intermediate goods (cement and paper) expanded. Chemicals (fertilizer, soda ash, plastics and pharmaceuticals) assumed major importance during the third plan period (1961–1964). Capital and durable goods (electrical and nonelectrical machinery such as radios and sewing machines and transport equipment such as bicycles and ships) as well as petroleum products grew enormously during the fourth and fifth plan periods (1965–1968 and 1969–1973) and continue to expand. Although textiles and clothing remain important in total output, food processing has declined sharply…

Thus, there is no denying the ever-increasing sophistication of production within the manufacturing sector at the aggregate level. Nevertheless, it should be emphasized that serious structural weaknesses do persist at the level of the firm. The existence of a large number of very small firms which do not appear to be upgrading their technology is the Achilles' heel of industrialization in Taiwan. The problem takes the form of the small firm's failure to merge or grow amid the scarcities created by fast industrialization economy-wide, but failure to disappear quickly and obligingly altogether. The advances in breadth and depth of manufacturing in the aggregate must be qualified (as they must be to a lesser degree in many advanced capitalist countries) in the light of the persistence of "industrial dualism."

The Taiwan Case and Dependency Theory

Dependency theorists have produced a voluminous literature describing the exploitation and consequent underdevelopment of the Third World by the advanced capitalist countries. Divergent nuances and refinements have been articulated by different members of this school (such as Paul Baran, Andre Gunder Frank, Samir Amin, and Immanuel Wallerstein) but one central theme unifies them all: that underdevelopment exists because the situation of the Third World (periphery) in capitalism on a world scale has left it dependent on the advanced capitalist countries (the core).[4]

The first target of attack of dependency theorists was the conventional explanations for chronic poverty provided by neoclassical economists. Such explanations featured the misguided interventionist policies of Third World nationalist government, which impeded the market from doing its job, along with primitive social structures, which awaited "modernization." Clearly, such explanations ignored important lessons in economic history and the realities of Third World economies, and dependency theorists took the very welcome step of introducing imperialism into the growth equation.

Nevertheless, when foreign trade and investment, two concrete expressions of imperialism, are seen as the primary categories by which exploitation is perpetrated and by which dependency and underdevelopment are perpetuated, much is left unexplained. For if, in fact, the participation in foreign trade and the presence of foreign investment are useful categories for understanding the failure of Third World countries to develop, then one should be able to explain a case like Taiwan, where development has succeeded, by the absence of foreign trade and investment. But clearly one cannot. Taiwan's political economy is a tableau of the petty and profound maneuvers of international diplomacy. Taiwan is a popular place for the investment of foreign capital. Of all Third World countries, Taiwan's economy is also perhaps the most open to foreign trade (Lin, 1973: 6). It is also true that development and unequal exchange have occurred simultaneously in Taiwan, if unequal exchange is operationalized as adverse movements in the terms of trade. In only three years between 1953 and 1973 did the net terms of trade turn in Taiwan's favor (Economic Planning Council, 1974: Table 10-2). The Taiwan case, therefore, asserts itself as an argument against dependency theorists' use of the primary categories of foreign trade and investment as explanations for persistent poverty.

Whereas dependency theorists see all events in the periphery as the outcome of external forces – trade and foreign investment determine what is produced, by what methods, how income is distributed, and the like – the Taiwanese experience suggests just the reverse. First and foremost, class and productive relations within the periphery are decisive as to how foreign trade and investment affect development. Such relations mediate the impact of foreign penetration, although they invariably bear its imprint. Thus, the roots of underdevelopment may be seen to lie not so much in surplus extraction through unequal exchange and the repatriation of profits, but rather in local class relationships. These relationships will ultimately decide how the pressures unleashed by imperialism impress themselves.

A Special Case

The economic history and geopolitics of Taiwan have been so marked by a confluence of unusual circumstances that they qualify this island economy as a "special case." It would be idle, therefore, to hold Taiwan up as an example of capitalist development for other poor countries to follow.

What sharply distinguishes Taiwan from other Third World economies are the scientific advances which agriculture made under Japanese imperialism and the subsequent success of the 1953 land reform. We have argued that this reform helped mediate the effects of exporting labor-intensive manufactures to advantage. Yet there is much to suggest that land reforms in other Third World countries are unlikely to materialize except under revolutionary conditions. Taiwan's land reform was engineered exogenously, by the Guomindang, in alliance with the Americans. The Taiwanese landed aristocracy could be expropriated because the Americans and Mainlanders were under no obligation to it. This was a most unusual situation, and unlikely to be repeated.

Although a redistribution of land to the peasants in Taiwan undoubtedly strengthened the Guomindang, its authority was also *guaranteed* by U.S. foreign aid, both military and otherwise. There is dispute as to how effective *economically* U.S. aid to Taiwan in fact was; in part because so much of it went for the most unproductive activity of all – militarism; and because another large fraction went for infrastructure projects based on faulty investment criteria and evaluation methods (agriculture was relatively ignored by U.S. aid; Griffin, 1973). What is indisputable is the increase in consumption which American relief made possible in the dismal years after World War II. Although the economic situation in Taiwan today is probably good enough to allow the Guomindang to stay in power with only tacit U.S. support and without the Japanese loans which have in fact partly replaced American donations, U.S. aid kept the regime in power in its earliest years (Halliday and McCormack, 1973). A champion of American policy reminds us:

> U.S. economic assistance helped to preserve the cohesion of the Mainlander minority and to consolidate its political power. Had no external assistance come to douse the fires of inflation and improve the material conditions of the Taiwanese during the early 1950s, it is doubtful whether the ROC would have endured in its present form [Jacoby, 1966: 164].

A Crisis of Labor

We have characterized Taiwan as an economy standing at the threshold of development partly because beginning in the early 1970s, full employment became a reality. A small amount of unemployment persists and cyclical unemployment remains very much a fact of life. But the general situation in the labor market and the rapid rise in wages in the last few years indicate that the era of an "unlimited" labor supply is at an end.

A high secular level of employment promises to create as many new problems for Taiwan as it solves old ones. Cheap labor can no longer provide the main ingredient for growth. Consequently, small-scale industry and agriculture, which use labor intensively, face serious crises in the coming years.

In the period 1968–1973, the growth rate of agricultural output slowed down considerably. (A series of bumper harvests after 1973 make it difficult to assess the most recent period.) In part, the slowdown reflected the fact that earlier growth had drawn heavily on agronomic research developed in the 1920s and 1930s. No breakthrough of such major proportions has occurred since. More important, slower growth reflected the fact that the number of rural workers declined absolutely beginning in the early 1970s, and the real wages of agricultural labor rose. Labor shortages have threatened the multiple cropping system, and, indeed, the very logic of agrarian organization. An ever *decreasing* area of winter crops, as well as over 20,000 hectares of *idle* farm land in the fertile Western Plain, evince the seriousness of the crisis (Hu, 1976).

To cope with the crisis, the government has adopted a series of "new agricultural policies." Mechanization is to be encouraged by means of subsidizing credit for the purchase of farm machinery (principally low h.p. tillers, power sprayers, and grain dryers). But small farms, once the leading actor in Taiwan's golden age of agriculture, now present an obstacle to mechanization. Even before the crisis, the government had attempted to facilitate selective mechanization without disturbing the agrarian structure. It urged voluntary consolidation of farms and the growth of machine pools. Neither policy was especially successful in a capitalist milieu. The only real option remaining is mechanization *with* the disturbance of the agrarian structure. In fact, the government's newest agricultural policy, however low in profile, amounts to creating an ever expanding sub-sector of large-scale, capital-intensive, commercial farms. The small holders who manage to survive will be forced either to farm jointly or to farm part-time (as many already do).

The problem in industry parallels that in agriculture. If manufacturing output continues to grow at anything near the rate it has grown in the past decade, the labor situation for small firms will deteriorate still further. In general, small-scale industry in underdeveloped countries is the victim of competitive imports or foreign investment. In Taiwan, at its current stage of development, the death process is more indirect. Big business threatens small local capital in Taiwan not by supplying competitive goods but by demanding labor at competitive prices. The future of this class of petty producers is pointed in the direction of paid employment. The transition from self-employment to wage labor is likely to be as socially explosive in manufacturing as in agriculture.

For most Third World countries the relationship between the equality of income distribution and the growth process has been found to be U-shaped: income distribution worsens in the early phase of development and only improves much later on (Chenery et al., 1974). Taiwan has attracted attention because its pattern has been different: household income distribution since the early 1960s appears to have improved in association with development. The demise of the small farmer and small manufacturer, however, may signify a reversal of this pattern. As concentration and centralization of capital increase, i.e., as capitalism expands, class differences may be expected to intensify and income distribution to worsen. Taiwan may prove to be as interesting a case for study in the future as it has been in the past.

Notes

1 That Taiwanese agriculture under Japanese as well as Mainlander rule was both capital-intensive with respect to land as well as labor-intensive with respect to land is by no means contradictory. Certain capital inputs are complementary with labor rather than substitutive. In particular, working or current capital inputs (which include fertilizer, feeds, and seeds) are labor absorbing in contradistinction to some fixed capital inputs (particularly farm machinery, implements, and livestock) which are labor displacing. Working capital inputs, moreover, may be applied in variable quantities on small farms.

2 Taiwan's government, like India's, also resorted to industrial licensing not only to guide the development of private industries but also to shield some from "excessive" competition. A set of administrative controls for certain consumer durables introduced in the 1960s also took the form of progressive local content requirements in an effort to push the manufacture of these lines beyond the stage of mere assembly. (See Lin, 1973 and Hsing, 1971.)
3 The analysis of industrialization which follows is based on T. H. Lee (1974) and *Industrial & Commercial Census* (1971: various tables).
4 For a representative collection of writings of dependency theorists, see Charles K. Wilber (ed.) *The Political Economy of Development and Underdevelopment* (New York, Random House, 1963).

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11

Rethinking Development Theory: Insights from East Asia and Latin America (1989)

Gary Gereffi

Introduction

[…]

The highly industrialized countries in East Asia and Latin America have been a fertile spawning ground for a variety of theories and concepts dealing with Third World development. However, the weight of the evidence used in support of these approaches typically has been quite uneven across the two regions. The theories and concepts often are biased because they reflect events in only some of the East Asian and Latin American nations, leading them to misrepresent the reality of the others.

This essay is an effort to rethink some of the key suppositions of development theory and to identify the fallacies that have been generated by a selective reading of the evidence from East Asia and Latin America. Although the East Asian and Latin American nations by no means cover the entire spectrum of development possibilities in the Third World, they are a good base from which to build solid comparative generalizations because they embody different routes to industrial success. This suggests that there are a number of alternative paths of national development.

The first part of this essay outlines several theoretical perspectives on development that highlight key features of the East Asian and Latin American experiences. While these perspectives offer some important insights, each one is flawed by attempts to

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generalize beyond the cases that gave rise to the insight itself. These misperceptions are dealt with in the remainder of the study, which presents cross-regional evidence from East Asia and Latin America leading to a reformulation and synthesis of some of these earlier approaches.

Theoretical Perspectives on East Asian and Latin American Development: Perceptions and Misconceptions

The development theories related to East Asia and Latin America are at several different levels of generality, including new trends in the global economy, distinct conceptual categories used to describe and analyze the highly industrialized nations in the two regions, and the roles of domestic institutions and sociocultural factors that shape the process of national development. The literature on *the new international division of labor* traces the recent surge of manufactured exports from the Third World to the emergence of a global manufacturing system based on labor-intensive export platforms established by transnational corporations in low-wage areas. This new international division of labor was created in order to exploit reserve armies of labor on a world scale by using the advanced transport and communication technologies that permit the spatial segmentation of the production process (Fröbel et al., 1981).

An extension of this approach, the *globalization of production* perspective, argues that the shift of manufacturing capacity toward decentralized production sites is occurring in both the advanced and the developing countries, and it reflects the increasingly centralized control and coordination by transnational corporations (TNCs) of these decentralized production units. This has fostered both greater international interdependence and enhanced TNC leverage over national governments and domestic labor (Gordon, 1988).

The most widely used term in referring to the high-growth, diversified economies of East Asia and Latin America is *newly industrializing countries* (or NICs). The expression was coined in the mid-1970s by the advanced capitalist nations, which were concerned that a number of developing countries were significantly expanding their world share in the production and export of manufactured goods. (See OECD, 1979. The NICs included are South Korea, Taiwan, Hong Kong, Singapore, Brazil, Mexico, Spain, Portugal, Greece, and Yugoslavia.) The specter of "other Japans" was a worry to the slumping Western industrial economies, giving rise in some circles to strident calls for protectionism.

Once the economic trends in the NICs became well established, the World Bank and prominent neoclassical economists in a variety of other institutions began to offer unambiguous policy prescriptions regarding the *development strategies* of these Third World nations. They argued that the outward-oriented development strategies of the East Asian NICs led to better economic performance in terms of exports, economic growth, and employment than did the inward-oriented development strategies of the Latin American NICs (see Balassa, 1981: 1–26; Balassa et al., 1986; World Bank, 1983: chap. 5). The clear implication was that the East Asian NICs should serve as a model to be emulated by the rest of the developing world.

World-systems theory employs the concept of *semiperipheral countries* to identify an intermediate stratum between core and peripheral nations that promotes the stability and legitimacy of the three-tiered world economy. The countries within the semiperipheral zone, which includes the East Asian and Latin American NICs, supposedly have the capacity to resist peripheralization but not the capability to move into the upper tier (Wallerstein, 1974; Arrighi and Drangel, 1986).

Dependency theory uses the term *dependent development* to indicate that structural dependency on foreign capital and external markets in rapidly industrializing Third World nations like the Latin American and East Asian NICs constrains and distorts, but is not incompatible with, capitalist economic development (Evans, 1979; Cardoso and Faletto, 1979; Gold, 1981; Lim, 1985). This was a striking departure from earlier "stagnationist" views that claimed dependency could only lead to underdevelopment and revolution (see Gereffi, 1983: chap. I, for an overview of this debate).

Some political scientists argue that one of the key institutional features of successful late industrializers is the rise of a *developmental state* oriented to selective but substantial intervention in their economies in order to promote rapid capital accumulation and industrial progress. In Latin America as well as East Asia, the state has tended to be strong, centralized, authoritarian (often under military control), and actively involved in economic affairs (O'Donnell, 1973; Collier, 1979; Johnson, 1987; Wade, 1990). This literature raises the question of whether a developmental state is a prerequisite for capitalist industrialization on the periphery.

The rapid growth of the East Asian NICs has refocused attention on the role of *cultural factors* in national development. Various writers have recently argued that Confucianism confers certain advantages over other traditions in the quest for economic development. Because Confucian beliefs place a high value on hard work, loyalty, respect for authority, and punctuality, these characteristics are thought to have facilitated the national consensus around high-speed economic growth evident in Japan and the East Asian NICs since the 1950s and 1960s. This culturally derived capacity for cooperation led political elites, industrial leaders, workers, and other citizens to agree on the primacy of economic objectives for the society as a whole and on the means to achieve those objectives (Johnson, 1983: 6–10).… In Latin America, a divergent set of cultural norms based upon an Ibero-Catholic heritage has been identified as impeding the economic advancement of the region (see Valenzuela and Valenzuela, 1978, for a review of this approach).

Each of these theoretical perspectives contains valuable observations about the development of the East Asian and Latin American NICs. Recent comparative research, however, suggests that some of these prior generalizations may be too sweeping. They often fit one region or time period reasonably well but falter when their scope is expanded. To facilitate efforts at reformulating the earlier theoretical approaches, I will highlight the fallacies or misperceptions embedded in each of these perspectives.

1 The early discussions of the new international division of labor place an undue emphasis on labor-intensive, assembly-oriented export production in the NICs, which in retrospect characterizes only the initial phase of their export efforts.

Since the 1970s, both the East Asian and the Latin American NICs have moved toward more technology- and skill-intensive exports focusing on high-value-added products. Furthermore, these newer export industries are not "export enclaves" but instead promote high levels of integration with a well-developed local industrial base.

2 The globalization of production approach correctly highlights the emergence of a decentralized global manufacturing system in which production capacity is dispersed to an unprecedented number of developing as well as industrialized countries. However, this does not rest solely on a base of increasingly centralized and coordinated control by TNCs. Local private firms are the main exporters in many of the Third World nations today, but their ability to effectively capture the economic surplus in these export industries tends to be restricted by the kinds of subcontracting relationships in which they are enmeshed.

3 The East Asian and Latin American NICs are not really "newly" industrializing, nor have they developed in response to the same kinds of global dynamics. Because these NICs originated in the mid-1970s as a defensive reaction by OECD (Organization for Economic Cooperation and Development) countries to increasing Third World exports, many studies of the NICs tend to focus too narrowly on manufactured exports and implicitly or explicitly marginalize the opportunities for countries that have a rich endowment of natural resources. To understand the emergence of the NICs we need to adopt a broader historical and world-systems perspective that is sensitive to different kinds of economic capabilities in Third World nations.

4 The contrast between the outward-oriented and inward-oriented development strategies of the East Asian and Latin American NICs, respectively, is overdrawn. Each of the countries in the two regions has pursued a combination of inward- and outward-oriented strategies. Furthermore, it is this mix of development strategies that helps us understand how industrial diversification has led to enhanced export flexibility and competitiveness in both sets of NICs in the 1980s.

5 The semiperipheral zone encompasses an extremely diverse range of countries. In order to understand the actual roles played by semiperipheral nations in the world economy today, we need to disaggregate this concept and focus on the specific characteristics of the NICs in different geographical regions like East Asia and Latin America.

6 Dependent development is applicable to the NICs in East Asia as well as Latin America. The nature and consequences of dependency are quite different in the two regions, however. Dependency in the East Asian NICs is a product of their heavy reliance on foreign aid and foreign trade, while dependency in the Latin American NICs is an outgrowth of their extensive involvement with transnational corporations and transnational banks. The developmental consequences of these different types of dependency turn, in large degree, on the ability of the state to convert these external linkages to national advantage. Successful "dependency management" depends on the historical timing of these efforts as well as institutional factors.

7 While there is a substantial degree of state intervention in the economies of the Latin American and East Asian NICs (with the exception of Hong Kong), the developmental state is not a singular phenomenon in the two regions. The objectives, social bases, and policy instruments of the state are quite different in each country, with major implications for the exercise of state autonomy in areas like industrial policy.
8 Simplistic cultural arguments run into a variety of problems. First, regions are not culturally homogeneous; this is particularly true of East Asia. In Taiwan and South Korea, for example, Taoism and Buddhism as well as Confucianism have important followings, and there is a significant Christian minority in some East Asian countries like South Korea. More importantly in terms of the timing of high-speed growth, both the Confucian and Ibero-Catholic traditions have existed for centuries. In both regions, but especially in East Asia, however, the dynamic shifts in economic performance have occurred primarily in recent decades. A more sophisticated cultural interpretation would see culture as historically situated, emergent, and mediated through institutions (see Swidler, 1986). The impact of cultural variables probably is most important in outlining an acceptable range of solutions to development problems, rather than in determining specific economic outcomes.

The following sections of this essay address some of these themes in greater detail. In closing, I will outline the elements for a new theoretical synthesis, with some suggestions for future research.

The NICs in Historical and World-Systems Context

The East Asian and Latin American NICs are a very heterogeneous group, with major differences in population size, land area, resource endowments, cultural legacies, political regimes, social structures, per capita income, and economic policies. Nonetheless, these nations tend to have several dynamic features in common that lead them to be widely perceived as industrial "success stories": rapid and generally sustained economic growth, based on a sharp increase in the manufacturing sector's share of total output and employment; a growing diversification of industrial production that permits each nation to make ever broader ranges of manufactured goods; and a fast expansion of exports with an emphasis on manufacturers.

The Latin American and East Asian NICs are at relatively advanced levels of industrial development.[1] They are all upper-middle- or upper-income countries by World Bank standards, although the average gross national product (GNP) per capita in 1990 was considerably higher in the East Asian nations… However, while the East Asian NICs grew rapidly during the 1980s, the Latin American NICs suffered an absolute as well as a relative decline. The 1981 GNP per capita figures highlight both trends. The Latin American NICs had similar or, in the case of Argentina, substantially lower per capita incomes in 1990 than nine years earlier. The East Asian NICs, on the other hand, doubled or tripled their average incomes in the 1980s.

Manufacturing has been a cornerstone of development for the Latin American and East Asian NICs, while the role of agriculture has declined in these economies since 1965. The manufacturing sector's share of gross domestic product (GDP) in 1990 was 18 percent in Hong Kong; it ranged between 23 percent and 29 percent in Mexico, Brazil, and Singapore; and it reached peak levels of 31 to 35 percent in South Korea, Taiwan, and Argentina. The prominence of manufacturing activities in the NICs is much higher than in the United States (17 percent) and comparable to many of the other advanced industrial economies, including Japan (29 percent). In all of the core nations, and Hong Kong as well, the service sector now is the most dynamic sector of the economy.

The East Asian and Latin American NICs have launched major export drives since 1980. By 1990, the East Asian NICs had clearly established themselves as the Third World's premier exporters. Taiwan and South Korea topped the list in 1990 with $67 and $65 billion in exports, respectively, followed by Singapore with an export total (including re-exports) of nearly $53 billion. Hong Kong, Brazil, and Mexico occupied a second tier with exports in the $27 to $31 billion range, while Argentina ($12 billion) lagged well behind the rest of the pack. The East Asian "super-exporters" thus tended to surge well ahead of the other NICs in export volume.

The NICs also vary considerably in the priority given to external trade. The East Asian nations are export-led economies in which exports in 1990 accounted for 43 percent and 27 percent of GDP in Taiwan and South Korea, respectively, and for 100 percent or more of GDP in the entrepôt city states of Hong Kong and Singapore when their re-exports are included. This compares with export/GDP ratios of only 8 percent to 13 percent in the much larger Latin American NICs. To put these figures in a broader perspective, Japan, which often is seen as a model for its East Asian neighbors, had an export/GDP ratio of 10 percent in 1990, while the export ratio for the United States was only 7 percent. The East Asian NICs, partly because of their smaller size, thus are far more dependent on external trade than are their Latin American counterparts or Japan.

In exports as in production, manufactures are the chief source of growth in the NICs. While the role of primary commodity exports decreased sharply in all these economies between 1965 and 1990, manufactured items in 1990 constituted well over 90 percent of all exports in the East Asian NICs (except Singapore, where petroleum refining is highly significant) and for between one-third and one-half of the export total in the Latin American NICs.

The maturity or sophistication of a country's industrial structure can be measured by the complexity of the products it exports. Here again, the East Asian NICs are relatively advanced. In Singapore and South Korea, overseas sales of machinery and transport equipment, which utilize capital- and skill-intensive technology, grew by 18 and 34 percent, respectively, from 1965 to 1990 as a share of total merchandise exports. Taiwan's exports in this sector increased by 21 percent and Hong Kong's by 16 percent. In Latin America, Mexico (24 percent) and Brazil (16 percent) also made machinery and transport equipment a dynamic export base, while both Brazil and Argentina achieved solid export gains in the "other manufactures" category. Textiles and clothing, the most important export sector in the East Asian NICs in the 1960s, actually shrank as a proportion of total exports in these four nations during the past 25 years, reflecting their transition from traditional to more advanced forms of manufacturing.

The economic growth of the Latin American and East Asian NICs has occurred at different historical phases and in different rhythms. Furthermore, changes in the world system profoundly shaped the patterns of industrialization in the developing world.

The phrase *newly industrializing countries* actually is a misnomer when applied to Argentina, Brazil, and Mexico, since they established their first major wave of import-substituting industries in the 1930s and 1940s in response to the international economic dislocations caused by the Great Depression and World War II. In fact, the process of industrial growth in the larger Latin American countries already was well under way in the interwar period. The deterioration of the terms of trade for agricultural exports began in the 1920s, reflecting falling demand and rising supplies of agricultural goods throughout the industrialized nations and the adoption of protectionism in many countries of Continental Europe. This led to the demise of the primary product export model and served as an incentive for import-substituting industrialization (see Thorp, 1984; Cortes Conde and Hunt, 1985). Instead of representing a sudden mutation, then, the 1929 crisis brought into high relief trends that originated in the years immediately after World War I.

In Latin America, "the world slump of 1929–33 cut the purchasing power of the continent's exports by 60 percent, and ended the possibility of much borrowing abroad. Most countries were obliged to suspend the convertibility of their currencies, cut imports radically and take measures to stimulate the production of domestic substitutes" (Harris, 1987: 17). While the manufacturing output of the advanced countries declined precipitously during the 1930s, World War II production demands actually had an expansive impact on the Third World countries that helped supply the bellicose powers (Gordon, 1988: 34–5).

The postwar economic expansion of the United States as the hegemonic leader of the capitalist world economy was fueled by a decade of reconstruction in Europe and Asia. The revitalization of direct foreign investment (DFI) and international trade laid the groundwork for a new international division of labor, based on increasingly complex networks of industrial production and sourcing, and new forms of geographical specialization (Fröbel et al., 1981).

The Latin American NICs sought to deepen their industrialization in the mid-1950s by opening their doors to new waves of DFI from the United States, Western Europe, and eventually Japan. Whereas foreign investors in Latin America traditionally had concentrated on export-oriented projects in mining, oil, and agriculture, postwar DFI emphasized import-substituting investments in advanced manufacturing industries like automobiles, chemicals, machinery, and pharmaceuticals whose output was destined primarily for the relatively large domestic markets in Latin America.

The East Asian NICs followed a contrasting sequence. They did not begin their rapid economic growth until the mid-1960s, after an extended period of colonization by Japan prior to 1945 and with a heavy infusion of American aid during the next two decades. Hong Kong, Singapore, South Korea, and Taiwan pursued policies of outward-oriented industrialization in the 1960s in order to generate foreign exchange via manufactured exports. During this initial phase of export expansion, the rapid growth of the East Asian NICs was founded on light, labor-intensive industries like textiles, garments, and electronic equipment. In subsequent phases, however, South Korea, Taiwan, and Singapore achieved success in much heavier industries like steel, petrochemicals, shipbuilding, vehicle manufacture, and computers that were less well suited to their original factor endowments (i.e., limited raw materials, unskilled labor, and small markets). The East Asian NICs thus were motivated by the principle of dynamic competitive advantage rather than by their static comparative advantage in cheap, disciplined labor.

The emergence and evolution of the NICs has been a product of cyclical shifts in the world economy. When the conditions that made import substitution a viable and appealing option for many countries changed, there was increased general interest in export promotion. The turn outward by the East Asian NICs in the 1960s foreshadowed similar efforts in the following decades by a wide range of developing nations, including the Latin American NICs. To gain a better picture of the dynamic relationship between these patterns of inward- and outward-oriented industrialization, we need to examine more closely the paths of industrialization followed by the Latin American and East Asian NICs.

The Dynamic Interplay of Inward- and Outward-Oriented Industrialization

Based on a broad historical view of industrialization in the Latin American and East Asian NICs, one can identify five main phases of industrial development. Three of these are outward looking: a commodity export phase, and primary and secondary export-oriented industrialization (EOI). The other two are inward looking: primary and secondary import-substituting industrialization (ISI). The subtypes within the outward and inward approaches are distinguished by the kind of products involved in each.

In the commodity export phase, the output typically is unrefined or semiprocessed raw materials (agricultural goods, minerals, oil, etc.). Primary ISI entails the shift from imports to the local manufacture of basic consumer goods, and in almost all countries the key industries during this phase are textiles, clothing, footwear, and food processing. Secondary ISI involves using domestic production to substitute for imports of a variety of capital- and technology-intensive manufactures: consumer durables (e.g., automobiles), intermediate goods (e.g., petrochemicals and steel), and capital goods (e.g., heavy machinery).

Both phases of EOI involve manufactured exports. In primary EOI these tend to be labor-intensive products, while secondary EOI includes higher-value-added items that are skill intensive and require a more fully developed local industrial base.

Following this schema, the principal sequences of industrial development in Mexico, Brazil, South Korea, and Taiwan are outlined in Figure 11.1. For convenience, I use the phrase *paths of industrialization to* refer to these economic outcomes. The varied role of government policies, incentives, and explicit development strategies in bringing about these industrial shifts is an important but separate issue that I will not address here. (This topic is analyzed in Cheng and Haggard, 1987; Cheng, 1990; Kaufman, 1990; and Wade, 1990.)

Each of the two regional pairs of NICs has followed a distinctive industrial trajectory that includes the ISI and EOI ideal types mentioned above, plus a "mixed" phase in the most recent period. An analysis of these trajectories, as shown in Figure 11.1, suggests the following conclusions (see Gereffi and Wyman, 1989).

First, the contrast often made between the Latin American and the East Asian NICs as representing inward- and outward-oriented industrial paths, respectively, is oversimplified. While this distinction is appropriate for some periods, a historical perspective shows that each of these NICs has pursued both inward- and outward-oriented approaches.

Every nation, with the exception of Britain at the time of the Industrial Revolution, went through an initial stage of ISI in which protection was extended to incipient manufacturing industries producing for domestic markets. Even Hong Kong, the most laissez-faire of the NICs, benefited from a period of "disguised ISI" on the Chinese mainland. Refugees to Hong Kong from the mainland included a significant segment of the Shanghai capitalist class and a huge supply of politically unorganized labor, and they brought with them technical know-how, skills, and even machinery (Haggard and Cheng, 1987: 106–10). Furthermore, each of the NICs subsequently has combined both advanced ISI and different types of EOI in order to avoid the

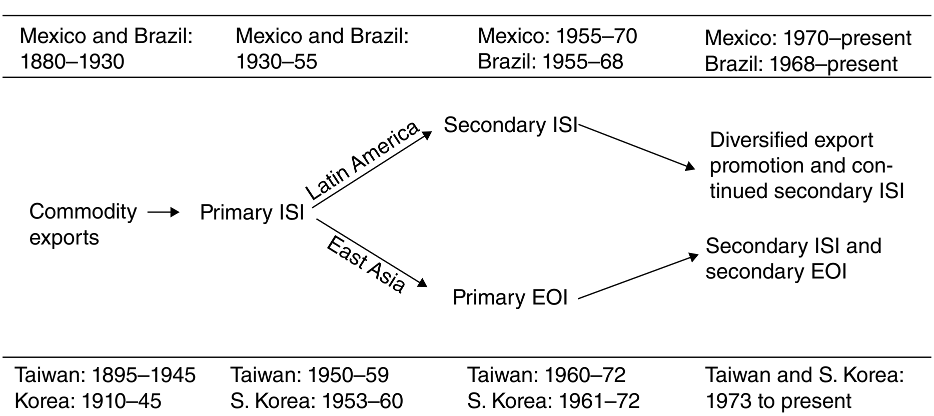

Figure 11.1 Paths of Industrialization in Latin America and East Asia: Commonalities, Divergence, and Convergence

inherent limitations of an exclusive reliance on domestic or external markets, and also to facilitate the industrial diversification and upgrading that are required for these nations to remain competitive in the world economy. Rather than being mutually exclusive alternatives, the ISI and EOI development paths in fact have been complementary and interactive (Gereffi and Wyman, 1990).

Second, the early phases of industrialization – commodity exports and primary ISI – were common to all of the Latin American and East Asian NICs, although the timing and specific products involved varied considerably. The subsequent divergence in the regional sequences stems from the ways in which each country responded to the basic problems associated with the continuation of primary ISI. These problems included balance of payments pressures, rapidly rising inflation, high levels of dependence of intermediate and capital goods imports, and low levels of manufactured exports.

Third, the duration and timing of these development patterns vary by region. Primary ISI began earlier, lasted longer, and was more populist in Latin America than in East Asia. Timing helps explain these sequences because the opportunities and constraints that shape development choices are constantly shifting. The East Asian NICs began their accelerated export of manufactured products during a period of extraordinary dynamism in the world economy. The two decades that preceded the global economic crisis of the 1970s saw unprecedented annual growth rates of world industrial production (approximately 5.6 percent) and world trade (around 7.3 percent), relatively low inflation and high employment rates in the industrialized countries, and stable international monetary arrangements. The expansion of world trade was fastest between 1960 and 1973, when the average annual growth rate of exports reached almost 9 percent.

Starting in 1973, however, the international economy entered a troublesome phase. From 1973 to the end of the decade, the annual growth in world trade fell to 4.5 percent as manufactured exports from the developing countries encountered stiffer protectionist measures in the industrialized markets. These new trends were among the factors that led the East Asian NICs to modify their EOI approach in the 1970s (see Cheng and Haggard, 1987).

Fourth, the development trajectories of the Latin American and East Asian NICs show some signs of convergence in the 1970s and 1980s. To support this convergence thesis, it is necessary to distinguish two subphases during the most recent period. In the 1970s Mexico and Brazil began to expand both their commodity exports (oil, soybeans, minerals, etc.) and their manufactured exports, as well as to accelerate their foreign borrowing, in order to acquire enough foreign exchange to finance the imports necessary for furthering secondary ISI. This "diversified exports" approach, which became even more prominent in the 1980s in the face of sharply curtailed foreign borrowing, was an important addition to Mexico's and Brazil's earlier emphasis on industrial deepening.

South Korea and Taiwan, on the other hand, emphasized heavy and chemical industrialization from 1973 to 1979, with a focus on steel, automobiles, shipbuilding, and petrochemicals. The objective of heavy and chemical industrialization in

East Asia was twofold: to develop national production capability in these sectors, justified by national security as well as import substitution considerations, and to lay the groundwork for more diversified exports in the future. China's reentry into the international community, ushered in by its détente with the United States in the early 1970s, not only made South Korea's and Taiwan's domestic defense concerns more credible, but China also presented a long-term threat to labor-intensive industries in the region. South Korea and Taiwan have used the secondary ISI industries established during the 1970s as a base for launching a far more variegated array of technology- and skill-intensive manufactured exports in the 1980s (Gereffi, 1989).

It is clear that neither inward-oriented nor outward-oriented paths of industrialization are self-sufficient models of development. Both are susceptible to systemic constraints or vulnerabilities such as recurring balance of payments problems, persistent inflation, and the disruption of key trading relationships (see Gereffi, 1990b). However, the NICs in each region have adapted or switched their development trajectories in response to these problems, and thus they succeeded in moving to a more diversified pattern of export growth in the 1980s.

Dependent Development in Latin America and East Asia

Dependency theory has been flawed by its historically close association with the development of the Latin American NICs. The "dependent development" literature drew heavily on the experience of Latin American nations, and it looked at the problems of Third World development with an eye toward investment and debt dependency. Therefore it has been claimed that dependency theory has little, if any, relevance to East Asian NICs (Amsden, 1979; Barrett and Whyte, 1982; Berger, 1986). In fact, the East Asian NICs have experienced two distinct kinds of dependency: the dependency on American aid in the 1950s, and trade dependency, again largely on the United States, since the 1960s. The internal and external consequences of each kind of dependency are quite different.

To approach the issue of dependent development in a cross-regional setting, the concept of transnational economic linkages (TNELs) is quite useful. There are four main TNELs: foreign aid, foreign trade, direct foreign investment, and foreign loans. They affect development strategies and outcomes in several ways (see Gereffi and Wyman, 1989).

First, they represent economic resources that may be used, singly or in diverse combinations and sequences, to finance development. For example, DFI sustained secondary ISI in Latin America, much as massive foreign aid flows made primary ISI possible in East Asia.

Second, the availability of these resources is conditioned by factors beyond as well as within the control of nation states. Factors beyond the control of individual countries include global economic conditions (e.g., trends in world trade) as well as geopolitical pressures that help channel capital toward some countries and away from others. National policies regarding domestic wage levels, foreign investment, and the degree of political stability in a country, on the other hand, can also shape the performance to TNELs.

Third, the destination and use of TNELs in a country directly affect the power of domestic actors. It matters, for example, whether these economic resources are used to finance luxury imports for the wealthy or irrigation systems and public transportation for the masses, just as it matters whether the presence of these resources strengthens or weakens agrarian elites vis-à-vis the peasantry or the industrial bourgeoisie rather than the urban working class.

Table 11.1 identifies the relative importance of each of the TNELs in Brazil, Mexico, South Korea, and Taiwan during the different phases of industrialization discussed earlier. The high, medium, and low weights in Table 11.1 are based on estimates of the relative significance of the TNELs in each economy, compared with other developing countries at similar stages in their industrialization process.

There is considerable variation among the NICs in the role played by TNELs. First, the salience of TNELs varies markedly over time within each region, since each phase of the industrial trajectories of the Latin American and East Asian NICs is associated with a different mix of external resources used to finance development. In East Asia, for example, primary ISI relied on a great deal of foreign aid and little export trade; conversely, the subsequent phase of primary EOI was defined by extensive exports and virtually no foreign aid.

Second, the salience of TNELs also varies between the two regions within the same phase of industrialization. For example, both regions went through a period of primary ISI, but the dynamics were quite different. In East Asia primary ISI was financed by massive amounts of foreign economic assistance, whereas in Latin America the same phase tended to be carried out by local industrialists with the support of the state and with limited participation by transnational corporations. It is widely acknowledged that the South Korean and Taiwanese economies could not have survived the 1950s without American assistance. Between 1951 and 1965, $1.5 billion in economic aid and $2.5 billion in military aid were sent to Taiwan by the United States. South Korea received a similar amount of U.S. aid in the 1953–61 period, with $2.6 billion earmarked for economic assistance and $1.6 billion for military expenditures. Aid financed 40 percent of fixed investment in Taiwan and 80 percent in South Korea. Concessional capital flows were used to purchase 70 percent of the imports coming into South Korea, as well as to pay 90 percent of the balance of trade deficit in Taiwan (Jacoby, 1966; Cole, 1980).

Third, the contrast with regard to TNELs is sharpest during the 1960s, when Latin America's secondary ISI is juxtaposed with East Asia's primary EOI. The former phase relied heavily on DFI and external loans but was oriented toward supplying local markets; the latter phase depended on access to overseas markets but was implemented in large part by domestic entrepreneurs who drew mainly on local financial resources (this was especially true in Taiwan, whereas in South Korea local capitalists became heavily indebted to foreign creditors in the 1970s).

Table 11.1 The structure of dependent development in Latin America and East Asia

	Development Strategies, Brazil and Mexico				*Development Strategies, South Korea and Taiwan*			
Transitional Economic Linkages	*Commodity Exports*	*Primary ISI*	*Secondary ISI*	*Diversified Exports and Secondary ISI*	*Commodity Exports*	*Primary ISI*	*Primary EOI*	*Secondary ISI and EOI*
Foreign aid	Low	Low	Medium	Low	Low	High	Medium	Medium
Foreign trade	High	Low	Low (exports) Medium (imports)	Medium (imports) High (exports)	High	Low (exports) Medium (imports)	High	High
Direct foreign investment	Medium (Brazil) High (Mexico)	Low	High	Medium	Medium	Low	Low (S. Korea) Medium (Taiwan)	Medium (S. Korea) High (Taiwan)
Foreign borrowing	Medium	Low	Medium	High	Low	Low	Low (Taiwan) Medium (S.Korea)	Medium (Taiwan) High (S.Korea)

Source: Gereffi and Wyman (1989).

Fourth and finally, Latin America and East Asia differ in terms of the overall weight that TNELs have had in the two regions. Historically DFI and foreign loans represented the most important external economic resources for the Latin American NICs; in contrast, export trade and foreign aid have been the key forms of East Asian linkage to the international economy. A main reason why dependency has been such a thorny issue for the Latin American countries is that DFI tends to create greater frictions than other types of foreign capital in Third World countries (see Stallings, 1990). In the East Asian NICs, on the other hand, trade dependency on the United States has been declining since the early 1970s, and their export profile has become more diversified (Barrett and Chin, 1987), thus reducing but not eliminating some of the deleterious consequences of export partner and product concentration.

The dependency perspective can be enriched by dealing more explicitly with issues of dependency management. This approach focuses attention on the capacity of domestic institutions to use external economic resources productively and selectively to serve local interests. A key to understanding the success of the East Asian NICs' export strategy, for example, is the performance of locally owned exporting firms that aggressively sought and exploited opportunities for profitable overseas sales. These local exporters established close ties with foreign buyers, who assisted in matters of product design and technology transfer. The adaptation of available modern technology has enabled the East Asian NICs to move from conventional labor-intensive exports like textiles, clothing, and footwear to heavier and high-technology industries like transportation equipment, electrical machinery, and computer components. Joint-venture research projects, as well as locally owned companies, have been set up in South Korea and Taiwan to give these countries greater flexibility in developing their own production and technological capabilities (Schive, 1990). The success of both primary and secondary EOI in the East Asian NICs thus is explained in large part by the ability of domestic firms to manage effectively their dependency relationships in the areas of international trade and investment.

The Emergent Global Manufacturing System: Toward a Theoretical Synthesis

This comparative overview of industrialization in the East Asian and Latin American NICs provides the elements for a new synthesis in development theory. This theoretical synthesis is based on a modified world-systems perspective, in which my focus is the changing parameters for mobility by the NICs in the emergent global manufacturing system.

I will discuss three related themes to illustrate the direction this approach might take: (1) the declining significance of industrialization, (2) the position of core and peripheral capital in contemporary commodity chains and export/marketing networks, and (3) a framework for differentiating the roles of the NICs in the world economy. My concluding remarks will address issues for future research on this topic.

The Declining Significance of Industrialization

Since the 1950s, the gap between developed and developing countries has been narrowing in terms of industrialization. Industry as a share of GDP has increased substantially in the vast majority of Third World nations, not only in absolute terms but also relative to that of the core countries (see Harris, 1987). By the late 1970s, the NICs as a whole not only caught up with but overtook the core countries in terms of their degree of industrialization (Arrighi and Drangel, 1986: 54–5).

By 1986, all of the NICs in Latin America and East Asia, with the exception of Hong Kong, had industry/GDP ratios that exceeded the industrial market countries' average level of 35 percent. The same pattern holds true for manufacturing, which is generally the most dynamic part of the industrial sector. The manufacturing/GDP ratio in 1990 for the United States, for example, was 17 percent, which was lower than that of any of the seven Latin American and East Asian NICs.

While industry and manufacturing as a share of GDP are on the decline in the most developed nations of the world economy, this trend is counterbalanced by the core's emphasis on the service sector and on the most productive, high-value-added segments of manufacturing. Ironically, as more and more countries in the world are becoming industrialized, industrialization itself is losing the key status it once had as an ultimate hallmark of national development.

These observations lead to two basic conclusions about the theoretical status of industrialization in the contemporary world economy. First, *industrialization* and *development* are not synonymous. This is apparent in the disparate social and economic consequences of industrial growth in the Latin American and East Asian NICs over the past couple of decades. Despite similarly high levels of industrialization in the NICs from both regions, the East Asian nations have performed significantly better than their Latin American counterparts in terms of standard indicators of development such as GNP per capita, income distribution, literacy, health, and education (see Gereffi and Fonda, 1992).

Second, just as industrialization cannot be equated with development, neither does it guarantee proximity to core status in the world system. Although the NICs are now more industrialized than most of the core countries, this achievement generally has not led to a substantial change in the relative position of the NICs in the hierarchy of nations in the world economy. Arrighi and Drangel (1986: 44), who measured upward and downward mobility in the world system over the past fifty years in terms of national changes in per capita GNP, found that 95 percent of the states classified in one of the three world-system zones (core, semiperiphery, and periphery) in 1938–50 were in the same zone in 1975–83. Among the few exceptional cases of upward mobility in the world system were Japan and Italy, which moved from the semiperiphery to the core, and South Korea and Taiwan, which moved from the periphery to the semiperiphery.

Therefore, while industrialization may be a necessary condition for core status in the world system, it no longer is sufficient. Mobility from the semiperiphery to the core, or from the periphery to the semiperiphery, should not be defined simply in terms of a country's degree of industrialization, but rather by a nation's success in upgrading its mix of economic activities toward technology- and skill-intensive products and techniques with higher levels of local value added. Continued innovations by the most developed countries tend to make core status an ever receding frontier.

Commodity Chains and Export/Marketing Networks

In the global manufacturing system of today, production of a single good commonly spans several countries, with each nation performing tasks in which it has a cost advantage. This is true for traditional manufactures, such as garments and footwear, as well as for modern products, like automobiles and computers (Gereffi, 1989). To analyze the implications of this globalization of production for specific sets of countries like the East Asian and Latin American NICs, it is helpful to utilize the concept of commodity chains.

A "commodity chain," as defined by Hopkins and Wallerstein (1986: 159), refers to "a network of labor and production processes whose end result is a finished commodity." To delineate the anatomy of the chain, one typically starts with the final production operation for a consumable good and moves sequentially backward until one reaches the raw material inputs. However, the complexity of commodity chains for the kinds of export-oriented manufacturing industries that the NICs are predominant in today requires us to extend the model proposed by Hopkins and Wallerstein in several ways (see Gereffi and Korzeniewicz, 1994).

First, the dynamic growth of the NICs has revolved around their success in expanding their production and exports of a wide range of consumer products destined mainly for core-country markets. This means that it is extremely important to include forward as well as backward linkages from the production stage in the commodity chain. Most commodity chains are composed of four major segments: (1) raw material supply, (2) production, (3) exporting, and (4) marketing and retailing. In the footwear industry, for example, a full commodity chain takes us across the entire spectrum of activities in the world economy: the agro-extractive sector (cattle for leather, and crude oil as the basis for plastic and synthetic rubber inputs), the industrial sector (footwear manufacturing), and the service sector (the activities associated with the export, marketing, and retailing of shoes). Commodity chains in most other manufacturing industries today are similar in their broad scope.

Second, the extension of commodity chains beyond production to include the flow of products to the final consumer is essential for our ability to detect where economic surplus is concentrated in a global industry. The comparative advantage of the NICs lies primarily at the production stage because of the low labor costs in these countries relative to the core and their high productivity relative to the periphery. An important corollary of this fact, however, is that the distribution and retail marketing segments of these commodity chains tend to be more profitable than manufacturing per se. Furthermore, the economic surplus that accrues to distributors and retailers in core countries generally is much higher when production is done overseas rather than domestically.

The distributors' margins in the footwear industry in the United States, for example, averaged 50 percent in the mid-1970s but were closer to 60 percent for imported goods (Gereffi and Korzeniewicz, 1990: 54–5). Product differentiation by means of heavily advertised brand names (e.g., Nike, Reebok, or Florsheim in shoes) and the use of diverse retail outlets allow core-country firms rather than those in the semiperiphery to capture the lion's share of economic rents in a diverse range of consumer goods industries.

For semiperipheral countries to ascend in the world economy, they will have to find new ways to move to the most profitable end of commodity chains. This requires a fundamental shift from manufacturing in the semiperiphery to marketing in the core, a daunting task that will require new patterns of investment in research and development, advertising, and retail distribution by the NICs.

Differentiating the Roles of the NICs in the World Economy

The foregoing analysis of the Latin American and East Asian NICs allows us to identify a differentiated set of roles that semiperipheral nations play in the world economy. These roles reflect the mix of core-peripheral economic activities in the NICs, as well as the significance of core and peripheral capital in carrying out these development efforts. These roles are not mutually exclusive, and their importance for a given country or set of countries may undergo fairly dramatic shifts over time. From the perspective of world-systems theory, it is essential to note that these roles in the world economy are largely determined by domestic conditions, such as the pattern of economic, social, and political organization within the NICs.

This framework focuses on export production in the NICs, since this is the best indicator of a country's international competitive advantage. The NICs can be characterized in terms of at least four basic types of economic roles: (1) the commodity-export role, (2) the export-platform role, (3) the specification-contracting role, and (4) the component-supplier role.

The *commodity-export role* is of prime importance for the Latin American NICs, where natural resources account for two-thirds or more of total exports, and also for Singapore, which processes and re-exports a large volume of petroleum-related products. Peripheral capital controls most of these natural-resource industries at the production stage in Latin America, with the petroleum and mining industries usually being run by state-owned enterprises, while the agricultural and livestock industries generally are owned by local capital. In Singapore, by contrast, TNCs are the proprietors of most of the petroleum-related industries. These commodity exports are sent to a wide range of nations, with the predominant share going to core countries. The export and distribution networks are usually controlled by core capital.

The *export-platform role* corresponds to those nations that have foreign-owned, labor-intensive assembly of manufactured goods in export-processing zones. These zones offer special incentives to foreign capital and tend to attract firms in a common set of industries: garments, footwear, and electronics. Virtually all of the East Asian and Latin American NICs have engaged in this form of labor-intensive production, although its significance tends to wane as wage rates rise and countries become more developed. In Taiwan and South Korea, export-processing zones have been on the decline during the past two decades, largely because labor costs have been rapidly increasing. These nations have been trying to upgrade their mix of export activities by moving toward more skill- and technology-intensive products. The export-platform role in Asia is now being occupied by low-wage countries like China, the Philippines, Thailand, Indonesia, and Malaysia.

In Latin America, on the other hand, export-platform industries are on the upswing because the wage levels in most countries of the region are considerably below those of the East Asian NICs, and recent currency devaluations in the Latin American NICs make the price of their exports more competitive internationally. The export platforms in Latin America also have the advantage of geographical proximity to the most important core-country markets in comparison with Asian export platforms. Mexico's *maquiladora* industry, which was set up in 1965 as an integral part of Mexico's Northern Border Industrialization Program, is probably the largest and most dynamic of these export areas.… There are similar zones in Brazil, Colombia, Central America, and the Caribbean. Core capital controls the production, export, and marketing stages of the commodity chains for these consumer goods. The main contribution of peripheral nations is cheap labor.

The *specification-contracting role* refers to the production of finished consumer goods by locally owned firms, where the output is distributed and marketed by core capital or its agents. This is the major niche filled by the East Asian NICs in the contemporary world economy.… In East Asia, peripheral capital controls the production stage of the finished consumer-goods commodity chains (see Haggard and Cheng, 1987; Gereffi, 1990a), while core capital tends to control the more profitable export, distribution, and retail marketing stages. While the international subcontracting of finished consumer goods is growing in Latin America, it tends to be subordinated to the export-platform and component-supplier forms of production.

The *component-supplier role* refers to the production of component parts in capital- and technology-intensive industries in the periphery, for export and usually final assembly in the core country. This has been the major niche for the manufactured exports of the Latin American NICs during the past two decades. Brazil and Mexico have been important production sites for vertically integrated exports by TNCs to core-country markets, especially the United States, since the late 1960s. This is most notable in certain industries like motor vehicles, computers, and pharmaceuticals (see Newfarmer, 1985). American, European, and Japanese automotive TNCs, for example, have advanced manufacturing facilities in Mexico and Brazil for the production of engines, auto parts, and even completed vehicles for the US and European markets.

In Latin America, the manufacturing stage of the commodity chain in component-supplier production typically is owned and run by core capital, sometimes in conjunction with a local partner. The export, distribution, and marketing of the manufactured items are handled by the TNC. A major advantage of this production arrangement is that it is most likely to result in a significant transfer of technology from the core nations.

In East Asia there are two variants of the component-supplier role. The first is similar to the Latin American arrangement in which foreign subsidiaries manufacture parts or subunits in East Asia for products like television sets, radios, sporting goods, and consumer appliances that are assembled and marketed in the country of destination (most often the United States).

The second variant of the component-supplier role involves production of components by East Asian firms for sale to diversified buyers on the world market. This is illustrated in the semiconductor industry. South Korean companies have focused almost exclusively on the mass production of powerful memory chips, the single largest segment of the semiconductor industry, which are sold as inputs to a wide range of domestic and international manufacturers of electronic equipment. Taiwan, on the other hand, has targeted the highest-value-added segment of the semiconductor market: tailor-made "designer chips" that perform special tasks in toys, video games, and other machines. Taiwan was reported to have forty chip-design houses that specialize in finding export niches and then developing products for them (*Far Eastern Economic Review*, 1988).

Taiwan, with its technological prowess, is acquiring the flexibility to move into the high-value-added field of product innovation. However, without their own internationally recognized company brand names, a substantial advertising budget, and appropriate marketing and retail networks, Taiwan's ingenious producers will find it difficult to break free of the international subcontracting role. South Korea probably has more potential to enter core-country markets successfully because the *jaebols* have the capital and technology to set up overseas production facilities and marketing networks. Thus South Korea's leading auto manufacturer, Hyundai Motor Company, has become one of the top importers into both Canada and the United States since the mid-1980s (see Gereffi, 1990a).

This typology of the different roles that the Latin American and East Asian NICs play in the world economy shows that the standard development literature has presented an oversimplified picture of the semiperiphery. The East Asian NICs have been most successful in the areas of international subcontracting and component supply, with secondary and declining importance given to the export-platform role emphasized in "the new international division of labor" literature. The Latin American NICs, on the other hand, have a different kind of relationship to the world economy. They are prominent in the commodity-export, export-platform, and component-supplier forms of production, but they lag far behind the East Asian NICs in the international-subcontracting type of manufactured exports.

Although each of these roles has certain advantages and disadvantages in terms of mobility in the world system, the prospects for the NICs can only be understood by looking at the interacting sets of roles in which these nations are enmeshed. If development theory is to be relevant for the 1990s, it will have to become flexible enough to incorporate both increased specialization at the commodity and geographical levels, along with new patterns of regional and global integration.

Development theory needs to incorporate and integrate the global, national, and local levels of analysis if we are to understand the challenges and choices that confront industrializing nations. The false dilemma of outward- versus inward-oriented development must be replaced by a more comprehensive approach that sees countries as occupying differentiated roles in the world economy requiring a combination of export industries as well as those producing for domestic markets. A multidisciplinary view of development issues offers the best hope for a theory that is responsive to concrete problems and can also provide the basis for useful generalizations.

Editors' Note

1 Figures in this section are from World Bank (1982, 1983, and 1992). These figures are cited in the following two tables, which are omitted here: "Table 1: The East Asian and Latin American NICs: Basic Indicators" and "Table 2: Exports by the East Asian and Latin American NICs, 1965 to 1900."

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12

Interrogating Development: Feminism, Gender and Policy (1998)

Ruth Pearson and Cecile Jackson

Feminist Analysis versus Women and Development

[…]

Even at the outset of interest in gender analysis of development, there were already different approaches to policy analysis and development. The positive approach of the international development agencies of the 1970s was largely aimed at integrating women into development, particularly influenced by Boserup's pathbreaking book published in 1970 which articulated a concern that women had been left out of development – defined in terms of the programmes for development following post-war reconstruction. Women in Development then became the policy response to the concern that the fruits of development were not trickling down to women; the response was therefore that women should be factored into such programmes.

However, a critique was already developing amongst feminist academics in development. First, there was a critique of the notion that 'development' itself was unproblematic, the problem was to integrate women into policy and practice, parallel to the liberal feminist view that extending education and employment opportunities to women in Western states would eliminate gender discrimination and oppression (Bandarage, 1984). In the UK, the Subordination of Women collective, affectionately known as SOW, financed by the Institute of Development Studies at the University of Sussex, provided the basis for much of the theoretical and analytical work reflected in the international conference on 'The Continuing

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Subordination of Women' held in 1978 (*IDS Bulletin*, 1979). The work carried out for this conference was significant in various ways. First, it distanced itself from the reduction of gender issues in development to the practice of Development agencies. Second, it problematised social relations within 'developing countries', seeing the relevance of gender as a lens through which to understand the dynamics of social and economic change in societies in transition, adopting a comparative approach in contrast to much 'women's studies' scholarship in Britain at that time. Many of the presentations at that conference were included in the conference volume, *Of Marriage and the Market* (Young *et al.*, 1980). A major feature of the analysis of that time was a truly interdisciplinary approach, which rejected the artificial differences between disciplines such as anthropology, sociology or economics, as well as genuine collective discussion and scholarship. A number of the original authors of that text have contributed to the present volume.

Although not engaging in the subsequent debates in feminist theory about feminist methodology or standpoints the SOW perspective explicitly took a feminist position as a starting point for the examination of some of the positivist models of development intervention – export oriented production, agricultural technological change, etc. An explicit rejection of

> the growing literature concerned with 'women and development' [which was] predominantly descriptive, was equivocal in its identification and analysis of women's subordination, and tended to isolate women as a separate and often homogeneous category. (Pearson *et al.*, 1984: x)

This work also rejected an essentialist and universal notion of the category of women, again prefiguring subsequent work which has emphasised difference and deconstructed universal categories:

> our point of departure was that the relations between men and women are social and therefore not immutable and fixed. The form that gender relations take in any historical situation is specific to that situation and has to be constructed inductively; it cannot be read off from other social relations nor from the gender relations of other societies. (ibid.: x)

Central to this analysis was also the critical deconstruction of key social institutions which were the building blocks of traditional social theory. Critical feminist attention was brought to bear on the household, the notion of the economy, the separation of the economic and the social and the division between production and reproduction, structures which were central to contemporary Marxist analysis as well as neoclassical theory. The development of the domestic labour debate (Molyneux, 1979) helped pave the way for the creative fusion between feminist and socialist analysis (Hartmann, 1979), and the subsequent irreverent deconstruction of theory of intra-household relations and budgeting, from both sides of the political spectrum (Folbre, 1986).

All these theses have a resonance in subsequent debates in gender analysis of development. … By the 1980s the manifest failure of the central role of the state and international agencies had deflated the confidence of the 1970s that international agencies and conferences could determine the way in which development policy was to be evolved and delivered. Conventional Keynesian based sectoral intervention strategies of such agencies delivered through increasingly problematic state governments had floundered in the instability generated by the oil crisis of the 1970s and 1980s. The subsequent rising indebtedness of many Third World states in all continents stimulated a change in development strategy: the international agencies reversed their previous policies. Instead of using governments as the agents of international development cooperation and assistance the international agencies changed their framework.

The continuing inability of Third World governments to generate sufficient resources to repay international obligations, let alone in many cases to ensure a continuing upward rise in living standards, was the catalyst for a review of the old orthodoxy of development assistance. In line with the conservative monetarism which was the feature of most Western governments in that period, a new orthodoxy of development assistance was born. Third World states had to reform their economies in order to be able to meet international obligations in the long run, a process known as structural adjustment. To assist them the main international financial agencies, the World Bank and the IMF, offered transitional stabilisation and adjustment loans on condition that policy reforms were met. These now familiar reforms included a range of supply side and demand cutting measures designed to reduce balance of payments and domestic government deficits. Implicit and often explicit was a change in the role of the government as a development agency. In order to meet the new objectives the role of the state, including government expenditure and services as well as redistributory functions such as subsidies, was to be curtailed. Many activities previously carried out by the government, including a range of parastatals and transport and communications services, were privatised.

One consequence of this was that social services, those most connected with reproduction, were both cut back in expenditure terms and reorganised. Instead of the state being the sole or principal agent of organisation and provision of such services, regardless of whether they were externally or domestically financed, private 'not-for-profit' non-governmental organisations were charged with many of these functions.

For the increasingly vociferous movement which was calling for the 'integration of women into development' (WID) there was a certain amount of serendipity in this turn of events. Given that the earlier WID movement had been premised on a notion that women were excluded from development and that there was a growing feminist analysis of the patriarchal nature of the state and the ways in which it ignored the interests of women, this new scenario opened spaces for organisations of women and for the creation of women's NGOs, and was able to insist that women were targeted as beneficiaries of the new organisations in order to give them access to international development funding.

Much of the literature on gender and development since the 1980s has continued to be concerned with this area of activity. The attack on the state coincided with a rise in interest in the efficacy of organisations within civil society to respond more effectively to the 'real' needs of people at the 'grassroots', a position which oddly fitted in with the trenchant complaints of Third World feminists that current development policies furthered the needs of imperialist states and their allies, rather than the aspirations of poor women themselves (Sen and Grown, 1988).

The earlier critiques have not gone unheard. There has been a significant analysis of the need to reform the 'Women in Development' (WID) approach to development cooperation and many have chronicled the shift from WID to Gender Analysis in Development (GAD) (Rathgeber, 1990), arguing for approaches informed by a gender analyses of social relations (Kabeer, 1994), and even aspiring to the ultimate 'empowerment of women' (Moser, 1989, 1993).

These changes are not just cosmetic. In principle the enthusiasm for gender rather than women in development approaches signals not just a change in language or a depoliticising of the field,[1] but reflects the fact that at all levels of the development 'business' there is an acceptance that it is not women *per se* who are to be problematised, but gender relations in which women are subordinated which must be problematised, and that this analysis not only justifies the concentration of resources on women's development activities and access to resources, but also points to the centrality of gender analysis in the development of effective policies at all levels (Elson, 1995). This implies, and has delivered, the extension of analysis from issues which were clearly concerned with women's reproductive roles (health, family planning, education), through economic roles (employment, income generation, household budgeting) to generic issues of macro-economic planning, structural adjustment and debt, environmental degradation and conservation and civil and political organisation – which are clearly of general rather than sectoral relevance.

… Gender has become not only a desirable attribute but a development goal of agencies and policy-makers.

Where this leaves us in the late 1990s is facing a series of paradoxes and uncertainties which, however, we see as an opportunity for, rather than a failure of, gender analysis. Issues of representation, of positionality and of practice transform old questions of integration, interests, struggles for resources and well-being, but do not replace them. …

Commonalities and Difference

In the 1970s, at the birth of 'gender', the concern was to theorise a social identity not given by 'sex', free from biological determinism and the arbitrary naturalisation of the gender order. Feminists needed to deny that biology was destiny and anthropologists provided the necessary scholarship on the enormous range of different gender identities which formed around biological females and males in other cultures. That the sex:gender distinction might lead logically to the argument of social constructionism biting back at the foundational feminist concept of 'woman', denying its existence, was hardly anticipated (Sayers, 1982). Crudely, biology could not be the basis of feminism, yet it framed what women appeared to have in common, whilst the cultural specificity of gender differences was equally problematic since it suggested the absence of commonalities. The questions of how to define commonalities and what to do about difference have become potentially disabling.

In policy discourses the sex:gender shift was accompanied by the similar move from Women in Development to Gender and Development discussed above, which stressed difference and the relational quality of gender. The charge that WID ethnocentrically universalised a particular white Western middle-class vision (Mohanty, 1988; Ong, 1988) was not perhaps entirely undeserved, but the extension of this critique to GAD (e.g. Hirschman, 1995) may be something of a distortion, since GAD had its roots in a feminist anthropology which was centrally concerned with cross-cultural and intra-cultural difference, and in socialist feminism where class:gender interactions were widely debated both within Britain and in other countries of the South (e.g. Robertson and Berger, 1986; Rubin, 1975).

… The institutionalisation of gender has been experienced as depoliticising by women's organisations, and in the analyses of feminist critics who see bureaucratised gender concepts stripped of political content deployed towards other development ends. The terms 'sex' and 'gender' continue to embody the problematic essentialism of a universalised feminism on the one hand, and a politically empty social constructionism which dissolves any notion of commonality in the acid bath of difference, on the other. Ways out of this impasse are indicated in notions of a politics of coalition and a recognition that biological sex can be experienced by actually existing women as meaningful even if it is always and everywhere socially constructed. Overcoming the congealed opposition of essentialism and social constructionism is an important priority for gender and development, and for feminism more widely.

[…]

Gender Interests and Emancipatory Projects

Development policy has itself of course changed over the decades, from the 1970s when states were still seen as the key actors, whilst, curiously, dependency theory held sway in academic and activist circles, to the 1980s when the critique of the failure of states as development implementors was matched with a rise in non-governmental organisations and the discourse of participation became the new orthodoxy. Postmodernist interest in positionality and problems of representation chimed in towards a renewed legitimacy and necessity for Southern 'women's voices' to be engaged with; and Spivak wrote in 1985 of our need 'to learn to speak to (rather than listen to or speak for) the historically muted subject of the non-elite ("subaltern") woman' (1985: 120). The importance of the experiences and self-perceptions of the women affected by development can barely be dismissed in the light of the trenchant critique of the objectification in, as Spivak so memorably put it, 'white men saving brown women from brown men', and in development discourses the perceptions of 'beneficiaries' have come to be recognised as centrally important. Nevertheless, those who claim to be, or to speak for, 'women of the South' must also take care not to (mis) represent the diverse positions of different women, nor to collapse the complex multiple social identities of women into a simplistic notion of gender identity.

These debates have contributed to the tension in the ways in which women's gender interests are conceived and investigated, between the ideas of false consciousness and a superior 'we know best' attitude of Western feminisms on the one hand and an uncritical acceptance of the epistemologically privileged voices of 'women', with their essentialist connotations on the other. Maxine Molyneux … asks: 'from where does the authority to define women's goals, priorities and actions, come?'. [current volume] She points out that the women's movement contains many kinds of organisation, that there is no necessary connection between organisational form and political goals and that women's *gender* interests are both ambiguous and coexist with other interests formed through their other social identities. In the 1990s gender analysis goes beyond an acceptance that women's gender interests cannot be given from their biological or structural positioning which was signalled in the SOW debates of the 1970s, for it is also necessary to refer to women's own understandings and perceptions. However, it is clear that a purely subjective account of women's gender interests cannot suffice because subjective constructions do not stand outside of prevailing gender ideologies. This particular ongoing tension in gender analysis has been central to debates over the nature of households, of well-being of members within them and of the gendered processes of resource and work allocation, consumption, and the connections between gender relations within domestic groups and those at a societal level.

Domestic Groups: Cooperation, Conflict and Struggle

The past 25 years have seen intense debate on the nature of households and the relations between men and women, as well as women and women and men and men, within them. … One of the changes of the past few decades is that disaggregation by gender within economics has become professionally interesting, but at the same time formal modelling seems to have increased its hold on the discipline and the complexities of power within gender relations continue to elude such approaches. For gender analysts the most influential of economists working on household models has been Amartya Sen (1990) precisely because of his recognition of the tensions between the objective and subjective gender interests of women, and his efforts to analyse the significance of perceptions of value to bargaining processes, forms of cooperation and well-being outcomes. In this regard he followed in a line of feminist scholarship which has problematised the notion of 'false consciousness' in work such as that of Deniz Kandiyoti on the 'patriarchal bargain' (1988).

Kandiyoti [current volume] picks up a theme … that frameworks which have evolved to explain class struggle and consciousness have serious limitations when extended to gender struggles and consciousness. For behind ideas of intra-household bargaining are assumptions about personhood and subjectivity which deserve scrutiny. Are women's perceptions of their gender interests mystified by dominant ideologies, as Sen argues, or are women aware of this mystification but externally constrained from struggling for their interests as Scott (1985) suggests? Furthermore, how do we conceptualise 'gendered identities and subjectivities in a manner that avoids both essentialism and the unproblematic assumption of the self-determining individual'? … Recovering a female subject risks essentialism; refusing a female subject risks erasing gender difference. If gender identity always coexists with other identities then it cannot be assumed to propel resistance, and nor do mobilised women necessarily express gender interests; where women's power is dramatically fractured by age and life cycle, the connections between gender as relations of power and actually existing women become potentially rather tenuous. If gender, however, is conceptually disconnected from actually sexed bodies then the political consequences for feminism as a movement, and for GAD's concern for social transformation in a world of 'target groups', are paralysing. From this perspective the constant slippage from gender to women, in spite of the widely approved case for GAD as an advance on WID, appears less a regrettable habit and more a 'tactical essentialism', in Kandiyoti's phrase.

Feminisms and Green Fundamentalism

Other essentialisms have emerged particularly strongly in recent years in the work of ecofeminist theorists, and any account of changes in developmentalism since the 1970s would give a prominent place to the rise of environmentalist discourses which couple women and nature. Cathy Green, Susan Joekes and Melissa Leach [current volume] argue that environment and development policy has consistently, across a number of sectors, taken a WID oriented position which identifies women as subsistence providers, as an untapped labour resource and an homogeneous social category, and which deals neither with the relational meanings of gender or the possible disbenefits to women of participation in environmental projects and activities; they name this Women, Environment, Development (WED). Ecofeminist discourses have become increasingly popular in the West in recent decades, are echoed in WED, and have offered their own essentialist logic (Jackson, 1994) for targeting environmental initiatives at women, whilst Green, Joekes and Leach suggest the value of alternative approaches based on social and political relations. Arguing for a social relations approach to environment and development issues is, however, not always compatible with the drift of radical environmentalism in which it is *natural* relations, of humanity within nature, which define the critical political and analytical interface. The significance of anti-speciesism for feminism and GAD is still unfolding, but it is perhaps ironic to consider the relative weight of the land rights of women (Agarwal, 1994) and endangered species, reflected in the global movement for nature and biosphere reserves. One could argue that it is the very separation of women from the context of economic, social and political reproduction rather than their insertion into a notion of a sustainable future that differentiates a socially grounded feminist analysis from a free floating 'naturalistic' perspective which equates women's realities with natural futures.

Gendered Economies: Relations of Production and Reproduction

If women's subordination is to be understood in the context not just of the dynamics of gender relations but of the dynamics of accumulation, globalisation and polarisation in their totality, gender analysis must also engage with the dominant development discourses of our time. Unfortunately much of the gender and development literature of recent years has been *reactive* with respect to macro-policies, particularly in the economic arena. The extensive debates about the impact of structural adjustment on women (Commonwealth Secretariat, 1989; Afshar and Dennis, 1992; Sparr, 1994) have been concerned to engage with generalised positions which argue that the reduction of social expenditure on health and education, as well as the reduction of protective subsidies for the consumption and services of the poor, make women 'vulnerable' in a situation of structural economic change. Diane Elson (1995) has argued that the economic models underpinning adjustment policies are based on gendered assumptions concerning the (lack of) rigidities between men's work and women's work between and with the productive and reproductive sectors of the economy. By deconstructing the elements of such policies she has also pointed to a paradox that many gender and development experts are unhappy to accept – namely that markets are not necessarily against women's interests and that the outcome of economic reforms in terms of their effect on women, on the sexual division of labour and entitlements to the outcome of production will depend on the political as well as the technical strength of the gender analysis applied to their construction.

[…]

Diane Elson … argues that for feminist analysis to have any real effect on the construction of macro-policy we must stop talking only to ourselves and initiate an engagement with those on the 'inside' of the policy process – within Ministries of Finance, Central Banks and international institutions such as the World Bank and the IMF. An important element of such engagement is to make transparent to women themselves what the issues are which underpin the technical analysis taking place, given that the objective of gender analysis is not just to understand the gendering of policy, but to transform it in a gender-equitable manner. She contributes to this task by presenting an accessible account of the main economic growth models currently underpinning economic policy formation. She argues that such models are themselves 'bearers of gender', and argues that measures to restructure gender relations, particularly at the interface of production and reproduction, can be a powerful force for producing policies which both support human development and balance demands for different kinds of activities – i.e. which contribute both to equity and also to efficiency in economic terms. Such a position might appear to contradict much of the received wisdom about women and economic reform of recent years but it opens up to scrutiny the ways in which gender analysis can play a role in generating policies for sustainable development at the most basic level.

Another of the received wisdoms in the gender and development literature is that wage employment for women will dissolve gender asymmetries. Ruth Pearson goes back to her earlier work (co-authored with Diane Elson, 1981) which established an analytical framework based on questioning, rather than assuming the outcome of the incorporation of women into the new industrial labour force of the global economy. She argues that much analysis of women in the labour force veers between an Engels-derived framework which assumes that incorporation into waged labour is the basis of dissolving gender discrimination (Pearson, 1994) and a critique of this position which refutes an alternative (though invented) position that exploitation as wage labour is inevitably negative for Third World women. By discussing a range of research findings on women factory workers she shows that modernisation and Marxist theory share the same simplistic assumptions; neither problematises the relationship but assumes a direct causal connection between women's wage earnings and notions of liberation or empowerment, a point also stressed by Harriss-White. Given that much of the employment in question is classified as semi-skilled and organised in a way which is aimed at precluding the development of either workers' consciousness or women's consciousness, it is not surprising that many have come to an alternative position of dismissing such work as being inimical to women's interests. The conflation of employment with empowerment (or the assumption of their inverse relationship) is analogous to the conflation of women and poverty and is in just as much need of a nuanced analysis which applies a gender critique to theories of exploitation and internationalisation.

One of the other ways in which gender has become conventionally 'main-streamed' into development policies in the 1990s is via the recognition that women are concentrated in the poorest sections of all population because of divisions of labour between paid and unpaid work, the gendering of opportunities and rewards in paid employment and the ongoing responsibility for household and generational reproduction which women carry, very often in the absence of contributing men (see Chant, 1997). This has resulted in a conflation of concerns about poverty alleviation with gender-focused policies which has infused all levels of policy analysis. Jackson's chapter [current volume] challenges this conflation of women and poverty and the way in which development agencies have merged different objectives – poverty alleviation and integrating gender into development programmes and policies. She insists on a deconstruction of these objectives, arguing that the feminisation of poverty is not just about the concentration of women amongst those deemed to be living under a (internationally variable) poverty line; what gender analysis offers is an understanding of how the experience and implications of poverty are different for men and women who face different sets of constraints and responsibilities; that poverty refers to more than the level of household income and includes the context in which household survival takes place – the public space, access to services and opportunities for change – and that gender concerns are both mediated by poverty and transcend the poverty debate.

Recent debates at the Cairo conference on Population and Development in 1994 as well as the 1995 world conference on women underline the centrality of women's connections with reproduction and the many political battles over population control, women's rights to control their own fertility, access to services, and state policy. Ines Smyth [current volume] draws out the history of family planning policies and points to the ways in which the new 'reproductive rights' discourse is both an advance for feminist concerns in the field and also represents a cooption of feminists to an agenda set by others in which the adoption of the notion of reproductive health and rights is as much a political renaming as a radical change in policy and practice.

Sheila and Roger Jeffery [current volume] confront another shibboleth of women and development policy – the notion that education is the key means of changing women's status and behaviour in a way which is positive for all agents involved. They set about dismantling the assumption that education is a 'silver bullet' policy instrument which can reduce women's fertility, and therefore population growth, as well as being the key to changing households' income-generating aspirations and activities. Instead they raise questions about the implications of schooling for girls for achieving greater social equity and autonomy for women. In some situations education can lead to greater autonomy and choices; but as research in South India indicates, it can also lead to less autonomy as education becomes part of the commoditisation of women for the marriage market. Moreover the macro-environment, particularly the reduction of social investment under structural adjustment programmes, has decimated education for poorer individuals in many countries, making female-targeted programmes a mirage. They also raise the controversial possibility that women, given reproductive choice, might opt for more rather than fewer children.

Feminism as Deconstruction

The interrogation of development policy and analysis constitutes a deconstruction of many of the assumptions and concepts which are commonplace in such literatures. This reflects a trend in feminist theory in a wide range of disciplines not necessarily related to the study of development and change, which has over the last three decades maintained a continuous assault on the limits and limitations of gender neutral social sciences. As Gatens (1992: 121) explains:

> feminist theorists do not go to Marxism or liberalism hoping for 'the answer' or 'the solution' to 'the woman question' but … will approach dominant theories, and their implicit biases, as themselves part of the problem. For this reason it seems appropriate to name these contemporary feminist approaches to dominant socio-political theories 'deconstructive' … deconstructive feminism is concerned to investigate the elemental

> make-up of [these theories] … for example much political theory treats the family as a natural rather than a social phenomenon. A deconstructive approach highlights what is at stake in opposing the family, understood as natural, to the public sphere, understood as social.

As Nanneke Redclift [current volume] reminded us at the end of the conference which inspired this volume, feminist research on development policy and practices presents feminism with a series of paradoxes, uncertainties and contradictions. Rather than try and resolve or dissolve them we should embrace them as a genuine reflection of the tension between the essentially *modernist* project of development, and the subversive *deconstructing* tendencies of feminist analysis. Feminism in general may reject grand narratives and policies and approaches founded on essentialist and universalist notions of women's experiences and priorities; at the same time, as this volume indicates, it cannot fall back on a 'different places, different voices' position which evades the challenge of theorising gender and development. As we noted at the beginning of this chapter, our positionality as academics in a post-colonial state requires that we continuously question the received wisdom concerning women's interests and gender analysis in development. Moreover, in the context of what many have recognised as the institutionalisation of 'gender in development', to maintain an independent questioning feminism is paramount. … [T]he gendering of development is in many instances vulnerable to a reinterpretation as focusing on women, often as instruments of other development cooperation objectives, or as hiding behind an expressed concern for women's interests the pursuit of strategies which have never taken gender relations of women's conflicting and multiple interests as their starting point.

This means chewing over what had seemed to be easy-to-digest positions – on giving women credit, on supporting reproductive choice, on creating employment or educational opportunities for women, on maintaining communities in the face of natural disasters, on writing in women's non-productive work into macroeconomic policy formulation. Such positions may well appear progressive and uncontroversial in the circles in which gendering development has become part of the new vocabulary of participatory and concerned development policy and practice. But we should be suspicious of policy objectives or prescriptions made in an exhortatory mode, which declaim what should be done to or by women in developing countries. … [S]uch approaches are insufficient to meet the complexity and contradictions of women's gender interests in the context of myriad multiple identities and realities. …

Note

1 There are indeed still some feminists and activists from both sides of the North/South divide who reject the notion of 'gender' on the grounds that it decentres women as political subjects and reduces to a technical strategy what is at base a political struggle.

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13

Why Is Buying a "Madras" Cotton Shirt a Political Act? A Feminist Commodity Chain Analysis (2004)

Priti Ramamurthy

> *"Sometimes I think about the people in America who will wear it. I wish always a good relationship between India and America."*
>
> "Mudaliar," Lands' End catalog, April 1995

Flipping through the pages of a Lands' End catalog that arrived in the mail a few years ago, I was invited, simply, to buy "Madras"… The sign "Madras" does not refer to the major Indian metropolis, known until recently by that name, but to a baseball shirt. The visual image under "Madras" is of a white woman yet the linguistic description alongside anchors the sign to something "authentic" and "drenched in color." To me, the "color" referenced something unmistakably racialized. (For the advertising designer and her putative audience, the "color" may well reference putting on a tan, temporarily, or perhaps, it refers to the shirt, not the person.) This confusing juxtaposition of images and referents is contradicted in text and visuals a few pages later in the catalog, where the reader is informed that "Madras" is a type of cotton cloth, not a shirt, which is made in "small villages around the Indian city of Madras"… The photographic images on this page are of an obviously Indian weaver and his wife standing by his side. Back, I thought, to familiar systems of representation and familiar geographies, but the accompanying text now informs us that "Madras" are "tartan patterns worn by Scottish regiments that occupied India in the 1800s." The dizzying relay of signs and times is apparently for good purpose, because by the end of the narrative on how "Madras" (here, the cloth) is produced, the

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addressee is assured that the poor Indian man "makes a decent living" weaving it. So, next time you "button into one [here, the shirt] … perhaps you will think of [him], and even hear the faint clack clack of the shuttle from a place far away." Globalization sounds good. Buying "Madras" shirt/cotton cloth/Scottish tartan pattern/Indian metropolis is a political act that delivers a living for the poor, Third World, male breadwinner and his wife and children.[1]

At around the same time I received the Lands' End catalog, I was researching changing gender and sexual relations in agrarian work in the Telengana region of Andhra Pradesh, South India. I have done research in villages there for fifteen years and was studying the intensification in cotton production that has been accompanied by a pattern of uneven decline in small-holder fortunes. It is mainly women's labor that grows cotton in this region, as that is the normative sexual division of labor. The area under cotton has increased greatly since the mid-1980s, and women and children, in particular, are working more in the cotton fields. Some are even earning more. Life for women in agricultural labor and small-cultivator households is still, however, very precarious. Many households have to borrow money often even to meet daily consumption expenses for food, medicines, and emergencies. There is a general and widespread expression of the desire for a better quality of life, not just more money.

The disjuncture between Lands' End's representations of cotton producers "ten thousand miles away," ripe for rescue by "Madras" consumers in the United States, and "reality" is troubling, even as it includes and implicates me as a viewer, consumer, and researcher. Yet, a "realist" unpacking of the cotton commodity chain – one that would work back through multiple political economic relations from Lands' End to its sources in rural India – although useful, would not address my concerns with the uneven impacts of neoliberalism on women's livelihoods in India and with U.S. gender and race inequality nor my commitment to anti-imperialist genealogies and a politics of representation that does not collapse difference through binary analytics and naturalized moralities. In this article, therefore, feminist commodity chains are theorized as an alternative analytic framework to what I categorize as realist commodity chain analysis. My choice of "realist" to describe what is commonly called global commodity chain analysis is to underscore this method's devotion to what is real as opposed to what is imaginary. Feminist commodity chain research, as we will see, is concerned with "real" lives but also how they are imagined; it questions ways of knowing that assume reality is completely knowable and thus explainable through empirical analysis.[2]

This article begins with a review of realist commodity chain analysis and discusses why it is inadequate. Feminist commodity chains are then theorized as an alternative for framing an understanding of power. Two sites are explored: the United States, where "Madras" cotton shirts are retailed by a transnational company, Lands' End, and villages in Andhra Pradesh, South India, where cotton is produced. At each, different methodologies are deployed and different sorts of evidence are garnered. In the United States, the representational strategies of Lands' End are explicated through a close reading of the text and images in one of its catalogs. Then, based on ethnographic research for over a decade, and particularly over the course of a year, the discussion shifts to a meditation on work in rural South India. Material changes in women's and men's labor and livelihoods as cotton production intensified are read against processes of cultural production, particularly the production of femininities and masculinities. In all three sections, which form the core of this article, the everyday interplay of gender with the materiality of culture and the culture of materiality form the basis of my critique of realist commodity chains. The article concludes with a discussion of how feminist commodity chain analysis enables a critical commentary on globalization.

A Critique of Realist Commodity Chains and the Feminist Alternative

Global commodity chain analysis, or what I characterize as realist commodity chain analysis, was introduced by World Systems theorists in the mid-1980s in response to changes in the structure of capitalism, broadly characterized then as the "new international division of labor" and, since the 1990s, as "globalization." One of the main empirical characteristics of globalization has been the extension of production activities across national boundaries. In particular, a great deal of manufacturing no longer takes place primarily in the advanced industrialized nations of the North – the United States, Western Europe, and Japan (what World Systems theorists identify as the "core" nations) – but has shifted to nations of the South ("peripheral" and "semi-peripheral" nations). Realist commodity chain analysis tracks value-added, the amount by which the value of an article is increased at each stage of its production, as the process of production transcends national boundaries. By identifying where and how value is added, realist commodity chain analysis studies the new spatial features of economic globalization and new institutional relationships at different geographic and organizational scales.

Realist commodity chain analysis is useful in many respects and seriously wanting in others. It is worthwhile because it offers a conceptualization of globalization as connections across places and times. The analysts Terence K. Hopkins and Immanuel Wallerstein, for example, are interested in demonstrating how "the capitalist world system constantly reproduces a basic order that permits the endless accumulation of capital."[3] They use realist commodity chain analysis to argue that globalization is not new and that capitalism as a world system is of expansive scope and has been since the seventeenth century. Others, such as Peter Dicken, Miguel Korzeniewicz, and Gary Gereffi, do not reach quite the same judgment. They argue that whereas *internationalization* of eras past also involved the extension of business activities beyond national boundaries, it was a simple quantitative process; *globalization*, on the other hand, involves the *functional* integration of production or a *qualitative* process of change. For these latter theorists, realist commodity chain analysis tracks the reorganization of production that is salient to the new state of capitalism. In particular, they shift the scale of analysis from national to multinational corporations – "drivers" or "lead firms" – which now increasingly control the process of integration. They are able to demonstrate how multinational corporations overcome the nation-state's protectionist measures and enhance their competitive advantage by lowering labor costs and increasing industrial flexibility. They also employ realist commodity chain analysis to analyze how the "drivers" that enable capital accumulation differ and change from time to time. In sum, realist commodity chain analysis provides good reason for why historical deliberations on globalization are important and a method to focus on linkages and scales of analysis beyond particular places. It is dynamic and processual in its understanding of the changing relationships among institutions, the state and transnational corporations, in particular.

My critique begins with the absence in realist commodity chain analysis of an accounting for women's labor in the new international division of labor (or what realist commodity chain analysis characterizes as "trade-led globalization"). There is more than enough evidence that this pattern of industrialization is "female led as much as export led."[4] Second, the assessment that the global labor process has become feminized is also now common; not only are more women economically active in all regions of the world but the conditions that used to characterize "women's work" – irregularity, casualization, insecurity – now characterize the conditions of many kinds of labor.[5] Realist commodity chain analysis could fruitfully discuss feminization in both senses in the context of different international production regimes but does not. Third, there is a lack of attention in realist commodity chain analysis as to how states and multinational corporations use gender ideologies to further export-oriented economic strategies. The gender and cultural politics of national regimes vary greatly. Some nation states, and the multinational corporations which operate in them, have opportunistically intensified or recomposed gender ideologies in some instances and decomposed them in others.[6] And lastly, realist commodity chain analysis fails to recognize the importance of the household as an institution critical to the new international organization of production. States promoting export-oriented production and overseas migration have often selectively adopted familial ideologies that blur the lines between what is good for households and for the nation. As often, the costs and burdens of structural adjustment and economic restructuring are passed on to women in households as their unpaid reproductive labor and undercompensated work bear the brunt of national policies of globalization.[7]

In response to these critiques, realist commodity chain analysis could be modified to be feminist with an analysis of women's labor and of gender ideologies at each node of the commodity chain and at institutional scales that include the household.[8] This article presents a more radical critique of realist commodity chain analysis. It proposes feminist commodity chain analysis as an alternative rather than an additive. Consequently, my theorization of feminist commodity chains begins with reflexivity about how not to reaffirm master narratives of globalization that naturalize gendered and racialized constructions of difference and reproduce binaries between First and Third World. This suggests that the epistemologies feminist commodity chain analysis deploys are, at least in part, interpretive. They alert us to the masculinist undertones of realist commodity chain theorizations, such as

Gereffi's characterization of the "seminal" contributions of "drivers," for example.[9] More broadly, feminist commodity chain theory underscores how categories of knowing and representation can reify or produce new gender and racial biases. Instead of assuming a teleos (a linear path to progress) as in realist commodity chain analysis of the state of capitalism, or assuming a direction to the flow of investments, from First World to Third World, and of commodities the other way, feminist commodity chain theory begins with the possibility that global commodity chains – as connections across times and places – are neither linear nor unidirectional nor closed.

Also, feminist commodity chain analysis goes beyond the macro-structural economism and, in particular, the productivism of realist commodity chain analysis – its preoccupation with changes in the structure of industrial production. Feminist commodity chain analysis is attentive to "tracking globalization" in people's everyday lives, experiences, and imaginaries.[10] Therefore, rather than being narrowly focused on the value-added in the material process of production, in feminist commodity chain analysis the complicity of other discourses to processes of capital accumulation is key.[11] Production produces more than just commodities; individual and collective identities are constituted in the process of production. Feminist commodity chain analysis examines how gendering takes place within and through the process of production, and constantly articulates with other social striations.

A related critique feminist commodity chain analysis forwards is a critique of the tendency in some versions of realist commodity chain analysis, the most political versions, for an essential identity, "the working class," to sneak back in as the basis of a common political ground. In Sydney Mintz's celebrated study of sugar and in Edna Bonacich and Richard P. Appelbaum's study of the apparel commodity chain, for example, the importance of gender is acknowledged but only as "supplementary" to a discussion of class. Thus, although Mintz acknowledges that sugar was a time and money saver that made possible women's entry into the working classes in Britain, he ignores how "woman" in Britain and "woman" in the Caribbean were produced very differently through those same processes. Similarly, Bonacich and Appelbaum acknowledge that immigrant women form the bulk of apparel workers in Los Angeles, but their treatment of gender is, on their own admission, "fleeting."[12] Feminist commodity chain analysis demonstrates the importance of gender to theorizing class in nonessentialist terms.

Moreover, most realist commodity chain analyses ignore the constitutive link between production and consumption ("as a unity of opposites," following Marx). Consequently, the question of how consumption and the relationship between consumption and production has changed is not a primary focus of realist commodity chain analysis even though one of the main characteristics of the new regime of "flexible accumulation" is the ability of producers to cater to ever-changing consumer needs.[13] A study of consumption, not just production, and how they are co-constitutive and gendered, is necessary to map how commodities connect people in distant locations and enable them to imagine and perform their place in the world.

Finally, that poor producers should desire the products of their labor has been undertheorized by realist commodity chain analysis. Mintz's study is justifiably celebrated because it does link production to consumption; however, even Mintz ignores the desires of Caribbean sugar producers, although he has a fascinating discussion of the creation of British working-class tastes for sugar. In Mintz's work, as in Bonacich and Appelbaum's, the idea that producers may wish for the products they produce is never entertained.

In sum, in feminist commodity chain analysis, global commodities are understood as having to work both materially and semiotically across their multi-sited lives in production and consumption. Feminist commodity chain analysis recognizes the *relationality* between the material and the cultural and the contingency of that relationship. It deploys gender as an analytic of power to track the open-endedness, contingency, and rupture of commodity chains. In the sections that follow, feminist commodity chain analysis offers a commentary on globalization that is more differentiated, layered, and complicated than realist commodity chain analysis.

Distant Lands, Moral Ends

The advertisements for "Madras" appeared in a sales catalog of the Lands' End clothing company in 1995. Titled "Cotton People," it is one in a series of Lands' Ends' *Guide to the Goods* catalogs that celebrate the company's sourcing directly from distant lands, "the direct merchant way." The catalogs are a visual cornucopia of consumerist choice: about 140 pages of full-color advertisements for hundreds of items of clothing, in a wide variety of colors, sizes, and prices. Alongside the Madras women's baseball shirt already mentioned are advertisements for a Madras women's tunic and a women's jumper with the accompanying text: "This Jumper's a real McCoy: hand-woven Indian Madras." Lest that linguistic puzzle prove completely incomprehensible, it is cleared up two pages later with a "true story" narrative.

Interspersed with the ads, the four "true story" narratives in the catalog are written in the genre of travelogues and are accompanied by pictures taken by professional photographers; that is, they are both visual and textual representations. Both author and photographer are acknowledged in newspaper-style bylines imputing a journalistic stamp of authority to the text and pictures. The catalog featuring the Madras advertisements also distinguishes the duly authorized "true story" narratives from the clothing advertisements by presenting the text and images of the stories in black and white, not color. Each of the stories is about a "real" person; we are convinced so because their presence is faithfully recorded in photographs. They are also identified by name, and each is represented as a "dedicated," "hard working," laboring personality, a human being. By linking "Cotton People" – from cotton farmer to cotton ginner to weaver to apparel factory worker to you, the consumer – Lands' End presents a "real" commodity chain. Three of the "Cotton People" are American: one is an Arizona cotton farmer ("Larry"), the second is a South Carolina cotton ginner ("Charlie"), and the third is a fabric inspector in Tennessee ("Rita"). …

The fourth personality in the Madras story is identified as "Mudaliar"… He and his wife, "Ammal," live and work in the village of Panapakam outside the city of Madras, we are informed. The "genuineness" of the Madras cloth is traced to production in their "cottage." Mudaliar is, in fact, the name of a caste group not a personal name. Similarly, "ammal" ("mother" in Tamil) is a suffix that predicates a woman subject, as in Moganammal or Tilakammal. Fixing "Mudaliar" and "ammal" to the male and female bodies, as the advertisement does, invokes coherence and individuality even as it erases the "real" people whose images appear by making them referents for abstract categories of caste and gender. The "original" people referred to in the images are located in a specific context. By abstracting them and generalizing their story they are made icons of Otherness.

This displacement of the Other is consolidated by underlining the race-manual work connection in the story title, "Beauty from the toil of the hand," and in describing how the man sends the shuttle "flying and weaving … with his lithe brown hands." The aesthetic that Lands' End puts forth seemingly valorizes tradition, nature, manual work, and non-Euro-centricity, but simultaneously difference is emphasized in unspoken hierarchical binaries, those of modernity, manufacture, mental work, and whiteness. We are thereby induced to link the image with a system of expectations that have been previously codified – and, one may add, previously codified in the specific context of U.S. slavery, that raced bodies are "naturally" good at manual work and sexualized bodies at reproduction as black feminist scholars such as Angela Davis and bell hooks have argued.[14]

But the Other is also displaced through the decontextualization of history. On the one hand, the "authenticity" of Madras is established by marking it as being the "same as it has been for hundreds of years," unchanging and traditional and, therefore, ripe for the introduction of industry, modernity, and progress. On the other, the untruth of that narrative of timelessness is laid bare by the identification of imperial "occupation" as the means through which Scottish tartans come to be "copied" by native South Indian weavers in the 1800s. (Presumably this is what makes the jumper "a real McCoy.") The text tries to contain the history of the subjects within one story, the history of the commodity in global exchange, first, as a commodity imported with the Scottish regiments of the British imperial army, then, as a commodity exported as "bleeding Madras" in the 1960s, and now, as simply "Madras" in the late-twentieth/early-twenty-first century. Even as it attempts to do so, however, it ruptures and yet another story emerges. This is the story of "Mudaliar's" forebears "who wove a similar cloth (to the Scottish tartans) called lungies," we are told. (In Indian languages, "lungi" refers to the wrap-around lower garment that men wear, not a type of cloth.) So, "Mudaliar" (or his forebears) not only "copied" the Scottish tartan, with whatever ingenuity it took to modify the specifications of their weaving for a non-native market, but also adopted the cloth for their own clothing. In two of the pictures that show him at work on his loom "Mudaliar" *is*, in fact, wearing a faded Madras checked lungie. … But the Lands' End narrator cannot see this and so convincing is the text alongside the photograph that neither do we! Retrieving the Madras story in Indian weaving and dress tells a history of not simply the commodity in global exchange but one that moves into meaningful commodity status in everyday use in the locality in which it is produced.[15]

Another representational strategy deployed by the catalog is the placing of the Other at the poor end of the cotton chain with the tantalizing possibility that First World consumption will translate into "a decent living." "Mudaliar" is so poor, he is quoted as saying he cannot wear the cloth he weaves, because "it costs too much." His nonconsumption is justified not by evaluating why he is paid so little but by invoking other tropes of difference. Now, it is not just his traditionality, or raced manual work, but his rurality that is invoked: "the boldly colored cloth would seem out of place on this modest man in his pastoral setting." The bucolic referent, the laboring man as close to nature, hand weaving on a loom made of bamboo, is repeated recursively by embodying the cloth as "natural." It is "100% pure cotton," woven of "Varalakshmi cotton," and colored with "alampha bark and other natural dyes." There is an equation between the man and the cloth and both signs are anchored to the referents of nature linguistically. In fact, cotton is far from natural. It consumes more chemical pesticides than any other crop in the United States and in India. And in the United States over 75 percent of cotton crop was grown from genetically modified (GM) seeds in 2000.[16] This marks a phenomenal growth in the adoption of GM cottonseeds from around 40 percent three years previously. The trend is fast spreading to the other major cotton-growing countries in the world. But U.S. customers are enticed to wear "handspun, hand-dyed and handloomed" cloth, "cool" and "softer than they've ever been," from "Indian master weavers." Lands' End's imaginary, however, cannot picture the Indian weavers as consumers enjoying or desiring the cloth, only producing it; even photographs, so insistently made to present "reality" can, as convincingly, be disassembled.

But it is not just Third World producers that are represented; the Lands' End catalog simultaneously mobilizes First World consumers by constructing a moral global identity, a consumer whose individual purchase can have good effect in the South. Consumption in the North is no longer just "shining white teeth and freedom from body odors and emotions," in Theodor W. Adorno's words, but also a culture of global moralism.[17] Consumerism becomes not simply the ideology that the consumption of more material goods is an index of self-worth, but "the active cultivation of a material sensibility for the common good," as Jean Comaroff and John L. Comaroff put it.[18] Metropolitan consumption is productive of global identities not just for northern consumers, but also for southern producers; therefore "Mudaliar" not only dons the cloth himself, but in the quote that opens this article expresses pride in his cloth and imagines *his* place in the world through its consumption. Sounding more like an internationalist than a supplicant, the connection he envisions to the consumer of his cloth and his hopes for goodwill between the two nation-states, the United States and India, index the open-endedness of commodity chains as they traverse different domains. The chain of signification simply cannot be closed off in the manner that realist commodity chain analysis proposes, with an identifiable beginning and end from raw material to finished product and the orderly transmission of value from labor to capital; rather commodity chains cross borders as global connectivity discourses that link subjects from diverse locations into globalization's seductions, albeit differentially.[19]

As in the narrative of "Mudaliar," the commodity chain in cotton proves brittle in the case of the other working-class subjects it links. The cotton ginner's wife, for example, disrupts the unspoken teleological account of economic fulfillment in the First World by explaining how her husband, Charlie, is down to ginning only his own cotton crop of five or six hundred bales a year, not the six or seven thousand bales the gin once processed. Their cotton gin is one of the few "little gins left but they slowly dyin' out," she remarks, as everyone now takes their cotton to the "newer, faster" gin. The cotton farmer, Larry, too, has just lost his cotton farm to an agribusiness and has had to move across the state to lease a new plot of land – "hardscrabble earth, broken irrigation ditches, weeds" – from the Colorado Indian River tribes. However individually driven these men may be, the uneven impacts of the market and capitalist accumulation intrude, even in the United States. Between 1980 and 2000, at least 500,000 family farms went out of business in the United States. Most of these were small farms, reflecting the increased concentration of U.S. farming in the hands of very large family farms and agribusinesses. This consolidation has been subsidized by U.S. tax payers, with just 10 percent of all farmers receiving 61 percent of the more than $20 billion in agricultural subsidies in 1999–2000.[20]

But it is not just through discourses of race and global moralism that Cotton People are linked in the Lands' End catalog, their stories are also humanized by gendering them in multiple and similar ways. Each of the stories is about individuals, but these are individuals who are very much in the context of a "family," a normative nuclear, heterosexual family. The importance of kinship and the patriline is made legible in the stories of the male weaver and the cotton ginner by a common narrative thread on the passing down (with blood and semen) of skills and the means of production – looms, land, and gins – from father to son across three generations. Gendered identities are also firmly entrenched by making women's labor in production invisible. In the South Indian weaver household, the normative sexual division of labor most probably makes the woman responsible for dying the yarn, winding, and preparing the loom. But in the Lands' End story "Mudaliar's" wife's labor is completely erased. Her work is not mentioned once in the text, even though in the photograph she is standing next to her husband holding a reel of yarn. (Once again, there is a failure to see what is visually present.) Similarly, it is Charlie, the cotton ginner, who is valorized as the "hardworking hard-pressed cotton man," too busy working to talk to the "reporter," although we are informed, in passing, that his wife, Gail, runs a general store. And it is Larry, the cotton farmer, "a man with cotton farming in his soul," who works "sixteen hours a day, seven days a week" and provides for his "now young family with a 6-year-old daughter and 11-month old twins." Although his wife, in all probability, labors on the three other businesses besides the cotton farm that they must run to make ends meet, and also does the physical work of caring, she is completely nameless and unseen.

The labors of Gail and of Larry's unnamed wife speak to the crisis in U.S. agriculture; for small farm families' survival necessitates "pluriactivity" or the pursuit of multiple jobs by family members. It is estimated that 92 percent of all U.S. farming families earn incomes from off-farm jobs.[21] Pluriactivity usually restructures the gender division of labor within households.[22] Yet, in the Lands' End catalog the only position these women can inhabit, in common with the South Indian woman, are as housewives. The trope of the family as a nuclear, patriarchal, heterosexual family is consolidated across space. Just as all the women are constructed as universally dependent subjects, all the men are constructed as universally hardworking breadwinners. In fact, less than a quarter of all families in the United States are made up of "married couples with their children." Seventy percent of all women work outside the home.[23]

Rita, the fabric inspector, is the only woman in the Lands' End catalog who is valorized for her labor in production; there is no mention of her husband, although there is of her male boss. She too, however, is portrayed as working only to fulfill her role as a mother in generational reproduction: "I want my children to go to college," she says. Thereby Rita is also constituted within the regulated boundaries of gender identity, not as housewife this time, but as mother. However, she too disrupts the coherence of that construction by reading back the very local social relations of gender that position her unequally – she works at the "New Cherokee" plant because it's "about the best-paid place a woman can work around here [rural Tennessee]." Tennessee had an average poverty rate of 14 percent in the late 1990s, higher than the national U.S. average. In general, rural poverty rates in the United States are higher than urban poverty rates. For people in female householder families, poverty rates were at least four times higher than the national average.[24]

While the Lands' End catalog weaves First World consumers into the cotton commodity chain through a discourse of global moralism, consent is simultaneously fabricated for neoliberalism by encouraging First World producers to become internationally competitive and efficient subjects. Rita, the fabric inspector, and "everyone we [the Lands' End journalist] talk to at the plant" in rural Tennessee are "very aware that they're competing in a world market, whose customers are no longer bound by national allegiance." The threat of factories moving overseas, we are informed, keeps these workers "working that much harder to make sure the quality of their fabric is first-class." This is, of course, no idle threat. Between 1973 and 1999, an estimated 650,000 jobs in the U.S. apparel industry were lost. Of these, an estimated 300,000 jobs were transferred to Mexico as a result of the North American Free Trade Agreement (NAFTA). At another node of the commodity chain, the U.S. textile industry lost 150,000 jobs in the decade of the 1990s, and textile mills continue to close in the southern cotton belt.[25] An overwhelming number of textile and apparel workers who lost jobs were women and minorities. The national border as it is multiply traversed through commodity flows and labor defines the Other both beyond the nation and within.

Thus, Lands' End articulates a cultural politics of labor's visibility that is raced and gendered even as it brings, or attempts to bring, distant people into conversation with each other in ways that realist commodity chain analyses are incapable of seeing. A semiotic reading of the value-chain challenges one that is merely economic and productivist. Commodities were shown to be constituted materially and culturally. The close reading of the catalog of a U.S. multinational corporation demonstrates that the global commodity chain is not linear, unidirectional, and closed; it is constantly opened-up and refracted even as it weaves subjects from a range of social positions and locations into the fabric of consent.

Producing Cotton: Changing Wage and Labor Relations in South India

The basic raw material for Madras shirts is fabric that is woven from cotton fiber. The export of cotton yarn, fabric, and garments still provides a major link between India and the global economy and accounts for as much as 40 percent of India's exports. India has the largest area in the world under cotton production. Cotton is grown by millions of farmers of all classes in nine states in the North, West, and South of the country. Cotton textile production is India's core industrial activity, second only to agriculture in employment, with higher value-added and export earnings than any other form of manufacture. Given its economic weight, and the fact that cotton was a powerful symbol of nationalist protest against British colonialism, the cotton commodity chain – raw cotton, yarn, fabric, garments – was one of the most regulated in post-Independence India from 1947 to the mid-1980s.

In the 1990s, however, the government of India, at the behest of the International Monetary Fund, implemented a series of neoliberal policies aimed at "freeing up the market" by dismantling the domestic regulatory apparatus and allowing foreign capital and consumer products into the country. The free import of raw cotton is now allowed and the ban on the export of raw cotton has been liberalized. Ceilings or quantitative restrictions on the export of yarn, which were in place to protect and promote the small-scale industrial sector, have been eased. Textile mill machinery can now be imported more freely and tax breaks are available to exporters of yarn and cloth. The spinning industry has also been deregulated. Government subsidies to farmers for food, credit, and power and special schemes for small-scale manufacturers are in the process of being reduced or eliminated. For the first time in India's post-Independence history, controls in the form of quantitative restrictions on imports of many types of yarn, fabric, and garments were removed on April 1, 2001, in keeping with World Trade Organization mandated deregulations. In 2005, the Multi-Fiber Arrangement, which controls the world trade in textiles through a set of bilateral quotas between the United States/Europe and developing countries, will also be dismantled.

These neoliberal policies have increased the vulnerability of Indian cotton farmers to fluctuations in international cotton prices in unprecedented ways. Domestic cotton prices are now closely guided by international cotton price movements so that developments in other major cotton-producing regions in the world (especially

China) and fluctuations in the rupee/dollar exchange rate have a bearing on the returns to cotton farmers.[26] (This is in addition to price fluctuations due to the climate, the monsoon, pests, and textile mill demand.) Further along the Madras commodity chain, producers of cotton yarn, textiles, and garments are also now vulnerable to international economic events, as the Asian crisis of the late 1990s and the U.S. slowdown of the early 2000s demonstrated. After the decontrol of imports in April 2001, cheap textiles and garments from Bangladesh, China, Taiwan, and South Korea have increased the competition for Indian manufacturers in the domestic market. The cotton commodity chain is, therefore, a good example with which to challenge realist commodity chain analysis.

Cotton has been one of the most profitable crops for farmers in India. It is also, however, one of the most financially intensive and risky crops to cultivate. Up-front costs for seeds, labor, and pesticides are high, and cotton has been increasingly vulnerable to pest infestations and low prices. Despite the risk, the long-term trend at the national level has been an increase in the acreage under cotton. … Since the late 1980s, farmers of all classes have taken to cotton cultivation. Consequently, cropping patterns have changed in significant ways. Cotton uses more women's labor than most other crops grown in this part of the country, so the gender dynamics of such a transformation – not just in everyday lives of local people but through globalization – warrant study.

Gender ideologies naturalize women's and men's work as different in South India, as they do elsewhere. They are sedimented as social practices in the sexual division of labor in agriculture; therefore it is considered women's work (*aadivallu pannilu*) to spread the manure on the fields in preparation, sow the seeds, weed, and pick cotton. Men's work (*mogavallu pannilu*) is to plough and level the fields, hoe, irrigate, and spray fertilizers and pesticides. Because there is next to no mechanization, with the increase in the area and the intensity of cotton cultivation both women and men are working more. Yet, given the sexual division of labor, on average, for each acre of irrigated cotton, women are employed for one hundred days more than men. This is mainly because work that is gendered female, especially cotton picking, is so very labor intensive.

The most common type of employment available to poor women and children – those who have little or no land and must therefore rely on selling their labor – is casual or daily wage work (*rozzu coolie*). The availability of daily work is intermittent – it depends on whether or not there is a demand for labor to undertake some particular agricultural task such as plowing, weeding, fertilizing, or harvesting. Similar to most work in the informal sector, daily casual work is insecure and vulnerable and fluctuates erratically with the seasons. …

In addition to daily wage work, two other types of casual labor arrangements prevail. Group work (*gumpu* or *gutta panni*) is paid according to a pre-negotiated contract or *gutta* between a landowner and a group of, on average, ten to twenty women and one to four men. The transplanting of rice or onion and harvesting of food grains, groundnut (peanut), or onion on a specified plot are the most common tasks that are contracted out to groups (*gumpu*). In the late 1990s, not just the transplanting and harvesting of grains, but the weeding of cotton, became contracted work in some villages. The second type of work, piece-rate work (*kg lekka* or *sallu lekka panni*), is paid according to the number of kilograms of cotton picked or the number of rows weeded. Unlike time-rated work, such as daily casual work, piece-rate work links the wage per day to individual productivity and group work links the amount one can earn per day to group productivity. The frequency of piece-rate and group work, in which workers now discipline themselves and each other to be more and more efficient, is increasing. In both types of labor, the working day is longer, the pace of work is furious, and the self-disciplining, through monitoring of oneself or of others in the group, to produce more is constant. These disciplinary practices reduce the supervisory role of landowners. But simultaneously, consent for the new work regime is voiced in workers' own preferences for the "free choice" to move to a job of their choosing and in their self-representations as "efficient" workers.

The most assured and secure form of employment for agricultural labor households is permanent attached work (*ghasam*), in which a laborer works full time with a single landowner and is paid an annual wage. The relationship is supposed to be a yearly contract, but in the past many lasted several years, sometimes even decades, because they were tied to the repayment of loans. According to prevailing gender ideologies, only boys and men are employed as permanent attached laborers (*ghasaghadlu*), as the long hours of work at the landowners' house would leave little time for women to do all the reproductive work (gendered female) in their own homes.

[…]

Despite the increase in women's employment and real earnings until the late 1990s, life for agricultural labor/small-cultivator households is very precarious, with loans often needed to meet even daily consumption needs for food and healthcare. The assessment that the quality of life has not improved was voiced by the majority of women and men of the 125 small-cultivator and landless households that I surveyed in two villages in 1997. Seventy percent believed that the *quality* of food consumption was worse and 82 percent thought that people's health was the same or had deteriorated. This was despite the fact that 54 percent believed that their dependence on the rural elite had diminished. In a follow-up survey in 1999, I found that the real daily casual wages of females and males and the real wages of permanent attached labor had decreased. Only the real daily wages of children had increased, if marginally. If the decrease in adult real wages is the unfortunate beginning of a longer term trend, which it seems to be, we may expect increasing indebtedness, migration, and perhaps a politicization of these concerns as basic consumption is compromised and the quality of life diminishes further.

A realist commodity chain analysis of the Madras cotton shirt would stop with an assessment of Lands' End, a buyer-driven apparel chain, and would miss the transformations in agrarian work relations in the cotton fields of South India. With state deregulation and financial intensification, these changes index the shifting relations between capital and labor and are crucial to an understanding of the global political economy. A realist commodity chain analysis would also miss the interweaving of these changes with the cultural politics of gender, to which the next section turns.

Producing Femininities and Masculinities

In this section I study three sites – hybrid cottonseed production, discourses on spending, and permanent labor arrangements – to unpack how processes of gendering produce identities and signify power. In so doing, feminist commodity chain analysis relates processes of gendering to other local social striations, those of age and caste, in particular.

The cotton commodity chain has been lengthened backward so that cottonseed production has itself been commodified. Whereas earlier, seeds of cotton, like those of other crops, would be stored from the previous harvest, they have now been replaced by hybrids. Many of these hybrid seeds do not biologically reproduce themselves; they must be manufactured in each crop cycle. Andhra Pradesh is promoted by the state as "the 'Seed State' of India, with its progressive farmers taking up production of seed for a wide variety of crops on behalf of Government and of private companies."[27] No other crop in the region (other than chili) is as profitable as cottonseed. …

Although celebrated by the state and seed corporations as "modern" and "scientific," in practice, hybrid cottonseed production combines tied labor at one end of the commodity chain with agribusiness contract farming at the other. It is children's labor that is tied for the whole season to one seed grower through a cash loan or a bag of grain. During the period when cotton flowering is at a peak, for 100 to 150 days, ten to fifteen children are employed per acre of seed cotton.[28] In the households I surveyed, most of the children's parents had been paid an "advance" before the season; that is, a loan of Rs. 500 to Rs. 3,000 (worth $11 to $70 in 1999 or 25 to 200 days' wages). The majority of children laboring in hybrid seed cotton production are from households that are poor – landless or small holders – and in which adults, too, hire out their labor as the primary source of livelihood. Most are from low-caste Mala and Madiga households, although in recent years they have been joined by children from the service castes (Boyya, Golla, Kurruva, Dudekula, Sakkali) as well.

The increase in children's real wages … is thus specific to the particular context of cottonseed production in this part of Andhra Pradesh. It has increased the incomes of agricultural labor and small-cultivators households in invaluable ways. It has also meant that a greater number of children, girls particularly, but since the mid-1990s, boys as well, are being taken out of school and employed as full-time, independent laborers. As Srinivas Reddy, one of the big cultivators interviewed, remarked, "The schools have emptied out, except for the Reddy [high-caste] children."[29]

Children as young as six years of age work as "seed children" (*seedu pillalu*). Their day begins at around 8:30 in the morning and lasts until 6 or 7 in the evening. For working a nine-and-a-half to ten-hour day, children get paid Rs. 15–20. In other words, for working, on average, at least two hours more than adults, seed children get paid 75 to 100 percent of the adult female wage. In addition to their daily wage, children are paid extra for delinting cotton (Rs. 10/bag of 25 kg cotton) and for catching pests (Rs. 0.05/worm). Children are not only considered a more reliable source of labor by seed producers who employ them for a whole season, instead of day-to-day, but are also easier to discipline with physical abuse. Physical force is simply not acceptable anymore in the case of adult workers.

Hybrid cottonseed is produced by cross-fertilizing the flowers of two different varieties of cotton manually. Every afternoon, the flowers of one variety – the “female” (*adi poolu*) – are emasculated, that is, their pollen-producing anthers or reproductive organs are removed, and a plastic tag with a hole in the middle (significantly red in color) is thrust around their pistils (the female, ovule-bearing organ of the flower that has a sticky top called the stigma) to mark each. The next morning, the pollen-laden anthers from the flowers of the other variety – the “male” (*moga poolu*) – are rubbed against the stigma of the female flowers (which have been tagged the previous day). “One male flower crosses around six female flowers,” Mahboobee, a girl aged twelve or thirteen, informed me. This work, of emasculation and cross-pollination, which I call *floral sex work*, is mostly done by girls. “Naturally.” Three or so days later, if the “crossing” has been successful, the plant begins “to provide a womb” (*garbham*) for the cotton boll and its hybrid seeds.

The most productive seed children “set” 120 to 150 bolls per cotton plant. Each child is responsible for cross-fertilizing flowers on 130 to 150 cotton plants a day. The naturalization of girls’ labor as particularly suited to hybrid cotton cross-pollination is socially constructed by both the seed producers and laborers around the girls’ “nimble fingers” and, especially, the work of emasculating flower buds, which takes “small, deft fingers” (*chetulu tirugtai*). The girls’ “quickness” and “agility” in moving between the plants in a densely cropped field are also reasons why they are “naturally suited to the work.” Girls are employed because they are the “same height as the plants” and “supple benders”; adults who have to keep bending to get at the buds “constantly complain of back pain.” In contrast, girls are “contented workers,” who turn up for work “happily” day after day, and “don’t rebel.” Girls are thus embodied as disciplined, laboring subjects through their extraordinary suitability for hybrid seed cotton work.

Both seed growers and laborers also gender girls’ labor as such through a discourse of sexuality. Emasculation and cross-pollination are, as we have seen, sexualized by sexing the flowers of the two varieties that are crossed “male” and “female,” in Telugu, but, more importantly, floral sex work is inscribed as appropriate for girls, premenarche. Gender ideologies take the form of proscriptions on adult women performing floral sex work and extend to girls who have reached menarche (“who have become big people [*pedda manshi*]”). One seed grower, Ramesh Babu, explained, “After girls reach a marriageable age, parents don’t like to send them.” Normative ideologies apart, many girls are in fact being employed postpuberty. Even though the seed children are typically contracted by a grower for the entire season, girls who are menstruating are expected to stay away for a few days haunted by the specter that they will destroy the yield of the entire cottonseed crop. “Like pickle [a hot Indian relish], like if a menstruating woman makes pickle, the entire thing will go bad,” Shankaramma explained. Anamakka, whose granddaughter does floral sex work, said, “If a menstruating woman tries to cross-fertilize cotton, the unripened fruit will burn or drop before it develops fully. It simply won't stand." The laboring subject and the sexual and reproductive subject, working in the thoroughly modern, scientific activity of hybrid cross-pollination, are mapped thereby onto the young female body. Of course, this stratification by age also corresponds to the fact that girls are paid less than adult women.

In 1999, however, more boys were being engaged in seed cotton work. Earlier, it was likely that boys were in school while their sisters worked. Now, similar to girls, boys too are in arrangements of labor tied through loans. As with the girls, some part of the advance their parents have been paid is withheld out of their weekly wage packet. Because girls and boys are now working together on the same tasks, and being paid equally, the possibility opens up that gender ideologies could change. In fact, the labor market continues to be segmented by sex. Boys continue to be gendered male in at least two ways. They are sent back to the farmer's fields after dinner to delint the cottonseeds from the cotton bolls. They work until late, sometimes midnight, and sleep in the field. Although the extra "night work" that boys do inevitably increases the burdens and length of their work day, restricting this activity to boys also polices girls' sexuality because they are not allowed to go "roaming around" at night.

A second way boys are gendered male is by giving them back a portion of their weekly earnings as "tea money" (*chai paisalu*). Girls, on the other hand, turn in their entire weekly earnings toward everyday family consumption expenses, mostly for food. In the process, girls and boys are being constructed as different sorts of consumers. The money boys get is spent on movies; little treats like tea, biscuits, or fruit; and, as they get older, local cigarettes (*beedies*), country liquor (*kallu, sarra*), and gambling. This not only germinates the idea that male wages, at least some part of them, are meant for the personal expenses that define masculinity, and not everyday household reproduction, but it also resonates in the ways in which space and time are gendered. Boys are more likely to be seen in village weekly markets, at tea stalls, under shady trees, or at other public places; they are more likely to travel on buses and tractors; and they are much more likely than girls to be seen about at night. The prerogative of men of all classes to spend a portion and sometimes all their earnings on personal consumption is thereby reproduced and with it ideologies that mark masculinity. In the process, gendered uses of public spaces and public forms of transportation are also reinscribed.

The same ideologies that construct masculinity by making it men's prerogative to spend at least a part of their earnings on personal consumption also do so by deeming it men's responsibility to provide for productive investments in agriculture and bulky household expenses – most commonly for daughters' dowries (*katnam*), funerals, major illnesses, and house repairs. In many landless/small-cultivator households the savings to cover these expenditures simply do not exist and the getting of loans to do so is tied to their men's relationships with men in the richer households. In some cases, rich male cultivators provide direct loans of money, bullocks, or tools for agriculture, and in others, they provide collateral or stand as surety for loans. Repeatedly, poor women articulated the belief that, "Women's earnings are good only for consumption. It is men who get the loans."

Masculinities are also being expressed in changing ideologies of permanent *ghasam* (work). In the late 1990s, men in agricultural-labor households were increasingly withdrawing from permanent attached labor arrangements.[30] Not surprisingly, the men who do this work, which is often tied through debt indenture to particular landlords for many years, are poor and mainly of the Mala and Madiga castes. Those who hire permanent laborers, on the other hand, are usually the richest cultivators of the high Reddy and Kamma castes. The men who had withdrawn from attached labor arrangements articulated their reasons for doing so in terms of attached labor being "excessive," "demeaning," and "unfree." Naganna added, "It's too much work, it's too difficult work." Partly as a response to withdrawal, even the terminology used to describe permanent labor relationships is changing. Instead of *ghasaghadlu*, the men are now being called *maistry* (supervisor) suggesting the quality of the relationship is being transformed from a form of indentured servitude to contract employment.

There are three possible and overlapping explanations for men's withdrawal from *ghasam*. First, material conditions have changed. The availability of land to lease has increased; therefore men who own very little or no land can now make cultivation and sale of produce their predominant means of livelihood. Cultivation on leased land substitutes for the sale of their labor through permanent employment. Second, the articulation of freedom from permanent labor relations is coterminous with the rise of low-caste politics in Andhra Pradesh State and all over the country in the 1990s. A third possible explanation is an incipient awareness of environmental injustice. With the increased use of chemical fertilizers and, particularly, chemical pesticides on cotton, everyone who works in the fields is exposed to toxins as they are carried in the air and leach into the water and soil. The impact on the young permanent laborers whose job it is to spray fertilizers and pesticides is the most obvious. Ravelamma, a mother whose teenage son has stopped hiring himself out for spraying work, explained, "When chemical pesticides [*mandulu*] are born, we all die."

The most extreme manifestation of ideologies of masculinity is in the suicides of hundreds of men in Andhra Pradesh. In 1998, as cotton prices plummeted and the costs of production, particularly from increased use of pesticides, soared, more than 300 men, nearly all from small farm families, committed suicide. Some farmers lost their entire crop because they planted spurious hybrid seeds; others lost the crop to pests that refused to be controlled by repeated sprayings of pesticides. Ironically, it was the deepening debt to pesticide dealers that precipitated suicide. Men killed themselves by imbibing the very pesticides that caused deep economic and psychological distress. "[P]esticides have become the curd-rice of the peasantry," a contemporary Telugu ballad darkly parodies.[31]

[…]

Thus, the cultural politics of work and labor relations and of social reproduction are constitutively gendered in the cotton fields of South India. The interarticulation of material vulnerabilities and social practices and the gender/sexual relations of work and social reproduction are neither homeostatic nor do they necessarily deepen patriarchy. "Patriarchy" as a singular concept is incapable of explaining the exiting of bodies as crises of masculinity. Gendering powerfully affects men's psyche even as their practices are responses to changing political and economic conditions such as the increase in women's and children's real wages, a downturn in small-holder fortunes, the new weightiness of their votes, or the expense of a daughter's dowry. Even if realist commodity chain analysis had paid attention to the increasing casualization, self-disciplining, and tied-labor relations as sources of surplus extraction along the cotton commodity chain, it could not have analyzed how these are imbricated in gendered norms and proscriptions and how they metamorphose over time. Realist commodity chain analysis ignores the complicity of other discourses with the process of capital accumulation. In contrast, in the discussion of floral sex work, spending patterns, and permanent labor arrangements feminist commodity chain analysis enabled an exploration of how age and caste, in addition to gender, regulate the determination and circulation of value. Feminist commodity chain analysis, moreover, highlights the contradictory, contingent, and recursive processes of mediation at work as commodity chains are constituted materially and culturally.

Conclusion

In this article feminist commodity chains are theorized as an alternative way to frame an understanding of power. As a critique of realist commodity chain analysis, the juxtaposition of consumption *and* production of a Madras cotton shirt dislodged the grand narrative of capital accumulation through teleological change. In contrast to realist commodity chain's emphasis on the First World, specifically, its analysis of how multinational corporations located in the metropoles drive the producer-end or buyer-end of the commodity chain, feminist commodity chain analysis is cognizant of how globalization is locally constituted, mediated, and experienced in the First World *and* the Third. The uneven, contradictory, and contingent impacts of capitalism as it metamorphoses were explored in diverse, but connected, localities and identities.

Although arguing for locational situatedness, the purpose was not, however, to resurrect the binary geographies of First World/Third World or the narrative of progress that underlies realist commodity chain analysis. Instead, feminist commodity chain analysis emphasizes the importance of understanding representations of place and of the space linking uneven worlds, not just the quantum of capital and commodities as they flow across national borders. Epistemologically, feminist commodity chain analysis goes beyond the confines of narrow economism, an understanding of how wealth is distributed between "cores" and "peripheries," to be mindful of the cultural politics of representation and visualization. The reflection on racialized and gendered representations of labor's place and global moralism in the Lands' End catalog are examples of this concern.

Realist commodity chain analysis is also critiqued for its limited concern with productivism. Feminist commodity chain analysis contributes to an understanding of how production produces individual and collective identities discursively and to the complicity of other discourses in the process of capital accumulation. …

By its attentiveness to the interarticulation of the material and the cultural, feminist commodity chain analysis also disrupts the binary between production and consumption. Although realist commodity chain analysis claims to be about commodity circuits, consumption culture is often ignored. …

In conclusion, feminist commodity chain analysis enables a commentary on globalization in terms of the uneven impacts on everyday lives. As consumption is reimagined and production is multiply reorganized, feminist commodity chain analysis forces us to rethink what commodity chains are and how they must be understood.

Notes

1 No wonder the city's name was changed to Chennai!

2 Definition of terms I frequently use in this article: "Neoliberalism," the major economic ideology since the 1990s, has led governments to deregulate, privatize, and restructure national economies so as to become more internationally competitive. The definition of "realist" as "devoted to what is real, as opposed to what is imaginary" is from the Oxford English Dictionary. A "commodity chain" is defined as "a network of labor and production processes whose end result is a finished product," Terence K. Hopkins and Immanuel Waller-stein, "Commodity Chains in the World Economy prior to 1800," *Review*, no. 110 (1986): 159. Commodity chain research investigates the "creation and distribution of global wealth as embodied in a multidimensional, multistage sequence of activities, rather than as a consequence of industrialization alone," Gary Gereffi, Miguel Korzeniewicz, and Roberto Korzeniewicz, introduction to *Commodity Chains and Global Capitalism*, ed. Gary Gereffi and Miguel Korzeniewicz (Westport, Conn.: Greenwood Press, 1994), 13. See also Peter Dicken, *Global Shift* (New York: Guilford Press, 1998).

3 Hopkins and Wallerstein, "Conclusions about Commodity Chains," in *Commodity Chains*, 48.

4 Susan Joekes, *Women in the World economy(ies)* (Oxford: Oxford University Press, 1987), 80.

5 Guy Standing, "Global Feminization through Flexible Labor," *World Development* 17 (November 1989): 1077–95.

6 Ruth Pearson, "Nimble Fingers Revisited," in *Feminist Visions of Development: Gender, Analysis, and Policy*, ed. Cecile Jackson and Ruth Pearson (London: Routledge, 1998), 171–88.

7 See, for example, Diane Elson, "Gender Awareness in Modeling Structural Adjustment," *World Development* 23 (November 1995): 1851–68.

8 Priti Ramamurthy, "The Cotton Commodity Chain, Women, Work, and Agency in India and Japan: The Case for Feminist Agro-food Systems Research," *World Development* 28 (March 2000): 551–78.

9 Gary Gereffi, "Shifting Governance Structures in Global Commodity Chains, with Special Reference to the Internet," *American Behavioral Scientist* 44 (June 2001), 1616–37.

10 "Tracking Globalization" is the name of Robert Foster's new book series for Indiana University Press. It will focus on how "commodities in motion" allow people to imagine new identities and reevaluate their place in the world.

11 For similar arguments, see Gayatri Chakravorti Spivak, "Scattered Speculations on the Question of Value," in *In Other Worlds* (New York: Methuen, 1987); and Miranda Joseph, "The Performance of Production and Consumption," *Social Text* 54 (Spring 1998): 25–61.

12 Sydney Mintz, *Sweetness and Power: The Place of Sugar in Modern History* (New York: Viking, 1985); Edna Bonacich and Richard P. Appelbaum, *Behind the Label: Inequality in the Los Angeles Apparel Industry* (Berkeley: University of California Press, 2000), 317.

13 David Harvey, *The Condition of Postmodernity: An Enquiry into the Origins of Cultural Change* (Oxford, U.K.: Blackwell, 1989).

14 Angela Davis, *Women, Race, and Class* (New York: Random House, 1981); bell hooks, *Black Looks: Race and Representation* (Boston: South End Press, 1992); on codified expectations, see Donald M. Lowe, *The Body in Late Capitalist USA* (Durham, N.C.: Duke University Press, 1995).

15 Cf. Arjun Appadurai, "Introduction: Commodities and the Politics of Value," in *The Social Life of Things: Commodities in Cultural Perspective*, ed. Arjun Appadurai (Cambridge, U.K.: Cambridge University Press, 1986), 3–63.

16 See http://www.ecottonindia.com/other.htm.

17 Theodor W. Adorno, *The Culture Industry: Selected Essays on Mass Culture* (New York: Routledge, 1991), 167.

18 Jean Comaroff and John L. Comaroff, "Millenial Capitalism: First Thoughts on a Second Coming," *Public Culture* 12 (Spring 2000): 291–94.

19 I make this point also, see Priti Ramamurthy, "Material Consumers, Fabricating Subjects: Perplexity, Global Connectivity Discourses, and Transnational Feminist Research," *Cultural Anthropology* 18 (November 2003): 524–50.

20 *New York Times*, 28 Nov. 1999; *New York Times*, 14 May 2001.

21 *New York Times*, 14 May 2001.

22 Richard Le Heron, "Perspectives on Pluriactivity," in *Family Farming: Australia and New Zealand*, ed. Margaret Alston (Wagga Wagga, Australia: Charles Stewart University, 1991), 24–32; United Nations, *1999 World Survey on the Role of Women in Development* (New York: United Nations, 1999), 43.

23 *New York Times*, 15 May 2001.

24 U.S. Census Bureau, *Poverty in the United States, 1999* (Washington, D.C.: U.S. Government Printing Office, 2000).

25 *Indian Express*, 16 Nov. 1999; *New York Times*, 17 May 2001.

26 U.S. Department of Agriculture (Global Agriculture Information Network), *India: Cotton and Products* (New Delhi: USDA, Foreign Agricultural Service, 2001).

27 Government of Andhra Pradesh, *Beyond Tomorrow: Biotech Policy, 2001;* see http://www.aponline.gov.in/quick%201inks/industrial%20policy/biotechnologypolicy.pdf, 7.

28 There are usually about 2,450 plants per acre, 80 percent "female" and 20 percent "male." Seeds are planted at a distance of four feet from each other.

29 All quotes, here and to the end of this section, are from interviews conducted in 1997 and 1999.

30 The withdrawal of men from permanent attached labor relations is also noted in studies of the other regions in Andhra Pradesh state and in several other Indian states, such as Kerala, Tamil Nadu, and Uttar Pradesh. See da Corta and Venkateshwarlu; and Anil Kumar Vaddiraju, "Emergence of Backward Castes in South Telengana: Agrarian Change and Grass Roots Politics," *Economic and Political Weekly* 34 (February 1999): 425–30; *Unfree Relations*.

31 Parvathi Menon, "The Cotton Farmers' Plight," *Frontline* 17, 13–26 May 2000.

Part III

What Is Globalization?

Introduction

As the title suggests, this section of the volume addresses what is meant by globalization. These seven pieces likely represent thousands of others. In addition to presenting various perspectives on what constitutes economic globalization, we are also illustrating the evolution of conceptualizations about globalization, ranging from Fröbel, Heinrichs, and Kreye's embryonic conceptualization in the early 1980s, to a stridently optimist piece "In Defense of Global Capitalism" by Johan Norberg, Thomas Friedman's 2005 reaffirmation of the magnitude of the transformation to globalization, and four pieces analyzing the frailty of the financialized and globalized world resulting from the "Great Recession" of 2008–10.

Writing at the Max Planck Institute in the late 1970s, Germans Folker Fröbel, Jürgen Heinrichs, and Otto Kreye described what was emerging as a "New International Division of Labor" (NIDL). In their book that coined this now common and centrally important term, they described a pattern of firms shutting down manufacturing plants in the developed countries and investing in the poor countries, shattering economies in regions where labor unions and worker protections were strong.[1] They saw devastating social effects in wealthy nations: "more and more workers are losing not only their jobs but also their acquired profession … they are thrown onto the labour market where … they are obliged to sell their labour-power as unskilled or semiskilled workers at considerably worse terms than before." They describe these adjustments by individual workers as "rapid and psychologically exhausting," while the government suffers a "long-term fiscal crisis." These governments were caught between a shrinking tax base and dropping employment on the one hand, and rising demands for unemployment and retirement benefits on the other.

The Globalization and Development Reader: Perspectives on Development and Global Change, Second Edition. Edited by J. Timmons Roberts, Amy Bellone Hite, and Nitsan Chorev.

Meanwhile, the cities of the world's poor nations were "overcrowded with [millions of] landless rural immigrants … [who] are forced to seek employment regardless of the level of remuneration and under the most inhuman conditions merely to ensure their sheer physical survival." They and a series of other researchers documented how employers selected those workers according to age, sex, and skill, most frequently choosing to exploit young women because they worked hard and tended not to quit or unionize. In contrast to the optimism of the modernizationists, Fröbel, Heinrichs, and Kreye saw no likely improvement of living conditions as a result of the industrial work by these people in factories set up for producing exports. Like dependency theorists Frank and Cardoso, they saw complicity by local elites as largely to blame for dependency on world markets and widespread poverty. They argued forcefully that workers in both regions were being impoverished by the change, thus echoing the alarm of once-protected workers and observers in the developed world that something had changed and that their security was gone: they could no longer act without concern for the poor nations.

This work spurred a new and vast literature showing how productive shifts in wealthier countries dating from the 1970s, such as closing factories, were linked to the opening of new industries, sweatshops, and economic relationships in the periphery. While aware of the pioneering work of many economic geographers of the time, in this volume we designate *The New International Division of Labour* as the start of the literature on globalization as a distinct social phenomenon, because this work demonstrates how new ways of organizing production processes globally have differential effects in different places and on different people, all of which are linked.

Johan Norberg describes himself as a reformed left-wing anarchist who has swung over to become a spokesman for liberalism in the classical European sense – free-trade "libertarianism" as used in the United States. His book excerpted here was published by the Washington, DC, libertarian Cato Institute, where he is a Senior Fellow. It describes itself as "the first book to rebut, systematically and thoroughly, the claims of the anti-globalization movement." By stepping back and using data to describe sharply positive global trends in poverty, hunger, education, democratization, oppression of women, and inequality, Norberg shows "why capitalism is in the process of creating a better world." He acknowledges that "the world [still] has more than its share of serious problems," but argues that where free-trade and small-state policies have been allowed to operate the longest "the fantastic thing is that the spread of democracy and capitalism has reduced them so dramatically" (see Chapter 15).

Thomas Friedman, foreign affairs columnist for the *New York Times*, largely popularized the term globalization and shaped the way many people thought about it with his 1999 book *The Lexus and the Olive Tree: Understanding Globalization*. His 2005 bestseller *The World is Flat: A Brief History of the Twenty-First Century* is largely summarized in the piece here, which first appeared in the *New York Times*. Friedman focuses on the dramatic changes which have taken place just since 2000, with the sharply increased and nearly instantaneous ability of firms to globally manage the planning, supply, production, and marketing of their products and services. This is the new world Fröbel, Heinrichs, and Kreye described, but now it's on steroids. With the construction of a huge amount of broadband fiber optic infrastructure, phone, email and web communication is instantaneous, from Beijing (China) to Bangalore (India) to Bristol (England) to the Bronx (US), and back again. Friedman argues that something new happens when it is this easy to communicate across the world: individuals gain power "to collaborate and compete globally." Given the contentions of other writers in this volume, this is Friedman's most debatable point: that these technologies speeding globalization are creating greater equality of opportunity around the world. Friedman intends to alert readers to the world's rapid pace of change and to warn that those who fail to appreciate the implications of these changes risk being left behind. Friedman argues that non-Western, non-white individuals "from every corner of the flat world are being empowered" by these changes. "It is time we got focused."

Greta Krippner, a sociologist at the University of Michigan, offers a very influential reconceptualization of political-economic dynamics under globalization by focusing on financialization, that is, relying on financial channels rather than trade or commodity production to accrue profit. While she is hardly alone in emphasizing financialization (rather than trade) as a unique feature of our time, she is among the few who successfully developed systematic measures of financialization. The article reprinted here uses such measures to show that the US economy has, indeed, become financialized. In her book *Capitalizing on Crisis*,[2] Krippner investigates the political origins of financialization. She provocatively argues that the policies leading to the financialization of the economy were not a deliberate outcome, but rather an inadvertent result of policy-makers' attempts to solve other problems.

Emeritus Professor of Sociology at the London School of Economics, Leslie Sklair has published several landmark pieces on globalization over the past decade, including the book *Globalization: Capitalism and Its Alternatives* and *The Transnational Capitalist Class*. Sklair argues that there is a transnational class of business, political and cultural elites, who use their control of leading institutions like the huge transnational corporations and the World Trade Organization and the International Monetary Fund to their own benefit. This is at once an old idea, that elites have interests more in line with foreign companies or wealthy groups, and a very new one, requiring a rethinking of class and stratification conceptions based in the nation-state. Sklair sees the transnational capitalist class as having four main factions: the owners and controllers of transnational corporations and their local affiliates; globalizing bureaucrats and politicians; globalizing professionals; and consumerist elites (merchants and the media). He accepts that these groups vary over time and place, and that the group is not always united.

Sklair argues in his books and in "The Transnational Capitalist Class and the Discourse of Globalization" excerpted here that these groups use their power to influence culture, economics and politics everywhere, and they drive global values of consumerism and free trade. They increasingly seal themselves off in gated communities and highly exclusive clubs, but they project themselves as acting in their nations' interest. Sklair depicts globalizing politicians as seeking to free their countries from the restraints of nationalist protection of markets and investments. Transnational firms look to standardize their production across the planet, using "world best practices" and international quality standards. They carefully manage their environmental image, and Sklair points to the development of green labels created by industry organizations as ways these firms have avoided regulations by governments around the world. Sklair describes a nearly complete co-optation of environmentalism's ability to question overconsumption and overproduction in the current world. In some of his other pieces, Sklair evaluates the abilities of new social movements to disrupt or reform the extremely unbalanced globalization of the transnational capitalist class. One area where he sees potential to weaken the power of the transnational capitalist class is its one weak spot: consumption.

Sarah Babb, Professor of Sociology at Boston College, offers a particularly clear description of what we know as the "Washington Consensus." Babb not only delineates the contours of the consensus, but also identifies its origins. Unlike some other pieces in this Reader, Babb is helpfully attentive to the role of ideas, but ideas for her are always situated – or embedded – in organizations. In this particular case, she describes the interplay between the intellectual product created by economists and the international financial institutions that adopted it. In the second part of the piece, which is not reprinted here, Babb describes the weakening of the Washington Consensus, noting that its core elements remain in place.

We conclude this section with a very brief piece by David Harvey, an influential geographer who has taught at Oxford and Johns Hopkins universities. Harvey is best known for his work in co-founding and writing in *Antipode*, a journal of radical geography, as well as his neo-Marxist inspired books *Limits to Capital*, *The Condition of Postmodernity*, and *A Brief History of Neoliberalism.* In the selection presented here, originally a speech given during the economic crisis of 2008–10, Harvey argues that it is not just bad actors, weak institutions, bad policy, or cultural failings that have created this crisis, but systemic weaknesses in capitalism itself. Harvey argues that capitalism doesn't solve its crises; it simply moves them around geographically. The speech was turned into a fascinating cartoon available on YouTube from RSA Animate, which makes a nice complement to reading this brief piece. The talk ends precisely at a question that leads us from this section into the final two parts of this reader: "where is the debate and discussion" about the direction that globalization is taking our world?

Notes

1 Folker Fröbel, Jürgen Heinrichs, and Otto Kreye, *The New International Division of Labour* (Cambridge: Cambridge University Press, 1980).

2 Greta Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance* (Cambridge, MA: Harvard University Press, 2011).

14

The New International Division of Labour in the World Economy (1980)

Folker Fröbel, Jürgen Heinrichs, and Otto Kreye

Two fundamental issues confront corporate management in 1977. They are:

- the probability that the post-war era of unusual rapid economic expansion is over, and
- the probability that the post-war era of unprecedented world economic and political cooperation is coming to an end.

The world's departure from these patterns could force companies into the most radical and painful reassessments of their plans and strategies in living memory… Growth, translated into improved living conditions, has… become one of the basic expectations of all the world's citizens, including the poorest. These assumptions clearly must now be challenged. The recent world recession will, hopefully, prove to have been merely an extremely severe one, but 1977 may reveal the recession as the sign-off of an exceptional period in world economic history. Within many nations, the tensions from a prolonged era of no or low growth could ultimately prove explosive… The turmoil within and between nations resulting from the frustration of mass expectations would, in many instances, bring revolution and war to the fore.[1]

A blueprint for a new economic era published today outlines profound changes in life-styles that will be needed over the next five years to put capitalist societies back on the track for sustained economic growth. The most significant change is a shift away from the consumer-oriented growth that has marked the post-war period to a

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model more akin to the Communist bloc countries with the emphasis on improving and expanding plant and equipment. This shift would be achieved in part through a reduction in real wages and limits on the growth of living standards. One of the major tools to effect these changes would be a sustained level of unemployment well over post-war norms although below the record level seen in the just ended recession.… The author of this blueprint is the secretariat of the Organisation for Economic Cooperation and Development, the economic clearing house for the 24 largest industrialised states outside the Communist bloc.… [The OECD notes] "that it would be tempting to consider a more favourable scenario.… Unfortunately, there are few grounds for believing that this is a realistic alternative unless economic policies prove much more effective than in the past."[2]

The Phenomenon

Business International is one of the world's largest business consultancy firms. The OECD is the supranational institution which was established by the Western industrialised countries for the purpose of observing and coordinating their economies. What is the empirical evidence of recent changes in the world economy which has induced these two institutions to proffer such gloomy forecasts?

In the Western *industrialised countries* the rate of unemployment has reached its highest level for many years. In 1975 the official rate of unemployment, which always understates the real volume of unemployment, averaged 5 percent for the OECD countries (USA =8.5 percent, Japan = 1.9 percent, Federal Germany = 4.7 percent) and has remained at this high level with no indications that it will decrease. The number of people in OECD countries officially registered as unemployed has hovered around the fifteen million mark since 1975 and there is no reason to suppose that it will fall in the immediate future.

An increasing number of the industrial branches of the OECD countries are reporting declining output, overcapacities, short-time working and mass redundancies. For example, the garment, textile and synthetic fibres industries in the most highly industrialised countries have, almost without exception, drastically cut back the production of their respective products at the traditional manufacturing sites as production there is becoming increasingly less competitive in the world market. Employees in many branches of industry are threatened with redundancy and the devaluation of their professional skills – victims of spreading automation and, in particular, of the recent leap forward in the rationalisation of the production process made possible by technical developments in the electrical engineering industry, especially the shift from electro-mechanical to electronic components in the production both of consumer goods and components to be used in other sectors of the economy.

Domestic investment in the largest industrialised countries (USA, Japan, Federal Germany, France, United Kingdom) has not only been stagnating but has even fallen in Japan and Federal Germany as a proportion of gross national product in the first half of the 1970s. In the face of the decreasing profitability of domestic investments, companies in the OECD countries have expanded and justified their policy of investment directed towards rationalisation on the grounds that they cannot expect any change in the current trends for the foreseeable future. In many countries the increase in the share of domestic investment which has been directed towards rationalisation schemes over recent years has resulted in a substantial loss of local jobs, without any reduction in productive capacity.

By contrast, *foreign* investments originating from the Western industrialised countries have been steadily increasing for a number of years. An ever-increasing share of these investments is flowing into the developing countries. Foreign investment for the purpose of industrial relocation is gaining in importance, both that undertaken in industrialised countries, as well as in developing countries.

Stagnating output, short-time working and mass redundancies in numerous countries do not, however, necessarily reflect the fates of individual companies. On the contrary, many companies, both large and small, from the industrialised countries are expanding their investments, production capacities and employment abroad, especially in developing countries, whilst their investments, production capacities and employment at home are stagnating or even declining.

The primacy given to investment for rationalisation instead of for expansion in the Western industrialised countries implies increased "mobility" for workers. More and more workers are losing not only their jobs but also their acquired profession as a result of rationalisation schemes. They are thrown onto the labour market where, because they lack relevant qualifications or training, they are obliged to sell their labour-power as unskilled or semiskilled workers at considerably worse terms than before. Given the rapid changes in the specifications and qualifications demanded of the labour-force by current economic developments and the concurrent increase in occupational "mobility", it is hardly surprising that the rationale and usefulness of professional training is becoming more and more questionable, and that companies are increasingly cutting back on comprehensive programmes of industrial training. More and more workers are being forced to make rapid and psychologically exhausting adjustments to the changing demands of the labour market – changes which are both abrupt and more or less unforeseeable.

In addition, the Western industrialised countries are experiencing a long-term fiscal crisis of the state. High unemployment and short-time working have forced the state to increase its expenditure, while at the same time the state's tax receipts have fallen because high unemployment has reduced the revenue from personal taxation and the threat or reality of industrial relocation has reduced the ability of the state to tax private companies. It is becoming more and more difficult to provide adequate funds for public pension and health programmes. Outlays on social services are being cut, while at the same time higher social security contributions and taxes threaten employees with a decrease in real incomes. On the other hand, the state has been compelled to provide grants, loans and tax concessions to private business on an increasing scale, hoping that this will stimulate domestic investment, reduce the rate of unemployment, and thus avert the danger of potentially explosive social tensions. This policy of curbing real wages and of promoting the so-called growth industries by official massive backing from the state has nonetheless so far failed to yield any noticeable success in making domestic industrial sites attractive again. "The horses have been led to the water, but are refusing to drink."

These economic, social and political problems in each of the Western industrialised countries are occurring in the context of world-wide higher turnovers and profits by individual companies. The annual reports of most large companies show that, even in the years of the world recession, these companies have been operating very successfully.

A remarkable contrast then exists between the success of individual private companies and the failure of the economic policies of the industrialised countries to attain their declared principal policy aim, namely the reduction in unemployment. The panacea of the last few decades, high rates of growth in gross national product, no longer appears to be available. In fact, whether the extensive elimination of unemployment is seriously the prime objective of the economic policies of the industrial nations is far from certain when one considers the OECD "scenario" cited at the beginning of this chapter. One cannot avoid the question: Are the politicians simply incapable, or have the structures of national economies recently undergone such profound changes that the present problem of chronic unemployment is simply so much more intractable than formerly? We shall return to this question later.

The number of un- and underemployed in the *developing countries* is even greater: they constitute an enormous mass of people who are either not at all or only partially integrated as productive labour into the so-called modern sector. This reservoir of potential labour amounts to hundreds of millions of workers. It is an oversimplification to say that it is the traditionally bad living conditions in underdeveloped countries which produced an ever-increasing flow of people seeking work and incomes from the countryside into the cities, the potential sites of the industry which can grant these things. Paradoxically the cause must be looked for in the modernisation of agriculture which can only attain its declared goal of increasing food production by the destruction of small subsistence farming, the traditional modest basis of survival for large sections of the rural population who are then forced to migrate to the cities where they are not usually able to obtain an income sufficient to provide them with a decent living.

The contemporary slums and similar poverty-stricken districts of the underdeveloped countries' cities are overcrowded with these landless rural immigrants. (By 1970 population statistics from at least ten cities in the so-called Third World showed that more than a million people in each of them were living in such areas.) Transformed into proletarianised wage workers they are forced to seek employment regardless of the level of remuneration and under the most inhuman conditions merely to ensure their sheer physical survival. They constitute a nearly inexhaustible source of the cheapest and most exploitable labour in the underdeveloped countries.

This vast industrial reserve army of extremely cheap labour feeds a process of industrialisation which can be observed in many contemporary developing countries. But this process of industrialisation rarely absorbs any significant proportion of the local labour-force. It is oriented to production for export, as the purchasing power of the mass of the local population is too low to constitute an effective demand on the local market for the products of the country's own industry. The markets supplied by the industrialisation of the developing countries are therefore predominantly overseas, primarily in the traditional industrial countries.

This process of export-oriented industrialisation in developing countries is not only highly dependent on foreign companies but also extremely fragmented. Only very rarely do developing countries end up with the establishment of reasonably complex industrial branches (e.g. textile and garment industry in some cases complemented by synthetic fibre production). And even in the very few developing countries where such centres of partial industrialisation have been established there are no signs that they are being supplemented by a wider industrial complex which would enable them to free themselves eventually from their dependency on the already industrialised countries for imports of capital- and other goods, and for the maintenance of their industrial installations.

However, in the overwhelming majority of developing countries not even the beginnings of this partial industrialisation process can be observed, that is, a process which would at least serve to develop a few individual branches of industry. Instead, industrial production is confined to a few highly specialised manufacturing processes: inputs are imported from outside the country, are worked on by the local labour-force in "world market factories" (for example, sewing, soldering, assembling and testing) and are then exported in their processed form. In other words, these world market factories are industrial enclaves with no connection to the local economy except for their utilisation of extremely cheap labour and occasionally some local inputs (energy, water and services for example), and are isolated from the local economy in almost all other respects. The labour-force recruited for production in these industrial enclaves is equipped with the necessary training in a period that rarely lasts for more than a few weeks, is exploited for a time-span which is optimal for the companies, and is then replaced by a newly recruited and freshly trained labour-force. Under such conditions there is no such thing as a skilled labour-force, or, at best, the skills which the workers do acquire are very minimal. Likewise there is no observable transfer of technology, despite the euphoric claims made by firms which relocate their manufacturing processes in the developing countries. The technology which is employed in these world market factories is not only in most cases quite simple, but also dependent on the expertise of foreign specialists and managers. This technology is often quite useless for the development of any form of industrialisation which would serve the basic needs of the local population.

So far export-oriented industrialisation has failed to achieve any improvement in the social conditions of the mass of the populations of the developing countries, not even as far as their most fundamental needs such as food, clothing, health, habitation and education are concerned. Nor can any improvement be expected in the foreseeable future. Quite the opposite – the social tensions and struggles between the tiny privileged minority which benefits from export-oriented industrialisation, and the vast majority of the population which derives no benefits from it will intensify in the future. It is such predictable developments as these which have occasioned Business International to take account of war and revolution in many countries. The increasing militarisation of the so-called Third World is a clear indication that increasingly overt and repressive force is needed to prevent the violent eruption of social tensions. South Africa, Chile and Thailand are but three especially well-known examples of military repression – but there are very many others. The "preventive counter-revolution", to use an expression coined by Herbert Marcuse, is well under way in most parts of the so-called Third World (and not only there).

After decades and centuries of the underdevelopment of the so-called developing countries the recent export-oriented industrialisation of these countries offers but faint hope that living standards and conditions of the mass of their populations will undergo any substantial improvements in the foreseeable future. Moreover there is no reason to assume that the main goal of the policies pursued by the governments of many developing countries is, in fact, the improvement of the material conditions of the mass of their populations. But even in those developing countries whose governments appear to be actively pursuing this goal, little progress can be discerned, except in very rare instances. Again, are the politicians of these developing countries simply incapable, or are the economic and social structures of the developing countries – the stark contrast between élite and masses, and debilitating economic dependency – so rigid that the goal of improving the living standards of the masses of the populations is unattainable under present circumstances? We shall come back to this question also.

Even the most superficial description of the *world economy* in the 1970s cannot be confined to a consideration of the situation of the industrialised countries on one hand, and of developing countries on the other, each looked at in artificial isolation. (The "socialist" countries will be taken into account in our study only inasmuch as they are also integrated into the world market.) The world economy is not simply the sum total of national economies, each of which functions essentially according to its own laws of motion, with only marginal interconnections, such as those established by external trade. These national economies are, rather, organic elements of one all-embracing system, namely a world economy which is in fact a single world-wide capitalist system. As our cursory survey has already shown, the structural changes in individual national economies are interrelated within this single world economy and mutually determine one another.

The most striking manifestation of the world economy is international trade. Well over 15 percent of all commodities and services which are produced every year in Western industrialised and developing countries enter international trade, and this percentage has been steadily increasing for at least the last fifteen years. Recognition of this fact is a first step towards understanding the increase of world-wide economic interpenetration.

The industrialised countries handle 70 percent of international trade and the developing countries only 20 percent. Seventy per cent of exports from both developing and industrialised countries are destined for industrialised countries and only 20 percent for the developing countries. In other words, whereas the foreign trade of the industrialised countries is mostly with each other, the foreign trade of the developing countries is mostly with the industrialised countries, and not their fellow developing countries. Recognition of this fact is a first step towards understanding the economic dependency of the developing countries on the industrialised countries.

The developing countries' exports to the industrialised countries still consist overwhelmingly of raw materials, whereas the vast bulk of the exports of the industrialised countries to the developing countries are still manufactures. In recent years, however, there has been a marked, slow but steady increase in manufactures exported from developing countries as a proportion of total world exports of manufactured goods. Recognition of this fact is a first important step towards understanding a potential change in the structure not only of world trade, but also, and more importantly, of the world economy itself. This change is especially evident in the rapid expansion of textile and garment exports from the developing countries to the industrialised countries.

International trade and world-wide industrial production, however, provide only a very superficial picture of the increasing interpenetration of national economies. World trade is increasingly becoming a flow of commodities between the plants of the same company spread throughout the world, or at least a flow between companies and their partners in subcontracting agreements. (For instance company A in Federal Germany delivers semiprocessed products for further manufacturing to a subcontractor B abroad; the finished manufactures are subsequently re-imported into Federal Germany.) In this case, foreign trade is not just simply an exchange of commodities between two national economies, but more precisely, a concrete manifestation of the international division of labour, consciously planned and utilised by individual companies.

One, albeit incomplete, expression of this international division of labour, which has been organised by private companies in pursuit of their own profit maximisation, is foreign investment. Figures for Federal German investment show that in recent years investment abroad by Federal German companies has exceeded investment by foreign companies in Federal Germany. Taken together with the fact that investment policy in Federal Germany has concentrated on rationalisation schemes for a number of years, this would suggest that Federal Germany has now apparently become less "interesting" as a site for the expansion of industrial production. (Figures on the development of industrial assets of Federal German companies, including the re-invested profits, both at home and abroad would, in all probability, if available, demonstrate this phenomenon even more clearly.)

However, perhaps the clearest expression of the structural changes in the world economy which can be observed in the mid-1970s is the relocation of production. One form of this relocation (among other equally important ones) is the closing down of certain types of manufacturing operations in undertakings in the industrial nations and the subsequent installation of these parts of the production process in the foreign subsidiaries of the same company. The Federal German textile and garment industries represent one of the best-known examples of such relocations. Trousers for the Federal German market are no longer produced for example in Mönchengladbach, but in the Tunisian subsidiary of the same Federal

German company. The process of relocation is also gaining momentum in other branches of industry. Injection pumps which were formerly made for the Federal German market by a Federal German company in Stuttgart, are now manufactured partly to the same end by the same company at a site in India. Television sets are produced on the same basis by another company in Taiwan; car radio equipment in Malaysia, car engines in Brazil, watches in Hong Kong, electronic components in Singapore and Malaysia all fall into the same category.

The Federal German worker rendered unemployed by the relocation of production has been replaced by a newly hired worker in a foreign subsidiary of "his" or "her" company.

Main Tendencies in the Contemporary World Economy

The question which we began with was the following: What has happened in the world economy to have occasioned the forecasts published by the OECD and Business International? To answer this we started with an outline of the economic situation of both the industrialised and the developing countries and we were occasionally obliged to resort to the vague term "the rest of the world". We have tried, however, to correct some of the misleading implications of this initial procedure by subsequent reference to some of the mutual relations and dependencies between the economies of the industrialised countries and the developing countries, which make up one world economy. We have chosen this descriptive procedure by way of introduction in order not to have to use more information, where possible, than is already available to any newspaper reader who is interested in political and economic matters.

Our next step is to undertake a *systematic presentation of essentially the same observable facts* and to show how they can only be understood as an *expression of the development of a single world economy*. ([Later] we try to explain the development of the world economy over the last five centuries showing how this development can only be understood as a necessary expression of the development of a *capitalist* world system.)

The origins of the present-day world economy are to be found in the sixteenth century. Its genesis was inextricably connected with the simultaneous emergence of a regional division of labour which affected the whole world. Different forms of the organisation of labour were used in different regions of the world (or introduced from outside the region itself) for different types of production. The following represent some characteristic examples:

From the Sixteenth Century to the Eighteenth Century

(a) Independent crafts and domestic labour (the putting-out system) formed the basis in Western Europe of manufactures such as textiles and metals, ship-building and arms production. Wage labour was also already used in individual large-scale manufacturing enterprises.

(b) Forced or slave labour formed the basis of silver mining in Peru and Mexico, and also of sugar plantations established by European colonial masters in Brazil and the West Indies. Serf labour formed the basis of grain production in Eastern Europe; the "second serfdom", a reversal in the trend towards the disintegration of landlord/serf relations, was utilised and even intensified owing to the demand for corn from Western Europe.

Eighteenth and Nineteenth Centuries

(a) Wage labour supplanted other forms of labour as the basis of the industrial revolution, which spread from England where cotton manufacturing, the steam engine and railways were developed.

(b) Slave labour became the basis of raw cotton production in the West Indies and in the Southern United States; India's indigenous cotton manufacturing which had initially been stimulated by world trade was destroyed; China and Japan were "opened up" for world trade (the Opium Wars etc.).

First Half of the Twentieth Century

(a) Wage labour formed the basis of manufacturing in Europe, USA and Japan.

(b) A peculiar form of wage labour (which will be discussed below) formed the basis of the extraction and production of raw materials in the enclaves of Latin America, Africa and Asia (coffee in Brazil, saltpetre and copper in Chile, gold and diamonds in South Africa). These were primarily for export onto the world market. A partial industrialisation process was established in a small number of developing countries through a policy of import-substitution.

The regions of Latin America, Africa and Asia have therefore been integrated for centuries into the developing world economy chiefly as producers of agricultural and mineral raw materials, sometimes as the suppliers of a labour-force (e.g. African slaves). This integration was enforced wherever it was feasible and necessary by the military, technological and economic superiority which the West European nations and rulers developed after the sixteenth century.

Some countries of the so-called Third World have, under certain very specific conditions, experienced a weak process of industrialisation based on a policy of import-substitution: for instance, parts of Latin America during the partial disintegration of the world economy between 1930 and 1945. During this period it was possible for a modest local industry to develop in some underdeveloped countries for the purpose of supplying a very restricted domestic market. This development was possible only behind a barrier of selective import restrictions and was facilitated by the preoccupation of the most powerful industrialised nations with their "own" problems during this period, a preoccupation which prevented them from intervening in the so-called Third World. This modest profitable local industry, however, very quickly reached the limits of local effective demand, and since it was non-competitive on the world market, receded into stagnation almost everywhere after the Second World War, and even in some cases, such as Argentina, collapsed into agony.

Our earlier descriptive sketch of some typical aspects of the contemporary world economy has already indicated that the old or "classical" international division of labour is now open for replacement. The decisive evidence for this hypothesis is the fact that developing countries have increasingly become sites for manufacturing – producing manufactured goods which are competitive on the world market. The three case studies presented in this book provide extensive documentation of this world market oriented production of manufactures which is now being established and developed on new industrial sites, especially those in the developing countries.

This world market oriented industrialisation which is emerging today in many developing countries is not the result of positive decisions made by individual governments or companies. Industry only locates itself at those sites where production will yield a certain profit, sites which have been determined by five centuries of development of the world economy. In the "classical" international division of labour which developed over this period, industrial sites for manufacturing basically only existed in Western Europe, and later in the USA and Japan. Since it is evident that the developing countries are now providing sites for the profitable manufacture of industrial products destined for the world market to an ever-increasing extent, we quickly come up against the question: What changes are responsible for this development?

Three preconditions taken together seem to be decisive for this new development.

Firstly, a practically inexhaustible reservoir of disposable labour has come into existence in the developing countries over the last few centuries. This labour-force is extremely cheap; it can be mobilized for production for practically the whole of the year, and all hours of the day, on shift work, night work and Sunday work; in many cases it can reach levels of labour productivity comparable with those of similar processes in the developed countries after a short period of training; companies can afford to exhaust the labour-force by overwork as it can easily be replaced, and they can also select their employees very specifically according to age, sex, skill, discipline and other relevant factors as there is an oversupply of people who are forced to take any job which is available.

Secondly, the division and subdivision of the production process is now so advanced that most of these fragmented operations can be carried out with minimal levels of skill easily learnt within a very short time.

Thirdly, the development of techniques of transport and communication has created the possibility, in many cases, of the complete or partial production of goods at any site in the world – a possibility no longer ruled out by technical, organisational and cost factors.

The coincidence of these three preconditions (which are supplemented by other, less important ones) has brought into existence a world market for labour and a real world industrial reserve army of workers, together with a world market for production sites. Workers in the already industrialised countries are now placed on a world-wide labour market and forced to compete for their jobs with their fellow workers in the developing countries. Today, with the development of a world-wide market in production sites, the traditional industrialised and the developing countries have to compete against one another to attract industry to their sites.

In other words, for the first time in the history of the 500-year-old world economy, the profitable production of manufactures for the world market has finally become possible to a significant and increasing extent, not only in the industrialised countries, but also now in the developing countries. Furthermore, commodity production is being increasingly subdivided into fragments which can be assigned to whichever part of the world can provide the most profitable combination of capital and labour.

The term which we shall use to designate this qualitatively new development in the world economy is the *new international division of labour*.

Of those countries which were able to supply vast reserve armies of potential industrial workers and to offer these workers' labour-power at a low price, the first to attract the relocation of parts of the production process were countries with close geographical and commercial links to existing industrial centres. The first shifts of US industry were to Western Europe and to countries "south of the border"; West European companies transferred production to other regions in Europe, such as Eire, Greece, Portugal and the south of Italy; Japanese industry moved into South Korea and Taiwan. At the same time, industrial firms recruited labour from countries with high rates of unemployment and drew it in to the traditional sites of industrial production. Hence the appearance of *Gastarbeiter* in Western Europe, and Mexican and Puerto Rican immigrant workers in the USA.

Since then, sites for relocated manufacturing are not only being supplied in the border areas of Western Europe, Central America, North Africa, and South East Asia, but increasingly in Eastern Europe, South America, Central Africa and South Asia. The transfer of production to places with cheap labour not only affects the more or less labour-intensive production processes but also processes which are heavily dependent on raw materials and energy, and those which are a source of environmental pollution, given that the new sites can also offer favourable conditions as far as other factors of production are concerned. It has even affected capital-intensive production processes, contrary to the unsubstantiated prejudices of a number of international economists. Not only are investments, production capacities and output expanded and developed at these new sites, but existing facilities at the traditional sites which have become obsolete in terms of profitability are closed down.

This means that any company, almost irrespective of its size, which wishes to survive is now forced to initiate a transnational reorganisation of production to adapt to these qualitatively new conditions.

By far the most important means by which companies have secured their continued survival in the past has been through "investment in rationalisation" – the installation of more efficient machinery and a reduction in the size and skills of the labour force. This device alone (along with other "classical" devices) is no longer adequate. The development of the world economy has increasingly created conditions (forcing the development of the new international division of labour) in which the survival of more and more companies can only be assured through the relocation of production to new industrial sites, where labour-power is cheap to buy, abundant and well-disciplined; in short, through the transnational reorganisation of production.

[…]

The results of our empirical studies are presented in Parts I, II and III [omitted here]. Some of the results are presented in summary form immediately below. If read without being placed in the context of our later more extensive presentation they may lead to distorted interpretations. The figures mentioned in this summary should therefore only be taken as approximate indications of the extent to which the new international division of labour has already developed.

Case Study I is a survey of 214 textile and 185 garment companies from Federal Germany. In 1974 these companies accounted for roughly 60 percent of turnover and employment in the Federal German textile industry and 40 percent in the Federal German garment industry. In each of these samples about a hundred companies had *subsidiaries* producing abroad by 1974/5. These figures do not include production abroad by a quite significant number of nominally independent foreign producers, in particular through subcontracting and export-processing cooperation agreements with Eastern European and East Asian firms. These figures should be compared with those of other studies which identified about thirty firms from each industry in 1966, and forty firms from each in 1970 producing either in wholly or partly owned subsidiaries abroad.

A breakdown of our findings by region shows that in 1974 foreign production in the subsidiaries of the companies covered by our case study was concentrated in the industrialised countries (chiefly, the EEC countries, Austria and Switzerland) on the one hand, with a share of 50–60 percent, and in certain of the developing countries on the other hand (the textile industry in Africa and the Mediterranean countries, and the garment industry in the Mediterranean countries and Asia). The concentration of production in these regions is confirmed statistically regardless of whether we look at the number of foreign subsidiaries or the number of employees.

The following figures are the numbers of employees in the foreign subsidiaries of the Federal German textile and garment industries. In the textile industry, the numbers of employed increased from 8000 in 1966 to 14,200 in 1970 and finally to 29,500 in 1974: these are minimum estimates. In the garment industry, the equivalent figures are 15,000, 24,800 and 31,000. The sizes of the labour-force employed in foreign subsidiaries as a proportion of these industries' domestic employment in the Federal Republic of Germany are as follows: in the textile industry, 1.5 percent in 1966, 2.8 percent in 1970 and 7.5 percent in 1974/5; in the garment industry, 3.7 percent in 1966, 6.5 percent in 1970 and 10.0 percent in 1974/5. Foreign employment in Federal German subsidiaries in the "low wage countries" as proportion of the total foreign labour employed by Federal German subsidiaries abroad in the textile and garment industries has increased from approximately 25 percent in 1966 to approximately 45 percent by 1974/5.

A breakdown of employment abroad by sex and age group reveals that the subsidiaries of Federal German garment companies in the "low wage countries" employ an extremely high percentage of young female workers. Roughly 43 percent of the employed are younger than twenty, and more than 90 percent are female.

If one includes *subcontracting arrangements* with foreign firms, then the Federal German textile and garment industries are employing at least 69,000 workers in subsidiaries and subcontracted firms abroad, and very probably significantly more; a figure of over 80,000 employees for the Federal German textile and garment industry abroad is not an improbable estimate for 1974/5.

In short, the foreign employment of the Federal German textile and garment industries has more than doubled between 1966 and 1974/5, whereas domestic employment has decreased by roughly a quarter over the same period. An estimate for 1977 would show that for every hundred workers employed by the Federal German textile and garment industries in Federal Germany itself, there are more than ten foreign workers employed abroad.

In 1974/5, some 30,000 employees in the foreign production facilities of the Federal German textile and garment industry were producing either exclusively or predominantly for the Federal German market. This is an indication of the extent to which companies have relocated production for the domestic market from production sites in Federal Germany to sites abroad.

The case study analyses in some detail the following indicators of the new international division of labour in the sphere of the textile and garment industries: the drastically increased negative balance of trade in textiles and clothing of Federal Germany; the structural unemployment in the traditional industrial centres which has been caused by this development in the world economy; the export-oriented industrialisation of the developing countries; the corresponding relocations of production as industry is moved from sites in the "centre" to the "periphery"; and the increasing subdivision of the production process into fragmented routines which can be distributed throughout the world. The growing significance of these factors over the last ten to fifteen years in the sphere of the textile and garment industries provides incontrovertible evidence of the fact that the economic pressure of the world-wide labour market and the world market for industrial sites is forcing companies to undertake a global reorganisation of their own production processes. Rationalisation schemes, both at home and abroad, and industrial relocation abroad (especially to "low wage countries") go hand in hand.

What this process means for those it directly affects is, first and foremost, unemployment and the devaluation of skills for workers in the traditional industrial countries, and the subjection of the populations of the developing countries to inhuman working conditions, with no hope for improvement in the foreseeable future. Furthermore, the inevitable development of this process means that in the years to come working people will be threatened even more drastically than in the past with the degradation and rigid discipline which reduces them to the status of mere appendages of the machine.

Case Study II surveys 602 Federal German manufacturing companies (excluding the textile and garment industries) which have had at least one subsidiary producing abroad (outside the EEC) between 1961 and 1976. The sum total of these subsidiaries (Federal German formal share-in-capital between 25 percent and 100 percent) of these companies producing outside the EEC is 1,760. Of these companies, 339 have one subsidiary abroad, 528 companies have up to four subsidiaries abroad, and twelve companies have twenty or more. These subsidiaries are located in a total of seventy-seven countries, with Brazil, Spain, the USA and Austria each accounting for more than a hundred. Of the 602 companies in our survey, 335 have 709 subsidiaries in industrialised countries, and 444 have 1,051 subsidiaries in developing countries.

It was possible to collect employment figures for 1,178 of the 1,760 subsidiaries surveyed; in 1975 these subsidiaries employed 560,788 persons. If the EEC countries and the textile and garment industries are included, our estimate of the total employment abroad by Federal German manufacturing companies amounts to 1.5 million workers. That is, the number of workers directly employed by Federal German manufacturing companies in foreign countries amounts to 20 percent of the total domestic labour-force in Federal German manufacturing industry. This figure, which is based on quite conservative estimates, is considerably higher than any other estimate published to date.

Foreign production is fairly well distributed over the different branches of industry. The mechanical engineering branch has the highest number of companies involved in production abroad, the chemicals industry has the most subsidiaries, and the electrical engineering industry has the most employees abroad. The data collected shows that nearly all branches of Federal German industry participate to a significant degree in production abroad and industrial relocation.

Between 1961 and 1976 the number of foreign subsidiaries belonging to the companies surveyed in this case study increased fourfold, with much of this increase first starting at the end of the 1960s. The increase in the number of employees abroad has been even more striking since many existing foreign subsidiaries have expanded their production and employment during the period of time under investigation. Complete data is available for a subsample of the companies surveyed, and reveals that the number of employees employed abroad by these companies increased fivefold between 1961 and 1974.

The above figures represent only a fraction of all foreign production by Federal German industry. This is due not so much to lack of information on the companies producing abroad but more significantly to our operational definition of what constitutes Federal German production abroad, i.e. production where the Federal German share in the subsidiaries' capital was at least 25 percent, which therefore excludes instances of Federal German foreign production where the direct holding is low or non-existent. However, it is possible for Federal German industry to use foreign production facilities without any direct capital participation, as evidenced by such cooperative arrangements as international subcontracting, management, supply and licence agreements. Our case study does not provide statistical data on the extent of this type of foreign production, and it is difficult to estimate how widespread it is. In some parts of the world, at least, this type of foreign production is more important than that controlled through direct capital holdings (e.g. in Eastern Europe and India).

These complexities must be taken into account in estimating the amount of industrial relocation. The procedure must start not only with individual companies and take note of all changes in industrial sites for the totality of production organised by those companies, but must add to this processes of relocation at the level of whole branches of industry which are not organised by domestic companies alone; for example, if domestic production in a given company is cut back or shut down completely because the product is now obtained from non-Federal German companies producing abroad. An assessment of the tendencies towards the relocation of industry throughout the world, and hence of the structural changes in the world economy and its subeconomies, can only be obtained by a global estimate of the redistribution of industrial sites.

The results of case study II (the study of industry in one major industrial country) testify to the changed conditions for the world-wide valorisation of capital which are forcing industrial undertakings, regardless of size and industrial branch, to reorganise their production. In an increasing number of cases, this reorganisation involves the relocation of production abroad. To conclude: the new international division of labour is manifested in the changing world distribution of, in this case, Federal German production facilities. The high level of structural unemployment in Federal Germany is an inevitable result of the transfer of industrial employment elsewhere in the world.

Case Study III is based on data embracing 103 countries in Asia, Africa and Latin America. Whereas in the mid-1960s manufacturing for the markets of the industrialised countries was virtually non-existent in the underdeveloped countries, ten years later, there were literally thousands of factories in production in the underdeveloped countries producing goods almost exclusively for the markets of the industrialised countries. Such factories existed in at least thirty-nine underdeveloped countries; fifteen of these countries were in Asia, eight in Africa and sixteen in Latin America. This spread of industrial production in the so-called Third World is tied up with the creation of a new type of industrial site – the free production zone – and with the creation of a new type of factory – the world market factory.

Free production zones are industrial areas which are separated off from the rest of the country, located at places where labour is cheap and designated as sites for world market oriented industry; world market factories are factories which are built on these sites, but can also be situated elsewhere, and intended for the industrial utilisation of the available labour and the processing of goods destined essentially for the markets of the industrialised countries. In 1975, seventy-nine free production zones were in operation in twenty-five underdeveloped countries; eleven of these countries were in Asia, five in Africa and nine in Latin America.

As far as the structure of production at these sites is concerned, nearly all branches of manufacturing industry are represented. On the other hand, as far as individual zones and countries are concerned, there is a tendency for the development of industrial mono-structures. In 1975 the bulk of production was accounted for by the products of the textiles and garment industry on one hand, and those of the electrical engineering industry on the other. Production in world market factories is highly vertically integrated into the transnational operations of the individual companies and involves non-complex production operations; as regards the processing of each product or product group, the production process is largely confined to part operations: the manufacturing of parts, assembling of parts, or final assembly. Only in the case of a few product groups, and in a few countries, can one identify anything resembling complex manufacture; textiles and garments are one example.

The employment structure in free production zones and world market factories is extremely unbalanced. Given a virtually unlimited supply of unemployed labour, world market factories at the free production zones, or other sites, select one specific type of worker, chiefly women from the younger age groups. The criteria used for the selection of workers are quite unambiguous: the labour which is employed is that which demands the least remuneration, provides the maximum amount of energy (i.e. fresh labour which can be expected to work at a high intensity) and which is predominantly unskilled or semiskilled.

The case study attempts to provide an answer to the question as to whether the aims of development policy, which are allegedly linked with world market oriented industrialisation, are being attained. These are: reduction in unemployment, training of skilled personnel, access to modern technology, and increases in the foreign currency earned by the country concerned. The historical record up to now and the foreseeable future both indicate that the answer to this question is an unequivocal “no”.

Notes

1 Business International Corporation, *Business International – Weekly Report to Managers of World-wide Operations*, 7 January 1977, p. 1.

2 “Changes in West life-styles expected. OECD sees tough capitalist road ahead,” *Herald Tribune*, 28 July 1976; cf. OECD, *Economic Outlook*, 19 July 1976, Special Supplement, “A growth scenario to 1980”.

15

In Defense of Global Capitalism (2003)

Johan Norberg

Introduction

[…]

I love what is rather barrenly termed "globalization," the process by which people, information, trade, investments, democracy, and the market economy are tending more and more to cross national borders. This internationalization has made us less constricted by mapmakers' boundaries.

Political power has always been a creature of geography, based on physical control of a certain territory. Globalization is enabling us more and more to override these territories, by traveling in person and by trading or investing across national borders. Our options and opportunities have multiplied as transportation costs have fallen, as we have acquired new and more efficient means of communication, and as trade and capital movements have been liberalized.

We don't have to shop with the big local company; we can turn to a foreign competitor. We don't have to work for the village's one and only employer; we can seek out alternative opportunities. We don't have to make do with local cultural amenities; the world's culture is at our disposal. We don't have to spend our whole lives in one place; we can travel and relocate.

Those factors lead to a liberation of our thinking. We no longer settle for following the local routine; we want to choose actively and freely. Companies, politicians, and

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associations have to exert themselves to elicit interest or support from people who have a whole world of options to choose from. Our ability to control our own lives is growing, and prosperity is growing with it.

[…]

In the past few years, more and more people have been complaining that the new liberty and internationalism have gone too far, giving rise to a "hypercapitalism." The protest movement against this more global capitalism may call itself radical and profess to stand for exciting new ideas, but its arguments actually represent the same old opposition to free markets and free trade that has always been shown by national rulers. Many groups – authoritarian Third World regimes and Eurocrats, agrarian movements and monopoly corporations, conservative intellectuals and new left movements – are afraid of a globalized humanity acquiring more power at the expense of political institutions. All of them are united in viewing globalization as a monster completely out of control, a monster that has to be rounded up and restrained.

Much of the criticism of globalization is based on portraying it as something big and menacing. Often such criticism is not reasoned argument, but flat statements of fact. Critics may say, for example, that 51 of the world's biggest economies are corporations or that something like $1.5 trillion are moved around in financial markets every day, as if size itself were intrinsically dangerous and terrifying. But that is arithmetic, not argument. It remains to be proved that big businesses or high turnover are problems in themselves. Frequently, the detractors forget to prove any such thing. In this book I argue for the opposite view: as long as we are at liberty to pick and choose, there is nothing wrong with certain forms of voluntary cooperation growing large through success.

Such imposing numbers and the abstract term "globalization" – coined in the early 1960s but in common use only since the 1980s – conjure up the image of an anonymous, enigmatic, elusive force. Simply because globalization is governed by people's individual actions across different continents, and not from a central control booth, it seems unchecked, chaotic. Political theorist Benjamin Barber echoed the thoughts of a host of like-minded intellectuals when he bemoaned the apparent absence of "viable powers capable of opposing, subduing, and civilizing the anarchic forces of the global economy."[1]

Many feel powerless in the face of globalization, and that feeling is understandable when we consider how much is determined by the decentralized decisions of millions of people. If others are free to run their own lives, we have no power over them. But in return, we acquire a new power over our own lives. That kind of powerlessness is a good thing. No one is in the driver's seat, because all of us are steering.

The Internet would wither and die if we did not send e-mails, order books, and download music every day through this global computer network. No company would import goods from abroad if we didn't buy them, and no one would invest money over the border if there weren't entrepreneurs there willing to expand existing businesses or launch new ones in response to customer demand. Globalization consists of our everyday actions. We eat bananas from Ecuador, drink wine from

France, watch American movies, order books from Britain, work for export companies selling to Germany and Russia, vacation in Thailand, and save money for retirement in funds investing in South America and Asia. Capital may be channeled by finance corporations, and goods may by carried across borders by business enterprises, but they only do these things because we want them to. Globalization takes place from beneath, even though politicians come running after it with all sorts of abbreviations and acronyms (EU, IMF, UN, WTO, UNCTAD, OECD) in a bid to structure the process.

Of course, keeping up with the times doesn't always come easily, especially to intellectuals in the habit of having everything under control…. But how complex and confusing everything is becoming now that the other continents are awakening and developments are also beginning to be affected by ordinary people's everyday decisionmaking. No wonder, then, that influential people, decisionmakers, and politicians claim that "we" (meaning they) lose power because of globalization. *They* have lost some of it to *us* – to ordinary citizens.

Not all of us are going to be global jet-setters, but we don't have to be in order to be a part of the globalization process. In particular, the poor and powerless find their well-being vastly improved when inexpensive goods are no longer excluded by tariff barriers and when foreign investments offer employment and streamline production. Those still living in the place where they were born stand to benefit enormously from information being allowed to flow across borders, and from being free to choose their political representatives. But that requires more in the way of democratic reforms and economic liberalization.

Demanding more liberty to pick and choose may sound trivial, but it isn't. To those of us in the affluent world, the availability of nonlocal options may seem like a luxury, or even an annoyance…. The existence from which globalization delivers people in the Third World really is intolerable. For the poor, existence means abject poverty, filth, ignorance, and powerlessness; it means always wondering where the next meal is coming from; it means walking many miles to collect water that may not be fit to drink.

When globalization knocks at the door of Bhagant, an elderly agricultural worker and "untouchable" in the Indian village of Saijani, it leads to houses being built of brick instead of mud, to people getting shoes on their feet and clean clothes – not rags – on their backs. Outdoors, the streets now have drains, and the fragrance of tilled earth has replaced the stench of refuse. Thirty years ago Bhagant didn't know he was living in India. Today he watches world news on television.[2]

The new freedom of choice means that people are no longer consigned to working for the village's only employers, the large and powerful farmers. When the women get work away from home, they also become more powerful within the family. New capital markets mean that Bhagant's children are not compelled to borrow money from usurers who collect payment in future labor. The yoke of usury, by which the whole village was once held in thrall, vanishes when people are able to go to different banks and borrow money from them instead.

Everyone in Bhagant's generation was illiterate. In his children's generation, just a few were able to attend school, and in his grandchildren's generation, *everyone* goes to school. Things have improved, Bhagant finds. Liberty and prosperity have grown. Today the children's behavior is the big problem. When he was young, children were obedient and helped in the home. Now they have grown so terribly independent, making money of their own. Such things can cause tensions, of course, but it isn't quite the same thing as the risk of having to watch your children die, or having to sell them to a loan shark.

The stand that you and I and other people in the privileged world take on the burning issue of globalization can determine whether more people are to share in the development that has taken place in Bhagant's village or whether that development is to be reversed.

Critics of globalization often try to paint a picture of neo-liberal market marauders having secretly plotted for capitalism to attain world mastery… .

Deregulation, privatization, and trade liberalization, however, were not invented by ultra-liberal ideologues. True, there were political leaders – Reagan and Thatcher, for instance – who had been inspired by economic liberalism. But the biggest reformers were communists in China and the Soviet Union, protectionists in Latin America, and nationalists in Asia. In many other European countries, the progress has been spurred by Social Democrats. In short, the notion of conspiratorial ultra-liberals making a revolution by shock therapy is completely off the mark. Instead, it is pragmatic, often anti-liberal politicians, realizing that their governments have gone too far in the direction of control-freakery, who have for this very reason begun liberalizing their economies. The allegation of liberal-capitalist world dominion has to be further tempered by the observation that today we probably have the biggest public sectors and the highest taxes the world has ever known. The liberalization measures that have been introduced may have abolished some of the past's centralist excesses, but they have hardly ushered in a system of laissez faire. And because the rulers have retreated on their own terms and at their own speed, there is reason to ask whether things really have gone too far, or whether they have not gone far enough.

When I say that I mean to defend capitalism, what I have in mind is the capitalistic freedom to proceed by trial and error, without having to ask rulers and border officials for permission first…. I want everyone to have that liberty in abundance. If the critics of capitalism feel that we already have a superabundance of that liberty today, I would like to have more still – a superduper abundance if possible – especially for the poor of the world's population, who as things now stand have little say regarding their work and consumption. That is why I do not hesitate to call this book *In Defense of Global Capitalism*, even though the "capitalism" I celebrate is really more a possible future than a currently existing system.

By capitalism I do not specifically mean an economic system of capital ownership and investment opportunities. Those things can also exist in a command economy. What I mean is the liberal market economy, with free competition based on the right to use one's property and the freedom to negotiate, to conclude agreements, and to start up business activities. What I am defending, then, is individual liberty in the economy. Capitalists are dangerous when, instead of seeking profit through competition, they join forces with the government. If the state is a dictatorship, corporations can easily be parties to human rights violations, as a number of Western oil companies have been in African states.[3] By the same token, capitalists who stalk the corridors of political power in search of benefits and privileges are not *true* capitalists. On the contrary, they are a threat to the free market and as such must be criticized and counteracted. Often, businessmen want to play politics, and politicians want to play at being businessmen. That is not a market economy; it is a mixed economy in which entrepreneurs and politicians have confused their roles. Free capitalism exists when politicians pursue liberal policies and entrepreneurs do business.

What I really believe in, first and foremost, isn't capitalism or globalization. It isn't the systems or regulatory codes that achieve all we see around us in the way of prosperity, innovation, community, and culture. Those things are created by people. What I believe in is man's capacity for achieving great things, and the combined force that results from our interactions and exchanges. I plead for greater liberty and a more open world, not because I believe one system happens to be more efficient than another, but because those things provide a setting that unleashes individual creativity as no other system can. They spur the dynamism that has led to human, economic, scientific, and technical advances. Believing in capitalism does not mean believing in growth, the economy, or efficiency. Desirable as they may be, those are only the results. At its core, belief in capitalism is belief in mankind.... My aim is not for economic transactions to supplant all other human relations. My aim is freedom and voluntary relations in all fields. In the cultural arena, that means freedom of expression and of the press. In politics, it means democracy and the rule of law. In social life, it means the right to live according to one's own values and to choose one's own company. And in the economy, it means capitalism and free markets.

It is not my intention that we should put price tags on everything. The important things in life – love, family, friendship, one's own way of life – cannot be assigned a dollar value. Those who believe that, to the liberal mind, people always act with the aim of maximizing their income know nothing about liberals, and any liberal who does think that way knows nothing of human nature.

[...]

Poverty Reduction

Between 1965 and 1998, the average world citizen's income practically doubled, from $2,497 to $4,839, adjusted for purchasing power and inflation. That increase has not come about through the industrialized nations multiplying their incomes. During this period the richest fifth of the world's population increased their average income from $8,315 to $14,623, or by roughly 75 percent. For the poorest fifth of the world's population, the increase has been faster still, with average income more than doubling during that same period from $551 to $1,137.[4] World consumption today is more than twice what it was in 1960.

Thanks to material developments in the past half century, the world has over three billion more people living above the poverty line. This is historically unique. The United Nations Development Program (UNDP) has observed that, all in all, world poverty has fallen more during the past 50 years than during the preceding 500. In its *Human Development Report 1997*, the UNDP writes that humanity is in the midst of "the second great ascent." The first began in the 19th century, with the industrialization of the United States and Europe and the rapid spread of prosperity. The second began during the post-war era and is now in full swing, with first Asia and then the other developing countries scoring ever-greater victories in the war against poverty, hunger, disease, and illiteracy.

> The great success in reducing poverty in the 20th century shows that eradicating severe poverty in the first decades of the 21st century is feasible.[5]

Poverty is still rapidly diminishing. "Absolute poverty" is usually defined as the condition of having an income less than one dollar a day. In 1820 something like 85 percent of the world's population were living on the equivalent of less than a dollar a day. By 1950 that figure had fallen to about 50 percent and by 1980 to 31 percent. According to World Bank figures, absolute poverty has fallen since 1980 from 31 to 20 percent (a figure of 24 percent is often mentioned, meaning 24 percent of the population of the developing countries). The radical reduction of the past 20 years is unique in that not only the proportion but also the total number of people living in absolute poverty has declined – for the first time in world history. During these two decades the world's population has grown by a billion and a half, and yet the number of absolute poor has fallen by about 200 million. That decrease is connected with economic growth. In places where prosperity has grown faster, poverty has been most effectively combated. In East Asia (China excluded), absolute poverty has fallen from 15 to just over 9 percent, in China from 32 to 17 percent. Six Asians in 10 were absolutely poor in 1975. Today's figure, according to the World Bank, is fewer than 2 out of 10.

[…]

"But," the skeptic asks, "what do people in the developing countries want consumption and growth for? Why must we force our way of life upon them?" The answer is that we must not force a particular way of life on anyone. Whatever their values, the great majority of people the world over desire better material conditions, for the simple reason that they will then have more options, regardless of how they then decide to use that increased wealth. As Indian economist and Nobel laureate Amartya Sen has emphasized, poverty is not just a material problem. Poverty is something wider: it is about powerlessness, about being deprived of basic opportunities and freedom of choice. Small incomes are often symptomatic of the absence of these things, of people's marginalization or subjection to coercion.

Human development means enjoying a reasonably healthy and secure existence, with a good standard of living and freedom to shape one's own life. It is important to investigate material development because it suggests how wealth can be produced and because it contributes to development in this broader sense. Material resources, individual and societal, enable people to feed and educate themselves, to obtain health care, and to be spared the pain of watching their children die. Those are pretty universal human desires, one finds, when people are allowed to choose for themselves.

The worldwide improvement in the human condition is reflected in a very rapid growth of average life expectancy. At the beginning of the 20th century, average life expectancy in the developing countries was under 30 years, by 1960 it had risen to 46, and in 1998 it was 65. Longevity in the developing countries today is nearly 15 years higher than it was a century ago in the world's *leading* economy at the time, Britain. Development has been slowest in sub-Saharan Africa, but even there life expectancy has risen, from 41 to 51 years since the 1960s. Average life expectancy remains highest in the most affluent countries – in the Organization for Economic Cooperation and Development (OECD) countries it is 78 – but the *fastest improvement* has been in the poor countries. In 1960, their average life expectancy was 60 percent of that of the affluent countries. Today it is more than 80 percent. Nine out of every 10 people in the world today can expect to live beyond 60, which is more than twice the average only a hundred years ago.

[…]

The improvement in health has been partly because of better eating habits and living conditions, but also because of improved health care. Twenty years ago there was one doctor for every thousand people; today there are 1.5. In the very poorest countries, there was 0.6 of a doctor per thousand inhabitants in 1980; this statistic has almost doubled to 1.0. Perhaps the most dependable indicator of the living conditions of the poor is infant mortality, which in the developing countries has fallen drastically. Whereas 18 percent of newborns – almost one in five! – died in 1950, by 1976 this figure had fallen to 11 percent and in 1995 was only 6 percent. In the past 30 years alone, mortality has been almost halved, from 107 deaths per thousand births in 1970 to 59 per thousand in 1998. More and more people, then, have been able to survive despite poverty. And even as more people in poor countries survive, a progressively smaller proportion of the world's population is poor, which in turn suggests that the reduction of poverty has been still greater than is apparent from a superficial study of the statistics.

Hunger

Longer lives and better health are connected with the reduction of one of the cruelest manifestations of underdevelopment – hunger. Calorie intake in the Third World has risen by 30 percent per capita since the 1960s. According to the UN Food and Agriculture Organization, 960 million people in the developing countries were undernourished in 1970. In 1991 the figure was 830 million, falling by 1996 to 790 million. In proportion to population, this is an immensely rapid improvement. Thirty years ago nearly 37 percent of the population of the developing countries were afflicted with hunger. Today's figure is less than 18 percent. Many? Yes. Too many? Of course. But the number is rapidly declining. It took the first two decades of the 20th century for Sweden to be declared free from chronic malnutrition. In only 30 years the proportion of hungry in the world has been reduced by half, and it is expected to decline further, to 12 percent by 2010. There have never been so many of us on earth, and we have never had such a good supply of food. During the 1990s, the ranks of the hungry diminished by an average of 6 million every year, at the same time as the world's population grew by about 800 million.

Things have moved fastest in East and Southeast Asia, where the proportion of the hungry has fallen from 43 to 13 percent since 1970. In Latin America, it has fallen from 19 to 11 percent, in North Africa and the Middle East from 25 to 9 percent, in South Asia from 38 to 23 percent. The worst development has occurred in Africa south of the Sahara, where the number of hungry has actually increased, from 89 to 180 million people. But even there the proportion of the population living in hunger has declined, albeit marginally, from 34 to 33 percent.

Global food production has doubled during the past half century, and in the developing countries it has tripled. Global food supply increased by 24 percent, from 2,257 to 2,808 calories per person daily, between 1961 and 1999. The fastest increase occurred in the developing countries, where consumption rose by 39 percent, from 1,932 to 2,684 calories daily.[6] Very little of this development is due to new land having been converted to agricultural use. Instead, the old land is being farmed more efficiently. The yield per acre of arable land has virtually doubled. Wheat, maize, and rice prices have fallen by more than 60 percent. Since the beginning of the 1980s alone, food prices have halved and production from a given area of land has risen by 25 percent – a process that has been swifter in poor countries than in affluent ones.

Such is the triumph of the "green revolution." Higher-yield, more-resistant crops have been developed, at the same time as sowing, irrigation, manuring, and harvesting methods have improved dramatically. New, efficient strains of wheat account for more than 75 percent of wheat production in the developing countries, and farmers there are estimated to have earned nearly $5 billion as a result of the change. In southern India, the green revolution is estimated to have boosted farmers' real earnings by 90 percent and those of landless peasants by 125 percent over 20 years. Its impact has been least in Africa, but even there the green revolution has raised maize production per acre by between 10 and 40 percent. Without this revolution, it is estimated that world prices of wheat and rice would be nearly 40 percent higher than they are today and that roughly another 2 percent of the world's children – children who are now getting enough to eat – would have suffered from chronic malnourishment. Today's food problem has nothing to do with overpopulation. Hunger today is a problem of access to the available knowledge and technology, to wealth, and to the secure background conditions that make food production possible. Many researchers believe that if modern farming techniques were applied in all the world's agriculture, we would already be able, here and now, to feed another billion or so people.[7]

The incidence of major famine disasters has also declined dramatically, largely as a result of the spread of democracy. Starvation has occurred in states of practically every kind – communist regimes, colonial empires, technocratic dictatorships, and ancient tribal societies. In all cases they have been centralized, authoritarian states that suppressed free debate and the workings of the market. As Amartya Sen observes, there has never been a famine disaster in a democracy. Even poor democracies like India and Botswana have avoided starvation, despite having a poorer food supply than many countries where famine *has* struck. By contrast, communist states like China, the Soviet Union, Cambodia, Ethiopia, and North Korea, as well as colonies like India under the British Raj, have experienced starvation. This shows that famine is caused by dictatorship, not by food shortage. Famine is induced by leaders destroying production and trade, making war, and ignoring the plight of the starving population.

Sen maintains that democracies are spared starvation for the simple reason that it is easily prevented if the rulers of a society wish to prevent it. Rulers can refrain from impeding the distribution of food, and they can create jobs for people who would not be able to afford food purchases in times of crisis. But dictators are under no pressure: they can eat their fill however badly off their people are, whereas democratic leaders will be unseated if they fail to address food distribution problems. Additionally, a free press makes the general public aware of the problems, so that they can be tackled in time….[8]

At the same time as more people are getting the food they need, the supply of potable drinking water has doubled, which is hugely important for the reduction of disease and infection in developing countries. Worldwide, 8 people in 10 now have access to pure water. A generation ago, 90 percent of the world's rural population were without pure water. Today that applies to only 25 percent. At the beginning of the 1980s, little more than half of India's population had access to pure water, while 10 years later the figure was more than 80 percent. In Indonesia that percentage rose from 39 to 62. Countries like Kuwait and Saudi Arabia today derive large parts of their water supply from desalination of seawater, which is available in practically unlimited quantities. Desalination is a costly process, but it shows that growing prosperity can solve problems of scarce resources.

Democratization

The accelerating spread of information and ideas throughout the world, coupled with rising education standards and growing prosperity, is prompting demands for genuine political rights. Critics of globalization maintain that a dynamic market and international capital are a threat to democracy, but what they really see threatened is the use that *they* would like to make of democracy. Never before in human history have democracy, universal suffrage, and the free formation of opinion been as widespread as they are today.

A hundred years ago, no country on earth had universal and equal suffrage. The world was ruled by empires and monarchies. Even in the West, women were excluded from the democratic process. During the 20th century, large parts of the world were subjugated by communism, fascism, or National Socialism, ideologies that led to major wars and the political murder of more than a hundred million people. With just a few exceptions, those systems have fallen. The totalitarian states have collapsed, the dictatorships have been democratized, and the absolute monarchies have been deposed. A hundred years ago, one-third of the world's population was governed by remote colonial powers. Today the colonial empires have been dismantled. In the past few decades alone, dictatorships have fallen like bowling pins, especially following the tearing down of the communist Iron Curtain. The end of the Cold War also put an end to the unpleasant American strategy of supporting Third World dictatorships as long as they opposed the Soviet bloc.

According to the think tank Freedom House, there were 121 democracies with multiparty systems and with universal, equal suffrage in 2002. Living in those democracies are some 3.5 billion people, or roughly 60 percent of the world's population. Freedom House regards 85 countries, with a total of 2.5 billion inhabitants, as "free" (i.e., democratic countries with civil rights). That is more than 40 percent of the world's inhabitants, the biggest proportion ever. That many, in other words, are living in states that guarantee the rule of law and permit free debate and an active opposition.

In 2002, there were 47 states that violated basic human rights. Worst among them were Burma, Cuba, Iraq, Libya, North Korea, Saudi Arabia, Sudan, Syria, and Turkmenistan – that is, the countries least affected by globalization and least oriented in favor of the market economy and liberalism. While deploring and combating their oppression, suppression of opinion, government-controlled media, and wiretapping, we should still remember that such was the normal state of affairs for most of the world's population only a few decades ago. In 1973, only 20 countries with populations of more than a million were democratically governed.[9] …

Now and then it is alleged that democracy is hard to reconcile with Islam, and so it may seem in the world today. But we should remember that many researchers were saying the same about Catholicism as recently as the 1970s, when Catholic countries included, for example, the military regimes of Latin America, the communist states of eastern Europe, and dictatorships like the Philippines under Ferdinand Marcos.

The number of wars has diminished by half during the past decade, and today less than 1 percent of the world's population are directly affected by military conflicts. One reason is that democracies simply do not make war on each other; another is that international exchange makes conflict less interesting. With freedom of movement and free trade, citizens are not all that interested in the size of their country. People create prosperity, not by annexing land from another country, but by carrying on trade with that land and its resources. If, on the other hand, the world consists of self-contained nation states, the land of other countries has no value until one is able to seize it.

… In the trenchant words of the 19th-century French liberal Frédéric Bastiat, "If goods do not cross borders, soldiers will." Mutual dependence means fewer potential causes of conflict between states. Cross-ownership, multinational corporations, investment, and privately owned natural resources make it hard to tell where one country really ends and another begins. Several centuries ago, when the Swedes pillaged Europe, it was other people's resources they wrecked and stole. If they were to do the same thing today, the victims would include many Swedish companies, not to mention Swedish capital and Swedish export markets.

It has been asserted that the globalist challenge to nation-states leads to separatism and to local and ethnic conflicts. There is indeed a risk of separatist activity when national power is called into question, and the tragedy of the former Yugoslavia is evidence of the bloody conflicts that can follow. But the number of major internecine conflicts – those costing more than a thousand lives – fell from 20 to 13 between 1991 and 1998. Nine of those conflicts occurred in Africa, the world's least democratized, least globalized, and least capitalist continent. The conflicts that follow the collapse of totalitarian states are primarily power struggles in temporary power vacuums. In several countries, centralization has prevented the evolution of stable, democratic institutions and civil societies, and when centralization disappears, chaos ensues pending the establishment of new institutions. There is no reason for believing this to be a new trend in a more internationalized and democratic world.

Oppression of Women

One of the world's cruelest injustices is the oppression of women. There are parts of the world where women are regarded as the property of men. A father is entitled to marry off his daughters, and it is the husband who decides what work his wife is to do. In many countries, a husband owns his wife's passport or ID card, with the result that she cannot even travel freely in her own country. Laws disqualify women from divorce, from ownership of property, and from work outside the home. Daughters are denied the rights of inheritance enjoyed by sons. Girls receive nothing like the same education as boys, and very often no education at all. Women are abused and subjected to genital mutilation and rape without any intervention by the authorities.

It is true, as many complain, that globalization upsets old traditions and habits. How, for example, do you maintain patriarchal family traditions when children are suddenly earning more than the head of the family? One of the traditions challenged by globalization is the long-standing subjugation of women. Through cultural contacts and the interchange of ideas, new hopes and ideals are disseminated. Indian women who can see on television that women are not necessarily housewives begin to contemplate careers in law or medicine. Some Chinese women who had previously been isolated have been inspired to press demands for greater autonomy and to make decisions of their own by the website gaogenxie.com. The site's name, which means "high-heeled shoes," is a symbol of freedom contrasting with the tradition of bound feet. When women begin making their own decisions about their consumer behavior or their employment, they become more insistent in demanding equal liberty and power in other fields. Growing prosperity gives women more opportunity to become independent and provide for themselves. Experience from Africa and elsewhere shows that women are often leading entrepreneurs for various kinds of small-scale production and exchange in the informal sector, which suggests that, absent discrimination and regulation by the government, the market is their oyster. And indeed, the worldwide spread of freer conditions of service and freer markets has made it increasingly difficult for women to be kept out. Women today constitute 42 percent of the world's work force, compared with 36 percent 20 years ago. Capitalism doesn't care whether the best producer is a man or a woman. On the contrary, discrimination is expensive because it involves the rejection of certain people's goods and labor. All studies have shown that respect for women's rights and their ability to exert influence in the home are closely bound up with their ability to find employment outside the home and earn an independent income.

Technological progress can expedite social progress. Women in Saudi Arabia are prevented from showing themselves in public unless they cover their whole bodies except the hands, eyes, and feet. They are also disqualified from driving cars and from doing other things. The practical effect of this has been to exclude them from all economic activity. But now the Internet and the telephone have suddenly made it possible for women to carry on business from home, at the computer....[10]

Democratization gives women a voice in politics, and in more and more countries the laws have been reformed to establish greater equality between the sexes. Divorce laws and rights of inheritance are becoming less and less biased. Equality before the law spreads with democracy and capitalism. The idea of equal human dignity spreads, knocking out discrimination.

[...]

Better education and extra earnings for a mother quickly result in better nourishment and education for her children, whereas the connection between paternal income and child welfare is less strong. In South Asia, where an inhuman attitude concerning the value of women resulted – and still does – in high mortality rates among girls during the first years of life, girls now have a greater life expectancy at birth than boys. The average life expectancy of women in the developing countries has increased by 20 years during the past half century. Development is also giving women more power over their own bodies. Increased power for women in poor countries, and improved availability of contraception, go hand in hand with reduced birthrates.

[...]

Global Inequality

This progress is all very well, many critics of globalization will argue, but even if the majority are better off, gaps have widened and wealthy people and countries have improved their lot more rapidly than others. So inequality has grown. The critics point to the fact that the combined per capita GDP of the 20 richest countries was

15 times greater than that of the 20 poorest countries 40 years ago and is now about 30 times greater.

There are two reasons why this objection to globalization does not hold up. First, even if this were true it would not matter very much. If everyone is coming to be better off, what does it matter that the improvement comes faster for some than for others? Surely the important thing is for everyone to be as well off as possible, not whether one group is better off than another.... It is better to be poor in the inegalitarian United States, where the poverty line for individuals in 2001 was about $9,039 per year, than to be equal in countries like Rwanda, where in 2001 GDP per capita (adjusted for purchasing power) was $1,000, or Bangladesh ($1,750), or Uzbekistan ($2,500)....[11] Second, the allegation of increased inequality is just wrong. The notion that global inequality has increased is largely based on figures from the UN Development Program, in particular its *Human Development Report* from 1999. But the problem with these figures is that they are not adjusted for purchasing power. That is, the UNDP numbers don't take into account what people can actually buy for their money. Without that adjustment the figures mainly show the level of a country's official exchange rate and what its currency is worth on the international market, which is a poor yardstick of poverty. Poor people's actual living standard, needless to say, hinges far more on the cost of their food, clothing, and housing than on what they would get for their money when vacationing in Europe. The odd thing is that the UNDP itself uses purchasing power-adjusted figures in its Human Development Index (HDI), which is its universal yardstick of living standards. It only resorts to the unadjusted figures in order to prove a thesis of inequality.

A report from the Norwegian Institute for Foreign Affairs investigated global inequality by means of figures adjusted for purchasing power. Their data show that, contrary to the conventional wisdom, inequality between countries has been continuously *declining* ever since the end of the 1970s. This decline was especially rapid between 1993 and 1998, when globalization really gathered speed.[12] More recently, similar research by Columbia University development economist Xavier Sala-i-Martin has confirmed those findings. When the UNDP's own numbers are adjusted for purchasing power, Sala-i-Martin found that world inequality declined sharply by any of the common ways of measuring it.[13] Bhalla and Sala-i-Martin also independently found that if we focus on inequality between *persons*, rather than inequality between *countries*, global inequality at the end of 2000 was at its lowest point since the end of World War II. Estimates that compare countries rather than individuals, as both authors note, grossly overestimate real inequality because they allow gains for huge numbers of people to be outweighed by comparable losses for far fewer. Country aggregates treat China and Grenada as data points of equal weight, even though China's population is 12,000 times Grenada's. Once we shift our focus to people rather than nations, the evidence is overwhelming that the past 30 years have witnessed a global equalization.[14] Comparing just the richest and poorest tenths, inequality has increased, suggesting that a small group has lagged behind,... but a study of all countries clearly points to a general growth of equality. If, for example, we compare the richest and poorest fifth or the richest and poorest third, we find the differences diminishing.

Economists usually measure the degree of inequality by means of the "Gini coefficient." If that number is zero, complete equality prevails, and everyone owns the same amount. If it is one, there is total inequality, with one person owning everything. The Gini coefficient for the whole world declined from 0.6 in 1968 to 0.52 in 1997, a reduction of more than 10 percent.

Because equality between the rich and poor *within* these countries appears to have been roughly constant during this time (having increased in half and diminished in half), global equality, quite contrary to popular supposition, is increasing. The 1998/99 World Bank report reviews among other things the difference in incomes going to the richest and poorest 20 percent in the developing countries. The review shows, of course, that the difference is very great, but it also shows that the difference is diminishing on all continents! The real exception is post-communist Eastern Europe, where inequality has grown fastest in the countries where reform has been slowest.[15]

The 1999 UNDP report appears to contradict this finding, but its conclusions are doubtful, not least because the UNDP omitted its own statistics for the years when inequality declined fastest, 1995–97. Furthermore, their own welfare statistics, as aggregated in the HDI, point to an even faster reduction of inequality in the world than is indicated by the Norwegian report. HDI adds together various aspects of welfare – the income, education standard, and life expectancy of the population. This index ranges from 0, representing the profoundest misery, to 1, representing complete welfare. The HDI has increased in all groups of countries over the past 40 years, but fastest of all in the poorest countries. In the OECD countries, HDI rose from 0.8 to 0.91 between 1960 and 1993, and in the developing countries it rose faster still, from 0.26 to 0.56.

One sometimes hears it said, on the basis of that same UNDP report, that the richest fifth of the world's population is 74 times wealthier than the poorest fifth. But if we measure wealth in terms of what these groups get for their money – that is, if we use figures adjusted for purchasing power – then the richest fifth is only 16 times richer than the poorest.[16]

Reservations

This is not by any means to say that all is well with the world, or even that everything is getting better and better. AIDS deaths in 2000 totaled 3 million, the highest figure ever. One of the cruel consequences of the epidemic is that it leaves children without parents: more than 13 million have been orphaned by AIDS, the vast majority in sub-Saharan Africa.[17] In several African countries, more than 15 percent of the adult population are suffering from HIV or AIDS. Something like 20 million people are now living as fugitives from oppression, conflicts, or natural disasters. Even though forecasts concerning the world's water supply have grown more optimistic, we still risk a huge shortage of pure water, possibly resulting in disease and conflicts. About 20 countries, most of them in southern Africa, have grown poorer since 1965. Illiteracy, hunger, and poverty may be diminishing, but many hundreds of millions of people are still afflicted by them. Armed conflicts are growing fewer, but this is cold comfort to the hundreds of thousands of people who are still being beaten, raped, and murdered.

The remaining problems are made all the more intolerable by our knowledge that something can actually be done about them. When underdevelopment appears to be a natural and inevitable part of the human condition, it is considered a tragic fate. But when we realize that it is not at all necessary, it becomes a problem that can and should be solved. This phenomenon is not unfamiliar: the same thing happened when the Industrial Revolution started to improve living standards in the West more than 200 years ago. When misery is everywhere, we can easily become oblivious to it. When it is contrasted with something else, with abundance and prosperity, our eyes are opened to it – a good thing, because our new awareness spurs our efforts to do something about the problems that remain. But this must not deceive us into thinking that the world has actually grown worse, for it has not.

No one can doubt that the world has more than its share of serious problems. The fantastic thing is that the spread of democracy and capitalism has reduced them so dramatically. Where liberal policies have been allowed to operate longest, they have made poverty and deprivation the exception instead of the rule – and they had previously been the rule everywhere in the world, at all times in history. Colossal changes await all of us, but at the same time our eyes have been opened to the political and technical solutions now available to us. And so, all things considered, there is no reason why we should not be optimistic.

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16

It's a Flat World, After All (2005)

Thomas L. Friedman

In 1492 Christopher Columbus set sail for India, going west. He had the Niña, the Pinta and the Santa María. He never did find India, but he called the people he met "Indians" and came home and reported to his king and queen: "The world is round." I set off for India 512 years later. I knew just which direction I was going. I went east. I had Lufthansa business class, and I came home and reported only to my wife and only in a whisper: "The world is flat."

And therein lies a tale of technology and geoeconomics that is fundamentally reshaping our lives – much, much more quickly than many people realize. It all happened while we were sleeping, or rather while we were focused on 9/11, the dot-com bust, and Enron – which even prompted some to wonder whether globalization was over. Actually, just the opposite was true, which is why it's time to wake up and prepare ourselves for this flat world, because others already are, and there is no time to waste.

I wish I could say I saw it all coming. Alas, I encountered the flattening of the world quite by accident. It was in late February of last year, and I was visiting the Indian high-tech capital, Bangalore, working on a documentary for the Discovery Times channel about outsourcing. In short order, I interviewed Indian entrepreneurs who wanted to prepare my taxes from Bangalore, read my X-rays from Bangalore, trace my lost luggage from Bangalore and write my new software from Bangalore. The longer I was there, the more upset I became – upset at the realization that while I had been off covering the 9/11 wars, globalization had entered a whole new phase, and

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I had missed it. I guess the eureka moment came on a visit to the campus of Infosys Technologies, one of the crown jewels of the Indian outsourcing and software industry. Nandan Nilekani, the Infosys CEO, was showing me his global videoconference room, pointing with pride to a wall-size flat-screen TV, which he said was the biggest in Asia. Infosys, he explained, could hold a virtual meeting of the key players from its entire global supply chain for any project at any time on that supersize screen. So its American designers could be on the screen speaking with their Indian software writers and their Asian manufacturers all at once. That's what globalization is all about today, Nilekani said. Above the screen there were eight clocks that pretty well summed up the Infosys workday: 24/7/365. The clocks were labeled US West, US East, GMT, India, Singapore, Hong Kong, Japan, Australia.

"Outsourcing is just one dimension of a much more fundamental thing happening today in the world," Nilekani explained. "What happened over the last years is that there was a massive investment in technology, especially in the bubble era, when hundreds of millions of dollars were invested in putting broadband connectivity around the world, undersea cables, all those things." At the same time, he added, computers became cheaper and dispersed all over the world, and there was an explosion of e-mail software, search engines like Google, and proprietary software that can chop up any piece of work and send one part to Boston, one part to Bangalore, and one part to Beijing, making it easy for anyone to do remote development. When all of these things suddenly came together around 2000, Nilekani said, they "created a platform where intellectual work, intellectual capital, could be delivered from anywhere. It could be disaggregated, delivered, distributed, produced and put back together again – and this gave a whole new degree of freedom to the way we do work, especially work of an intellectual nature. And what you are seeing in Bangalore today is really the culmination of all these things coming together."

At one point, summing up the implications of all this, Nilekani uttered a phrase that rang in my ear. He said to me, "Tom, the playing field is being leveled." He meant that countries like India were now able to compete equally for global knowledge work as never before – and that America had better get ready for this. As I left the Infosys campus that evening and bounced along the potholed road back to Bangalore, I kept chewing on that phrase: "The playing field is being leveled."

"What Nandan is saying," I thought, "is that the playing field is being flattened. Flattened? Flattened? My God, he's telling me the world is flat!"

Here I was in Bangalore – more than 500 years after Columbus sailed over the horizon, looking for a shorter route to India using the rudimentary navigational technologies of his day, and returned safely to prove definitively that the world was round – and one of India's smartest engineers, trained at his country's top technical institute and backed by the most modern technologies of his day, was telling me that the world was flat, as flat as that screen on which he can host a meeting of his whole global supply chain. Even more interesting, he was citing this development as a new milestone in human progress and a great opportunity for India and the world – the fact that we had made our world flat!

This has been building for a long time. Globalization 1.0 (1492 to 1800) shrank the world from a size large to a size medium, and the dynamic force in that era was countries globalizing for resources and imperial conquest. Globalization 2.0 (1800 to 2000) shrank the world from a size medium to a size small, and it was spearheaded by companies globalizing for markets and labor. Globalization 3.0 (which started around 2000) is shrinking the world from a size small to a size tiny and flattening the playing field at the same time. And while the dynamic force in Globalization 1.0 was countries globalizing and the dynamic force in Globalization 2.0 was companies globalizing, the dynamic force in Globalization 3.0 – the thing that gives it its unique character – is individuals and small groups globalizing. Individuals must, and can, now ask: where do I fit into the global competition and opportunities of the day, and how can I, on my own, collaborate with others globally? But Globalization 3.0 not only differs from the previous eras in how it is shrinking and flattening the world and in how it is empowering individuals. It is also different in that Globalization 1.0 and 2.0 were driven primarily by European and American companies and countries. But going forward, this will be less and less true. Globalization 3.0 is not only going to be driven more by individuals but also by a much more diverse – non-Western, nonwhite – group of individuals. In Globalization 3.0, you are going to see every color of the human rainbow take part.

"Today, the most profound thing to me is the fact that a 14-year-old in Romania or Bangalore or the Soviet Union or Vietnam has all the information, all the tools, all the software easily available to apply knowledge however they want," said Marc Andreessen, a co-founder of Netscape and creator of the first commercial Internet browser. "That is why I am sure the next Napster is going to come out of left field. As bioscience becomes more computational and less about wet labs and as all the genomic data becomes easily available on the Internet, at some point you will be able to design vaccines on your laptop."

Andreessen is touching on the most exciting part of Globalization 3.0 and the flattening of the world: the fact that we are now in the process of connecting all the knowledge pools in the world together. We've tasted some of the downsides of that in the way that Osama bin Laden has connected terrorist knowledge pools together through his al-Qaeda network, not to mention the work of teenage hackers spinning off more and more lethal computer viruses that affect us all. But the upside is that by connecting all these knowledge pools we are on the cusp of an incredible new era of innovation, an era that will be driven from left field and right field, from West and East, and from North and South. Only 30 years ago, if you had a choice of being born a B student in Boston or a genius in Bangalore or Beijing, you probably would have chosen Boston, because a genius in Beijing or Bangalore could not really take advantage of his or her talent. They could not plug and play globally. Not anymore. Not when the world is flat, and anyone with smarts, access to Google, and a cheap wireless laptop can join the innovation fray.

When the world is flat, you can innovate without having to emigrate. This is going to get interesting. We are about to see creative destruction on steroids.

How did the world get flattened, and how did it happen so fast?

It was a result of 10 events and forces that all came together during the 1990s and converged right around the year 2000. Let me go through them briefly. The first event was 11/9. That's right – not 9/11, but 11/9. November 9, 1989, is the day the Berlin Wall came down, which was critically important because it allowed us to think of the world as a single space. "The Berlin Wall was not only a symbol of keeping people inside Germany; it was a way of preventing a kind of global view of our future," the Nobel Prize-winning economist Amartya Sen said. And the wall went down just as the windows went up – the breakthrough Microsoft Windows 3.0 operating system, which helped to flatten the playing field even more by creating a global computer interface, shipped six months after the wall fell.

The second key date was 8/9. August 9, 1995, is the day Netscape went public, which did two important things. First, it brought the Internet alive by giving us the browser to display images and data stored on Web sites. Second, the Netscape stock offering triggered the dot-com boom, which triggered the dot-com bubble, which triggered the massive overinvestment of billions of dollars in fiber-optic telecommunications cable. That overinvestment, by companies like Global Crossing, resulted in the willy-nilly creation of a global undersea-underground fiber network, which in turn drove down the cost of transmitting voices, data, and images to practically zero, which in turn accidentally made Boston, Bangalore, and Beijing next-door neighbors overnight. In sum, what the Netscape revolution did was bring people-to-people connectivity to a whole new level. Suddenly more people could connect with more other people from more different places in more different ways than ever before.

No country accidentally benefited more from the Netscape moment than India. "India had no resources and no infrastructure," said Dinakar Singh, one of the most respected hedge-fund managers on Wall Street, whose parents earned doctoral degrees in biochemistry from the University of Delhi before emigrating to America. "It produced people with quality and by quantity. But many of them rotted on the docks of India like vegetables. Only a relative few could get on ships and get out. Not anymore, because we built this ocean crosser, called fiber-optic cable. For decades you had to leave India to be a professional. Now you can plug into the world from India. You don't have to go to Yale and go to work for Goldman Sachs." India could never have afforded to pay for the bandwidth to connect brainy India with high-tech America, so American shareholders paid for it. Yes, crazy overinvestment can be good. The overinvestment in railroads turned out to be a great boon for the American economy. "But the railroad overinvestment was confined to your own country and so, too, were the benefits," Singh said. In the case of the digital railroads, "it was the foreigners who benefited." India got a free ride.

The first time this became apparent was when thousands of Indian engineers were enlisted to fix the Y2K – the year 2000 – computer bugs for companies from all over the world. (Y2K should be a national holiday in India. Call it "Indian Interdependence Day," says Michael Mandelbaum, a foreign-policy analyst at Johns Hopkins.) The fact that the Y2K work could be outsourced to Indians was made possible by the first two flatteners, along with a third, which I call "workflow." Workflow is shorthand for all the software applications, standards, and electronic transmission pipes, like middleware, that connected all those computers and fiber-optic cable. To put it another way, if the Netscape moment connected people to people like never before, what the workflow revolution did was connect applications to applications so that people all over the world could work together in manipulating and shaping words, data, and images on computers like never before.

Indeed, this breakthrough in people-to-people and application-to-application connectivity produced, in short order, six more flatteners – six new ways in which individuals and companies could collaborate on work and share knowledge. One was "outsourcing." When my software applications could connect seamlessly with all of your applications, it meant that all kinds of work – from accounting to software writing – could be digitized, disaggregated, and shifted to any place in the world where it could be done better and cheaper. The second was "offshoring." I send my whole factory from Canton, Ohio, to Canton, China. The third was "open-sourcing." I write the next operating system, Linux, using engineers collaborating together online and working for free. The fourth was "insourcing." I let a company like UPS come inside my company and take over my whole logistics operation – everything from filling my orders online to delivering my goods to repairing them for customers when they break. (People have no idea what UPS really does today. You'd be amazed!) The fifth was "supply-chaining." This is Wal-Mart's specialty. I create a global supply chain down to the last atom of efficiency so that if I sell an item in Arkansas, another is immediately made in China. (If Wal-Mart were a country, it would be China's eighth largest trading partner.) The last new form of collaboration I call "informing" – this is Google, Yahoo, and MSN Search, which now allow anyone to collaborate with, and mine, unlimited data all by themselves.

So the first three flatteners created the new platform for collaboration, and the next six are the new forms of collaboration that flattened the world even more. The tenth flattener I call "the steroids," and these are wireless access and voice over Internet protocol (VoIP). What the steroids do is turbocharge all these new forms of collaboration, so you can now do any one of them, from anywhere, with any device.

The world got flat when all 10 of these flatteners converged around the year 2000. This created a global, Web-enabled playing field that allows for multiple forms of collaboration on research and work in real time, without regard to geography, distance or, in the near future, even language. "It is the creation of this platform, with these unique attributes, that is the truly important sustainable breakthrough that made what you call the flattening of the world possible," said Craig Mundie, the chief technical officer of Microsoft.

No, not everyone has access yet to this platform, but it is open now to more people in more places on more days in more ways than anything like it in history. Wherever you look today – whether it is the world of journalism, with bloggers bringing down Dan Rather; the world of software, with the Linux code writers working in online forums for free to challenge Microsoft; or the world of business, where Indian and Chinese innovators are competing against and working with some of the most advanced Western multinationals – hierarchies are being flattened and value is being created less and less within vertical silos and more and more through horizontal collaboration within companies, between companies, and among individuals.

Do you recall "the IT revolution" that the business press has been pushing for the last 20 years? Sorry to tell you this, but that was just the prolog. The last 20 years were about forging, sharpening, and distributing all the new tools to collaborate and connect. Now the real information revolution is about to begin as all the complementarities among these collaborative tools start to converge. One of those who first called this moment by its real name was Carly Fiorina, the former Hewlett-Packard CEO, who in 2004 began to declare in her public speeches that the dot-com boom and bust were just "the end of the beginning." The last 25 years in technology, Fiorina said, have just been "the warm-up act." Now we are going into the main event, she said, "and by the main event, I mean an era in which technology will truly transform every aspect of business, of government, of society, of life."

As if the flattening wasn't enough, another convergence coincidentally occurred during the 1990s that was equally important. Some three billion people who were out of the game walked, and often ran, onto the playing field. I am talking about the people of China, India, Russia, Eastern Europe, Latin America, and Central Asia. Their economies and political systems all opened up during the course of the 1990s so that their people were increasingly able to join the free market. And when did these three billion people converge with the new playing field and the new business processes? Right when it was being flattened, right when millions of them could compete and collaborate more equally, more horizontally, and with cheaper and more readily available tools. Indeed, thanks to the flattening of the world, many of these new entrants didn't even have to leave home to participate. Thanks to the 10 flatteners, the playing field came to them!

It is this convergence – of new players, on a new playing field, developing new processes for horizontal collaboration – that I believe is the most important force shaping global economics and politics in the early twenty-first century. Sure, not all three billion can collaborate and compete. In fact, for most people the world is not yet flat at all. But even if we're talking about only 10 percent, that's 300 million people – about twice the size of the American workforce. And be advised: the Indians and Chinese are not racing us to the bottom. They are racing us to the top. What China's leaders really want is that the next generation of underwear and airplane wings not just be "made in China" but also be "designed in China." And that is where things are heading. So in 30 years we will have gone from "sold in China" to "made in China" to "designed in China" to "dreamed up in China" – or from China as collaborator with the worldwide manufacturers on nothing to China as a low-cost, high-quality, hyperefficient collaborator with worldwide manufacturers on everything. Ditto India. Said Craig Barrett, the CEO of Intel, "You don't bring three billion people into the world economy overnight without huge consequences, especially from three societies" – like India, China, and Russia – "with rich educational heritages."

That is why there is nothing that guarantees that Americans or Western Europeans will continue leading the way. These new players are stepping onto the playing field legacy-free, meaning that many of them were so far behind that they can leap right into the new technologies without having to worry about all the sunken costs of old systems. It means that they can move very fast to adopt new, state-of-the-art technologies, which is why there are already more cellphones in use in China today than there are people in America.

If you want to appreciate the sort of challenge we are facing, let me share with you two conversations. One was with some of the Microsoft officials who were involved in setting up Microsoft's research center in Beijing, Microsoft Research Asia, which opened in 1998 – after Microsoft sent teams to Chinese universities to administer IQ tests in order to recruit the best brains from China's 1.3 billion people. Out of the 2,000 top Chinese engineering and science students tested, Microsoft hired 20. They have a saying at Microsoft about their Asia center, which captures the intensity of competition it takes to win a job there and explains why it is already the most productive research team at Microsoft: "Remember, in China, when you are one in a million, there are 1,300 other people just like you."

The other is a conversation I had with Rajesh Rao, a young Indian entrepreneur who started an electronic-game company from Bangalore, which today owns the rights to Charlie Chaplin's image for mobile computer games. Rao said:

> We can't relax. I think in the case of the United States that is what happened a bit. Please look at me: I am from India. We have been at a very different level before in terms of technology and business. But once we saw we had an infrastructure that made the world a small place, we promptly tried to make the best use of it. We saw there were so many things we could do. We went ahead, and today what we are seeing is a result of that. There is no time to rest. That is gone. There are dozens of people who are doing the same thing you are doing, and they are trying to do it better. It is like water in a tray: you shake it, and it will find the path of least resistance. That is what is going to happen to so many jobs – they will go to that corner of the world where there is the least resistance and the most opportunity. If there is a skilled person in Timbuktu, he will get work if he knows how to access the rest of the world, which is quite easy today. You can make a Web site and have an e-mail address and you are up and running. And if you are able to demonstrate your work, using the same infrastructure, and if people are comfortable giving work to you and if you are diligent and clean in your transactions, then you are in business.

Instead of complaining about outsourcing, Rao said, Americans and Western Europeans would "be better off thinking about how you can raise your bar and raise yourselves into doing something better. Americans have consistently led in innovation over the last century. Americans whining – we have never seen that before."

Rao is right. And it is time we got focused. As a person who grew up during the Cold War, I'll always remember driving down the highway and listening to the radio, when suddenly the music would stop and a grim-voiced announcer would come on the air and say: "This is a test. This station is conducting a test of the Emergency Broadcast System." And then a high-pitched siren would sound for 20 seconds. Fortunately, we never had to live through a moment in the Cold War when the announcer came on and said, "This is not a test."

That, however, is exactly what I want to say here: "This is not a test."

The long-term opportunities and challenges that the flattening of the world puts before the United States are profound. Therefore, our ability to get by doing things the way we've been doing them – which is to say not always enriching our secret sauce – will not suffice any more. "For a country as wealthy we are, it is amazing how little we are doing to enhance our natural competitiveness," says Dinakar Singh, the Indian-American hedge-fund manager. "We are in a world that has a system that now allows convergence among many billions of people, and we had better step back and figure out what it means. It would be a nice coincidence if all the things that were true before were still true now, but there are quite a few things you actually need to do differently. You need to have a much more thoughtful national discussion."

If this moment has any parallel in recent American history, it is the height of the Cold War, around 1957, when the Soviet Union leapt ahead of America in the space race by putting up the Sputnik satellite. The main challenge then came from those who wanted to put up walls; the main challenge to America today comes from the fact that all the walls are being taken down and many other people can now compete and collaborate with us much more directly. The main challenge in that world was from those practicing extreme Communism, namely Russia, China, and North Korea. The main challenge to America today is from those practicing extreme capitalism, namely China, India, and South Korea. The main objective in that era was building a strong state, and the main objective in this era is building strong individuals.

Meeting the challenges of flatism requires as comprehensive, energetic, and focused a response as did meeting the challenge of Communism. It requires a president who can summon the nation to work harder, get smarter, attract more young women and men to science and engineering, and build the broadband infrastructure, portable pensions, and health care that will help every American become more employable in an age in which no one can guarantee you lifetime employment.

We have been slow to rise to the challenge of flatism, in contrast to Communism, maybe because flatism doesn't involve ICBM missiles aimed at our cities. Indeed, the hot line, which used to connect the Kremlin with the White House, has been replaced by the help line, which connects everyone in America to call centers in Bangalore. While the other end of the hot line might have had Leonid Brezhnev threatening nuclear war, the other end of the help line just has a soft voice eager to help you sort out your AOL bill or collaborate with you on a new piece of software. No, that voice has none of the menace of Nikita Khrushchev pounding a shoe on the table at the United Nations, and it has none of the sinister snarl of the bad guys in *From Russia With Love*. No, that voice on the help line just has a friendly Indian lilt that masks any sense of threat or challenge. It simply says: "Hello, my name is Rajiv. Can I help you?"

No, Rajiv, actually you can't. When it comes to responding to the challenges of the flat world, there is no help line we can call. We have to dig into ourselves. We in America have all the basic economic and educational tools to do that. But we have not been improving those tools as much as we should. That is why we are in what Shirley Ann Jackson, the 2004 president of the American Association for the Advancement of Science and president of Rensselaer Polytechnic Institute, calls a "quiet crisis" – one that is slowly eating away at America's scientific and engineering base.

"If left unchecked," said Jackson, the first African American woman to earn a PhD in physics from MIT, "this could challenge our pre-eminence and capacity to innovate." And it is our ability to constantly innovate new products, services, and companies that has been the source of America's horn of plenty and steadily widening middle class for the last two centuries. This quiet crisis is a product of three gaps now plaguing American society. The first is an "ambition gap." Compared with the young, energetic Indians and Chinese, too many Americans have gotten too lazy. As David Rothkopf, a former official in the Clinton Commerce Department, puts it, "The real entitlement we need to get rid of is our sense of entitlement." Second, we have a serious numbers gap building. We are not producing enough engineers and scientists. We used to make up for that by importing them from India and China, but in a flat world, where people can now stay home and compete with us, and in a post-9/11 world, where we are insanely keeping out many of the first-round intellectual draft choices in the world for exaggerated security reasons, we can no longer cover the gap. That's a key reason companies are looking abroad. The numbers are not here. And finally we are developing an education gap. Here is the dirty little secret that no CEO wants to tell you: they are not just outsourcing to save on salary. They are doing it because they can often get better skilled and more productive people than their American workers.

These are some of the reasons that Bill Gates, the Microsoft chairman, warned the governors' conference in a February 26 speech that American high-school education is "obsolete." As Gates put it:

> When I compare our high schools to what I see when I'm traveling abroad, I am terrified for our workforce of tomorrow. In math and science, our fourth graders are among the top students in the world. By eighth grade, they're in the middle of the pack. By 12th grade, US students are scoring near the bottom of all industrialized nations… The percentage of a population with a college degree is important, but so are sheer numbers. In 2001, India graduated almost a million more students from college than the United States did. China graduates twice as many students with bachelor's degrees as the US, and they have six times as many graduates majoring in engineering. In the international competition to have the biggest and best supply of knowledge workers, America is falling behind.

We need to get going immediately. It takes 15 years to train a good engineer, because, ladies and gentlemen, this really is rocket science. So parents, throw away the Game Boy, turn off the television, and get your kids to work. There is no sugar-coating this: in a flat world, every individual is going to have to run a little faster if he or she wants to advance his or her standard of living. When I was growing up, my parents used to say to me: "Tom, finish your dinner – people in China are starving." But after sailing to the edges of the flat world for a year, I am now telling my own daughters: "Girls, finish your homework – people in China and India are starving for your jobs."

I repeat, this is not a test. This is the beginning of a crisis that won't remain quiet for long. And as the Stanford economist Paul Romer so rightly says, "A crisis is a terrible thing to waste."

17

The Financialization of the American Economy (2005)

Greta R. Krippner

Introduction

It is difficult to escape the impression that we live in a world of finance. Financial news dominates the business press. The management of American corporations, large and small, moves to the rhythm of Wall Street. In recent years, a series of corporate scandals have dramatized the degree to which financial machinations have superseded productive enterprise in the US economy. Consumers are confronted daily with new financial products and financial 'literacy' is touted as a core competency. For many Americans, the leading stock market indices act as a kind of barometer for the economy as a whole. Gains in the market generate surges in consumer spending even where more tangible indicators of economic vitality, such as job growth or wage levels, lag behind.

While many commentators in both popular and scholarly accounts have noted these and related developments, there have been few attempts to explore the meaning of such phenomena for the nature of the economy, considered broadly. In large part, this omission reflects the fact that the data that would allow a macro-level examination of the growing weight of finance in the American economy – a development that I refer to as *financialization* – raise a host of difficult methodological issues. As a result, even those accounts that are concerned with understanding the rise of finance in structural terms typically assert the presence of this phenomenon without providing any direct evidence for it. To take two prominent examples, Arrighi's (1994) *The Long Twentieth Century* explains financialization as

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resulting from intensified intercapitalist and interstate competition during periods of hegemonic transition. More recently, Phillips (2002) argues in *Wealth and Democracy* that the financialization of the US economy has produced extreme wealth and income polarization in the US in recent years, eroding the social bases of American democracy. Yet neither Arrighi nor Phillips establishes the existence of financialization.

It stands to reason that before such provocative theses can be fully assessed, we ought to first determine whether it is in fact accurate to characterize the US economy as having been 'financialized'. As Merton (1959, p. xiii) once remarked, 'It might at first seem needless to say that before social facts can be "explained", it is advisable to ensure that they actually are facts. Yet, in science as in everyday life, explanations are provided for things that never were.'[1] This paper, then, analyzes the available data for what they reveal about the rise of finance in the US economy. As such, the objectives of this paper are primarily descriptive and conceptual in nature – a full causal analysis is left for other writings (see Krippner, 2003). The question addressed here is how to characterize most usefully long-term structural change in the US economy, not how to explain that change, given that it has occurred. While the data problems involved in such an endeavour are daunting, I argue that we must confront the data directly, for the underlying shift in the economy that they signal is so dramatic – and so durable – that it challenges competing frameworks for understanding the nature of contemporary capitalism.

I define financialization as a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production (see Arrighi, 1994). 'Financial' here refers to activities relating to the provision (or transfer) of liquid capital in expectation of future interest, dividends, or capital gains.[2] At issue is the following problem: *What constitutes the relevant evidence for financialization, and how should this evidence be evaluated?* While there is a range of social science research that points to the increasing salience of finance in the economy, this problem has not been addressed by the literature, which has tended to focus either on organizational developments at the level of the firm or on activities inside financial markets. Yet neither an examination of the growing orientation of managers to financial variables nor of the changing nature of transacting in financial markets informs us as to the *overall shape* assumed by an economy dominated by such activities. In short, financialization has not been subject to the kind of close empirical scrutiny that would illuminate the precise timing and magnitude of this widely-perceived, if little-examined phenomenon.

A careful examination of the financialization of the American economy requires a different 'lens' than that typically used by scholars examining broad shifts in the economy. While most characterizations of long-term shifts in the underlying structure of the economy rely for evidence on changes in employment or in the mix of goods and services produced (e.g. Clark, 1940; Bell, 1973; Castells, 1996), these are not appropriate places to look for the rise of finance. The financial sector is not employment-intensive and its 'products' do not show up in transparent ways in national economic statistics (Block, 1987). Thus, in contrast to the dominant perspective on long-term economic change, which is concerned with *the tasks performed* or with *what is produced* in an economy, this paper engages another vantage point on economic change by examining *where profits are generated* in the US economy. For purposes of exposition, I label these two perspectives 'activity-centred' *versus* 'accumulation-centred' views, respectively.[3] While the activity-centred view highlights the rise of the service sector and is, therefore, associated with post-industrialism (Bell, 1973), a focus on changing patterns of profitability suggests that financialization is the key development in the US economy in recent decades.[4]

In contrasting these two perspectives on economic change, it is important to be clear that I am *not* arguing that one is somehow more 'fundamental' – or more 'true' – than the other. Post-industrialism and financialization both capture aspects of what is changing in the US economy, as do other frameworks, such as globalization or neo-liberalism. In this sense, how one conceptualizes structural change in the economy depends very much on one's theoretical purpose. But neither is this to assume an entirely relativistic position on the problem of economic change, where one 'lens' is just as good as the next. While different data will produce any number of ways of understanding economic change, not all such understandings are equally useful for motivating new problems for investigation or for resolving impasses in problems currently under investigation. In what follows, I argue that financialization not only offers an apt characterization of the world in which we live, but a *productive* one, clarifying key issues in current areas of debate in the social sciences. In particular, I explore the implications of financialization for two ongoing controversies: (1) the issue of who controls the modern corporation; and (2) the role of globalization in eroding the autonomy of the state.

The paper is organized in six sections. In the following section of the paper, I compare the picture of structural change in the economy that emerges from activity-centered *versus* accumulation-centered perspectives on economic change. In Section 3, I develop two discrete measures of financialization and then apply these measures to post-war US economic data in order to determine if and to what extent the US economy is becoming financialized. In Section 4, I examine the issues of outsourcing and subsidiary ownership, discussing how the measures I have devised minimize the possibility that what appears in the data as 'financialization' is merely an artifact of corporate reorganization. Section 5 of the paper engages another potential objection to the results reported here: namely, that what I describe as the financialization of the US economy is better understood as resulting from the globalization of production. In a concluding section, I both summarize the main findings of this research as well as illustrate the usefulness of the concept of financialization by describing two areas of debate in the social sciences for which these findings have relevance.

Two Views of Economic Change

The primary purpose of this paper is to evaluate the evidence for the financialization of the American economy. Before turning to that task, I first want to motivate this endeavour by contrasting two views on economic change. The standard way of tracking long-term structural shifts in the basic composition of the economy has been to examine changes in employment or in the 'contribution' of different sectors to gross domestic product (GDP). This *activity-centred* view of economic change spans several generations of research, from early work on the rise of the service sector (Clark, 1940), to Bell's (1973) famous thesis on post-industrialism, to recent theorizations of the information economy (Castells, 1996). By contrast, in this paper, I propose an *accumulation-centred* view of economic change, in which the focus is on where profits are generated in the economy. My objective in this section is to show how dramatically these two views diverge in terms of what they signal about the fundamental shifts that characterize the contemporary US economy. I do so through a simple comparison of the picture of structural change in the economy that emerges from employment, GDP and profit data.

Two brief caveats are necessary. In the analyses reported in Figures 17.1–17.3, as well as throughout the paper, I do not include the public sector as a component of the total economy. I omit the government sector because, while public data is available for employment and contribution to GDP growth, there is no concept analogous to profits with which to gauge the 'accumulation' occurring in the public sector. However, the inclusion or exclusion of the public sector makes little difference for the *relative* levels of the other industries. For related reasons, self-employment is also excluded from consideration here and throughout the paper. There is no way (short of making *ad hoc* assumptions) to distill a profit concept from *proprietary income*, which does not distinguish between profits and compensation. Were it possible to include self-employed workers in the analysis, this would probably increase the share of services in the economy, since the self-employed disproportionately work in services. However, the difference is not likely to be significant, as self-employed workers represent a relatively small share of the total economy.

Employment data are the type of evidence most commonly marshalled in debates about how to characterize the nature of contemporary economic change. Because just three industries – manufacturing, FIRE[5] and services – account for most of the change in the sectoral composition of the economy over the last 50 years, I report only these three industries here. Figure 17.1 shows relative industry shares of total employment between 1950 and 2001.[6] The steep decline of manufacturing is evident in this figure. Evident too is the stratospheric ascent of employment in services. But note that viewed through the lens of economic activity, finance is not particularly significant. FIRE is neither very large relative to other industries, nor does it register significant growth over the period. Thus, this evidence is consistent with an interpretation of recent developments in the economy as reflecting the rise of the service sector, post-industrialism, or (a little more tenuously) the information economy. These data do *not* point to financialization as an apt way of understanding economic change in recent decades.

Another kind of evidence – less common than employment data – mobilized in debates about how to characterize the evolution of the economy in recent decades relies on shifts in the contribution of different sectors to GDP (e.g. Bell, 1973). GDP is both a measure of what is produced *and* a measure of national income. In theory, the

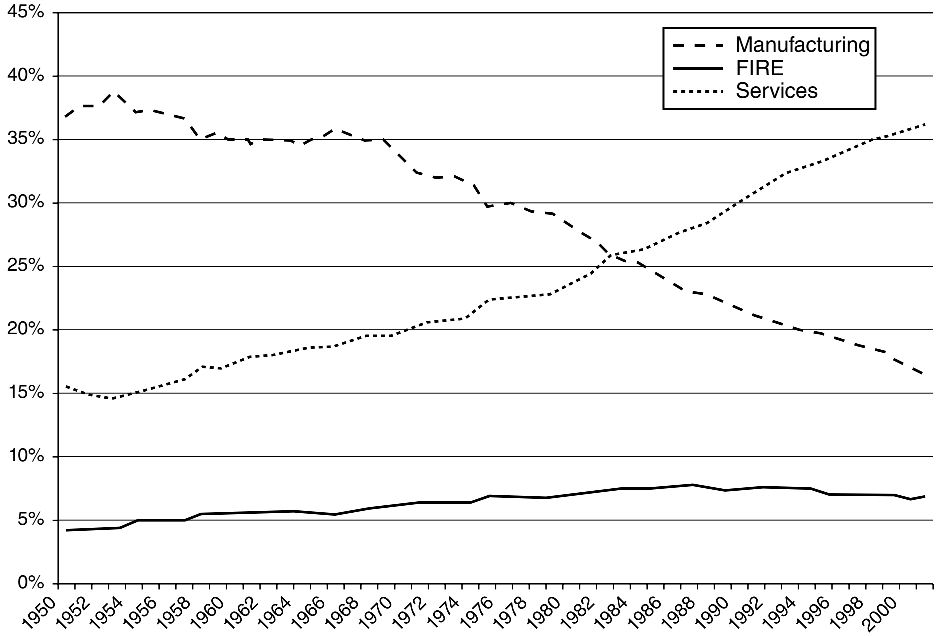

Figure 17.1 Relative industry shares of employment in US economy, 1950–2001.

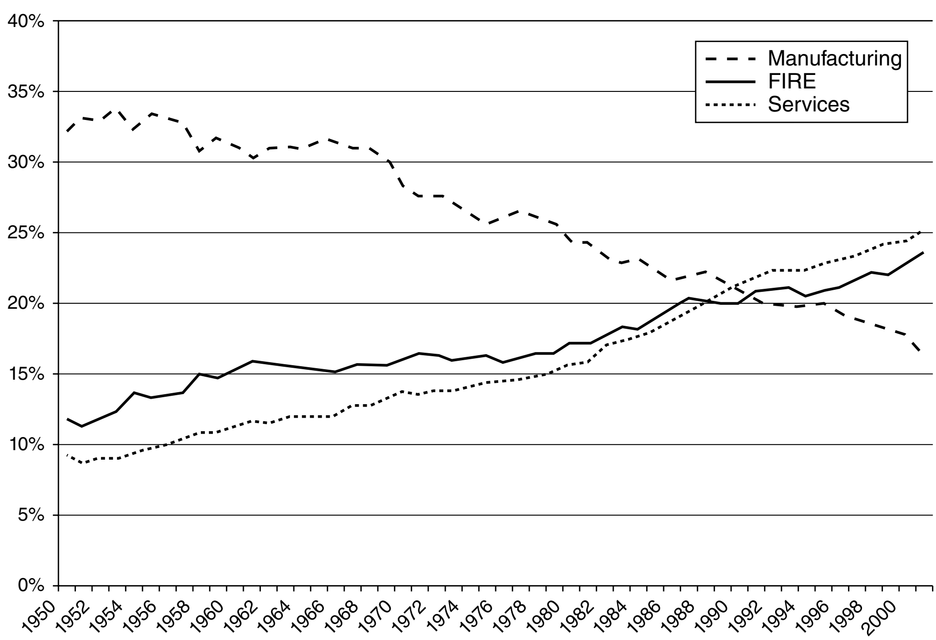

Figure 17.2 Relative industry shares of current-dollar GDP in US economy, 1950–2001.

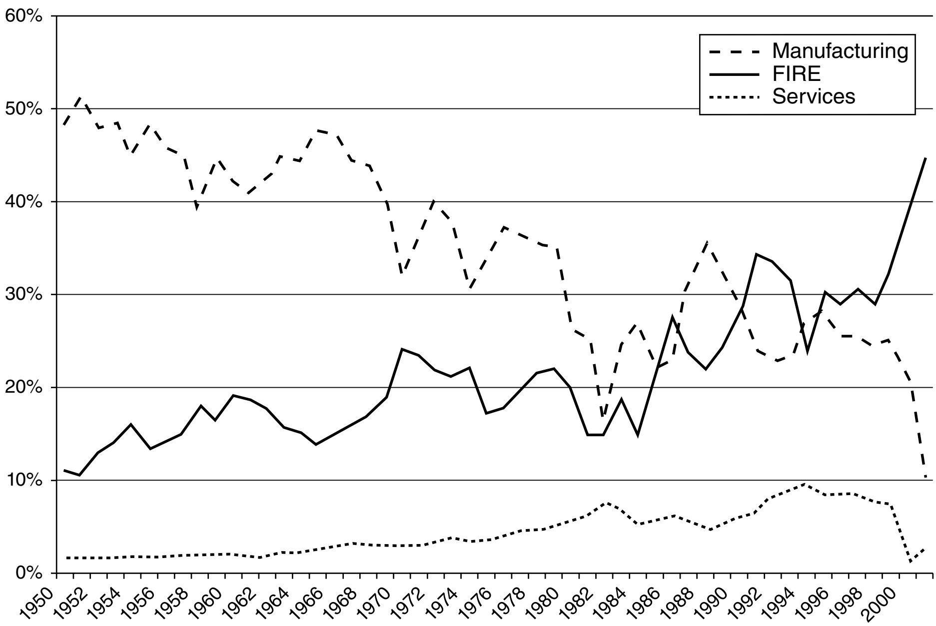

Figure 17.3 Relative industry shares of corporate profits in US economy, 1950–2001.

two concepts are equivalent: the market value of goods and services produced should equal the income earned in producing those goods and services. As such, the Bureau of Economic Analysis (BEA) estimates GDP using two independent methods – the first is based on adding up the value of output produced and the second is based on adding up incomes, including profits. In practice, when the GDP data are assembled there is a small discrepancy between the measure constructed on the basis of output and the measure constructed on the basis of income (US Department of Commerce, 2002). For purposes of this paper, GDP is a *hybrid* measure, reflecting both economic activity (output) and accumulation (the profit component of national income).

Figure 17.2 shows relative industry shares of current-dollar GDP between 1950 and 2001.[7] I again report data for only those three industries that account for most of the change in the sectoral composition of the economy. Like Figure 17.1, Figure 17.2 shows the decline in manufacturing over the post-war period. Similarly, the figure shows the dramatic growth of services, the largest industry in the economy on this measure. But now FIRE also appears as an industry in which significant growth has taken place over the post-war period. These data could be interpreted as supporting the rise of the service sector, post-industrialism, the information economy *and* financialization.

A third type of evidence for structural change in the economy is presented in Figure 17.3, which shows data on relative industry shares of corporate profits between 1950 and 2001 for manufacturing, FIRE and services.[8] Profit data are considerably more volatile than employment data. Nevertheless, the picture of structural change in the economy that emerges is nearly the mirror image of the data presented in Figure 17.1, with the relative position of services and FIRE inverted. Again, the decline of manufacturing is dramatic in this figure. But now FIRE is the dominant sector of the economy, with services accounting for a relatively small share of total profits. This result is not in itself inconsistent with standard characterizations of economic change – finance is, after all, a service, and a rather information-intensive one at that. But it does suggest a different emphasis. Rather than the rise of the service sector, post-industrialism, or the information economy, it is financialization that comes sharply into view when profit data rather than employment or GDP are the focus of analysis.

Evidence for Financialization

In this section, I turn to a more systematic evaluation of the evidence for the financialization of the US economy. It is first necessary to distinguish the concept of financialization as I use it here from various ways that the concept is deployed in related literatures. Numerous researchers have used the term in exploring various aspects of the rise of finance, but the literature on financialization is at present a bit of a free-for-all, lacking a cohesive view of what is to be explained. Some writers, for example, use the concept of financialization to refer to the ascendancy of 'shareholder value' as a mode of corporate governance (Froud *et al.*, 2000; Lazonick and O'Sullivan, 2000; Williams, 2000). For other scholars, the concept references the growing dominance of the capital markets over systems of bank-based finance (Phillips, 2002). A third view in the literature – harkening back to the beginning of the 20th century (e.g. Hobson, [1902] 1971; Hilferding, [1910] 1981; Lenin, [1916] 1988) – is that financialization reflects the increasing political and economic power of a *rentier* class (Duménil and Lévy, 2002; Epstein and Jayadev, forthcoming; Greider, 1997). Finally, the term is sometimes used to describe the explosion of financial trading associated with the proliferation of new financial instruments (Phillips, 1996).

Here, I follow Arrighi (1994) in defining financialization as a pattern of accumulation in which profit-making occurs increasingly through financial channels rather than through trade and commodity production. One advantage of such a definition is that it is capable of encompassing alternative usages of the term: in a world where accumulation occurs predominantly through financial activities, one would expect systems of corporate governance to reflect the imperatives of financial markets. Similarly, one would expect that social actors occupying strategic positions *vis-à-vis* privileged sites of accumulation would accrue political and economic power. Finally, one would also expect a rapid pace of financial innovation, as well as financial flows that dwarf real economic activity. A related strength of this definition is that it lends itself to systematic empirical evaluation using some of the best data on the US economy we have available – in particular, that provided by the *National Income and Product Accounts*, among other data sources.

While long-term structural shifts in the economy are typically conceptualized in sectoral terms, an adequate understanding of financialization requires both a sectoral and an extra-sectoral perspective. The growing weight of finance in the economy is reflected in the expansion of banks, brokerage houses, finance companies and the like, but *equally* it is reflected in the behaviour of non-financial firms. In this regard, a number of researchers suggest that the origins of the current turn to finance can be found in the crisis of profitability that beset US firms in the 1970s (e.g. Arrighi, 1994; Fligstein, 2001; Magdoff and Sweezy, 1987). Confronted with labour militancy at home and increased international competition abroad, non-financial firms responded to falling returns on investment by withdrawing capital from production and diverting it to financial markets. Thus, an adequate conception of financialization must track the activities of *both* financial and non-financial firms. A purely sectoral approach that focuses only on the financial industry misses much of what is important in an account of the financialization of the US economy.

This paper uses two distinct measures to gauge financialization. First, I examine sources of revenue for non-financial firms, demonstrating the growing importance of 'portfolio income' (comprising income from interest payments, dividends and capital gains on investments) relative to revenue generated by productive activities. Second, turning to a more traditional sectoral analysis, I examine the growing importance of the financial sector as a source of profits for the economy, comparing financial to non-financial profits. It should be noted that each of these measures has its own limitations, but taken together they provide what I will argue is persuasive evidence of the financialization of the American economy.

Portfolio Income

One indication of financialization is the extent to which non-financial firms derive revenues from financial investments as opposed to productive activities. In the following analysis, I gauge the significance of financial revenues for non-financial firms by constructing a ratio comparing portfolio income to corporate cash flow. *Portfolio income* measures the total earnings accruing to non-financial firms from interest, dividends and realized capital gains on investments. *Corporate cash flow* is comprised of profits plus depreciation allowances. Thus, the ratio of portfolio income to corporate cash flow reflects the relationship, for non-financial firms, between the return generated from financial versus productive activities.[9]

There are two reasons for using corporate cash flow as a point of comparison to portfolio income rather than simply reporting profits, a somewhat less unwieldy and more intuitive measure. The first is that portfolio income is a pure revenue stream, whereas profits are reported net-of-cost, making a comparison between the two somewhat misleading. Ideally, to make the two series fully comparable, portfolio income would be reported after the costs associated with managing financial transactions (office space, salaries, etc.) had been subtracted. However, given data limitations, it is impossible to allocate costs of production between real and financial activities. As such, rather than profits, what is needed is a measure of the total capital available to the firm, which is arguably what corporate cash flow captures.[10]

Understanding why this is so requires a brief explanation of the concept of depreciation. Depreciation is based on the idea that capital is constantly being used up in the process of production. If a manufacturing firm uses a given piece of machinery for 10 years, for example, then each year some of the value represented by the machine is depleted. In order to encourage investment, the Internal Revenue Service (IRS) compensates for the value of the capital used up in production by allowing firms to subtract a depreciation allowance from their total earnings in order to calculate taxable profits. Yet while capital depreciates continually over the lifetime of capital, firms do not 'pay' the cost of depreciation continually, but only as capital is retired and replaced – in this example, at the end of 10 years. Thus, in any given year, the total capital available to the firm consists of profits subject to tax *plus* depreciation allowances (which can be thought of as profits not subject to tax).

The second reason for using corporate cash flow instead of profits in constructing the portfolio income measure is closely related. It concerns the progressive liberalization of depreciation allowances.[11] Depreciation allowances are not only intended as an incentive to investment; they have also been a major vehicle for delivering tax breaks to business. Over the post-war period, Congress has repeatedly mandated that the IRS shorten expected service lives – the length of time over which capital is assumed to wear out – allowing firms to depreciate investments more quickly (and hence take larger deductions from earnings in order to calculate taxable profits). While we lack solid empirical studies of depreciation patterns in many industries, the industries for which studies do exist suggest that the service lives assumed by IRS depreciation allowances have diverged rather dramatically from actual patterns of capital use. This is attested to by the fact that the BEA's independent estimates of service lives are considerably longer than those assumed by IRS depreciation (Block, 1990). While the BEA does attempt to correct for this discrepancy in assumed service lives when incorporating the IRS source data into its measure of profits, the BEA procedure also contains other assumptions that make its estimate of depreciation as large or larger than IRS estimates of depreciation. The result is that, relative to the immediate post-war period, profits in recent years are significantly understated in these data. Thus, in order to eliminate the possibility that an increasing ratio of portfolio income to profits could be an artifact of changes in the tax treatment of depreciation, I add depreciation allowances back into profits to calculate corporate cash flow.

Figure 17.4 shows the ratio of portfolio income to corporate cash flow among non-financial firms between 1950 and 2001.[12] A 5-year moving average is shown with the annual data. An increasing trend indicates a higher share of revenues coming from financial relative to non-financial sources of income and hence is consistent with a greater degree of financialization. The ratio is remarkably stable in the 1950s and 1960s, but begins to climb upward in the 1970s, and then increases sharply over the course of the 1980s. In the late 1980s, the ratio peaks at a level that is approximately *five times* the levels typical of the immediate post-war decades. The ratio retreats somewhat from the high levels obtained during the 1980s in the first half of the 1990s before recovering in the second half of the 1990s. While there is

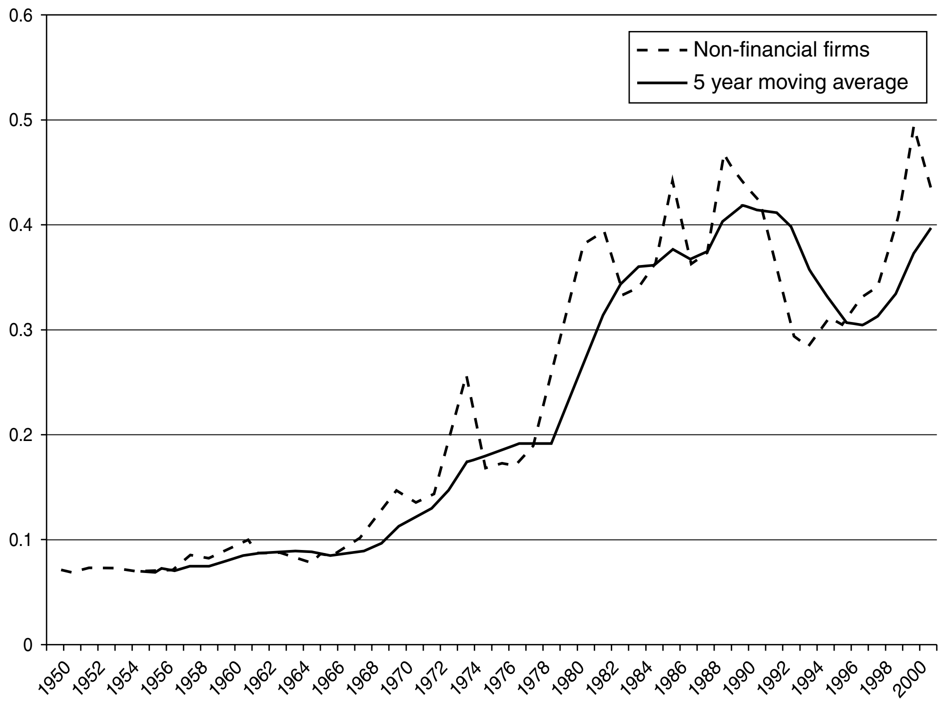

Figure 17.4 Ratio of portfolio income to cash flow for US non-financial corporations, 1950–2001.

considerable volatility in the measure, what is most striking about the graph is the dramatic divergence in the structure of the economy between the immediate post-war period and the period beginning in the 1970s.

Figure 17.5 presents these data disaggregated by manufacturing and non-manufacturing sectors of the economy.[13] For purposes of comparison, the data for all non-financial firms are also reported in Figure 17.5. The graph indicates that, beginning in the 1970s, manufacturing leads the trend in this measure for the non-financial economy as a whole. Given that increased labour militancy, intensified international competition and declining profitability were especially serious problems in the manufacturing sector during the 1970s (see Marglin and Schor, 1990), we would expect to observe manufacturing firms relying on financial sources of income to a greater extent than non-financial firms as a whole in this period (cf., Arrighi, 1994; Fligstein, 2001; Magdoff and Sweezy, 1987). While manufacturing subsequently staged something of a recovery from its dismal performance in the 1970s and the first half of the 1980s (Brenner, 2002), the sector continues to lead the trend in the portfolio income measure through 2001, the last year for which data are available. This may reflect the extent to which firms in highly cyclical manufacturing industries increasingly depend on financial revenues to subsidize profits from productive enterprise.[14]

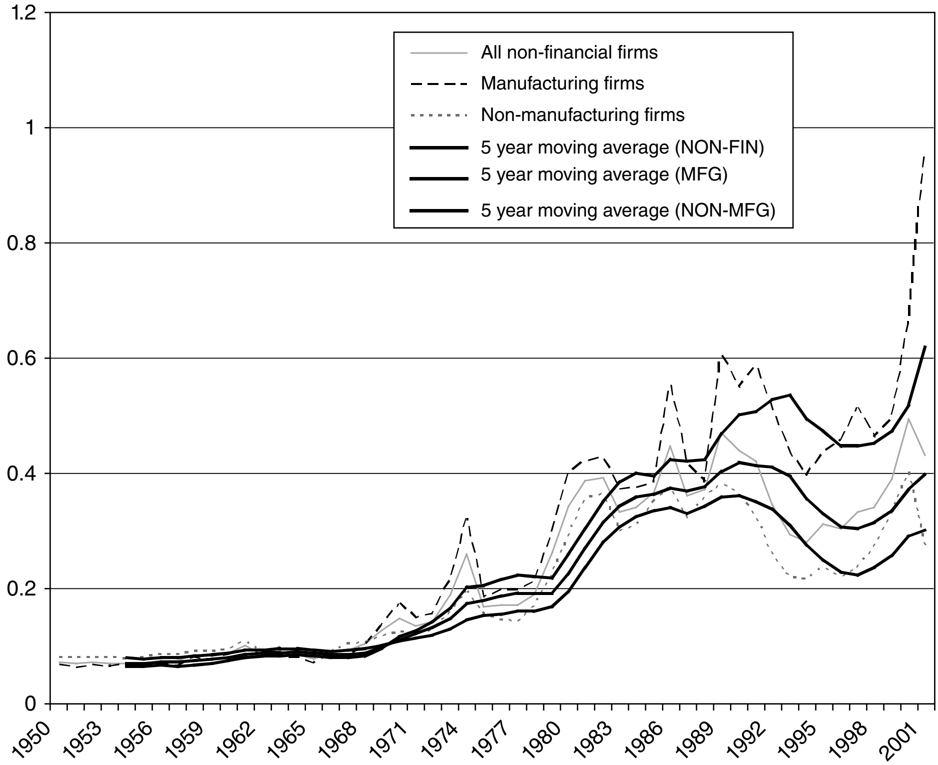

Figure 17.5 Ratio of portfolio income to cash flow for US manufacturing and non-manufacturing industries, 1950–2001.

Finally, Figure 17.6 breaks out the components of portfolio income, reporting the share of the total accounted for by each. It reveals that the upward surge in portfolio income in the last three decades was largely accounted for by increases in the interest component, rather than by capital gains, which merely held steady over the period, or dividends, which lost share relative to the other two components. This is a surprising result, and it argues strongly against reducing financialization to developments in the stock market. While there clearly is a relationship between financialization and the bull market of the 1980s and 1990s, it is a more indirect one than is commonly assumed, at least as reflected by this measure.

Financial and Non-financial Profits

I have examined one measure of financialization that gauges the behaviour of non-financial firms. Yet financialization should be reflected *both* in the behaviour of non-financial firms and in the overall growth of profits in the financial sector. Thus, a second perspective on the process of financialization is sectoral in nature, *comparing the profits generated in financial and non-financial sectors of the economy*.

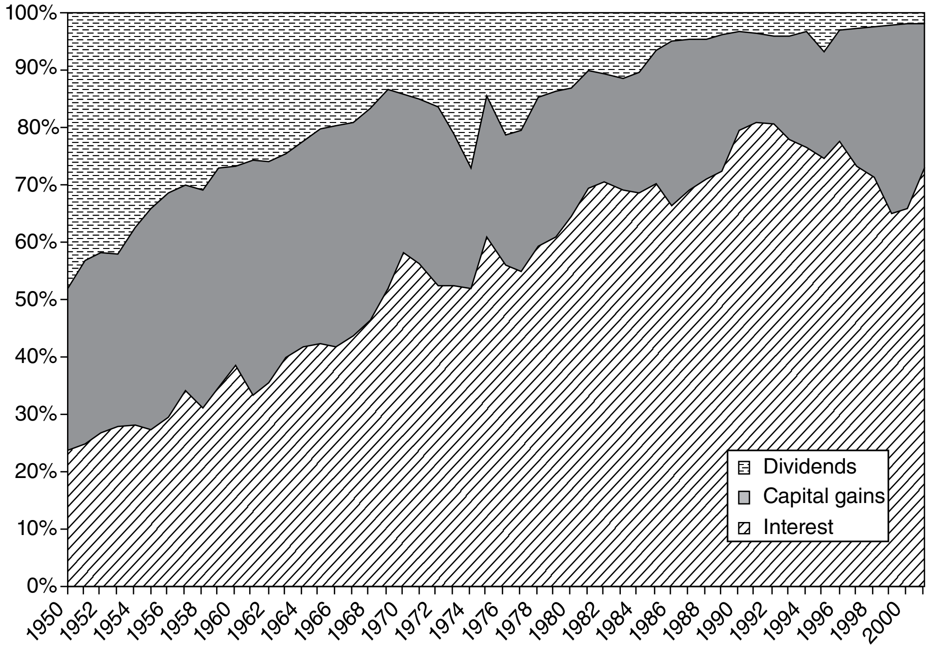

Figure 17.6 Share of total portfolio income accounted for by individual components for US non-financial corporations, 1950–2001.

This section argues that, above and beyond the increasing weight of financial activities in generating income streams for non-financial firms, the financial sector itself has become an increasingly privileged site of accumulation in the economy.

I previewed the sectoral composition of profits for purposes of illustration earlier in the paper, but here it is necessary to be considerably more careful in how measures of profitability are constructed and interpreted. In particular, it is important to take into account some of the problems associated with depreciation already discussed in conjunction with the portfolio income measure. As noted, the liberalization of depreciation allowances in recent years results in profit figures that are artificially low relative to figures from the 1950s and 1960s. Even more troubling, depreciation allowances are not evenly distributed across firms, but will be highest for firms in capital-intensive industries, like manufacturing. Thus, these problems will bias a comparison of the financial and non-financial sectors, overstating the growth of financial relative to non-financial profits, especially in recent years. In short, corporate profit data present *too favourable* an estimate of financialization.

One possible solution is to rely on corporate cash flow instead of profits, as I did when examining the portfolio income of non-financial firms. By adding depreciation allowances back into profit figures, such a measure eliminates the risk that financial profits appear high relative to non-financial profits solely as an artifact of the differential tax treatment of financial and non-financial firms. But while in using corporate cash flow previously, I was interested in capturing the total capital

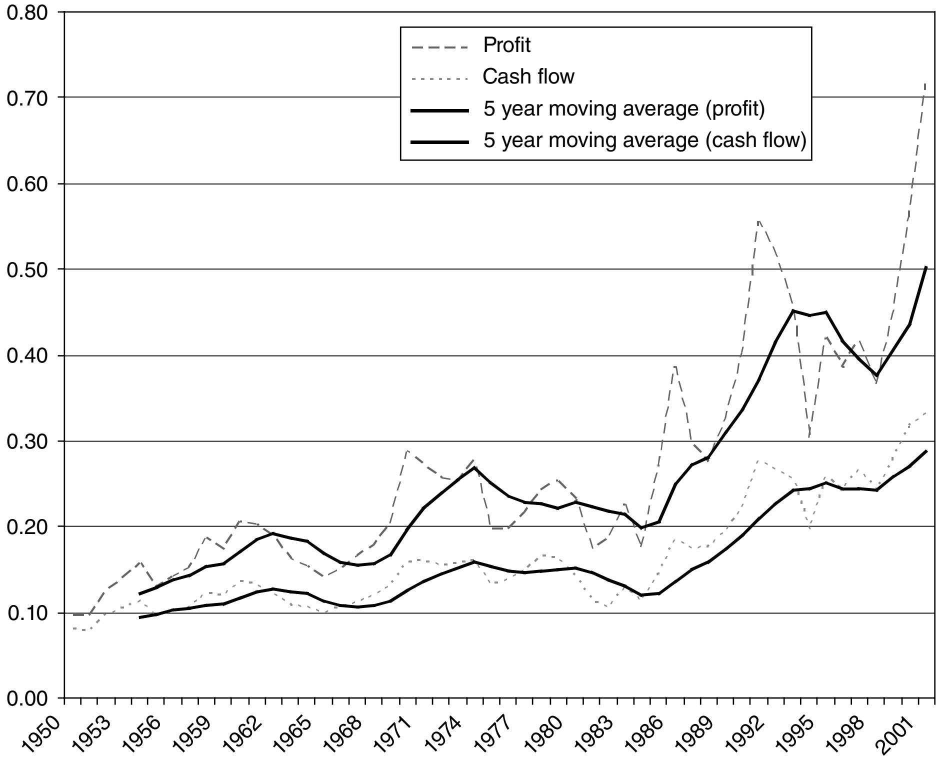

Figure 17.7 Ratio of financial to non-financial profits and cash flow in US economy, 1950–2001.

available to firms, here I am actually interested in profits. As a proxy for accumulation, corporate cash flow data suffer from the opposite bias to that of corporate profit data. In particular, while liberalized depreciation allowances overstate true depreciation, *true depreciation is not zero* and represents a cost borne by firms against profits. As before, this cost is not evenly distributed across firms, but will be highest in capital-intensive industries. Thus, corporate cash flow data produce an inflated estimate of profits in industries such as manufacturing, understating financial profits relative to non-financial profits. In sum, then, corporate cash flow data present *too conservative* an estimate of financialization.

Since the flaws of these two measures are symmetrical and offsetting, we can be confident that the true, unobserved ratio of financial to non-financial profits lies somewhere in between the two measures. In Figure 17.7, I report both corporate profits and corporate cash flow as upper and lower bounds for financialization, respectively.[15] A 5-year moving average is shown with the annual data; an upwards trend in the ratio is consistent with greater degrees of financialization. On either measure, the ratio is relatively stable in the 1950s and 1960s but becomes more volatile beginning in the 1970s. The ratio increases gradually in the 1970s, followed by a sharp upward surge during the 'deal decade' of the 1980s. The ratio then retreats somewhat in the first half of the 1990s, but subsequently recovers and supersedes even the soaring levels of the previous decade by the end of the 1990s. At its highest point at the end of the period, the ratio ranges (depending on which measure one follows) from approximately *three to five times* the levels typical of the 1950s and 1960s.

Financialization and the Reorganization of Corporate Activity

A general problem for scholars attempting to characterize recent changes in capitalism is the difficulty of distinguishing changes in the *organization* of economic activity from changes in the *substance* of those activities. There are two discrete developments to consider in this regard, both of which potentially threaten the interpretation of the US economy as currently undergoing a process of financialization. The first issue is the growing trend among firms towards outsourcing certain activities previously performed 'in-house'. Should the practice of contracting-out financial functions once executed in the finance departments of manufacturing corporations, for example, be counted as evidence for financialization (or, for that matter, for post-industrialism)? In this case, it is not the activity *per se* that is new, but simply its sectoral location *vis-à-vis* shifting firm boundaries – and consequently, where it is visible in the economic data. A second, related threat to the interpretation of the data as reflecting the financialization of the US economy revolves around the increasing prevalence of subsidiary ownership among large industrial corporations (Boies and Prechel, 2002). Here we must consider the possibility that changing ownership structures – and not a novel pattern of accumulation – have generated the results presented in the previous section of the paper.

Outsourcing

To deal first with the outsourcing issue, the objection is that what appears in the data as 'financialization' may in reality be an artifact of the reorganization of firms, such that financial activities that once took place inside non-financial firms now take place outside of them.[16] In this regard, it is important to consider to what extent outsourcing may compromise the results presented in this paper. While it is not possible to fully discount outsourcing as contributing to the trends observed in the data, the specific way in which I have constructed the evidence for financialization minimizes the risk that the results presented in the previous section are merely an artifact of corporate reorganization. I explain how this is the case with the aid of a concrete example.

The management of trade receivables represents a financial function that was formerly carried out within non-financial firms but is now typically outsourced to specialized financial firms. Trade receivables are short-term credits extended between a firm and its suppliers to facilitate interfirm trade. For example, Firm A purchases machinery from Firm B. Rather than accepting payment for the machinery immediately, Firm B 'extends' credit to Firm A for the amount of the sale. In order to make good on this debt, Firm A pays interest – as well as eventually the 'principal' on the loan – to Firm B. In the early post-war decades, trade receivables were very often carried on the books of non-financial firms. In more recent years, in contrast, non-financial firms commonly sell their receivables to financial firms that specialize in managing the risks associated with collecting on these debts. This development exerts a downward bias on the first measure – portfolio income – by depriving non-financial firms of a source of interest income. At the same time, the growth of a segment of the financial industry specializing in managing trade receivables generates profits in the financial sector, exerting an upward bias on the second measure of financialization, the ratio of financial to non-financial profits.

This very concrete example makes a general point: the biases of the two measures of financialization tend in opposite directions with respect to the implications of outsourcing. Thus, the fact that both measures show the same trend in spite of these opposite biases increases confidence that outsourcing does not account for the patterns observed in the data.

Subsidiary Formation

Another threat to the results presented in the previous section relates to a second form of corporate reorganization – that of subsidiary formation.[17] Subsidiary formation resembles the practice of outsourcing, but here the key relationship between firms is not contractual but one of *ownership*. A subsidiary is formed when a multidivisional firm sells one of its divisions, creating a separate legal entity in which the parent company holds a controlling interest by maintaining majority (i.e. more than 50%) ownership of the subsidiary firm's stock.[18] Subsidiaries may also be acquired when a company purchases a majority stake in another firm (i.e. not previously organized as a division of the parent). Evidence suggests that subsidiary ownership is far from a trivial phenomenon in the US economy. Indeed, Boies and Prechel (2002) argue that the 'multi-layered subsidiary form' has replaced the multidivisional firm as the *modus operandi* of the contemporary American corporation. As such, the implications of this development warrant careful consideration. There are two separate issues here: first, the possibility that changing ownership patterns might artificially inflate dividends and thereby distort estimates of portfolio income; and second, the potential for the non-financial ownership of financial subsidiaries to blur the lines between sectors of the economy. I consider each of these issues in turn.

The practice of 'spinning off' divisions into subsidiaries directly affects the interpretation given to the portfolio income data: as the majority stock owner, the parent company receives dividends paid out by the subsidiary corporation. Since dividend income is a component of portfolio income, part of the upward trend in that measure in the last two decades could simply reflect this form of corporate reorganization rather than the growing orientation of non-financial firms to financial markets.

However, it should be noted that the timing of subsidiary formation does not correspond closely to the trend in portfolio income observed in Figure 17.4, suggesting that if subsidiary formation has contributed to these results, it does not *determine* them. More specifically, Boies and Prechel (2002, p. 302) note that while the largest 100 industrial corporations created 703 new subsidiaries between 1981 and 1987, the rate of subsidiary formation more than doubled between 1987 and 1993, with 1796 new subsidiaries formed. Comparing these figures to the data on portfolio income reported in Figure 17.4, we note that portfolio income surged upwards during the first half of the 1980s, but then slowed just as subsidiary formation was itself accelerating dramatically in the late 1980s and early 1990s. In addition, the analysis presented in Figure 17.6 weakens the plausibility of this alternative explanation for the upward trend in the portfolio income measure: dividends account for a *decreasing* share of total portfolio income over the post-war period.[19] Finally, it should also be noted that, whatever the role of subsidiary formation in contributing to portfolio income, this phenomenon does not affect the second measure of financialization – the ratio of financial to non-financial profits – as dividends are *not* included in the profit data.[20]

A related problem to consider is how non-financial ownership of financial subsidiaries might affect estimates of financialization by blurring the lines between financial and non-financial sectors of the economy. As with the issue of dividends, the implications of this problem diverge for our two measures of financialization. The divergence, in this case, results from the way in which economic units are assigned an industry classification for purposes of incorporation into national economic data. Industrial classifications may be determined on an *establishment* or on a *company* basis. An establishment is an economic unit at a single physical location. A company is comprised of one or more establishments owned by the same legal entity, regardless of physical location. Establishments are assigned an industrial classification on the basis of their principal product. While companies may own establishments in many different industries, companies are assigned to an industrial classification on the basis of the activity that generates the largest revenue in *all* establishments. Thus, where data are reported on a company basis, individual establishments may be misallocated to whatever industry dominates revenues for the entire company.

The data used in constructing the portfolio income measure are reported on a company basis; the ratio of financial to non-financial profits is on an establishment basis. Thus, the latter measure is *not* affected by the problem of subsidiary ownership. Unless the non-financial parent and financial subsidiary literally occupy the same physical space – a prospect that seems unlikely – subsidiary ownership will have no bearing on the results reported. Portfolio income data, in contrast, *are* affected by patterns of subsidiary ownership. In cases where non-financial parents acquire financial subsidiaries, the revenues of these financial subsidiaries may be incorrectly attributed to non-financial parents, potentially inflating the estimate of financialization reported in Figure 4. Thus, to the extent that such acquisitions have accelerated in recent years, it is possible that the upward trend in portfolio income reflects changing forms of ownership rather than a truly novel pattern of accumulation. However, because this particular measure is intended to show the *dependence of non-financial corporations on financial sources of revenue*, I would argue that, in this case, changing forms of ownership *do* reflect a novel pattern of accumulation (e.g. Froud *et al.*, 2002). In short, while the portfolio income measure is reported on a company basis primarily because of data limitations, including the income of financial subsidiaries owned by non-financial corporations in portfolio income seems appropriate *given what the measure seeks to capture*.

To summarize, corporate reorganization – analyzed either in terms of outsourcing or subsidiary formation – merits careful consideration in terms of its implications for the central results of this paper. However, the fact that the effect of corporate reorganization is not uniform but varies across the two main indicators of financialization provides reassurance that while outsourcing and subsidiary ownership may contribute to these results, they do not by themselves account for them. In particular, outsourcing affects the two measures of financialization in opposite directions, whereas problems associated with subsidiary formation were shown to affect only the portfolio income measure and not the ratio of financial to non-financial profits. In addition, I suggested that we should not be unduly alarmed with respect to the implications of subsidiary ownership for the portfolio income measure. With respect to the dividend issue, the shape of the portfolio income graph does not closely correspond to the timing of subsidiary formation. Dividends also account for a decreasing share of portfolio income. With respect to non-financial ownership of financial subsidiaries, including the income of these subsidiaries as a component of the portfolio income of non-financial firms seems appropriate. I conclude that corporate reorganization does not pose a *fundamental* threat to the results presented here.

Financialization and the Globalization of Production

A final issue to consider is how the structural shift in the economy documented in this paper intersects with the global reorganization of production. Another objection to the argument presented here is that what we are observing as the 'financialization' of the US economy is in fact a result of the spatial restructuring of economic activity where production increasingly occurs offshore but financial functions continue to be located in the domestic economy.[21] It is important to note that both of the measures developed in this paper, which rely exclusively on domestic data, are vulnerable to such an objection. In the case of portfolio income, the sharp upward trend in the measure could be a reflection not of a genuine expansion of financial relative to productive sources of income, but rather the *relocation* of manufacturing activities (and associated income flows) outside the boundaries of the US economy. In the case of the sectoral analysis of profits, the growing weight of financial relative to non-financial profits might similarly be generated by the increasing importance of US non-financial profits earned abroad (which are *not* included in the reported measure). If such scenarios accounted for the trends observed in this paper, we might still refer to the US economy as having been 'financialized,' but the term would not then signal a new way of characterizing current developments in the US economy, but rather could be subsumed into already existing literatures on deindustrialization and the changing international division of labour (Bluestone and Harrison, 1982; Frobel *et al.*, 1980).

There are, however, reasons to be sceptical of the claim that the findings reported here are better understood in terms of processes associated with the globalization of production. With regard to portfolio income, there is no reason to assume *a priori* that the movement of production offshore (and associated income flows) has outpaced revenues generated by increased investment in foreign financial instruments. Similarly, with regard to the sectoral analysis of profits, there is also no *a priori* reason to expect that non-financial profits dominate financial sector profits earned abroad. We know that with the development of the Eurodollar market in the 1960s, banking activities soon followed manufacturing offshore (Helleiner, 1994); the internationalization of US financial capital has continued apace in more recent years (Sassen, 2001). With respect to both measures, more fundamentally, the activities of US firms abroad are fairly insignificant relative to the size of the domestic economy, in spite of popular beliefs to the contrary (Hirst and Thompson, 1999). Nevertheless it is important to examine the data on this question.

In the analysis that follows, I use *domestic* portfolio income or profits to refer to the portfolio income or profits generated by economic activity undertaken inside the territorial US. I use *foreign-source* portfolio income or *US profits earned abroad* to refer to portfolio income or profits earned by US corporations outside of the territorial US. I use *global* portfolio income or profits to refer to portfolio income or profits earned in the territorial US *plus* foreign-source portfolio income or profits earned abroad by US corporations (i.e. global portfolio income = domestic portfolio income + foreign-source portfolio income; global profits = domestic profits + US profits earned abroad). The same conventions apply to the labels used to describe Figures 17.8–17.11.

Global Portfolio Income of US Non-financial Corporations

Beginning with the portfolio income measure, a first cut at the problem involves recalculating the measure by incorporating foreign-source income from financial and productive activities into the numerator and denominator of the ratio, respectively. There are serious data limitations involved in such a calculation: the appropriate data must be drawn from three different sources and are available at the correct level of industry disaggregation for only a handful of years: 1978, 1980, 1982, 1984, 1986, 1990, 1992–1999.[22] In spite of the relatively limited number of data points, the period covered is a critical one in terms of the crisis of manufacturing, which precipitated a significant movement of production offshore (Brenner, 1998). Thus, these data should be sufficient to evaluate the hypothesis that what is driving financialization is not a substantive change in the nature of the economy but rather the spatial reorganization of economic activity associated with globalization.

Figure 17.8 presents the portfolio income measure recalculated to reflect the global economic activities of US non-financial corporations – that is, incorporating both domestic *and* foreign-sources of income.[23] For purposes of comparison, I also plot the same data points using the original domestic measure. An examination of Figure 17.8 shows that the domestic and global portfolio income measures track each other very closely. As mentioned, this reflects the large size of the domestic economy relative to international activity: the results for the domestic economy dominate the trend for the global measure.

This being the case, it is informative to examine the foreign-source data separately. An examination of the ratio of foreign-source portfolio income to cash flow generated abroad (i.e. calculated so as to exclude domestic economic activity), shown in Figure 17.9, reveals a striking fact: financialization is even more strongly in evidence in the offshore activities of US non-financial corporations than is the case for the domestic economy considered in isolation.[24] While some care is required in interpreting these data given the relatively restricted number of years for which data are available, these results are not consistent with the claim that financialization in the domestic economy is simply an artifact of the offshoring of production.

Figure 17.8 Ratio of global and domestic portfolio income to cash flow for US non-financial firms, 1978–99.

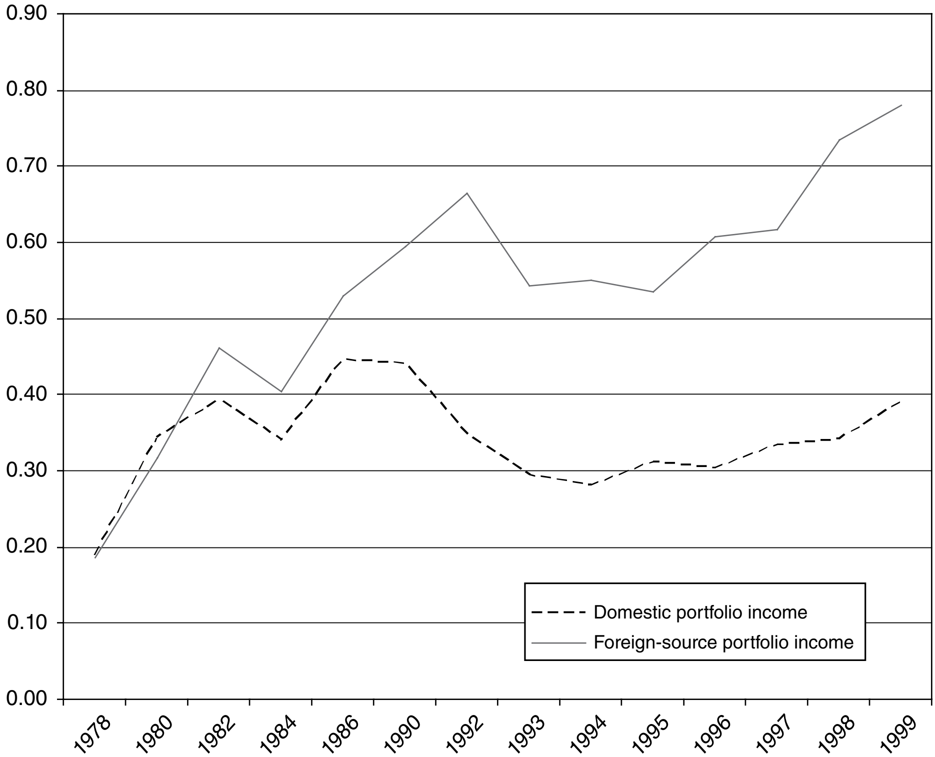

Figure 17.9 Ratio of foreign-source and domestic portfolio income to cash flow for US non-financial firms, 1978–99.

Global Financial and Non-financial Profits of US Corporations

A similar analysis can be performed with respect to the sectoral analysis of profits by recalculating the ratio of financial *versus* non-financial profits including US profits earned abroad in the measure. For this analysis of the global profits of US corporations, data are available appropriately disaggregated by industry for *all* years between 1977 and 1999.[25] As before, given the restricted number of years for which data are reported, some caution should be used in extrapolating results reported on the basis of domestic data alone to these results. However, data from a 22-year period beginning in the late 1970s should be sufficient to evaluate the hypothesis that what appears in the US as 'financialization' reflects the spatial reorganization of production when viewed globally.

Figure 17.10 presents the results of this analysis, which closely track the results obtained when examining domestic profits alone, also reported here for purposes of comparison.[26] Based on the data, it does not appear that including profits earned abroad into the measure significantly attenuates the observed trend toward the increasing weight of the financial sector in the economy.

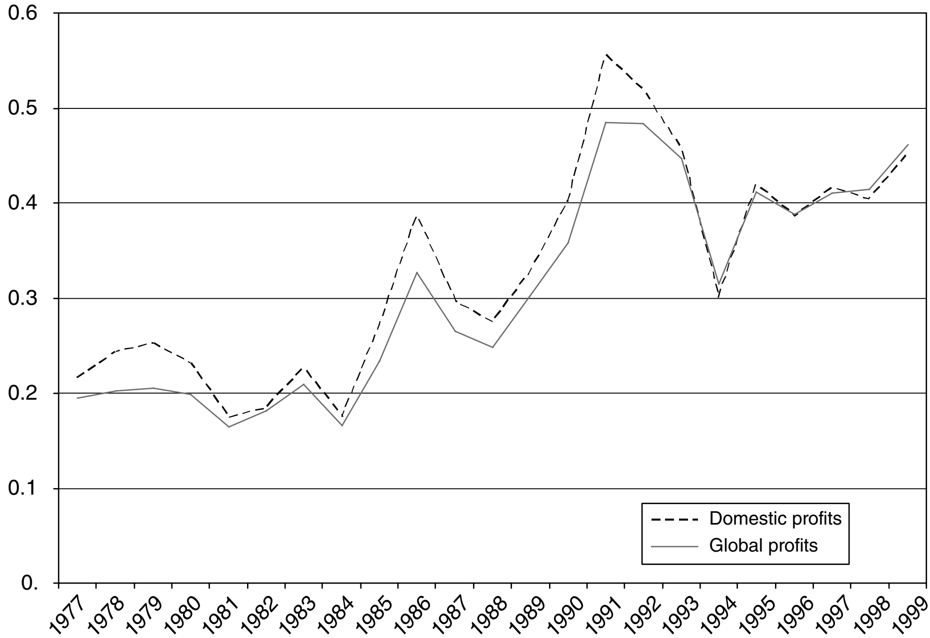

Figure 17.10 Ratio of financial to non-financial global profits earned by US corporations, 1977–99.

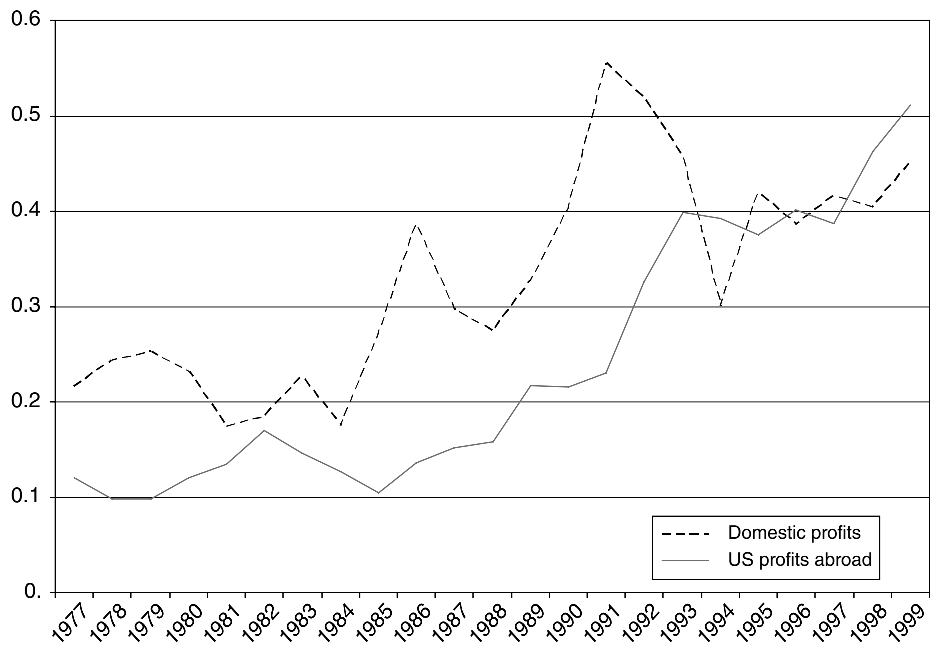

Figure 17.11 Ratio of financial to non-financial profits earned abroad by US corporations, 1977–99.

As was also the case with the analysis of portfolio income, this result in part reflects the fact that US profits earned abroad are relatively insignificant when compared to profits earned in the domestic economy. But, independently of the magnitudes involved, we still might be interested in analyzing the ratio of financial to non-financial profits for firms operating abroad. Figure 17.11 shows the ratio of financial to non-financial profits earned abroad by US corporations.[27] I again report the domestic data for comparison. While the ratio of financial to non-financial profits earned abroad starts from a lower level relative to the domestic ratio, the measure climbs sharply, overtaking domestic profits by the end of the 1990s. Here, too, financialization is evident.

Conclusion

The aim of this paper has been to suggest an alternative way of characterizing recent developments in the US economy by substituting an accumulation-centred perspective for the more standard activity-centred view of economic change. The result of shifting our 'lens' in this way is that financialization – rather than the rise of the service economy or post-industrialism – emerges as the most important 'fact' about the economy. Such characterizations tend to be freely coined and even more freely used. Indeed, there is no shortage of labels to describe the nature of recent economic change: globalization, neo-liberalism, post-fordism, flexible specialization, the new economy – all in addition to post-industrialism. Is it prudent to add financialization to a long list of such neologisms? In this regard, two features of this research programme rescue it from mere label-mongering: (1) the exercise is grounded firmly (as firmly, I believe, as is possible, given data limitations) in empirical evidence; and (2) financialization proves to be a *useful* concept for working through a number of difficult theoretical problems. By way of summing up, I discuss each of these points in turn.

In suggesting that the trajectory of the US economy in recent decades is aptly characterized in terms of a process of financialization, my central empirical claim is that accumulation is now occurring increasingly through financial channels. This is precisely what the data show. During the 1980s and 1990s, the ratio of portfolio income to corporate cash flow ranges between approximately *three and five times* the levels characteristic of the 1950s and 1960s. The ratio of financial to non-financial profits behaves similarly. In both cases, the first half of the 1990s represent something of a retreat from the dramatic degree of financialization in evidence during the 1980s. But, also in both cases, a resurgence appears to be underway by the end of the period; and even during the first half of the 1990s, what is most striking about the data is the divergence they show from the immediate post-war decades. While important differences also exist between the two measures (the behaviour of the 1970s is quite different across Figures 17.4 and 17.7, for example), the fact that both measures share in common the same basic trend enhances confidence that the fundamental patterns discussed here are robust in spite of the specific limitations of each individual measure.

Nevertheless, two caveats are in order. First, it is necessary to be explicit about what I am *not* asserting: specifically, that financialization represents an entirely novel phase of capitalism. The data presented in this paper relate only to *post-war* economic development; they do not allow us to form a judgement as to the role of finance in earlier periods. Certainly, the writings of Hobson ([1902] 1971), Hilferding ([1910] 1981), Lenin ([1916] 1988), and – more recently – Braudel (1982) and Arrighi (1994) would tend to suggest that financialization is a recurrent phase in the evolution of capitalist economies. Fully exploring the historical precedents for the current turn to finance is a rich exercise (Arrighi and Silver, 1999), but one that lies considerably beyond the scope of the present paper.

The second caveat is related to the first. Just as this paper does not suggest that financialization is a 'new' phase of capitalism, neither do these data allow us to draw any conclusions regarding the *permanency* of the trends documented here. In particular, data are not available that would enable us to say anything definitive about whether financialization has been sustained following the bursting of the stock market bubble in 2001. But whatever these data finally reveal, the longevity of this phenomenon *already* signals its importance in understanding the contemporary US economy. Indeed, while the stock market mania of the 1980s and 1990s is clearly associated with the financialization of the US economy, it would be a mistake to *reduce* financialization to developments in the stock market. The data show that financialization preceded the 'take-off' in the stock market by a full decade; if the past is any guide, financialization may continue even after the market ceases to dazzle. This possibility appears more likely in light of the fact that increases in portfolio income, one of our two measures of financialization, largely reflect growth in interest income and *not* increases in capital gains or dividends. Nevertheless, this paper makes no attempt to forecast for how long or under what circumstances financialization will sustain itself – or reverse course.

While the primary objective of this paper has been to establish evidence for financialization, it is appropriate to close by considering some of the broader implications of this development. As I noted at the outset of this paper, there are innumerable ways of mobilizing data in order to characterize the most salient developments that mark an era. In this respect, profit data have a certain intuitive appeal – presumably, patterns of accumulation shape the evolution of economies in the long run. But employment data have an equally legitimate claim to represent what is most significant about the economy. Work, after all, is central to our lived experience of capitalist social relations. In this sense, I have argued that perspectives on economic change, such as post-industrialism and financialization (others could readily be added to the list), have to be justified not in terms of some absolute truth they reveal about the world but in terms of their *usefulness* with respect to specific theoretical problems. Different ways of 'seeing' the salient shifts that constitute long-term change in the economy produce new questions for investigation, and can potentially help to resolve impasses in areas of ongoing research. I now want to illustrate this proposition by providing two examples of longstanding debates in the social sciences where a view of economic change centred on financialization suggests novel approaches to persistent questions.

For the better part of a century, researchers have concerned themselves with the problem of who controls the modern corporation. Berle and Means' (1932) famous thesis was that with the wide diffusion of stockownership, managers displaced owners at the helm of the economy. Such a development was considered progressive because managers were insulated from the most vicious social consequences of profit maximization – hence economic development assumed a more benign, if technocratic (e.g. Galbraith, 1967), character. While early interventions in this debate were directed at discerning the continued presence of a unified capitalist class in control of the core functions of the modern economy (Domhoff, 1967; Useem, 1984; Zeitlin, 1974), the implications of different forms of control for various aspects of corporate behaviour quickly became a central focus of research. This literature rejected the simple distinction between owners and managers posed by Berle and Means (1932) to examine the control of non-financial corporations by banks and other financial institutions. In an influential contribution, Kotz (1978) explored the implications of bank control for corporate strategy *vis-à-vis* debt financing and participation in mergers and acquisitions.

While Kotz's results were largely suggestive, subsequent researchers explored the behavioural implications of financial control of non-financial corporations more systematically. But methodological difficulties in establishing both control and its consequences are legion (e.g. Zeitlin, 1974); thus, results from this research programme have been somewhat inconclusive. One result that is *not* inconclusive, however, is that financial institutions sit at the centre of the corporate network. An examination of interlock data reveals that banks are the most highly interlocked firms in the economy, meaning that shared directorships most often involve bank executives (see Mintz and Schwartz, 1985). But, as Mizruchi (1996) acknowledges, it is not clear what these interlocks 'do.' Do non-financial corporations place financial directors on their boards in order to secure access to loan capital, as resource dependency theory suggests (Burt, 1983; Pfeffer and Salancik, 1978)? Or do bank directors sit on non-financial boards in order to monitor – and shape – the behaviour of non-financial clients (Kotz, 1978; Mintz and Schwartz, 1985; Mizruchi and Sterns, 1994)? In short, *who is controlling whom?* Put differently, are interlocks cause *or* consequence of corporate strategy? Disagreement over such issues has continued without clear resolution (Mizruchi, 1996). More recently, related questions have been posed in the literature on the rise of the 'shareholder value' model of the firm: has this strategy come from 'inside' non-financial corporations, initiated by management, or has it been imposed on non-financial firms by financial sector 'outsiders' (cf., Davis and Thompson, 1994; Fligstein, 2001; Zorn *et al.*, 2004)?

Part of the difficulty here reflects the fact that even where it is possible to detect relationships between financial and non-financial firms, instances of 'control' are often not directly observable (Mintz and Schwartz, 1985). But the perspective on financialization outlined in this paper suggests that there may be other ways of making sense of corporate behaviour. Indeed, one of the virtues of the financialization perspective is precisely that it attempts to transcend a purely sectoral understanding of the firm. In this sense, the position articulated here harkens back to the early

20th-century literature on finance capital (Hobson, [1902] 1971; Hilferding, [1910] 1981; Lenin, [1916] 1988). Rather than asserting bank dominance over industrial firms – as in much of the contemporary bank control literature – these early theorists of financialization emphasized the 'union' of industrial and financial capital in a 'new social type'. As Zeitlin (1976, p. 900; emphasis added) observed, 'Neither "financiers" extracting interest at the expense of industrial profits nor "bankers" controlling corporations, but *finance capitalists* on the boards of the largest banks and [non-financial] corporations preside over … investments, organizing production, sales, and financing, and appropriating the profits of their integrated activities.'

While Zeitlin was primarily interested in assessing the class character of this 'union', here the point is to note the convergence between financial and non-financial firms under financialization. While evidence of financial control of non-financial corporations remains elusive, the increasing dependence of non-financial firms on financial activities as a source of revenue is critical for understanding the behaviour of these firms. Indeed, the very elusiveness of the control debate reflects the fact that the distinction between forces operating 'inside' and 'outside' non-financial corporations is becoming increasingly arbitrary. Non-financial corporations are beginning to resemble financial corporations – in some cases, *closely* – and we need to take this insight to our studies of corporate behaviour. While the data presented here indicate the broad relevance of this approach, aggregate-level data undoubtedly mask significant variation. Thus, firm-level research exploring how the financialization of non-financial corporations has changed corporate behaviour is an important area for future work.

A second area of current research where financialization has important implications concerns the relationship between globalization and the state – one of the most vexed issues in all of social science. Two broad perspectives have emerged in this literature corresponding to what Hobson and Ramesh (2002) have identified as 'structuralist' and 'agent-centric' approaches. The first of these associates globalization with an unequivocal loss of state power to define economic and social policy and protect citizens from the ravages of the global market. Popular writers (e.g. Greider, 1997) have been the most vocal champions of this perspective, but it is well represented in the scholarly literature as well (Cerny, 1996; Gill and Law, 1988; Strange, 1996). Critics of this view have reasserted the agency of state actors, suggesting that both the degree of global economic integration and its effect on the state have been overstated. In particular, the lion's share of economic activity in the advanced industrial economies is still oriented towards domestic markets; moreover, foreign investment is concentrated *between* advanced industrial economies, undermining any expectation of a 'race to the bottom' (Gordon, 1988; Hirst and Thompson, 1999; Wade 1996). Given these findings, it is difficult to square the supposed effects of globalization on the state with the rather limited extent to which international economic integration is in evidence – particularly in large economies such as the US.

One context in which these debates play out with particular intensity concerns transformations occurring in contemporary welfare states. There is now a voluminous literature detailing the impact of increased economic globalization – especially *vis-à-vis* heightened international capital mobility – on welfare state retrenchment.[28] This literature has reproduced in broad strokes the positions represented in the wider debate on globalization and the state, although in recent years a number of researchers working in this area have staked out intermediate positions (e.g. Hicks, 1999; Huber and Stephens, 2001; Swank, 2002). Against globalization sceptics, these scholars have argued that international economic integration *has* occurred, if in a more limited and moderate fashion than is often implied. But the relationship between globalization and the welfare state is generally understood to be indirect (but see Garrett and Mitchell, 2001). Swank (2002) argues that international capital mobility has the potential to exert pressure on the welfare state, but such pressure is mediated in complex ways through domestic political institutions. Similarly, Huber and Stephens (2001) suggest that international capital mobility has undermined the ability of the state to wield supply-side and monetary policies in support of investment, resulting in higher unemployment, and hence strains on the revenue base supporting welfare state expenditures. Hicks (1999) finds that the relationship between globalization and welfare state retrenchment is *non-linear* in nature: increases in foreign direct investment are associated with an acceleration of welfare-state spending up to a certain threshold, and beyond that threshold a deceleration. Hicks (1999, p. 212) explains this result by suggesting that increased openness generates demands from citizens for 'protection' from the viscitudes of international markets (cf., Garrett, 1998), but too much openness may embolden business interests, constraining the ability of the state to respond to such demands.

This research represents a welcome attempt to soften the terms of what has been a polarizing debate, but these researchers still must deal with the same basic problem as that confronted by more ardent proponents of the structuralist view. Even if the causal relationships are indirect, how do these scholars square what they acknowledge to be a modest degree of international economic integration with such significant effects on state structure? In this regard, another way around the impasse in the globalization literature is to examine contemporary welfare state transformations through the lens of financialization (see Arrighi and Silver, 1999). For although only a relatively small share of US firms participate to any significant degree in the global economy, the growing importance for non-financial firms of financial sources of revenue documented in this paper extends very broadly across the economy, and may be the *functional equivalent* of international capital mobility. That is, because financialization has lessened the dependence of non-financial firms on productive activities, it may have also reduced the dependence of these firms on their (domestic) workforces, in much the same way as is supposed to have occurred via placements of capital offshore. The point should not be overstated – production is, of course, still occurring in the American economy and to imply that it is somehow unimportant to non-financial firms would represent a gross exaggeration. But, at the same time, it is not hard to envisage how processes associated with financialization might have eroded the 'social pact' between capital and labour that provided crucial support for the welfare state during much of the post-war period – even, perhaps, more effectively than capital mobility *per se* (Silver, 2003; Silver and Arrighi, 2001). Whether or not detailed empirical research actually bears out this thesis, we must conclude that, alongside investigations of its role in shifting centres of corporate control, financialization also promises new insights into the relationship between globalization and the state.

Why not proceed directly to such topics – of obvious social and political interest – rather than labour over the data on corporate profits, an exercise that at first glance seems somewhat removed from more pressing tasks? In closing, it is once again worth quoting Merton's famous essay: 'In sociology as in other disciplines, pseudofacts have a way of inducing pseudoproblems, which cannot be resolved because matters are not as they purport to be' (1959, p. xv). If financialization is to make an appearance in the major social science debates of the day – as is already occurring, and will no doubt continue to occur – we must first establish its existence, as well as develop more precise knowledge of its timing and magnitude, through careful empirical work. In such an endeavour rests the principal contribution of this paper.

Notes

1 For a similar use of Merton in the context of a related debate, see Zeitlin (1974).
2 I am indebted to Mark Suchman for this formulation.
3 The intention here is not to reify these labels into higher-order abstractions but to describe reasonably succinctly the kinds of data mobilized by these two perspectives in arguing for different interpretations of economic change.
4 To be sure, finance is generally considered to be a central component of the rise of the service sector. But when profit data are adopted as the privileged lens on the economy, the rise of finance becomes so central to characterizations of economic change that merely subsuming finance under a broader category of service industries and occupations is, in fact, misleading.
5 FIRE is the industry group comprised by finance, insurance and real estate. For the moment, I follow convention and report FIRE as an industry group rather than disaggregating finance and real estate. In the more detailed empirical analysis presented in sections three and five, I exclude real estate as a component of the financial sector of the economy. Which practice is more appropriate is a complex matter – real estate markets share many characteristics of financial markets, including their speculative nature. At the boundary, the distinction between 'financial' and 'non-financial' sectors of the economy is ambiguous. In the present context, my purpose is to ensure comparability between my analysis and the analyses typical of the activity-centred view. In subsequent sections, where I am more concerned with precision, my purpose is to construct a *conservative* estimate of financialization.
6 Data on full-time equivalent employees are from the *National Income and Product Accounts*, Table 6.5.
7 Data on industry contributions to current-dollar GDP are from the BEA's *Gross Product Originating* series.
8 Data on corporate profits by industry are from the BEA's *Gross Product Originating* series. Here and throughout the paper, profits are reported *before* taxes and dividends are paid.

9 One important adjustment made to the profit data in constructing this measure should be noted. While interest income is a component of corporate profits in the *National Income and Product Accounts*, I remove interest income from the profit concept used here so that the cash flow measure exclusively reflects *non-financial* sources of income. The BEA removes the other two components of portfolio income, dividends and capital gains, in calculating the profit concept used in the *National Income and Product Accounts*. The objective of the BEA in reporting profit data is to measure revenues earned on the basis of *current* production. For details, see US Department of Commerce (2002).

10 It should be emphasized that, even augmented by depreciation allowances, corporate cash flow is still a net-of-cost measure: wages, salaries, the cost of materials used in production, etc., have all been subtracted from revenues in computing cash flow. Thus, the portfolio income measure should not be interpreted as literally representing the 'share' of the non-financial sector's available capital generated by financial investments. Rather, the total capital available to non-financial firms provides a meaningful metric against which we can compare the growth of portfolio income. In this sense, the measure computed here is similar to a measure often used to describe the financialization of the household sector, the ratio of the value of financial assets to disposable income. The numerator represents a (potential) revenue stream, whereas the denominator is net of a major household expenditure (income taxes). Nevertheless, a comparison of the two tells us in some meaningful way how 'large' a quantity the value of financial assets represents. The intuition here is analogous.

11 The argument here closely follows Block's (1990) unpublished investigation of depreciation and national income accounting.

12 Data on portfolio income are from the IRS, Statistics of Income, *Corporation Income Tax Returns*. Data on corporate profits are from the *National Income and Product Accounts*, Table 6.16. Data on depreciation allowances are from the *National Income and Product Accounts*, Table 6.22.

13 Data sources are the same as for Figure 17.4.

14 This phenomenon is well documented with respect to the auto industry. See Froud *et al.* (2002; cf., Hakim, 2004).

15 Data on corporate profits and depreciation allowances are from the BEA's *Gross Product Originating* series.

16 I am indebted to Dean Baker for bringing this issue to my attention.

17 I am indebted to Mark Suchman for raising this objection.

18 It should be noted that not all such 'spin offs' result in the creation of subsidiaries – a company may choose not to retain majority ownership of a division that is put up for sale. I am indebted to Harland Prechel for clarifying this and many other aspects of subsidiary formation.

19 It should be noted that the basic point holds even when foreign-source dividends are considered. Foreign-source dividends maintain – *but do not increase* – their share of total portfolio income over the period. Data on foreign-source dividends are not shown here but are available from the author upon request.

20 Dividends *received* by corporations are removed from profit data by the BEA because they do not reflect income from current production. Similarly, dividends *paid* by corporations do not affect this analysis as I report profits prior to any distributions.

21 I am indebted to Erik Wright for raising this objection.

22 See Krippner (2005) for complete details on the construction of this measure.

23 Data sources for domestic portfolio income, corporate profits, and depreciation allowances are described in note 12. Data on dividends paid to US corporations by foreign corporations are from the *Corporation Income Tax Statistics*. Data on interest earned on foreign investments, depreciation allowances claimed against foreign income taxes, and foreign taxes paid by US corporations are from the *Foreign Tax Credit* data. Data on US profits earned abroad for 1982 to 1999 are from the *Balance of Payments*, Table 16. Data for 1977–81 are taken from *US Direct Investment Abroad: Balance of Payments and Direct Investment Position Estimates, 1977–81*, Table 10.

24 Data sources for foreign-source portfolio income, foreign taxes paid, depreciation allowances claimed against foreign taxes, and profits earned abroad by US corporations are the same as for Figure 17.8.

25 Data complications result from the way foreign taxes are reported in this data. Examination of the data suggests that these problems do not compromise the basic results shown in Figure 17.10 and Figure 17.11. Space considerations prevent a full discussion of these problems here; see Krippner (2005) for details.

26 Data on US profits earned abroad for 1982–99 are from the *Balance of Payments*, Table 16. Data for 1977–81 are taken from *US Direct Investment Abroad: Balance of Payments and Direct Investment Position Estimates, 1977–81*, Table 10. Data on foreign income taxes paid by US firms operating abroad are from the IRS *Corporate Foreign Tax Credit* and from the *Corporation Income Tax Returns*.

27 The data sources are the same as for Figure 17.10.

28 See Guillen (2001), Ó Riain (2000) and Stryker (1998) for three recent reviews.

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18

The Transnational Capitalist Class and the Discourse of Globalization (2000)

Leslie Sklair

Introduction

Remarkably for a sub-discipline in the social sciences, theory and research on globalization appears to have reached a mature phase, in terms of volume of publications if not their quality, in a relatively short period of time. Most attempts to survey the field, despite their differences, agree that globalization represents a serious challenge to the state-centrist assumptions of most previous social science.[1] The apparently 'natural' quality of societies bounded by their nation-states plus the difficulty of generating and working with data that cross national boundaries plus the lack of specificity in most theories of the global, all conspire to shore up the crumbling defences of state-centrist social theory against the onslaught of globalization in its several versions. Thus, just as the idea of globalization is becoming firmly established, the sceptics are announcing the limits and, in some extreme cases, the myth of globalization. Globalization, in the words of these scholars and populists alike, is nothing but globaloney.

I have a good deal of sympathy with the sceptics. What I label global system theory, paradoxically, is an attempt to limit drastically the theoretical scope of the concept of globalization and its concrete application in the sphere of empirical research. Globalization is, nevertheless, in my view, a world-historic phenomenon and one that has to be confronted in theory and research if we are to have any grasp of the contemporary world. This paper aims to outline global system theory and to illustrate its central themes through an examination of the discourse of globalization as expressed by the class that drives it, the transnational capitalist class.

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It is important at the outset to distinguish between three distinct but often confused conceptions of globalization. The first is the international or state-centrist conception of globalization where internationalization and globalization are used interchangeably. This usage signals the fact that the basic units of analysis are still nation-states and the pre-existing even if changing system of nation-states. This is the position of most of those who are in globalization denial. The second is the transnational conception of globalization, where the basic units of analysis are transnational practices, forces and institutions. In this conception, states (or, more accurately, state agents and agencies) are just one among several factors to be taken into account and, in some theories of globalization, no longer the most important. The third is the globalist conception of globalization, in which the state is actually said to be in the process of disappearing.[2] It is obviously important that all those who write about globalization are clear about the sense in which they use the term, but not all are, with resultant confusions. In order to make my own position clear, I should note that I use the terms 'transnational' and 'globalizing' interchangeably, in order to signal that the state or rather, some state actors and agencies do have a part to play in the globalization process, however diminished relative to their previous roles. This highlights the distinction between 'globalizing' and 'globalist' approaches.

The concept of globalization propounded here rejects both state-centrism (realism) and globalism (the end of the state). The transnational conception of globalization postulates the existence of a global system. Its basic units of analysis are transnational practices (TNP), practices that cross state boundaries but do not originate with state agencies or actors. Analytically, TNPs operate in three spheres, the economic, the political, and the cultural-ideological. The whole is the global system. While the global system is not synonymous with global capitalism, what the theory sets out to demonstrate is that the dominant forces of global capitalism are the dominant forces in the contemporary global system. The building blocks of the theory are the transnational corporation, the characteristic institutional form of economic transnational practices, the transnational capitalist class in the political sphere and in the culture-ideology sphere, the culture-ideology of consumerism. The literatures on TNCs and consumerism are enormous.[3] Here, the focus is on the transnational capitalist class and how it has constructed a discourse of globalization to further its interests.

The Transnational Capitalist Class (TCC)

The transnational capitalist class can be analytically divided into four main fractions.

- i owners and controllers of TNCs and their local affiliates;
- ii globalizing bureaucrats and politicians;
- iii globalizing professionals;
- iv consumerist elites (merchants and media).[4]

To some extent the exact disposition of these four fractions and the people and institutions from which they derive their power in the system can differ over time and locality. To study globalization and the state, for example, it makes most sense to couple globalizing bureaucrats and politicians, while for other issues other alliances may be more appropriate. It is also important to note, of course, that the TCC and each of its fractions are not always entirely united on every issue. Nevertheless, together, leading personnel in these groups constitute a global power elite, dominant class or inner circle in the sense that these terms have been used to characterize the dominant class structures of specific countries. The transnational capitalist class is opposed not only by anti-capitalists who reject capitalism as a way of life and/or an economic system but also by capitalists who reject globalization. Some localized, domestically oriented businesses can stand out against global corporations and prosper, but most cannot and perish. Influential business strategists and management theorists commonly argue that to survive, local business must globalize. Similarly, though most national and local politicians claim to represent the interests of the constituents on whose votes they depend, those who entirely reject globalization and espouse extreme nationalist ideologies are comparatively rare, despite the recent rash of civil wars in economically marginal parts of the world. And while there are anti-consumerist elements in most societies, there are few cases of a serious anti-consumerist party winning political power anywhere in the world.

The TCC is transnational (or globalizing) in the following respects.

(a) The economic interests of its members are increasingly globally linked rather than exclusively local and national in origin. As rentiers, their property and shares are becoming more globalized through the unprecedented mobility of capital that new technologies and new global political economy have created.[5] As executives, their corporations are globalizing in terms of four criteria: foreign investment; world best practice and benchmarking; corporate citizenship; and global vision. The analysis of how the TCC has constructed a discourse of globalization below will focus on these criteria. As ideologues, their intellectual products serve the interests of globalizing rather than localizing capital, expressed in free market neo-liberal ideologies and the culture-ideology of consumerism. This follows directly from the shareholder-driven growth imperative that lies behind the globalization of the world economy and the increasing difficulty of enhancing shareholder value in purely domestic firms. While for many practical purposes the world is still organized in terms of discrete national economies, the TCC increasingly conceptualizes its interests in terms of markets, which may or may not coincide with a specific nation-state, and the global market, which clearly does not.

(b) The TCC seeks to exert economic control in the workplace, political control in domestic, international and global politics, and culture-ideology control in every-day life through specific forms of global competitive and consumerist rhetoric and practice. The focus of workplace control is the threat that jobs will be lost and, in the extreme, the economy will collapse unless workers are prepared to work longer and for less in order to meet foreign competition. A term first introduced around 1900 to describe how the capitalist class controls labour – the race to the bottom – has been rehabilitated by radical critics to characterize the effects of economic globalization.[6] This is reflected in local electoral politics in most countries, where the major parties have few substantial strategic (even if many tactical) differences, and in the sphere of culture-ideology, where consumerism is rarely challenged within realistic politics. As we shall see below, this process is reinforced through the discourse of national and international competitiveness.

(c) Members of the TCC have outward-oriented global rather than inward-oriented local perspectives on most economic, political and culture-ideology issues. The growing TNC and international institutional emphasis on free trade and the shift from import substitution to export promotion strategies in most developing countries since the 1980s have been driven by members of the TCC working through government agencies, political parties, elite opinion organizations, and the media. Some credit for this apparent transformation in the way in which big business works around the world is attached to the tremendous growth in business education with a global focus, notably International MBAs, since the 1960s, particularly in the US and Europe, but increasingly all over the world.

(d) Members of the TCC tend to share similar life-styles, particularly patterns of higher education, and consumption of luxury goods and services. Integral to this process are exclusive clubs and restaurants, ultra-expensive resorts in all continents, private as opposed to mass forms of travel and entertainment and, ominously, increasing residential segregation of the very rich secured in gated communities by armed guards and electronic surveillance, from Los Angeles to Moscow, from Mexico City to Beijing, from Istanbul to Mumbai.

(e) Finally, members of the TCC seek to project images of themselves as citizens of the world as well as of their places and/or countries of birth. Leading exemplars of this phenomenon include Jacques Maisonrouge, born in France, who became in the 1960s the chief executive of IBM World Trade; Percy Barnevik, born in Sweden, who created the infrastructure and electronics conglomerate Asea Brown Boveri, often portrayed as spending most of his life in his corporate jet; Helmut Maucher, born in Germany, former CEO of Nestle's far-flung global empire; David Rockefeller, born in the USA, said to have been one of the most powerful men in the United States; the legendary Akio Morita, born in Japan, the founder of Sony and widely credited with having introduced global vision into Japan; and Rupert Murdoch, born in Australia, who took US nationality to pursue his global media interests.

The Disclosure of Capitalist Globalization: Competitiveness

One need not indulge in the fantasy of conspiracy theory to understand why politicians and professionals have been so engrossed with contentious ideas of the national interest and national competitiveness. Krugman's devastating critique, 'Competitiveness: a dangerous obsession'[7] explains the latter (though not necessarily the former) with admirable clarity. The argument, briefly, is that only corporations and similar institutions can compete with one another and that the idea that nations can compete with one another is a 'dangerous obsession' that interferes with the economic efficiency of business. While Krugman's neo-liberal assumptions about the impossibility of industrial strategies can be challenged, the logic of his case on the incoherence of the idea of national competitiveness appears more convincing. This is central to the way in which politicians, bureaucrats and professionals in the service of the transnational capitalist class relate to the state.

A good illustration of these processes at work is provided by the political trajectories of five individuals who fit well into my category of globalizing politicians, what Jorge Dominguez terms 'technopols'.[8] These five technopols are F. H. Cardoso, president of Brazil, A. Foxley in Chile, and D. Cavallo in Argentina (relative successes), P. Aspe in Mexico and Evelyn Matthei in Chile. They all take seriously ideas that are cosmopolitan and meet normal international professional standards, and they succeed by selling sound economic policy in their own countries. Technopols are technocrats with added characteristics: they are political leaders, they go beyond narrow specialisms, and they are active in the politics of remaking damaged social and political systems. Democratic technopols choose freer markets (in terms of global system theory this can be translated as 'support of globalizing business') over state intervention because it is what their professional training has taught them to do. Technopol support for free-markets also makes them more liable to favour democracy but this is the democracy of pluralist polyarchy and not any wider conception of representative democracy. In a statement redolent with meaning for those who would dare to oppose global capitalism, Dominguez argues: 'only democratic political systems embody the compromises and commitments that may freely bind government and opposition to the same framework of a market economy'.[9]

The careers of these five notables illustrate how technopols in Latin America and, I would argue, globalizing politicians all around the world, are made in five settings: elite schools, religious and secular faiths, policy-oriented teams, the world stage, and specific national contexts. The Latin American five all studied either directly in the USA or were inspired by those who had (notably in the economics and political science departments at Chicago, MIT and Harvard). They made their moves when statist democrats (Alfonsin in Argentina, Sarney in Brazil, Allende in Chile, for example) failed, and when economic crisis facilitated acceptance of some version of the neo-liberal consensus. Technopols, thus, incorporate two transnational pools of ideas – one favouring free markets, the other democracy. It is also important to note that technopols are not extreme neo-liberals out to kill off the state, but politicians who want to recraft the state from 'fat to fit', to encourage growth with a measure of equity. Above all, technopols understand that corporations and those who own and control them expect policy continuity to safeguard their investments. This means technopols need to develop a political and, increasingly, a globalizing agenda to establish a cosmopolitan vision to lock in their countries to free markets, international trade agreements and globalization, and to create political openings to bring all important social groups on side for 'national development in a competitive international marketplace'.

The significance of these examples, and they could be reinforced by many others from all over the world,[10] is that they undermine the popular misconception that globalization is a Western imperialist plot. While there is no doubt that the global economy is still largely dominated by corporations domiciled in Western countries globalization has transformed the meaning of this fact. Crude dependency ideas of American corporations exploiting Latin America as instruments of the US state or British corporations exploiting Africa as instruments of the British state have given way to more nuanced theories of globalizing alliance capitalism and global shift to accommodate new technologies of production, financing and marketing.[11]

Major corporations indulge these views for obvious reasons. Many major corporations interpret globalization in terms of being global locally. Corporations cope with the responsibilities of being local citizens globally by mobilizing national competitiveness on behalf of their mythical national interest in whatever part of the world the corporation happens to be doing business. The role of the globalizing politician is to ensure that all businesses, particularly the 'foreign' corporations who have traditionally felt themselves discriminated against (sometimes true, often the opposite of the truth), receive at least equal treatment and, where possible, privileges. These privileges, in the form of development grants, fiscal holidays, training subsidies, and other 'sweeteners', are routinely justified by the argument that attracting foreign investment will enhance the national interest. This can happen directly, with the addition of world class manufacturing facilities, and/or indirectly, with the introduction of new ideas, methods, and incentives for local supplier industries. The ability of corporations seeking such investment opportunities to show that they are world class and thus could enhance the industrial environment they seek to enter, is a political requirement for these privileges. Without this promise of increases in national prosperity, a corollary of global competitiveness, subsidies for 'foreign firms' would be much more difficult to sell to local populations who might see better uses for their taxes.

The insertion of the nation-state into the global capitalist system is facilitated by the transnational capitalist class through the discourse of national competitiveness. The TCC achieves this through facilitating alliances of globalizing politicians, globalizing professionals and the corporate sector. Globalizing politicians create the political conditions for diverting state support of various types (financial, fiscal, resources, infrastructure, ideological) towards the major corporations operating within state borders under the slogan of 'national competitiveness'. Such support represents direct and indirect subsidies to the transnational capitalist class and, in the context of foreign direct investment, often involves state regulation in the interests of the major corporations. Politicians deliver these aids to industry and commerce through their campaigning and votes in support of capital-enhancing labour, trade and investment legislation. Parliamentary democracies based on geographical constituencies encourage this, resulting in 'pork-barrel politics' in the USA and its equivalents elsewhere. Globalizing politicians, therefore, need global benchmarks in a generic sense to demonstrate that they are internationally competitive. Their 'national' corporations and, by extension, their 'nation', has to seek out world best practice in all aspects of business. Global capitalism succeeds by turning most spheres of social life into businesses, by making social institutions – such as schools, universities, prisons, hospitals, welfare systems – more business-like. Various forms of benchmarking are used in most large institutions to measure performance against actual competitors or an ultimate target, zero defects, for example. The term world best practice (WBP) is widely used as a convenient label for all measures of performance, achieved through various systems of benchmarking .

While globalizing politicians are responsible for creating the conditions under which WBP becomes the norm for evaluating the effectiveness of any social institution, they rarely become involved in its techniques. This is the responsibility of the globalizing professionals. The role of globalizing professionals is both technical and ideological. Their technical role is to create and operate benchmarking systems of various types; their ideological role is to sell these systems as the best way to measure competitiveness at all levels and, by implication, to sell competitiveness as the key to business (and national) success. It is, paradoxically, the way that national economic competitiveness has been raised to the pinnacle of public life that explains the empirical link between WBP, benchmarking and globalization.

WBP is bound to be a globalizing practice in the global capitalist system. It is quite conceivable that benchmarking could be restricted to small, localized communities of actors and institutions interested solely in providing a local service in terms of agreed criteria of efficiency. Examples of this can be found in the tourist industry, where several small competing firms offer almost identical services to unique, local attractions. They may systematically compare what they offer and upgrade (or possibly downgrade) their services to match the practices of more successful competitors. In a global economy, however, there are relentless pressures on small local businesses to become more global, either through predatory growth or, more typically, by allying themselves with major globalizing corporations. Therefore, to become world class it is not necessary to be big but it is necessary to compare yourself with what the big players in your business sector do, and to do what you do always better.[12] Benchmarking is the measure through which all social institutions, including the state, can discover whether they are world class.

Benchmarking is normally defined as a system of continuous improvements derived from systematic comparisons with world best practice. The idea of continuous improvement was introduced by the New York University professor and soon-to-be management guru William Edwards Deming shortly after the end of the Second World War. This became the driving force behind the total quality management

(TQM) movement which has had profound though uneven effects on big business all over the world. However, Japanese corporations working with state agencies first adopted these ideas, seeing in them the best way to rebuild their war-shattered economy. The Deming Prize for the best quality circles was established in Japan in 1951. These quality circles became a central mechanism for the spread and development of the new quality movement. By the 1990s their numbers exceeded 100,000 with about 10 million members throughout Japan. TQM, world best practice and benchmarking were given added impetus by the increase in global competition as protectionist walls have been breached all over the world and as rapidly-growing new companies, particularly in the high-tech sector, have threatened the market dominance of their older and, perhaps, less innovative rivals.

The Malcolm Baldrige National Quality Award was established in the USA in 1987, then the European Quality Award was introduced in 1991, followed by a veritable flood of quality initiatives covering almost all sectors of industry all over the world. These gave public recognition throughout business and beyond to the TQM movement that had swept through board rooms, office complexes and shop floors whenever an enterprise was faced with competition, particularly from 'foreign' companies, from the mid-1980s. An important aspect of these awards and quality standards and the movements they were part of was the centrality of the role of leadership, particularly the leadership of the most senior executives, in the quest for continuous improvement. Not since the robber barons in the 19th century had the leaders of big business been in the limelight to such an extent. And what the leaders of the major corporations were saying, almost unanimously, was that business success lay in putting the customer first and that customer satisfaction depended on quality.

WBP and benchmarking are logical strategies for globalizing corporations because when competition can, in principle, come from anywhere in the world, it is necessary for companies who wish to hold on to their market share, let alone increase it, to measure their performances against the very best in the world. 'The very best', of course, is a highly contentious idea. It can mean 'best returns on capital invested' or 'best stock market price increase' or 'best environmental performance' or 'best employer' or any number of other things. An additional and crucial factor is that most major corporations are in industries in which most of their products are quite similar to (sometimes virtually identical with) those of their competitors. Thus, it is vital to ensure that any competitive advantage that a product has, however small, is matched by competitive advantages in bringing it to market. That is why WBP, benchmarking and related performance-enhancing measures are so important. The TQM movement ensured that all aspects of company performance, from manufacturing widgets to answering telephones, from delivering and servicing the product to monitoring energy use in factories and offices, were liable to be benchmarked. The numerous criteria included for both the Deming Prize in Japan and the Baldrige National Quality Award in the USA were significant motivators in operationalizing the idea of total quality for customer-driven business. Many major corporations had their own versions of these quality packages.

The pioneers in global benchmarking were technology-intensive companies whose very survival depended on continuous innovation, like Motorola and Xerox. Also influential in the theory and practice of benchmarking were global management consultants, notably Anderson Consulting and McKinsey. There are literally hundreds of different quality measures, some firm specific, others product or industry specific, some specifically aspiring to zero defects. Some cover environmental standards, others citizenship standards. Some are regional in scope (the US, UK, European Union and Japan, for example, all have various types of quality standards) and some are virtually global (for example, the International Standards Organization ISO series).

The links between state agencies and corporations in the creation of bennchmarking and best practice systems can be briefly illustrated with the cases of Australia, Brazil and the USA. In Australia and Brazil, the globalizing fractions of the state and business were united in their belief that the protectionism of the past could no longer be maintained if they were to enter the global economy. The two governments embarked on two different paths to implement world best practice but with the same end in view, to make their companies internationally competitive. In Australia, best practice was seen largely as a problem of changing labour practices, and a Best Practice Demonstration Program was introduced in 1991 by the Department of Industrial Relations, working with the Australian Manufacturing Council. The rationale for the Program was clearly stated in the pamphlet 'What is Best Practice?' issued in 1994: 'As the Australian economy becomes increasingly integrated into the global market, Australian enterprises must become internationally competitive to succeed'. DuPont, ICI and BHP in Australia are cited as enthusiastic supporters of the Program. The official magazine of the Best Practice Program was entitled Benchmark and its pages in the 1990s exemplified the alliance between globalizing politicians, bureaucrats, professionals, big and small business, all striving for the quality improvements that would enhance national competitiveness.

In Brazil, the government agency responsible for quality standards was the National Institute for Standardization, Metrology and Industrial Quality (Inmetro). The President of Inmetro declared to an international meeting in Holland in 1998 that:

> The efforts made by Brazilian firms to improve the quality of their goods is linked to the beginning of competition in Brazil's economy. Up to 1990, when the economy was closed to imports, our companies did not bother about quality. After the opening of the economy in 1992, the need grew to show international standards of quality.[13]

Inmetro worked closely with the Brazilian Program for Quality and Productivity and the Brazilian Foreign Trade Association, for enhanced quality in Brazil was necessary not only to compete against imports but, more importantly, to increase the potential for companies in Brazil to export.

In the USA, while quality standards and benchmarking have come largely from private industry initiatives, the Baldrige National Quality Award, perhaps the most prestigious mark of quality in the US, was established in 1987 as a joint venture between government and industry. Although modelled on the Japanese Deming Prize, the Baldrige process is transparent and provides an audit framework which companies could use for self-assessment. Cole has gone so far as to predict the death of the quality movement as quality improvement becomes part of normal management activity.[14]

This is not the case outside the USA and a few major economies. While over 70 countries were reported as having agencies for accreditation and inspection of technical standards laboratories, it is commonly accepted that standards vary from place to place. An International Accreditation Forum (IAF) was established precisely to ensure comparability of standards and by 1998 had 18 member countries, with more applications, including Inmetro, in the pipeline. Accreditation by IAF meant recognition for technical standards in the US, Canadian, Chinese, Japanese and European Union markets, and a reasonable guarantee that the WTO technical rules were less likely to be used to block imports, often seen as a form of disguised protectionism. What the three cases of Australia, Brazil and the USA suggest is that globalizing state agents and professionals have joined forces with corporations to promote best practice in the service of national competitiveness. In this way the globalizing capitalist class uses the discourse of national and international competitiveness to impose more intensive discipline on the workforce and in some cases to impose unnecessarily high standards that drive smaller competitors out of the market. In addition, the imposition of World Best Practice and benchmarking beyond the narrow confines of manufacturing industries is another important step in the commodification of everything that is closely connected with the culture-ideology of consumerism.

The Corporate Capture of Sustainable Development

Similar processes can be observed in the corporate response to the environmental challenge. For decades, theorists of a singular ecological crisis have argued over the future prospects for life on the planet with those who conceive of the issue in terms of multiple, but manageable environmental problems. Major corporations always tried to keep these ideas apart but disasters like the Torrey Canyon (1967) and Santa Barbara (1969) oil spills, toxic contamination that provoked hundreds of anti-pollution suits in Japan in the 1970s, Bhopal in 1984 and Exxon Valdez in 1989, exacerbated the problems. The argument climaxed in the late 1980s and early 1990s under the pressures of globalization just as the discourse of sustainable development was emerging as the common language for those who were thinking about almost any environmental issue.[15] This view received dramatic confirmation in one of the key texts of the movement animated by the ecological crisis interpretation of the future of the planet, *For the Common Good* by Daly and Cobb.[16] In the conclusion of their award-winning book they appealed to several groups of people for support:

> There is still another group whose support we covet. This is that rather small group of persons who have a deep and knowledgeable concern for the Third World. We have in mind specifically the kind of people who co-operated in writing the Brundtland Report (*Our Common Future*), which calls attention to the idea of sustainable development … As the concept of sustainable development is further defined, we believe it will begin to resemble our outline of an economics for community. (Daly and Cobb, p. 371)

Although this might sound a little disingenuous – sustainable development has become a major industry while Daly and Cobb's economics for community sank almost without trace – it clearly expressed a fundamental truth: sustainable development was seen as a prize that everyone involved in these arguments wanted to win. The winner, of course, gets to redefine the concept.

We can trace the first indication that some members of the corporate elite were beginning to take the ecological crisis seriously to the publication of *Limits to Growth*, sponsored by the Club of Rome.[17] This gave a modicum of business respectability to the profoundly anti-capitalist thesis that growth had limits but, in general, those who spoke for global capitalism were able to shrug off the deeper lessons of the 'limits to growth' school as alarmist and naïve. However, the problem would not go away and the more forward-thinking members of the global business community knew that they were going to have to deal with it, eventually. By the late 1980s it became clear that the rhetoric of sustainable development provided a convenient solution and it was eagerly taken up by globalizing corporations as they tried to cope with the emerging force of the arguments around the singular ecological crisis.

The corporate response in the US and Europe to a spate of environmental catastrophes, notably Bhopal, evolved gradually throughout the 1980s. The chemical industry was clearly under pressure to be seen to be taking decisive action. An initiative of the Chemical Manufacturers Association (CMA) in 1988 in the USA resulted in the Responsible Care Program. This was adopted by more than 170 members of the CMA, including Union Carbide, and announced to the investing public and concerned citizens in full-page advertisements in the *New York Times* and the *Wall Street Journal* on 11 April 1990. The British Chemical Industries Association had adopted its Responsible Care Programme in 1989.

Not only industries but international organizations of various types took it upon themselves to 'do something' about the environment. The European Community introduced a Community-wide environmental auditing scheme in 1993. The World Bank, for whom Daly had been a senior economist, had been discussing the environmental aspects of lending since the 1970s, with controversial results. Similarly, the Environmental Committee of the OECD has been discussing the issue since the early 1980s. Why has it proved so difficult to enact effective legislation to protect the environment? One factor was clearly the phenomenon of poacher turned gamekeeper in the leadership of some bodies charged with environmental protection. It is clear from the evidence of the 1980s that even anti-regulatory right-wing governments like those of Reagan and Thatcher, could no longer entirely ignore environmental violations.

For example, while the Reagan Administration was pulling the teeth of the Environmental Protection Agency, at the same time it permitted the establishment of a powerful Environmental Crimes Unit in the Department of Justice.

The major corporations were not, of course, standing idly by while the struggle over the environment was accelerating. Globally, big business response was orchestrated by the International Chamber of Commerce (ICC), which had been promoting an environmental agenda since the first UN environment conference in Stockholm in 1972. The ICC had members in more than 100 countries, though it was most active in Europe. It founded its own Commission on Environment in the 1970s, and its first World Conference of Environmental Management in 1984 attracted 500 leaders of industry, government and environmental groups from 72 countries. The ICC was chosen to give the official business community input to the Bergen Ministerial Conference that led to the report of the UN World Commission on Environment and Development where the concept of sustainable development was firmly established. In the frank words of an ICC analyst of this process: 'the Brundtland Report called on the cooperation of industry … the business community is willing to play a leading role, and to take charge.'[18] And take charge of sustainable development it did.

An immediate consequence of the work of ICC was the Global Environmental Management Initiative (GEMI) of 1990 formed to implement the Business Charter for Sustainable Development. Nineteen leading US transnational corporations announced their support for GEMI, including Union Carbide, desperate to rebuild its reputation after Bhopal. GEMI soon took on an institutional form in Washington D.C. The organization that eventually resulted from these efforts, the World Business Council for Sustainable Development (WBCSD) was probably the most influential of the many green business networks that were established in the 1990s. For all their differences local, national or global, general or industry-specific, well or less well resourced they all had one thing in common, their emphasis on self-assessment and voluntary codes where possible, but a decisive input into regulation where necessary. In this respect, the globalizing neo-liberal revolution associated with the Thatcher-Reagan attempt to mould state legislation to promote rather than to restrict the corporate interest, or 'free enterprise' as it was ideologically constructed, was very successful.

The roots of the distinctive global capitalist theory of sustainable development can be traced to the discussions around the Brundtland Report, *Our Common Future*, presented to the General Assembly of the United Nations in 1987. The uneasy compromise between conceptualizing the problem as a set of environmental challenges and as a much more serious singular indeed, planetary life-threatening ecological crisis suited big business very well. An insight into corporate thinking on the issue was given by Stephan Schmidheiny, a Swiss billionaire who was to play a crucial role for big business at the Rio Earth Summit in 1992. In a series of high-profile articles, public pronouncements and consultations,[19] Schmidheiny argued that environmental protection had been a defensive, negative, anti-progress concept, but environmentalists and industrialists were beginning see each other's points of view and to compromise. Thus, the idea of 'sustainable growth' had replaced the idea of 'conservation' and industry could get on with its job. Limits to growth were not, as originally thought, limits on supplies but rather limits on the disposal of resources used and transformed in the productive process. Accepting that industry has to operate within existing frameworks it can, nevertheless, act to use these frameworks for its own advantage by taking the offensive and shaping ecological legislation.

Thus, the negative environmentalism that had forced industries to respond to specific challenges on pollution and toxic hazards gave way to more general conceptions of 'sustainable growth' and 'sustainable development', entirely compatible concepts in the corporate analysis. Corporate environmentalism, therefore, both as a social movement and as a discourse, co-existed easily with this moderate conception of sustainability. From this powerful conceptual base big business successfully recruited much of the global environmental movement in the 1990s to the cause of sustainable global consumerist capitalism. This achievement is an object lesson in how dominant classes incorporate potential enemies into what Gramsci called new historical blocs.

Historical blocs are fluid amalgamations of forces that coagulate into social movements to deal with specific historical conjunctures, reflecting concrete problems that have to be confronted by different social groups. In the struggle for hegemony, historical blocs form and dissolve and reform. Big business mobilized a sustainable development historical bloc against what it saw as a threatening counter-culture organized around the powerful idea of the singular ecological crisis, the deep green or ecological movement.

The sustainable development historical bloc began in earnest in the period leading up to the Earth Summit in Rio in 1992. The close relationship between Maurice Strong, the virtual CEO of the Earth Summit, and Stephan Schmidheiny is a matter of public record. The environmental arm of the ICC, the Business Council for Sustainable Development, represented big business in Rio and was successful in keeping any potential criticism of the TNCs off the official agenda.[20] There was, as a consequence, formidable corporate input into the formation of the UN Commission on Sustainable Development (CSD), the major institutional result of UNCED. The CSD has become a major transnational environmental organization in its own right. It evolved into a Division for Sustainable Development at the UN, and its major task was to monitor how member governments tested, developed and used over 100 indicators of sustainable development. The extent to which it redirects attention away from the singular ecological crisis that threatens the very existence of global capitalism onto the multiple environmental challenges that corporations can cope with and global capitalism can live with, will be a critical test for the success of the sustainable development historical bloc. The signs are not promising for deep ecologists. The basis on which the CSD approached its task of measuring consumption and production was as follows:

> Sustainable consumption and production are essentially two sides of the same coin. Sustainable consumption addresses the demand side, examining how the goods and services required to meet peoples' needs and improve the quality of life, can be delivered in a way that reduces the burden on the Earth's carrying capacity. The emphasis of

sustainable production is on the supply side, focusing on improving environmental performance in key economic sectors such as agriculture, energy, industry, tourism and transport.[21]

From the ecological point of view this approach is based on a series of fallacies. The first is the anthropocentric approach itself, where sustainability for people and societies takes precedence over sustainability for the planet. The second fallacy is the idea that 'sustainable consumption' and 'sustainable production' are essentially two sides of the same coin, For ecologists, the real issue is not 'sustaining' production and consumption, but reducing them absolutely. In addition, ecologists argue that it is fallacious to assume that 'meeting needs', 'improving quality of life' and 'improving environmental performance' are parts of the solution to the ecological crisis. They are not. They are parts of the problem, particularly in terms of distinguishing real from artificial needs and establishing universal norms for an ecologically sound quality of life. It need hardly be said that those who hold these views 'radical ecologists' are a small minority, even in the environmental movement,[22] but the capture of the discourse of sustainable development from the environmental movement by the transnational capitalist class has made it even more difficult to mount a radical critique of capitalist consumerism than would otherwise have been the case.

The combination of the discourse of sustainable development with that of national and international competitiveness provides powerful weapons for the transnational capitalist class. Globalization is not a 'Western' but a globalizing capitalist ideology, whose discourse and practices are necessary to negate the growing class polarization and ecological crises characteristic of this latest stage in the long history of capitalism.

Notes

1 See, for example, Anthony McGrew, 'A Global Society?', in Stuart Hall et al. eds. *Modernity and its Futures*, Cambridge, Polity Press; Malcolm Waters, *Globalization*, London, Routledge, 1995; and Leslie Sklair, 'Globalization', in Steve Taylor, ed., *Sociology: Issues and Debates*, London, Macmillan, 1999, pp. 321–45.

2 Few writers take this extreme position, and of these Kenichi Ohmae, *The End of The Nation State*, New York, The Free Press, 1995, has been the most influential. If Ohmae did not exist then anti-globalization theorists would have had to invent him!

3 Surveyed in Leslie Sklair, *Sociology of the Global System*, London and Baltimore, Prentice Hall and Johns Hopkins University Press, 1995, second edition, where global system theory is elaborated.

4 Leslie Sklair, *The Transnational Capitalist Class*, Oxford, Blackwell, 2000, from which some material is borrowed and adapted for this paper.

5 Despite the arguments that national governments still exert regulatory powers over capital flows and that most financial corporations are still focused mainly on their home economies (see Ethan Kapstein, *Governing the Global Economy: International finance and the state*, Cambridge, Mass., Harvard University Press, 1994), it is nevertheless true to say that there has been a globalization of capital in recent decades. Certainly, in my own interviews with executives in Fortune Global 500 financial corporations (banks and

insurance companies) the constant theme was 'we have to globalize because our clients are going global' (Sklair, *Transnational Capitalist Class*, chapter 3). Andrew Harmes, `Institutional investors and the reproduction of neoliberalism', *Review of International Political Economy* vol. 5, Spring 1998, pp. 92–121, on the rapid growth of institutional investors gives this argument significant support.

6 See Jeremy Brecher and Tom Costello, *Global Village or Global Pillage*, Boston, South End Press, 1994. In Sklair, *Transnational Capitalist Class*, the race to the bottom is connected with the class polarization crisis of global capitalism, that is the simultaneous enrichment of some rapidly increasing minorities and impoverishment of other rapidly increasing and more numerous minorities all over the world.

7 In Paul Krugman, *Pop Internationalism*, Boston, MIT Press, 1996.

8 Jorge Dominguez, ed., *Technopols: Freeing Politics and Markets in Latin America in the 1990s*, University Park, University of Pennsylvania Press, 1997

9 Dominguez, *Technopols*, p. 3.

10 Sklair, *Transnational Capitalist Class*, passim.

11 John Dunning, *Alliance Capitalism and Global Business*, London and New York, Routledge, 1998; Peter Dicken, *Global Shift: Transforming the World Economy*, Paul Chapman, 1998, third edition; and Sklair, *Transnational Capitalist Class*, chapter 4.

12 Rosabeth Moss Kanter, *World Class: Thriving Locally in the Global Economy*, New York, Simon and Schuster, 1996.

13 'Brazilian Companies Invest in Quality', *Financial Times*, 26 August 1998.

14 Robert Cole, *Managing Quality Fads: How American Business Learned to Play the Quality Game*, New York, Oxford University Press, 1999.

15 Phil McManus, 'Contested Terrains: Politics, Stories and Discourses of Sustainability', *Environmental Politics*, vol. 5, no. 1, 1996, pp. 48–73. See also, Sklair, *Transnational Capitalist Class*, chapter 7.

16 Herman E. Daly and John B. Cobb Jr., *For the Common Good: Redirecting the Economy toward Community, the Environment, and a Sustainable Future*, Boston, Beacon Press, 1994, expanded edition.

17 D. D. Meadows et al., *The Limits to Growth*, New York, New American Library, 1972. A second edition published in 1992 received relatively little attention

18 J. O. Willums, *The Greening of Enterprise: Business Leaders Speak Out*, Bergen, International Chamber of Commerce, 1990, p. 3.

19 The most accessible source is Stephan Schmidheiny, *Changing Course: A Global Business Perspective on Development and the Environment*, Cambridge, Mass., MIT Press, 1992

20 R. K. L. Panjabi, *The Earth Summit at Rio: Politics, Economics and the Environment*, Boston, Northeastern University Press, 1997

21 United Nations, 'Workshop on Indicators for Changing Consumption and Production Patterns', New York, Division for Sustainable Development, 2–3 March 1998.

22 I would not wish to appear entirely negative about the Division on Sustainable Development. The 'Success Stories' distributed from 1997 onwards are quite inspiring.

19

The Washington Consensus as Transnational Policy Paradigm: Its Origins, Trajectory and Likely Successor (2012)

Sarah Babb

Twenty years ago, the Washington Consensus was both widely blamed and widely commended for its role in the market revolution that was sweeping across the developing world. Under its influence, developing countries' governments privatized state-owned industries, removed trade barriers and generally moved towards decreased reliance on state intervention in their economies (Williamson, 1990a, 1990b; Williamson, 1994). Today, however, a group of powerful emerging-market governments, organized within the Inter-governmental Group of 20 (G-20) and sometimes associated with the so-called BRICS countries (Brazil, Russia, India, China and South Africa), are endorsing more interventionist visions of how to empower developing economies. As Deutsche Bank analyst Markus Jaeger observed at the end of 2010, '[T]here is no denying that the "Beijing consensus" and its cousins in Brasilia, Moscow and New Delhi have thrown down the gauntlet to the … "Washington consensus"' (Jaeger, 2010: 2).

What happened to the once-powerful Washington Consensus – and what seems to be taking its place? This article seeks to answer these questions through a historical excavation of the origins, nature and trajectory of the Washington Consensus. It draws on secondary literature on the Consensus and related topics, as well as some of my own research on the International Monetary Fund (IMF) and US policy toward the World Bank and regional development banks. It is broadly inspired by interdisciplinary literature on the role of ideas in policy (Hall, 1989, 1993; Weir and Skocpol, 1985; Blyth, 2002; Lindvall, 2009) and the institutionalist tradition in

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organizational sociology (Gouldner, 1954; Selznick, 1949; DiMaggio and Powell, 1983; Meyer and Rowan, 1977).

The economists who have commented on the evolution of the Washington Consensus have treated it as an intellectual product, responding primarily to empirical evidence and trends in scholarship (Naím, 2000; Kuczynski and Williamson, 2003; Rodrik, 2006, 2007; Stein, 2008; Stiglitz, 2002, 2008). In contrast, I argue that the Washington Consensus was a transnational policy paradigm produced by both intellectual and political forces (Hall, 1993). It was legitimated through economics scholarship, but was also embedded in the practices of two types of bureaucratic organizations: the national governments that adopted the policy reforms and the international financial institutions (IFIs) that encouraged their adoption.

This article focuses on the Washington Consensus paradigm as it was adopted by IFIs. At its core was the practice of 'conditionality' – making loans to governments in exchange for policy reforms. This practice helped diffuse the Washington Consensus around the world, but also unintentionally hastened the weakening of the paradigm. Recent shifts in the international balance of power and within the field of economics have further weakened the Consensus, but it has yet to encounter any serious rivals. The case of the Washington Consensus suggests that policy paradigms have different dynamics in different types of institutional settings.

The Washington Consensus as a Transnational Policy Paradigm

At the end of the 1980s, a participant at a conference on the Latin American debt crisis observed that economists and policymakers in and around Washington, DC, had converged on a common set of prescriptions for developing countries. The observer was John Williamson, a Washington think-tank economist, and he outlined the 10 policies upon which there was the most agreement. 'The economic policies that Washington urges on the rest of the world,' he wrote, 'may be summarized as prudent macroeconomic policies, outward orientation, and free-market capitalism' (Williamson, 1990a: 1).

What exactly was the Washington Consensus? Economists who have analysed the Consensus, whether in a critical or supportive way, have tended to treat it as a set of economic ideas. For Williamson and many others, the Consensus responded to economists' rejection of heterodox development theories – founded in accumulated evidence of failed statist policies (Williamson, 1990a, 1990b, 1994). A more critical view was later expressed by Joseph Stiglitz, who famously argued that it constituted a kind of 'market fundamentalism' – a dogmatic, literal interpretation of the principles of classical and neoclassical economics (Stiglitz, 2002, 2008). To this critique, Williamson retorted that none of the policies listed in his original article was particularly radical or controversial among economists – it was a capitalist programme, to be sure, but hardly a revolutionary one (Williamson, 2003: 11).[1]

Stiglitz (2002, 2008) and others criticized the Consensus for its 'boilerplate' approach to development policy that ignored national peculiarities in its haste to apply universalistic recipes. Williamson's original list, however, was painted in the broadest strokes and was relatively agnostic about more specific institutional arrangements (Rodrik, 2006: 974).

Whether they supported the Consensus or deplored it, the economists who commented on it shared the assumption that it was primarily an intellectual product, created mainly by economic experts interpreting empirical evidence. What tended to get lost in these discussions were the political dimensions of a consensus that was, after all, named after the US capital. The 'Washington' of the Consensus, as it was originally defined, included the top decision-makers at the IMF, the World Bank, the Inter-American Development Bank, the US Executive, and 'those members of Congress who take an interest in Latin America, and the think tanks concerned with economic policy' (Williamson, 1990a: 1). This heterogeneous array of technocratic and political supporters suggests that the Consensus was a very different sort of product from the academic theories that get taught in seminar rooms at Harvard and Chicago. Instead, it resembles what Peter Hall (1993) has referred to as a 'policy paradigm'.

For Hall, a policy paradigm is a powerful and enduring framework of related ideas and standards about policy – a model that specifies both the instruments that should be used in a policy area and the goals that the policy should be addressing (Hall, 1993: 279). Policy paradigms grow out of processes of 'social learning' and, hence, cannot be identified directly with group interests or political ideologies. They resemble the Kuhnian original in two main respects. First, like scientific paradigms, policy paradigms are relatively durable and resistant to disconfirmation. This is partly because they are legitimated with reference to expert knowledge, such as academic economics. Trends in academics influence which policy paradigms come to power, as is illustrated exceptionally well by the worldwide rise of Keynesian economic policy after World War II (Hall, 1989). The need to be in consonance with accepted academic wisdom keeps policy paradigms from changing in tandem with more ephemeral political trends. Policy paradigms also get institutionalized in a set of taken-for-granted assumptions and routine practices within state bureaucracies, which insulate them from pressures to change (Weir and Skocpol, 1985). Second, like Kuhn's scientific paradigms, policy paradigms adapt to disconfirming evidence, which may ultimately lead to a paradigm's demise and replacement by a new paradigm – a dynamic Hall illustrates with the transition from Keynesian to monetarist macroeconomic policymaking in Great Britain in the 1970s (Hall, 1993).

Policy paradigms are inspired by – and derive legitimacy from – scholarship, and may even come to be associated with the thinking of particular scholars, such as John Maynard Keynes. However, policy paradigms also differ from academic theories in some important ways that have not been fully explored in the literature on ideas and institutions. First, unlike scholarly ideas, policy paradigms are embedded in the practices of bureaucratic organizations – most obviously states, but also other organizations, such as corporations (Hall, 1993: 279; Fligstein, 1990). This institutional location undoubtedly makes policy paradigms less nuanced than scholarly theories, since they are aimed primarily at informing organizational practice (Hall, 1989: 7). It also gives paradigms a coercive power that is entirely absent from scholarly theories. A monetarist at the University of Chicago can make an impact on academic debates, but a central bank operating under monetarist assumptions affects the lives of millions of individuals, whether they like it or not. Because their organizational location insulates them from external pressures, policy paradigms may for a time even defy reigning scholarly wisdoms – for example, Hall (1993) reports that monetarism came to power in the British government at a time when the majority of British economists were still Keynesians.

Finally, although policy paradigms are both inspired and legitimated by scholarly theories, they are also shaped by politics. Policy paradigms are what Bourdieuian sociologist Thomas Medvetz (2012) refers to as 'hybrid' products, straddling both political and scholarly fields. This is possible, in part, because policy paradigms draw on *social* scientific knowledge. Compared to natural sciences such as biology and chemistry, social scientists have much deeper theoretical and methodological disagreements; they do not share common paradigms in the original Kuhnian sense (Blaug, 1975).

Disagreements among social scientific experts make it possible for political actors to selectively endorse those experts whose views are most commensurate with their own platforms (Prasad, 2006). Yet, not all expert opinions become policy paradigms. Whether a group of political actors and their chosen experts are allowed to take over the state machinery and institutionalize a new paradigm is determined through political dynamics: 'The movement from one paradigm to another will ultimately entail a set of judgments that is more political in tone', and this involves changes in the locus of both expert and political authority (Hall, 1993: 280; Lindvall, 2009). In Hall's British case, it was democratic, electoral politics that led to the transition. However, it is worth noting that non-democratic political processes can also cause the rise and fall of national policy paradigms, the role of the Chicago Boys in the Pinochet dictatorship being an obvious example (Valdes, 1995).

The extraordinary range of the Washington Consensus suggests that, sometimes, policy paradigms may achieve transnational status. I define a transnational policy paradigm as a policy model specifying both a set of instruments and a set of goals to be pursued using these instruments, which is legitimated through expert knowledge and which is adopted by two or more governments. Transnational policy paradigms, like their domestic counterparts, derive legitimacy from expert knowledge, such as international economics scholarship. Like domestic paradigms, they are also embedded in the practices of organizations with coercive authority, such as national governments, which gives them relative durability and insulation from disconfirmation.

To understand how policy paradigms spread across national borders, it is useful to turn to institutionalist theories in organizational sociology.[2] Institutionalists argue that organizations – including states, private firms and international organizations – have interests of their own, but are also constrained by their environments. When many organizations of the same type, such as states, begin to adopt the same features, institutionalists expect that they are responding to common environmental pressures (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Meyer *et al.*, 1997). Where the transnational spread of policy paradigms is concerned, there are two sources of pressure that seem particularly relevant: the first is normative and the second, coercive.

First, policy paradigms may spread across states through normative means – because they draw on transnationally legitimate ideas. Reliance on science and other forms of expert knowledge is among the most powerful norms in modern societies (Scott and Meyer, 1994; Boli and Thomas, 1997). Because scientific knowledge has widespread legitimacy, political actors use the endorsement of experts as a resource in contests for power. Trends within social scientific disciplines can, therefore, affect the outcome of political contests in ways that favour the defeat of one paradigm and the victory of another. For example, in the 1970s and 1980s, conservative politicians in many wealthy industrialized countries were able to capitalize on the rise of market-friendly economic ideas, such as monetarism and supply-side economics, to their own political advantage (Blyth, 2002). Such trends can have an international impact because the standards governing expertise have become increasingly transnationalized. For example, the discipline of economics has experienced two parallel developments over the past half-century: increased internationalization and mathematization, with growing recognition of the leadership of American universities and standards of expertise (Fourcade, 2009) and the rise of US-trained economists at the highest level of developing-country governments (Markoff and Montecinos, 1993; Williamson, 1994; Babb, 2001).

It is easy to see why trends in American economics could have facilitated the spread of a more market-friendly policy paradigm across the developing world beginning in the 1980s. During the post-World War II decades, many developing countries adopted interventionist economic policies, such as state ownership of strategic industries and import-substituting industrialization. As Hirschman (1981) has argued, Keynesian thought opened the intellectual space within which these heterodox, developmentalist ideas could flourish.

As the mainstream of the economics discipline moved back towards core neoclassical principles in the 1970s, developmentalist policies became more difficult to justify (Hirschman, 1981; Krugman, 2006). This contributed both to a 'more generally jaundiced view of the effects of government policy interventions' and to the 'triumph of neoclassical economics in the developing world' (Killick, 1989: 12; Bierstecker, 1992). As Williamson (1994: 565) observed during the heyday of the Washington Consensus, '[T]he importance of intellectual influence from abroad can hardly be doubted. The intellectual climate has changed profoundly in the last decade in favor of stability-oriented, market-oriented, and outward-oriented policies.' Faced with disconfirming evidence of various sorts – problems with external debt, balance of payments, inflation and so on – policy actors turned to the advice of experts increasingly steeped in American economics, many of whom actually had PhDs from American universities (Williamson, 1994; Domínguez, 1997). These experts served as a political resource for politicians seeking power and as a technical resource for incumbent governments. In many cases, they became top-level officials, sometimes even heads of state, where they oversaw the implementation of a new policy paradigm (Babb, 2001; Montecinos and Markoff, 2009).

However, in addition to normative pressures from the economics profession, there is at least one additional mechanism for the transnational diffusion of policy paradigms: coercive pressures from powerful organizations. 'Coercive isomorphism' is a term used by organizational sociologists to describe one reason why organizations tend to adopt similar structures and policies – because other, more powerful organizations are rewarding adoption (and punishing non-adoption) through various means, including the selective channelling of resources (DiMaggio and Powell, 1983; Pfeffer and Salancik, 1977). Although the term, 'coercion', may bring to mind an image of physical force, here it is used to refer to a broader range of mechanisms that may be set in motion wherever one organization possesses more power than another. Such power asymmetries can foster the global diffusion of policy models through various channels. As Simmons, Dobbin and Garrett (2008: 10) put it, 'Coercion can be applied in various ways from the subtle to the overt: through the threat or use of physical force, the manipulation of economic costs and benefits, and even through the monopolization of information or expertise.'

The coercive pressures most clearly implicated in the diffusion of the Washington Consensus came from the IFIs, a category of international organizations that specializes in lending – or sometimes granting – money to national governments, most especially in the developing world. Like other international organizations, IFIs play an important role in the transnational transmission of the policy norms noted above; they are predominantly staffed by economists, generate ideas about policy and disseminate these around the world through such vehicles as the World Bank's *World Development Report* (Barnett and Finnemore, 2004; Chwieroth, 2010). Yet, IFIs also stand out from other international organizations (e.g., the United Nations) in their ability to provide material incentives for states to pursue particular policies – channelling resources selectively to states that follow their rules and withholding resources from states that do not. The two most influential IFIs, the World Bank and the IMF, are both located in Washington, DC, and the term, 'Washington Consensus', was originally coined to help make sense of the IFIs' practice of conditionality – lending in exchange for changes in policy. As Williamson put it, 'No statement about how to deal with the debt crisis in Latin America would be complete without a call for the debtors to fulfill their part of the proposed bargain by "setting their houses in order," "undertaking policy reforms," or "submitting to strong conditionality." The question posed in this paper is what such phrases mean, and especially what they are generally interpreted to mean in Washington' (1990b: 7).

Where powerful transnational organizations, such as IFIs, play a role in the diffusion of paradigms, these paradigms operate on two separate levels. At the national level, the paradigms are brought to power through the domestic political processes that institutionalize particular goals and policy practices within government bureaucracies. Yet, influencing the outcome of these domestic processes are organizations with transnational power and with paradigms of their own, which shape governments' behaviour. We would expect the policy paradigms of these organizations, in turn, to emerge from a process analogous to the one leading to the adoption of national policy paradigms – one including both political contests and scholarly legitimation.

The Rise of the Washington Consensus

The Washington Consensus paradigm became institutionalized in IFIs during the 1980s and specified both a goal and a policy instrument to achieve that goal. The goal was market-liberalizing reform in developing countries; the policy instrument was collaborative conditional lending by the IFIs. It was made possible by trends in the academy, but was also forged through a political process – not through the electoral process observed by Hall (1993), but, rather, through IFI shareholder politics.

Like all organizations, IFIs adapt to their environments. On the one hand, they are influenced by expert knowledge because they derive legitimacy from their reputations as purveyors of neutral, technocratic expertise and are predominantly staffed by economists (Chwieroth, 2010; Barnett and Finnemore, 2004). However, they also respond to pressures from the wealthy industrialized countries that control their boards of directors. They respond most especially to the US, which has a range of formal and informal mechanisms of influence, including its uniquely strong bargaining position in shareholder negotiations over replenishing or augmenting the IFIs' financial resources. Consequently, any major policy initiative in the IFIs must have US support, and the US is uniquely positioned to lead such initiatives (Gwin, 1997; Woods, 2006; Buira, 2005; Babb, 2009).

The origin of the Washington Consensus was a highly influential US government plan for managing the Third World debt crisis in the middle of the 1980s. The Baker Plan proposed a novel role for the World Bank and the Inter-American Development Bank. In Baker's words, the plan used conditional IFI loans as a vehicle to promote 'growth-enhancing' policy reforms, including 'the privatization of burdensome and inefficient public enterprises, the liberalization of domestic capital markets, tax reform, the creation of more favorable environments for foreign investment, and trade liberalization' (Baker's testimony in US House, 1986: 595–6).

At the core of the Baker plan was an idea that had been developed within the World Bank less than a decade earlier. Traditionally, the World Bank (and the regional development banks) had specialized almost exclusively in offering loans for tangible projects, such as bridges, highways and dams. In the late 1970s, global economic turbulence was dampening the demand for World Bank project loans, and US contributions to the World Bank were being held back by Congressional Republicans, who questioned whether multilateral organizations were effectively serving US interests. The Bank began to search for new ways of garnering shareholder support and generating borrower demand. Launched in 1980, the Bank's 'structural adjustment facility' offered loans for balance-of-payments support, rather than projects, and in exchange for policy reforms (Kapur, Lewis and Webb, 1997: 505–9; Stein, 2008: 31). Lending for policy reform had long been practised by the IMF, but had been limited to fiscal and monetary conditions, such as cutting deficits and reducing money supply, and were aimed narrowly at stamping out inflation and promoting currency stability (Babb, 2007). In contrast, the World Bank structural adjustment loans were aimed at changing the underlying structure of national economies to promote exports and economic growth.

For a number of years after the launching of structural adjustment, such lending remained marginal, in part because it aroused suspicion among some members of the Reagan administration and many Congressional Republicans, who often viewed the IFIs as wasteful, unreliably multilateral bureaucracies (Babb, 2009: 85–125). It was not until James Baker was appointed Treasury Secretary in the second Reagan administration that the US began to adopt a more pragmatic position.

Baker saw that structural adjustment lending could be used simultaneously to keep developing countries from defaulting on their external debts (much of which were owed to US banks), and to open up the developing countries to market forces. Rather than lending on a case-by-case basis, the World Bank and the regional development banks were told that they needed to develop 'country strategies' – overall plans for national economies – for all borrowers and to tailor their lending accordingly (Baker's testimony to the US House, 1986: 595–6). The Plan also instructed the IFIs to engage in much closer collaboration, a practice sometimes called 'cross-conditionality'.

In the decade that followed, this new mission had a palpable impact on the IFIs' activities. The official 10 per cent limit on policy-based lending was removed from the World Bank's Articles of Agreement, and by the late 1980s, such lending made up between 20 and 30 per cent of annual World Bank disbursements … The regional development banks, too, began to engage in policy-based lending and to orient that lending around country strategies. The regional banks began to collaborate as junior partners with the World Bank, and the Bank collaborated more closely with the IMF. These changes were promoted by the US and other shareholders in negotiations around donor contributions to the World Bank and regional banks (Babb, 2009: 135–43). In 1986, the IMF inaugurated a structural adjustment facility of its own and began systematically to require market-liberalizing policy reforms in addition to the macroeconomic reforms it had required for decades (Babb and Buira, 2005).

The list of policies the Baker Plan initially proposed to developing countries was squarely in line with the mainstream economic thinking of the day, as Williamson pointed out (1990a: 19). This undoubtedly both facilitated the adoption of this advice by the economist-dominated IFIs (Stein, 2008) and insulated it from criticism from the economics profession at large. However, the core of the paradigm was a set of policy goals and policy tools for the IFIs, which had nothing to do with economic scholarship. None of the theories in vogue at the time – the rational expectations theory, public choice theory and so on – had anything to say about mobilizing international organizations to promote policy reforms. Indeed, during the early 1980s, Congressional Republicans used laissez-faire economics to argue that IFIs should be downsized and eventually eliminated – the market, not large bureaucracies, should take care of development problems (Babb, 2009: 76).

Instead, the origins of these goals and instruments were mostly political. They included, most obviously, the ascent of the economic conservatives in the leading shareholder governments – not only in the US, but also in the UK, Germany and Japan. The Washington Consensus was also made possible by a shift in thinking among US policymakers about how IFIs, particularly the World Bank and regional development banks, could be used to serve US interests – not as tools for assuring national security by providing resources to the Third World, but as guarantors of American economic interests (Babb, 2009: 89–96). Finally, the Consensus was made possible by the Third World debt crisis, which had put many – but not all – developing countries in a notably poor bargaining position with respect to both wealthy industrialized countries and IFIs, making it more likely that the lending would actually produce reforms.

The Influence of the Washington Consensus

The conditionality associated with the Washington Consensus combined the IMF's traditional macroeconomic conditions (e.g., cutting fiscal deficits) with more novel structural reforms (e.g., privatization). During the heyday of the Washington Consensus, conditionality was implemented through contract-like documents called 'Letters of Intent' (to the IMF) or 'Letters of Development Policy' (to the World Bank), outlining the total amount of the loan, the repayment schedule and a series of policy commitments. To ensure that borrowers did not renege on their commitments, the letters also specified payment instalments or 'tranches', along with scheduled reviews of the borrowers' policies; if the borrower was found to be out of compliance, the lender had the right to suspend disbursements (Dreher, 2002; Babb and Carruthers, 2008).

The diffusion of the Washington Consensus through conditionality was uneven. Most obviously, conditionality could only change the behaviour of governments that chose to interact with the IFIs in this way – and those tended to be governments that desperately needed resources to deal with large currency devaluations and unsustainable external debts. Such governments tended to be concentrated in the Middle East and North Africa, Sub-Saharan Africa, Eastern Europe (following post-socialist transitions) and Latin America. Governments with stable currencies and without debt problems, such as those of China, Vietnam, India and South Korea (until the Asian financial crisis) had little exposure to the conditionality of the Washington Consensus. From 1986 through 2000, China had only a single IMF and a single World Bank policy-based loan; India had one IMF and four World Bank policy-based loans. In contrast, Argentina had a spectacular seven IMF and *19* World Bank policy-based loans during the same period. Interestingly, Brazil's engagement with IFI conditionality in these years seems to have been milder than that of some Latin American nations, with only three IMF and five World Bank policy-based loans (IMF, various years; World Bank, various years).

Among the governments that did engage with conditionality, compliance depended on the respective bargaining power of the IFI and the government officials. For example, strategic allies of the US were observed to receive lighter punishments for non-compliance than less important borrowers (Stone, 2002; Dreher and Jensen, 2007). Conversely, compliance was more likely when the IFIs served as gatekeepers to the governments' access to the resources of powerful third parties, such as portfolio investors, private banks and other international organizations. The IMF became particularly famous for playing this role and was even described as the leader of a global 'creditors' cartel' (Cline, 1995: 205–8; Bird, 2001: 1857; Brune, Garrett and Kogut, 2004; Buira, 2003; Weisbrot, 2007). Many Sub-Saharan African governments became famous for entering into lending agreements, receiving initial disbursements, failing to comply and then entering into new loans all over again, eventually leading the IFIs to 'lend into arrears' (Easterly, 2001, 2006). One likely explanation is that such countries had little access to private capital flows to begin with, and hence little to lose by breaking their commitments (Bird, 2001: 1853).

Another factor influencing the effectiveness of IFI conditionality was the relative influence of 'sympathetic interlocutors' or 'technopols' – the economists in government with graduate degrees from US and British universities discussed above. Such technocrats were particularly abundant in Latin America and the literature suggests that when these individuals were in top decision-making positions, the market-liberalizing conditions of the IFIs were likely to be both met and exceeded (Stallings, 1992; Williamson, 1994; Domínguez, 1997; Babb, 2001; Woods, 2006: 72–6). The bearers of American-style economic expertise were frequently not elected officials, but technocrats appointed to interact with the IFIs and other powerful external actors at a time of international crisis (Markoff and Montecinos, 1993; Centeno, 1994; Babb, 2001). Their policy preferences were not necessarily shared by the population as a whole, or even within their own governments, and sometimes candidates elected on entirely different sorts of platforms surprised national voters by implementing Washington Consensus reforms (Stokes, 2001; Buira, 2003). Yet, whatever the nature of the popular mandate, the withholding of IFI resources contributed to the defeat of non-reforming governments; conversely, governments that endorsed reforms were rewarded with resources that helped them stay in power and implement reforms. All of this suggests that the roles of transnational norms and transnational power were deeply intertwined, and that IFI conditionality shifted national paradigms not directly, by forcing compliance, but indirectly, by benefiting some political actors over others in national political contests (Williamson, 1994: 567).

[…]

Notes

1 Williamson's original list included 10 items, which were: fiscal discipline; reordering public expenditure priorities away from things such as indiscriminate subsidies towards basic health, education and infrastructure investment; tax reform to combine a broader

tax base with moderate marginal rates; the liberalization of interest rates; a competitive exchange rate; trade liberalization; liberalization of inward foreign direct investment; privatization; deregulation; and property rights (Williamson, 1990b, 2003).

2 I am referring both to classical institutional theory (e.g., Gouldner (1954), Selznick (1949)) and the 'new institutionalism' (e.g., DiMaggio and Powell (1983) and Meyer and Rowan (1977)).

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20

The Crises of Capitalism (2010)

David Harvey

David Harvey: Okay so we've been through this crisis and there are all sorts of explanatory formats out there. And it's interesting to look at the different genres. One genre is that it's all about human frailty. Alan Greenspan took refuge in the fact "It's human nature" he said, "and you can't do anything about that." But there's a whole world of explanations that kind of say it's the predatory instincts, it's the instincts, the mastery, it's the delusions of investors, and the greed and all the rest of it. So there's a whole range of discussion of that. And, of course, the more we learn about the daily practices on Wall Street we kind of forget there's a great deal of truth in all of that.

The second genre is that there's institutional failures; regulators were asleep at the switch; the shadow banking system innovated outside of their purview etc, etc, etc and, therefore, institutions have to be reconfigured and it has to be a global effort by the G20 something of that kind. So we look at the institutional level and say that has failed and that has to be reconfigured.

The third genre is to say everybody was obsessed with a false theory, they read too much Hayek and believed in the efficiency of markets and it's time we actually got back to something like Keynes or we took seriously Hyman Minsky's theory about the inherent instability of financial activities.

The next genre is it has cultural origins. Now we don't hear that much in the United States but if you were in Germany and France there are many people there who would say this is an Anglo Saxon disease and it's nothing to do with us. And I happened to be in Brazil when it was going on and Lula was kind of saying, well first off he was saying, "Oh thank God the United States is being disciplined by the

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equivalent of the IMF. We've been through it eight times in the last twenty five years and now it's their turn. Fantastic" said Lula and all the Latin Americans I knew until it hit them, which it does, and then they kind of changed their tune a little bit. So there was kind of a way in which it became cultural and you can see that by the way in which this whole Greek thing is being handled. The way the German press is saying, "Well it's the Greek character, it's defects in the Greek character." And there's a lot of rather nasty stuff going on around that but actually there are some cultural features which have led into it.

For instance, the US fascination with home ownership which is supposedly a deep cultural value; so 67%–68% of US households are home owners. It's only 22% in Switzerland. Of course it's a cultural value in the United States of being supported by the mortgage interest tax deduction which is a huge subsidy. It's been promoted since the 1930s, very explicitly in the 1930s it was built up because the theory was that debt encumbered homeowners don't go on strike.

And then there's the kind of notion that it's a failure of policy and that policy has actually intervened. And there's a funny kind of alliance emerging between the Glenn Beck wing of Fox News and the World Bank both of whom say the problem is too much regulation of the wrong sort.

So there are all of these ways and all of them have a certain truth. And skilled writers will take one of other of those perspectives and build a story and actually write a very plausible kind of story about this. And I thought to myself well what kind of plausible story can I write which is none of the above, which is one of the things I always think to myself. And it's not hard to do particularly if you're coming from a Marxist perspective because there aren't many people who try to do this analysis from a Marxist perspective.

And I was really clued into this by this thing that happened at the London School of Economics about a year and a half ago when Her Majesty the Queen asked the economists "How come you guys didn't see this thing coming". She didn't say it exactly that way but, you know, a similar sentiment. And they got very upset. And then she actually called the Governor of the Bank of England and said, "How come you didn't see it coming". And then the British Academy put forward this, got all together all these economists and they came up with this fabulous letter to Her Majesty. And it was absolutely astonishing, it said, "Well many dedicated people, intelligent, smart, spend their lives working on aspects of this thing very, very seriously, but the one thing we missed was systemic risk" and you say, "What!" And then it went on to talk about the politics of denial and all the rest of it so I thought well systemic risk I can translate it into the Marxian thing, you're talking about the internal contradictions of capital accumulation. And maybe I should write a thing about the internal contradictions of capital accumulation and try to figure out the role of crises in the whole history of capitalism and what's specific and special about the crisis this time around.

And there were two ways in which I thought I would do that. One was to look at what's happened since the 1970s to now. And the thesis there is that in many ways the form of this current crisis is dictated very much by the way we came out of the last one.

The problem back in the 1970s was excessive power of labour in relationship to capital. That, therefore, the way out of a crisis last time was to discipline labour, and we know how that was done. It was done by off-shoring, it was done by Thatcher and Reagan and it was done by neo-liberal doctrine, it was done in all kinds of different ways. But by 1985 or '86 the labour question had essentially been solved for capital; it had access to all the world's labour supplies, nobody in this particular instance has cited greedy unions as the root of the crisis. Nobody in this instance is saying it's ever anything to do with excessive power of labour. If anything it's the excessive power of capital and in particular the excessive power of finance capital, which is the root of the problem.

Now how did that happen? Well we've been since the 1970s in a phase of what we call wage repression, that wages have remained stagnant, the share of wage as a national income right throughout the OECD countries has steadily fallen. It's even steadily fallen in China of all places. So that there is less and less being paid out in wages. Well wages turn out to be also the money which buys goods, so if you diminish wages then you've got a problem with where is your demand going to come from. And the answer was well get out your credit cards, we'll give everybody credit cards. So we'll overcome, if you like, the problem of effective demand by actually pumping up the credit economy. And American households and British households have all roughly tripled their debt over the last 20/30 years. And a vast amount of that debt, of course, has been within the housing market.

And out of this comes a theory which is very, very important that capitalism never solves its crisis problems, it moves them around geographically. And what we're seeing right now is a geographical movement of that. Everybody says, "Well, okay everything's beginning to recover in the United States" and then Greece goes bang and everybody says, "What about the PIIGs".

And it's interesting you had a finance crisis in the financial system, you've sort of half solved that but at the expense of a sovereign debt crisis. Actually if you look at the accumulation process of capital you see a number of limits and a number of barriers and there's a wonderful language that Marx uses in the Grundrisse where he talks about the way in which capital can't abide a limit, it has to turn it into a barrier which it then circumvents or transcends.

And then when you look at the accumulation process you look at where the barriers and limits might lie. And the simple way to look at it is to say look a typical circulation process of accumulation goes like this. You start with some money, you go into the market and you buy labour, power and means of production, and you put that then to work with a given technology and organisational form, you create a commodity which you then sell for the original money plus a profit. Now you then take part of the profit and you recapitalise it into an expansion for very interesting reasons.

Now there are two things about this: one is there are a number of barrier points in here. How is the money got together in the right place at the right time, in the right volume – and that takes financial ingenuity. So the whole history of capitalism has been about financial innovation. And financial innovation has the effect of also empowering the financiers, and the excessive power of the financiers can sometimes … they do get greedy, no question about it. And if you look at financial profits in the United States they were soaring after 1990, they were going up like this. Profits in manufacturing were coming down like this. And you could see the imbalance.

In this country I think the way in which this country has sided with the City of London against British manufacturing since the 1950s onwards has had very serious implications for the economy of this country. You've actually screwed industry in order to keep financiers happy. Any sensible person right now would join an anti-capitalist organisation. And you have to because otherwise we're going to have the continuation, and notice it's the continuation of all sorts of negative aspects. For instance, the racking up of wealth you would have thought the crisis would have stopped that. Actually more billionaires emerged in India last year than ever – they doubled last year. The wealth of the rich – and I just read something this morning – in this country has accelerated just last year.

What happened was the leading hedge fund owners got personal remunerations of three billion dollars each in one year! Now I thought it was obscene and insane a few years ago when they got two hundred and fifty million, but they're now hauling in three billion. Now that's not a world I want to live in and if you want to live in it be my guest. I don't see us debating and discussing this. I don't have the solutions. I think I know what the nature of the problem is, and unless we're prepared to have a very broad based discussion that gets away from the normal pablum you get in the political campaign and everything's going to be okay here next year if you vote for me – it's crap. You should know it's crap and say it is. And we have a duty, it seems to me those of us who are academics and seriously involved in the world, to actually change our mode of thinking.

Part IV

Development after Globalization

Introduction

Part III focused on the radical economic changes globalization has entailed, and the political transformations engendering such economic changes. Proponents of globalization, including Johan Norberg (back in Chapter 15), argue that unfettered global trade greatly benefited the world; but the outcomes of globalization remain a hotly contested question. The readings in Part IV enter this debate by offering nuanced analyses that attempt to identify both the winners and the losers in the global reorganization of capitalism. Part V, in turn, will discuss whether globalization allows for a genuine possibility of progressive change. These selections represent a variety of voices participating in the discussion, including analyses that go beyond the common focus on economic development and growth.

These analyses reprise older debates surrounding classical liberal economic theory (which supported free trade and little government intervention in the economy). Both nineteenth-century and contemporary critics of economic liberalism question whether the world has truly benefited from the unfettered flow of trade and money. They remind us that non-interventionist policies are hardly more "value-free" or neutral in their outcomes than interventionist policies. Any policy – including a policy not to have policies – prioritizes one set of goals (for example, economic growth) over others (for example, environmental protection, poverty alleviation, or human rights), and systematically privileges some groups over others. Critics of globalization have argued, in particular, that neoliberal economic policies favor the interests of the dominant, and already privileged, classes. With some important exceptions, these policies are also biased in favor of the interests of rich nations rather than poorer nations.

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Critics and proponents of globalization engage in several important debates. One essential dispute is whether globalization reduces absolute poverty. Another is whether globalization reduces or amplifies inequality. Critics who focus on inequality suggest that even if the poor have become less poor in absolute terms, their overall conditions have not necessarily improved if the rich in their societies have become far richer. Scholars concerned with the inequality effects associated with globalization also identify the most vulnerable populations under globalization and the factors contributing to their condition. For example, Patrick Bond offers a damning account of the impact of neoliberal economic policies on sub-Saharan Africa; Philip McMichael warns about declining access to food; and Saskia Sassen analyzes globalization's contribution to women's subordination.

Other critics of globalization ask about the conditions under which economic development and other social goals could still be achieved. Examining two economies that have grown impressively during the era of globalization, Pranab Bardhan suggests that India and China's radical development was not thanks to the non-interventionist reforms advocated by the proponents of globalization but, on the contrary, thanks to their interventionist legacies. Analyzing studies on foreign aid, Steven Radelet suggests that foreign aid, too, could spur economic growth. One could infer, then, that foreign aid could potentially mitigate some of globalization's negative effects. Finally, Dani Rodrik, based on evidence in support of interventionist measures, argues for "smart globalization," which tames the pernicious effects of hyperglobalization while still facilitating economic growth and preserving democratic principles.

Patrick Bond, a professor at the University of KwaZulu-Natal, in South Africa, offers an analysis of globalization through the specific experience of sub-Saharan Africa. Bond is especially critical of the neoliberal reforms imposed by the international financial institutions on the African continent. In contrast to others, like Alice Amsden and Pranab Bardhan, who look for clues for development at the domestic level, Bond argues that "the economic decay faced by South Africa and lower-income countries of the South reflect[s] global … chaos." In the book *Against Global Apartheid: South Africa Meets the World Bank, IMF and International Finance*, Bond describes the damage that was wrought on South Africa by a general international economic slowdown that had begun in the 1980s and was amplified at the turn of the century by extreme production overcapacity. Bond describes how the crisis of overproduction was addressed at the expense of labor, women, and the environment, and explains why this was more likely to occur in the global South than in the global North.

Bond claims, however, that the contradictions that he argues are intrinsic to capitalism cannot be resolved by temporarily addressing the issue of overcapacity. They are instead moved, delayed, and inevitably get worse. In the section of the book excerpted here, Bond focuses on the damage inflicted on the African continent as a result of these contradictions and of attempts to delay their consequences. Bond acknowledges the importance of internal reasons for sub-Saharan Africa's problems, which include inherited colonial legacies and the transition from colonialism to undemocratic regimes. But he emphasizes two main *external* factors explaining the region's difficulties: falling international commodity prices, and massive external debt made worse by rising real interest rates in the late 1970s. In turn, the International Monetary Fund and the World Bank imposed programs based on the Washington Consensus, exacerbating the major crisis triggered by the "trade traps" and the rising debt. The neoliberal medicine administered at the hands of international financial institutions, Bond concludes, was killing the African patient.

Others identify additional detrimental effects brought about by globalization. Philip McMichael, Professor of Development Sociology at Cornell University, examines the questions of poverty and inequality by looking at a specific issue area, access to food, to find what he refers to as "the breaching of neoliberal claims to feed the world through the market." According to McMichael, the failed promise to feed the world is largely driven by crossover investment, from food to fuel crops. McMichael helpfully situates this transition in a larger historical context. Each capitalist regime, he argues, has a different type of political economy of agriculture (and food) – each with its own species of catastrophic outcomes. The British-centered (colonial) regime was based on a colonial and then postcolonial division of labor, with an initial supply of exotic foods for European consumers that was later replaced with agro-exporting of wheat and meat for a rising European working class. This regime deployed an ecologically destructive form of "soil mining." In contrast, in the subsequent, US-centered food regime, food was sent from the North to the South. Via a model McMichael characterizes as an ecological time bomb, agricultural subsidies and commodity programs supported American farms partly by enabling and subsidizing large exports first to Europe through the Marshall Plan, and then to the Third World via the green revolution. McMichael suggests today's agrarian question concerns the conversion of land and forests in the global South into agro-export platforms, particularly for biofuels. But biofuels, he warns, are likely ineffectual in reducing greenhouse gas emissions, at the same time as they are displacing food production and hurting food producers.

Just as McMichael considers the fate of peasants and family farmers under globalization, Saskia Sassen, Professor of Sociology at Columbia University, offers an account of globalization and its consequences through the experience of another vulnerable population, women in the global South. In "Global Cities and Survival Circuits," Sassen reminds us that the same infrastructure designed to facilitate cross-border flows of capital, information, and trade also makes it possible for traffickers, smugglers and even governments to profit from moving women across borders to work in low-paying jobs, as clerical and blue collar workers, maids, nannies, and sex workers.

One reason globalization remains defensible in many circles despite these examples of its negative effects is that there is vast diversity in national experience, with some countries doing far better than others in economic growth and distributive outcomes. Globalization may homogenize products but it does not create equal outcomes. Can the positive experience of at least some countries be attributed to neoliberalism or globalization, or did they experience economic growth *in spite of* globalization's constraints? In a piece published in the *Boston Review*, Pranab Bardhan, Professor of Economics at the University of California, Berkeley, rejects common explanations for the rapid economic growth seen in both India and China. Supporters of neoliberal globalization attribute their growth to a mix of market reforms and global integration that "unleashed" these countries' entrepreneurial energies. Bardhan shows, however, that "both countries' economic policies with regard to privatization, property rights, and deregulation have departed demonstrably from free-market orthodoxy in many ways." Instead, he argues, previous interventionist agendas enabled current development and growth. In explaining China's greater success compared to India, he provocatively suggests that "the Chinese are better capitalists now because they were better socialists then!" He warns, however, that China's growth may be restrained by its lack of democracy.

What about countries unable to kick-start their own development or economic growth? Can international support, in the form of foreign aid, lead to the desired growth? As discussed above, Patrick Bond offers a particularly harsh, but familiar, critique of the conditional aid typically offered by the World Bank and the IMF. Steven Radelet, Distinguished Professor in the Practice of Development at Georgetown University, is more optimistic regarding the foreign aid's potential. While not explicitly concerned with globalization, his analysis identifies transitions that are clearly related to globalization. The widespread mistrust of governments, which is characteristic of the neoliberal logic that reached its zenith in the early 1990s, is correlated with foreign aid decline during the same period. The revival of foreign aid toward the end of the decade is related, in part, to the need to address some of the most catastrophic outcomes of global neglect, including the spread of the AIDS epidemic. Radelet finds that, under certain conditions, foreign aid leads to economic growth, lending credibility and support not only for foreign aid, but government interventions more generally.

Also positing a constructive analysis is Dani Rodrik, Albert O. Hirschman Professor in the School of Social Science at the Institute for Advanced Study, in Princeton, New Jersey. Rodrik once wrote in the *Boston Review* that "globalization has become a bogeyman – a topic about which it is futile to expect to have a rational conversation."[1] But this should not stop us from trying. In *The Globalization Paradox*, he asks: Why so much poverty amidst plenty? Why did the era of globalization, which ought to be a powerful engine for economic catch-up, experience instead massive inequality? And what can countries do to redress it? Rodrik refreshingly rejects more conventional approaches that are strongly in favor or strongly against globalization, instead striking a middle ground. Rodrik carefully delineates the roles of and tensions between states and markets in an impressive overview of industrialization and economic growth from the industrial revolution to the East Asian "miracle" and, more recently, China.

Based on many countries' experiences, Rodrik finds that we are facing a "political trilemma" – namely, the fundamental inability to have hyperglobalization, democracy and national self-determination all at once. Reprinted in this volume is his description of the detrimental effects of letting hyperglobalization impinge on democratic choices.

International markets erode domestic labor regulations; they restrict a nation's ability to choose its tax structure, the scope of health regulations, and other social provisions; and they restrict the ability to adopt the same kind of industrial policies that allowed other countries to successfully grow their economies in the past. In the other chapter we include in this volume, Rodrik proposes that moving from Capitalism 2.0 to Capitalism 3.0 requires a compromise between globalization and national democracy in the form of "smart globalization," outlined in principles that should make current globalization "an updating of the Bretton Woods compromise for the twenty-first century."

Note

1 Dani Rodrik, "Hard Tasks: A Response to Andrew Glyn's 'Egalitarianism in a Global Economy,'" *Boston Review* (Dec.–Jan. 1997–8). He says this is so because employers have taken advantage of globalization to increase their profits at the expense of workers.

21

Global Crisis, African Oppression (2001)

Patrick Bond

[…]

The African Crisis Continues

To relate the global crisis to Africa's sustained socio-economic oppression entails exploration of the key mechanisms of domination, including trade and debt. But it is important first to forthrightly address the broader dynamic of Africa's apparent trajectory of self-destruction.

The starting point is, necessarily, the grounding in development politics gained by communities, women, youth, workforces and churches on the one hand, and on the other, by nationalist political parties that still rule or strongly influence most African states (albeit sometimes merely as the media for the transmission of Washington-think). The contemporary context is the brutal socio-economic, gender, ecological, youth, public-health and disability crises that rack Africa.

The Rise and Fall of Nationalism

Widespread Afro-pessimism – exemplified by banal, victim-blaming argumentation in an issue of *The Economist*, which entitled a cover story in mid-2000 'The Hopeless

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Continent'[1] – should not allow the fading from memory of 1950s–90s struggles for national/racial/social justice. For in virtually all the anti-colonial projects of Southern Africa, and indeed the rest of the continent, could be found rhetorics of human dignity and promises that a fully fledged citizenship would be provided at independence. There was recognition of the simultaneous need to capture the state and nurture participatory democracy, of socialist (or, at the very least, Uhuru) development ideals, of ending racial (and sometimes gender) oppression and of the harmonious relations between states and civil societies that would make these visions a reality. The late Claude Ake summarised the discourse as follows:

> The language of the nationalist movement was the language of democracy, as is clear from: *I Speak of Freedom* (Nyerere), *Without Bitterness* (Orizu), *Facing Mount Kenya* (Kenyatta), *Not Yet Uhuru* (Odinga), *Freedom and Development* (Nyerere), *African Socialism* (Senghor), and *The Wretched of the Earth* (Fanon). It denounced the violation of dignity of the colonised, the denial of basic rights, the political disenfranchisement of the colonised, racial discrimination, lack of equal opportunity and equal access, and economic exploitation of the colonised. The people were mobilised according to these grievances and expectations of a more democratic dispensation.[2]

Of course, things went badly wrong in virtually all cases, and by the early 1980s, as crisis and repression set in, the subcontinent's few sites of developmental hope were in Southern Africa, especially Mozambique and Zimbabwe, and, from 1994, South Africa. In some ways, the malgovernance that emerged across Africa pointed to larger political/economic processes and geopolitical alignments associated with the Cold War … and the simultaneous slowdown in economic growth – and hence demand for raw materials – in Northern and Eastern industrial countries. These factors culminated in a global political/economic environment that, during the last two decades of the 20th century, was simply not conducive to African development.

There are internal and external reasons for the problems Sub-Saharan Africa has suffered for the past quarter of a century. Socio-economically, standards of living fell to 1950s levels in many countries. And militarily, many countries witnessed extraordinary social, civil and regional conflicts, ranging from genocide to attempted coups, during the 1980s–90s …

The internal reasons for Africa's late-20th-century economic problems vary, but included inherited colonial legacies (including the illogicality of many borders) and the transition from colonialism to undemocratic and often corrupt, militarised, neo-colonial regimes. Many had adopted economic strategies that benefited a few urban elites at the expense of peasants, especially women producers, workers and even local manufacturers. The continent's civil wars and adverse climatic conditions (droughts and floods) are increasingly identified with structural political/economic problems, ranging from post-Cold War geopolitical fragility to global warming. But domestic economic policies, especially in settler-colonial societies, dating to World War II – when global linkages were at their weakest – were often inappropriate. The inward-looking import-substitution industrialisation (ISI) strategy typically did not foster linkages between mass consumption and mass production (which would have led to greater balance and sustainability), but rather was aimed at establishing local production of luxury goods for a small, wealthy elite, especially in South Africa and Zimbabwe, the economies with the most advanced manufacturing sectors. Ironically, as specialisation increased, the ISI approach ultimately made these countries even more dependent on external sources of sophisticated machinery, parts and raw materials than they had been earlier. Subsequent export-led growth strategies were typically promoted as a central component of 'macroeconomic reforms' imposed on countries by lenders and Northern governments, notwithstanding the declining, glutted character of world markets associated with the main goods produced in Southern Africa.

In virtually no cases, in Africa or elsewhere, were power relations optimal to develop an economy to meet the basic needs of all a country's citizens, even though such a strategy would have provided far greater 'multipliers' (economic spin-offs) than multinational corporate investments or the prestige projects of African post-colonial rulers. Aside from Cold War military and political interference, there were, moreover, two main external factors associated with Africa's economic crisis: falling international commodity prices since the mid-1970s and rising real interest rates since 1979 in a context of massive external debt.

Trade Traps

In international markets, Africa has suffered unfair terms of trade (i.e. the difference between prices paid for exports in relation to prices paid for imports) since the peak of demand for its raw materials and before synthetic substitutes were invented during World War II. From the mid-1970s, terms of trade worsened, in part because of export-oriented policies, discussed below, which most African countries were compelled to adopt once they experienced a debt crisis.

The decline in the price index for the main (non-fuel) commodities dropped especially dramatically from 1977 to 1982, while the export prices of developed countries increased steadily. During the 1982–90 global expansion, the terms of trade of Third World countries still fell markedly, by 4% per year. Much of the decline was due to the drop in oil prices that began in earnest in 1986, but non-oil-producing Third World countries also witnessed a negative 1.5% annual deterioration in the prices of their exports relative to imports. This trend continued after the 1990–2 global recession, leaving 1998 commodity prices at their lowest levels since the Great Depression.[3]

In broader historical terms, the prices of primary commodities other than fuels have risen and fallen according to a deeper rhythm. Exporters of primary commodities, for example, have fared particularly badly when financiers have been most powerful. The cycle typically includes falling commodity prices, rising foreign debt, dramatic increases in interest rates, a desperate intensification of exports which lowers prices yet further, and bankruptcy. From around 1973, this process impoverished the non-industrialised Third World, with occasional, erratic exceptions in oil-producing regions.

For Africa, the trend of declining terms of trade was especially devastating because of the continent's extraordinary dependence upon a few export commodities. The following countries suffer from reliance upon a single product for at least 75% of their export earnings: Angola, Botswana, Burundi, Congo, Gabon, Guinea, Niger, Nigeria, Somalia, Uganda and Zambia. The only countries that diversified their exports, so making at least 25% of their export earnings from more than four products, are the Gambia, Lesotho, South Africa, Swaziland, Tanzania and Zimbabwe. Generally, across Africa, four or fewer products make up three-quarters of export revenues. More than three-quarters of all Africa's trade is with developed countries.

Export-led growth strategies adopted since the 1970s by virtually all Third World countries meant that Africa's market share of world commodity prices also shrank drastically. In the 1970s and 1980s alone, the African market share of coca fell from 75% to 58%, of palm oil from 58% to 18%, of sisal from 48% to 36%, of coffee from 35% to 20%, of crude petroleum from 15% to 8%, of cotton from 12% to 7%, and of copper from 10% to 6%.[4] The most far-ranging study of terms of trade (by Elbadawi and Ndulu) put the income loss during the 1970s and 1980s at nearly 4% of GDP, about twice as high as that of other countries.[5] Virtually no African economies made the necessary switch from reliance on primary export commodities. One reason was that state marketing boards were mandated to conduct trade at extremely low prices, even at a loss, simply to acquire the foreign currency needed to service large debts.

Debt Crisis

Rising debt is the second formidable external aspect of economic crisis in Africa … The continent was drawn into a debt trap in ways that in retrospect appear entirely unjustified. The two most obvious problems were the use to which borrowed money was put, and the variable rate at which most foreign debt was contracted during the 1970s. While some of the debt originated in a need to cope with the increase in global oil prices in 1973, much of the rest of the borrowed hard currency was unnecessary, destined for white-elephant projects, for arms expenditure and for the import of luxury goods. The banks that lent the money were obviously at fault for 'loan-pushing'. Some of the money was understood to be lining the pockets of corrupt elites, but international banks, the IMF and World Bank ignored the moral implications of lending to a Mobutu, a Banda or a Botha.

Moreover, during the initial rise in African foreign debt during most of the 1970s, the interest rates on dollar-denominated loans were negative in real terms (i.e. once inflation was discounted, it cost less to repay the loans than they were initially worth). Then, in 1979, the interest payments suddenly increased dramatically when the US Federal Reserve implemented a 'monetarist' – i.e. high-interest-rate – policy. From negative rates in the 1970s, inflation-adjusted interest rates averaged 2% above the average annual growth of the world economy (which was 3%) during the 1980s.

A related issue was the 'collateral' – i.e. security – for such loans. Such security was thought not to be an issue, since sovereign countries in the post-war era were not supposed to default. To this end, the IMF was used during the first part of the 1980s as a vehicle for ensuring that African countries repaid loans from Northern commercial banks, in exchange for the IMF gaining the power over those countries to impose austere macroeconomic policies which emphasised liberalisation, export orientation and an end to social subsidies.

The World Bank also stepped in, expanding beyond individual project and sector loans so as to finance fully fledged structural adjustment. All of this represented little more than a bailout by Northern taxpayers of Northern commercial banks through the IMF and World Bank. But incoming funds continued to decline, and, by 1984, net financial-resource transfers to the Third World were negative for the first time, as countries spent more on interest payments than they gained in new loans. By the end of the decade, the net South–North transfer had reached $50 billion a year, which reflected the success of financiers in shifting the repayment burden not only to Northern taxpayers but also to Third World citizens.

As a result, the Third World debt crisis was considered 'solved' by the early 1990s, as most Northern banks had by then either received their Third World loan money back through IMF/World Bank bailouts; or sold the bad loans at a discount on 'secondary markets' of sovereign debt; or, quite commonly, declared the loans as unrepayable for local tax purposes but continued to demand repayment by Third World countries. But effectively the debt crisis no longer threatened the Northern banks …

However, in contrast, developing countries found that by 1997 they still had more than $2 trillion in foreign debt to repay (up from $1.3 trillion during the early 1980s, when the debt crisis broke out, and $1.4 trillion in 1990). In 1997, the debtor countries paid the North $270 billion in debt service, up from $160 billion in 1990. In net terms, African countries paid $162 billion more than they received in new loans in 1997, up from $60 billion in 1990.[6]

Beginning with Mexico in 1982, the untenable character of the debt caused a series of Third World defaults. Sometimes the defaults were delayed by virtue of the IMF and World Bank arranging an urgent credit for the purpose of paying debts coming due. Occasionally, governments stood up to international pressure by declaring a partial repayment moratorium. This attracted enormous political pressure, as in the cases of Zambia under Kenneth Kaunda, Brazil following its temporary default in 1987, Peru under the populist Alain Garcia and Nicaragua under the Sandinistas. (South Africa in 1985–7 may be the most successful counter-example, when Pretoria successfully negotiated a repayment 'standstill' with Northern banks.)

The debt is particularly onerous for the poorest African countries, which defaulted *en masse* during the early 1980s, but were simply given new loans to pay off old loans. As a result, although between 1984 and 1996 the lowest-income African countries paid $1.5 billion in repayments – a sum 1.5 times greater than the amount owed in 1980, as a result of compounded interest payments – they still owe far more today.

Repayment averaged 16% of the spending of African governments during the 1980s, as compared to 12% on education, 10% on defence and 4% on health.

There is convincing documentation that women and vulnerable children, the elderly and disabled people are the main victims of debt repayment pressure, as they are expected to survive with less social subsidy, with more pressure on the fabric of the family during economic crisis, and with HIV/AIDS closely correlated to structural adjustment. The economic policies imposed on Southern African countries as a result of their trade and debt vulnerabilities are therefore worth yet more consideration.

Africa 'Reforms' for Washington's Benefit

Based on the 1981 *Berg Report*, most of the macroeconomic reforms that IMF and World Bank teams insisted African countries pursue have been relatively uniform. The programmes, subsequently known as the 'Washington Consensus', nearly always involve the following components, most of which are extremely detrimental to state social policies:

- government budget cuts, increases in user fees for public services, and privatisation of state enterprises (including even municipal services);
- the lifting of price controls, subsidies and any other distortions of market forces;
- the liberalisation of currency controls and currency devaluation;
- higher interest rates and deregulation of local finance;
- the removal of import barriers (trade tariffs and quotas); and
- an emphasis on the promotion of exports, above all other economic priorities.

The effects of these policies have been quite consistent. Budget cuts depressed the effective demand of African economies, leading to declining growth. Often the alleged 'crowding out' of productive investment by government spending was not actually the reason for lack of investment, so the budget cuts were not compensated for by private-sector growth. The implementation of privatisation often did not distinguish which state enterprises may have been strategic in nature, was too often accompanied by corruption, and often suffered from the foreign takeover of domestic industry with scant regard for maintaining local employment or production levels (the incentive for this takeover was sometimes simply gaining access to markets).

Moreover, there were no attempts by IMF and World Bank economists to determine how state agencies could supply services that enhanced 'public goods' and merit goods. For example, the positive effects of water supply on public health, environmental protection, local economic activity and gender equality were never calculated. In this way, all state services were reduced to mere commodities, requiring of their recipients full cost-recovery through the elimination of subsidies.

A poignant example is water, which the World Bank has been pushing many municipal governments in Africa to privatise. In a context in which public-good effects of water supply were not factored into a World Bank-designed national infrastructure policy, South Africa faced an outbreak of cholera in August 2000 that led to scores of deaths and tens of thousands of infections, costing tens of millions of rands, because low-income people were not able to pay full cost-recovery on systems that then either broke down or suffered cut-offs by municipal officials (saving a few tens of thousands of rands). At the same time, the World Bank was circulating a document entitled Sourcebook on Community Driven Development in the African Region, which warned other World Bank staff that 'work is still needed with political leaders in some national governments to move away from the concept of free water for all'. As for project work on water, these staff were instructed to 'Ensure 100% recovery of operation and maintenance costs'.[7]

Another central reason for declining economic growth under structural adjustment was the tendency for interest rates to jump to very high levels once financial controls were released, or when a foreign-currency crisis emerged. Hardest hit were often small businesses. Likewise, the lifting of price controls along with foreign-currency liberalisation and currency devaluation often created a generalised inflationary tendency, accompanying a surge of imports of luxury goods. While this made more goods available, especially in elite urban shops, they were often so far out of range of most consumers that the benefits of liberalisation never trickled down.

The emphasis on liberalising imports and promoting exports did virtually nothing to improve the balance of trade, and in fact, in most cases, liberalisation caused trade surpluses to rapidly become deficits. Austerity usually killed formal-sector jobs, deindustrialised weak manufacturing sectors, rewarded the financial sector, and in the process worsened social inequality. At the end of the 1990s, the continent recorded somewhat higher growth, off a very low base in some countries. Yet such growth self-evidently failed to trickle down to most people, as poverty worsened and inequality rose sharply. And already meagre state services simply collapsed in many parts of the continent.

Structural adjustment not only worsened economic conditions. It never grappled with the real causes of the disempowerment of the mass of producers. Without being 'Afro-pessimistic' by 'reducing the past to a one-dimensional reality … [through] a roots of crisis literature', Mahmood Mamdani nevertheless argues that much of Africa's local-level state administration in rural settings amounted to 'decentralised despotism', even prior to the crisis of the 1980s and 1990s. Virtually all attempts to reform colonial-era administration and its equivalent ethnic-based systems failed. Even in the best case, Museveni's Uganda, where local-level power relations inherited from centralised despotic rule had to be thoroughly broken, there remained a 'bifurcated' duality of power between a centrally located modern state (sometimes directly responsible for urban order in primate capital cities) and a 'tribal authority which dispensed customary law to those living within the territory of the tribe'.[8] With this observation, Mamdani addresses global-national-local processes:

> In the absence of democratisation, development became a top-down agenda enforced on the peasantry. Without thorough-going democratisation, there could be no development of a home market. The latter failure opened wide what was a crevice at Independence. With every downturn in the international economy, the crevice turned into an opportunity for an externally defined structural adjustment that combined a narrowly defined programme of privatisation with a broadly defined programme of globalization.[9]

Futile Washington Spin Control

It was soon evident that neo-liberal medicine was killing the African patient. By the late 1980s, after about a decade's experience in approximately three dozen African countries, critics more forcefully questioned macroeconomic reform. A debate raged about whether two World Bank reports (*Africa's Adjustment and Growth in the 1980s* and *Sub-Saharan Africa: From Crisis to Sustainable Growth*, both published in 1989) adequately explained the continent's dramatic declines in standards of living, terms of trade and ability to service debt. There was great doubt about the truth of a World Bank claim that during the late 1980s countries which adopted orthodox macroeconomic reforms grew more quickly.

Arguing in favour of structural adjustment, the World Bank was joined by many African leaders who probably felt they had no other choice in the matter. Their adoption of structural adjustment as (cynically named) 'home-grown' programmes can only be understood against the need the World Bank expressed, by the late 1980s, for legitimacy. In the same spirit, the World Bank and its allies at the US Agency for International Development even argued, for a brief period in 1994, that structural adjustment was not harmful to the poor … A variety of rebuttals and corrections of adjustment/poverty data followed.[10] For notwithstanding social programmes sometimes added so as to mitigate the effects of structural adjustment, the adverse effects were indeed concentrated on the poorest, least-organised groups in society. Imposition of user fees, especially, led to a decline in utilisation rates for health and educational services, which in turn substantially reduced 'human capital formation', with women suffering disproportionately.

Notwithstanding the attraction of 'sustainable development' concepts – particularly the need to 'internalise externalities'[11] (i.e. draw in other factors left out in market exchanges, such as pollution) – the rhetoric to this end was rarely matched by action. Virtually no attempts were made by the IMF, World Bank donors or domestic policy-makers to determine how state agencies could supply services that enhanced positive externalities … To the extent that social subsidies were still permitted, they were targeted through 'means-testing' in an ineffectual manner. Nearly all social programmes introduced to mitigate adjustment performed poorly.[12]

Evidence has grown of the social cost of the orthodox 'neo-liberal' (free-market) development plan. In three Southern African countries (Malawi, Zambia and Zimbabwe), per capita daily protein consumption, for example, fell 20–25% during the period 1970–95. In the health sector, conditions across the whole of the Southern African Development Community (SADC) deteriorated during the mid-1990s to levels amongst the world's worst for under-five mortality (140 per 1 000 children); maternal mortality (888 per 100 000 live births); life expectancy (52); malnutrition (20% of children under five underweight, and 36% suffering stunting); measles immunisation (just 68% of one-year-olds); contraceptive use (just 28% of women of 15–45 years of age); and the incidence of such deadly diseases as malaria (5 550 per 100 000 people), tuberculosis (149 per 100 000 people), and HIV/AIDS (30 AIDS cases per 100 000 people and a 12% prevalence for adults under 49 years of age in 1995, worsening dramatically by the end of the decade as the pandemic spread through South Africa).[13]

While social suffering worsened, the capacity of nation states to increase health and education expenditures declined. Given that social and economic policy-making for Third World countries was increasingly shifted from national capitals to Washington, on behalf of the financial markets, it is perhaps not surprising that an entire generation of nationalist leaders diverted course from populist mandates towards implementing ineffectual structural adjustment programmes (which in turn generally destroyed their popularity). So too did once-'communist' governments in Mozambique and Angola endorse a crude material-oriented and export-led strategy. This was a global problem, affecting all ex-communist, social-democratic and labour parties virtually everywhere. But in Sub-Saharan Africa, the stripping away of national sovereignty was most pronounced, leading in some cases in the Horn and in West Africa, to the collapse of state structures, of legal frameworks, of monetary systems and of any semblance of order.

The Limits of Washington's Line

Naturally, many Africans firmly resisted structural adjustment, in circumstances ranging from 'IMF riots' in urban shanty towns, to more obscure, often religious-based, 'silent revolutions' through barter and other exit options in rural areas, to growing linkages being made between human rights violations and debt social movements (even middle-class church congregations), to formal critiques by an ever-smaller, beleaguered group of African intellectuals and progressive technical officials

[…]

Remember that the economic problems discussed above were, at root, premised on the slowdown in economic growth in the major industrial countries beginning during the 1970s. Therefore the power of finance over the Third World during the 1980s represented not so much a true 'solution' in terms of more open trade and investment prospects (and hence higher TNC profits and lower global wages than would have been the case otherwise), but rather a deepening of the problem, as the limits of the strategy of draining the Third World were felt by even the most powerful of the world's banks. Indeed, the Third World debt crisis contributed significantly to international financial turmoil.

Yet unlike the 1930s, the Northern creditors have not yet suffered the kind of generalised financial collapse that gave so many other countries the ability to default, without facing serious political ramifications. (Those earlier creditors were mainly individual bondholders, not centralised, powerful commercial banks and Washington financial institutions.) Instead, the debt has been rolled over and meagre amounts of 'debt relief' have been ladled out to countries which continue to play by Washington's rules.

Given the obscene inequality and suffering associated with declining terms of trade, rising debt and structural adjustment programmes, some African countries were chosen by the IMF and World Bank as beneficiaries of the 'Highly-Indebted Poor Country' (HIPC) initiative. Most importantly, HIPC allows merely a write-off of *unserviceable* debt, which no one ever expects the poorest countries to repay …

HIPC is now widely condemned for merely prolonging Africa's debt misery. There is emerging, both from within Africa and from Northern (and other Southern) solidarity activists, a vibrant social movement whose objective is the full cancellation of Third World debt by next year. The movement – 'Jubilee 2000' (named after a statement in the Old Testament's Leviticus that debts should be periodically cleared to give debtors a chance to recover) – played an effective role in bringing the issue to international public attention. Though right-wing 'allies' – the Pope and economist Jeffrey Sachs – endorsed a weak version of the Jubilee call, a more durable 'Jubilee South' movement grew, holding summits in Johannesburg in late 1999 and Senegal a year later.

The tradeoff that the Jubilee movement posits is simple. Sub-Saharan Africa paid the developed world $13.4 billion to service foreign debt in 1996, in part by borrowing $9.5 billion in new funds and using $2.6 billion of aid payments from Northern countries. By way of contrast, the cost of meeting basic goals in Africa for universal healthcare, nutrition, education and family planning is estimated at about $9 billion a year. This kind of money will not become available until the debt is cleared; but Africa's many leaders allied to Washington will never challenge the Washington-imposed status quo of power relations on their own.

[…]

The most important problem that arises from these experiences is whether Africans can muster a combination of robust democratic activism, protest around socio-economic grievances, technical critiques and proposals, counterhegemonic local-level development strategies and national-policy advocacy …

Notes

1 The subtitle (13 May 2000) explained, 'Africa's biggest problems stem from its present leaders. But they were created by African society and history'.

2 Ake, C. (2000), *The Feasibility of Democracy in Africa*, Dakar, Codesria, p. 46.

3 Barratt-Brown, M. and Tiffen, P. (1992), *Short Changed: Africa and World Trade*, London, Pluto Press, p. 3.

4 UNCTAD (1991), *Commodity Yearbook*, Geneva.

5 Elbadawi, A. and Ndulu, B. (1996), 'Long-run Development and Sustainable Growth in Sub-Saharan Africa', in M. Lundahl and B. Ndulu (eds), *New Directions in Development Economics: Growth, Environmental Concerns and Governments in the 1990s*, London, Routledge.

6 Jubilee 2000 (1997), 'Free Africa of Debt', London.

7 World Bank (2000), *Sourcebook on Community Driven Development in the Africa Region: Community Action Programs*, Africa Region, Washington, DC, 17 March (signatories: Calisto Madavo and Jean-Louis Sarbib), Annex 2.

8 Mamdani, M. (1996), *Citizen and Subject: Contemporary Africa and the Legacy of Late Colonialism*, Princeton, Princeton University Press, p. 111.

9 *Ibid*, p. 287.

10 For contrary evidence of the effects of adjustment on the rural poor, see, amongst others, Ali, A. (1998), 'Structural Adjustment and Poverty in Sub-Saharan Africa', in T. Mkandawire and C. Soludo (eds), *African Perspectives on Structural Adjustment*, Ottawa, IDRC; and Costello, A., Watson, F. and Woodward, D. (1994), *Human Face or Human Facade? Adjustment and the Health of Mothers and Children*, London, Centre for International Child Health.

11 See, for example, World Bank (1994), *World Development Report 1994: Infrastructure for Development*, Washington, World Bank.

12 Mkandawire, I. and Soludo, C. (1999), *Our Continent, Our Future*, Ottawa, IDRC, Trenton, Africa World Press and London, James Currey, pp. 74–5.

13 Southern African Political Economic Series (1998), *SADC Regional Human Development Report*, Harare.

22

Agrofuels in the Food Regime (2010)

Philip McMichael

Introduction

The recent explosion of biofuels (a questionable response to the energy/climate crisis) is a blunt reminder of the extent to which capitalism externalises its costs. Cost externalisation is one clear consequence of commodity fetishism: wherein the social and ecological impacts of commodity relations are obscured by the price-form. Assigning a price to biophysical processes (as 'natural resources') objectifies them and conceals their socio-ecological relations. As indebted Southern governments compete for biofuel investment finance and Northern governments champion this 'green fuel', the social and ecological consequences of converting crop land and forest into a new profit frontier are hidden behind a façade of market environmentalism. What elsewhere I have called the 'agrofuels project' (McMichael 2008) is at the same time approximating a food-for-fuel regime. Through the lens of food regime analysis, the rush to agrofuels[1] can be seen to be the ultimate demystification of capitalism's subjection of food to the commodity form: deepening the abstraction of food through its conversion to fuel, at the continuing expense of the environment.

Recognition of the contribution of agrofuels to the 2008 food crisis,[2] and the claim that a ton of palm oil produces 33 tons of CO^2 – ten times more per ton than petroleum (Rainforest Action Network 2007), emphasises the socio-ecological impact of agrofuels. Not only do agrofuels substitute fuel crops for food crops, but they are

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also a highly problematic alternative source of energy. As a 'renewable' energy source they represent an attempt to internalise externalities. But, as suggested, they compound capitalism's externalities – in a combination of artificial offsetting of emissions, releasing more carbon from newly cleared land, and exacerbating food insecurity. Heralded as a form of 'ecological modernisation',[3] they have been revealed as a questionable development, especially insofar as they exacerbate the global food crisis, entwined as it is with the climate and energy crises. As such, the agrofuels phenomenon underlines the *breaching* of neoliberal claims to feed the world through the market via a corporate food regime premised on an unsustainable energy-intensive form of agro-industrialisation. The breaching has three dimensions: failure to deliver on these claims, enabling crossover investment from food to fuel crops, and a violation of trust, as feeding the world claims yield to energy security provisioning for a wealthy minority of humanity.

Accordingly, the agrofuels project reflects a material and epistemic crisis – dramatised by UN Human Rights *Rapporteur* Jean Ziegler's claim in October 2007 that biofuels are a 'crime against humanity' (Borger 2008). It is this claim that anticipates the politicisation of biofuels, in their renaming by social movements and critics as 'agrofuels'. … [T]he resort to biofuels as a misguided response to the energy/climate crisis, intensifying the food crisis, is a latent expression of the unravelling of the recent corporate food regime, beginning with its representational crisis (McMichael 2005).

Food Regimes and Development

The distinctiveness of the food regime concept is its attention to the significance of food production and consumption relations across historical periods (Friedmann and McMichael 1989, and see McMichael 2009c). These historical periods have been commonly associated with hegemonic moments in the world capitalist economy (British, US, and institutionalised neoliberalism), embodying specific geo-political relations and modes of capitalist development, and accompanying development ideologies. For example, the difference between the first two periods is often characterised as British 'outer-oriented development' and American 'inner-oriented development' – distinguishing a colonial-imperial mode of development from a nation-centred form of development, respectively. Through these historic projects of rule – from the colonial, through the development, to the globalisation project – the ruling powers in each historical moment constructed a ruling *rationale*, whether it was 'civilisation', 'development', or 'globalisation', respectively. The accomplishment of rule in each moment required the construction of 'subjects', 'citizens', or 'consumers' – each social category serving as the ideal vehicle, and product, of development.

Within these moments, food regimes have underwritten projects of rule, whether via *agricultural social forms* animating particular divisions of labour within and across political boundaries (plantations, family farming on settler frontiers, petro-farming, contract farming and agro-industrial estates), or via the construction and reconstruction of *social diets* as sources of economic and cultural hegemony and political legitimacy. … [I]n each project of capitalist development there has been a distinctive problematic regarding the 'agrarian question'. That is, what is the political-economic role of agriculture (and food) in each regime, and what residual and emergent contradictions drive the rise and decline of each food regime and its associated project of development?

As argued elsewhere, the British-centred regime combined residual and emergent contradictions in its juxtaposition of tropical and temperate agricultures, namely, a colonial division of labour and its initial supply of exotic foods for European consumers alongside an emergent nation-centred division of labour between farm and manufacturing sectors pioneered in the settler states (Friedmann and McMichael 1989). Settler farming continued the colonial practice of agro-exporting, focused now on wheat and meat as staple provisions for a formative European proletariat, via a characteristic colonial monoculture deploying an ecologically destructive form of 'soil mining' in developing specialised wheat frontier and livestock pastures (see Crosby 1986, and Friedmann 1978, 2000). Soil mining represented ecological degradation 'at a distance' during the height of this regime,[4] eventually resulting in a catastrophic 'ecological feedback' (Campbell 2009) in the form of the 1930s dust bowl, and its attendant social unrest (cf. Friedmann 2005). The outcome was a new US-centred food regime, based on agricultural subsidies, commodity stabilisation programs, and petro-farming (Walker 2004). The hallmark of this food regime was its political anchoring in the US farm belt and its agro-industrial form, exported first to Europe through the Marshall Plan, and then to the Third World via the green revolution (an ecological time bomb).

The intensive agricultural methods also had political origins insofar as the agrichemical revolution of the 1950s depended on the conversion of wartime nitrogen production (for bombs) to inorganic fertilizer, which displaced the nitrogen-fixing legumes and manure used previously. Along with mechanisation, the use of inorganic fertilizer increased farm demand for fuel oils, gasoline, and electricity, 'thus increasing agricultural dependence on the energy sector and thereby converting the latter more than ever into a part of agribusiness' (Cleaver 1977, 17). Subsequently, in the name of the UN's Freedom from Hunger campaign (1960), the Food and Agriculture Organization (FAO) provided extension services for the dispersal of surplus inorganic fertilizer across the Third World, deepening agricultural dependence on the energy sector (Cleaver 1977, p. 28), and deepening petro-farming's ecological degradation through soil mining via chemical fertilizer.

While the agrarian question in the initial food regime focused on the political implications of patterns of proletarianisation of European farmers, overdetermined by the international food trade (Kautsky 1988, McMichael 2009a, 290–3), the agrarian question in the second food regime concerned state pacification of First and Third World farmers via public support, land reforms, and technification. The former agrarian question viewed agriculture through the lens of progressive capital subordination as a backdrop to late nineteenth-century revolutionary politics, while the latter agrarian question focused on publicly managed agro-industrialisation for capitalist farmers, and peasantisation through American-style land reforms (Araghi 1995). The combined processes of industrialisation, proletarianisation and unionisation during the waning years of the first food regime, followed by world war and depression, imprinted a nexus of social reform displacing the question of agriculture's trajectory from First World revolutionary politics, even as post-colonial politics played out in Third World peasant insurgency – eventually undercut by repression, land reform and a 'green' revolution (Perkins 1997, Patel 2007) that were central tenets of the postwar development project (McMichael 1996).

Arguably, the agrarian question emerging during the current era of the corporate food regime has evolved as an agrarian question of food. Neither simply a question of the political impact of capital's subordination of landed property, nor of political pacification of struggling farmers and peasants in North and South, today's agrarian question concerns the implications of 'agriculture without farmers',[5] on a world scale (McMichael 2009b, Araghi 2009). While capital and labour relations continue to shape the contours of agrarian transition, the (neoliberal) institutional setting has shifted from a state-centric to a global social landscape. Not only has the scope of the question broadened in an age of increasingly unfettered capital mobility, but also the state system, as a relation of production (Sayer 1987), has been transformed via a combination of privatisation and liberalisation to accommodate transnational capital. This nexus between production *and circulation* relations has been identified by La Vía Campesina as the essence of the early twenty-first century agrarian question in its observation that the 'massive movement of food around the world is forcing the increased movement of people' (2000).

In this statement, dispossession of small producers is linked to the political privileging of capital circuits to enhance market outlets for agro-industrial surpluses and agro-exports. That is, proletarianisation on a world scale for footloose capital is accomplished by agribusiness via a politics of de-peasantisation, expressed in the rise of a global peasant movement (Desmarais 2007, Borras *et al.* 2008). Today's agrarian question is not simply about political tendencies of capitalist development, rather it concerns the politics of constructing the means of 'accumulation by dispossession' (Harvey 2003) in the agrarian sector *for capital in general*, thereby promoting 'food from nowhere' at the expense of landed food cultures and the natural environment (from soils and water through landraces to livestock species). And here is the point: that biofuels constitute another portal through which capital in general can profit from agriculture.

The Twenty-First Century Agrarian Question

In generating a 'planet of slums' (Davis 2006), neoliberal capitalism has inverted the problematic of the original agrarian question. Because of the uncoupling of urbanisation and industrialisation and its attendant socio-spatial consequences (Araghi 2000), the agrarian question becomes less about the classical question – whether depeasantisation strengthens proletarian organisation, and more about the casualisation of labour worldwide (McMichael 1999), and the dismantling of cultures of social reproduction via small farming for the majority of the world's population. As noted elsewhere, the resulting peasant countermovement

> involves developing a praxis premised on a critique of the conditions of global *movement* of capital at this historical moment. It is a class politics with an ethical, historical and ecological sensibility aimed at the machinations of the state system in converting agriculture to a world industry for profit. As such, it concerns questions of rights, social reproduction and sustainability, rather than the questions of teleology, class and accumulation deriving from a productivist understanding of capital and its historical movement. (McMichael 2009b, 308)

To reformulate the agrarian question as a food question is to acknowledge that the politics of agriculture today is less about chronicling transition than about addressing the crisis of small farming across the world. The food sovereignty movement, combining peasant and farm organisations and associated environmental and urban-alliance movements, is the *political* form of this question. The *technical* form is that represented by the World Bank, in its 2008 *World Development Report*, which reveals a renewed interest in agriculture (after a 25-year hiatus in its reports), and in particular in bankrolling the small farmer as a key to enhancing food production.

What is intriguing here is the re-centring of agriculture from both directions: from peasant mobilisation to promote an 'agrarian citizenship', premised on land redistribution and co-operative forms of agro-ecology (Wittman 2009), and from corporate mobilisation, articulated in the Bank's vision of the 'new agriculture': 'led by private entrepreneurs in extensive value chains linking producers to consumers and including many entrepreneurial smallholders supported by their organisations' (World Bank 2007, 8). The Bank's 'new agriculture for development' is governed by market intensification, via publicly subsidised agribusiness: 'The private sector drives the organisation of value chains that bring the market to smallholders and commercial farms' (p. 8).

In its *World Development Report*, the World Bank identifies 'two major regional challenges'. The first, in sub-Saharan Africa, views growth in agricultural productivity as 'vital for stimulating growth in other parts of the economy', and the second, in Asia, focuses on generating 'rural jobs by diversifying into labour-intensive, high-value agriculture linked to a dynamic rural, nonfarm sector' (World Bank 2007, v). The Bank extrapolates future (unsustainable and inequitable) trajectories: 'To meet projected demand, cereal production will have to increase by nearly 50 percent and meat production 85 percent from 2000 to 2030. Added to this is the burgeoning demand for agricultural feedstocks for biofuels ….' (p. 8).

The world market for biofuels is currently centred in Southeast Asia, where Malaysia and Indonesia are the world's largest palm oil producers, supplying about 85 percent of the world market. Meanwhile, Africa, referred to as the 'Green OPEC' because of its vast land reserves, is hosting finance from Brazil, Saudi Arabia and

China, the World Bank, USAID, the European Commission, and private corporations to develop biofuels primarily for export. In other words, while the Bank's *World Development Report* advocates biofuels, cautiously, noting that with current technology they have a marginal impact on energy security in particular countries, it nevertheless characterises them unproblematically as 'agricultural feedstocks' subject to 'burgeoning demand'. That is, biofuels represent a logical extension (under peak oil conditions) of an agro-industrial future, in which small farmers are progressively incorporated into food-fuel value chains premised on global 'agriculture without farmers'. These are the relations of subjection against which the food sovereignty movement mobilises, and through which the twenty-first century agrarian question of food emerges.

Corporate Food Regime Developments

As suggested above, food regimes condition projects of development with residual and emergent contradictions which govern trajectories of subsequent transitions. The corporate food regime is no exception. Bill Pritchard (2009) has argued that the World Trade Organization (WTO) is a hangover from the crisis of the preceding regime, by which he means the WTO emerged as a solution to that regime crisis, but retained some of its mercantilist relations. While his implication is that a 'third food regime' depends on the demise of this institution, arguably the WTO has simultaneously presided over a deepening of agribusiness power as a private regime behind the WTO's multilateral façade (Cutler 2001, Peine 2009, McMichael 2009c). It is this publicly subsidised private regime that has been responsible for constructing the export-oriented 'world farm' (McMichael 2005) around which the new agrarian question revolves. And public subsidies for agribusiness are not going away. In fact this residual contradiction is deepening as a consequence of the combined food and climate crises – which represent the emergent contradictions in the corporate food regime. The most visible aspect of this is the 'global land grab'[6] arising from a combination of *new* mercantilist food security practices, as governments sponsor offshore agriculture to ensure national food security, and offshore investment in land for biofuels production. As suggested, in context of this crisis and the stated misgivings even by authorities[7] still bound to promote biofuels, critics rename them 'agrofuels.'

Assisted by World Bank policy,[8] the land grab is represented as a form of development, insofar as indebted governments in the global South stand to receive foreign investment and hard currency from conversion of their land and forests into agro-export platforms. Biofuels in particular claim a new role in development. In 2001, for instance, President Andrés Pastrana of Colombia sought to lure Malaysian investors for a three million-hectare oil palm project on the grounds that 'progress and social development can reach large areas of Colombia that are ready to join in the cultivation and processing of this primary commodity' (quoted in Escobar 2008, 85).

Echoing the World Bank's challenge to generate employment through rural diversification, Oxfam (2007, 5) concludes in its report, 'Bio-fuelling Poverty', 'Biofuels need not spell disaster for poor people in the South – they should instead offer new market and livelihood opportunities. But the agro-industrial model that is emerging to supply the EU target poses little in the way of opportunities and much in the way of threats'. Oxfam's solution is to propose a set of social principles governing the development of a biofuels industry, one of which is that 'feedstock cultivation does not adversely impact on local communities or indigenous people', without which the EU 'must accept that the ten percent target will not be reached sustainably, and therefore should not be reached at all' (p. 6). The UK Gallagher Report (2008) complements Oxfam's social vision, cautioning against displacing food crops, but noting that alternative energy crops can simultaneously provide new employment and local development opportunities to rural communities.

Arguably, poverty alleviation serves as a proxy for an 'agrofuels project' as a new frontier of green accumulation geared to address the twin problems of peak oil and climate warming. Within the development paradigm, this project gains currency by appealing to an urgent need for alternative, sustainable energy sources. While the criterion of sustainability is open to serious question, and serious abuse, nevertheless it legitimises this project. At the same time, there is a more profound, ontological issue, namely the projection onto the world at large of a development model whose beneficiaries are a minority of the world's population, most of whom consume energy unsustainably, whether they like it or not. In other words, biofuelling poverty, a polite term for the agrofuels project, also means deepening forms of rural dispossession in the name of the market, and on behalf of this minority and its dependence on agribusiness imperialism. It is, perhaps, the apogee of 'global ecology', whereby natural resources are incorporated into a market calculus to sustain unsustainable patterns of profit-making and consumption (cf. Sachs 1993). It is this very incorporation, however, that is revealing the ultimate shortcomings of the development paradigm, and the crisis of the corporate food regime.

The inclusionary reflex – of extending social development to the hinterlands via the biofuel industry – is not without benefits for some (already marginalised rural and forest-dwelling people).[9] And it is important not to assume that many of these people are hapless victims, even when it is clear they have no choice in the matter. But this is not the point – rather it is to consider the cost of such inclusion in normalising a global process of uneven and combined development whose path-dependence undermines future possibility. Part of this process of erasure includes the elimination of tacit ecological knowledges upon which the survival of the human species might depend in the process of reforming our anthropocentric assumptions and practices. This is not to say that pre-industrial peoples, or those with light ecological footprints, are a necessary and sufficient corrective resource to save the planet. Rather, undermining ecological knowledge reinforces capital's attempts to overcome all barriers to accumulation, in particular the conversion of natural processes (and their discursive representation) into value relations.[10]

In acknowledging the environmental shortcomings of biofuels, the UK Gallagher Report (2008, 1) nevertheless proposed continued biofuels production, but only on non-agricultural land because of 'displacement effects':

> Biofuels have been proposed as a solution to several pressing global concerns: energy security, climate change and rural development. This has led to generous subsidies in order to stimulate supply. In 2003 … the European Union agreed to the Biofuels Directive …
>
> Five years later, there is growing concern about the role of biofuels in rising food prices, accelerating deforestation and doubts about the climate benefits. This has led to serious questions about their sustainability …
>
> We have concluded that there is a future for a sustainable biofuels industry but that feedstock production must avoid agricultural land that would otherwise be used for food production. This is, because the displacement of existing agricultural production, due to biofuel demand, is accelerating land-use change, and, if left unchecked, will reduce biodiversity and may even cause greenhouse gas emissions rather than savings. The introduction of biofuels should be significantly slowed until adequate controls to address displacement effects are implemented and are demonstrated to be effective.

The confusion in this report, and statement, is symptomatic of the developmentalist assumption that energy consumption follows an inexorable trend (either because it is political suicide for governments to break this habit, or because of assumptions about the rise of 'Chindia'). It clearly echoes the World Bank's advocacy of a 'new agriculture for development' – a development projection based on extrapolation of current trends in resource consumption. Embedded in these projections is the expectation of access to non-agricultural 'idle lands' for biofuel production. The new development discourse re-values such land as a resource for securing new energy supplies to sustain industrial accumulation at the expense of the value these lands have in both sequestering carbon and sustaining livelihoods of so-called 'marginal peoples'. Economic valorisation of hitherto 'unused' habitat represents an attempt to awaken the potential of idle resources through their development.

[…]

Food Regime Ecology

Renaming biofuels 'agrofuels' not only reminds us of crop land competition and fuel displacing food,[11] but it also signals an ecological consequence whereby biofuel plantations displace biodiversity and, under the current agrofuels project, reproduce and deepen forms of greenhouse gas emission. As Campbell (2009) advocates, food regime analysis requires a political ecological perspective, founded in Marx's concept of the 'metabolic rift'. The concept refers to the separation of social production from its biological foundations and underlies the spatial separation of urban life from rural life as agriculture industrialises (cf. Foster 2000, Moore 2000). This, in turn, depends on manufacturing technologies, whose contribution to the metabolic rift involves expanding inputs of energy and natural resources, and industrial wastes – sometimes recycled today, but largely outside of natural cycles. Fossil fuel dependence is a fundamental consequence of this rift, contributing greatly to carbon emissions, and the associated agrofuels project. However, the metabolic rift is not only about a material transformation of production, with spatial consequences, it is also about an epistemological break (McMichael 2009c).

Following the separation of labour from its means of subsistence via the metabolic rift, productive relations, and social institutions, are increasingly embedded in the market, subordinated to value relations. The point is that *given* the metabolic rift, the ontological priority in social intercourse becomes capitalist value relations. Thus, the conversion of agriculture to a branch of industry privileges capital in its subordination of landed property in the name of value. But, in addition to a methodology that understands capital now as the dominant historical force (Marx 1973), the inversion is in the structure of thought as well, superimposing value relations on our understanding of the historical process. My point is that agrofuels symbolise this ontology, whereby meeting the unsustainable energy needs of a fossil-fuel dependent accumulation process is accomplished by subordinating agriculture to a non-food crop, to maintain value, if not food security. The agrofuels 'gold rush' reveals the one-dimensionality of value relations as embodied in capitalism and its structures of thought. That is, the metabolic rift is not only assuming greater significance in how we analyse the historical moment,[12] but also both its material *and* epistemic consequences need to be overcome. Restoring the social/natural metabolism to promote ecological sustainability will only materialise when we transcend the value calculus through which capital rules the world. Renaming biofuels 'agrofuels' is part of this discursive shift stemming from the crisis of the food regime.

In general, the constraints on the material, and discursive, world assert themselves in a proliferating literature on, and growing public recognition of, 'ecological feedback' – most notably in climate warming. In particular, the literature on biofuels and carbon markets includes a growing scientific challenge to attempts to measure and value emissions via a market-based metric. Analogously, the proliferating food sovereignty movement proposes restoring natural metabolism through social knowledges anchored in agro-ecological practices. Each movement embodies recognition of the inability of modern science and its industrial processes to interpret and manage natural cycles through market mechanisms.

In articulating the development paradigm's new market environmentalism, the EU Energy Commissioner stated in 2006, 'Biofuels are the only known substitute for fossil fuels in transport today. They contribute to our security of energy supply, reduce greenhouse gas emissions and create jobs in rural areas' (quoted in Gilbertson *et al.* 2007, 7). The EU of course has reconciled itself to new targets that can only be met by importing agrofuels from the global South. Accordingly, the UK Climate Change Minister claimed in 2007, 'the global community must as a matter of urgency work towards the development of internationally recognised standards for biomass grown to produce biofuels' (quoted in Gilbertson *et al.* 2007, 13). The subject of certification of course raises questions about how to standardise a sustainable biofuel metric. From a survey, Biofuelwatch claims a 'majority of biofuel industry responses … reject any mandatory safeguards … Many responses suggest that not enough is known about life-cycle greenhouse gas emissions from biofuels, but nonetheless demand government support for rapid market expansion' (quoted in Gilbertson *et al.* 2007, 15).

Ignoring the precautionary principle in this way is doubly problematic, as lack of interest in a sustainable biofuels industry is dwarfed by the lack of concern for longer-term effects of greenhouse gas emissions. Just as carbon emissions from transport have hitherto been omitted from the globalisation ledger – discounting such negative 'externalities' and enabling a false economy – so this false economy is extended by proponents of an agrofuels project. The conversion of rainforests, peatlands, savannas, or grasslands to produce agrofuels in Brazil, Southeast Asia and the US 'creates a "biofuel carbon debt" by releasing 17 to 420 times more CO^2 than the annual greenhouse gas (GHG) reductions these biofuels provide by displacing fossil fuel' (Fargione *et al.* 2008).

The problem of emissions is not simply that in most cases (other than perhaps sugarcane) agrofuels release more than they reduce in substituting for fossil fuel energy. The additional emissions produce side effects, or 'externalities', which are now acknowledged in the scientific community. As the Transnational Institute (2007, 10) reports, 'Much of the evidence presented for agrofuels to reduce greenhouse gas emissions ignores the larger picture of "land use change" (usually deforestation), soil erosion and nitrous oxide emissions'. Nobel Prize winner Paul Crutzen (2007) observes that biofuels raise rather than lower emissions, and from research with colleagues on nitrous oxide emissions from crop fertilisers, he concludes, 'the replacement of fossil fuels by biofuels may not bring the intended climate cooling due to the accompanying emissions of N2O … depending on N content, the use of several agricultural crops for energy production can readily lead to N2O emissions large enough to cause climate warming instead of cooling by "saved fossil CO^2"' (Crutzen *et al.* 2007).

Despite acknowledgement of by-product emissions, there is also recognition that it is difficult to obtain invariant results from emission calculations. Biofuelwatch reports that the few calculations of agrofuel emissions from land use, deforestation and soil organic carbon loss have different methodologies and therefore substantial variation in their results (Gilbertson *et al.* 2007, 36). Servaas Storm (2009, 1020) notes, for example, that 'carbon savings' from offset projects are unmeasurable, because they are based on an unrealised counterfactual. For Larry Lohmann, offsets are a 'fictitious commodity', created by 'deducting what you hope happens from what you guess would have happened' (quoted in Storm 2009, 1020). As Storm notes, lack of verifiability leads to carbon imperialism, turning the South into a 'carbon dump' while sustaining Northern lifestyles. Joan Martinez-Alier (2009) reinforces this by noting that the Kyoto Protocol enabled the North to obtain property rights on carbon sinks in the South and the atmosphere in return for reduced emission targets.

While some argue for ecological restoration over land conversion for agrofuels as more likely to reduce carbon emissions, the point is that measuring emissions accurately for purposes of standardisation is impossible. Thus it was claimed by Berkeley scientists, 'Including incommensurable quantities such as soil erosion and climate change into a single metric requires an arbitrary determination of their relative value' (quoted in Gilbertson *et al.* 2007, 37). And this is the case for attempts to calculate emissions along production chains, as well as life-cycle analysis of emissions from the agrofuel complex. Gilbertson *et al.* (2007, 39) conclude,

> Very few life-cycle greenhouse gas assessments are peer reviewed. There are currently no peer reviewed life-cycle greenhouse gas studies for biodiesel from palm oil, jatropha or soya, and peer review studies on sugar cane ethanol are limited to those looking at energy gains and fossil fuel displacement, rather than total greenhouse gas balances.

Further, the Intergovernmental Panel on Climate Change (IPCC) admits 'CO^2 equivalences' are gross oversimplifications: 'the effects and lifetimes of different greenhouse gases in different parts of the atmosphere are so complex and multiple that any straightforward equation is impossible' (Lohmann 2008, 360). In spite of the focus on getting the calculations as accurate, or comprehensive, as possible, the overriding point is that this controversy over certification methodologies is a proxy for a more significant issue, namely, the cognitive dissonance in attempting to certify via an economic calculus quite incommensurate with an ecological calculus. The incommensurability lies in the difference between a virtual fractionation of carbon units as a standardising means of regulating a carbon-based economy, and the actual interactive complexity of carbon cycles, both natural and 'unnatural'.[13]

One clear form of such interactive complexity is illustrated in the concept of 'positive feedback', used by climate scientists to describe the self-acceleration of climate change. In a new IPCC summary in 2007 the panel notes that 'emission reductions … might be underestimated due to missing carbon cycle feedbacks' (quoted in Monbiot 2007). The likelihood of such feedback is why climate scientists argue that global temperatures should not be allowed to rise more than two degrees above pre-industrial levels – otherwise, by 2040 'living systems on the land will start to release more carbon dioxide than they absorb' (Monbiot 2006, 10). Under these conditions, plants shrivel and trees die, raising temperatures which, with decreasing rainfall (particularly in the tropics), kill more trees and plant life, the metabolism of soil microbes accelerates, releasing more carbon (already occurring in the UK: by the end of the twenty-first century 'the world's soils will eject the manmade carbon they have absorbed over the past 150 years' [Monbiot 2006, 10–1]), permafrost melt in the far north can release methane, and so on. However this phenomenon, otherwise known as the 'nemesis effect', plays out is testimony to the self-organising character of natural cycles.[14]

Climate change emergency policy is in effect a Canute-like attempt to reduce emissions to stem warming and thereby head off 'Gaia's revenge' (Lovelock 2007). But it is likely to fail precisely because of the inability to subordinate ecological relations to a singular economic calculus. The discourse of sustainability has reached perhaps a high point in the recent IAASTD Report (2008), which is critical of industrial agriculture. Stating that 'business as usual is not an option', given the combination of climate, energy, water and food crises, the IAASTD questions industrial agriculture and GM food as the solution to the social and ecological crises associated with global agribusiness, on the grounds that markets fail to adequately value environmental and social harm. The Report also questions the salience of a market-driven approach,[15] and its narrow focus on productivity, versus an integrative view of food, resource and nutritional security, which underlines agriculture's multifunctional contribution to complex social reproduction issues. It advocates policies that 'promote sustainable agricultural practices (e.g. using market and other types of incentives to reward environmental services) [and] stimulate more technology innovation, such as agro-ecological approaches and organic farming to alleviate poverty and improve food security' (IAASTD 2009, 24). Further, the IAASTD recommends that monetary or other incentives for 'performance-based ecological services' recognise

> the importance of the multiple functions of agriculture and creates mechanisms to value and pay for the benefits of resource-conserving ecosystem services provided by sustainable agricultural practices, such as low-input and low-emission production, conservation tillage, watershed management, agroforestry practices, carbon sequestration, biological control and pollination, and conservation of agricultural biodiversity. (p. 24)

This report represents an attempt to straddle the boundary between market and non-market practices. The danger is of course that valuing nature and 'ecological services' performed by producers introduces a 'global values' language that abstracts from local particularities and practical knowledges. In fact, the concept of 'ecosystem services' is a proxy for a 'global ecology' discourse premised on market mitigation,[16] whereby compensation for services is an indirect form of consumption of the environment. Put another way, payment for ecosystem services 'relies on creating market mechanisms that attract investment from areas *requiring* ecosystem services – including maintenance of biodiversity – to areas *providing* these services, e.g., from urban to rural areas, and from the global "north" to the global "south"' (Sullivan 2008). A further danger is that through the economic calculus of scarcity, demand for environmental services increases their market value 'in ways that *out-compete* other forms and practices of value for the landscapes providing them' (Sullivan 2008). Thus a new industry of ecological accounting is born, which, through the development lens, establishes an offset industry (now formalised in the UN program, REDD: Reducing Emissions from Deforestation and Degradation).

A case in point is the Yasuní region in Amazonian Ecuador, where oil reserves are offset by environmental values, and there has been a political standoff regarding whether or not President Correa can obtain carbon credits for preserving the forest. As Adam Ma'anit (2008, 19) notes, 'The real danger is that once a dollar value has been assigned to something as arguably incalculable as a tree, a forest, or yes, even a human life, it allows the bean counters to start comparing costs and benefits. Economists can start to ask, when the price of oil hits $200 a barrel: Does the benefit of extracting a billion barrels of oil outweigh the cost of destroying the Yasuní National Park and the communities of people that live there?' Bean-counting is a powerful discourse, as one commentator views it:

> The carbon dioxide emissions from extracting and burning the oil would be about 375 million tons, and emissions from deforestation would be 172 million a total of 547 millions tons. The World Bank has estimated the abatement cost for carbon dioxide at \$14 to \$20 per ton … The cost to the world to abate these emissions will be between \$1.7bn and \$2.4bn for the extraction and burning, and \$909 m for deforestation, for a total between \$2.6bn and \$3.7bn.
>
> Correa proposes that Ecuador issue bonds for the value of the carbon dioxide emissions avoided by preserving the forest. He promises to park the funds at a neutral bank and only spend them on social development and alternative-energy projects in Ecuador. If a future government of Ecuador decides to exploit the oil, they have to repay the bondholders plus interest.
>
> Preserving Yasuní is a rare win-win situation. The rich world (that created the climate problem) can help mitigate it in a relatively low-cost manner. Ecuador obtains the funds to help grow its relatively poor economy. Far from radical populism, this is economic efficiency at its finest. (Gallagher 2009)

The omission in this argument, beyond the subordination of ecology to a carbon market, is the inability to view this issue spatially and temporally. *Spatially*, a carbon market abstracts from the players' location, and here a seemingly healthy exchange obscures a continuing process of emitting greenhouse gases in or by the 'rich world' elsewhere. And *temporally*, mitigation of this sort does not, under present arrangements and practices, reduce the continuing flow of emissions from fossil fuel use, which will continue to alter climates and compromise forests. Economic efficiency is a chimera insofar as it collapses the incommensurable into commensurable (and virtual) units of supply and demand.

Arguably, such dissonance provides the conditions for the scientific community, including social scientists of the food regime persuasion, to recognise the reductionism of assigning a market value to ecological processes and elaborate an ecologically relevant discourse which would begin to bridge the epistemic rift embodied in the market calculus. Henceforth, food regime analysis and its associated development and agrarian questions can no longer ignore 'ecological feedback'. The climate crisis, the intensification of 'biophysical override' via transgenic technologies (Weis 2007), and the biofuels 'revolution' – all expressions of the food regime, have made sure of this.

Conclusion

This paper has argued that 'agrofuels' represent the crisis of the current food regime insofar as they breach the implicit rules of the neoliberal world order, by which food security is to be guaranteed through corporate stewardship of the global market, as the most durable and efficient allocator of agricultural resources. While 'peak soil' is locked in an embrace with 'peak oil' via chemical agriculture, intensifying climate change, the resort to biofuels is an artificial solution. It is artificial in two senses: first, biofuels (first and second generation) are increasingly recognised as ineffectual in reducing greenhouse gas emissions; and second, biofuels displace food and food producers – revealing the falsity of corporate agriculture's claim to 'feed the world' while an emergent food/fuel complex offers fungible possibilities for profitable investments via alliances between agribusiness, energy, automobile and biotechnology companies, and states (McMichael 2009d). The bait-and-switch tactic, whereby neoliberal shortcomings are papered over with attempts at 'ecological modernisation' via 'internalising externalities' in the agrofuels project, is increasingly recognised as such. It represents the bankruptcy of a development paradigm invested in a market calculus, increasingly exposed by food riots, a burgeoning global food sovereignty movement, and alarming 'ecological feedback'.

Notes

1 Social movement critics rename biofuels *agrofuels* in recognition of their problematic environmental and social consequences, whether first- or second-generation. Cf. Corporate Europe Observatory (2007).
2 'US corn ethanol explains one-third of the rise in the world corn price according to the FAO, and 70 percent according to the IMF. The World Bank estimates that the US policy is responsible for 65 percent of the surge in agricultural prices, and for … the former USDA Chief economist, it explains 60 percent of the price rise' (Berthelot 2008, 27).
3 Cf. Martinez-Alier (2002).
4 Note that ecological degradation characterised the imposition of tropical export agricultures by imperial powers (cf. Davis 2001).
5 This term comes from La Vía Campesina, an international coalition of peasant organizations.
6 See GRAIN (2008). Roughly 20 percent of the global land grab is scheduled for agrofuel crops, which, alongside of projected export food crops, constitute a new investment frontier for food, financial, energy and auto companies (Vidal 2009, 12).
7 E.g. the UK Gallagher Report (2008).
8 The Bank promotes land legislation to enable land sales to foreign investors.
9 Rist *et al.* (2009) note, for example, that oil palm production contributes over 63 percent of smallholder household incomes in two locations in Sumatra, and that there is evidence of oil palm alleviating poverty.
10 For a development of this observation, see Araghi (2010).
11 The World Bank (2007) noted that the 'grain required to fill the tank of a sports utility vehicle with ethanol (240 kilograms of maize for 100 litres of ethanol) could feed one person for a year' (Policy Brief: 'Biofuels: The Promise and the Risks').
12 See for example, Foster (2000), Moore (2000), Clark and York (2005), McMichael (2008) and Wittman (2009).
13 See Lohmann (2006) for an extended discussion of this.
14 Analogously, agrofuels have distinct feedback effects through the mechanism of price as the value-form of capital accumulation. Thus certification schemes, focusing on

'sustainable' agrofuel production, are unable to address 'leakage' or displacement of production elsewhere. As TNI notes, 'Future certified palm oil, for example, might be produced from land deforested several years previously, while forest continues to be cleared for palm oil *for other markets*' (2007, 31, emphasis added).

15 The IAASTD emphasises that reinventing 'agriculture' requires experts in agricultural knowledge, science and technology to work with local farmers, and other professionals such as social and health scientists, governments and civil society.

16 For an extended treatment of this subject see McMichael (2009a).

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Global Cities and Survival Circuits (2002)

Saskia Sassen

When today's media, policy, and economic analysts define globalization, they emphasize hypermobility, international communication, and the neutralization of distance and place. This account of globalization is by far the dominant one. Central to it are the global information economy, instant communication, and electronic markets – all realms within which place no longer makes a difference, and where the only type of worker who matters is the highly educated professional. Globalization thus conceived privileges global transmission over the material infrastructure that makes it possible; information over the workers who produce it, whether these be specialists or secretaries; and the new transnational corporate culture over the other jobs upon which it rests, including many of those held by immigrants. In brief, the dominant narrative of globalization concerns itself with the upper circuits of global capital, not the lower ones, and with the hypermobility of capital rather than with capital that is bound to place.

The migration of maids, nannies, nurses, sex workers, and contract brides has little to do with globalization by these lights. Migrant women are just individuals making a go of it, after all, and the migration of workers from poor countries to wealthier ones long predates the current phase of economic globalization. And yet it seems reasonable to assume that there are significant links between globalization and women's migration, whether voluntary or forced, for jobs that used to be part of the First World woman's domestic role. Might the dynamics of globalization alter the course or even reinscribe the history of the migration and exploitation of Third

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World laborers? There are two distinct issues here. One is whether globalization has enabled formerly national or regional processes to go global. The other is whether globalization has produced a new kind of migration, with new conditions and dynamics of its own.

Global Cities and Survival Circuits

When today's women migrate from south to north for work as nannies, domestics, or sex workers, they participate in two sets of dynamic configurations. One of these is the global city. The other consists of survival circuits that have emerged in response to the deepening misery of the global south.[1]

Global cities concentrate some of the global economy's key functions and resources. There, activities implicated in the management and coordination of the global economy have expanded, producing a sharp growth in the demand for highly paid professionals. Both this sector's firms and the lifestyles of its professional workers in turn generate a demand for low-paid service workers. In this way, global cities have become places where large numbers of low-paid women and immigrants get incorporated into strategic economic sectors. Some are incorporated directly as low-wage clerical and service workers, such as janitors and repairmen. For others, the process is less direct, operating instead through the consumption practices of high-income professionals, who employ maids and nannies and who patronize expensive restaurants and shops staffed by low-wage workers. Traditionally, employment in growth sectors has been a source of workers' empowerment; this new pattern undermines that linkage, producing a class of workers who are isolated, dispersed, and effectively invisible.

Meanwhile, as Third World economies on the periphery of the global system struggle against debt and poverty, they increasingly build survival circuits on the backs of women – whether these be trafficked low-wage workers and prostitutes or migrant workers sending remittances back home. Through their work and remittances, these women contribute to the revenue of deeply indebted countries. "Entrepreneurs" who have seen other opportunities vanish as global firms entered their countries see profit-making potential in the trafficking of women; so, too, do longtime criminals who have seized the opportunity to operate their illegal trade globally. These survival circuits are often complex; multiple locations and sets of actors constitute increasingly far-reaching chains of traders and "workers."

Through their work in both global cities and survival circuits, women, so often discounted as valueless economic actors, are crucial to building new economies and expanding existing ones. Globalization serves a double purpose here, helping to forge links between sending and receiving countries, and enabling local and regional practices to assume a global scale. On the one hand, the dynamics that converge in the global city produce a strong demand for low-wage workers, while the dynamics that mobilize women into survival circuits produce an expanding supply of migrants who can be pushed – or sold – into such jobs. On the other hand, the very technological infrastructure and transnationalism that characterize global industries also enable other types of actors to expand onto the global stage, whether these be money launderers or people traffickers.[2] It seems, then, that in order to understand the extraction from the Third World of services that used to define women's domestic role in the First, we must depart from the mainstream view of globalization.

Toward an Alternative Narrative about Globalization

The spatial dispersal of economic activities and the neutralization of place constitute half of the globalization story. The other half involves the territorial centralization of top-level management, control operations, and the most advanced specialized services. Markets, whether national or global, and companies, many of which have gone global, require central locations where their most complex tasks are accomplished. Furthermore, the information industry rests on a vast physical infrastructure, which includes strategic nodes where facilities are densely concentrated. Even the most advanced sectors of the information industry employ many different types of workplaces and workers.

If we expand our analysis of globalization to include this production process, we can see that secretaries belong to the global economy, as do the people who clean professionals' offices and homes. An economic configuration very different from the one suggested by the concept of an "information economy" emerges – and it is one that includes material conditions, production sites, and activities bounded by place.

The mainstream account of globalization tends to take for granted the existence of a global economic system, viewing it as a function of the power of transnational corporations and communications. But if the new information technologies and transnational corporations can be operated, coordinated, and controlled globally, it's because that capacity has been produced. By focusing on its production, we shift our emphasis to the *practices* that constitute economic globalization: the work of producing and reproducing the organization and management of a global production system and a global marketplace for finance.

This focus on practices draws the categories of place and work process into the analysis of economic globalization. In so broadening our analysis, we do not deny the importance of hypermobility and power. Rather, we acknowledge that many of the resources necessary for global economic activities are not hypermobile and are, on the contrary, deeply embedded in place, including such sites as global cities and export processing zones. Global processes are structured by local constraints, including the work culture, political culture, and composition of the workforce within a particular nation state.[3]

If we recapture the geography behind globalization, we might also recapture its workers, communities, and work cultures (not just the corporate ones). By focusing on the global city, for instance, we can study how global processes become localized in specific arrangements, from the high-income gentrified urban neighborhoods of the transnational professional class to the work lives of the foreign nannies and maids in those same neighborhoods.

Women in the Global City

Globalization has greatly increased the demand in global cities for low-wage workers to fill jobs that offer few advancement possibilities. The same cities have seen an explosion of wealth and power, as high-income jobs and high-priced urban space have noticeably expanded. How, then, can workers be hired at low wages and with few benefits even when there is high demand and the jobs belong to high-growth sectors? The answer, it seems, has involved tapping into a growing new labor supply – women and immigrants – and in so doing, breaking the historical nexus that would have empowered workers under these conditions. The fact that these workers tend to be women and immigrants also lends cultural legitimacy to their non-empowerment. In global cities, then, a majority of today's resident workers are women, and many of these are women of color, both native and immigrant.

At the same time, global cities have seen a gathering trend toward the informalization of an expanding range of activities, as low-profit employers attempt to escape the costs and constraints of the formal economy's regulatory apparatus. They do so by locating commercial or manufacturing operations in areas zoned exclusively for residential use, for example, or in buildings that violate fire and health standards; they also do so by assigning individual workers industrial homework. This allows them to remain in these cities. At its best, informalization reintroduces the community and the household as important economic spaces in global cities. It is in many ways a low-cost (and often feminized) equivalent to deregulation at the top of the system. As with deregulation (for example, financial deregulation), informalization introduces flexibility, reduces the "burdens" of regulation, and lowers costs, in this case of labor. In the cities of the global north – including New York, London, Paris, and Berlin – informalization serves to downgrade a variety of activities for which there is often a growing local demand. Immigrant women, in the end, bear some of the costs.

As the demand for high-level professional workers has skyrocketed, more and more women have found work in corporate professional jobs. These jobs place heavy demands on women's time, requiring long work hours and intense engagement. Single professionals and two-career households therefore tend to prefer urban to suburban residence. The result is an expansion of high-income residential areas in global cities and a return of family life to urban centers. Urban professionals want it all, including dogs and children, whether or not they have the time to care for them. The usual modes of handling household tasks often prove inadequate. We can call this type of household a "professional household without a 'wife,'" regardless of whether its adult couple consists of a man and a woman, two men, or two women. A growing share of its domestic tasks are relocated to the market: they are bought directly as goods and services or indirectly through hired labor. As a consequence, we see the return of the so-called serving classes in all of the world's global cities, and these classes are largely made up of immigrant and migrant women.

This dynamic produces a sort of double movement: a shift to the labor market of functions that used to be part of household work, but also a shift of what used to be labor market functions in standardized workplaces to the household and, in the case of informalization, to the immigrant community.[4] This reconfiguration of economic spaces has had different impacts on women and men, on male-typed and female-typed work cultures, and on male- and female-centered forms of power and empowerment.

For women, such transformations contain the potential, however limited, for autonomy and empowerment. Might informalization, for example, reconfigure certain economic relationships between men and women? With informalization, the neighborhood and the household reemerge as sites for economic activity, creating "opportunities" for low-income women and thereby reordering some of the hierarchies in which women find themselves. This becomes particularly clear in the case of immigrant women, who often come from countries with traditionally male-centered cultures.

A substantial number of studies now show that regular wage work and improved access to other public realms has an impact on gender relations in the lives of immigrant women. Women gain greater personal autonomy and independence, while men lose ground. More control over budgeting and other domestic decisions devolves to women, and they have greater leverage in requesting help from men in domestic chores. Access to public services and other public resources also allows women to incorporate themselves into the mainstream society; in fact, women often mediate this process for their households. Some women likely benefit more than others from these circumstances, and with more research we could establish the impact of class, education, and income. But even aside from relative empowerment in the household, paid work holds out another significant possibility for women: their greater participation in the public sphere and their emergence as public actors.

Immigrant women tend to be active in two arenas: institutions for public and private assistance, and the immigrant or ethnic community. The more women are involved with the migration process, the more likely it is that migrants will settle in their new residences and participate in their communities. And when immigrant women assume active public and social roles, they further reinforce their status in the household and the settlement process.[5] Positioned differently from men in relation to the economy and state, women tend to be more involved in community building and community activism. They are the ones who will likely handle their families' legal vulnerabilities as they seek public and social services. These trends suggest that women may emerge as more forceful and visible actors in the labor market as well.

And so two distinct dynamics converge in the lives of immigrant women in global cities. On the one hand, these women make up an invisible and disempowered class of workers in the service of the global economy's strategic sectors. Their invisibility keeps immigrant women from emerging as the strong proletariat that followed earlier forms of economic organization, when workers' positions in leading sectors had the effect of empowering them. On the other hand, the access to wages and salaries, however low; the growing feminization of the job supply; and the growing feminization of business opportunities thanks to informalization, all alter the gender hierarchies in which these women find themselves.

New Employment Regimes in Cities

Most analysts of postindustrial society and advanced economies report a massive growth in the need for highly educated workers but little demand for the type of labor that a majority of immigrants, perhaps especially immigrant women, have tended to supply over the last two or three decades. But detailed empirical studies of major cities in highly developed countries contradict this conventional view of the postindustrial economy. Instead, they show an ongoing demand for immigrant workers and a significant supply of old and new low-wage jobs that require little education.[6]

Three processes of change in economic and spatial organization help explain the ongoing, indeed growing, demand for immigrant workers, especially immigrant women. One is the consolidation of advanced services and corporate headquarters in the urban economic core, especially in global cities. While the corporate headquarters-and-services complex may not account for the majority of jobs in these cities, it establishes a new regime of economic activity, which in turn produces the spatial and social transformations evident in major cities. Another relevant process is the downgrading of the manufacturing sector, as some manufacturing industries become incorporated into the postindustrial economy. Downgrading is a response to competition from cheap imports, and to the modest profit potential of manufacturing compared to telecommunications, finance, and other corporate services. The third process is informalization, a notable example of which is the rise of the sweatshop. Firms often take recourse to informalized arrangements when they have an effective local demand for their goods and services but they cannot compete with cheap imports, or cannot compete for space and other business needs with the new high-profit firms of the advanced corporate service economy.

In brief, that major cities have seen changes in their job supplies can be chalked up both to the emergence of new sectors and to the reorganization of work in sectors new and old. The shift from a manufacturing to a service-dominated economy, particularly evident in cities, destabilizes older relationships between jobs and economic sectors. Today, much more than twenty years ago, we see an expansion of low-wage jobs associated with growing sectors rather than with declining ones. At the same time, a vast array of activities that once took place under standardized work arrangements have become increasingly informalized, as some manufacturing relocates from unionized factories to sweatshops and private homes. If we distinguish the characteristics of jobs from those of the sectors in which they are located, we can see that highly dynamic, technologically advanced growth sectors may well contain low-wage, dead-end jobs. Similarly, backward sectors like downgraded manufacturing can reflect the major growth trends in a highly developed economy.

It seems, then, that we need to rethink two assumptions: that the post-industrial economy primarily requires highly educated workers, and that informalization and downgrading are just Third World imports or anachronistic holdovers. Service-dominated urban economies do indeed create low-wage jobs with minimal education requirements, few advancement opportunities, and low pay for demanding work. For workers raised in an ideological context that emphasizes success, wealth, and career, these are not attractive positions; hence the growing demand for immigrant workers. But given the provenance of the jobs these immigrant workers take, we must resist assuming that they are located in the backward sectors of the economy.

The Other Workers in the Advanced Corporate Economy

Low-wage workers accomplish a sizable portion of the day-to-day work in global cities' leading sectors. After all, advanced professionals require clerical, cleaning, and repair workers for their state-of-the-art offices, and they require truckers to bring them their software and their toilet paper. In my research on New York and other cities, I have found that between 30 and 50 percent of workers in the leading sectors are actually low-wage workers.[7]

The similarly state-of-the-art lifestyles of professionals in these sectors have created a whole new demand for household workers, particularly maids and nannies, as well as for service workers to cater to their high-income consumption habits. Expensive restaurants, luxury housing, luxury hotels, gourmet shops, boutiques, French hand laundries, and special cleaning services, for example, are more labor-intensive than their lower-priced equivalents. To an extent not seen in a very long time, we are witnessing the reemergence of a "serving class" in contemporary high-income households and neighborhoods. The image of the immigrant woman serving the white middle-class professional woman has replaced that of the black female servant working for the white master in centuries past. The result is a sharp tendency toward social polarization in today's global cities.

We are beginning to see how the global labor markets at the top and at the bottom of the economic system are formed. The bottom is mostly staffed through the efforts of individual workers, though an expanding network of organizations has begun to get involved. (So have illegal traffickers, as we'll see later.) Kelly Services, a Fortune 500 global staffing company that operates in twenty-five countries, recently added a home-care division that is geared toward people who need assistance with daily living but that also offers services that in the past would have been taken care of by the mother or wife figure in a household. A growing range of smaller global staffing organizations offer day care, including dropping off and picking up school-children, as well as completion of in-house tasks from child care to cleaning and cooking. One international agency for nannies and au pairs (EF Au Pair Corporate Program) advertises directly to corporations, urging them to include the service in their offers to potential hires.

Meanwhile, at the top of the system, several global Fortune 500 staffing companies help firms fill high-level professional and technical jobs. In 2001, the largest of these was the Swiss multinational Adecco, with offices in fifty-eight countries; in 2000 it provided firms worldwide with 3 million workers. Manpower, with offices in fifty-nine different countries, provided 2 million workers. Kelly Services provided 750,000 employees in 2000.

The top and the bottom of the occupational distribution are becoming internationalized and so are their labor suppliers. Although midlevel occupations are increasingly staffed through temporary employment agencies, these companies have not internationalized their efforts. Occupations at the top and at the bottom are, in very different but parallel ways, sensitive. Firms need reliable and hopefully talented professionals, and they need them specialized but standardized so that they can use them globally. Professionals seek the same qualities in the workers they employ in their homes. The fact that staffing organizations have moved into providing domestic services signals both that a global labor market has emerged in this area and that there is an effort afoot to standardize the services maids, nannies, and home-care nurses deliver.

Producing a Global Supply of the New Caretakers: The Feminization of Survival

The immigrant women described in the first half of this chapter enter the migration process in many different ways. Some migrate in order to reunite their families; others migrate alone. Many of their initial movements have little to do with globalization. Here I am concerned with a different kind of migration experience, and it is one that is deeply linked to economic globalization: migrations organized by third parties, typically governments or illegal traffickers. Women who enter the migration stream this way often (though not always) end up in different sorts of jobs than those described above. What they share with the women described earlier in this chapter is that they, too, take over tasks previously associated with housewives.

The last decade has seen a growing presence of women in a variety of cross-border circuits. These circuits are enormously diverse, but they share one feature: they produce revenue on the backs of the truly disadvantaged. One such circuit consists in the illegal trafficking in people for the sex industry and for various types of labor. Another circuit has developed around cross-border migrations, both documented and not, which have become an important source of hard currency for the migrants' home governments. Broader structural conditions are largely responsible for forming and strengthening circuits like these. Three major actors emerge from those conditions, however: women in search of work, illegal traffickers, and the governments of the home countries.

These circuits make up, as it were, countergeographies of globalization. They are deeply imbricated with some of globalization's major constitutive dynamics: the formation of global markets, the intensifying of transnational and translocal networks, and the development of communication technologies that easily escape conventional surveillance. The global economic system's institutional support for cross-border markets and money flows has contributed greatly to the formation and strengthening of these circuits.[8] The countergeographies are dynamic and mobile; to some extent, they belong to the shadow economy, but they also make use of the regular economy's institutional infrastructure.[9]

Such alternative circuits for survival, profit, and hard currency have grown at least partly in response to the effects of economic globalization on developing countries. Unemployment is on the rise in much of the developing world; small and medium-sized enterprises oriented to the national, rather than the export, market have closed; and government debt, already large, is in many cases rising. The economies frequently grouped under the label "developing" are often struggling, stagnant, or even shrinking. These conditions have pressed additional responsibilities onto women, as men have lost job opportunities and governments have cut back on social services. In other words, it has become increasingly important to find alternative ways of making a living, producing profits, and generating government revenues, as developing countries have faced the following concurrent trends: diminishing job prospects for men, a falloff in traditional business opportunities as foreign firms and export industries displace previous economic mainstays, and a concomitant decrease in government revenues, due both to the new conditions of globalization and to the burden of servicing debts.[10]

The major dynamics linked to economic globalization have significantly affected developing economies, including the so-called middle-income countries of the global south. These countries have had not only to accommodate new conditions but to implement a bundle of new policies, including structural adjustment programs, which require that countries open up to foreign firms and eliminate state subsidies. Almost inevitably, these economies fall into crisis; they then implement the International Monetary Fund's programmatic solutions. It is now clear that in most of the countries involved, including Mexico, South Korea, Ghana, and Thailand, these solutions have cost certain sectors of the economy and population enormously, and they have not fundamentally reduced government debt.

Certainly, these economic problems have affected the lives of women from developing countries. Prostitution and migrant labor are increasingly popular ways to make a living; illegal trafficking in women and children for the sex industry, and in all kinds of people as laborers, is an increasingly popular way to make a profit; and remittances, as well as the organized export of workers, have become increasingly popular ways for governments to bring in revenue. Women are by far the majority group in prostitution and in trafficking for the sex industry, and they are becoming a majority group in migration for labor.

Such circuits, realized more and more frequently on the backs of women, can be considered a (partial) feminization of survival. Not only are households, indeed whole communities, increasingly dependent on women for their survival, but so too are governments, along with enterprises that function on the margins of the legal economy. As the term *circuits* indicates, there is a degree of institutionalization in these dynamics; that is to say, they are not simply aggregates of individual actions.

Government Debt: Shifting Resources from Women to Foreign Banks

Debt and debt-servicing problems have been endemic in the developing world since the 1980s. They are also, I believe, crucial to producing the new countergeographies of globalization. But debt's impact on women, and on the feminization of survival, has more to do with particular features of debt than with debt *tout court*.

A considerable amount of research indicates that debt has a detrimental effect on government programs for women and children, notably education and health care. Further, austerity and adjustment programs, which are usually implemented in order to redress government debt, produce unemployment, which also adversely affects women[11] by adding to the pressure on them to ensure household survival. In order to do so, many women have turned to subsistence food production, informal work, emigration, and prostitution.[12]

Most of the countries that fell into debt in the 1980s have found themselves unable to climb out of it. In the 1990s, a whole new set of countries joined the first group in this morass. The IMF and the World Bank responded with their structural adjustment program and structural adjustment loans, respectively. The latter tied loans to economic policy reform rather than to particular projects. The idea was to make these states more "competitive," which typically meant inducing sharp cuts in various social programs.

Rather than becoming "competitive," the countries subjected to structural adjustment have remained deeply indebted, with about fifty of them now categorized as "highly indebted poor countries." Moreover, a growing number of middle-income countries are also caught in this debt trap. Argentina became the most dramatic example when it defaulted on $140 billion in debt in December 2001 – the largest ever sovereign default. Given the structure and servicing of these debts, as well as their weight in debtor countries' economies, it is not likely that many of these countries will ever be able to pay off their debts in full. Structural adjustment programs seem to have made this even less likely; the economic reforms these programs demanded have added to unemployment and the bankruptcy of many small, nationally oriented firms.

It has been widely recognized that the south has already paid its debt several times over. According to some estimates, from 1982 to 1998, indebted countries paid four times their original debts, and at the same time their debt increased four times.[13] Nonetheless, these countries continue to pay a significant share of their total revenue to service their debt. Thirty-three of the officially named forty-one highly indebted poor countries paid $3 in debt service to the north for every $1 they received in development assistance. Many of these countries pay more than 50 percent of their government revenues toward debt service, or 20 to 25 percent of their export earnings.

The ratios of debt to GNP in many of the highly indebted poor countries exceed sustainable limits; many are far more extreme than the levels considered unmanageable during the Latin American debt crisis of the 1980s. Such ratios are especially high in Africa, where they stand at 123 percent, compared with 42 percent in Latin America and 28 percent in Asia.[14] Such figures suggest that most of these countries will not get out of their indebtedness through structural adjustment programs. Indeed, it would seem that in many cases the latter have had the effect of intensifying debt dependence. Furthermore, together with various other factors, structural adjustment programs have contributed to an increase in unemployment and in poverty.

Alternative Survival Circuits

It is in this context – marked by unemployment, poverty, bankruptcies of large numbers of firms, and shrinking state resources to meet social needs – that alternative circuits of survival emerge, and it is to these conditions that such circuits are articulated. Here I want to focus on the growing salience of the trafficking of women as a profit-making option and on the growing importance of the emigrants' remittances to the bottom lines of the sending states.

Trafficking, or the forced recruitment and transportation of people for work, is a violation of human, civil, and political rights. Much legislative effort has gone into addressing trafficking: international treaties and charters, U.N. resolutions, and various bodies and commissions have all attempted to put a stop to this practice.[15] Nongovernmental organizations have also formed around this issue.[16]

Trafficking in women for the sex industry is highly profitable for those running the trade. The United Nations estimates that 4 million people were trafficked in 1998, producing a profit of $7 billion for criminal groups.[17] These funds include remittances from prostitutes' earnings as well as payments to organizers and facilitators. In Poland, police estimate that for each woman delivered, the trafficker receives about $700. Ukrainian and Russian women, highly prized in the sex market, earn traffickers $500 to $1,000 per woman delivered. These women can be expected to service fifteen clients a day on average, and each can be expected to make about $215,000 per month for the criminal gang that trafficked her.[18]

It is estimated that in recent years, several million women and girls have been trafficked from and within Asia and the former Soviet Union, both of which are major trafficking areas. The growing frequency of trafficking in these two regions can be linked to increases in poverty, which may lead some parents to sell their daughters to brokers. In the former Soviet republics and Eastern Europe, unemployment has helped promote the growth of criminal gangs, some of which traffic women. Unemployment rates hit 70 percent among women in Armenia, Russia, Bulgaria, and Croatia after the implementation of market policies; in Ukraine, the rate was 80 percent. Some research indicates that need is the major motivation for entry into prostitution.[19]

The sex industry is not the only trafficking circuit: migrant workers of both sexes can also be profitably trafficked across borders. According to a U.N. report, criminal organizations in the 1990s generated an estimated $3.5 billion per year in profits from trafficking migrants. Organized crime has only recently entered this business; in the past, trafficking was mostly the province of petty criminals. Some recent reports indicate that organized-crime groups are creating strategic intercontinental alliances through networks of coethnics in various countries; this facilitates transport, local distribution, provision of false documents, and the like. These international networks also allow traffickers to circulate women and other migrants among third countries; they may move women from Burma, Laos, Vietnam, and China to Thailand, while moving Thai women to Japan and the

United States.[20] The Global Survival Network reported on these practices after it conducted a two-year investigation, establishing a dummy company in order to enter the illegal trade.[21]

Once trafficked women reach their destination countries, some features of immigration policy and its enforcement may well make them even more vulnerable. Such women usually have little recourse to the law. If they are undocumented, which they are likely to be, they will not be treated as victims of abuse but as violators of entry, residence, and work laws. As countries of the global north attempt to address undocumented immigration and trafficking by clamping down on entry at their borders, more women are likely to turn to traffickers to help them get across. These traffickers may turn out to belong to criminal organizations linked to the sex industry.

Moreover, many countries forbid foreign women to work as prostitutes, and this provides criminal gangs with even more power over the women they traffic. It also eliminates one survival option for foreign women who may have limited access to jobs. Some countries, notably the Netherlands and Switzerland, are far more tolerant of foreign women working as prostitutes than as regular laborers. According to International Organization for Migration data, in the European Union, a majority of prostitutes are migrant women: 75 percent in Germany and 80 percent in the Italian city of Milan.

Some women know that they are being trafficked for prostitution, but for many the conditions of their recruitment and the extent of the abuse and bondage they will suffer only become evident after they arrive in the receiving country. Their confinement is often extreme – akin to slavery – and so is their abuse, including rape, other forms of sexual violence, and physical punishment. Their meager wages are often withheld. They are frequently forbidden to protect themselves against AIDS, and they are routinely denied medical care. If they seek help from the police, they may be taken into detention for violating immigration laws; if they have been provided with false documents, there will be criminal charges.

With the sharp growth of tourism over the last decade, the entertainment sector has also grown, becoming increasingly important in countries that have adopted tourism as a strategy for development.[22] In many places, the sex trade is part of the entertainment industry, and the two have grown in tandem. Indeed, the sex trade itself has become a development strategy in some areas where unemployment and poverty are widespread, and where governments are desperate for revenue and hard currency. When local manufacturing and agriculture no longer provide jobs, profits, or government revenue, a once marginal economic wellspring becomes a far more important one. The IMF and the World Bank sometimes recommend tourism as a solution to the troubles of poor countries, but when they provide loans for its development or expansion, they may well inadvertently contribute to the expansion of the entertainment industry and, indirectly, of the sex trade. Because it is linked to development strategies in this way, the trafficking of women may continue to expand in these countries.

Indeed, the global sex industry is likely to expand in any case, given the involvement of organized crime in the sex trade, the formation of cross-border ethnic networks, and the growing transnationalization of tourism. These factors may well lead to a sex trade that reaches out to more and more "markets." It's a worrisome possibility, especially as growing numbers of women face few if any employment options. Prostitution becomes – in certain kinds of economies – crucial to expanding the entertainment industry, and thereby to tourism as a development strategy that will in turn lead to increased government revenue. These links are structural; the significance of the sex industry to any given economy rises in the absence of other sources of jobs, profits, and revenues.

Women, and migrants generally, are crucial to another development strategy as well: the remittances migrant workers send home are a major source of hard-currency reserves for the migrant's home country. While remittances may seem minor compared to the financial markets' massive daily flow of capital, they are often very significant for struggling economies. In 1998, the latest year for which we have data, the remittances migrants sent home topped $70 billion globally. To understand the significance of this figure, compare it to the GDP and foreign currency reserves in the affected countries, rather than to the global flow of capital. For instance, in the Philippines, a major sender of migrants generally and of women for the entertainment industry in particular, remittances were the third largest source of foreign currency over the last several years. In Bangladesh, which sends significant numbers of workers to the Middle East, Japan, and several European countries, remittances totaled about a third of foreign-currency transactions.

Exporting workers is one means by which governments cope with unemployment and foreign debt. The benefits of this strategy come through two channels, one of which is highly formalized and the other a simple by-product of the migration process. South Korea and the Philippines both furnish good examples of formal labor-export programs. In the 1970s, South Korea developed extensive programs to promote the exports of workers, initially to the Middle Eastern OPEC countries and then worldwide, as an integral part of its growing overseas construction industry. When South Korea's economy boomed, exporting workers became a less necessary and less attractive strategy. The Philippine government, by contrast, expanded and diversified its labor exports in order to deal with unemployment and to secure needed foreign-currency reserves through remittances.

The Philippines Overseas Employment Administration (POEA) has played an important role in the emigration of Filipina women to the United States, the Middle East, and Japan. Established by the Filipino government in 1982, POEA organized and supervised the export of nurses and maids to high-demand areas. Foreign debt and unemployment combined to make the export of labor an attractive option. Filipino workers overseas send home an average of almost $1 billion a year. For their parts, labor-importing countries had their own reasons to welcome the Filipino government's policy. The OPEC countries of the Middle East saw in the Filipina migrants an answer to their growing demand for domestic workers following the 1973 oil boom. Confronted with an acute shortage of nurses, a profession that demanded years of training yet garnered low wages and little prestige, the United States passed the Immigration Nursing Relief Act of 1989, which allowed for the importation of nurses. And in booming 1980s Japan, which witnessed rising expendable incomes but marked labor shortages, the government passed legislation permitting the entry of "entertainment workers."

The largest number of migrant Filipinas work overseas as maids, particularly in other Asian countries.[23] The second largest group, and the fastest growing, consists of entertainers, who migrate mostly to Japan. The rapid increase in the number of women migrating as entertainers can be traced to the more than five hundred "entertainment brokers" that now operate in the Philippines outside the state umbrella. These brokers provide women for the Japanese sex industry, which is basically controlled by organized gangs rather than through the government-sponsored program for the entry of entertainers. Recruited for singing and entertaining, these women are frequently forced into prostitution as well.

The Filipino government, meanwhile, has also passed regulations that permit mail-order-bride agencies to recruit young Filipinas to marry foreign men. This trade rapidly picked up pace thanks to the government's organized support. The United States and Japan are two of the most common destinations for mail-order brides. Demand was especially high in Japan's agricultural communities in the 1980s, given that country's severe shortage of people in general and of young women in particular, as the demand for labor boomed in the large metropolitan areas. Municipal governments in Japanese towns made it a policy to accept Filipina brides.

A growing body of evidence indicates that mail-order brides frequently suffer physical abuse. In the United States, the Immigration and Naturalization Service has recently reported acute domestic violence against mail-order wives. Again, the law discourages these women from seeking recourse, as they are liable to be detained if they do so before they have been married for two years. In Japan, foreign mail-order wives are not granted full legal status, and considerable evidence indicates that many are subject to abuse not only by their husbands but by their husbands' extended families as well. The Philippine government approved most mail-order-bride brokers before 1989, but during Corazon Aquino's presidency, the stories of abuse by foreign husbands led the Philippine government to ban the mail-order-bride business. Nonetheless, such organizations are almost impossible to eliminate, and they continue to operate in violation of the law.

The Philippines may have the most developed programs for the export of its women, but it is not the only country to have explored similar strategies. After its 1997–1998 financial crisis, Thailand started a campaign to promote migration for work and to encourage overseas firms to recruit Thai workers. Sri Lanka's government has tried to export another 200,000 workers in addition to the 1 million it already has overseas; Sri Lankan women remitted $880 million in 1998, mostly from their earnings as maids in the Middle East and Far East. Bangladesh organized extensive labor-export programs to the OPEC countries of the Middle East in the 1970s. These programs have continued, becoming a significant source of foreign currency along with individual migrations to these and other countries, notably the United States and Great Britain. Bangladesh's workers remitted $1.4 billion in each of the last few years.[24]

Conclusion

Globalization is not only about the hypermobility of capital and the ascendance of information economies. It is also about specific types of places and work processes. In order to understand how economic globalization relates to the extraction of services from the Third World to fulfill what was once the First World woman's domestic role, we must look at globalization in a way that emphasizes some of these concrete conditions.

The growing immiserization of governments and economies in the global south is one such condition, insofar as it enables and even promotes the migration and trafficking of women as a strategy for survival. The same infrastructure designed to facilitate cross-border flows of capital, information, and trade also makes possible a range of unintended cross-border flows, as growing numbers of traffickers, smugglers, and even governments now make money off the backs of women. Through their work and remittances, women infuse cash into the economies of deeply indebted countries, and into the pockets of "entrepreneurs" who have seen other opportunities vanish. These survival circuits are often complex, involving multiple locations and sets of actors, which altogether constitute increasingly global chains of traders and "workers."

But globalization has also produced new labor demand dynamics that center on the global cities of the north. From these places, global economic processes are managed and coordinated by increasing numbers of highly paid professionals. Both the firms and the lifestyles of these professionals are maintained by low-paid service workers, who are in growing demand. Large numbers of low-wage women and immigrants thus find themselves incorporated into strategic economic sectors in global cities. This incorporation happens directly, as in the case of low-wage clerical and blue collar workers, such as janitors and repair workers. And it happens indirectly, through the consumption practices of high-income professionals, which generate a demand for maids and nannies as well as low-wage workers in expensive restaurants and shops. Low-wage workers are then incorporated into the leading sectors, but under conditions that render them invisible.

Both in global cities and in survival circuits, women emerge as crucial economic actors. It is partly through them that key components of new economies have been built. Globalization allows links to be forged between countries that send migrants and countries that receive them; it also enables local and regional practices to go global. The dynamics that come together in the global city produce a strong demand for migrant workers, while the dynamics that mobilize women into survival circuits produce an expanding supply of workers who can be pushed or sold into those types of jobs. The technical infrastructure and transnationalism that underlie the key globalized industries also allow other types of activities, including money-laundering and trafficking, to assume a global scale.

Notes

1 For more detailed accounts of each of these configurations please see my "Towards a Feminist Analytics of Globalization," in Saskia Sassen, *Globalization and Its Discontents: Essays on the Mobility of People and Money* (New York: The New Press, 1998); and my article, "Women's Burden: Countergeographies of Globalization and the Feminization of Survival," *Journal of International Affairs*, vol. 53, no. 2 (spring 2000) pp. 503–24.

2 In my larger research project, I also focus on a range of liberating activities and practices that globalization enables; for example, some aspects of the human-rights and environmental movements, as well as of the antiglobalization network. In this sense, globalization enables the production of its own countergeographies, some of which are exploitative, others emancipatory.

3 By emphasizing that global processes are at least partly embedded in national territories, such a focus introduces new variables into current conceptions of economic globalization and the shrinking regulatory role of the state. That is to say, new transnational economic processes do not necessarily occur within the global/national spatial duality that many analysts of the global economy presuppose. That duality suggests two mutually exclusive spaces, one beginning where the other ends. National states play a role in the implementation of global economic systems, and this role can assume different forms, depending on the level of development, political culture, and mode of articulation with global processes. By reintroducing the state into our analysis of globalization, we open the way toward examining how this transformed state articulates the gender question. One way in which states have been reconfigured is through the political ascendance of ministries of finance and the decline of departments dealing with social concerns, including housing, health, and welfare.

4 I have developed this at length in *Globalization and Its Discontents*.

5 Pierrette Hondagneu-Sotelo, *Gendered Transitions: Mexican Experiences of Immigration* (Berkeley: University of California Press, 1994); Sarah Mahler, *American Dreaming: Immigrant Life on the Margins* (Princeton, N.J.: Princeton University Press, 1995).

6 Frank Munger, ed., *Laboring Under the Line* (New York: Russell Sage Foundation, 2002); Laurance Roulleau-Berger, ed., *Youth and Work in the Postindustrial City of North America and Europe* (Leiden and New York: Brill, 2002); Hector R. Cordero-Guzman, Robert C. Smith, and Ramon Grosfoguel, eds., *Migration, Transnationalization, and Race in a Changing New York* (Philadelphia: Temple University Press, 2001); see generally for data and sources, Saskia Sassen, *The Global City* (Princeton, N.J.: Princeton University Press, 2001), chapters 8 and 9.

7 For evidence and multiple sources, see Sassen, 2001, chapters 8 and 9.

8 I have argued this for the case of international labor migrations (e.g., Saskia Sassen, *Guests and Aliens* [New York: The New Press, 1999]). See also Max Castro, ed., *Free Markets, Open Societies, Closed Borders?* (Berkeley: University of California Press, 2000); and Frank Bonilla, Edwin Melendez, Rebecca Morales, and Maria de los Angeles Torres, eds., *Borderless Borders* (Philadelphia: Temple University Press, 1998).

9 Once there is an institutional infrastructure for globalization, processes that have previously operated at the national level can scale up to the global level, even when they do not need to. This phenomenon contrasts with processes that are by their very nature global, such as the network of financial centers underlying the formation of a global capital market.

10 In many of these countries, a large number of firms in traditional sectors oriented to the local or national market have closed, and export-oriented cash crops have increasingly often replaced survival agriculture and food production for local or national markets.

11 See Michel Chossudovsky, *The Globalisation of Poverty* (London: Zed/TWN, 1997); Guy Standing, "Global Feminization Through Flexible Labor: A Theme Revisited," *World Development*, vol. 27, no. 3 (1999), pp. 583–602; Aminur Rahman, "Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?" *World Development*, vol. 27, no. 1 (1999), pp. 67–82; Diane Elson, *Male Bias in Development*, 2nd ed. (Manchester, 1995). For an excellent overview of the literature on the impact of the debt on women, see Kathryn Ward, "Women and the Debt," paper presented at the Colloquium on Globalization and the Debt, Emory University, Atlanta (1999). On file with author.

12 On these various issues, see Diana Alarcon-Gonzalez and Terry McKinley, "The Adverse Effects of Structural Adjustment on Working Women in Mexico," *Latin American Perspectives*, vol. 26, no. 3 (1999), 103–17; Claudia Buchmann, "The Debt Crisis, Structural Adjustment and Women's Education," *International Journal of Comparative Studies*, vol. 37, nos. 1–2 (1996), pp. 5–30; Helen I. Safa, *The Myth of the Male Breadwinner: Women and Industrialization in the Caribbean* (Boulder, Colo.: Westview Press, 1995); Nilufer Cagatay and Sule Ozler, "Feminization of the Labor Force: The Effects of Long-term Development and Structural Adjustment," *World Development*, vol. 23, no. 11 (1995), pp. 1883–94; Erika Jones, "The Gendered Toll of Global Debt Crisis," *Sojourner*, vol. 25, no. 3, pp. 20–38; and several of the references cited in the preceding footnotes.

13 Eric Toussaint, "Poor Countries Pay More Under Debt Reduction Scheme?" (July 1999), www.twnside.org.sg/title/1921-cn.htm. According to Susan George, the south has paid back the equivalent of six Marshall Plans to the north (Asoka Bandarage, *Women, Population, and Crisis* [London: Zed, 1997]).

14 The IMF asks HIPCs to pay 20 to 25 percent of their export earnings toward debt service. In contrast, in 1953 the Allies canceled 80 percent of Germany's war debt and only insisted on 3 to 5 percent of export-earnings debt service. These general terms were also evident as Central Europe emerged from communism. For one of the best critical examinations of globalization, see Richard C. Longworth, *Global Squeeze: The Coming Crisis for First World Nations* (Chicago: Contemporary Books, 1998).

15 See Janie Chuang, "Redirecting the Debate over Trafficking in Women: Definitions, Paradigms, and Contexts," *Harvard Human Rights Journal*, vol. 10 (winter 1998). Trafficking has become sufficiently recognized as an issue that it was addressed in the G8 meeting in Birmingham in May 1998, a first for the G8 (*Trafficking in Migrants*, International Office of Migration quarterly bulletin, Geneva: IOM, 1998). The heads of the eight major industrialized countries stressed the importance of cooperating against international organized crime and people trafficking. President Clinton issued a set of directives to his administration in order to strengthen efforts against trafficking in women and girls. This in turn generated a legislative initiative by Senator Paul Wellstone, which led to a Senate bill in 1999. (For a good critical analysis, see Dayan, "Policy Initiatives in the U.S. against the Illegal Trafficking of Women for the Sex Industry," Department of Sociology, University of Chicago, 1999, on file with the author).

16 The Coalition Against Trafficking in Women has centers and representatives in Australia, Bangladesh, Europe, Latin America, North America, Africa, and Asia Pacific. The Women's Rights Advocacy Program has established the Initiative Against Trafficking in Persons to combat the global trade in persons. Other organizations are referred to throughout this article.

17 See, generally, the Foundation Against Trafficking in Women (STV) and the Global Alliance Against Traffic in Women (GAATW). For regularly updated sources of information on trafficking, see http://www.hrlawgroup.org/site/programs/traffic.html. See also Sietske Altink, *Stolen Lives: Trading Women into Sex and Slavery* (New York: Harrington Park Press, 1995); Kamala Kempadoo and Jo Doezema, *Global Sex Workers: Rights, Resistance, and Redefinition* (London: Routledge, 1998); Susan Shannon, "The Global Sex Trade: Humans as the Ultimate Commodity," *Crime and Justice International* (May 1999), pp. 5–25; Lap-Chew Lin and Wijers Marjan, *Trafficking in Women, Forced Labour and Slavery-like Practices in Marriage, Domestic Labour and Prostitution* (Utrecht: Foundation Against Trafficking in Women [STV], and Bangkok: Global Alliance Against Traffic in Women [GAATW], 1997); Lin Lim, *The Sex Sector: The Economic and Social Bases of Prostitution in Southeast Asia* (Geneva: International Labor Office, 1998).

18 For more detailed information, see the STV-GAATW reports; IOM 1996; CIA, "International Trafficking in Women to the United States: A Contemporary Manifestation of Salvery and Organized Crime," prepared by Amy O'Neill Richard (Washington, D.C.: Center for the Study of Intelligence, 2000).

19 There is also a growing trade in children for the sex industry. This has long been the case in Thailand, but it is now present in several other Asian countries, eastern Europe, and Latin America.

20 There are various reports on trafficking routes. Malay brokers sell Malay women into prostitution in Australia. Women from Albania and Kosovo have been trafficked by gangs into prostitution in London. Teens from Paris and other European cities have been sold to Arab and African customers; see Susan Shannon, "The Global Sex Trade: Humans as the Ultimate Commodity," *Crime and Justice International* (May 1999), pp. 5–25.

21 See Global Survival Network, "Crime and Servitude: An Expose of the Traffic in Women for Prostitution from the Newly Independent States."

22 Nancy A. Wonders and Raymond Michalowski, "Bodies, Borders, and Sex Tourism in a Globalized World: A Tale of Two Cities – Amsterdam and Havana," *Social Problems*, vol. 48, no. 4 (2001), pp. 545–71. See also Dennis Judd and Susan Fainstein, *The Tourist City* (New Haven: Yale University Press, 1999).

23 Brenda Yeoh, Shirlena Huang, and Joaquin Gonzalez III, "Migrant Female Domestic Workers: Debating the Economic, Social and Political Impacts in Singapore," *International Migration Review*, vol. 33, no. 1 (1999), pp. 114–136; Christine Chin, "Walls of Silence and Late 20th-Century Representations of Foreign Female Domestic Workers: The Case of Filipina and Indonesian Houseservants in Malaysia," *International Migration Review*, vol. 31, no. 1 (1997), pp. 353–85; Noeleen Heyzer, *The Trade in Domestic Workers* (London: Zed Books, 1994).

24 Natacha David, "Migrants Made the Scapegoats of the Crisis," *ICFTU Online* (International Confederation of Free Trade Unions, 1999). www.hartford-hwp.com/archives/50/012.html

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What Makes a Miracle: Some Myths about the Rise of China and India (2008)

Pranab Bardhan

After more than a century of relative stagnation, the economies of India and China have been growing at remarkably high rates over the past 25 years. In 1820 the two countries contributed nearly half of the world's income; by 1950, with the industrialized West having pulled away, their share had fallen to less than one-tenth. Today it is just less than one-fifth, and projections suggest that by 2025 it will rise to one-third….

The consequences of this expansion are extraordinary. The Chinese economy in particular has made the most headway against poverty in world history, with hundreds of millions of people moved out of the most extreme poverty within just a generation. (The environmental consequences are comparably remarkable, though perhaps proportionately disastrous).

What explains this strikingly rapid growth? The answer that continues to dominate public discussion in the United States runs along the following lines: decades of socialist controls and regulations stifled enterprise in India and China and led them to a dead end. A mix of market reforms and global integration finally unleashed their entrepreneurial energies. As these giants shook off their "socialist slumber," they entered the "flattened" playing field of global capitalism. The result has been high economic growth in both countries and correspondingly large declines in poverty.

While India's performance has been substantial, China's has been truly dramatic. The particularly dramatic Chinese performance (like the earlier economic "miracles" in South Korea, Taiwan, and Singapore) suggests, in the dominant narrative,

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that authoritarianism may be better than democracy for development – at least in its early stages. Regional economic decentralization provided local autonomy and incentives, and, even without democracy, led to broad-based local development. But the narrative warns that global capitalism has brought rising inequality, more in China than in India. The idea is that this may portend serious trouble for Chinese political stability, as China does not have the capability of democratic India to let off the steam of inequality-induced discontent.

This story contains a few elements of truth and provides many comforts to our preconceptions. But through sheer repetition it has acquired an authority that does not withstand scrutiny.

Start with the claim that global integration and associated market reforms resulted in high growth, which in turn produced dramatic declines in extreme poverty. Applied to China, the timing simply does not fit. China has indeed made large strides in foreign trade and investment since the 1990s, but well before then, say between 1978 and 1993, the country had already achieved an average annual growth rate of about nine percent – even higher than the impressive seven percent growth rate in East Asia between 1960 and 1980.

China's poverty-reduction storyline is similarly flawed. While expansion of exports of labor-intensive manufactures lifted many people out of poverty over the past decade, the principal reason for the dramatic decline over the past three decades may lie elsewhere. World Bank estimates suggest that two-thirds of the decline in extremely poor people (those living below the admittedly crude poverty line of one dollar a day per capita at 1993 international parity prices) between 1981 and 2004 had taken place by the mid-1980s. Much of the extreme poverty was concentrated in rural areas, and its large decline in the first half of the 1980s may have been principally the result of domestic factors that have little if anything to do with global integration: a spurt in agricultural growth following de-collectivization, in which output increased at 7.1% per year on average between 1979 and 1984, almost triple the 1970–78 rate; a land reform program, involving a highly egalitarian distribution of land-cultivation rights subject only to differences in regional average and family size, which provided a floor for rural income; and increased farm procurement prices.

As for India, market reforms may not be mainly responsible for its recent high growth. Reform has clearly made the Indian corporate sector more vibrant and competitive, but most of the Indian economy lies outside the corporate sector; for example, 93 percent of the labor force works outside the corporate sector, private or public.

Take the fast-growing service sector, where India's IT-enabled services have acquired a global reputation while employing less than a quarter of one percent of the total Indian labor force. Service subsectors like finance, business services (including those IT-enabled services), and telecommunication, where reform may have made a significant difference, constitute only about a quarter of total service-sector output. Two-thirds of service output is in traditional or "unorganized" activities, in tiny enterprises often below the policy radar and unlikely to have been directly much affected by regulatory or foreign trade policy reforms. It is a matter of some dispute how much of the growth in traditional services (mostly non-traded) can be explained by a rise in service demand in the rest of the economy, and how much of it is a statistical artifact, since the way output is measured in these traditional services has been rather shaky all along.

As for poverty, the latest Indian household survey data suggest that the rate of decline, if anything, slowed somewhat in 1993–2005 – the period of global integration – compared with the '70s and '80s. Moreover, some non-income indicators of poverty such as those relating to child health, already rather dismal, have hardly improved in recent years. (For example, the percentage of underweight children in India is much larger than in sub-Saharan Africa and has not changed much in the past decade or so). Growth in agriculture, where much of the poverty is concentrated, has declined somewhat over the past decade, largely because of the decline of public investment in rural infrastructure such as irrigation. Little of this has much to do with globalization. Indeed, some disaggregated studies across districts in India have found trade liberalization slowing down the decline in rural poverty. Such results may indicate the difficulty displaced farmers and workers have had adjusting to new activities and sectors due to various constraints such as minimal access to credit, information, or infrastructural facilities like power and roads; the high-school-dropout rate; and labor market rigidities – even as new opportunities are opened up by globalization.

The pace of poverty reduction in India has been slower than that in China not simply because Chinese growth has been faster, but also because the same one percent growth rate reduces poverty in India by much less, thanks largely to higher wealth inequalities (particularly in land and education). The Gini coefficient (a standard statistical measure of inequality, with a value of one indicating extreme inequality and zero indicating perfect equality) of land distribution in rural India was 0.74 in 2003; the corresponding figure in China was 0.49 in 2002. To a large extent this difference reflects a higher proportion of landless and near-landless people in India. In addition, educational inequality in India is among the worst in the world. According to the *World Development Report 2006,* the Gini coefficient of the distribution of adult schooling years in the population was 0.56 in India in 1998/2000, which is not only higher than China's 0.37 in 2000, but even higher than almost all Latin American countries. To a large extent, this indicator reflects the high number of illiterate and near-illiterate people relative to the rest of the population in India.

The storyline about China and India's "socialist slumber" is equally suspect. China and India have become poster children for market reform and globalization in much of the financial press, even though both countries' economic policies with regard to privatization, property rights, and deregulation have departed demonstrably from free-market orthodoxy in many ways.

And what about the earlier period? Was it really an utter waste? While socialist control and regulations undoubtedly inhibited initiative and enterprise in both countries, the positive legacy of reforms undertaken in the '70s and '80s cannot be denied, particularly in China's recent pattern of state-controlled capitalist growth.

China's earlier socialist period arguably provided a good launching pad for market reform. That foundation provided wide access to education and health care; highly egalitarian land redistribution that created a rural safety net and thus eased the process of market reform, with all its wrenching disruptions and dislocations; increased female labor participation and education that enhanced women's contribution to economic growth; and a system of regional economic decentralization (that linked the career paths of Communist Party officials to local area performance). County governments were in charge of production enterprises long before Deng Xiaoping's economic reforms set in, and, even more significantly, the earlier commune system's production brigades evolved into the highly successful township and village enterprises that led the later phenomenal rise of rural industrialization.

In all these respects China's legacy from the earlier period has been much more distinctive than that in India. When I grew up in India, I used to hear leftists say that the Chinese were better socialists than us. Now I am used to hearing that the Chinese are better capitalists than us. I tell people, only half-flippantly, that the Chinese are better capitalists now because they were better socialists then!

The earlier period's legacy in both countries is also evident in the cumulative effect of the state's active role in technological development. It is often overlooked that the Chinese have succeeded in international markets with more than simple labor-intensive products such as clothing, toys, shoes, and wigs. Both China and India (but China more so) have succeeded in exporting more sophisticated products than is usual in countries in their respective per capita income ranges: China, in consumer electronics, including computers and other information- and communication-technology-related goods, and auto parts; India, in software, pharmaceuticals, vehicles, steel, and auto parts. This performance is remarkable (though more in gross value of exports than in value-added terms, as some of the components and technology used in production are acquired from abroad) and is due primarily to sizeable skill and technological bases, enriched over the years of "socialist slumbering" by indigenous learning-by-doing and nurtured by government policies of building domestic capability – sometimes at the expense of static resource allocation efficiency.

Of course, there are many cases in which protection from foreign competition sheltered massive inefficiency. But the overall storyline is by no means so simple. Consider auto parts. For many decades both countries practiced protection of "local content" (of components) in automobiles, contrary to the orthodox free-trade policy prescription. As a result workers in the auto parts industry acquired skills necessary to compete successfully in the global economy and have now reached international best practice.

What about democracy's role in economic growth? The much more dramatic success of China (and, earlier, that of other East Asian countries under authoritarian regimes) compared with India does not in any way prove the superiority of authoritarianism over democracy in matters of development. Authoritarianism is neither necessary nor sufficient for development. That it is not necessary is illustrated not only by today's developed countries, but by scattered cases of recent development success: Costa Rica, Botswana, and now India. That it is not sufficient is amply evident from disastrous authoritarian regimes in Africa and elsewhere.

The relationship between democracy and development is much more complex than the conventional wisdom suggests. Even if we were not to value democracy for its own sake (or regard it as an integral part of development by definition), and looked at it in a purely instrumental way, democracy has at least four advantages from the point of view of development. Democracies are better able to avoid catastrophic mistakes, (such as China's Great Leap Forward and the ensuing great famine that killed nearly thirty million people, or its Cultural Revolution, which may have resulted in the largest destruction of human capital in history) and have greater healing powers after difficult times. Democracies also experience more intense pressure to share the benefits of development, thus making it sustainable, and provide more scope for popular movements against industrial fallout such as environmental degradation. In addition, they are better able to mitigate social inequalities (especially acute in India) that act as barriers to social and economic mobility and to the full development of individual potential. Finally, democratic open societies provide a better environment for nurturing the development of information and related technologies, a matter of some importance in the current knowledge-driven global economy. Intensive cyber-censorship in China may seriously limit future innovations in this area.

All that said, India's experience suggests that democracy can also hinder development in a number of ways. Competitive populism – short-run pandering and handouts to win elections – may hurt long-run investment, particularly in infrastructure, which is the key bottleneck for Indian development. Such political arrangements make it difficult, for example, to charge user fees for roads, electricity, and irrigation, discouraging investment in these areas, unlike in China where infrastructure companies charge full commercial rates. Competitive populism also makes it harder to cut losses resulting from experimentation in industrial policy in India, where retreating from a failed project – with inevitable job losses and bail-out pressures – has electoral consequences that discourage leaders from carrying out policy experimentation in the first place. Finally, democracy's slow decision-making processes can be costly in a world of fast-changing markets and technology.

China is widely, and rightly, acclaimed for its decentralized development: in the 1980s and '90s local industries flourished under the control of local governments and collectives. This aspect of industrialization has largely bypassed India so far, even though important constitutional changes favoring devolution of power to local governments were carried out in the '90s. Of course, decentralization is not always a good thing for development. Some have complained that decentralization in post-Soviet Russia was growth-retarding, as provincial governments were captured by oligarchs, thus legitimizing the subsequent centralization of power by Vladimir Putin. Although egalitarian land reform in China may have helped avert the capture of local institutions by local elites – at least in the initial years of market growth – the problem has plagued regional decentralization in India and Russia.

But even China has had trouble with decentralization in recent years. With local party officials prospering in a reward system that emphasizes local economic performance (with access to profits of local collective enterprises and the power to privatize them), the central government in China is now finding it difficult to rein them in, particularly in matters of land acquisition (where local officials are often in cahoots with local commercial developers), toxic pollution and violation of consumer- product safety regulations (often in collusion with local businesses). The "harmonious society" mantra chanted by the central leadership has not yet succeeded in curbing the capitalist excesses of local business and officialdom. The centralization of tax reform since 1994 has reduced the incentives of the local bureaucracy to serve social needs, particularly in interior provinces. The lack of democratic-accountability mechanisms is, and will continue to be, felt acutely by local populations who face limits both in the types of economic growth they can pursue and in the delivery of social services.

In short, in the absence of democratic devolution, China's much-celebrated regional decentralization may now be a source of much discontent and may undermine the economic growth it has done so much to foster.

A final element of conventional wisdom is that globalization has led to rising inequality, and that inequality-induced grievances, particularly in rural China, cloud the country's political future and hence its economic stability. But the effect of globalization on inequality is difficult to disentangle from that of other ongoing changes (such as skill-biased technical progress due to new information and communication technology), and so the causal link between globalization and inequality is not always clear. Moreover, Chinese provinces with more global exposure and higher growth did not have a greater rise in inequality compared with the other provinces in the interior. Decline in agricultural growth in recent years, in both China and India, may also have something to do with the rise in aggregate inequality, as inequality is significantly lower in agriculture than in other sectors.

As for inequality-induced political instability, a frequently cited fact reported from official police records is that incidents of social unrest have multiplied nearly ninefold between 1994 and 2005. While the Chinese leadership is right to be concerned about inequality, the conventional wisdom in this matter is somewhat askew, as has been pointed out by Harvard sociologist Martin Whyte and his team. Data from their 2004 national representative survey in China show that the presumed disadvantaged in rural or remote areas are not particularly upset by rising inequality. This may be because of the "tunnel effect," a familiar concept in the literature on inequality: when you see other people prospering you are hopeful that your chance will soon come (you are more hopeful in a tunnel when blocked traffic in the next lane starts moving). This is particularly so with the relaxation of restrictions on migration from villages and improvement in roads and transportation. Farmers are more incensed by forcible land acquisitions or the severe environmental damage of land, air, and water than they are by inequality. Chinese leaders have so far succeeded in deflecting the wrath felt toward corrupt local officials and in localizing and containing rural unrest.

It may seem counterintuitive but the potential for unrest is arguably greater in the currently booming urban areas where, along with the breaking of the real estate bubble, a possible global recession could ripple through the excess-capacity industries and financially-shaky public banks. With a more Internet-connected and vocal middle class, a recent history of massive worker layoffs, and a large underclass of migrants, urban unrest could be more difficult to contain.

When faced with political shocks, the Chinese leadership has a tendency to overreact, suppress information, and act heavy-handedly, unnecessarily exacerbating the problem. Still, China now has a very strong economy, which can act as a cushion, and provide more financial resources for assuaging local grievances.

Chinese and Indian economic performance has been far better in the last quarter-century than in the previous two hundred years – and this is one of the striking events in the recent history of the international economy. Other countries must adjust to this reality, and learn to treat the partial restoration of the earlier global importance of these two countries as an opportunity for trade, investment, and exchange of ideas, not as a threat. (We also need to work in tandem with them on the environment.) But we must remember that the story of their rise is more complicated and nuanced than standard accounts make out. That more complex story includes the positive legacy of China and India's earlier statist periods, which offers general lessons for the process of development much too often ignored.

25

Foreign Aid (2006)

Steven Radelet*

Introduction

Controversies about aid effectiveness go back decades. Critics such as Milton Friedman (1958), Peter Bauer (1972) and William Easterly (2001) have leveled stinging critiques, charging that aid has enlarged government bureaucracies, perpetuated bad governments, enriched the elite in poor countries, or just been wasted. They cite widespread poverty in Africa and South Asia despite four decades of aid starting in the 1960s, and point to countries that have received substantial aid yet have had disastrous records such as the Democratic Republic of the Congo, Haiti, Papua New Guinea and Somalia. In their eyes, aid programs should be dramatically reformed, substantially curtailed or eliminated altogether.

Supporters counter that these arguments, while partially correct, are overstated. Nicholas Stern (2002), Joseph Stiglitz (2002), Jeffrey Sachs et al. (2004) and others have argued that although aid has sometimes failed, it has supported poverty reduction and growth in some countries and prevented worse performance in others. They believe that many of the weaknesses of aid have more to do with donors than recipients, and point to a range of successful countries that have received significant aid such as Botswana, Indonesia, Korea and, more recently, Tanzania and Mozambique, along with successful initiatives such as the Green Revolution, the campaign against river blindness, and the introduction of oral rehydration therapy.

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This chapter explores trends in aid, the motivations for aid, its impacts, and debates about reforming aid. It begins by examining aid magnitudes and who gives and receives aid. It discusses the multiple motivations and objectives of aid, some of which conflict with each other. It then explores the empirical evidence on the relationship between aid and growth, most (but far from all) of which concludes there is a positive relationship (at least under certain circumstances). It examines some of the key challenges in making aid more effective, including the principal–agent problem and the related issue of conditionality, and concludes by examining some of the main proposals for improving aid effectiveness.

Donors and Recipients

What Is Foreign Aid?

The standard definition of foreign aid comes from the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD), which defines foreign aid (or the equivalent term, foreign assistance) as financial flows, technical assistance and commodities that are: (1) designed to promote economic development and welfare as their main objective (thus excluding aid for military or other non-development purposes); and (2) provided as either grants or subsidized loans.

Grants and subsidized loans are referred to as concessional financing, whereas loans that carry market or near-market terms (and therefore are not foreign aid) are non-concessional financing.[1] According to the DAC, a loan counts as aid if it has a 'grant element' of 25 percent or more, meaning that the present value of the loan must be at least 25 percent below the present value of a comparable loan at market interest rates (usually assumed by the DAC – rather arbitrarily – to be 10 percent with no grace period). Thus, the grant element is zero for a loan carrying a 10 percent interest rate, 100 percent for an outright grant, and something in-between for other loans.

The DAC classifies aid flows into three broad categories. Official development assistance (ODA) is the largest, consisting of aid provided by donor governments to low- and middle-income countries. Official assistance (OA) is aid provided by governments to richer countries with per capita incomes higher than approximately $9000[2] (for example, the Bahamas, Cyprus, Israel and Singapore) and to countries that were formerly part of the Soviet Union or its satellites. Private voluntary assistance includes grants from non-governmental organizations, religious groups, charities, foundations and private companies.

When discussing foreign aid, most people have in mind ODA. Global ODA increased steadily from the 1960s until it reached a peak of $68 billion in 1992, just after the end of the Cold War (Figure 25.1), and then declined sharply to just under $55 billion in 1997. Aid flows began to rebound in the late 1990s following calls for greater debt relief and increased aid to new democracies, and accelerated very sharply after the attacks of 11 September 2001, reaching $120 billion in 2006 (all of

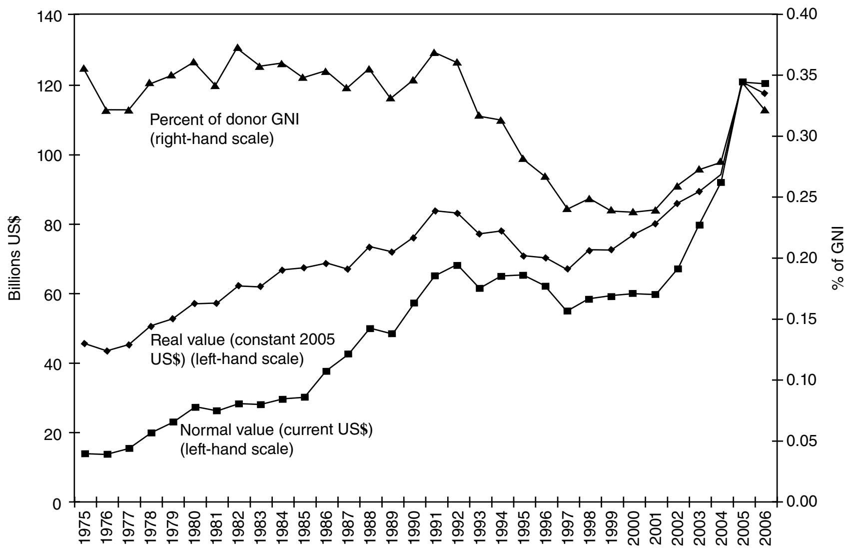

Figure 25.1 *Global ODA 1975–2006* (Source: OECD/DAC 2008).

these figures would be slightly higher if they included OA). In real terms, total ODA in 2002 was about the same as in 1992, and by 2006 was about 15 percent higher. Measured as a share of donor income ODA fell sharply during the 1990s, and has rebounded only slightly. Donors have pledged to continue to increase aid, most recently in July 2005 when the heads of state of the Group of 8 industrialized countries promised to double aid to sub-Saharan Africa by 2010 and triple it by 2015, but growing budget tensions in donor countries may undermine these pledges.

Who Gives Aid, and Who Receives It?

Historically most aid has been given as bilateral assistance directly from one country to another. Donors also provide aid indirectly as multilateral assistance, which pools resources together from many donors. The major multilateral institutions include the World Bank, the International Monetary Fund (IMF), the African, Asian and Inter-American Development Banks, and various United Nations agencies such as the United Nations Development Programme.

In terms of total dollars, the United States has consistently been the world's largest donor (except in the mid-1990s when Japan briefly topped the list). In 2006 the USA provided $22.9 billion in ODA, with Japan, France the United Kingdom, and Germany the next-largest donors. However, when aid is measured as a share of donor income, the most generous donors are Norway, Denmark, Luxembourg, the Netherlands, and Sweden, each of which provided between 0.81–1.02 percent of GNI in 2006. Saudi Arabia provided aid equivalent to about 0.57 percent of its income. The United States is one of the smallest donors by this measure, at about

0.18 percent of US income in 2006, just over half of the 1970 level of 0.32 percent and less than one-third of the US average during the 1960s. Donors have pledged since the 1960s to devote 0.7 percent of their income as aid, most recently at the Financing for Development Conference in Monterrey in March 2002, but only a handful of small donors have achieved this level of aid.

One hundred and forty-five countries and territories around the world received aid in 2006. Table 25.1 shows the ten largest recipients, each of which received more

Table 25.1 Major aid recipients, 2006

	Total ODA (millions US$)
1. Nigeria	11434
2. Iraq	8661
3. Afghanistan	3000
4. Pakistan	2147
5. Sudan	2058
6. Congo, Dem. Rep.	2056
7. Ethiopia	1947
8. Vietnam	1846
9. Tanzania	1825
10. Cameroon	1684
	Aid as % of recipient GNI
1. Solomon Islands	61
2. Tuvalu	58
3. Liberia	54
4. Burundi	53
5. Micronesia, Fed. States	41
6. Afghanistan	36
7. Palestinian Adm. Areas	35
8. Malawi	30
9. Marshall Islands	29
10. Guinea-Bissau	28
	Aid per capita (US$)
1. Palau	1866
2. Mayotte	1777
3. Nauru	1740
4. Cook Islands	1614
5. Tuvalu	1534
6. Marshall Islands	786
7. Palestinian Adm. Areas	426
8. Solomon Islands	409
9. Iraq	304
10. Cape Verde	282

Source: OECD *2007 Development Cooperation Report* and UN Statistics *National Accounts Main Aggregates Database* where GNI information missing.

than $1.8 billion. Nigeria was at the top of the list in 2006, with measured aid of $11.4 billion. But this figure is misleading because it includes $9.5 billion for a one-time debt relief deal. Debt relief is accounted for differently than other components of ODA – the value of debt relief is the charge to the creditor country's budget for writing off the debt in the year of the debt relief, and does not represent new funding to the recipient (although it does capture a future reduction in debt service obligations). Nigeria's actual inflow of new finance in 2006 was $1.9 billion. Iraq and Afghanistan together received nearly $12 billion dollars, nearly unprecedented amounts, accounting for about 10 percent of the global total. Amounts to the other countries shown in Table 25.1 are more typical (by historical standards) for large recipients. Total dollar amounts are important, but they do not tell the entire story. On a per capita basis, the aid flows to some of these countries are fairly small. Vietnam received $1.8 billion in aid in 2004, but this was equivalent to just 3 percent of its gross national income (GNI) or about $22 per person. By contrast, Cameroon received a similar amount, $1.7 billion in 2006, but for its 16.6 million people this was equivalent to about $100 dollars per person. For small countries, a little bit goes a long way. Tiny Solomon Islands received just $205 million, but this translated into 61 percent of GNI and about $409 per person. Aid is typically measured as a share of GNI, but this can be misleading as a high ratio can just as easily be indicative of low GNI as of a large amount of aid.

On a regional basis, sub-Saharan African countries received aid flows of 5.8 percent of GNI in 2006, or $50.2 per person (Table 25.2), although close to one-third of this amount was due to several large one-time debt relief deals that are not new inflows and are not indicative of long-term trends. North Africa and the Middle East received more than $44 per person (largely on account of Iraq), and Europe and Central Asia received about $18 per person. For low-income countries around the world, donors provided aid averaging about $20.2 per recipient in 2006, although once again these figures are inflated by several one-time debt relief deals.

Table 25.2 Official aid receipts by region, 2006

	Billion US$	*% of GNI*	*US$ per person*
Sub-Saharan Africa	38.2	5.8	50.2
South Asia	9.2	0.8	6.1
East Asia & Pacific	7.4	0.2	3.9
Europe & Central Asia	2.6	0.4	17.6
Middle East & North Africa	14.6	2.0	44.0
Latin America & Caribbean	6.0	0.2	11.0
Low-income	47.5	3.1	20.2
Lower-middle income	26.7	0.5	11.0
Upper-middle income	3.7	0.2	10.1

Source: Author's calculations based on data from OECD *2007 Development Cooperation Report* and *World Development Indicators 2007*.

Generally speaking, aid is one of the largest components of foreign capital flows to low-income countries, but not to most middle-income countries, where private capital flows are more important. Aid flows averaged 3.1 percent of GNI in low-income countries in 2004, but just 0.2 percent of GNI in upper-middle-income countries. It is commonly claimed that the decline in aid flows to developing countries in the 1990s was more than offset by a rise in private capital. While this is true for developing countries in aggregate, the rise in private capital flows was heavily concentrated in a handful of middle-income countries. In low-income countries, private capital rose much more slowly, and remained significantly smaller than aid.

Why Do Donors Give Aid?

Donors have a variety of motivations for providing aid, only some of which are directly related to economic development. There is little question that foreign policy and political relationships are the most important determinants of aid flows. During the Cold War, both the United States and the Soviet Union used aid to vie for the support of developing countries with little regard as to whether the aid was actually used to support development. The two largest recipients of US foreign aid (including both OA and ODA) from 1980 until very recently were Israel and Egypt, as the USA provided financial support to back the 1979 Camp David peace agreement. Beginning in 2002 Iraq became the largest aid recipient in the world, and its reconstruction is likely to become the largest single foreign aid program ever recorded. Taiwan and China have used aid (among other policy tools) to try to gain support and recognition for their governments from countries around the world. Many donors provide significant aid to their former colonies as a means of retaining some political influence (Alesina and Dollar, 2000).

Many people see the main rationale for aid as fighting poverty, and although this is less important than political considerations in donor allocation decisions, it still plays an important role. Donors generally provide their most concessional aid to the poorest countries, and some aid programs are designed explicitly with this objective in mind. For example, the World Bank's concessional financing arm – the International Development Association (IDA) – has an income ceiling ($965 per capita in 2004). Once countries reach that ceiling, in most cases they 'graduate' from IDA to non-concessional International Bank for Reconstruction and Development (IBRD) loans. Other programs have less formal graduation rules, but still tend to provide less aid as incomes grow.

Country size matters as well. Large countries, such as Bangladesh, Indonesia, Nigeria and Pakistan receive relatively small amounts of aid on a per capita basis, even though hundreds of millions of people live in poverty in these countries. By contrast, some small countries receive very large amounts. For political reasons, donors generally want to influence as many countries as possible, which tends to lead to a disproportionate amount of aid going to small countries.

Bilateral aid is often designed at least partially to help support the economic interests of certain firms or sectors in the donor country. Multilateral aid is less prone to these pressures, although by no means immune. Many donors 'tie' portions of their aid by requiring that certain goods and services be purchased from firms in the donor's home country, or that it be used for specific purposes that support groups in the donor countries (such as universities or business consulting firms). Automobiles, airline tickets and consulting services financed by USA foreign aid in most cases must be purchased from USA firms. Tying aid can give it more political support at home, but it can also make it more costly and less effective. If funds must be spent in the donor country, it reduces competition for services so that donors do not always use the least-cost provider. For example, the USA requires that food aid be purchased in the USA and shipped in US carriers to recipient countries, which can be much more expensive and take much longer than if food was purchased in a neighboring country. This means that recipients receive much less value for each dollar of aid allocated than they otherwise could. One study found that tying aid added 15–20 percent to its cost, thus significantly reducing its impact on recipient countries. Donors have begun to reduce the amount of aid that they tie, but the practice is still widespread among some donors. The USA no longer reports the share of its aid that is tied, but historically it has been around 75 percent. Greece ties about 70 percent of its aid, and Canada and Austria more than 40 percent. By contrast, Ireland, Norway, and the UK do not tie any of their aid.

Aid, Growth and Development

Most foreign aid is designed to meet one or more of four broad economic and development objectives: (1) to stimulate economic growth through building infrastructure, supporting productive sectors such as agriculture, or bringing new ideas and technologies; (2) to strengthen education, health, environmental or political institutions or systems; (3) to support subsistence consumption of food and other commodities, especially during relief operations or humanitarian crises; or (4) to help stabilize an economy following economic shocks.

Despite these broader objectives for aid, growth has always been the main yardstick used to judge aid's effectiveness. Debate has raged about the relationship between aid and growth for years, but there are some broad parameters of agreement. Even most aid pessimists agree that aid has been successful in some countries (such as in Botswana or Korea, or more recently in Mozambique and Tanzania), that aid has helped improve health by supplying essential medicines, and that aid is an important vehicle in providing emergency relief following natural disasters. Similarly, aid optimists concede that much aid has been wasted or stolen, such as by the Marcos regime in the Philippines and the Duvalier regime in Haiti, and that even under the best circumstances aid can create certain adverse economic incentives. Debate continues on the overall general trends, the conditions under which aid works or does not work, and on what steps can be taken to make aid more effective. Although the majority of research since the mid-1990s has found a positive relationship between aid and growth, several studies have found no relationship. Three broad views have emerged on the relationship between aid and growth.[3]

Aid has a positive relationship with growth on average across countries (although not in every country), but with diminishing returns as the volume of aid increases

There are three key channels through which aid might spur growth:

- First, the classic view is that aid augments saving, finances investment and adds to the capital stock. In this view, poor countries are unable to generate sufficient amounts of saving on their own to finance the investment necessary to initiate growth, or at best only enough for very slow growth. In the strongest version of this view, the poorest countries may be stuck in a poverty trap in which their income is too low to generate the saving necessary to initiate the process of sustained growth (Sachs et al., 2004). A related argument is that aid might help relax a foreign exchange constraint in countries that earn relatively little foreign exchange, a view that was popularized through the early 'two-gap' models of economic growth.
- Second, aid might increase worker productivity through investments in health or education.
- Third, aid could provide a conduit for the transfer of technology or knowledge from rich countries to poor countries by paying for capital goods imports, through technical assistance, or through direct transfer of technologies such as the introduction of new seeds and fertilizers in the Green Revolution.

Several early studies found a positive relationship between aid and growth (for example, Papenek, 1973; Levy, 1988), but this strand of the literature took a significant turn in the mid-1990s when researchers began to investigate whether aid might support growth with diminishing returns. Oddly – given Solow's response to the Harrod–Domar model in the 1950s – research until the mid-1990s only tested a linear relationship, a specification which persists in some studies today. A large group of studies that allow for diminishing returns have found a positive relationship although the direction of causality is a subject of ongoing debate.[4] These studies do not conclude that aid has always worked in every country, but rather that on average and controlling for other factors, higher aid flows have been associated with more rapid growth. These studies have received much less public attention than those that have found a zero or conditional relationship. The robustness of the conclusions of several of these studies has been the subject of ongoing debate, as has the robustness of the conclusions of several studies that have reached the opposite conclusion, as discussed below. But since the mid-1990s the majority of published research on the topic has found a positive relationship either by allowing for diminishing returns, or by testing for conditional relationships as explored below.

Aid could also have a positive impact on development outcomes other than growth, such as health, education or the environment. Perhaps the best-documented area is health, where aid-supported programs have contributed to the eradication of smallpox, the near eradication of polio, control of river blindness and other diseases, the spread of oral rehydration tablets to combat diarrhea, and the dramatic increase in immunization rates in developing countries since 1970 (Levine et al., 2004). A recent cross-country study found a positive and significant relationship between health aid and infant mortality (Mishra and Newhouse, 2007). Undoubtedly, much aid aimed at health has also been squandered. But beyond the examples listed here, there is little systematic evidence on the relationship between aid and health, education, income distribution or other outcomes.

Aid has no effect on growth, and may actually undermine growth

Peter Bauer was perhaps the most outspoken proponent of this view (for example, Bauer, 1972), but he never provided systematic empirical evidence to support his argument. Many later empirical studies did reach this conclusion,[5] although once again the robustness of these results is the subject of on-going debate. These researchers have suggested a variety of reasons why aid might not support growth:

- First, aid simply could be wasted, such as on limousines or presidential palaces, or it could encourage corruption, not just in aid programs but more broadly.
- Second, it can help keep bad governments in power, thus helping to perpetuate poor economic policies and postpone reform. Some argue that aid provided to countries in the midst of war might inadvertently help finance and perpetuate the conflict, and add to instability.
- Third, countries may have limited absorptive capacity to use aid flows effectively if they have relatively few skilled workers, weak infrastructure or constrained delivery systems. (Aid could help redress these weaknesses, but it may not be aimed to do so.)
- Fourth, aid flows can reduce domestic saving, both private saving (through its impact on interest rates) and government saving (through its impact on government revenue).
- Fifth, aid flows could undermine private sector incentives for investment or to improve productivity. Aid can cause the currency to appreciate, undermining the profitability of the production of all tradable goods (known as the Dutch disease). Food aid, if not managed appropriately, can reduce farm prices and hurt farmer income.

The last two points merit further discussion. On aid and saving, while foreign aid adds to total saving (since aid is a form of foreign saving), some studies have shown that a dollar of aid adds less than a dollar to total saving and investment, since domestic savings may fall as aid increases. Some of these studies conclude that aid is ineffective because it 'leaks' to consumption. This approach is not particularly helpful in the aggregate since large portions of aid are in fact designed specifically to directly increase consumption and not investment, including food aid, immunization programs, purchases of textbooks, technical assistance, and the like. Nevertheless, even where aid is aimed at investment, the impact could be partially offset by a reduction in either private saving (through a decline in the rate of return on private investment) or government saving (through a fall in tax revenues). There is a wide range of estimates of the offset effect, but most find that $1 in aid translates to an increase in investment in the range of 33 to 67 cents. Much depends on the particular country, the type of aid, and other factors.

Aid also could undermine incentives for private sector activity. Aid can spur inflation and cause a real appreciation of the exchange rate, which reduces the profitability of production of all tradable goods, creating 'Dutch disease' effects.[6] Aid flows can enlarge the size of the government and related services supporting aid projects, drawing workers and investment away from other productive activities such as agro-processing, garments or footwear exports. To the extent that these tradable activities are a key source of productivity gains, long-term growth may suffer. Similarly, food aid can sometimes undermine local food production if an influx of food drives down prices (it has less adverse impact on production when it displaces food imports).

The empirical studies that have found no relationship between aid and growth have been influential. However, very few published studies have reached that conclusion since the mid-1990s (a recent exception is Rajan and Subramanian, 2005a). Most of those that do use restrictive models that impose constraints such as a linear relationship between aid and growth, ruling out by assumption the possibility of diminishing returns. Most also only examine aggregate aid, imposing the restriction that all aid has a similar impact on growth, which is not particularly realistic, since famine relief, immunization programs and road projects are all likely to have very different impacts on growth.

Aid has a conditional relationship with growth, helping to accelerate growth under certain circumstances

This view holds that aid supports growth in some circumstances but not others, and searches for key characteristics associated with the difference. This 'conditional' strand of the literature has three subcategories, with the effectiveness of aid depending on the characteristics of the recipient country, the practices and procedures of the donors, or the type of activity that the aid supports.

Recipient-country characteristics Isham et al. (1995) found that World Bank projects had higher rates of returns in countries with stronger civil liberties. Burnside and Dollar (2000), in a very influential study, concluded that aid stimulated growth in countries with good policies, but not otherwise. Other researchers have proposed different country characteristics that might affect the aid–growth relationship, including export price shocks, climatic shocks, the terms of trade, macroeconomic and trade policies, institutional quality, warfare, type of government and location in the tropics.[7] All of these studies rely on an interaction term between aid and the variable in question, and (not surprisingly) many of the interaction terms are fragile. Easterly et al. (2004) find that the original Burnside and Dollar results do not hold up to modest robustness checks. Roodman (2007) tests several other 'conditional' studies and find most of them to be relatively fragile, although the conclusions of Dalgaard and Tarp (2004) are more robust.

Nevertheless, the view that aid works better (or in a stronger version, aid works only) in countries with good policies and institutions has become the conventional wisdom among donors, partly based on this research and partly due to development practitioners that believe this to be the case based on their own experience. The appeal of this approach is that it can explain why aid seems to have supported growth in some 'well-behaving' countries but not others. These findings have had an enormous impact on donors (World Bank, 1998). The concept feeds directly into the World Bank's Performance-Based Allocation (PBA) system for distributing concessional IDA funds, and was the foundation for the United States' new Millennium Challenge Account (Radelet, 2003).

Donor practices Many analysts have argued that donor practices strongly influence aid effectiveness. For example, multilateral aid might be more effective than bilateral aid, and 'untied' aid is thought to have higher returns than 'tied' aid, as discussed previously. Many observers argue that donors that have large bureaucracies, do not coordinate with other donors, or have poor monitoring and evaluation systems undermine the effectiveness of their own programs. Two influential and overlapping views argue that aid would be more effective if there were greater 'country ownership' or broader 'participation' among government and community groups in recipient countries in setting priorities and designing programs. There has been substantial debate about these issues, and in some cases these ideas have begun to change donor practices. But to date there has been very little systematic research connecting specific donor practices to aid effectiveness.

Type of aid Different kinds of aid might affect growth in different ways. Clemens et al. (2004) disaggregated aid into types most likely and least likely to affect growth within a few years, if at all. They separated aid into three categories: (1) emergency and humanitarian aid (likely to be negatively associated with growth, since aids tends to increase sharply at the same time growth falls following an economic shock); (2) aid that might only affect growth after a long period of time, if at all, and so the relationship may be difficult to detect (such as aid for health, education, the environment, and to support democracy); and (3) aid that is directly aimed at affecting growth (building roads, ports and electricity generators, or supporting agriculture). It found a strong positive relationship between the third type of aid (about half of all aid) and growth, a result which stood up to a wide variety of robustness checks. As expected, the relationship with the other types was less detectable.

To summarize the aid and growth research, it appears that aid has been successful in some countries but not others. The overall trend is a subject of debate, but most research has found a positive relationship although the direction of causality is not always clear. This research is only beginning to scratch beneath the surface and investigate what types of aid are most effective and the conditions under which aid has the largest impact on growth. Since disputes continue about the determinants of economic growth more broadly, perhaps it is not surprising that the aid–growth relationship continues to be a matter of sharp debate.

Donor Relationships with Recipient Countries

The criticisms about aid have led to debates about how aid programs can be improved to support growth and development more effectively. But the challenge is not easy. Aid programs face some inherent difficulties in trying to achieve a wide range of objectives, provide financial oversight and ensure results.

The Principal–Agent Problem

A key issue facing aid agencies is that there is only an indirect and distant relationship between the people actually providing the financing – taxpayers in donor countries – and the intended ultimate beneficiaries of aid projects – poor people living in low-income countries. In most aid programs, there is a long and complex chain of principal–agent relationships, starting with the taxpayers that delegate authority to elected officials, who in turn become principals that delegate authority to a new set of agents, the heads of aid agencies, which delegate to agency employees, contractors and consultants. In the recipient country, there are similar relationships between citizens, their government and those that actually implement programs. The objectives, incentives and information available to these agents are not always well aligned with the objectives of either the taxpayers or the beneficiaries.

All public sector agencies and many private companies are faced with these principal–agent problems, but the international dimension and physical separation between the original taxpayers and ultimate beneficiaries makes it an even greater challenge for aid.[8] In domestic public programs (such as rubbish collection or local schools) the taxpayers and ultimate beneficiaries are the same people, so they have clearer information about success or failure and can reward or penalize their agents accordingly by reelecting them or voting them out of office. But this feedback loop is broken for aid agencies. Taxpayers cannot tell if their money is well spent, beneficiaries sometimes do not even know about local programs, and each have limited mechanisms for penalties and rewards.

The principal–agent problem affects nearly all aspects of aid delivery including program design, implementation, compensation, incentives, evaluation and allocation of funding. The problem can never be fully solved – private companies face similar issues between owners, managers and employees, as do private aid foundations and charities. The challenge is to design institutions and incentives that mitigate these problems as much as possible to clarify goals, objectives, incentives and rewards. In this regard, one of the key challenges for donors is if, when, and how to apply conditions to their aid, a subject to which we now turn.

Conditionality

Partly as a result of the principal–agent problem, donors often apply conditions on aid programs to encourage recipients to act more in accord with the donors' (and possibly the ultimate beneficiaries') interests. Donor conditions on recipient actions or policies are among the most controversial aspects of aid. Policy conditionality is most often associated with the IMF and World Bank, but all donors use conditions to some extent.

The rationale for economic policy conditions is straightforward: donors believe that certain policies and actions in different countries are important for growth and development, and that without them providing aid is futile. If government policies have led to high rates of inflation, massive inefficiencies and waste of public spending, and extensive corruption, then providing aid – whatever the specific purpose – without requiring fundamental change would provide no benefits and perhaps could perpetuate damage. Some even argue that the primary purpose of aid is not the money, but for aid to act as a lever for the policy reforms.

There are three key problems with conditionality. First, it is not always clear what policy conditions are the most appropriate to ensure sustained growth and development. Development doctrine has swung from a state-led approach in the 1950s and 1960s, to basic human needs in the 1970s, to a macroeconomic approach focused on open markets in the 1980s and 1990s, to a greater focus on institutions beginning in the mid-1990s. As a result, the list of conditions is constantly evolving. Debate has raged for decades about whether specific IMF and World Bank conditions are justifiable and whether they support or hurt stabilization, growth and development. And who should bear the costs if donor-imposed conditions make things worse?

Second, while donors are often criticized for imposing too many conditions, they are almost as often criticized for not imposing enough conditions. Some advocates that criticize the IMF for imposing too much fiscal austerity also insist that it should require governments to spend a minimum amount on health and education. The World Bank is often asked to add conditions to force governments to take specific actions, for example on projects that have potential adverse environmental consequences.

Third, conditionality does not seem to work. Most analysts agree that governments implement reforms only when it is in their interests to do so, and donor conditions have little if any impact on that decision. Many donors continue to disburse aid even when recipients fail to meet conditions, sometimes repeatedly so. Donors are faced with their own internal incentives to continue to disburse aid to support the contractors and recipients that depend on it. They also face a 'Samaritan's dilemma' that withdrawing aid would create short-term pain for the very people it is aimed to help.[9]

The nature of conditionality has changed over time as the most pressing issues have changed and as donors continue to wrestle with the best ways to apply conditions. During the 1980s, most conditions focused on macro-economic issues, trade reforms and privatization, as reflected in IMF and World Bank-sponsored structural adjustment programs. During the 1990s as macroeconomic imbalances improved and following the end of the Cold War, attention shifted to governance, corruption and institution-building. Debate has re-emerged as to whether aid should be conditioned on democratic reforms in recipient countries. Whether governance-focused conditionality is a good idea, or whether it will be more successful than structural and policy conditionalities, remains to be seen.

There are no clear-cut rules for conditionality. Striking the right balance between responsible oversight and accountability on the one hand, and ensuring against high bureaucratic obstacles and the imposition of unnecessary controls or unwarranted policy changes on the other, requires flexibility, judgment and the ability to balance multiple objectives – none of which are easy for aid agencies to achieve.

Improving Aid Effectiveness

The debates about the strengths and weaknesses of aid have led to specific ideas for change, some of which donors have begun to put into practice. Four stand out.

Country selectivity One influential idea is that donors should be more selective about the countries to which they provide aid, based on the view that aid works best in countries with good policies and institutions. In the strongest version, aid should be provided only to countries that meet these criteria. A more moderate view is that more aid should be allocated to countries with stronger policies and institutions, but some aid should be targeted to countries with weaker policies, especially post-conflict countries. This proposal turns the conditionality debate: instead of providing aid to encourage reforms, give it to countries that have already demonstrated a desire to implement key reforms. In the language of the principal–agent problem, donors should spend less time trying to write contracts that force an alignment of incentives and instead give more aid to countries that on their own demonstrate similar motivations and objectives. Some donors have begun to be more 'selective', including the World Bank in the allocation of its concessional IDA funds, some European donors in terms of providing budget support, and the USA with its new Millennium Challenge Account. But since so much aid is allocated for political, security and other foreign policy reasons, there are limits to how far donors are likely to go in this direction.

Recipient participation Many analysts argue that aid has been weakened by donor domination in setting priorities, designing programs and implementing projects, and push for either a more 'country led' approach in which recipient governments take a stronger role, or a 'participatory' approach in which various groups in recipient countries (government, NGOs, charities, the private sector) play a more active role.

The idea is to eliminate some of the problems in the long chain of principal–agent relationships, and more tightly integrate the ultimate beneficiaries in key aspects of the aid delivery process. The World Bank and IMF (by requiring Poverty Reduction Strategy Papers), the Global Fund to Fight AIDS, Tuberculosis and Malaria, and the Millennium Challenge Corporation have all moved towards greater local participation in designing and implementing the programs they finance. This approach is new, so there is no evidence yet on the extent to which (or the circumstances under which) it improves aid effectiveness. There is a clear and inescapable tension between country ownership on the one hand, and donor priorities and conditionality on the other. Donors are more likely to facilitate a participatory approach in countries in which governments show a strong commitment to sound development policies, and less so in countries with corrupt and dictatorial governments.

Harmonization and coordination Managing aid flows from many different donors is a huge challenge for recipient countries, since different donors usually insist on using their own unique processes for initiating, implementing and monitoring projects. Recipients can be overwhelmed by requirements for multiple project audits, environmental assessments, procurement reports, financial statements and project updates. According to the World Bank, developing countries typically work with 30 or more aid agencies across a wide variety of sectors, with each sending an average of five missions a year to oversee their projects.[10] The donors all want to meet with the same top government officials, leaving them with much less time to deal with pressing matters. These concerns have led to numerous suggestions for donors to coordinate their activities more closely, harmonize their systems or 'pool' their funds (Kanbur and Sandler, 1999). But while there has been some progress, the pace of change amongst the donors seems glacial.

Results-based management The emphasis on demonstrating the effectiveness of aid has led to calls for improved monitoring and evaluation and results-based management. In this view, aid programs should aim to achieve very specific quantitative targets, and decisions about renewing or reallocating aid going forward should be based on those results. There are three basic objectives: (1) helping donors allocate funds towards programs that are working; (2) detecting problems at an early stage to help modify and strengthen existing programs; and (3) improving the design of future programs. Stronger monitoring and evaluation would help improve principal–agent relationships so that aid agencies have clearer incentives and taxpayers have better information about the impact of aid on its intended beneficiaries.

Summary and Conclusions

Aid flows fell in the 1990s after the end of the Cold War and aid was widely attacked for being ineffective in spurring growth and development. However, aid began to grow again in the late 1990s and indications are that it will continue to grow throughout the first decade of the twenty-first century, although probably less rapidly than donors have pledged.

Most empirical research on aid and growth conducted since the mid-1990s has found a positive relationship, in contrast to popular perceptions, particularly studies that have allowed for diminishing returns and have controlled for other factors that affect growth. Some studies have found that the aid–growth relationship is conditional on the policy or institutional environment, but many of those results have been fragile. Some studies have concluded that there is no relationship or even a negative one, but while influential, these studies are few in number and tend to use restrictive assumptions. Recent research that has explored how different types of aid might have different impacts on growth has suggested one key reason why earlier research has reached mixed conclusions.

Nevertheless, there is little doubt that aid has been less effective in spurring development than is often expected. Aid can keep bad governments in power for too long, and can undermine incentives for saving, tax collection and private sector production. Aid relationships are made much more difficult by a complex chain of principal–agent problems that weaken information flows, introduce myriad motivations for different actors, and make monitoring and accountability more difficult. Attempts to solve the principal–agent problem through conditionality have not been very successful. The newest wave of reform efforts aims to solve some of the weaknesses of aid and the principal–agent problem through greater donor selectivity in choosing aid recipients, increased recipient participation in setting priorities and designing programs, streamlining aid bureaucracies, increasing donor coordination, and establishing clearer goals for aid and stronger monitoring and evaluation of aid-financed activities. These ideas have been very influential in designing aid programs in recent years, but there is no systematic evidence at this point as to whether these changes will lead to greater aid effectiveness.

Notes

* This chapter draws heavily from Chapter 14 of Perkins et al. *Economics of Development*, 6th edn, 2006 (New York: W.W. Norton & Co.), (used by permission), and from Radelet et al. (2006). I thank Bilal Siddiqi and Sami Bazzi for their research assistance, and Amitava Dutt and Jaime Ros for comments on an earlier draft. I also thank the william and Flora Hewlett Foundation for financial support.

1 Non-concessional loans from donor agencies are counted as part of official development finance, but not as official development assistance.

2 More precisely, assistance to countries with per capita incomes (for three consecutive years) above the World Bank's 'high income' threshold, but the DAC makes some exceptions.

3 This summary draws heavily from the review in Clemens et al. (2004). For another recent review of the literature see Hansen and Tarp (2001).

4 Hadjimichael et al. (1995), Durbarry et al. (1998), Dalgaard and Hansen (2000), Hansen and Tarp (2000, 2001), Lensink and White (2001), Dalgaard and Tarp (2004) and Clemens et al. (2004).

5 Griffin and Enos (1970); Mosley (1980); Mosley et al. (1987); Dowling and Hiemenz (1982); Singh (1985); Boone (1994) and Rajan and Subramanian (2005b).
6 See Younger (1992), Bulir and Lane (2002), Rajan and Subramanian (2005b) and Tressel and Prati (2006).
7 Burnside and Dollar (2000), Collier and Dehn (2001), Guillaumont and Chauvet (2001), Chauvet and Guillaumont (2002), Collier and Dollar (2002), Collier and Hoeffler (2002), and Dalgaard and Tarp (2004).
8 For an excellent discussion of the principal–agent problem in aid programs, see Martens (2004).
9 See for example Easterly (2001), Svensson (2003) and Kanbur (2006).
10 'Cutting the Red Tape', World Bank Development News Media, 21 February 2003, available at http://go.worldbank.org/BD8VODLWO0.

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26

The Globalization Paradox: Democracy and the Future of the World Economy (2011)

Dani Rodrik

The Political Trilemma of the World Economy

In 1990, Argentina couldn't have been in a worse economic mess. In almost perpetual crisis since the seventies, the country reeled under hyperinflation and a crushing debt burden. Incomes had shrunk 25 percent from their levels a decade earlier and private investment had come to a virtual standstill. Prices were rising at unprecedented rates, even by Argentina's demanding standards. In March 1990, inflation, climbed to more than 20,000 percent (on an annualized basis), sowing chaos and confusion. Struggling to cope, Buenos Aires' world-weary residents took refuge in gallows humor. With prices soaring by the minute, they told themselves, at least it had become cheaper to take a cab than a bus. With the cab you paid at the end of the ride instead of the beginning!

Can You Save an Economy by Tying It to the Mast of Globalization?

Domingo Cavallo thought he knew the real problem. For too long, Argentina's governments had changed the rules of the game whenever it suited them. Too much governmental discretion had resulted in a complete loss of confidence in Argentine policy makers. The private sector had responded by withholding its investment and

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fleeing the domestic currency. To restore credibility with domestic and foreign investors, the government needed to commit itself to a clear set of rules. In particular, strict monetary discipline was required to prevent governments from printing money at will.[1]

Cavallo, an economist with a PhD from Harvard, was foreign minister in the administration of President Carlos Menem. He would get the chance to execute his plan when Menem put him in charge of the economy in February 1991. The linchpin of Cavallo's strategy was the Convertibility Law, which legally anchored the Argentine currency to the U.S. dollar at 1 peso per dollar and prohibited restrictions on foreign payments. The Convertibility Law effectively forced Argentina's central bank to operate by gold standard rules. Henceforth the domestic money supply could be increased and interest rates lowered only if dollars were flowing into the economy. If dollars were moving the other way, the money supply would have to be cut and interest rates raised. No more mucking around with monetary policy.

In addition, Cavallo accelerated the privatization, deregulation, and opening up of the Argentine economy. He believed open economy rules and deep integration would reinforce business confidence by precluding discretionary interventions and the hijacking of policy by special interests. With policy on automatic pilot, investors would have little fear that the rules would be changed on them. By the early 1990s, Argentina's record in trade liberalization, tax reform, privatization, and financial reform was second to none in Latin America.

Cavallo envisioned globalization as both a harness and an engine for Argentina's economy. Globalization provided not just discipline and an effective shortcut to credibility in economic policies. It would also unleash powerful forces to propel the economy forward. With lack of confidence and other transaction costs out of the way, foreign capital would flow into the country, allowing domestic investment to rise and the economy to take off. Imports from abroad in turn would force domestic producers to become more competitive and productive. Deep integration with the world economy would solve Argentina's short- and long-term problems.

This was the Washington Consensus taken to an extreme, and it turned out to be right about the short term, but not the long term. Cavallo's strategy worked wonders on the binding constraint of the moment. The Convertibility Law eliminated hyper-inflation and restored price stability practically overnight. It generated credibility and confidence – at least for a while – and led to large capital inflows. Investment, exports, and incomes all rose rapidly. As we saw in chapter Six, Argentina became a poster child for multilateral organizations and globalization enthusiasts in the mid-1990s, even though policies like the Convertibility Law had clearly not been part of the Washington Consensus. Cavallo became the toast of the international financial community.

By the end of the decade, the Argentine nightmare had returned with a vengeance. Adverse developments in the world economy set the stage for an abrupt reversal in investors' views on Argentina. The Asian financial crisis hit the country hard by reducing international money managers' appetite for emerging markets, but the real killer was the Brazilian devaluation in early 1999. The devaluation reduced the value of the Brazilian currency by 40 percent against the dollar, allowing Brazilian exporters to charge much lower dollar prices on foreign markets. Since Brazil is Argentina's chief global competitor, Brazil's cost advantage left the Argentinean peso looking decidedly overvalued. Doubts about Argentina's ability to service its external debt multiplied, confidence collapsed, and before too long Argentina's creditworthiness had slid below some African countries'.

Cavallo's relations with Menem had soured in the meantime and he had left office in 1996. President Fernando de la Rúa, who succeeded Menem, invited Cavallo back to the government in March 2001 in an effort to shore up confidence. Cavallo's new efforts proved ineffective. When his initial tinkering with the trade and currency regime produced meager results, he was forced to resort to austerity policies and sharp fiscal cutbacks in an economy where one worker out of five was already out of a job. He launched a "zero-deficit" plan in July and enforced it with cuts in government salaries, and pensions of up to 13 percent. The financial panic went from bad to worse. Fearing that the peso would be devalued, domestic depositors rushed to pull their money out of banks, which in turn forced the government to limit cash withdrawals.

The fiscal cuts and the restriction on bank withdrawals sparked mass protests. Unions called for nationwide strikes, rioting enveloped major cities, and looting spread. Just before Christmas, Cavallo and de la Rúa resigned in rapid succession.[2] Starved of funds, the Argentinean government was eventually forced to freeze domestic bank accounts, default on its foreign debt, reimpose capital controls, and devalue the peso. Incomes shrunk by 12 percent in 2002, the worst drop in decades. The experiment with hyperglobalization had ended in colossal failure.

What went wrong? The short answer is that domestic politics got in the way of hyperglobalization. The painful domestic economic adjustments required by deep integration did not sit well with domestic constituencies, and politics ultimately emerged victorious.

The Inevitable Clash between Politics and Hyperglobalization

The economic story behind Argentina's economic collapse is fairly straightforward in hindsight. Argentina's policy makers had succeeded in removing one binding constraint – monetary mismanagement – but eventually ran into another – an uncompetitive currency. Had the government abandoned the Convertibility Law or reformed it in favor of a more flexible exchange rate, say in 1996, the confidence crisis that engulfed the country later might have been averted. But Argentina's policy makers were too wedded to the Convertibility Law. They had sold it to their public as the central plank of their growth strategy, making it virtually impossible to step back. Pragmatism would have served the country better than ideological rigidity.

But there is a deeper political lesson in Argentina's experience, one that is fundamental to the nature of globalization. The country had bumped against one of the central truths of the global economy: National democracy and deep globalization are incompatible. Democratic politics casts a long shadow on financial markets and makes it impossible for a nation to integrate deeply with the world economy. Britain had learned this lesson in 1931, when it was forced to get off gold. Keynes had enshrined it in the Bretton Woods regime. Argentina overlooked it.

The failure of Argentina's political leaders was ultimately a matter not of will but of ability. Their commitment to the Convertibility Law and to financial market confidence could not have been doubted. Cavallo knew there was little alternative to playing the game by financial markets' rules. Under his policies, the Argentine government was willing to abrogate contracts with virtually all domestic constituencies – public employees, pensioners, provincial governments, bank depositors – so as not to skip one cent of its obligations to foreign creditors.

What sealed Argentina's fate in the eyes of financial markets was not what Cavallo and de la Rúa were doing, but what the Argentine people were willing to accept. Investors and creditors grew increasingly skeptical that the Argentine Congress, provinces, and ordinary people would tolerate austerity policies long discredited in advanced industrial countries. In the end, the markets were right. When globalization collides with domestic politics, the smart money bets on politics.

Remarkably, deep integration cannot sustain itself even when its requirements and goals are fully internalized by a country's political leadership. For Cavallo, Menem, and de la Rúa, globalization was not a constraint to be respected willy-nilly; it was their ultimate objective. Yet they could not keep domestic political pressure from unraveling their strategy. The lesson for other countries is sobering. If hyperglobalization could not be made to work in Argentina, might it ever work in other settings?

In his ode to globalization, *The Lexus and the Olive Tree*, Tom Friedman famously described how the "electronic herd" – financiers and speculators who can move billions of dollars around the globe in an instant – forced all nations to don a "Golden Straitjacket." This defining garment of globalization, he explained, stitched together the fixed rules to which all countries must submit: free trade, free capital markets, free enterprise, and small government. "If your country has not been fitted for one," he wrote, "it will soon." When you put it on, he continued, two things happen: "your economy grows, and your politics shrink." Since globalization (which to Friedman meant deep integration) does not permit nations to deviate from the rules, domestic politics is reduced to a choice between Coke and Pepsi. All other flavors, especially local ones, are banished.[3]

Friedman was wrong to presume that deep integration rules produce rapid economic growth, as we have already seen. He was also wrong to treat his Golden Straitjacket as an established reality. Few countries' leaders put on the Golden Straitjacket more willingly than Argentina's (who then also threw the keys away for good measure). As the unraveling of the Argentine experiment shows, in a democracy, domestic politics win out eventually. The only exceptions are small nations that are already part of a larger political grouping such as the European Union … When push comes to shove, democracy shrugs off the Golden Straitjacket.

Nevertheless, Friedman's central insight remains valid. There *is* a fundamental tension between hyperglobalization and democratic politics. Hyperglobalization *does* require shrinking domestic politics and insulating technocrats from the demands of popular groups. Friedman erred when he overstated the economic benefits of hyperglobalization and underestimated the power of politics. He therefore overestimated the long-run feasibility, as well as desirability, of deep integration.

When Hyperglobalization Impinges on Democratic Choices

… [O]ne does not have to live in a badly governed developing country ravaged by speculative capital flows to experience the tension on an almost daily basis. The clash between globalization and domestic social arrangements is a core feature of the global economy. Consider a few illustrations of how globalization gets in the way of national democracy.

Labor standards Every advanced economy has detailed regulations that cover employment practices. These regulations dictate who can work, the minimum wage, the maximum hours of work, the nature of working conditions, what the employer can ask the worker to do, and how easily the worker can be fired. They guarantee the worker's freedom to form unions to represent his or her interests and set the rules under which collective bargaining can take place over pay and benefits.

From a classical liberal standpoint, most of these regulations make little sense. They interfere with an individual's right to enter into contracts of his or her choosing. … According to classical liberal doctrine, people are the best judge of their own interests (and the interests of their family members), and voluntary contracts, entered freely, must leave both parties better off.

Labor markets were once governed by this doctrine. Since the 1930s, however, U.S. legislation and the courts have recognized that what may be good for an individual worker may not be good for workers *as a whole*. Without regulations that enforce societal norms of decent work, a prospective employee with little bargaining power may be forced to accept conditions that violate those norms. By accepting such a contract, the employee also makes it harder for other workers to achieve higher labor standards. Thus employers must be prohibited from offering odious contracts even if some workers are willing to accept them. Certain forms of competition have to be ruled out. You may be willing to work for 70 hours a week below the minimum wage. But my employer cannot take advantage of your willingness to work under these conditions and offer my job to you.

Consider how international trade affects this understanding. Thanks to outsourcing, my employer can now do what he previously could not. Domestic labor laws still prohibit him from hiring you in my place and putting me to work under conditions that violate those laws. But this no longer matters. He can now replace me with a worker in Indonesia or Guatemala who will work willingly under those same substandard conditions or worse. To economists, this is not just legal; it is a manifestation of the gains from trade. Yet the consequences for me and my job do not depend on the citizenship of the worker bidding down my labor standards. Why do national regulations protect me from downward competition in employment practices from a domestic worker but not a foreign one? Why should we allow international markets to erode domestic labor regulations through the back door when we do not allow domestic markets to do the same?

[…]

Corporate tax competition The international mobility of firms and of capital also restricts a nation's ability to choose the tax structure that best reflects its needs and preferences. In particular, this mobility puts downward pressure on corporate tax rates and shifts the tax burden from capital, which is internationally mobile, to labor, which is much less so.

[…]

There has been a remarkable reduction in corporate taxes around the world since the early 1980s. The average for the member countries of the OECD countries, excluding the United States, has fallen from around 50 percent in 1981 to 30 percent in 2009. In the United States, the statutory tax on capital has come down from 50 percent to 39 percent over the same period.[4] Competition among governments for increasingly mobile global firms – what economists call "international tax competition" – has played a role in this global shift. …

A detailed economic study on OECD tax policies finds that when other countries reduce their average statutory corporate tax rate by 1 percentage point the home country follows by reducing its tax rate by 0.7 percentage points. You either stand your ground and risk seeing your corporations depart for lower tax jurisdictions, or you respond in kind. Interestingly, the same study finds that international tax competition takes place only among countries that have removed their capital controls. When such controls are in place, capital and profits cannot move as easily across national borders and there is no downward pressure on capital taxes. The removal of capital controls appears to be the main factor driving the reduction in corporate tax rates since the 1980s.[5]

[…]

Health and safety standards Most people would subscribe to the principle that nations ought to be free to determine their own standards with respect to public health and safety. What happens when these standards diverge across countries, either by design or because of differences in their application? How should goods and services be treated when they cross the boundaries of jurisdictions with varying standards?

WTO jurisprudence on this question continues to evolve. The WTO allows countries to enact regulations on public health and safety grounds that may run against their general obligations under the trade rules. But these regulations need to be applied in a way that does not overtly discriminate against imports and must not smack of disguised protectionism. The WTO's Agreement on Sanitary and

Phytosanitary (SPS) Measures recognizes the right of nations to apply measures that protect human, animal, or plant life or health, but these measures must conform to international standards or be based on "scientific principles." In practice, disputes in these areas hang on the interpretation of a group of judges in Geneva about what is reasonable or practical. In the absence of bright lines that demarcate national sovereignty from international obligations, the judges often claim too much on behalf of the trade regime.

In 1990, for example, a GATT panel ruled against Thailand's ban on imported cigarettes. Thailand had imposed the ban as part of a campaign to reduce smoking, but continued to allow the sale of domestic cigarettes. The Thai government argued that imported cigarettes were more addictive and were more likely to be consumed by young people and by women on account of their effective advertising. The GATT panel was unmoved. It reasoned that the Thai government could have attained its public health objectives at less cost to trade by pursuing alternative policies. The government might have resorted to restrictions on advertising, labeling requirements, or content requirements, all of which could be applied in a non-discriminatory manner.

The GATT panel was surely correct about the impact of the Thai ban on trade. But in reaching their decisions, the panelists second-guessed the government about what is feasible and practical. As the legal scholars Michael Trebilcock and Robert Howse put it, "the Panel simply ignored the possibility that the alternative measures might involve high regulatory and compliance costs, or might be impracticable to implement effectively in a developing country."[6]

[…]

Ultimately, the question is whether a democracy is allowed to determine its own rules – and make its own mistakes. The European Union regulations on beef (and, in a similar case in 2006, on biotech) did not discriminate against imports, which makes international discipline designed to promote trade even more problematic. … [I]nternational rules can and should require certain procedural safeguards for domestic regulatory proceedings (such as transparency, broad representation, and scientific input) in accord with democratic practices. The trouble occurs when international tribunals contradict domestic proceedings on *substantive* matters (in the beef case, how to trade off economic benefits against uncertain health risks). In this instance, trade rules clearly trumped democratic decision making within the European Union.

"Regulatory takings" There are thousands of bilateral investment treaties (BITs) and hundreds of bilateral or regional trade agreements (RTAs) currently in force. Governments use them to promote trade and investment links in ways that go beyond what the WTO and other multilateral arrangements permit. A key objective is to provide a higher level of security to foreign investors by undertaking stronger external commitments.

BITs and RTAs usually allow foreign investors to sue host governments in an international tribunal for damages when new domestic regulations have adverse effects on the investors' profits. The idea is that the change in government regulations amounts to expropriation (it reduces the benefits that were initially granted to the investors under the BIT or RTA), and therefore requires compensation. This is similar to the U.S. doctrine of "regulatory takings," which however has never been accepted legal practice within the United States. The treaties include a general exception to allow governments to pursue policies in the interests of the public good, but since these cases are judged in international courts, different standards can apply. Foreign investors may end up receiving rights that domestic investors do not have.[7]

[…]

Industrial policies in developing nations Probably the most significant external constraint that developing nations face as a consequence of hyperglobalization are the restrictions on industrial policies that make it harder for countries in Latin America, Africa, and elsewhere to emulate the development strategies that East Asian countries have employed to such good effect.

Unlike GATT, which left poor nations essentially free to use any and all industrial policies, the WTO imposes several restrictions. Export subsidies are now illegal for all but the poorest nations, denying developing nations the benefit of export-processing zones of the type that Mauritius, China, and many Southeast Asian nations have used. Policies that require firms to use more local inputs (so-called "domestic content requirements") are also illegal, even though such policies helped China and India develop into world-class auto parts suppliers. Patent and copyright laws must now comply with minimum international standards, ruling out the kind of industrial imitation that was crucial to both South Korea and Taiwan's industrial strategies during the 1960s and 1970s (and indeed to many of today's rich countries in earlier periods). Countries that are not members of the WTO are often hit with more restrictive demands as part of their negotiations to join the organization.

The WTO's Agreement on Intellectual Property Rights (TRIPS) deserves special mention. This agreement significantly impairs the ability of developing nations to reverse-engineer and copy the advanced technologies used in rich countries. As the Columbia economist and expert on technology policy Richard Nelson notes, copying foreign technology has long been one of the most important drivers of economic catch-up.[8] TRIPS has raised considerable concern because it restricts access to essential medicines and has adverse effects on public health. Its detrimental effects on technological capabilities in developing nations have yet to receive similar attention, though they may be of equal significance.

Regional or bilateral trade agreements typically extend the external constraints beyond those found in the WTO. These agreements are in effect a means for the United States and the European Union to "export their own regulatory approaches" to developing nations.[9] Often they encompass measures which the United States and the European Union have tried to get adopted in the WTO or other multilateral forums, but have failed. In particular in its free trade agreements with developing countries, the United States aggressively pushes for restrictions on their governments' ability to manage capital flows and shape patent regulations. And even though the IMF now exercises greater restraint, its programs with individual developing countries still contain many detailed requirements on trade and industrial policies.[10]

Developing nations have not completely run out of room to pursue industrial strategies that promote new industries. Determined governments can get around many of these restrictions, but few governments in the developing world are not constantly asking themselves if this or that proposed policy is WTO-legal.

The Trilemma

How do we manage the tension between national democracy and global markets? We have three options. We can *restrict democracy* in the interest of minimizing international transaction costs, disregarding the economic and social whiplash that the global economy occasionally produces. We can *limit globalization*, in the hope of building democratic legitimacy at home. Or we can *globalize democracy*, at the cost of national sovereignty. This gives us a menu of options for reconstructing the world economy.

The menu captures the fundamental political trilemma of the world economy: we cannot have hyperglobalization, democracy, and national self-determination all at once. We can have at most two out of three. If we want hyperglobalization and democracy, we need to give up on the nation state. If we must keep the nation state and want hyperglobalization too, then we must forget about democracy. And if we want to combine democracy with the nation state, then it is bye-bye deep globalization. Figure 26.1 depicts these choices.

Why these stark trade-offs? Consider a hypothetical fully globalized world economy in which all transaction costs have been eliminated and national borders do not interfere with the exchange of goods, services, or capital. Can nation states exist in such a world? Only if they focus exclusively on economic globalization and on becoming attractive to international investors and traders. Domestic regulations and tax policies would then be either brought into alignment with international standards, or structured so that they pose the least amount of hindrance to international economic integration. The only services provided by governments would be those that reinforce the smooth functioning of international markets.

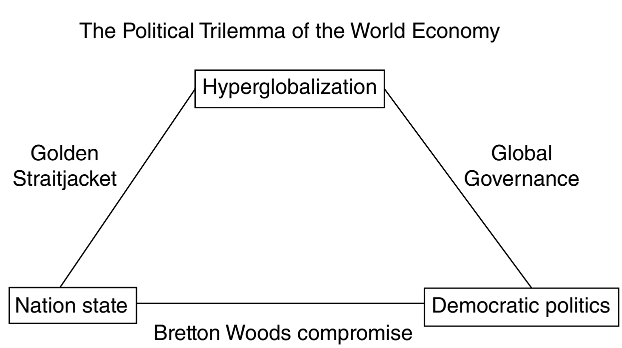

Figure 26.1 Pick two, any two

We can envisage a world of this sort, and it is the one Tom Friedman had in mind when he coined the term "Golden Straitjacket." In this world, governments pursue policies that they believe will earn them market confidence and attract trade and capital inflows: tight money, small government, low taxes, flexible labor markets, deregulation, privatization, and openness all around. "Golden Straitjacket" evokes the era of the gold standard before World War I. Unencumbered by domestic economic and social obligations, national governments were then free to pursue an agenda that focused exclusively on strict monetary rules.

External restraints were even more blatant under mercantilism and imperialism. We cannot properly speak of nation states before the nineteenth century, but the global economic system operated along strict Golden Straitjacket lines. The rules of the game – open borders, protection of the rights of foreign merchants and investors – were enforced by chartered trading companies or imperial powers. There was no possibility of deviating from them.

We may be far from the classical gold standard or chartered trading companies today, but the demands of hyperglobalization require a similar crowding out of domestic politics. The signs are familiar: the insulation of economic policy-making bodies (central banks, fiscal authorities, regulators, and so on), the disappearance. (or privatization) of social insurance, the push for low corporate taxes, the erosion of the social compact between business and labor, and the replacement of domestic developmental goals with the need to maintain market confidence. Once the rules of the game are dictated by the requirements of the global economy, domestic groups' access to, and their control over, national economic policy making must inevitably become restricted. You can have your globalization and your nation state too, but only if you keep democracy at bay.

Must we give up on democracy if we want to strive for a fully globalized world economy? There is actually a way out. We can drop nation states rather than democratic politics. This is the "global governance" option. Robust global institutions with regulatory and standard-setting powers would align legal and political jurisdictions with the reach of markets and remove the transaction costs associated with national borders. If they could be endowed with adequate accountability and legitimacy in addition, politics need not, and would not, shrink: it would relocate to the global level.

Taking this idea to its logical conclusion, we can envisage a form of global federalism – the U.S. model expanded on a global scale. Within the United States a national constitution, federal government, federal judiciary, and large number of nationwide regulatory agencies ensure that markets are truly national despite many differences in regulatory and taxation practices among individual states. Or we can imagine alternative forms of global governance, not as ambitious as global federalism and built around new mechanisms of accountability and representation. A major move in the direction of global governance, in whatever form, necessarily would entail a significant diminution of *national* sovereignty. National governments would not disappear, but their powers would be severely circumscribed by supranational rulemaking and enforcing bodies empowered (and constrained) by democratic legitimacy. The European Union is a regional example of this.

This may sound like pie in the sky, and perhaps it is. The historical experience of the United States shows how tricky it can be to establish and maintain a political union in the face of large differences in the constituent parts. The halting way in which political institutions within the European Union have developed, and the persistent complaints about their democratic deficit, also indicate the difficulties involved – even when the union comprises a group of nations at similar income levels and with similar historical trajectories. Real federalism on a global scale is at best a century away.

[…]

The only remaining option sacrifices hyperglobalization. The Bretton Woods regime did this, which is why I have called it the Bretton Woods compromise. The Bretton Woods–GATT regime allowed countries to dance to their own tune as long as they removed a number of border restrictions on trade and generally treated all their trade partners equally. They were allowed (indeed encouraged) to maintain restrictions on capital flows, as the architects of the postwar economic order did not believe that free capital flows were compatible with domestic economic stability. Developing country policies were effectively left outside the scope of international discipline.

Until the 1980s, these loose rules left space for countries to follow their own, possibly divergent paths of development. Western Europe chose to integrate as a region and to erect an extensive welfare state. As we have seen, Japan caught up with the West using its own distinctive brand of capitalism, combining a dynamic export machine with large doses of inefficiency in services and agriculture. China grew by leaps and bounds once it recognized the importance of private initiative, even though it flouted every other rule in the guidebook. Much of the rest of East Asia generated an economic miracle by relying on industrial policies that have since been banned by the WTO. Scores of countries in Latin America, the Middle East, and Africa generated unprecedented economic growth rates until the late 1970s under import-substitution policies that insulated their economies from the world economy. As we saw, the Bretton Woods compromise was largely abandoned in the 1980s as the liberalization of capital flows gathered speed and trade agreements began to reach behind national borders.

The world economy has since been trapped in an uncomfortable zone between the three nodes of the trilemma. We have not squarely faced up to the tough choices that the trilemma identifies. In particular, we have yet to accept openly that we need to lower our sights on economic globalization if we want the nation state to remain the principal locus of democratic politics. We have no choice but to settle for a "thin" version of globalization – to reinvent the Bretton Woods compromise for a different era.

[…]

Designing Capitalism 3.0

Capitalism is unequaled when it comes to unleashing the collective economic energy of human societies. That great virtue is why all prosperous nations are capitalist in the broad sense of that term: they are organized around private property and allow markets to play a large role in allocating resources and determining economic rewards. Globalization is the worldwide extension of capitalism. Indeed, so intertwined has capitalism become with globalization that it is impossible to discuss the future of one without discussing the future of the other.

Toward Capitalism 3.0

The key to capitalism's durability lies in its almost infinite malleability. As our conceptions of the institutions needed to support markets and economic activity have evolved over the centuries, so has capitalism. Thanks to its capacity for reinvention, capitalism has overcome its periodic crises and outlived its critics, from Karl Marx on. Looking at capitalism from the prism of the global economy, we have observed in this book how these transformations occur.

Adam Smith's idealized market society required little more than a "night-watchman state." All that governments needed to do to ensure the division of labor was to enforce property rights, keep the peace, and collect a few taxes to pay for a limited range of public goods such as national defense. Through the early part of the twentieth century and the first wave of globalization, capitalism was governed by a narrow vision of the public institutions needed to uphold it. In practice, the state's reach often went beyond this conception (as when Bismarck introduced old-age pensions in Germany in 1889). But governments continued to see their economic roles in restricted terms. Let's call this "Capitalism 1.0."

As societies became more democratic and labor unions and other groups mobilized against capitalism's perceived abuses, a new, more expansive vision of governance gradually took hold. Antitrust policies that broke up large monopolies came first, spearheaded by the Progressive movement in the United States. Activist monetary and fiscal policies were widely accepted in the aftermath of the Great Depression. The state began to play an increasing role in providing welfare assistance and social insurance. In today's industrialized countries, the share of public spending in national income rose rapidly, from below 10 percent on average at the end of the nineteenth century to more than 20 percent just before World War II. In the wake of World War II, these countries erected elaborate social welfare states in which the public sector expanded to more than 40 percent of national income on average.

This "mixed-economy" model was the crowning achievement of the twentieth century. The new balance that it established between states and markets underpinned an unprecedented period of social cohesion, stability, and prosperity in the advanced economies that lasted until the mid-1970s. Let's call this "Capitalism 2.0."

Capitalism 2.0 went with a limited kind of globalization – the Bretton Woods compromise. The postwar model required keeping the international economy at bay because it was built for and operated at the level of nation states. Thus the Bretton Woods–GATT regime established a "shallow" form of international economic integration, with controls on international capital flows, partial trade liberalization, and plenty of exceptions for socially sensitive sectors (agriculture, textiles, services) as well as developing nations. This left individual nations free to build their own domestic versions of Capitalism 2.0, as long as they obeyed a few simple international rules.

This model became frayed during the 1970s and 1980s, and now appears to have broken down irrevocably under the dual pressures of financial globalization and deep trade integration. The vision that the hyperglobalizers offered to replace Capitalism 2.0 suffered from two blind spots. One was that we could push for rapid and deep integration in the world economy and let institutional underpinnings catch up later. The second was that hyperglobalization would have no, or mostly benign, effects on domestic institutional arrangements. The crises – of both finance and legitimacy – that globalization has produced, culminating in the financial meltdown of 2008, have laid bare the immense size of these blind spots.

We must reinvent capitalism for a new century in which the forces of economic globalization are much more powerful. Just as Smith's lean capitalism (Capitalism 1.0) was transformed into Keynes's mixed economy (Capitalism 2.0), we need to contemplate a transition from the national version of the mixed economy to its global counterpart. We need to imagine a better balance between markets and their supporting institutions *at the global level.*

It is tempting to think that the solution – Capitalism 3.0 – lies in a straightforward extension of the logic of Capitalism 2.0: a global economy requires global governance. But as we saw in the previous chapter, the global governance option is a dead end for the vast majority of nations, at least for the foreseeable future. It is neither practical nor even desirable. We need a different vision, one that safeguards the considerable benefits of a moderate globalization while explicitly recognizing the virtues of national diversity and the centrality of national governance. What we need, in effect, is an updating of the Bretton Woods compromise for the twenty-first century.

This updating must recognize the realities of the day: trade is substantially free, the genie of financial globalization has escaped the bottle, the United States is no longer the world's dominant economic superpower, and major emerging markets (China especially) can no longer be ignored or allowed to remain free riders on the system. We cannot return to some mythical "golden era" with high trade barriers, rampant capital controls, and a weak GATT – nor should we want to. What we can do is recognize that the pursuit of hyperglobalization is a fool's errand and reorient our priorities accordingly. …

Principles for a New Globalization

Suppose that the world's leading policy makers were to meet again at the Mount Washington Hotel in Bretton Woods, New Hampshire, to design a new global economic order. They would naturally be preoccupied with the new problems of the day: global economic recovery, the dangers of creeping protectionism, the challenges of financial regulation, global macroeconomic imbalances, and so on.

However, addressing these pressing issues requires rising above them to consider the soundness of global economic arrangements overall. What are some of the guiding principles of global economic governance they might agree on?

I present in this chapter seven commonsense principles. Taken together, they provide a foundation that would serve the world economy well in the future. …

1. Markets must be deeply embedded in systems of governance

The idea that markets are self-regulating received a mortal blow in the recent financial crisis and should be buried once and for all. As the experience with financial globalization demonstrates, "the magic of markets" is a dangerous siren song that can distract policy makers from the fundamental insight of Capitalism 2.0: markets and governments are opposites only in the sense that they form two sides of the same coin.

Markets require other social institutions to support them. They rely on courts and legal arrangements to enforce property rights and on regulators to rein in abuse and fix market failures. They depend on the stabilizing functions that lenders-of-last-resort and countercyclical fiscal policy provide. They need the political buy-in that redistributive taxation, safety nets, and social insurance programs help generate. In other words, markets do not create, regulate, stabilize, or sustain themselves. The history of capitalism has been a process of learning and relearning this lesson.

What is true of domestic markets is true also of global ones. Thanks to the trauma of the interwar period and the perspicacity of Keynes, the Bretton Woods regime sought a fine balance that did not push globalization beyond the ability of global governance to uphold it. We need a return to that same spirit if we are going to save globalization from its cheerleaders.

2. Democratic governance and political communities are organized largely within nation states, and are likely to remain so for the immediate future

The nation state lives, and even if not entirely well, remains essentially the only game in town. The quest for global governance is a fool's errand, both because national governments are unlikely to cede significant control to transnational institutions and because harmonizing rules would not benefit societies with diverse needs and preferences. The European Union is possibly the sole exception to this truism, but the one that proves the rule.

Overlooking the inherent limits to global governance contributes to globalization's present frailties. We waste international cooperation on overly ambitious goals, ultimately producing weak results that go little beyond the lowest common denominator among major states. Current efforts at harmonizing global financial regulations, for example, will almost certainly end up there. When international cooperation does "succeed," it often spawns rules that reflect the preferences of the more powerful states and are ill-fitting to the circumstances of others. The WTO's rules on subsidies, intellectual property, and investment measures typify this kind of overreaching.

The pursuit of global governance leaves national policy makers with a false sense of security about the strength and durability of global arrangements. Bank regulators with a more realistic sense of the efficacy of Basel rules' impact on capital adequacy or the quality of U.S. credit rating practices would have paid more attention to the risks that their financial institutions at home were incurring.

Our reliance on global governance also muddles our understanding of the rights of nation states to establish and uphold domestic standards and regulations, and the maneuvering room they have for exercising those rights. The worry that this maneuvering room has narrowed too much is the main reason for the widespread concern about the "race to the bottom" in labor standards, corporate taxes, and elsewhere.

Ultimately, the quest for global governance leaves us with too little real governance. Our only chance of strengthening the infrastructure of the global economy lies in reinforcing the ability of democratic governments to provide those foundations. We can enhance both the efficiency and the legitimacy of globalization if we empower rather than cripple democratic procedures at home. If in the end that also means giving up on an idealized, "perfect" globalization, so be it. A world with a moderate globalization would be a far better place to live in than one mired in the quixotic pursuit of hyperglobalization.

3. There is no "one way" to prosperity

Once we acknowledge that the core institutional infrastructure of the global economy must be built at the national level, it frees up countries to develop the institutions that suit them best. Even today's supposedly homogenized industrial societies embrace a wide variety of institutional arrangements.

The United States, Europe, and Japan are all successful societies; they have each produced comparable amounts of wealth over the long term. Yet the regulations that cover their labor markets, corporate governance, antitrust, social protection, and even banking and finance have differed considerably. These differences enable journalists and pundits to anoint a succession of these "models" – a different one each decade – as the great success for all to emulate. Scandinavia was everyone's favorite in the 1970s; Japan became the country to copy in the 1980s; and the United States was the undisputed king of the 1990s. Such fads should not blind us to the reality that none of these models can be deemed a clear winner in the contest of "capitalisms." The very idea of a "winner" is suspect in a world where nations have somewhat different preferences – where Europeans, for example, would rather have greater income security and less inequality than Americans are used to living with, even if it comes at the cost of higher taxation.[11]

This surfeit of models suggests a deeper implication. Today's institutional arrangements, varied as they are, constitute only a *subset* of the full range of potential institutional possibilities. It is unlikely that modern societies have managed to exhaust all the useful institutional variation that could underpin healthy and vibrant economies.[12] We need to maintain a healthy skepticism toward the idea that a specific type of institution – a particular mode of corporate governance, social security system, or labor market legislation, for example – is the only type that works in a well-functioning market economy. The most successful societies of the future will leave room for experimentation and allow for further evolution of institutions over time. A global economy that recognizes the need for and value of institutional diversity would foster rather than stifle such experimentation and evolution.

4. Countries have the right to protect their own social arrangements, regulations, and institutions

The previous principles may have appeared uncontroversial and innocuous. Yet they have powerful implications that clash with the received wisdom among boosters of globalization. One such implication is that we need to accept the right of individual countries to safeguard their domestic institutional choices. The recognition of institutional diversity would be meaningless if nations were unable to "protect" domestic institutions – if they did not have the instruments available to shape and maintain their own institutions. Stating principles clearly makes these connections transparent.

Trade is a means to an end, not an end in itself. Advocates of globalization lecture the rest of the world incessantly about how countries must change their policies and institutions in order to expand their international trade and become more attractive to foreign investors. This way of thinking confuses means for ends. Globalization should be an instrument for achieving the goals that societies seek: prosperity, stability, freedom, and quality of life. Nothing enrages WTO critics more than the suspicion that when push comes to shove, the WTO allows trade to trump the environment, human rights, or democratic decision making. Nothing infuriates the critics of the international financial system more than the idea that the interests of global bankers and financiers should come before those of ordinary workers and taxpayers.

Opponents of globalization argue that it sets off a "race to the bottom," with nations converging toward the lowest levels of corporate taxation, financial regulations, or environmental, labor, and consumer protections. Advocates counter that there is little evidence of erosion in national standards.

To break the deadlock we should accept that countries can uphold national standards in these areas, and can do so by raising barriers at the border if necessary, *when trade demonstrably threatens domestic practices enjoying broad popular support*. If globalization's advocates are right, then the clamor for protection will fail for lack of evidence or support. If they are wrong, there will be a safety valve in place to ensure that these contending values – the benefits of open economies and the gains from upholding domestic regulations – both receive a proper hearing in the domestic political debate.

The principle rules out extremism on both sides. It prevents globalizers from gaining the upper hand in cases where international trade and finance are a back door for eroding widely accepted standards at home. Similarly, it prevents protectionists from obtaining benefits at the expense of the rest of society when no significant public purpose is at stake. In less clear-cut cases where different values have to be traded off against each other, the principle forces internal deliberation and debate – the best way of handling difficult political questions.

One can imagine the questions a domestic political debate might raise. How much social or economic disruption does the trade in question threaten? How much domestic support is there for the practices, regulations, or standards at stake? Are the adverse effects felt by particularly disadvantaged members of society? How large are the compensating economic benefits, if any? Are there alternative ways of achieving the desired social and economic objectives without restricting international trade or finance? What does the relevant evidence – economic and scientific – say on all these questions?

If the policy process is transparent and inclusive, these kinds of questions will be generated naturally by the forces of competition among interest groups, both pro- and anti-trade. To be sure, there are no fail-safe mechanisms for determining whether the rules in question enjoy "broad popular support" and are "demonstrably threatened" by trade. Democratic politics is messy and does not always get it "right." But when we have to trade off different values and interests, there is nothing else to rely on.

Removing such questions from the province of democratic deliberation and passing them on to technocrats or international bodies is the worse solution. It ensures neither legitimacy nor economic benefits. International agreements *can* make an important contribution, but their role is to reinforce the integrity of the domestic democratic process rather than to replace it. …

5. Countries do not have the right to impose their institutions on others

Using restrictions on cross-border trade or finance to uphold values and regulations at home must be sharply distinguished from using them to impose these values and regulations on other countries. Globalization's rules should not force Americans or Europeans to consume goods that are produced in ways that most citizens in those countries find unacceptable. Neither should they require nations to provide unhindered access to financial transactions that undercut domestic regulations. They also should not allow the United States or the European Union to use trade sanctions or other kinds of pressure to alter the way that foreign nations go about their business in labor markets, environmental policies, or finance. Nations have a right to difference, not to impose convergence.

In practice, upholding the first right may lead sometimes to the same consequence as upholding the second. Suppose that the United States decides to block imports from India made with child labor because of concern that such imports constitute “unfair competition” for domestically produced goods. Isn’t that the same as imposing a trade sanction on India aimed at changing India’s labor practices to make them look more like those in the United States? Yes and no. In both cases, India’s exports are restricted, and the only way India can get unhindered access to the U.S. market is by converging toward U.S. standards. But intentions matter. While it is legitimate to protect our own institutions, it isn’t equally legitimate to want to change others’. If my club has a dress code that requires men to wear ties, it is reasonable for me to expect that you will abide by these rules when you join me at dinner – no matter how much you hate wearing ties. But this doesn’t give me the right to tell you how you should dress on other occasions.

6. The purpose of international economic arrangements must be to lay down the traffic rules for managing the interface among national institutions

Relying on nation states to provide the essential governance functions of the world economy does not mean we should abandon international rules. The Bretton Woods regime, after all, did have clear rules, even though they were limited in scope and depth. A completely decentralized free-for-all would not benefit anyone; one nation’s decisions can affect the well-being of others. An open global economy – perhaps not as free of transaction costs as hyperglobalizers would like, but an open one nonetheless – remains a laudable objective. We should seek not to weaken globalization, but to put it on a sounder footing.

The centrality of nation states means that the rules need to be formulated with an eye toward institutional diversity. What we need are traffic rules that help vehicles of different size and shape and traveling at varying speeds navigate around each other, rather than impose an identical car or a uniform speed limit on all. We should strive to attain the maximum globalization that is consistent with maintaining space for diversity in national institutional arrangements. Instead of asking, “What kind of multilateral regime would maximize the flow of goods and capital around the world?” we would ask, “What kind of multilateral regime would best enable nations around the world to pursue their own values and developmental objectives and prosper within their own social arrangements?” This would entail a significant shift in the mind-set of negotiators in the international arena.

As part of this shift we can contemplate a much larger role for “opt-outs” or exit clauses in international economic rules. Any tightening of international disciplines should include explicit escape clauses. Such arrangements would help legitimize the rules and allow democracies to reassert their priorities when these priorities clash with obligations to global markets or international economic institutions. Escape clauses would be viewed not as “derogations” or violations of the rules, but as an inherent component of sustainable international economic arrangements.

To prevent abuse, opt-out and exit clauses can be negotiated multilaterally and incorporate specific procedural safeguards. This would differentiate the exercise of opt-outs from naked protectionism: countries withdrawing from international disciplines would be allowed to do so only after satisfying procedural requirements that have been negotiated beforehand and written into those same disciplines. While such opt-outs are not riskless, they are a necessary part of making an open international economy compatible with democracy. In fact, their procedural safeguards – calling for transparency, accountability, evidence-based decision making – would enhance the quality of democratic deliberation.

7. Non-democratic countries cannot count on the same rights and privileges in the international economic order as democracies

The primacy of democratic decision making lies at the foundation of the international economic architecture outlined so far. It forces us to recognize the centrality of nation states, given the reality that democratic polities rarely extend beyond their boundaries. It requires us to accept national differences in standards and regulations (and therefore departures from hyperglobalization), because it assumes that these differences are the product of collective choices exercised in a democratic fashion. It also legitimizes international rules that limit domestic policy actions, as long as those rules are negotiated by representative governments and contain exit clauses that allow for and enhance democratic deliberation at home.

When nation states are not democratic, this scaffolding collapses. We can no longer presume a country's institutional arrangements reflect the preferences of its citizenry. Nor can we presume that international rules could apply with sufficient force to transform essentially authoritarian regimes into functional democracies. So non-democracies need to play by different, less permissive rules.

Take the case of labor and environmental standards. Poor countries argue that they cannot afford to have the same stringent standards in these areas as the advanced countries. Indeed, tough emission standards or regulations against the use of child labor can backfire if they lead to fewer jobs and greater poverty. A democratic country such as India can argue, legitimately, that its practices are consistent with the needs of its population. India's democracy is of course not perfect; no democracy is. But its civil liberties, freely elected government, and protection of minority rights insulate the country against claims of systematic exploitation or exclusion.[13] They provide a cover against the charge that labor, environmental, and other standards are inappropriately low. Non-democratic countries, such as China, do not pass the same prima facie test. The assertion that labor rights and the environment are trampled for the benefit of the few cannot be as easily dismissed in those countries. Consequently, exports of non-democratic countries deserve greater international scrutiny, particularly when they have costly ramifications – distributional or otherwise – in other countries.

This does not mean that there should be higher trade or other barriers against non-democratic countries across the board. Certainly not every regulation in such countries has adverse domestic effects. Even though China is an authoritarian regime, it has an exemplary economic growth record. And since countries trade to enhance their own well-being, blanket protectionism would not be in the interest of the importing countries in any case. Still, it would be legitimate to apply more stringent rules to authoritarian regimes in certain instances.

[…]

What About the "Global Commons"?

There are a number of possible objections to the principles outlined here. I will address many of them in the next chapter, but I need to take up one major objection right away, as it derives from a fundamental misunderstanding. Some argue that the rules of a globalized economy cannot be left to individual nation states. Such a system, the objection goes, would greatly reduce international cooperation, and as each nation pursues its own narrow interests, the world economy would slide into rampant protectionism. Everyone would lose as a result.

The logic relies on a false analogy of the global economy as a global commons. To see how the analogy works (or rather fails), consider global climate change, the quintessential case of global commons. Ample and mounting evidence suggests that global warming is caused by atmospheric accumulations of greenhouse gases, primarily carbon dioxide and methane. What makes this a global rather than national problem, requiring global cooperation, is that such gases do not respect borders. The globe has a single climate system and it makes no difference where the carbon is emitted. What matters for global warming is the cumulative effect of carbon and other gases in the atmosphere, regardless of origin. If you want to avoid environmental catastrophe, you need everyone else to go along. One might say that all our economies are similarly intertwined, and no doubt that would be true to an important extent. An open and healthy world economy is a "public good" which benefits all, just like an atmosphere with low levels of greenhouse gases.

But there the parallel ends. In the case of global warming, domestic restrictions on carbon emissions provide no or little benefit at home. There is a single global climate system, and my own individual actions have at best small effects on it. Absent cosmopolitan considerations, each nation's optimal strategy would be to emit freely and to free ride on the carbon controls of other countries. Addressing climate change requires that nation states rise above their parochial interests and work in concert to develop common strategies. Without international cooperation and coordination, the global commons would be destroyed.

By contrast, the economic fortunes of individual nations are determined largely by what happens at home rather than abroad. If open economy policies are desirable, it's because openness is in a nation's own self-interest – not because it helps others. … As we have seen repeatedly in this book, there are legitimate reasons why countries may want to stop at less than free trade. Barriers on international trade or finance may fortify social cohesion, avoid crises, or enhance domestic growth. In such instances, the rest of the world generally benefits. When trade barriers serve only to transfer income from some groups to others, at the cost of shrinking the overall economic pie, domestic rather than foreign groups bear the bulk of these costs.[14] In the global economy, countries pursue "good" policies because it is in their interest to do so. Openness relies on self-interest, not on global spirit. The case for open trade has to be made and won in the domestic political arena.

A few wrinkles complicate this picture. One is that large economies may be able to manipulate the prices of their imports and exports in ways that shift more of the gains from trade to themselves – think about the impact of OPEC on oil, for example. These policies certainly harm other nations and need to be subject to international disciplines. But today such motives are the exception rather than the rule. Foreign economic policies are shaped largely by domestic considerations, as they should be. Another wrinkle involves the adverse effects on others of large external imbalances – trade deficits or surpluses. These also need international oversight. …

The principles above leave plenty of room for international cooperation over these and other matters. But they do presume a major difference, when compared to other areas like climate change, in the degree of international cooperation and coordination needed to make the global system work. In the case of global warming, self-interest pushes nations to ignore the risks of climate change, with an occasional spur toward environmentally responsible policies when a country is too large to overlook its own impact on the accumulation of greenhouse gases. In the global economy, self-interest pushes nations toward openness, with an occasional temptation toward beggar-thy-neighbor policies when a large country possesses market power.[15] A healthy global regime has to rely on international cooperation in the first case; it has to rely on good policies geared toward the domestic economy in the second.

Applying the Principles

A common but misleading narrative shapes our collective understanding of globalization. According to this narrative, the world's national economies have become so inextricably linked that nothing short of a new kind of governance and a new global consciousness can address adequately the challenges we face. We share a common economic destiny, we are told. We have to rise up above our parochial interests, responsible leaders implore us, and devise common solutions to common problems.

This narrative has the ring of plausibility and the virtue of moral clarity. It also gets the main story wrong. What is true of climate change, say, or human rights – genuine areas of "global commons" – is not true of the international economy. The Achilles' heel of the global economy is not lack of international cooperation. It is the failure to recognize in full the implications of a simple idea: the reach of global markets must be limited by the scope of their (mostly national) governance. Provided the traffic rules are right, the world economy can function quite well with nation states in the driving seats.

Notes

1 See the interview with Domingo Cavallo at http://www.pbs.org/wgbh/commandingheights/shared/pdf/int_domingocavallo.pdf.

2 This account draws on Dani Rodrik, "Reform in Argentina, Take Two: Trade Rout," *The New Republic*, January 14, 2002, pp. 13–15.

3 Thomas L. Friedman, *The Lexus and the Olive Tree* (New York: Anchor Books, 2000), pp. 104–06.

4 Scott A. Hodge and Andre Dammert, "U.S. Lags While Competitors Accelerate Corporate Income Tax Reform," *Fiscal Fact No. 184*, Tax Foundation, August 2009.

5 Michael P. Devereux, Ben Lockwood, and Michela Redoano, "Do Countries Compete Over Corporate Tax Rates?" *Journal of Public Economics*, vol. 92, nos. 5–6 (June 2008), pp. 1210–1235.

6 Michael J. Trebilcock and Robert Howse, *The Regulation of International Trade*, 3rd ed. (New York: Routledge, 2005), p. 517.

7 Emma Aisbett, Larry Karp, and Carol McAusland, "Regulatory Takings and Environmental Regulation in NAFTA's Chapter 11," Unpublished paper, University of California at Berkeley, February 10, 2006.

8 Richard R. Nelson, "The Changing Institutional Requirements for Technological and Economic Catch Up," Unpublished paper, Columbia University, June 2004.

9 Henrik Horn, Petros C. Mavroidis, and André Sapir, "Beyond the WTO? An Anatomy of EU and US Preferential Trade Agreements," Bruegel Blueprint 7, Bruegel Institute, Brussels, 2009.

10 For more elaboration and examples, see Dani Rodrik, *One Economics, Many Recipes: Globalization, Institutions and Economic Growth* (Princeton: Princeton University Press, 2007), chap. 4.

11 For a detailed statistical analysis of differences between European and American attitudes toward inequality, see Alberto Alesina, Rafael Di Tella, and Robert MacCulloch, "Inequality and Happiness: Are Europeans and Americans Different?" *Journal of Public Economics*, vol. 88, nos. 9–10 (August 2004), pp. 2009–42.

12 This argument is developed in Roberto Mangabeira Unger, *Democracy Realized: The Progressive Alternative* (London and New York: Verso, 1998).

13 There is a very large literature on the comparative economic performance of democracies versus non-democracies. This literature suggests that democratically governed economies tend to outperform authoritarian regimes on a number of dimensions: they are better at adjusting to external shocks, they provide greater stability and predictability, and they produce better social indicators and distributional outcomes. The results on long-term growth performance are more mixed, but the more recent evidence suggests that democracies have the edge there as well. See José Tavares and Romain Wacziarg, "How Democracy Affects Growth," *European Economic Review,* vol. 45, no. 8 (August 2001), pp. 1341–1379; Dani Rodrik, "Participatory Politics, Social Cooperation, and Economic Stability," *American Economic Review, Papers and Proceedings* (May 2000); Dani Rodrik, "Democracies Pay Higher Wages," *Quarterly Journal of Economics* (August 1999); Dani Rodrik and Romain Wacziarg, "Do Democratic Transitions Produce Bad Economic Outcomes?" *American Economic Review, Papers and Proceedings,* vol. 95, no. 2 (May 2005), pp. 50–55; and Elias

Papaioannou and Gregorios Siourounis, "Democratization and Growth," *Economic Journal,* vol. 118, no. 10 (2008), pp. 1520–51.

14 A good example is agricultural protection in the developed countries. The costs are paid primarily by consumers and taxpayers in those same developed countries.

15 In the language of economics, the global climate is a "pure" public good whereas an open economy is a private good, from the standpoint of individual nations, with some external effects on others.

Part V

Global Themes Searching for New Paradigms

Introduction

As globalization weaves together the fates of households, communities and peoples in distant regions of the globe, social, economic and political problems are increasingly transnational. However, partly due to coalitions and movements that transcend the national focus, even what has become transnational, and therefore seemingly beyond the control of individual nation-states or national groups, is still constantly transformed.

Part V explores the new political challenges of a transnational reality through three interrelated issues. The first two readings analyze the emergence of a new transnational political landscape. Anne-Marie Slaughter describes the rise of transgovernmental networks that reflect the increasing fragmentation of the nation-state. Margaret Keck and Kathryn Sikkink describe the rise of transnational advocacy networks that reflect, in turn, the integration of movements across borders. The next two readings offer detailed analyses of political conflicts over two particularly timely issues: Timmons Roberts addresses climate change and Nitsan Chorev investigates access to anti-AIDS medicines. The final three readings of this volume assess meanings of current trends and weigh future possibilities. Amartya Sen discusses the notion of development as freedom, and possibilities for expanding and strengthening freedom. Michael Burawoy reflects on the transformative potential of transnational movements. Finally, Peter Evans reflects on the potential future role of the state.

Anne-Marie Slaughter is University Professor of Politics and International Affairs at Princeton University and was formerly the Director of Policy Planning for the United States Department of State. Her influential book *A New World Order* describes radical changes in international governance. In its introduction she tells

The Globalization and Development Reader: Perspectives on Development and Global Change, Second Edition. Edited by J. Timmons Roberts, Amy Bellone Hite, and Nitsan Chorev.

us, “Stop imagining the international system as a system of states – unitary entities like billiard balls or black boxes – subject to rules created by international institutions that are apart from … these states.” Instead, “Start thinking about a world of governments, with all the different institutions that perform the basic functions of governments – legislation, adjudication, implementation – interacting both with each other domestically and also with their foreign and supranational counterparts.” States still exist in this world; indeed, they are crucial actors. But they are “disaggregated.” In the book’s chapter excerpted here, Slaughter depicts state regulators – from central bankers to utilities commissioners – as the new diplomats, who meet regularly with regulators from other states. They comprise either institutionalized or informal regulatory networks, and serve varied functions: diffusion of information, coordination and enforcement, and harmonization of policies. And what is the impact of these networks? On the one hand, Slaughter writes, “So what exactly do government networks do? Their members talk a lot.” On the other hand, she makes it clear that these networks are essential in changing the present and future of global governance. The world, she says, has become “a world of concentric circles of regulatory networks.”

While Slaughter focuses on evolving networks of government agents, others have argued that the more radical shift in the organization of politics was the emergence of influential *non-governmental* actors. In their 1998 book *Activists without Borders,* political scientists Margaret Keck of Johns Hopkins University and Kathryn Sikkink of the University of Minnesota proposed a now widely used framework for understanding the new international networks of non-governmental organizations (NGOs). Keck and Sikkink call these international webs of networks of activists “transnational advocacy networks.” These advocacy networks work to establish common frames that they deploy in efforts to turn popular opinion in their favor. Think of environmentalists and Indians in the Amazon of Brazil utilizing US Senate hearings to threaten the funding for key programs at the World Bank, and thereby pressuring their national government to address their concerns. They also have a distinct set of common tactics that are suitable for territorially loose groups that do not normally have direct influence on policy-makers. Keck and Sikkink reject the criticisms sometimes aimed at transnational initiatives for being dominated by actors and ideas from the global North; instead, they point to transnational advocacy networks as evidence that global civil society is emerging not through the diffusion of Western ideals, but rather through an emergent global arena for identifying the inconsistencies of these ideals.

As Slaughter makes clear, the fragmentation of the state alongside the crowding of the transnational arena with non-state actors does not make states – and the international negotiations in which they participate – any less important. Indeed states are central to negotiating global issues that can best be resolved through their cooperation, such as environmental and health issues. (Both issues were included in the Millennium Development Goals agreed on by United Nations member states in 2000.) However traditional these negotiations look compared to the ones described by Slaughter, such negotiations have also radically changed, in part due to change in the balance of power among states. Timmons Roberts offers evidence of such change in constellations of interests and coalitions through his comparison of the 2009–10 international climate change negotiations with those two decades earlier. During that time, the Group of 77 developing nations negotiating bloc (actually 134 countries) has become fragmented, the European Union has weakened, and, most importantly, the United States shows insecurity in the face of economic and political decline vis-à-vis China. The case shows how "global public goods" need stewardship, but the most powerful nations are not feeling secure enough to make the sacrifices they believe are needed to address them. Fragmentation, however, allows new perspectives to be expressed in the global climate negotiations.

Nitsan Chorev's contribution also focuses on state-led negotiations, over an equally urgent issue, that of access to medicines. While Roberts analyzes the deadlock in the negotiations over climate change which unjustly hurts the poorest nations "worst and first," Chorev describes an opposite case. In the case of anti-AIDS medications, developing countries, with the crucial support of health activists, were able to minimize the extent to which an international agreement on intellectual property rules was used to prevent their access to affordable pharmaceuticals. The agreement on intellectual property rules was signed under the auspices of the World Trade Organization. However, as in other examples provided by Dani Rodrik (in Part IV), many developing countries that were suffering from an AIDS crisis and unable to afford the very expensive brand-name anti-AIDS drugs found the WTO rules impossible to follow without hurting their populations. Chorev describes one path through which developing countries were able to shape international policy outcomes, in spite of their generally marginalized position in international negotiations. In this particular case, change at the global level was made possible by successfully challenging international rules at the domestic level. Developing countries first experimented with deviating from the original rule at home, by introducing laws that were not entirely compatible with the conventional interpretation of the international agreement. These laws strengthened the exceptions to intellectual property rights, including provisions that made it easier for governments to permit companies producing generic drugs to manufacture copies of patented drugs. In preparing for and enacting domestic laws, they imitated and learned from each other, and tested the reaction of the US government and other supporters of the WTO rules. Once they were successful at the domestic level, they had the leverage to get it right at the transnational level as well.

While illustrating the emerging complexities of international negotiations, international concern with environmental sustainability and access to medicines also reinforces the theme explored in Part IV, that economic growth alone cannot capture our discussion on globalization and development. No one has made this argument more convincingly than Nobel Laureate Amartya Sen, who is Thomas W. Lamont University Professor, and Professor of Economics and Philosophy, at Harvard University. In his 1999 work excerpted here, *Development as Freedom*, Sen tells us that the expansion of freedom is the primary end of development. Development therefore means the removal of unfreedoms that leave people with little choice or opportunity to exercise their reasoned agency. Sen therefore pays particular attention to the expansion of each person's "capabilities" to lead the kind of lives they value – and have reason to value. The instruments of freedom therefore include economic facilities but also political freedoms, social opportunities, transparency guarantees, and protective security. This alternate vision of development sharply challenges preceding trends in development theory, including the conventional strands excerpted in this volume, because it questions the way economic growth is given priority and privilege. Importantly, Sen also argues that freedom is the principal means for development. This reverses the common assumption that improving the economy first will be a necessary condition for other desired outcomes.

Indeed, other scholars have struggled with the transformative possibilities of globalization. Does the new global landscape also contain the seeds of its own transformation? Has globalization generated actors able to successfully challenge it? Michael Burawoy, a Professor of Sociology at the University of California, Berkeley, challenges those who celebrate the possibility of a "counter-hegemonic globalization" and those who consider transnational coalitions and networks of actors capable of destabilizing forms of global domination. Drawing on Karl Polanyi's analysis of commodification and counter-movements in his classic work, *The Great Transformation*, Burawoy offers an original reading of the trajectory of capitalism, which involves three distinct waves. The first wave, according to Burawoy, is characterized by the commodification of labor – in which labor, which is not a commodity that is produced to be bought and sold, is treated as if it were a commodity. The second wave is characterized by turning money into a commodity. The third wave adds the commodification of nature to the commodification of labor and money. Each wave brings with it a crisis, which reflects the type of commodification that takes the lead. The first wave led to World War I; the second wave led to the oil crisis in 1974. Burawoy speculates that "the crisis of third-wave marketization will develop through successive environmental crises generated by unnatural disasters – climate change, tsunamis, earthquakes, oil spills, nuclear accidents, toxic waste – unnatural in either their origins as well as their consequences." Roberts has already shown us the difficulties in finding a solution through interstate negotiations. Burawoy, in turn, does not believe that a counter-movement would be able to respond effectively to this third wave of marketization. Mostly, he argues, it's a matter of scale. The counter-movement to the first wave of labor exploitation started out from the local (strikes) and reached the national level. The counter-movement to the second wave started out at the national level and reached for the global. In contrast, the counter-movement to the third wave must *begin* at the global level, for only at that level is it possible to contest the destruction of nature. However, Burawoy claims, "Some sort of global counter-movement may be necessary for human survival, but there is no historical necessity for it to appear."

Whether or not counter-hegemonic transnational movements may lead to progressive change, the role of the state cannot be dismissed. Peter Evans, Professor (Emeritus) at the University of California, Berkeley, and Senior Fellow for International Studies at Brown University, offers a forceful defense of the role that states need to play in taming globalization. However, he argues that this approach challenges not only non-interventionist but also pro-interventionist prescriptions that focus only on promoting economic growth, through industrial policies. Instead, Evans insists that a twenty-first century developmental state must be a "capability-enhancing state." Borrowing from Amartya Sen, Evans focuses on the role of the state in providing and expanding capabilities of its citizens, often through the efficient provision of infrastructure and collective goods, such as health and educational services. The administrative capacity to deliver collective goods and infrastructure efficiently, in turn, has political foundations. Active democratic structures are in turn the necessary foundation for effective political action. This is where Evans echoes previous discussions in this Reader regarding the changing political landscape that now includes networks rather than formal organizations, and citizens as involved in decision-making alongside technocrats. Finally, Evans insists that expanding the capabilities of the citizenry is not just a "welfare" goal. Rather, it is the foundation of sustained growth in overall GDP. This brings us back to the original discussions in this volume, those of development and the conditions under which development occurs. There is much to be learned from these analyses of globalization and development.

27

A New World Order (2004)

Anne-Marie Slaughter

Regulators: The New Diplomats

> *From my experience in these last six and half years, the minister of justice or the attorney general has become part of the international arena. When I first came into the office, not that many people came to visit. Now prime ministers and ministers of justice and security people come to visit all the time, and I am so glad to see them because they remind me of what a wonderful, wonderful institution democracy is, how hard we have to fight for it, and now how important it is that we join arms together and fight for it around the world.*
>
> United States Attorney General Janet Reno[1]

The best evidence of the disaggregated state may be found in the logs of embassies around the world. The records from U.S. embassies, at least, show a steady procession of regulators visiting their foreign counterparts – from agencies and departments regulating financial markets, competition policy, environmental protection, agriculture, and all the other domains of the modern regulatory state.[2] Finances also tell the tale: foreign affairs budgets for regulatory agencies have increased dramatically across the board, even as the State Department's budget has shrunk.[3]

This disaggregation extends all the way to the top. The executive branch – "the government" in parliamentary systems – is traditionally and formally charged with the conduct of foreign policy. Where nations speak with one voice, the executive is

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supposed to speak for the nation and to represent it, to resolve internal differences of views and then to present a single position that reflects a consensus. In fact, chief executives – presidents and prime ministers, typically – are also networking with one another on their own behalf, achieving results in the international arena that they could not obtain by more traditional methods of negotiating and ratifying treaties. They can also reach common positions in meetings of heads of state that they can then use to strengthen their respective domestic positions back home.

Perhaps the premier network of heads of state is the G-7, the annual summit of the leaders of the most powerful economies in the world. The G-7 has no formal status as an international organization; it is simply an institutionalized relationship between a group of leaders. It has sufficient status that Boris Yeltsin was very anxious to join it as evidence that Russia was now part of the West. Since 1994 Russia has been included in the annual summit and has had full participation since 2002. It now meets as the G-8, though more restricted meetings of G-7 finance ministers have continued in parallel. In normal times the G-8 can be no more than a talking shop and a photo opportunity, but in times of crisis it provides a vehicle for prompt and decisive action. Further, as all students of bureaucracy understand, the simple fact of a meeting drives a desire to have some notable outcome, which in turn forces the "sherpas" to figure out what initiatives might be ripe for action and what actions might usefully be initiated.

The G-7 has spawned many additional "groups," each composed of the leaders of a different number of countries, leading to regularly shifting numbers (the G-34, the G-15, the G-20, which is actually the G-22 or G-19, depending on the count!). … They are not alliances or even treaty partners. Their closest equivalent in traditional diplomacy is perhaps the "concert," as in the Concert of Europe of 1815, which brought together the traditional monarchs of Europe to create a shifting balance of power designed to keep the peace and prevent the spread of dangerous revolutionary ideas.

Below presidents and prime ministers are cabinet officials (ministers in parliamentary systems) and regulators, for our purposes defined as appointed top officials or career civil servants who possess a special expertise on a particular subject. All of these different actors are engaged in transgovernmental networking to a remarkable degree. Indeed, finance ministers, often accompanied by central bankers, form an international infrastructure of their own. They have created networks that have answered the call, substantively if not formally, for a new international financial architecture. And they have assumed equal status in many cases with heads of state, to the extent that at some G-7 meetings the finance ministers issue separate statements from the chief executives. In some cases, of course, it is the summits of chief executives that then command meetings of their various ministers to address specific problems. But in other cases it is the ministers themselves who drive the agenda.

Networking among some regulators, such as central bankers, securities commissioners, and insurance supervisors, has become so established that they now have their *own* international organizations – the Basel Committee, IOSCO Commissioners, and IAIS, among others. These organizations are transgovernmental networks that have become sufficiently formalized to warrant the title of association or organization and that have a staff and regular meetings. But they are not "inter-state" organizations; they are not formed by treaty or even executive agreement; they have no place on the landscape of the international legal system.

The role of "the executive" in foreign affairs is thus increasingly complex and differentiated. It includes a variety of diverse actors networking with their foreign counterparts for different reasons. Nevertheless, for present purposes I will treat them all together as participants in executive transgovernmental networks. Taken together, they engage in a wide array of activities that either traditionally did not take place at all or were much more the province of professional diplomats. Today readers of the popular press could be excused for thinking that diplomacy is conducted by everyone *but* the diplomats.

This is not strictly fair, of course. Foreign ministers and foreign ministries – the State Department in the United States – still play an active and often critical role in a host of areas from conflict resolution to human rights policy. Indeed, the very idea of diplomacy, with its intimations of nuance, tact, and care, implies a type of state-to-state relation that is delicate and even precarious – far from the mundane details of regulatory cooperation or even economic interdependence. For such matters, diplomats remain essential.

Further, in some cases foreign ministers have their own networks, as they must to counter networks of finance ministers or defense ministers.[4] In other cases, as in a number of the examples below, the executive networks arise within more traditional international organizations – organizations created by treaties negotiated by foreign ministers and heads of state acting as representatives of unitary states. In short, the point here is not that the secretary of state is unimportant. It is just that she has to share an increasingly crowded stage.

Neither is the point to identify and trace the *causes* of the growing plethora of executive-branch participants in foreign policy, or at least international affairs. These are many and complex; indeed, they are the subject of a considerable literature in political science. Writing in the 1970s, Keohane and Nye identified transgovernmental coalitions as one of the hallmarks of "complex interdependence."[5] Complex interdependence, as an overall description of relations among nations, has only increased with the waves of globalization since the 1990s. Businesses that cross borders must be regulated across borders. More precisely, the increasingly transnational nature of services and the recognition of the extraterritorial dimension of domestic regulation mean that regulators often simply cannot do their job without cooperating with one another.

Other causes are political and organizational. Politically, two hallmarks of modern industrialized society are specialization and regulation. The result? Legions of regulators with specialized expertise – expertise that often guarantees a measure of deference from judges, legislators, and fellow regulators.[6] At the same time, at least in the United States, the rising political attractiveness of "presidential administration" has led the president and his men and women to rule increasingly by executive orders, followed up by agency initiatives.[7] Indeed, in many ways the rise and growing ambition of head-of-state networks appear motivated by the sort of complaints about traditional international negotiations that U.S. presidents make about Byzantine dealings with a refractory Congress. Finally, governments are reflecting a broader organizational trend, much noted in recent years among corporations and NGOs, away from hierarchical structures to networked structures. Governments, in many ways, have just been keeping up organizationally with the societies they govern.

In section 1, I will review a number of the factors that have focused attention on executive transgovernmental networks, but without claiming that they are entirely new and without attempting to duplicate the work of political scientists in pinpointing the causes of their most modern manifestations. For present purposes, it is more important to identify and describe government networks than to explain them, and, above all, to understand how they are changing the present and future of global governance. To that end, section 2 examines the different places that executive transgovernmental networks can be found, both within international organizations and without. It also highlights the pioneering nature of EU governance, which is heavily dependent on networks of both ministers and regulators.

Section 3 sets forth what these networks actually do: exchanging information; coordinating policy; cooperating on enforcement issues; collecting and distilling best practices; exporting particular regulatory forms; bolstering their members in domestic bureaucratic politics; and transmitting information about their members' reputations. These networks and their activities are not necessarily way-stations on the road to more formal organizations; they are themselves an organizational form of global governance. Moreover, the types of governance functions they can perform – and those they cannot – are also not necessarily imitations of "real" governance, but rather a distinctive type of governance that may be more appropriate for the global level.

1 A New Phenomenon?

Is executive transgovernmentalism really new? … Francis Bator's 1972 testimony before Congress pointed to the increasing complexity of connections undergirding the setting and implementation of foreign policy,[8] while already in 1974 Keohane and Nye were able to identify transgovernmental activity as a separate sphere of action within the wider range of transnational activities.[9] Their principal interest in doing so was to identify the various ways in which transgovernmental politics, as well as transnational politics, could help international organizations to play an important role in world politics.[10] Along the way, they identified different types of transgovernmental activity (among them policy coordination and coalition building), specified the conditions under which transgovernmental networks are most likely to form, and specified different types of interactions between international organizations and transgovernmental networks.

[…]

[E]vents of the 1990s cast a new light on the entire phenomenon of transgovernmentalism, which was embedded within the larger resurgence of transnational action of all types. As the bipolar state system of the Cold War disappeared and nonstate, sub-state, and supranational actors rode the tide of globalization, pundits and many scholars began heralding the era of complex, multilevel, global governance, tied together by networks.[11]

Early on, Peter Haas explored the role and power of "epistemic communities," which he defined as networks "of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area."[12] Later work absorbed the insights about the power of shared learning and knowledge production generated by the literature on epistemic communities but focused on more concrete and observable organizational forms. A number of convergent factors focused growing attention on the more specific phenomenon of executive transgovernmental networks, particularly among regulators.

First were observable changes in the organization and activities of national financial regulators. Under the auspices of the BIS the central-bank governors of the G-10 countries created the Basel Committee on Banking Supervision in 1974. It is now composed of the representatives of thirteen central banks that regulate the world's largest banking markets.[13] Between 1975 and 1992 it issued the Basel Concordat, with several sets of subsequent amendments, to enhance cooperation between regulators of multinational banks by dividing specified tasks between home-country and host-country regulators. In 1988 the Basel Committee issued a set of capital adequacy standards to be adopted as the new regulatory standard by all member countries, which had a sharp impact on the availability of credit in the world's most important economies.[14] IOSCO emerged in 1984, followed in the 1990s by the creation of IAIS and then a network of all three of these organizations and other national and international officials responsible for financial stability around the world called the Financial Stability Forum.[15] As a number of scholars point out, these "organizations" do not fit the model of an organization held either by international lawyers or political scientists: they are not composed of states and constituted by treaty; they do not have legal standing; they have no headquarters.[16] According to Sol Picciotto, however, they "form part of a more general shift from 'government' to 'governance,' involving the delegation or transfer of public functions to particularized bodies, operating on the basis of professional or scientific techniques."[17]

A second major impetus for the study of transgovernmental regulatory networks has been the emergence of a new multilayered regulatory system, concentrated among OECD countries.[18] The governments of these countries have had to respond to deepening economic and financial integration and increasing interdependence by developing strategies for regulatory cooperation and rapprochement. Ongoing regulatory cooperation, in turn, is the foundation for a transgovernmental network. As an OECD study concluded in 1994, however, the new forms of governance necessary to make regulatory cooperation work cannot simply follow function. They must instead be managed within a principled framework designed not only to improve their effectiveness and the quality of their output, but also to "protect democratic processes."[19]

Third, the most concentrated site for multilevel governance, and particularly transgovernmental regulatory interactions, is the European Union itself. In the wake of the completion of the single market in 1992, the European Union has emerged as a regulatory state, exercising power through rule making rather than taxing and spending.[20] In response to the challenges of trying to harmonize or at least reconcile the regulations of its diverse and growing membership, the European Union has developed a system of regulation by networks, located in the EU Council of Ministers and closely connected to the complex process of "comitology" that surrounds council decision making.[21] The question now confronting a growing number of legal scholars and political theorists is how decision making by networks of national regulators fits with varying national models of European democracy.[22]

Fourth is the emergence of a system of transatlantic governance to help foster and manage the increasingly dense web of transatlantic economic cooperation.[23] David Vogel, for example, points out that "[a]s the regulatory competence of the EU has expanded, so have both formal and information discussions between regulatory officials in Washington and Brussels. These officials now regularly monitor and exchange information about each other's proposals and policies, especially those likely to affect bilateral trade."[24] Although transatlantic regulatory relations may seem only a subset of the larger multilayered regulatory system just discussed, they take place within the framework of specific initiatives launched by heads of state. As described by Mark Pollack and Gregory Shaffer, transatlantic governance involves cooperation at the intergovernmental level, the transgovernmental level, and the transnational level.[25] The evolution of transatlantic relations over the course of the 1990s has thus spawned complicated questions concerning the interrelationship and relative importance of these three levels.[26]

Finally, executive transgovernmental networks play an important role in several recent and still actively debated theories of why states comply with international rules. Abram and Antonia Chayes and Harold Koh have emphasized the importance of regular interaction, dialogue, and "jawboning" among networks of government officials at both the international and transnational levels.[27] Both theories penetrate the traditional black box of the state to focus on the activities of specific government institutions and officials.

So are they new? Does it matter? Government officials have been linking up with their counterparts for a long time to get the actual business of foreign affairs done. But the scope and substance of that business has expanded; the range and intensity of transgovernmental ties have increased and in many cases become institutionalized; the advantages of transgovernmentalism have become more prominent while the disadvantages of many more formal international institutions have become clearer. Perhaps most important, as the line between "national" and "international" affairs blurs, national officials find that they need to negotiate across borders to do business they could once accomplish solely at home. In sum, even if not new, government networks are increasingly noteworthy.

2 Where Are They?

Where are these networks of executive-branch officials? In some familiar places and some new ones. It is possible to identify three types of networks, each arising and operating in a different context. First are those networks of executive officials that develop within established international organizations. Second are networks of officials that develop under the umbrella of an agreement negotiated by heads of state. And third are the networks that have attracted the most attention over the past decade – networks of national regulators that develop outside any formal framework. These networks arise spontaneously from a need to work together to address common problems; in some cases members interact sufficiently autonomously to require the institutionalization of their activities in their own transgovernmental regulatory organizations.[28] These three types are interlinked in many ways: some may seem such a standard part of the international furniture as to be beneath notice, while others compete directly with actual or possible international organizations.

Government networks within international organizations

National government officials have always networked within international organizations. After the fanfare of signing the treaty and actually creating the organization, the heads of state go home and leave the task of actually getting on with the business of the organization to national government officials from whatever sector of government is involved. Indeed, depending on the subject area, they often play a role in the creation of the institution – U.S. Assistant Secretary of the Treasury Harry Dexter White was certainly present at Bretton Woods.[29] But certainly once an institution has been established, whether to regulate international labor, the environment, health, crime, or the sprawling and increasingly untidy global markets, it will fall to the national ministries or agencies in the relevant sector to work with the nascent international secretariat officially charged to represent the organization's interests.

Keohane and Nye describe networks of government ministers within international organizations as emblematic of the "club model" of international institutions.[30] Within a particular intergovernmental institution established by treaty, "cabinet ministers or the equivalent, working in the same issue-area, initially from a relatively small number of relatively rich countries, got together to make rules. Trade ministers dominated GATT; finance ministers ran the IMF; defense and foreign ministers met at NATO; central bankers at the Bank for International Settlements (BIS)."[31] This mode of operation was very efficient for participating governments because the relatively small and like-minded number of ministers involved came to form a negotiating "club" in which they reached agreements and then reported them to national legislatures and publics.[32]

The OECD is the quintessential host of transgovernmental regulatory networks, as well as a catalyst for their creation. Its primary function, at least in recent decades, has been to convene government officials in specific fields to figure out the best ways to fix a common economic or regulatory problem and sometimes to promulgate a model code for its solution.[33] As discussed above, the EU Council of Ministers operates the same way, although council members exercise actual decision-making power. Finally, in some cases, the secretariat of an international institution deliberately encourages the formation of a network of officials from specific governments to act as a negotiating vanguard in developing new rules ultimately designed to apply to all members.[34]

Government networks within the framework of an executive agreement

The second type of transgovernmental network is more striking as a form of governance, in that it emerges outside formal international institutions. Nevertheless, the members of these networks operate within a framework agreed on at least by the heads of their respective governments. A prime recent example are transatlantic transgovernmental interactions specifically authorized and encouraged by executive agreement. Pollack and Shaffer chronicle a series of executive agreements between the President of the United States and the president of the EU Commission to foster increased cooperation, including the Transatlantic Declaration of 1990, the New Transatlantic Agenda of 1995 (with a joint U.S.–EU Action Plan attached), and the Transatlantic Economic Partnership agreement of 1998.[35] Each of these agreements spurred ad hoc meetings between lower-level officials, as well as among businesses and environmental and consumer groups, to address common problems. Many of these networks of lower-level officials were emerging anyway, for functional reasons, but they undoubtedly received a boost from agreements at the top.

Another example is the web of transgovernmental networks among financial officials that have emerged as the pragmatic answer to calls for "a new financial architecture for the twenty-first century" in the wake of the Russian and East Asian financial crises of 1997 and 1998.[36] Notwithstanding a wide range of proposals from academics and policy-makers, including one for a global central bank,[37] what actually emerged was a set of financial reform proposals from the G-22 that were subsequently endorsed by the G-7 (now the G-8).[38] The United States pushed for the formation of the G-22 in 1997 to create a transgovernmental network of officials from both developed and developing countries, largely to counter the Eurocentric bias of the G-7, the Basel Committee, and the IMF's "interim committee," which is itself a group of finance ministers.[39] The East Asian countries most affected were happy to leave the details of financial reform to the G-22, in lieu of any grander vision.[40] And a number of the more sweeping reform proposals advanced suggested the formation of still other networks – a G-16 or a G-15.[41]

The actual work done within these networks – making policy recommendations, new sets of standards, model codes – is done by finance ministers, securities regulators, central bankers, and other officials responsible for national economic policy. But they are convened and approved by heads of state, often simply through informal agreement or joint communiqué. In fact, when the G-7 issued a statement on global economic reform in October 1998, the statement itself was issued by finance ministers and central bank governors, accompanied by a parallel statement from heads of government.[42]

Spontaneous government networks: agencies on the loose?

In 1974, Keohane and Nye wondered "whether the common interests of central bankers in a stable currency system have been implemented as fully by transgovernmental contacts as they might have been."[43] Today, by contrast, the transgovernmental regulatory networks that have spurred the greatest concern are those that have emerged outside formal intergovernmental agreements, whether treaties or executive agreements. The Basel Committee is the leading suspect. The image of national regulators coming together of their own volition and regularizing their interactions either as a network or a networked organization raises the specter of agencies on the loose, unrestrained by democratic accountability.

Some of these networks – like the Basel Committee, IOSCO, and the INECE – have actually institutionalized themselves as transgovernmental regulatory organizations. The founding and designated members of these organizations are domestic agencies, or even subnational agencies such as provincial or state regulators. The organizations themselves tend to operate with a minimum or physical and legal infrastructure; most lack a foundational treaty, and operate under only a few agreed upon objectives or bylaws. Nothing they do purports to be legally binding on the members, and there typically are few or no mechanisms for formal enforcement or implementation. Rather, these functions are left to the members themselves.

Others are the head-of-state networks like the G-7 or G-8 or the others that meet initially and then trigger the formation of other executive networks. From a cynical point of view, chief executives may simply want to be seen to be doing something in response to various international crises splashed across the front pages. But it seems equally likely that they actually want to do something – to decide on and implement policies without the delays and complications of formal intergovernmental diplomacy. They may well be seeking to circumvent their own legislatures and the governments of countries with whom they did not think they could reach agreement, but less for the purposes of exclusion than of speed and effectiveness.

Still other networks result from agreements between domestic regulatory agencies of two or more nations. The last few decades have witnessed the emergence of a vast network of such agreements effectively institutionalizing channels of regulatory cooperation between specific countries. These agreements embrace principles that can be implemented by the regulators themselves; they do not need further approval by national legislators. Widespread use of Memoranda of Understanding (MOUs) and even less formal initiatives has sped the growth of transgovernmental interaction exponentially, in contrast to the lethargic pace at which traditional treaty negotiations proceed. Further, while these agreements are most commonly bilateral, they may also evolve into plurilateral arrangements, offering greater scope but less formality than traditional transgovernmental organizations.[44]

Financial regulatory networks are an example of such spontaneous networks created by agreements among domestic agencies. The Financial Crimes Enforcement Network (FINCEN) is a "means of bringing people and information together to fight the complex problem of money laundering" through "information sharing among law enforcement agencies and its other partners in the regulatory and financial communities."[45] FINCEN's International Coordination Group includes domestic regulators in a variety of states and provides "knowledge, policy recommendations, and staff support for international anti-money laundering efforts."[46] Similarly, the Egmont Group is a "worldwide network of Financial Intelligence Units" (FIUs) that serves as a "forum for FIUs around the world to improve support to their respective governments in the fight against financial crimes."[47] Egmont includes sixty-nine member countries from all parts of the world.[48]

Putting it all together: pioneering new forms of regional and global organization

Collections of different types of these networks can themselves constitute a new form of international organization. … APEC was driven initially by meetings of heads of state, which then devolved to regular meetings of finance ministers and other economic regulators, and then ultimately to meetings of parliamentarians … Its formal title as an "organization" is a "cooperation," essentially a term for institutionalized cooperation through regular meetings of different types of transgovernmental officials – first from the executive branch, then later judges and legislators.

Similarly, the birth of a new organization entitled the Conference and Interaction on Confidence-building Measures in Central Asia (CICA) was a meeting of the heads of states of the member-countries, together with representatives from various observer-states and participating international organizations.[49] Organizations entitled "conferences," like the original Conference on Security and Cooperation in Europe (CSCE), are initially created as forums for transgovernmental networks, led by heads of state. Over time, as with CSCE becoming the Organization for Security and Cooperation in Europe (OSCE), they may ripen into more traditional organizations. But they need not.

The most highly developed and innovative transgovernmental system is the European Union. Legal scholar Renaud Dehousse describes a basic paradox in EU governance: "increased uniformity is certainly needed; [but] greater centralization is politically inconceivable, and probably undesirable."[50] The response is regulation by networks – networks of national officials.[51] The question now confronting a growing number of legal scholars and political theorists is how decision making by these networks fits with varying national models of European democracy.

The European Union itself sits within a broader set of regulatory networks among OECD countries. OECD officials see all OECD member states, including the United

States, all EU members, Japan, and now South Korea and Mexico, as participating in a multilayered regulatory system.[52] The infrastructure of this system is government networks.

Put these all together and the world becomes a world of concentric circles of regulatory networks, although with different centers. Fred Bergsten has explicitly called for global financial governance by "concentric network of largely informal groups to manage international economic and monetary affairs; a core G-2 comprising the United States and Europe; a G-3 including Japan; the existing G-7, G-10, and G-22 to engage the next tier of countries."[53] Alternatively, it is quite possible to envision global governance by government networks as radiating outward from the European Union itself, which is pioneering a way for states to govern themselves collectively without giving up their identity as separate and still largely sovereign states. Still another vision, given APEC and the growth of transgovernmental networks in NAFTA, is of concentric circles of government networks spreading from various regions in the world. The relative density of these circles in different regions is likely to reflect a host of different factors: relative homogeneity of political systems; degree of trust among government officials; degree of economic development; degree of economic interdependence, shading into genuine economic integration; and relative willingness of national governments specifically to delegate government functions beyond their borders to networks of national officials.

3 What Do They Do?

So what exactly do government networks do? Their members talk a lot. Indeed, in one category of networks, talking is the primary activity. These are information networks, created and sustained by the valuable exchange of ideas, techniques, experiences, and problems. In many ways these networks create the equivalent of collective memory and collective brainstorming over time. In a second category of networks, talk leads to action – direct aid in enforcing specific regulations against specific subjects. These are enforcement networks, which also encompass training and technical-assistance programs of developed-country regulators for their counterparts in developing countries in order to build the recipients' capacity to enforce their own domestic regulations. A third category comprises harmonization networks – networks that, to facilitate trade, provide the infrastructure for complicated technical negotiations aimed at harmonizing one nation's laws and regulations with another's. Harmonizing distinctive national laws can have significant policy implications, which makes harmonization networks suspect for those concerned about democratic input into the regulatory process.

These three types of networks have overlapping functions – harmonization and enforcement networks also exchange information and offer assistance; information networks can also make common policy for their members under certain circumstances. Nevertheless, this basic categorization helps us think about what functions government networks perform and what impact they have, a subject for chapter 5.

The typology applies to vertical as well as horizontal networks, although as yet very few vertical regulatory networks exist. It also applies to networks of judges and legislators as well regulators.

Information networks

The glue of any transgovernmental network is the exchange of information and ideas. Put a group of environmental regulators, central bankers, or utilities commissioners in a room and they will begin talking about different techniques of regulation, commiserating about common problems, and brainstorming new approaches. To take one example, from an annual conference of utilities regulators from around the world, one participant is reported as carrying two notebooks. One notebook is used to write down ideas stemming from the meeting, the other simply to write down information learned about current techniques of utilities regulation. In this regard, meetings of national government officials are no different from professional conferences in myriad other professions. As an hour in any big convention hotel will attest, participants go to panels on new developments and techniques in their profession, hold roundtable discussions sharing experiences, and network furiously in the lobbies.

Link government officials across the internet and their networks become more durable – by virtue of being virtual. They exchange data of different types, organization charts and policies, and lessons learned from specific experiences. Indeed, antitrust regulators are in such constant informal communication that one observer has concluded from interviews with these regulators that "[p]hone, email, and fax are the primary mode of contemporary international regulatory diplomacy."[54]

Some information exchanges are more purposeful. For instance, the EPA and its Mexican counterpart, PROFEPA, have exchanged information on their respective policies for assessing monetary penalties in enforcement cases, on administrative enforcement procedure, on the development of programs for criminal environmental enforcement, and more. They have also exchanged statistics on enforcement activities and accomplishments. In doing so, they were able to identify differing methodologies and capabilities for enforcement activities.[55] Further, the Commission on Environmental Cooperation and its standing North American Working Group on Environmental Enforcement and Compliance Cooperation, consisting of regulators from the United States, Mexico, and Canada, regularly convenes meetings and workshops to exchange information on cross-border pollution issues.[56]

Not surprisingly, information exchange through transgovernmental networks is particularly important among agencies that engage in the business of gathering information. Following the September 11 attack on the United States, American intelligence agencies called for enhanced intelligence cooperation to combat international terrorism. According to press reports, this call may have led to diplomatic break-throughs and long-term global realignments through the sharing of information between countries that previously "did not talk to one another."[57]

In addition to exchanging information, information networks often actively collect and distill information about how their members do business. The standard product of this distillation is a code of "best practices," meaning a set of the best possible means for achieving a desired result identified by any members of the network at a given point in time.[58] The Basel Committee, IOSCO, and financial regulators around the world have all issued codes of best practices on everything from how to regulate securities markets to how to prevent money laundering. Indeed, IOSCO has even issued a set of principles for concluding MOUs, which is essentially a set of best practices for transgovernmental networking. One example of such a code is the Basel Committee's *Core Principles for Effective Banking Supervision,* released in 1997. Distilled from the practices and policies of member states, it "provides a comprehensive blueprint for an effective [financial] supervisory system."[59]

Participants in information networks can also actively cooperate in uncovering new information of value to all members. Again in the area of securities regulation, IOSCO has led to coordination of research among members to try to respond to new regulatory challenges posed by globalization. Similarly, the FATF, created by the G-7 in 1989, has tried to fulfill its mission of reducing money laundering by promoting standards designed to provide countries with a blueprint for the establishment and implementation of anti-money-laundering laws and programs. In addition, law enforcement officials from the FATF countries meet each year to exchange information on significant money-laundering cases and operations. These annual "Typologies" exercises are important opportunities for operational experts to identify and describe current money-laundering trends and effective countermeasures.[60]

Equally important is the information that participants in a network exchange about each other – concerning competence, quality, integrity, and professionalism. Once a network is established, it essentially becomes a conduit for information about members' reputations – even if they didn't have or care about their reputations beforehand. Having and caring about a reputation among one's peers is a very powerful tool of professional socialization – in the profession of governance no less than in the private or nonprofit sector. To the extent that the bond between members of a network is that they face common challenges and responsibilities, they are likely to strengthen norms of professionalism. It is likely that evident violations of those norms would quickly be transmitted across the network, raising the cost of those violations.

Giandomenico Majone refers to such networks within the European Union as "bearers of reputation," observing that they "facilitate the development of behavioral standards and working practices that create shared expectations and enhance the effectiveness of the social mechanisms of reputational enforcement."[61] For example, the European Agency for the Evaluation of Medicinal Products "works closely with the corresponding national authorities," linking together national agencies that have an incentive "to maintain their reputation in the eyes of the other members of the network."[62]

Reputation is particularly important to the extent that specific government networks themselves embody a system of regulation by information, in which power flows not from coercive capacity but from an ability to exercise influence through knowledge and persuasion.[63] The EU has pioneered this type of regulation through networks of national regulators operating within the framework of Brussels-based governance. Here more than ever, success in exercising this kind of power requires an agency to establish its credibility and professional reputation.[64]

Enforcement networks

A second type of network focuses primarily on enhancing cooperation among national regulators to enforce existing national laws and rules. As the subjects they regulate – from criminals to corporations – move across borders, they must expand their regulatory reach by initiating contact with their foreign counterparts. In some cases, as with antitrust networks between the United States and the European Union, the exchange of confidential information is authorized by Congress. In other cases, these networks have just evolved. In many instances they overlap with information networks, but they engage in sufficiently specialized kinds of activity to merit separate discussion.

Sharing intelligence in specific cases Not surprisingly, enforcement networks are densest among those government officials whose job is actually law enforcement: police officers, customs officials, drug agents, and prosecutors. The best example is Interpol, or the International Police Organization. Interpol has a General Secretariat that offers exchange of information through an automated search facility operating twenty-four hours a day in four languages, issues international "wanted" notices, distributes international publications and updates, convenes international conferences and symposia on policing matters, offers forensic services, and makes specialist analysts available for assistance and support of local police efforts.[65] With a membership of 179 police agencies from different countries, it is the second largest international organization after the United Nations, which makes it all the more remarkable that it was not founded by a treaty and does not belong within any other international political body.[66]

Other examples include the EU criminal enforcement network, known as Trevi, which was initially created in 1976 as a forum to exchange information regarding terrorism. It was later expanded to deal with international organized crime and public order. At the highest level, Trevi is run by ministers who are responsible for internal security matters in their own member-states. The European Union also has a criminal enforcement network (EMP) with twelve Middle Eastern countries.[67] Two additional groups – the Dublin Group and the Pompidou Group – provide the auspices for antidrug cooperation between the European Union, the United States, and several other states. And in the Western Hemisphere, the annual International Drug Enforcement Conference (IDEC) brings together upper-level drug law-enforcement officials from South, Central, and North America, as well as the Caribbean, to share drug-related intelligence and develop operational strategies that can be used against international drug traffickers.

Moving away from pure criminal law, the U.S. International Antitrust Enforcement Assistance Act of 1994 authorizes the antitrust division of the Justice Department to "provide assistance to foreign authorities regarding possible violation of the foreign antitrust laws … if U.S. authorities are confident that the foreign authorities will reciprocate."[68] The United States and the European Union now cooperate directly on many cases of mutual interest, to the extent, in the words of one observer, that they have come "to redefine their roles as members of a transatlantic community of professionals dealing with common problems."[69]

At a very concrete level, enforcement cooperation is exactly the sharing of information and the collaborative development of specific enforcement strategies in individual cases. The next step is cooperating in strategic priority setting and targeting, as well as in taking measures to promote citizen compliance with the relevant laws and to monitor that compliance. Measures to promote compliance in turn can lead to consultation on the provisions of the law in the first place. Yet all of these activities will come to naught if some members of the network do not have sufficient capacity – buildings, computers, personnel, training – actually to engage in enforcement activity. All the will and cooperation in the world cannot compensate for lack of capacity. One of the principal activities of enforcement networks thus becomes capacity-building through technical assistance and training.

Capacity building When the official U.S. foreign aid budget is tallied, it does not include technical assistance from the SEC, the EPA, the Justice Department, or the Treasury Department. Yet all of these parts of the U.S. government provide growing amounts of such assistance to their counterparts around the world. During fiscal year 2002, the SEC provided training to over five hundred officials from eighty-seven countries.[70] The EPA offers twenty-three courses to train foreign regulators and environmental officials.[71] These agencies are working to build regulatory capacity in countries with poorly developed or weak legal systems – capacity to enforce not only national regulations, but also international and foreign law when necessary. The aim is not altruism. It results from the recognition that a global regulatory system based on transgovernmental networks is only as strong as its weakest link.

Consider. Each year the SEC hosts "major training program[s] for foreign securities regulators" which, by 2000, had trained over 1,260 regulators from more than one hundred countries.[72] The United States has trained all of Mexico's environmental regulators. And in the area of competition policy, for example, Spencer Weber Waller notes that "the rest of the world looks to the United States as one of the most important sources of learning about competition law."[73] Similarly other countries and international networks themselves engage in such training processes. Through the biannual International Conference of Banking Supervisors, the Basel Committee itself provides training and assistance to regulators around the world.[74] Through the Emerging Markets Committee, IOSCO offers "training programs for the staff of members" and facilitates the "exchange of information and transfer of technology and expertise."[75]

Technical assistance can extend beyond training to actual help with establishing a regulatory office. Mexican environmental regulatory cooperation with the EPA led to the creation of PROFEPA, a largely U.S.-trained environmental enforcement office.[76] The SEC has concluded MOUs with many foreign securities regulators not only to create a framework for cooperation, but also to provide technical assistance that seeks to establish mini-SECs abroad.[77] If a foreign authority does not have sufficient power under its domestic law to replicate the SEC's principal features, then the SEC generally requests it to obtain legislation to enable it to do so. Again, the aim is to create a counterpart node in the transgovernmental network. In other examples, the International Criminal Investigative Training Assistance Program of the U.S. Department of Justice has as its watchword: "Building Law Enforcement Institutions Worldwide."[78] Assistance from the Pentagon also helps build actual military infrastructure in other countries.

Training and capacity building, like simple information exchange, is a two-way street. Even as the EPA was trying to train their Mexican counterparts to replicate the EPA in Mexico, Mexican officials were training EPA officials as well – teaching them about Mexican practices and policies.[79] Further, they help instill a sense of professional community among all concerned. In April 1998 the FBI informed the U.S. Senate of its growing cooperation with Central European countries and republics of the former Soviet Union. In particular, the bureau stressed the importance of training foreign law enforcement officers through the FBI's National Academy program, which helps build "cop-to-cop relationships not only between law enforcement from the United States and participating countries, but also between officers from participating countries themselves."[80]

Harmonization networks

Many of the most powerful transgovernmental networks are a product of harmonization agreements. Generally acting within the framework of a trade agreement, often with a specific legislative mandate, regulators may work together to harmonize regulatory standards, such as product-safety standards, with the overt aim of achieving efficiency.[81] Critics of harmonization, led by the U.S. advocacy group Public Citizen, charge that these harmonization initiatives often result in quiet changes to domestic regulation in ways that cannot be justified solely by efficiency gains.[82] Behind the facade of technical adjustments for improved coordination of regulations and uniformity of standards lie subtle adjustments in levels of consumer, environmental, and social protection of all kinds – or so it is argued. Harmonization efforts thus demonstrate the complex interrelationship between formal international agreements, transgovernmental interaction, and domestic regulation – a relationship that may often produce unintended consequences.

Harmonization involves "the adoption of an international standard that adjusts the regulatory standards or procedures of two or more countries until they are the same."[83] Harmonization is often required by trade agreements such as NAFTA and the WTO, resulting in harmonization networks of countries moving toward a single standard. The process is currently underway on issues ranging from public health and food safety to consumer, worker and environmental protection policies.[84] More specifically, the Agreement on Technical Barriers to Trade obligates the United States to "use international standards … as a basis for technical regulation."[85] Similarly, "U.S. and EC regulators are informally cooperating in the writing of international aviation standards," even in the absence of a harmonization or mutual-recognition agreement by trade negotiators.[86]

A less demanding alternative to harmonization is mutual recognition by two countries of each other's regulatory standards and decisions on specific cases. Mutual-recognition agreements (MRAs) are widely used in the EU; in effect, country *A* agrees to substitute country *B*'s regulatory apparatus for its own with regard to products and services originating in country *B*. This step automatically connects the regulators in both countries. Beyond the European Union, MRAs have emerged between the United States and the European Union, now linking the regulators in all fifteen (soon to be twenty-five) EU members to their U.S. counterparts.

Harmonization processes and MRAs can provide valuable cover in domestic bureaucratic battles. According to Kalypso Nicolaïdis, an expert on these types of negotiations, "regulators from both sides who have been talking to one another under the aegis of technical cooperation can enter into a transnational alliance and jointly resist capture of 'their' issue by the trade community."[87] She offers as an example the FAA's ability to keep aviation standards out of trade negotiations by collaborating with other aviation regulators.[88] Similarly, the FDA reached an MRA with its foreign counterparts that essentially allowed it "to delegate its foreign inspections to foreign bodies," a move that allowed it to husband scarce resources and helped preserve its regulatory autonomy and possibly its very existence.[89] Such bureaucratic bolstering is exactly the type of effect about which public interest groups such as Public Citizen worry, although they probably would not object to strengthening the hand of environmentalists and aviation regulators against trade officials!

Overall, the difference between beneficial bolstering and worrisome collusion is likely to be in the eye of the beholder. In some situations it is quite possible that the bolstering process works not to advance special interests, but rather to support clean government against corrupt government and professional practices against openly politicized processes. On the other hand, Spencer Weber Waller makes the point that in antitrust matters a community of international scholars, lawyers, and competition officials have "learned to think, speak, and write about competition issues in a similar way" through their participation in "bilateral and multilateral discussions, national and international bar associations, common conferences, and specialized publications."[90] He concludes that this community has become an interest group itself, seeking "to improve its power, prestige, jurisdiction, and resources in competition with other bureaucratic and nongovernmental interest groups."[91]

But is the emergence of transgovernmental networks of different types of regulators operating as their own interest groups a good or bad thing? When the U.S.

Department of Justice proposes the creation of a Global Competition Network as a forum for countries to "formulate and develop consensus on proposals for procedural and substantive convergence of antitrust enforcement," it is not surprising that many corporations and commentators might find reason to worry – depending on the ideas and principles around which the members of such a network are likely to converge.[92] But then what of INECE, founded by Dutch and the American environmental regulators? Suppose that network produces convergence around higher environmental standards worldwide?

Chapter 6 takes on these questions directly. It should be evident that they cannot be answered categorically on one side or the other. But harmonization networks, real or perceived, often raise hackles. They may be networks explicitly charged with harmonizing a specific area of law or regulation, or, more broadly, information and enforcement networks that simply begin to generate convergence around a set of common ideas, approaches, and principles. What they do, or what they are thought to do, matters increasingly to an increasing number of people.

4 Conclusion

When the Pakistani army staged a coup in October 1999, the Clinton administration sent a stern protest to the new, self-appointed ruler, General Pervez Musharraf. A nuclear-capable, unstable nation had plunged into fresh turmoil, and Washington waited anxiously: How would Musharraf respond? When the general finally placed his call, it was not to President Clinton, Secretary of State Madeleine K. Al-bright, Defense Secretary William S. Cohen, or the U.S. ambassador in Islamabad. Instead, Musharraf telephoned Gen. Anthony C. Zinni of the U.S. Marines, who happened to be sitting with Cohen at an airfield in Egypt.

American generals and admirals, emissaries of the world's strongest military for fifty years, have long exercised independent influence abroad, jockeying with diplomats and intelligence agencies to shape U.S. foreign policy. But the swelling institution of the CINC has shifted this balance during the 1990s. Sheer budgetary prowess is one reason. Another is that the nature of post–Cold War U.S. military engagements, emphasizing peacekeeping and nation building, has steadily pushed the uniformed CINCs into expanded diplomatic and political roles.[93]

Transgovernmentalism in the executive branch is well established. Executive-branch officials have long been charged with implementing international agreements within their domain of expertise; they also formed "clubs" within various international organizations. More recently, however, chief executives, top ministers, and independent regulators have all reached out specifically to their foreign counterparts for a wide variety of purposes. Some of the resulting networks have become sufficiently institutionalized as to become transgovernmental regulatory organizations. This relative formalization resulted not from any actual international negotiations but simply from sufficiently regular meetings that the participating regulators decided to constitute themselves an organization. Other regulatory networks are much looser, consisting of webs of bilateral and plurilateral agreements between specific regulatory agencies cemented by MOUs.

Heads of state and top ministers, most frequently economic ministers, have done the same thing, although their networks are not dubbed organizations but rather "groups," as in the G-7, the G-8, the G-20. These are essentially institutionalized summits of the officials involved. They have played an important role in responding to financial and political crises such as the East Asian financial crisis, the Russian financial crisis, and more recently problems of terrorists and states sponsoring terrorism purchasing nuclear and other deadly materials in the former Soviet Union. The G-20 is also engaged in longer-term examination of how to reshape the international financial architecture to include the concerns of developing-country economies.

These various networks, crisscrossing one another in different regional and global configurations, fall into three broad categories of activity. In information networks, participants exchange information on common problems and actual and potential solutions. They collect information on various national regulatory practices and distill them into codes of best practices, which they then disseminate with the special imprimatur of a transgovernmental organization – benefiting not only from combined technical expertise, but also from the ability to change and amend these practices as new information, which also includes information about each other's reputation for probity and competence, is received.

In enforcement networks, members help each other enforce national laws by exchanging information and actively assisting one another in tracking down criminals, monopolists and unfair competitors, polluters, and other violators of the web of national and international regulations. Some members, from the advanced industrial democracies, consciously export their structure, organization, and mode of operation through technical assistance and training in developing countries. Replicating these basic features then makes enforcement cooperation that much easier. It also builds governance capacity in many countries.

Finally, harmonization networks allow their members to engage in the ongoing, often highly detailed work of making national laws in a particular regulatory area consistent with one another. These networks are generally authorized by some international agreement between the participating countries. But the work of harmonization by networks of regulators entrusts many important choices to technical expertise and can allow network members to bolster one another in domestic bureaucratic struggles. Such bolstering could mean the privileging of a technocratic over a democratic policy outcome, but it could also mean supporting an independent regulatory voice against corrupt political pressure.

In all these areas, regulators genuinely are the new diplomats – on the front lines of issues that were once the exclusive preserve of domestic policy, but that now cannot be resolved by national authorities alone. These regulators must often work side by side with the "old diplomats," the highly trained members of national foreign services who must tackle delicate issues of statecraft. But the world of ambassadors in diplomatic dress presenting their nations' views to one another on a select set of security and economic issues is gone.

Many readers will not be surprised by this assertion. We have grown accustomed to a world in which finance ministers issue their own communiqués. But what few foreign policy observers realize is that the same embassy logs that are recording the visits of regulators networking with their national counterparts are also increasingly recording the visits of judges. Judicial networks, which I will examine the next chapter, have developed differently from regulatory networks, but comprise a distinctive and increasingly important world of their own.

Notes

1 Remarks before the Council of Women's International Leaders, 16 November 1999, United Nations, New York, New York.

2 Lyman, "The Growing Influence of Domestic Factors," 76–80.

3 Ibid., 83–85; Andrews, "Listening in on the US-EU Legal Dialogue," 35 (observing that the "State Department has a very limited role to play on substantive aspects of transatlantic regulatory cooperation").

4 One example of this is the Human Security Network, "a group of like-minded countries from all regions of the world that, at the level of Foreign Ministers, maintains dialogue on questions pertaining to human security." On the Human Security Network homepage (cited 3 June 2002).

5 See Keohane and Nye, *Power and Interdependence*, 8.

6 Majone, "The European Community as a Regulatory State," 321–419.

7 Kagan, "Presidential Administration," 2245.

8 Testimony of Francis Bator before the Subcommittee on Foreign Economic Policy, Committee on Foreign Affairs, House of Representatives, 25 July 1972. *U.S. Foreign Economic Policy: Implications for the Organization of the Executive Branch*, 110–11, quoted in Robert O. Keohane and Joseph S. Nye, Jr., "Transgovernmental Relations and International Organizations," 39, 42.

9 Keohane and Nye. "Transgovernmental Relations," 43. They included in their definition the increased communication between governmental agencies and business carried on by separate departments with their counterpart bureaucracies abroad. Ibid., 41–42. By contrast, a meeting of heads-of-state at which new initiatives are taken was still the paradigm of the state-centric (inter-state) model. Ibid., 43–44.

10 Keohane and Nye, "Transgovernmental Relations," 39, 42.

11 See generally Rosenau and Czempiel, eds., *Governance without Government: Order and Change in World Politics*; James Rosenau, *Along the Domestic-International Frontier: Exploring Governance in a Turbulent World*; Thomas Friedman, *The Lexus and the Olive Tree: Understanding Globalization*. For an excellent review of much of the governance literature, see Gerry Stoker, "Governance as Theory: Five Propositions," 17–28. For an influential discussion of multilevel governance within the EU, see Scharpf, "Community and Autonomy: Multi-Level Governance in the European Union," 219; Marks, Hooghe, and Blank, "An Actor-Centered Approach to Multi-Level Governance," 20; Horeth, *The Trilemma of Legitimacy: Multilevel Governance in the EU and the Problem of Democracy*.

12 Haas, "Introduction: Epistemic Communities and International Policy Coordination," 3. See also Haas, ed., "Knowledge, Power and International Policy Coordination"; Haas, *Saving the Mediterranean: The Politics of International Environmental Cooperation*.

13 The members of the Basel Committee come from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, United Kingdom, and United States. See Bank for International Settlements home-page, Basel, Switzerland (cited 3 June 2003).

14 Porter, *States, Markets and Regimes in Global Finance*, 3; see also Zaring, "International Law by Other Means: The Twilight Existence of International Financial Regulatory Organization," 284. Since 1999, the Basel Committee has been working toward and receiving comments on a new Capital Accord with a more risk-sensitive framework, expected to be implemented in 2005. See Bank for International Settlements homepage, Basel, Switzerland (cited 20 December 2002).

15 The Financial Stability Forum was initiated by the finance ministers and central bank governors of the G-7 industrial countries in February 1999, following a report on international cooperation and coordination in the area of financial market supervision and surveillance by the president of the Deutsche Bundesbank. In addition to representatives from the Basel Committee, IOSCO, and the IAIS, its members include senior representatives from national authorities responsible for financial stability in significant international financial centers; international financial institutions such as the BIS, the IMF, the OECD, and the World Bank; and committees of central bank experts. See "A Guide to Fund Committees, Groups,and Clubs: Financial Stability Forum," on International Monetary Fund homepage (cited 20 December 2002). For a discussion of additional networks created by the Basel Committee, IOSCO, and the IAIS, such as the Joint Forum on Financial Conglomerates and the Year 2000 Network, see Slaughter, "Governing the Global Economy through Government Networks," 186–88.

16 Zaring, "International Law by Other Means," 281; See also Porter, *States, Markets and Regimes*, 4–5.

17 Picciotto, "Networks in International Economic Integration," 1039.

18 Jacobs, "Why Governments Must Work Together," 18. "Regulatory Co-Operation for an Interdependent World: Issues for Government," 18.

19 "Regulatory Co-Operation for an Interdependent World," 35.

20 Majone, "The European Community."

21 Dehousse, "Regulation by Networks in the European Community: The Role of European Agencies," 254.

22 Work on this subject, often in the context of the European Union, includes Cohen and Sabel, "Directly-Deliberative Polyarchy," 313; Joerges and Neyer, "From Intergovernmental Bargaining to Deliberative Political Processes: The Constitutionalisation of Comitology," 273; Weiler, *The Constitution of Europe: "Do the New Clothes Have An Emperor?" and Other Essays on European Integration*. For an excellent range of arguments by many of the authors engaged in these debates through the 1990s, see the articles collected in Joerges and Vos, eds., *EU Committees: Social Regulation, Law and Politics*.

23 Pollack and Shaffer, eds., *Transatlantic Governance in the Global Economy*.

24 Vogel, *Benefits or Barriers?: Regulation in Transatlantic Trade*, 10; see also Bermann, "Regulatory Cooperation between the European Commission and U.S. Administrative Agencies." 936: "Because … the E.C.'s stage of economic and social development is roughly similar to that of the U.S., and because their political and cultural values are broadly comparable, the regulations adopted in the two capitals cover broadly the same range of issues, and, within that range of issues, often pursue the same general policy ends [footnote omitted]."

25 Ibid., chap. 1.

26 Ibid. These are the questions animating the case studies collected in this volume.
27 See Koh, "The 1994 Roscoe Found Lecture: Transnational Legal Process," 181; Chayes and Chayes, *The New Sovereignty: Compliance with International Regulatory Agreements*.
28 Zaring refers to these as international financial regulatory organizations. Zaring, "International Law by Other Means," 281.
29 Gardner, *Sterling-Dollar Diplomacy in Current Perspective: The Origins and the Prospects of Our International Economic Order*.
30 Keohane and Nye, Jr., "The Club Model of Multilateral Cooperation and Problems of Democratic Legitimacy."
31 Ibid., 3.
32 Ibid., 4.
33 For an excellent brief overview of the OECD's origins and current activities, see James Salzman, "Labor Rights, Globalization and Institutions: The Role and Influence of the Organization for Economic Cooperation and Development," 776–83. The OECD website is also a rich source of information.
34 See Cheek, "The Limits of Informal Regulatory Cooperation in International Affairs: A Review of the Global Intellectual Property Regime," 313–14 (describing how the Stockholm Group in TRIPS negotiations allowed "a group of ten industrialized countries to meet together informally and reach consensus on various issues"). See also Keohane and Nye, "Transgovernmental Relations," 54. Keohane and Nye describe the ways in which international organizations "facilitate face-to-face meetings among officials in 'domestic' agencies of different governments; suggesting that 'strategically minded secretariats' of international organizations could plan meetings with an eye to encouraging such contacts; and identifying several networks involving both transgovernmental and transnational contacts specifically created by international organizations."
35 Pollack and Shaffer, *Transatlantic Governance*, 14–17.
36 Speech by President Clinton to the Council on Foreign Relations, 14 September 1998, "Transcript: President's Speech on the Global Financial Crisis," on the United States Mission to Italy homepage (cited 4 June 2003). Clinton was echoing calls by British Prime Minister Tony Blair to build a "new Bretton Woods for the next millennium." "Global Finance. Don't Wait Up," *The Economist*, 3 October 1998, U.S. edition, 83.
37 Garten, "Needed: A Fed For the World," *New York Times*, 23 September 1998, A29. Two British economists, John Eatwell and Lance Taylor, proposed a World Financial Authority. See "Global finance. Don't wait up," 83.
38 Chote, "A World in the Woods," *Financial Times*, 2 November 1998, 20.
39 "Global finance. Don't wait up," 83. President Clinton and other leaders of APEC announced the creation of the Group of 22, on a temporary basis, at their meeting in Vancouver in November 1997. It was to be a group of finance ministers and central bank governors to advance reform of the architecture of global finance. Its original members included finance ministers and central bank governors from the G-7 countries plus fifteen emerging market countries (Argentina, Australia, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Malaysia, Mexico, Poland, Russia, Singapore, South Africa, Thailand, the United Kingdom, and the United States). It subsequently evolved into the G-33 and then the G-20.
40 "APEC's Family Feud," *The Economist*, 21 November 1998, 41.
41 Jeffrey Sachs proposed the creation of a G-16, composed of the G-8 plus "eight counterparts from the developing world." The group would "not seek to dictate to the world, but

to establish the parameters from a renewed and honest dialogue." Sachs, "Making it work," *The Economist*, 12 September 1998, U.S. edition, 23; Jeffrey Garten proposed a G-15 (the G-8 plus Seven) to monitor the actions of a new global central bank. Garten, "Needed: A Fed For the World."

42 Chote, "A World in the Woods," 20.

43 Keohane and Nye, "Transgovernmental Relations," 51.

44 For a detailed description of many of these arrangements, see Slaughter, "Governing the Global Economy."

45 "About Fincen/Overview," on the Financial Crimes Enforcement Network homepage (cited 31 May 2003).

46 "International/Training and Technical Assistance," on the Financial Crimes Enforcement Network homepage (cited 31 May 2003).

47 "International/Egmont Group/FIUs," on the Financial Crimes Enforcement Network homepage (cited 31 May 2003).

48 "The Egmont Group," on the Financial Crimes Enforcement Network homepage (cited 31 May 2003).

49 The Conference on Interaction and Confidence-Building Measures in Asia includes Afghanistan, Azerbaijan, China, Egypt, India, Iran, Israel, Kazakhstan, Kyrgyzstan, Mongolia, Pakistan, Palestine, Russia, Tajikistan, Turkey, and Uzbekistan. Further information is available at "CICA: The Road to Security in Asia," on the Embassy of Kazakhstan in the United States homepage (cited 4 June 2003).

50 Dehousse, "Regulation by Networks in the European Community," 259.

51 Ibid.

52 Jacobs, "Why Governments Must Work Together," 18; "Regulatory Co-Operation for an Interdependent World," 15–38, 18.

53 Bergsten, "American and Europe: Clash of Titans?" 33.

54 Portnoy, "Convergence and Diversity in Antitrust Globalization," unpublished manuscript presented at the Program on International Politics, Economics, and Security (PIPES), University of Chicago, January 1999, 22.

55 Fulton and Sperling, "The Network of Environmental Enforcement and Complicance Cooperation in North America and the Western Hemisphere," 122–123.

56 See Raustiala, "The Architecture of International Cooperation: Transgovernmental Networks and The Future of International Law," 1.

57 Shadid and Donelly, "America Prepares Coalition Building/Diplomatic Realignment: New Enemy May Mean New Friends," *The Boston Globe*, 24 September 2001, A14.

58 Dorf and Sabel, "A Constitution of Democratic Experimentalism," 352–53 (describing "best-practice rules" as "processes that are at least as effective in achieving the regulatory objective as the best practice identified by the agency at any given time").

59 "The Basel Committee on Banking Supervision," on the Bank for International Settlements homepage (cited 1 June 2003).

60 "International/Training and Technical Assistance," on the Financial Crimes Enforcement Network homepage (cited 18 May 2003).

61 Majone, "The New European Agencies: Regulation by Information," 272.

62 Ibid., 271–72.

63 See Waller, "The Internationalization of Antitrust Enforcement," 364.

64 Ibid.

65 See "Interpol: An Overview," on the Interpol homepage (cited 20 December 2002).

66 Ibid.
67 See "The Euro-Mediterranean Partnership (EMP)," on the Euro-Mediterranean Human Rights Network homepage (cited 20 December 2002).
68 Raustiala, "The Architecture of International Cooperation."
69 Devuyst, "Transatlantic Competition Relations," 127–28.
70 "Securities and Exchange Commission Annual Report 2002," on the U.S. Securities and Exchange Commission homepage (cited 4 June 2003).
71 "Environmental Training Modules: International Catalogue," on the United States Environmental Protection Agency homepage (cited 4 June 2003).
72 Raustiala, "The Architecture of International Cooperation," 33.
73 Waller, "Comparative Competition Law as a Form of Empiricism," 457.
74 "The Basel Committee on Banking Supervision," on the Bank for International Settlements homepage (cited 1 June 2003).
75 "IOSCO Working Committees," on the OICU-IOSCO homepage (cited 1 June 2003).
76 Raustiala, "The Architecture of International Cooperation," 48.
77 Ibid., 23.
78 "International Criminal Investigative Training Assistance Program," on the Department of Justice homepage (cited 18 May 2003).
79 Raustiala, "The Architecture of International Cooperation," 48.
80 "Statement for the Record of Louis J. Freeh, Director of the FBI on International Crime before the United States Senate Committee on Appropriations Subcommittee on Foreign Operations Washington, D.C (21 April 1998)," on the FBI Homepage (cited 20 December 2002).
81 Public Citizen observes that this harmonization is driven by industry and may not always be in the best interests of the public. See "Harmonization," on the Public Citizen homepage (cited 20 December 2002).
82 Ibid. Public Citizen also publishes a Harmonization Alert on their web page that "seeks to promote open and accountable policy-making relating to public health, natural resources, consumer safety, and economic justice standards in the era of globalization." See "Harmonizaton Alert," on the Public Citizen homepage (cited 20 December 2002).
83 Shapiro, "International Trade Agreements, Regulatory Protection, and Public Accountability," 436.
84 "Public Citizen: Harmonization Handbook," on the Public Citizen home-page (cited 1 June 2003).
85 Shapiro, "International Trade Agreements," 437.
86 See Bermann, "Regulatory Cooperation with Counterpart Agencies Abroad: The FAA'S Aircraft Certification Experience," 669.
87 Nicolaïdis, "Mutual Recognition Regimes: Towards a Comparative Analysis," (Working Paper 8, Center For International Affairs, Harvard University, 1998), 33.
88 Ibid.
89 Ibid., 49.
90 Waller, "Antitrust Enforcement," 396.
91 Ibid.
92 Address by Charles James, "International Antitrust in the Bush Administration" (21 September 2001), cited in Raustiala, "The Architecture of International Cooperation," 40.
93 Priest, "A Four-Star Foreign Policy? U.S. Commanders Wield Rising Clout, Autonomy," *Washington Post*, 28 September 2000, A1.

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28

Transnational Advocacy Networks in International Politics (1998)

Margaret E. Keck and Kathryn Sikkink

World politics at the end of the twentieth century involves, alongside states, many nonstate actors that interact with each other, with states, and with international organizations. These interactions are structured in terms of networks, and transnational networks are increasingly visible in international politics. Some involve economic actors and firms. Some are networks of scientists and experts whose professional ties and shared causal ideas underpin their efforts to influence policy.[1] Others are networks of activists, distinguishable largely by the centrality of principled ideas or values in motivating their formation.[2] We will call these *transnational advocacy networks*.

[…]

Despite their differences, these networks are similar in several important respects: the centrality of values or principled ideas, the belief that individuals can make a difference, the creative use of information, and the employment by nongovernmental actors of sophisticated political strategies in targeting their campaigns.

… More than other kinds of transnational actors, advocacy networks often reach beyond policy change to advocate and instigate changes in the institutional and principled basis of international interactions. When they succeed, they are an important part of an explanation for changes in world politics. A transnational advocacy network includes those relevant actors working internationally on an issue, who are bound together by shared values, a common discourse, and dense, exchanges of information and services. Such networks are most prevalent in issue areas characterized by high

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value content and informational uncertainty. At the core of the relationship is information exchange. What is novel in these networks is the ability of nontraditional international actors to mobilize information strategically to help create new issues and categories and to persuade, pressure, and gain leverage over much more powerful organizations and governments. Activists in networks try not only to influence policy outcomes, but to transform the terms and nature of the debate. They are not always successful in their efforts, but they are increasingly relevant players in policy debates.

[…]

We examine transnational advocacy networks and what they do by analyzing campaigns networks have waged. For our purposes, campaigns are sets of strategically linked activities in which members of a diffuse principled network (what social movement theorists would call a "mobilization potential") develop explicit, visible ties and mutually recognized roles in pursuit of a common goal (and generally against a common target). In a campaign, core network actors mobilize others and initiate the tasks of structural integration and cultural negotiation among the groups in the network. Just as in domestic campaigns, they connect groups to each other, seek out resources, propose and prepare activities, and conduct public relations. They must also consciously seek to develop a "common frame of meaning" – a task complicated by cultural diversity within transnational networks.

[…]

What Is a Transnational Advocacy Network?

Networks are forms of organization characterized by voluntary, reciprocal, and horizontal patterns of communication and exchange. The organizational theorist Walter Powell calls them a third mode of economic organization, distinctly different from markets and hierarchy (the firm). "Networks are 'lighter on their feet' than hierarchy" and are "particularly apt for circumstances in which there is a need for efficient, reliable information," and "for the exchange of commodities whose value is not easily measured."[3] …

We call them advocacy networks because advocates plead the causes of others or defend a cause or proposition. Advocacy captures what is unique about these transnational networks: they are organized to promote causes, principled ideas, and norms, and they often involve individuals advocating policy changes that cannot be easily linked to a rationalist understanding of their "interests."

Some issue areas reproduce transnationally the webs of personal relationships that are crucial in the formation of domestic networks. Advocacy networks have been particularly important in value-laden debates over human rights, the environment, women, infant health, and indigenous peoples, where large numbers of differently situated individuals have become acquainted over a considerable period and developed similar world views….

Major actors in advocacy networks may include the following: (1) international and domestic nongovernmental research and advocacy organizations; (2) local social movements; (3) foundations; (4) the media; (5) churches, trade unions, consumer organizations, and intellectuals; (6) parts of regional and international intergovernmental organizations; and (7) parts of the executive and/or parliamentary branches of governments. Not all these will be present in each advocacy network. Initial research suggests, however, that international and domestic NGOs play a central role in all advocacy networks, usually initiating actions and pressuring more powerful actors to take positions. NGOs introduce new ideas, provide information, and lobby for policy changes.

Groups in a network share values and frequently exchange information and services. The flow of information among actors in the network reveals a dense web of connections among these groups, both formal and informal. The movement of funds and services is especially notable between foundations and NGOs, and some NGOs provide services such as training for other NGOs in the same and sometimes other advocacy networks. Personnel also circulate within and among networks, as relevant players move from one to another in a version of the "revolving door."

Relationships among networks, both within and between issue areas, are similar to what scholars of social movements have found for domestic activism. Individuals and foundation funding have moved back and forth among them. Environmentalists and women's groups have looked at the history of human rights campaigns for models of effective international institution building. Refugee resettlement and indigenous people's rights are increasingly central components of international environmental activity, and vice versa; mainstream human rights organizations have joined the campaign for women's rights. Some activists consider themselves part of an "NGO community."

Besides sharing information, groups in networks create categories or frames within which to generate and organize information on which to base their campaigns. Their ability to generate information quickly and accurately, and deploy it effectively, is their most valuable currency; it is also central to their identity. Core campaign organizers must ensure that individuals and organizations with access to necessary information are incorporated into the network; different ways of framing an issue may require quite different kinds of information. Thus frame disputes can be a significant source of change within networks.

Why and How Have Transnational Advocacy Networks Emerged?

[…]

We cannot accurately count transnational advocacy networks to measure their growth over time, but one proxy is the increase in the number of international NGOs committed to social change. Because international NGOs are key components of any advocacy network, this increase suggests broader trends in the number, size, and density of advocacy networks generally…. the number of international nongovernmental social change groups has increased across all issues, though to varying degrees in different issue areas.

[…]

Transnational advocacy networks appear most likely to emerge around those issues where (1) channels between domestic groups and their governments are blocked or hampered or where such channels are ineffective for resolving a conflict, setting into motion the "boomerang" pattern of influence characteristic of these networks; (2) activists or "political entrepreneurs" believe that networking will further their missions and campaigns, and actively promote networks; and (3) conferences and other forms of international contact create arenas for forming and strengthening networks. Where channels of participation are blocked, the international arena may be the only means that domestic activists have to gain attention to their issues. Boomerang strategies are most common in campaigns where the target is a state's domestic policies or behavior; where a campaign seeks broad procedural change involving dispersed actors, strategies are more diffuse.

The Boomerang Pattern

It is no accident that so many advocacy networks address claims about rights in their campaigns. Governments are the primary "guarantors" of rights, but also their primary violators. When a government violates or refuses to recognize rights, individuals and domestic groups often have no recourse within domestic political or judicial arenas. They may seek international connections finally to express their concerns and even to protect their lives.

When channels between the state and its domestic actors are blocked, the boomerang pattern of influence characteristic of transnational networks may occur: domestic NGOs bypass their state and directly search out international allies to try to bring pressure on their states from outside. This is most obviously the case in human rights campaigns. Similarly, indigenous rights campaigns and environmental campaigns that support the demands of local peoples for participation in development projects that would affect them frequently involve this kind of triangulation. Linkages are important for both sides: for the less powerful third world actors, networks provide access, leverage, and information (and often money) they could not expect to have on their own; for northern groups, they make credible the assertion that they are struggling with, and not only for, their southern partners. Not surprisingly, such relationships can produce considerable tensions.

[…]

The Growth of International Contact

Opportunities for network activities have increased over the last two decades. In addition to the efforts of pioneers, a proliferation of international organizations and conferences has provided foci for connections. Cheaper air travel and new electronic communication technologies speed information flows and simplify personal contact among activists.

Underlying these trends is a broader cultural shift. The new networks have depended on the creation of a new kind of global public (or civil society), which grew as a cultural legacy of the 1960s.[4] Both the activism that swept Western Europe, the United States, and many parts of the third world during that decade, and the vastly increased opportunities for international contact, contributed to this shift. With a significant decline in air fares, foreign travel ceased to be the exclusive privilege of the wealthy. Students participated in exchange programs. The Peace Corps and lay missionary programs sent thousands of young people to live and work in the developing world. Political exiles from Latin America taught in US and European universities. Churches opened their doors to refugees, and to new ideas and commitments.

[…]

Advocacy networks in the north function in a cultural milieu of internationalism that is generally optimistic about the promise and possibilities of international networking. For network members in developing countries, however, justifying external intervention or pressure in domestic affairs is a much trickier business, except when lives are at stake. Linkages with northern networks require high levels of trust, as arguments justifying intervention on ethical grounds confront the ingrained nationalism common to many political groups in the developing world, as well as memories of colonial and neocolonial relations.

How Do Transnational Advocacy Networks Work?

Transnational advocacy networks seek influence in many of the same ways that other political groups or social movements do. Since they are not powerful in a traditional sense of the word, they must use the power of their information, ideas, and strategies to alter the information and value contexts within which states make policies. The bulk of what networks do might be termed persuasion or socialization, but neither process is devoid of conflict. Persuasion and socialization often involve not just reasoning with opponents, but also bringing pressure, arm-twisting, encouraging sanctions, and shaming….

Our typology of tactics that networks use in their efforts at persuasion, socialization, and pressure includes (1) *information politics*, or the ability to quickly and credibly generate politically usable information and move it to where it will have the most impact: (2) *symbolic politics*, or the ability to call upon symbols, actions, or stories that make sense of a situation for an audience that is frequently far away; (3) *leverage politics*, or the ability to call upon powerful actors to affect a situation where weaker members of a network are unlikely to have influence; and (4) *accountability politics*. or the effort to hold powerful actors to their previously stated policies or principles.

A single campaign may contain many of these elements simultaneously. For example, the human rights network disseminated information about human rights abuses in Argentina in the period 1976–83. The Mothers of the Plaza de Mayo marched in circles in the central square in Buenos Aires wearing white handkerchiefs to draw symbolic attention to the plight of their missing children. The network also tried to use both material and moral leverage against the Argentine regime, by pressuring the United States and other governments to cut off military and economic aid, and by efforts to get the UN and the Inter-American Commission on Human Rights to condemn Argentina's human rights practices. Monitoring is a variation on information politics, in which activists use information strategically to ensure accountability with public statements, existing legislation and international standards.

[…]

Under What Conditions Do Advocacy Networks Have Influence?

To assess the influence of advocacy networks we must look at goal achievement at several different levels. We identify the following types or stages of network influence: (1) issue creation and agenda setting; (2) influence on discursive positions of states and international organizations; (3) influence on institutional procedures; (4) influence on policy change in "target actors" which may be states, international organizations like the World Bank, or private actors like the Nestlé Corporation; and (5) influence on state behavior.

Networks generate attention to new issues and help set agendas when they provoke media attention, debates, hearings, and meetings on issues that previously had not been a matter of public debate. Because values are the essence of advocacy networks, this stage of influence may require a modification of the "value context" in which policy debate takes place. The UN's theme years and decades, such as International Women's Decade and the Year of Indigenous Peoples, were international events promoted by networks that heightened awareness of issues.

Networks influence discursive positions when they help persuade states and international organizations to support international declarations or to change stated domestic policy positions. The role environmental networks played in shaping state positions and conference declarations at the 1992 "Earth Summit" in Rio de Janeiro is an example of this kind of impact. They may also pressure states to make more binding commitments by signing conventions and codes of conduct.

The targets of network campaigns frequently respond to demands for policy change with changes in procedures (which may affect policies in the future). The multilateral bank campaign, … is largely responsible for a number of changes in internal bank directives mandating greater NGO and local participation in discussions of projects. It also opened access to formerly restricted information, and led to the establishment of an independent inspection panel for World Bank projects. Procedural changes can greatly increase the opportunity for advocacy organizations to develop regular contact with other key players on an issue, and they sometimes offer the opportunity to move from outside to inside pressure strategies.

A network's activities may produce changes in policies, not only of the target states, but also of other states and/or international institutions. Explicit policy shifts seem to denote success, but even here both their causes and meanings may be elusive. We can point with some confidence to network impact where human rights network pressures have achieved cutoffs of military aid to repressive regimes, or a curtailment of repressive practices. Sometimes human rights activity even affects regime stability. But we must take care to distinguish between policy change and change in behavior; official policies regarding timber extraction in Sarawak, Malaysia, for example, may say little about how timber companies behave on the ground in the absence of enforcement.

We speak of stages of impact, and not merely types of impact, because we believe that increased attention, followed by changes in discursive positions, make governments more vulnerable to the claims that networks raise. (Discursive changes can also have a powerfully divisive effect on networks themselves, splitting insiders from outsiders, reformers from radicals.[5]) A government that claims to be protecting indigenous areas or ecological reserves is potentially more vulnerable to charges that such areas are endangered than one that makes no such claim. At that point the effort is not to make governments change their position but to hold them to their word. Meaningful policy change is thus more likely when the first three types or stages of impact have occurred.

[…]

Issue Characteristics

Issues that involve ideas about right and wrong are amenable to advocacy networking because they arouse strong feelings, allow networks to recruit volunteers and activists, and infuse meaning into these volunteer activities. However, not all principled ideas lead to network formation, and some issues can be framed more easily than others so as to resonate with policymakers and publics. In particular, problems whose causes can be assigned to the deliberate (intentional) actions of identifiable individuals are amenable to advocacy network strategies in ways that problems whose causes are irredeemably structural are not. The real creativity of advocacy networks has been in finding intentionalist frames within which to address some elements of structural problems. Though the frame of violence against women does not exhaust the structural issue of patriarchy, it may transform some of patriarchy's effects into problems amenable to solution. Reframing land use and tenure conflict as environmental issues does not exhaust the problems of poverty and inequality, but it may improve the odds against solving part of them. Network actors argue that in such reframing they are weakening the structural apparatus of patriarchy, poverty, and inequality and empowering new actors to address these problems better in the future. Whether or not they are right, with the decline almost everywhere of mass parties of the left, few alternative agendas remain on the table within which these issues can be addressed.

[…]

We also argue that in order to campaign on an issue it must be converted into a "causal story" that establishes who bears responsibility or guilt." But the causal chain needs to be sufficiently short and clear to make the case convincing. The responsibility of a torturer who places an electric prod to a prisoner's genitals is quite clear. Assigning blame to state leaders for the actions of soldiers or prison guards involves a longer causal chain, but accords with common notions of the principle of strict chain of command in military regimes.

[…]

Actor Characteristics

However amenable particular issues may be to strong transnational and transcultural messages, there must be actors capable of transmitting those messages and targets who are vulnerable to persuasion or leverage. Networks operate best when they are dense, with many actors, strong connections among groups in the network, and reliable information flows. (Density refers both to regularity and diffusion of information exchange within networks and to coverage of key areas.) Effective networks must involve reciprocal information exchanges, and include activists from target countries as well as those able to get institutional leverage….

Target actors must be vulnerable either to material incentives or to sanctions from outside actors, or they must be sensitive to pressure because of gaps between stated commitments and practice. Vulnerability arises both from the availability of leverage and the target's sensitivity to leverage; if either is missing, a campaign may fail. Countries that are most suceptible to network pressures are those that aspire to belong to a normative community of nations. This desire implies a view of state preferences that recognizes states' interactions as a social – and socializing – process.[7] Thus moral leverage may be especially relevant where states are actively trying to raise their status in the international system.

[…]

Toward a Global Civil Society?

Many other scholars now recognize that "the state does not monopolize the public sphere,"[8] and are seeking, as we are, ways to describe the sphere of international interactions under a variety of names: transnational relation, international civil society, and global civil society.[9] In these views, states no longer look unitary from the outside. Increasingly dense interactions among individuals, groups, actors from states, and international institutions appear to involve much more than re-presenting interests on a world stage.

We contend that the advocacy network concept cannot be subsumed under notions of transnational social movements or global civil society. In particular, theorists who suggest that a global civil society will inevitably emerge from economic globalization or from revolutions in communication and transportation technologies ignore the issues of agency and political opportunity that we find central for understanding the evolution of new international institutions and relationships.

One strong globalization thesis is "world polity theory" associated with the sociologist John Meyer and his colleagues. For Meyer world cultural forces play a key causal role in constituting the state's characteristics and action.[10] World polity researchers have shown conclusively that states with very different histories, cultures, and social and political structures all came to adopt similar conceptions of what it means to be a state and what it means to be a citizen, regardless of patterns of institutional development. Yet in attributing so much to transnational diffusion, they remain silent on the sources of world culture except to argue that it originates from the modern Western tradition. In their view, international NGOs are not actors, but "enactors" of world cultural norms; the role of the International Olympic Committee is functionally the same as that of Greenpeace or Amnesty International.[11]

We lack convincing studies of the sustained and specific processes through which individuals and organizations create (or resist the creation of) something resembling a global civil society. Our research leads us to believe that these interactions involve much more agency than a pure diffusionist perspective suggests. Even though the implications of our findings are much broader than most political scientists would admit, the findings themselves do not yet support the strong claims about an emerging global civil society.[12] We are much more comfortable with a conception of transnational civil society as an arena of struggle, a fragmented and contested area where "the politics of transnational civil society is centrally about the way in which certain groups emerge and are legitimized (by governments, institutions, and other groups)."[13]

[…]

Notes

1 Peter Haas has called these "knowledge-based" or "epistemic communities." See Peter Hass, "Introduction: Epistemic Communities and International Policy Coordination," *Knowledge, Power and International Policy Coordination*, special issue, *International Organization* 46 (Winter 1992), pp. 1–36.

2 Ideas that specify criteria for determining whether actions are right and wrong and whether outcomes are just or unjust are shared principled beliefs or values. Beliefs about cause-effect relationships are shared casual beliefs. Judith Goldstein and Robert Keohane, eds., *Ideas and Foreign Policy: Beliefs, Institutions, and Political Change* (Ithaca: Cornell University Press, 1993), pp. 8–10.

3 Walter W. Powell, "Neither Market nor Hierarchy: Network Forms of Organization," *Research in Organizational Behavior* 12 (1990): 295–96, 303–4.

4 Sidney Tarrow, "Mentalities, Political Cultures, and Collective Action Frames: Constructing Meanings through Action," in *Frontiers in Social Movement Theory*, ed. Aldon D. Morris and Carol McClurg Mueller (New Haven: Yale University Press, 1992), p. 184.

5 We thank Jonathan Fox for reminding us of this point.

6 Deborah A. Stone, "Causal Stories and the Formation of Policy Agendas," *Political Science Quarterly* 104:2 (1989): 281–300.

7 See Martha Finnemore, *National Interests in International Society* (Ithaca: Cornell University Press, 1986).

8 M. J. Peterson, "Transnational Activity, International Society, and World Politics," *Millennium* 21:3 (1992): 375–76.

9 See, for example, Ronnie Lipschutz, "Reconstructing World Politics: The Emergence of Global Civil Society," *Millennium* 21:3 (1992): 389–420; Paul Wapner, "Politics beyond the State: Environmental Activism and World Civic Politics," *World Politics* 47 (April 1995): 311–40; and the special issue of *Millennium* on social movements and world politics, 23: 3 (Winter 1994).

10 For examples see John W. Meyer and Michael T. Hannan, eds., *National Development and the World System* (Chicago: University of Chicago Press, 1979); and George Thomas, John Meyer. Francisco Ramirez, John Boli, eds., *Institutional Structure: Constituting State, Society, and Individual* (Newbury Park, Calif.: Sage. 1987.

11 John Boli and George M. Thomas, "Introduction: World Polity Formation since 1875," in *Constructing World Culture: International Non-Governmental Organizations since 1875* (Stanford University Press, 1999).

12 Sidney Tarrow, *Power in Movement: Social Movements and Contentious Politics*, rev. ed. (Cambridge: Cambridge University Press, 1998), Chapter 11. An earlier version appeared as "Fishnets, Internets and Catnets: Globalization and Transnational Collective Action," Instituto Juan March de Estudios e Investigaciones, Madrid: Working Papers 1996/78, March 1996; and Peterson, "Transnational Activity."

13 Andrew Hurrell and Ngaire Woods, "Globalisation and Inequality," *Millennium* 24:3 (1995), p. 68.

29

Multipolarity and the New World [Dis]Order: US Hegemonic Decline and the Fragmentation of the Global Climate Regime (2011)

J. Timmons Roberts

Introduction

In Copenhagen in December 2009, two decades worth of hard, international negotiations to address climate change by thousands of participants seemed to have broken down. On the line was the ability of the United Nations system to manage a problem vast in scale, devastating in potential consequences, and entirely "wicked" in complexity. Old local, national and international political structures have strained to adapt to the biophysical, political, and economic uncertainties of the day. Climate change thus appears to be a defining and crucial test of a "New World (dis)Order" in the making (see Sonnenfeld and Mol, 2011).

The "New World dis(Order)" seen at Copenhagen was characterized by insecurity of the US in the face of its economic and political decline *vis-à-vis* China; fragmentation of the Group of 77 developing nations negotiating bloc; and weakening of the European Union, formally world leader in climate action. Some of the splinter groups from the Group of 77 developing nations (G-77) and China (now 134 nations) made stronger demands for action by the wealthy nations, including compensation and assistance for the damages done by inevitable destabilization of the climate. The EU was entirely cut out of the group that in the end negotiated the core of the Copenhagen Accord behind closed doors, the US and "BASIC": Brazil, South Africa, India and China.

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There are two sides to the equation of climate change. On the causative side, agricultural practices, forest clearing, and the burning of carbon-based fuels are at the root of production chains that sustain modern life. Efforts to address this "mitigation" side of the problem were nearly the sole focus of negotiations for a decade (1991–2001). On the impacts side, current and projected destabilization of the global climate threatens communities and whole societies very unequally (IPCC, 2007; Richardson et al./Copenhagen Science Conference 2010; Roberts and Parks, 2007). Generating, governing, distributing and utilizing funds to help developing nations cope with the inevitable changes has exploded into a complex and contentious set of negotiations on "adaptation" and "finance" (Roberts et al., 2011).

At their core, international climate change negotiations have boiled down to differing perceptions of justice in the global North and South. In the decade leading up to the 15th Conference of Parties (COP 15) to the United Nations Framework Convention on Climate Change (UNFCCC), in Copenhagen, a social movement for "climate justice" had taken off, with growing numbers of academic and policy-making publications supporting increasingly vocal contentions by activists and developing country governments. The core of the idea of climate injustice is that those who are least responsible for the problem are suffering the worst impacts of climate change, with the least capacity to address those impacts (Simms, 2000; Athanasiou and Bear, 2002; Roberts and Parks, 2007; Angus, 2009). A central demand is that those who created the problem have an historical responsibility to repay their "climate debt" for the atmospheric space they have taken, to those who did not. Climate injustice can be defined in many ways and examined at many scales: minority and poor populations within each nation are less able to prepare for, cope with, and recover from climate disasters than are wealthier elites (Environmental Justice, 2009). My focus here is on differences between nations' contributions to the climate change problem and on their positions in the evolving negotiations.

[…]

Copenhagen and Climate Justice

The still evolving history of climate negotiations has been told over and over again, sometimes quite clearly (see e.g. Luterbacher and Sprinz, 2001; Okereke, 2009; Ott et al., 2008; Müller, 2008; IISD, 2010 *Earth Negotiations Bulletin* briefings; etc.). After a quick summation, this section lays out some of the basic dimensions of climate justice by which that history can be assessed. The goal of this section is to address the question: Are we moving towards greater climate justice? The reason to ask this question is to determine if the arc of agreements is in a positive or negative direction (as judged against the criterion of climate justice). This, in turn, provides a foundation for analysis in later sections on the relationship of the direction of that arc to the erosion of US economic hegemony (Section 4) and explosion of negotiating groups in the climate talks (Section 3), respectively.

The concept of "international climate justice" can be operationalised with eight criteria.[1]

(i) A climate treaty would be *just* if it respected *procedural justice*, giving all nations "equal voice and participation," and not giving wealthy or large nations monopoly power at key junctures in the talks.[2]

(ii) A just agreement would be based on an equitable sharing of the global burden of reducing emissions, and that wealthier countries should go first and help poorer nations avoid massive growth of greenhouse gas emissions while still meeting their development goals.

(iii) *Science should guide our actions* – the rate of emissions reductions should be based on our best understanding of "atmospheric space," and we should respond when the bulk of scientific evidence suggests we may be straying into pushing the atmospheric system beyond "tipping points" which would cause major ecological and social disruptions. There are several elements of the "targets" that need to be set for that to happen.

(iv) The Intergovernmental Panel on Climate Change (IPCC) reports have repeatedly put that tipping point at a *temperature rise* of 2 °C above pre-industrial levels, and newer data and meta-analyses indicate that 1.5 or 1 °C would be far safer (Richardson et al., 2010).

(v) The 2007 IPCC report also summarizes scientific studies to say that *emissions reductions* will have to be 80–95% below 1990 levels by 2050, and at least 25–40% below that baseline by 2020. The IPCC targets are almost certainly too modest.

(vi) A just solution that avoids the worst damage to coastal populations requires that *global emissions "peak"* and begin to decline by 2015 according to the IPCC, and there is a global consensus that the *wealthy countries need to peak much sooner* than the poor.

(vii) Whether a just international climate policy could include the *trading of permits* to emit greenhouse gases has split the environmental and environmental justice movements. In principle, it does not necessarily matter for climate justice whether emissions reductions are driven by regulation, taxation on carbon, or a cap-and-trade system (or economic collapse, for that matter, if the impacts were somehow justly distributed). However a series of climate justice groups have taken a hard stand against trading of carbon permits as being an appropriation of the atmosphere for private benefit. The remainder of this paper could be spent debating this issue. However it is enough for now to say that a just solution *would not place heavy carbon taxes on the poor, nor raise their energy costs disproportionately as compared to their income*.

(viii) Lastly, in a just world, the *costs of adapting* to climate change *should be borne by those who proportionately caused the problem*, and should not come from the poor who need precious funding for their other pressing needs like health, education, and basic infrastructure. This suggests that major financial flows will be needed from the global North to the South for climate adaptation (see Roberts et al., 2011).

It turns out that we have a treaty with good language on several of these elements of climate justice: the UN Framework Convention on Climate Change. Negotiated in 1992 before and in Rio de Janeiro at the huge UN Conference on Environment and Development and eventually ratified by 191 nations, the UNFCCC agreed that Parties should act in a way that would "avoid dangerous climate change" and that Parties would act according to equity and their "common but differentiated responsibility and respective capabilities". The treaty also promised "new and additional" funding for poorer nations to adapt to climate change. Each part of "The Convention" language was carefully crafted but equally vague to avoid binding commitments, something that was already being called for in 1991 in the run-up to Rio (see e.g. Bodansky, 2001; Paterson, 2001; Okereke, 2009). So the words were nice, but they were just that. The difficult parts – the details – were pushed off until later. The Framework Convention remains in effect, and making it more concrete has been the focus of great attention since it is the only global climate agreement the US has ratified.

In efforts to put the UNFCCC into binding language requiring action of the Parties, consensus has repeatedly broken down into power politics. This happened in the Kyoto round of climate negotiations. In Japan in 1997, 129 nations agreed to a more concrete deal on how to begin the process of actually reducing greenhouse gas emissions. Though stretching over months and years before the event, the key elements of the Kyoto deal were decided in "Green Room" sessions in the middle of the last night, between the eager European Union on the one hand, and the hesitant countries of the JUSSCANNZ coalition (Japan, US, Switzerland, Canada, Australia, Norway and New Zealand) on the other, who wanted to move much more slowly on emissions reductions. Justice principles were on the table – per capita emissions rights (most heralded by India), and even the Polluter Pays Principle of each country having an "historical responsibility" for the greenhouse gases it put into the atmosphere (advanced by Brazil).

At crunch time, the key negotiations in Kyoto's green rooms excluded nearly all developing nations, so the first test, of procedural justice, failed. Key demands of the US were met, including that the treaty allow purchase of emissions reductions from other countries. And of course, the US signed but never ratified the treaty. The modest accomplishment of Kyoto was a five percent reduction of *absolute* emissions from 1990 levels by a small group of wealthy countries. Proposals for the far more just solution of reducing emissions on a *per capita* basis were deferred for future consideration …

This "grandfathering" of emissions – where high polluters retained the right to pollute at nearly those levels for the first commitment period – fails the second climate justice test, on burden-sharing grounds.

The US signed but never ratified the Kyoto Protocol (see Falkner, 2005; Paterson, 2009), and the treaty stumbled along, gaining enough key participants to go into effect only in 2005. This was quite close to the deadline for negotiating a successor treaty, due for the 15th Conference of the Parties (COP-15) in Copenhagen in 2009. As explored further in the second part of this paper, the preparatory negotiations and the conference itself showed a starkly different balance of power from those of the mid 1990s. In Copenhagen, the developing nation bloc, consisting of G-77 and China, made far stronger demands for action by the wealthy nations, both on mitigation action and adaptation funding, and on a series of other issues. In particular, island states and China demanded that developed countries follow the science in the IPCC reports such that there be 25–40% percent reductions by 2020, and 80–95% by 2050 (UNFCCC, 2009b AWG-LCA Submissions of Parties). Even late in the Copenhagen meeting there was bracketed text (meaning there is no agreement about it) with wildly different numbers for these key passages (see Bodansky 2009; Christoff, 2010). Thus, the third climate justice test, that "science should guide our actions", was not met in Copenhagen.

On adaptation to climate change, there were growing demands at the Copenhagen negotiations that those countries suffering disproportionate climate impacts – but who did not cause the problem – should receive compensation and assistance for the damages done by inevitable destabilization of the climate. The "climate justice" and "climate debt" concepts and discourse rose from rather peripheral circles in the early 2000s to being part of some of the near-final text in the Copenhagen texts on Adaptation and Financing (negotiating texts of Tuesday, 15 December 2009). Some Parties called for 1.5% of Gross Domestic Product (GDP) in wealthy nations to be earmarked for climate adaptation and mitigation support; in other venues a minimum of US$ 100 billion per year was seen as a down payment to keep negotiations from collapsing.

But the Copenhagen talks were destined to fail. Vast numbers of brackets indicating disagreement on central issues – even on texts written by Chair by himself – showed there was no clear route forward under normal UN procedure. And so after heads of state arrived in Copenhagen during the second week of meetings, the BASIC (Brazil, South Africa, India and China) countries and the US simply set aside the text carefully negotiated up to that point. The European Union, used to playing the role of climate leader (see Paterson, 2009), was pushed to the curb, as were smaller countries in the developing world that were not large industrializing states like BASIC.

The Copenhagen Accord that was drafted (UNFCCC, 2009a) was scientifically inadequate – the "pledge and review" program of voluntary emissions reductions were projected by IPCC metrics to lead us to a nearly 4 °C temperature rise (climateinteractive.org), not the 1.5 or 2 °C that most scientists believe to be the maximum to avoid high risks of dangerous climate change (IPCC, 2007). The accord fails on peaking, emissions reductions, process, and nearly every other justice principle.

There seemed to be one slightly brighter spot: on adaptation finance, where the Copenhagen Accord included what seemed to be two clear and fairly ambitious promises. The finance offer was $US 30 billion "Fast Start Finance" over 2010-2012, ramping up to US $100 billion per year by 2020. However even these seemingly straightforward promises have led to major debates after Copenhagen because their language was so unclear (Roberts et al., 2010; Stadelmann et al., 2010).

Following the Copenhagen Conference of the Parties to the UNFCCC, the Cancun 2010 negotiations showed much dissensus and near collapse before a surprisingly positive conclusion, at least on procedural grounds. In Cancun, nations felt they had been listened to, but many of the core contentious issues were merely "kicked down the road" to the 2011 negotiations in Durban, South Africa. Many of the problems facing global climate change negotiations today are the same as those of the 1990s meetings; justice remains at the core of the stalemate (see Roberts and Parks, 2007). Understanding the roots of diplomatic gridlock and the increasing fragmentation of negotiating groups, especially of the G77, are the issues we turn to next.

Multipolarity and the New World (Dis)Order

In this section I expand on how justice positions of negotiating blocs fragmented at the Copenhagen talks (2009), and in the preparatory meetings in Bonn in 2010 leading to the 16th Conference of the Parties in Cancun (2010), illustrating the multipolarity of the new world (dis)order. In climate negotiations, there have always been more formalized and less rigid groups that bargain for representation of their interests in the targeted agreement. Of course a few nations try to stand on their own, but even the US frequently joins in statements by the so-called "Umbrella Group" of Australia, Canada, Iceland, Japan, New Zealand, Norway, the Russian Federation, the Ukraine, and the US. The Umbrella Group developed from an earlier grouping called JUSSCANNZ (pronounced "juice-cans") – consisting of Japan, Switzerland, Canada, Australia, Norway and New Zealand. The other major bargaining blocs are the EU and the "Group of 77 and China", the bloc of developing nations now numbering 134 nations (see also Bodansky (2010) and Christoff, 2010).

In earlier years, most alignments into negotiating blocs could be understood by reference to the *responsibility* of nations and their ease or difficulty in reducing or eliminating their use of fossil fuels (what we might call "*mitigation-side* fairness"). This can, for example, explain the historical gap between the European Union and the US-Canada-Australia bloc (the "carboniferous capitalism" of Dalby and Paterson 2008 – cited in Paterson, 2009): these nations have vaster land areas, extensive urban forms, and coal reserves. These blocs were built also along the dimension of *capability*, which can be understood in the climate negotiations as national wealth and membership in the Organization for Economic Cooperation and Development – the club of the world's wealthy nations. This factor aligned closely with bonds of *solidarity*, among Southern nations of the G-77 who stuck together for years in the negotiations due to their common identity as excluded from the league of wealthy nations (Roberts and Parks, 2007).

Emerging and strengthening in climate negotiations in the past few years has been a *vulnerability* dimension, which has created a whole new set of adaptation- and finance-side fairness demands, especially from low-lying nations and, more recently, those facing the loss of glacial water supplies. We are seeing the insurgence of new radical climate justice arguments from civil society groups and especially ALBA, the Bolivarian Alternative for Latin America and the Caribbean, led by Venezuela and Bolivia, who reject carbon trading in the next round of a climate treaty.

The G-77 and China is a crucial and complex bloc – holding together at some times, and fracturing at others. The G-77 and China has a series of other fractions within it, each fighting for representation in G-77 positions. These sub-groups now include:

- BASIC (Brazil, South Africa, India and China), previously the BRICs (Brazil, Russia, India, and China);
- The LDCs (Least Developed Countries, 45 of the world's poorest nations, mostly in Africa);
- The African Group;
- OPEC (Oil Producing and Exporting Countries);
- Arab States (mostly in OPEC but some not);
- AOSIS (Association of Small Island States, which also includes Bangladesh and some countries *not* in the G-77, totaling 42 member states and observers);
- SIDS (Small Island Developing States – different membership than AOSIS);
- ALBA, the Bolivarian Alternative for Latin America and the Caribbean – including Cuba, Venezuela, Bolivia, Nicaragua, Honduras, Dominica and Saint Vincent and the Grenadines;
- The Central American Integration System (SICA);
- The Group of Mountain Landlocked Developing Countries, which includes Armenia, Kyrgyzstan and Tajikstan;
- The "Environmental Integrity Group" (EIG), consisting of Mexico, Liechtenstein, Monaco the Republic of Korea, and Switzerland – the only group crossing OECD/non-OECD lines, attempting to play a brokering role between the EU and the G-77;
- CACAM (Central Asia, Caucasus, Albania, and Moldova); and
- The Coalition of Rainforest Nations, a group founded in 2007 to bargain for REDD, the plan to pay developing countries to protect standing rainforests.

The point here is not to focus on the content of these groups' negotiating positions, but rather to highlight the extent to which the negotiations are fragmenting, as even small nations can now closely tailor their statements in the negotiations to their national interests along all four dimensions described above. A single omnibus bargaining unit like the G-77 and China has proven unable to reflect these kinds of specific and multi-dimensional concerns. However that bloc does still play a key role coordinating how developing nations negotiate on foundational issues, and they have been meeting twice a day during intense negotiation times … In the next section I shift to the other end of the spectrum: to the failure of leadership in the North, with the US's economic insecurity leading to an unwillingness to lead climate negotiations, and the EU experiencing both a weakening internal consensus on climate action and a collapse in its external bargaining strength. This suggests that the stalemate on climate is but one symptom of a wider change taking place in the world, as hegemonic power shifts to the East and South.

US Hegemonic Decline: Applying the Lens of Arrighi and Silver

So we have seen over the past few years a sharply increasing fragmentation of international alignments in response to climate change. Looking longer term, we see an even more extreme increase in defined positions. First, there was the UNFCCC's vague but solidaristic statements in 1992, based on per capita justice and preventing dangerous climate change. Then the incrementalist and realist 1997 Kyoto regime reflected hegemonic struggle between the US and the EU (Paterson, 2009), and ended up being based on the grandfathering of past emissions, emissions trading, and the eventual withdrawal of the world's most powerful nation – its hegemon, the US.[3] Then in the 2009/2010 Copenhagen-Cancun Round world we see a weakening in European leadership (as that bloc expanded from 17 relatively wealthy to 27 much more diverse nations), and the fragmentation of the G-77 into an even more fractious set of ad hoc negotiating groups just described.

The US was something of a foot-dragger in the 1992 Earth Summit, with President George H.W. Bush traveling to Rio and signing the UNFCCC only hesitatingly and under pressure, and agreeing to the treaty because there were no binding limits placed on the US. In the negotiations leading up to the 1997 Kyoto pact, the Clinton/Gore administration played a role of demanding binding limits also on China, India and some other developing nations, a move resisted by the G77, EU, and most environmentalists (Masood, 1997a,b). The US played a role of resisting efforts to include it in Kyoto, to the point that the country was nearly completely marginalized during George W. Bush's administration. Then President Barack Obama negotiated the 2009 Copenhagen Accord with the BASIC countries on the last negotiation day, but as we briefly reviewed in Section 2, the Accord was not a step in the direction of climate justice.

A framework I find useful to understand the shift in the dynamics of climate negotiations is to consider the massive upheaval in the global political economic system over these twenty years. Giovanni Arrighi and Beverly Silver have written a series of pieces, including their 2001 article, "Capitalism and World (dis)Order", in the *Review of International Studies*.[4] The piece describes transitions over five centuries in global hegemony: from Genoese, Dutch, British and now American cycles of rise and decline. In each cycle, the rise of financial capital plays a key role, creating flexibility of accumulation for the hegemonic power's elites, and diversifying income of these elites as different types of activities in certain locations become more and then less profitable. In the US hegemonic cycle, the profitability of manufacturing in the core nations dropped sharply in the late 1970s, 1980s, and 1990s, as job-heavy production shifted to cheap labor zones such as Mexico and China. The fiscal crisis was deferred as it was in previous hegemonic cycles, as financial power sustained each hegemon beyond its time. Each hegemon, at the end of its cycle of dominance, experienced a final boom and "pursues their national interest without regard for system-level problems that require system-level solutions" (p. 271).

Arrighi and Silver argue that such global orders are very unstable. "[T]he power of the hegemonic state experiences a deflation, and a hegemonic crisis sets in. … Hegemonic crises have been characterized by three distinct but closely related processes: the intensification of interstate and inter-enterprise competition; the escalation of social conflicts; and the interstitial emergence of new configurations of power."(270–271). They argue that the final stages are

> complete hegemonic breakdown and 'systemic chaos'… a situation of severe and seemingly irremediable systemic disorganization. As competition and conflicts escalate beyond the regulatory capacity of existing structures, new structures emerge interstitially and destabilize further the dominant configuration of power. Disorder tends to become self-reinforcing, threatening to provoke or actually provoking the complete breakdown in the system's organization. (Arrighi and Silver, 2001, p. 271)

To bring this back to interstate climate politics, in his landmark book, *The Long Twentieth Century*, Arrighi describes how, in the face of military and financial crisis in 1973, the US retreated from the world stage and "US strategies of power came to be characterized by a basic neglect of world governmental functions. It was as if the ruling groups within the US had decided that, since the world could no longer be governed by them, it should be left to govern itself"(301).[5] Arrighi argues that, in this vacuum, oil-producing states organized an effective way to gain huge rents from petroleum (the 1973 and 1978 OPEC embargos, and carefully attempting to modulate production at other times to keep prices up) (Arrighi, 1994: 322).

Two things happened with that money. First, Arab oil producers gave foreign assistance of at least $100 billion accumulated since that period (Shuhan et al., 2010). We do not know whether one of the goals of Arab aid has been to secure support for their position in other negotiations, such as to keep key recipients from dissenting from OPEC views in G-77 negotiations during climate change negotiations. If Arab donors did use aid that way they would not be alone: anecdotal information suggests Japan has secretly used aid in this way for votes on the International Whaling Commission, and (among other cases), and the US in 2010 publically made payments from the Copenhagen funding (most publicly, to Ecuador) provisional on the signing of the Copenhagen Accord.

Second, the oil boom money from OPEC governments was often loaned (through Western banks) to other developing countries with adjustable rates, and these rates skyrocketed when the Reagan administration in the US adopted a tight fiscal policy to regain control (Arrighi, 2001). This created a debt crisis that set back many developing countries for a decade. This failure of development to measure up to expectations has certainly strengthened the G-77's cohesiveness in the climate negotiations, even as their interests diverged (see Roberts and Parks, 2007).

Meanwhile, China's economy (and energy use/carbon emissions) has risen exponentially since 2001, threatening US global hegemony, at least in some market segments. India also has the ability to undermine US labor competitiveness in a large number of job categories long thought to be securely unexportable. Arrighi and Silver argue that the rich countries cannot compete with the ascendant nations in East Asia because of profoundly different developmental paths (especially wage rates), and they cannot be restructured "without causing social strains so unbearable that they would result in chaos rather than 'competitiveness'" (2001, p. 278). Arrighi and Silver end with the ominous warning that "If the system eventually breaks down, it will be primarily because of US resistance to adjustment and accommodation. And conversely, US adjustment and accommodation to the rising economic power of the East Asian region is an essential condition for a non-catastrophic transition to a new world order." (p. 279).

In his 2009 "Post-Hegemonic Climate Politics?" piece, Matthew Paterson argues that Europe has taken the lead in the area of global climate policy, surpassing the US. However in Copenhagen, we saw the rise of BASIC, especially China, as the real challenger to US hegemonic power.[6] As Arrighi and Silver say, the hegemon is typically the only power with the ability to lead the world in protecting "global public goods." This suggests that the US, as declining hegemon, is leaving its climate mess for the rising economic hegemon (seemingly China) to clean up. As Arrighi and Silver put it about economic issues: "An equally essential condition is the emergence of a new global leadership from the main centres of the East Asian economic expansion. This leadership must be willing and able to rise up to the task of providing system-level solutions to the system-level problems left behind by US hegemony" (p. 279). Whether China will be the next global hegemonic power is uncertain. And though China has the ability to mobilize extraordinary economic resources and it has invested heavily in renewable energy sources, its leadership's overall emphasis on addressing climate change remains uncertain because it has economic growth as its top priority (see also Mol, 2011). Whether China, another nation, or a regional bloc becomes the next global hegemon, Arrighi and Silver's work supports the idea that they will inherit a climate mess requiring someone to take the lead in cleaning up.

Discussion and Conclusion

Observing many years of turmoil in negotiations over global nations' response to climate change, leading ever further away from principles and practice of climate justice, one is tempted to chalk it up to stubbornness on the part of a few selfish nations: the US and Saudi Arabia most obviously and for the longest time, but Canada might be put in this group, and also one could say China and India, for different reasons. Poor leadership by the Danish Presidency at Copenhagen was clearly a factor, as deft leadership by Mexico in Cancun confirmed. The list could go on. Certainly short-sighted selfishness has been a major factor in creating our current dire situation on climate change, but *I argue here that the roots of failure to reach consensus on a global response to climate change lie in the global economic structure and its current phase of restructuring.* Many nations in the global South remain frustrated that in spite of many decades of promises and striving that they face persistent inequality and stalled economic development. In the case of the US, its pigheadedness in negotiations might be seen as having been driven by insecurity in a shifting global political economy about its ability to provide jobs for its workers in the future where all sorts of work is moving to China and India.

Giovanni Arrighi and Beverly Silver point us to two central parts of that dynamic. First, while developing nations may be industrializing, the majority of citizens in those nations are not getting rich (or even getting to global middle class status in GDP/capita terms) in the process (Arrighi and Silver, 2001; Arrighi et al., 2003, 2005). This happens because lower-profit parts of the product cycle are offshored to those countries, with owners looking for cheap labor havens. This persistent and growing inequality between and within nations exacerbates the frustration of many in the developing world about their stalled prosperity, which also dampens their enthusiasm about limiting their future growth – an issue we've discussed at length elsewhere (Roberts and Parks, 2007; Parks and Roberts, 2010). The current article therefore begins to address two major gaps in our previous work, which was more focused on explaining non-cooperation by developing countries. Those gaps are (1) explaining fragmentation in the global South, and (2) the roots of resistance by the US Senate and executive branch to a meaningful and binding climate treaty.

For two decades now, the US has been the bull in the china shop of climate negotiations – repeatedly smashing any small progress that was being delicately arranged. It has not been alone in wrecking the negotiations, but its intransigence has provided a shield behind which many other nations can conveniently hide. The US government's unwillingness to take active steps to address this looming global crisis is exactly the kind of failure of leadership that Arrighi and Silver describe among hegemons in the "autumns" of their decline. This has been true since the Genoese, Dutch, and British rode waves of boom and bust over the past centuries. In the current case it's fairly simple: US fear of job loss to China lay behind the July 1997 Byrd-Hagel Resolution that arguably sunk the Kyoto Protocol, tying the Clinton administration's hands the summer before the COP 3 in that Japanese city. That resolution read that

> the United States should not be a signatory to any protocol … which would mandate new commitments to limit or reduce greenhouse gas emissions … unless the protocol or other agreement also mandates new specific scheduled commitments to limit or reduce greenhouse gas emissions for Developing Country Parties within the same compliance period, or would result in serious harm to the economy of the United States (US Senate, July 25, 1997)

US stubbornness in the climate negotiations is driven by fear of job loss and competitiveness to China, India, and elsewhere, while China and other rapidly developing nations in turn fear the treaty being used by the US and others to dampen their growth and defer their dreams.[7]

Global economic and geopolitical restructuring also opens up fracture lines within the bloc of G-77 and China countries, at least partially along the lines of paths of economic development. Beyond the old North-South categories of *solidarity* by wealth, the negotiating blocs … can be seen as being determined by three main factors: (i) *responsibility* for climate change; (ii) *capability* to act and help others act (both determined by position in the global economy); and (iii) *vulnerability* to climate impacts (a geographic factor but mostly an economic one, determined by climate, land quality, poverty, wealth, and political and economic factors – a burgeoning set of research attempts to document this). These are not merely immediate economic interests: beyond economic causation of bargaining positions, there has also been strong solidarity and identity by developing nations in the G-77 bloc due to years of poor experience in attaining their goals in the realm of development and political advancement. Climate negotiations cannot be separated from those on broader development and trade issues, nor those of a broader political nature.

The dynamics in Copenhagen between Chinese Premier Wen Jiabao and US President Barack Obama had the smell of an interaction between a rising and a declining hegemon, on an issue they both would have preferred to avoid: binding emissions reduction targets on greenhouse gases. Peter Christoff (2010) argues that China was:

> …by Copenhagen… well on the way to being the global leader in clean energy technologies, and was moving ever faster along its development path. A re-emergent, cooperative USA presented a threat to its various leadership aspirations.… A deal constraining China's emissions could – depending on its strength – serve to limit its economic growth, internal security and capacity for future global extension. So a strong deal was not in China's short term interests.

And avoid the issue of binding targets they did. In spite of language claiming that it was an important step, the Copenhagen Accord was in fact the weakest possible agreement, since it included only a "pledge and review" approach to controlling carbon emissions, and with those pledges now totaled up, condemns us to +4° C global warming. The latter will mean an extremely disruptive future for us and for our children, since temperatures are heading to an extraordinary new level, yet to be fully explored.[8] The Cancun Agreements moved the unjust "pledge and review" method of determining action requirements further towards legitimation in the UN bargain. In terms of the most fundamental ((iv), (v), and (vi)) of the climate justice criteria reviewed in the second section of this article, the Copenhagen Accord and the Cancun Agreements mark a complete failure to "prevent dangerous climate change," an abrogation of what was agreed back in Rio in 1992.

The four meetings in Bonn, Bangkok, and Tianjin, China in 2010 were a desperate effort to "pick up the pieces" of Copenhagen and rebuild international trust and a process by which to go forward to sign a treaty at Cancun or beyond. Hopeful institutionalists and environmentalists not focused on social justice believe this is the necessary and feasible route forward – constructing global management structures through the UN (Clapp and Dauvergne, 2007; Biermann et al., 2009; etc.). Realists might laugh at any expectation of success on the road to Durban and beyond; rational choice institutionalists like Keohane (1984) and Haas et al. (1993) might not be surprised, arguing that even with weakened hegemons, that international cooperation can continue. In contrast, I would argue that any attempt to rebuild the international process on climate change requires acknowledging the structural reshaping of the global political economy going on today: *fragmentation in interests* along the four lines of responsibility, capability, vulnerability and solidarity, while we have a *hegemonic crisis*, decline and a failure in leadership. Based on historical experience with such economic transitions, Arrighi and Silver observe that the typical characteristics of this phase are sharply increased competition, social conflict, and systematic chaos, where the existing political structures cannot address the problems they face (2003: p. 271). In the context of the UN, there is little question that our multilateral governance system has been ineffective in addressing the climate crisis.

Setting aside the UN process is not an option if developing nations (especially smaller and poorer ones) are going to be part of a global solution. But the question of how to construct institutions that can muster an adequate response must be addressed: the response that could work at this geopolitical juncture might look nothing like existing proposed solutions.

Arrighi and Silver raise concerns about military conflict as the US loses economic strength but retains huge military power. With key states blocking progress, we might follow their lead in looking to social movements to guide civilization away from conflict and violence, to a peaceful transition. Short-term state interests (as acted upon by most politicians) are not bringing us to agreement; it may be that only movements built upon North-South networks which are focused on principles of climate justice and our common survival can build a global new deal.

The requirements for achieving just outcomes with respect to global climate change are steep. There is no evidence that we are moving closer to climate justice as the decades tick away (see Section 2), nor that with fragmentation and hegemonic transition/crisis … negotiations are becoming more likely to yield sufficient and timely fruit. "Focal points" (compromise foci where diverse interests might agree) based on fairness need to be developed and advanced by social movement actors ("norm entrepreneurs", see Parks and Roberts, 2010; Acharya, 2004; Finnemore and Sikkink, 1998) and adopted by states; somehow the field of interstate negotiations has to move from polarized and hardened positions to reasonable but scientifically adequate action. In other words, broad coalitions of social movements may have to do the essential bargaining and firmly bring proposed solutions to their states to agree.

I have in this article raised questions of whether shifts in the global economic system are driving us towards or away from consensus focal points in our response to climate change. Unfortunately the evidence suggests the latter. However sometimes just the right combination of factors has brought together effective coalitions to forge new social norms and advance viable focal points in the international arena. Much can be learned from past efforts to change these norms, as was successfully accomplished by churches, development non-governmental organizations, and charitable foundations in the Jubilee 2000 campaign, redefining what it means to hold extremely poor countries in debt. Another successful realignment of norms came with the campaign to make it unacceptable for drug companies to make big profits selling drugs to Africa and other poor nations struck by the acquired immune deficiency syndrome (AIDS) epidemic. Structure and realism suggest pessimism in the current conjuncture, but we cannot afford the luxury of fatalism – so we must focus on constructing viable ways out of the climate change negotiations impasse, based on equity, justice and pragmatism.

Notes

1 Six of the eight focus on the mitigation side of climate justice, one on process, and one on adaptation. These eight dimensions are some of the major elements, but there are dozens – even hundreds of more detailed parts of the negotiations that one could focus upon. There is some overlap with Shue's (1992), Müller's (1999) and Paterson's (2001) elements of a just climate policy (see also Albin, 2001). There are many elements that could be added, especially on the governance, collection and distribution of adaptation finance, technology transfer and intellectual property rights, on what counts for carbon sinks and agriculture, Reducing Emissions from Deforestation and Forest Degradation (REDD), and many elements of process.

2 As one anonymous reviewer usefully pointed out, there is much room to debate whether it is just to grant such exclusive rights to national states (as opposed to communities, indigenous nations, etc.), and what such equal voice might mean (speaking rights or veto power, etc.).

3 Kyoto also of course exempted the poorer nations from any binding limits on their emissions in that round, expecting them to come inside the list of countries with binding limits only later.

4 (2001), 27:5:257–279. See also Arrighi, 1994; Arrighi Silver and Brewer 2003, 2005.

5 Reagan's administration rebuilt American swagger with saber-rattling and massive debt spending. In some of their other work, Arrighi and Silver resist the idea that since they are industrializing means that developing countries will catch up to the currently wealthy nations (2001; 2003; Arrighi, Silver and Brewer 2003, 2005). They do, however, see the rise of East Asia as the best chance to reduce global inequality.

6 Paterson also argues that climate politics are not only about diplomatic negotiations between states, but rather firms and NGOs have developed a whole new set of carbon markets. "It is unclear if it is even *principally* about such a bargain." (2009: p. 151)

7 Looking at other environmental issue areas, DeSombre (2000) argues that there are segments of US industrial and labor lobbies that gain from environmental treaties, and push for them.

8 See Oxford, 2009, the Environmental Change Institute's conference on "4 Degrees" in Fall, 2009.

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Changing Global Norms through Reactive Diffusion: The Case of Intellectual Property Protection of AIDS Drugs (2012)

Nitsan Chorev

Most theories on the creation of global norms and international laws do not discuss the conditions under which these norms and laws may change once in place. Yet experience suggests that norms, laws, and the interpretation given to specific provisions do transform over time. What conditions and processes allow for policy transformations? In this article, I explore this question by looking at the case of intellectual property protection. In 1994, an international agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), signed under the auspices of the World Trade Organization (WTO), obliged all member states to pass laws to improve the protection of patents.

The TRIPS agreement contained provisions describing a number of permissible exceptions, or flexibilities, in the protection of intellectual property rights, but the U.S. government was initially able to enforce a narrow interpretation of those provisions. In the years since, however, many states passed intellectual property laws with explicit references to the controversial exceptions. These exceptions include (1) compulsory licensing in which, without the patent holder's consent, the government makes direct use of the patent or grants a license to a third-party manufacturer to commercialize a patented invention; (2) parallel importation in which a government buys a patented drug from a legitimate third party; and (3) exceptions from patentability when a product fails to meet the legal conditions to be granted a patent or have a patent renewed (Musungu and Oh 2006). At the international level, two texts delineated the new scope of countries' rights: the Doha Declaration on the TRIPS Agreement and Public Health

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adopted in November 2001 (the Doha Declaration) and the Decision on the Implementation of Paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health adopted on August 30, 2003 (the August 30 Decision).

Expanding TRIPS flexibilities played an important role in the struggle for improved access to AIDS drugs. In the mid-1990s, when scientists first found a combination of antiretroviral drugs (ARVs) effective for the treatment of HIV, brand-name drug companies charged more than $10,000 per patient per year, which HIV/AIDS patients in poor countries could not possibly afford. At the time, pharmaceutical companies did not offer poor countries discounted prices for AIDS drugs and wealthy nations refused to finance the expensive drugs because they did not consider treatment a realistic possibility for poor countries. Partly thanks to the TRIPS exceptions that allowed developing countries to locally produce or import generic versions of patented drugs under certain conditions, the situation today is strikingly different. First-line AIDS drugs in poor countries, most of them generic, can cost as little as $67 per patient per year (Médecins Sans Frontières 2010),[1] and rich countries often fund their purchase. At the end of 2009, approximately 5 million people in low- and middle-income countries, or around 52 percent of people with HIV/AIDS who needed treatment, were receiving antiretroviral drug therapy (World Health Organization 2010).

This article describes the processes leading to the global acceptance of TRIPS flexibilities. Conventional theories on global lawmaking focus on negotiations at the international level and they do not capture processes occurring at the national level that, I argue, often determine which position will prevail in negotiations. Halliday and Carruthers's (2007, 2009) theory of recursivity convincingly addresses this issue by looking at the iterative cycles between global norm making and national lawmaking. When analyzing conditions for national divergence, however, the theory focuses on local processes and overlooks a more significant factor that allows national lawmaking to have a recursive effect at the international level, namely, the reactive diffusion of policies across countries. I suggest that in the course of implementing global obligations, states often deviate from formal interpretations. Some states' divergences influence other states' choices, which build on but may further deviate from previous divergences. Experiences accumulated in this ongoing process of reinvention eventually create, and may be formally recognized as, a new globally accepted reinterpretation of the original law.

Making and Remaking of Global Norms: Current Views

As international declarations, agreements, and laws have become central to management of the global economy, they have reignited scholarly interest. Existing theories, however, cannot adequately explain the evolution of intellectual property protection of AIDS drugs.

Conventional approaches to international relations often focus on formal negotiations among states. Outcomes of these negotiations are expected to reflect the military, economic, or symbolic power of participating states (Baldwin 1993; Gruber 2000; Mearsheimer 1994). International laws and norms may transform once in place, either when dominant states are interested in changing the existing rules or when participating states' relative bargaining leverage changes. Following this conventional logic, most scholars who study the intellectual property protection of AIDS drugs look at states' relative bargaining leverage to explain TRIPS and the Doha Declaration. According to this view, the U.S. government pushed TRIPS on other countries. In Doha, the U.S. government was not able to protect its pharmaceutical companies' economic interests and preserve the original interpretation of TRIPS due to the successful collective resistance of developing countries (Shadlen 2004) aided by transnational AIDS activists (Drahos 2002; Klug 2005; Sell 2003).

Negotiations are clearly influenced by participating states' material and symbolic powers. But an analysis of states' relative influence in the course of negotiations fails to capture the conditions that led to the Doha Declaration and the August 30 Decision. By the time negotiations were held in Doha in November 2001, many developing countries had codified and implemented flexibilities that were later protected by the Doha Declaration (Musungu and Oh 2006) and the U.S. government had already withdrawn many of its initial objections. This suggests that the heart of the story lies with developments that preceded the Doha Declaration. Specifically, states' reliance on flexibilities before their formal acceptance at Doha suggests that national processes may be fundamental to these international developments.

Most scholars concerned with the effect of national developments on the international level study how domestic politics affect member states' negotiating positions (Putnam 1988). In contrast, sociological theories examine processes following, rather than preceding, successful negotiations. World polity theorists have shown that countries often adopt international norms only ceremoniously and local processes and institutions still determine national policies (Meyer and Rowan 1977). More recently, Halliday and Carruthers (2007, 2009) have argued that such divergences at the local level also shape and may transform the original international model.

According to Halliday and Carruthers (2007, 2009), legal globalization is caused by three sets of recursive cycles, where in each cycle a given law or norm can be continuously transformed. The first cycle describes the process of loose coupling, where local processes – recursive cycles of lawmaking and law implementation – may cause national laws to diverge from the external model. The second set describes iterative cycles of norm making at the global level. The third set is at the intersection of the other two, where global norms constrain national lawmaking but divergences that emerge when implementing global norms at the national level influence later developments at the international level. The third cycle implies that analyzing divergence in local responses to international laws is necessary for understanding norm remaking at the international level.[2]

Recursivity theory offers an original contribution to the question of changing global norms by showing that countries' divergent implementation of original obligations has the paradoxical effect of potentially transforming these obligations.

Halliday and Carruthers's analysis, however, assumes that states respond to international obligations and potentially reshape them independently of each other. In their case studies of insolvency law, the circumstances they identify to explain South Korea's, Indonesia's, and China's deviations from international obligations are entirely local (Halliday and Carruthers 2009). They do not consider the effect of other countries' responses to pressure to adopt new insolvency laws. As a result, it is not entirely clear how recursive cycles at the national level could affect existing international norms.

As convincingly argued in the extensive literature on diffusion, however, local divergences are unlikely to occur independently. Two arguments on diffusion, regarding learning and reinvention, are particularly useful. First, states learn from each other. The literature on diffusion, including specialized studies on the global diffusion of public policies, shows that the spread of policies reflects not only countries following international laws or norms, but also countries being influenced by other countries' policy choices, often through learning or emulation (Henisz, Zelner, and Guillén 2005; Simmons, Dobbin, and Garrett 2006; Wejnert 2002; Weyland 2005). Even when policies originate at the international level, dissemination often occurs laterally, because states are influenced by international events as well as by other states. The implications, which studies do not always note, are significant: lateral dissemination of international obligations means that if one country diverges from the original interpretation, this divergence will influence other countries' policy adoptions.

The second insight is that the process of diffusion involves reinvention (Glick and Hays 1991; Hays 1996; Rogers 1983). The literature on global diffusion normally describes diffusion as a static process, so policies that spread from one country to another are "treated as an unchanging object" (Strang 2010:10). When these scholars describe divergence in implementation, they expect local divergence not to affect the content of what is being diffused. In contrast, scholars looking at policy diffusion in U.S. states show that states do not blindly follow early innovators. Rather, states modify the core innovation during the diffusion process (Glick and Hays 1991; Rogers 1983), which allows for a continuous process of reinvention. This process also affects early adopters, who may "amend their laws to fit within the range created by the recent ones" (Glick and Hays 1991:847). Regarding implementation of global obligations, this implies that countries not only learn from others about possible deviations, but countries can also deviate from the divergences they encounter.

Reactive Diffusion and Accumulated Experiences

This article argues that transformation in global norms, such as norms regarding the intellectual property protection of AIDS drugs, often depends on cross-national influence and collective accumulation of experiences. This argument emphasizes the recursive interchange between local divergences and global obligations, but it also stresses that the national divergences recycled to the international level are not developed independently of each other but emerge from cross-national diffusion, whereby a country's response is influenced by other countries' responses to the same pressures. Moreover, this cross-national diffusion is reactive: although a country may be influenced by another country's policy innovation, a state is also likely to diverge from the innovation, often through broadening the range of flexibilities already used by others (layering) and utilizing new types of flexibilities (branching off). This accumulation of experiences – of countries successfully implementing policies that diverge from the original obligation – enables local divergences as they travel across states to be recycled back to the international level, leading to a formal change in global norms.

Diffusion of policy innovation National divergences do not stay at the domestic level. When one country deviates from the international template, it introduces the choice of alternative policies to other countries. Hence, when a state chooses its response to a global norm or law, it is likely influenced by local circumstances, as emphasized by recursivity theory, and also by divergences that emerged in other states. Brazil's policies on intellectual property, for example, were informed not only by TRIPS but also by South Africa's and Thailand's divergences from TRIPS.[3]

Reinvention through reactive diffusion The process of cross-national diffusion is reactive rather than static.[4] In the process of learning and emulation, an innovation by one state is diffused to but also modified by another state; subsequent adopters may choose among these innovations or modify the policy again to create another model. As a result, the original model continually transforms. In implementing TRIPS, countries were influenced by other legal interpretations that highlighted permissible flexibilities. Countries such as Brazil and Thailand, however, did not simply copy strategies adopted by others. They developed their own divergent interpretations of the new legal possibilities that built on, but deviated from, other countries' earlier reinventions.

This ongoing change is due to "diffusion entrepreneurs," namely, actors who provided information on how policies were modified elsewhere and how those modifications could be further altered (Braithwaite and Drahos 2000:585). In the diffusion of TRIPS, four types of diffusion entrepreneurs are central: domestic and transnational activists who transplanted strategies and responses from one place to another;[5] state officials who shared their experiences with other governments; officials of international organizations who used international platforms "to bring people together so they do what the international organization cannot do itself";[6] and commercial enterprises, mostly generic drug manufacturers, who could profit from diffusion of TRIPS flexibilities.

Accumulated experiences In cases where states diverge from an international model and this divergence leads to additional policy reinventions through reactive diffusion, the recursive cycle from the national back to the international – leading to revisiting of the original model – can be explained by states' accumulated experiences.

In the process of reactive diffusion, countries experiment with divergent interpretations of an international model, seek versions of policies more in line with their needs or preferences, and, most importantly, discover whether they can preserve these policies in the face of external opposition. These experiences lead to formal renegotiations at the international level and can determine their outcomes. In the case of TRIPS, by the time of the Doha negotiations, due to experiences in South Africa, Brazil, and many other countries, the right to use flexibilities was no longer considered controversial. The Doha Declaration was a defining moment in the history of TRIPS because it formalized at the international level what was already legitimately practiced in many states, not because it allowed for flexibilities.

To summarize, local divergences of an international model are not isolated events, in which each state acts independently. Instead, often with the help of diffusion entrepreneurs, divergences occur through reactive sequences in which policies are modified in the process of diffusion from one state to another. Accumulation of successful experiences enables states that support modification of global norms to impose such change at the international level.

[…]

From TRIPS to Doha and Beyond

In the face of common challenges, governments often learn from each other. In confronting AIDS, governments were often explicit in referring to others' experiences as a source for information and legitimacy. To promote distribution of free condoms in India, for example, a senior Congress Party leader "pointed out how the government of Thailand undertook vigorous condom distribution programs and succeeded in controlling the spread of the deadly virus" (*Times of India* 2005). Governments also learned from others about TRIPS flexibilities. Countries combined this learning with local experimentation, leading to branching off and layering of previous policy innovations and, eventually, to a global normative shift regarding the intellectual property protection of AIDS drugs (see Table 30.1).

Making the Original Model: Formulation and Initial Spread of TRIPS

When the first HIV drug, zidovudine (AZT), was approved by the U.S. government in 1987, some middle-income countries took advantage of their pharmaceutical manufacturing capability to produce generic versions of the drug, mostly for local use. In Brazil, for example, the patent law of 1971 did not provide patent protection to pharmaceuticals and the Constitution of 1988 established the right of access to basic medicines. The state-owned laboratory Farmanguinhos began manufacturing AZT in 1991 (Souza 2007). In Thailand, the 1990 Social Security Law committed the government to providing basic health care for its citizens and the state-owned

Table 30.1 Timeline and description of innovation through reactive diffusion

I. 1994 to 1999	Making the Original Model - The TRIPS agreement under the auspices of the WTO requires protection of intellectual property rights. - Brazil, Thailand, and other countries implement TRIPS with little attention to flexibilities.
II. 1997 to April 2001	Local Divergence - The South African Medicines Act grants the right to impose compulsory licensing and parallel importation. Brand-name pharmaceutical companies proclaim that these provisions are prohibited under TRIPS but eventually withdraw their legal challenges.
III. 2001	Cross-National Diffusion of Initial Innovation Leading to Additional Innovations (reactive diffusion) - Widespread diffusion introduces flexibilities into national laws, including in Uruguay, Pakistan, Costa Rica, the Dominican Republic, Bolivia, Colombia, Ecuador, Peru, Venezuela, Tunisia, and Kenya. - Threats of invoking compulsory licenses in Brazil. - Brand-name pharmaceutical companies provide voluntary licenses in South Africa and Kenya. - Brand-name pharmaceutical companies offer deep discounts and donations in poor countries.
IV. November 2001 and August 2003	Internationalizing Local Divergences through Accumulated Experience - The Doha Declaration, November 2001 - The August 30 Decision, 2003
V. 2001 to 2005	Diffusion and Further Divergence of the Reinterpreted Global Rules - Importing or locally manufacturing generics in Zimbabwe, Mozambique, Zambia, Cameroon, Indonesia, Malaysia, Eritrea, and Ghana. - Invoking compulsory licensing in Thailand and Brazil. - Expanding the scope of compulsory licensing in Thailand. - Patentability challenges in Brazil, India, and Thailand.

Government Pharmaceutical Organization (GPO) began producing AZT in 1992 (Ford et al. 2007). India's Patent Act of 1970 allowed patents to be granted for chemical processes, but not for the product itself, which allowed manufacturers to bypass patents by slightly manipulating the production process. Cipla, a private Indian company, introduced a generic version of AZT in 1994, offering it for sale in India and foreign markets (*Lancet* 2004).

TRIPS, signed by WTO member states in 1994, put into question the future legality of local manufacturing of generic drugs, just two years before the prohibitively expensive ARVs were introduced. This international agreement to strengthen global protection of intellectual property required, by the end of a transition period, patent protection for any invention in any field of technology. Key requirements included patent protection for a minimum of 20 years and protection for a product and its chemical production process.

Developing countries were granted a 10-year transition period until 2005 to implement TRIPS. Although many of these countries initially opposed TRIPS (Sell 2003), some implemented the agreement earlier than required. The Brazilian government, which was under pressure to improve economic relations with the United States, passed the Industrial Property Law in May 1996 (Ford et al. 2007). This law provided a number of strong patent protections, but these protections did not apply to products that had been commercialized anywhere in the world before May 1997. As a result, 10 AIDS drugs remained unpatented and could legally be copied. The same year, Brazil also passed a law requiring the government to provide free AIDS medication. By 2001, Farmanguinhos produced eight of the twelve AIDS medications then available in Brazil (Souza 2007). In Thailand, under threat from the U.S. government that it would limit textile imports, the government passed a restrictive new patent law in 1992 (Ford et al. 2007). In 1999, again in response to U.S. threats, the Thai government took additional measures restricting the use of compulsory licenses and parallel importing (Wilson et al. 1999).

Initially, member states accepted a narrow interpretation of the exceptions allowed under TRIPS. Local divergences found in Brazil, Thailand, or elsewhere (Musungu and Oh 2006) attracted little attention even when, as in the case of Brazil, some provisions were challenged at the WTO (see below). The policy innovation offered by South Africa, however, had a very different fate.

Local Divergence: South Africa's Reinterpretation of TRIPS

In South Africa, local conditions raised concerns regarding implementation of the TRIPS agreement. The Health Minister in South Africa's first democratic government, Nkosazana Dlamini-Zuma, understood that a rigid implementation of TRIPS would have especially harmful consequences in a country confronting a devastating AIDS crisis and facing challenges associated with reversing its apartheid system. South Africa's position on TRIPS was also informed by its new constitution, which established health care as a right, and by the existence of domestic pharmaceutical manufacturing capabilities.

In addition to local conditions, South Africa's response to TRIPS was shaped by a WHO report, *Globalization and Access to Drugs: Implications of the WTO/TRIPS Agreement* (WHO 1997). The report, prepared by the WHO's Action Programme on Essential Drugs, insisted that TRIPS, if interpreted correctly, could achieve an appropriate balance between intellectual property protection and developing countries' health needs. According to the reading of Articles 30 and 31 of TRIPS offered in the report, the agreement "expressly provide[d] two means of obtaining exceptions and limiting the exclusive rights conferred by the patent on its owner," namely, compulsory licensing and parallel imports (WHO 1997:33). The WHO's report was the first to provide a legal interpretation of TRIPS that allowed developing countries to consider exceptions to intellectual property protection not as acts of subversion, but as loyal implementation of its provisions.[7] In November 1997, Dlamini-Zuma won parliamentary passage of the Medicines and Related Substances Control Amendment Act (Medicines Act). Clause 15(c) of the Act granted the government the right to impose compulsory licensing and parallel importation to allow the supply of more affordable medicines.[8]

The U.S. government and the brand-name pharmaceutical sector vigorously criticized the WHO report, but their criticism was mild compared to the campaign they launched against the South African government for following the WHO's interpretation. Indeed, what likely made the South African case particularly influential was not its explicit divergence from the international norm, but that the government prevailed over the very strong opposition the Medicines Act triggered. Provoked by the explicit challenge to their patents and concerned that the South African example would disseminate to other countries,[9] brand-name pharmaceutical manufacturers closed their South African factories, cancelled investments and expansion plans, and ran scare ads suggesting that babies could be hurt by counterfeit generic drugs (McNeil 1998). In February 1998, 40 multinational drug companies, together with the Pharmaceutical Manufacturers Association of South Africa, filed a lawsuit against the government alleging that compulsory licensing and parallel importing were prohibited under TRIPS (Heywood 2001).

The Clinton administration supported the pharmaceutical sector by imposing economic sanctions on the South African government and delivering diplomatic threats (Bond 2003). But an activists' network that included the New York AIDS activist group ACT UP and Ralph Nader's CPTech heavily criticized these actions. When it became clear the issue could negatively affect gay and black voters' support of Vice President Al Gore's candidacy for the presidential election, Gore negotiated a deal with the South African government that allowed the United States to withdraw its objections (Ayres 1999).

AIDS activism also played a decisive role in South Africa. The night before a court hearing in March 2001, Treatment Action Campaign (TAC) and the South African trade union COSATU staged an all-night vigil and protest outside the court building and the U.S. embassy. A transnational network of activists organized demonstrations in 30 other cities worldwide. At the courthouse the following day, activists won an important victory when Judge Bernard Ngoepe allowed testimonies from HIV/AIDS patients (Heywood 2001). By the time the case resumed six weeks later, the transnational activist network had swayed public opinion in developed countries and gained the support of unlikely allies, including the European Union, the Dutch government, the World Bank, and even WTO officials (Sell and Prakash 2004). Soon after, in the "hope to extricate themselves from a public-relations nightmare" (Block 2001), drug companies withdrew the case. After five years, South Africa's interpretation of TRIPS had prevailed.

In South Africa, divergence from a narrow interpretation of TRIPS was only one step in a much longer struggle for drug treatment (Friedman and Mottiar 2005).

But South Africans were not the only ones affected by the Medicines Act, as the legal developments in their country – although heavily informed by unique conditions – spread beyond the local level. As we saw, the struggle over the Medicines Act led some governments and international organizations to modify their positions. In the United States, President Clinton issued an executive order that prohibited pressuring any sub-Saharan African country into forgoing strategies to increase access to AIDS drugs (Sell and Prakash 2004). The Clinton administration intended these concessions to serve as an exception, but diffusion of South Africa's policy innovation to other developing countries would make such exceptions the rule.

Diffusion of Initial Innovation Leading to Additional Innovations

The policy innovation introduced by South Africa is consistent with an expectation of divergence. But studies on recursivity tell us little about how policy innovation in one locality affects policies in other sites. In the case of South Africa, two surprising things occurred. First, the South African experience influenced policy diffusion in other countries, as governments learned not only from the original TRIPS interpretation but also from South Africa's experience of challenging that interpretation. Second, new policy innovations were introduced in the process of that diffusion.

The South African challenge to TRIPS was a historical turning point. Years later, when officials of the International Federation of Pharmaceutical Manufacturers and Associations (IFPMA) assessed strategies used by the pharmaceutical sector to protect its patents, they readily confirmed the "major, major mistake" of "suing Nelson Mandela." These IFPMA officials articulated a common perception when they referred to the South African "huge faux-pas" as the watershed in a process that gradually but dramatically weakened pharmaceutical companies' normative and legal position.[10] As soon as it became clear that the South African government would likely prevail, officials in other developing countries, with the support of health activists, began to focus on TRIPS flexibilities as the central strategy to improve access to AIDS drugs.[11] They saw the South African legal challenge as a test case, and with the failure of that challenge, they considered it unlikely that drug companies would campaign against other developing countries or that Western governments would publicly support such campaigns (Mutume 2001). Following South Africa, the campaign for access to affordable AIDS drugs moved to Kenya, where the Parliament passed a law allowing exemptions to international patent law (Itano 2001), and other nations similarly experimented with TRIPS flexibilities to lower prices of AIDS drugs. Illustrating the reactive nature of diffusion, countries also modified what they learned from the South African experience.

Many countries passed new intellectual property laws to comply with TRIPS, and many of the laws included explicit references to permissible flexibilities, including compulsory licensing, government use, parallel imports, and patent exceptions (Musungu and Oh 2006). … Of the 23 countries that passed intellectual property laws …, only one country did not allow for some form of compulsory licensing or government use, and many countries allowed for parallel imports or patent exceptions. Uruguay, Pakistan, Costa Rica, the Dominican Republic, Bolivia, Colombia, Ecuador, Peru, Venezuela, Tunisia, and Kenya were particularly expansive in their legislation of flexibilities.

The move from legislation to implementation was slower and involved even greater divergence from others' experiences, as evidenced by the cases of Thailand and Brazil. While new patent laws in both countries allowed for some flexibilities, the Thai and Brazilian governments did not initially use these public-health safeguards because they wanted to avoid U.S. retaliation. When the Thai government refused a GPO request for a compulsory license to produce didanosine (ddI), an official explained that, "Thailand hasn't moved to exercise its compulsory licensing rights under TRIPS … as Thai officials nonetheless fear trade reprisals" (cited in Oxfam 2001:6). Brazil experienced the threat of trade reprisals first-hand; in January 2001, at the WTO, the U.S. government challenged Article 68 of the Brazilian Industrial Property Act that authorized the government to invoke compulsory licensing for goods that were not manufactured locally within three years of receiving patent protection.

The South African government's success in defending the Medicines Act suggested to these governments that they, too, could take advantage of TRIPS flexibilities. The Brazilian government saw the changed circumstances when in June 2001, the U.S. government agreed to a compromise with Brazil rather than pursuing the WTO case. Commentators agreed that the U.S. retreat was triggered by developments in South Africa, which turned its case against Brazil into a political embarrassment (Sell and Prakash 2004). Subsequently, the Brazilian government became more confrontational in utilizing TRIPS flexibilities. As we saw, Brazil was locally manufacturing most of the AIDS drugs it offered, but it was importing two brand-name drugs, efavirenz (licensed by Merck) and nelfinavir (Roche), which accounted for a disproportionate 36 percent of Brazil's expenditure on AIDS medications. When Merck and Roche failed to offer acceptable discounts on these drugs, the Brazilian Health Minister, José Serra, announced he would issue compulsory licenses if the pharmaceutical companies did not lower their prices (Souza 2007). After uneasy negotiations, Merck agreed to cut the prices of efavirenz by 59 percent and another drug, indinavir, by 64.8 percent, and Roche agreed to drop the price of nelfinavir by 40 percent (Jordan 2001a).

While Brazil learned from the South African example, other countries were learning from Brazil. The U.S. decision to drop the WTO case, for example, was "interpreted by … the Indian industry as the opportunity to model India's patent law along that of Brazil" (Kamath 2001). Brazilian officials proactively pushed to make their strategies a source of imitation. José Serra, for example, announced that tactics Brazil had used to receive price concessions from Merck and Roche could be employed by other developing countries (Donnelly 2001). Realizing that a country's bargaining leverage depended on its manufacturing capabilities, UN reports called on least developed countries to "follow Brazil's example" of local manufacturing (Mutume 2001: 14), and the Brazilian government invited health officials from several African and Caribbean countries to visit Farmanguinhos and promised support to set up their own local production (Jordan 2001b). In August 2002, leaders from several Portuguese-speaking countries signed on to a program to share in Brazil's know-how (Downie 2002).

Some countries sought ways to reduce prices of patented drugs, but in other countries local generic manufacturers pressed drug companies to voluntarily license their key AIDS drugs. In South Africa, soon after termination of the court case, Aspen Pharmacare received assurances from Bristol-Myers and others that they would not sue if Aspen manufactured and sold their AIDS drugs.[12] South African activists initiated legal challenges against Glaxo-SmithKline and Boehringer Ingelheim, and in out-of-court agreements the companies agreed to grant voluntary licenses for production of their AIDS drugs (Nelson 2003). In Kenya, the government was able to obtain voluntary licensing agreements (Musungu and Oh 2006).

Countries without manufacturing capabilities also benefitted from the pharmaceutical debacle in South Africa, because in an attempt to bolster their image and demonstrate that intellectual property was not an obstacle to gaining access to affordable drugs, pharmaceutical companies began to offer their drugs at deeply discounted prices (Petersen 2001). In March 2001, for example, Merck announced discounts of 90 percent for two of its AIDS drugs in sub-Saharan Africa. The real decline in prices occurred, however, when manufacturers of generic drugs offered AIDS drugs at much lower prices.

During the South African conflict – partly in an attempt to undermine pharmaceutical companies' moral standing by showing how cheap it was to produce AIDS drugs – activists began talks with generic manufacturers.[13] Following these discussions, Dr. Yusuf K. Hamied, the Chairman of Cipla, a generic pharmaceutical manufacturing company in India, announced his company would sell a combination of three AIDS drugs for the shockingly low price of $600 per patient per year. According to Hamied, this price would still allow him to make a profit (Specter 2001). Because India did not have to fully implement TRIPS until 2005, Indian manufacturers could legally produce generic drugs and Cipla's entrepreneurship was soon imitated by other Indian manufactures. The price for AIDS drugs soon dropped to $295 per patient per year. Soon, Nigeria, Cameroon, Algeria, Kenya, and Botswana announced plans to import drugs from India. Countries that were still "too scared of the [U.S.] government to buy generics" also benefitted, as brand-name pharmaceutical companies responded to the generic threat by substantially dropping the price of their drugs (Boseley 2003). In June 2001, for example, GlaxoSmithKline announced price reductions of about 80 percent for three AIDS drugs in 63 countries, and Pfizer offered fluconazole for free in the least developed countries. Largely as a result of this competition between brand-name and generic drugs, the price of AIDS drugs radically dropped. …

In short, South Africa's Medicines Act convinced other states that they, too, could find ways to push down the price of AIDS drugs. While learning from others' experiences, countries also found variations better suited to their local circumstances. Through a process of reactive diffusion, the suitability of TRIPS flexibilities and their legitimate scope was tried in different fashions in different places, creating accumulated experiences that, by late 2001, led to reframing of the original global norm.

Internationalizing Accumulated Experiences

The South African debacle made brand-name pharmaceutical companies less likely to challenge generic manufacturing of their drugs, but developing countries were still worried that the United States and other governments supporting these companies would use TRIPS to challenge their actions. At the Fourth WTO Ministerial Conference in November 2001, a coalition of more than 50 developing countries led by Brazil, South Africa, India, Kenya, and Zimbabwe declared they would not agree to a new round of trade negotiations without a statement that would clarify their rights to issue compulsory licenses and to authorize parallel importation (Shadlen 2004).

Scholars analyzing the negotiations rightly note that developing countries enjoyed a powerful moral argument and a stable coalition that was greatly strengthened by the support of AIDS activists, and they identify a number of contingent conditions that further weakened the opposition of the United States and other rich countries (Klug 2005; Sell 2003). But this focus on countries' bargaining leverage overlooks the essential fact that the outcome was mostly predetermined by the successful diffusion of flexibilities in many countries. As we saw, by the end of 2001, many developing countries were already acting according to their preferred interpretations of the TRIPS flexibilities, the pharmaceutical sector had lost the normative battle, and the U.S. government confirmed it would not challenge sub-Saharan African countries and compromised in the WTO case it had launched against Brazil. International declarations at the WHO and the UN Sub-Commission on Human Rights helped disseminate a global position and consolidate it at the international level (Schwartländer, Grubb, and Perriëns 2006). Hence, the debate had largely already been won in the process of reactive diffusion: countries knew what types of exceptions would not be blocked by the pharmaceutical sector or Western governments. The outcome at Doha was a major symbolic victory. But rather than collective action at the international level, it was the accumulation of policy innovations at the national level that forced other countries to accept the legitimacy of TRIPS flexibilities.

Hence, the scope of permissible flexibilities negotiated in Doha had largely been determined through the accumulated experiences of countries that had passed laws and implemented them. Although not without debate, WTO member states agreed on a document, the Doha Declaration, that dramatically stated, "We agree that the TRIPS Agreement does not and should not prevent members from taking measures to protect public health.… We reaffirm the right of WTO members to use, to the full, the provisions in the TRIPS Agreement, which provide flexibility [for protecting public health and promoting access to medicines for all]." The Doha Declaration also extended the period for least developed countries to comply with TRIPS provisions on pharmaceuticals to 2016.

The Doha Declaration confirmed members' rights to grant compulsory licenses for local manufacturing, but it left unresolved – possibly because of lack of domestic precedents – the conditions under which countries without pharmaceutical manufacturing capabilities would be allowed to import generic versions of patented drugs. Following two years of difficult negotiations, the United States, the European Union, Brazil, India, South Africa, and Kenya reached a compromise, which was accepted by the WTO General Council on August 30, 2003. As demanded by developing countries, the agreement covered all diseases, not just HIV/AIDS, tuberculosis, and malaria, and it applied to all countries, not just the "truly disadvantaged" (*Bridges* 2003). However, the August 30 Decision included so many requirements and conditions that activists warned it contained "enough bureaucratic red tape to discourage poor nations from importing the drugs" (Becker 2003).

Despite their perceived shortcomings, developing countries and AIDS activists considered the Doha Declaration and the August 30 Decision significant milestones in their struggle for affordable drugs. These texts were the outcome of developing countries' accumulated experiences through imitation and reinvention, but they also contributed, as we will see, to subsequent diffusion of TRIPS flexibilities in developing and developed countries. Even the United States changed its position. On the one hand, the United States continued to impose constraining intellectual property rules on other countries through bilateral free trade agreements (Rossi 2006; Sell 2007) or when advising states how to operate their patent offices (Deere 2008; Drahos 2008). On the other hand, it no longer explicitly denied developing countries' right to create access to affordable drugs, including by using flexibilities. In addition, the United States, like other wealthy countries, dramatically increased its level of foreign aid devoted to purchasing AIDS drugs … Crucially, both the Global Fund to Fight AIDS, Tuberculosis, and Malaria, which was established in 2002, and the U.S. President's Emergency Plan for AIDS Relief (PEPFAR), which was launched in 2003, funded AIDS drugs, including generic versions of patented drugs.[14] By 2008, PEPFAR spent 57 percent of its procurement budget for ARVs on generic drugs (PEPFAR 2008). This tension shows that although the U.S. government may not have been an enthusiastic adherent of the new global norms, it was forced to revise its strategies to mostly abide by them. The ambiguous position of the United States, in turn, suggests that global norms may exist and be effective even when the most powerful state is a reluctant follower.

Diffusion and Further Divergence of the Reinterpreted Global Rules

Following Doha, more poor countries took advantage of their right to use TRIPS flexibilities, but they still maintained local variations. By 2006, a WHO report found that "virtually all developing countries … provided for the grant of compulsory licenses.… The grounds upon which such licenses could be granted, however, varies considerably" (Musungu and Oh 2006:xvii). The review also found "an almost equal number of patent laws that incorporated specific provisions for parallel importation and those that did not" (Musungu and Oh 2006:48). Countries also utilized these laws. After adoption of the Doha Declaration, Zimbabwe was the first country to utilize its government use provisions to import, and then locally produce, generic ARVs. Mozambique, Zambia, Cameroon, and Indonesia issued compulsory licenses to local manufacturers. Malaysia, Eritrea, and Ghana relied on the August 30 Decision to issue compulsory licenses for the importation of generic HIV/AIDS medicines, mostly from India.[15]

But countries did not merely implement existing rights. Through reactive diffusion, the scope of rights granted under the Doha Declaration continued to evolve and spread, with Thailand, Brazil, and India taking the lead. Thailand's wide-scale provision of locally manufactured ARVs in 2003 was informed by a study visit to Brazil (Ford et al. 2007). In contrast to Brazil, however, Thailand chose to go beyond merely threatening the use of compulsory licensing. In October 2006, a month after Thailand's armed forces overthrew Prime Minister Thaksin Shinawatra, the minister of public health announced a compulsory license for efavirenz. In another case, in January 2007, Thailand provocatively issued a compulsory license for Kaletra, a second-line treatment for AIDS. In a third case, further widening the spectrum of public-health issues considered severe enough to warrant overriding patents, Thailand invoked compulsory licensing for Plavix, a drug for heart disease (*Bridges* 2006). In this way, Thailand built on earlier successful challenges to broaden the scope of flexibilities. A *Wall Street Journal* (2007) editorial warned that other countries were likely to follow Thailand's example. Indeed, with its threats of compulsory licensing losing their credibility, in May 2007 Brazil invoked compulsory licensing for efavirenz (Souza 2007).

A fourth flexibility for improving access to drugs was to challenge their patentability. In Brazil, a presidential decree issued in 1999 and converted into law in 2001 required prior consent from the Ministry of Health for any pharmaceutical patent application approved by the National Institute for Industrial Property. Between 2001 and July 2008, the Ministry rejected almost 30 percent of applications approved; in more than 40 percent of applications the Ministry did approve, the applicant first had to reduce the breadth of the patent's claims (Shadlen 2009). In other countries, including Thailand, activists went to court to challenge patents' legitimacy (Oxfam 2001).

The issue of patentability emerged with full force when India prepared to implement a third amendment to its Patent Act in 2005. The bill's content was bitterly contested by generic drug manufacturers, who sought to maintain their right to export generic drugs, and advocates who argued that stronger patent protections would trigger investment and innovation in the country (Bellman 2005). The generic manufacturers' position was strongly supported by international actors concerned with the impact of a stringent patent law in India on access to AIDS drugs elsewhere. Much was at stake because more than half the AIDS patients in the developing world relied on India's generic drug industry (McNeil 2005). Indian lawmakers received letters from heads of Latin American and African countries, and from UNAIDS, the WHO, and many others, urging them not to adopt restrictions that were not required under the TRIPS Agreement (Subramanian 2005).

The Patent Act that eventually passed offered a narrower scope of flexibilities than what these international actors hoped for (*Bridges* 2005). But the Act did restrict the scope of patentability, explicitly stating that incremental innovations could not be patented without the applicant demonstrating that the modification yielded increased efficacy (Shadlen forthcoming). AIDS activists in India soon used the patentability provision to challenge various patent applications, including GlaxoSmithKline's patent application for Combivir and Gilead Sciences' patent application for Viread (tenofovir). When Novartis appealed a ruling denying a patent application by contending that the Patent Act was in breach of India's obligation under TRIPS, the High Court ruled against the company (*Bridges* 2007). Brazil followed India's example and in 2008 rejected Gilead's patent request for Viread on grounds that it lacked technological inventiveness (*Reuters* 2008). The Indian newspaper *Economic Times* proudly reported that the patentability provision "is emerging as a global trendsetter" with many countries in the Asia-Pacific region, including the Philippines, Maldives, Pakistan, Sri Lanka, Vietnam, Indonesia, Malaysia, and Bangladesh, considering adopting the wording of the Indian law (Prasad 2007; see also Shadlen forthcoming).

In short, after Doha, governments of low- and middle-income countries continued to broaden the scope of TRIPS flexibilities by building on each other's experiences. Through reactive diffusion, but also because of counter-strategies by Western governments and brand-name pharmaceutical companies, policies regarding access to AIDS drugs will no doubt continue to evolve, disseminate, and be challenged.

Discussion

Global norms regarding the appropriate balance between intellectual property protection and access to affordable AIDS drugs have gone through a number of significant transformations (see Table 30.1). Initially, low- and middle-income countries implemented TRIPS with minimal attention to the flexibilities permitted in the Agreement. However, after brand-name pharmaceutical companies failed to block a South African law that relied on TRIPS flexibilities, other countries adopted policies that built on South Africa's interpretation of TRIPS but also deviated from it, offering their own policy innovations. To formalize their success, developing countries demanded that local variations be confirmed as legitimate by other WTO member states. The Doha Declaration and August 30 Decision were successfully disseminated in a large number of developing countries but again with local divergences.

This chain of events suggests that the new global norm regarding the acceptable balance between intellectual property rights and access to affordable AIDS drugs emerged out of a process in which alternative interpretations were first tested as local divergences. When successful, these divergences diffused to other countries that contributed their own variations. Eventually, the accumulation of these experiences turned them into a legitimate norm that competed with the original international obligation, making it possible for developing countries to prevail in the Doha negotiations. The stages leading to the Doha Declaration suggest that accumulated experiences are a likely condition for developing countries' success in international negotiations. Later experimentations with what is allowed under the Declaration suggest that reactive diffusion may lead to the construction of new policies.

Accumulation of experiences due to reactive diffusion is not the only way that global norms develop or change, but it may be more common than what prior studies suggest. A strong coalition, a forceful moral argument, and the support of transnational activists are all important, but developing countries may be more likely to prevail in international negotiations if they have already assembled victories at the domestic level. Coordinated resistance at the international level is more likely, and more likely to succeed, after a change in a large number of domestic sites has already occurred. Additionally, the TRIPS case suggests that the more coercive the origins of international obligations are, the more likely that those international obligations will encounter processes of reinvention through reactive diffusion that may eventually transform them. It is here, also, that the difference between these processes and explicit resistance becomes apparent: divergences tend not to reject but to build on original obligations, clarifying through reinterpretation rather than subversion. These reinterpretations are not necessarily linear; some divergences may reduce rather than broaden the existing gap between the original model and emerging norm, as the Indian Patent Act of 2005 reveals. Finally, this case suggests that influential policy reinvention is not equally distributed among countries. This is partly because middle-income countries are more likely than low-income countries to have resources for innovation. But this is also because reinventions that emerge in peripheral countries are more likely to be ignored by others. The central role of South Africa, Brazil, and Thailand was due to material conditions that enabled them to innovate and to innovation that attracted attention and enabled imitation and additional innovation.

We should not expect all global laws and norms to experience a similar trajectory of policy reinvention through reactive diffusion. Not all global norms and laws provoke critical reaction similar to TRIPS. Critical reactions do not all translate into significant divergences. In addition, not all significant divergences meet strong objections from powerful actors such as the U.S. government or pharmaceutical companies. Finally, strong objections from powerful actors do not all meet effective opposition backed by forceful moral claims. But the exceptional elements of the case of intellectual property protection of AIDS drugs simply make it easier to identify processes that are also likely to be present in less extreme cases. World society scholars have shown that loose coupling is surprisingly common, and studies on diffusion have shown that cross-national influence occurs frequently. Reactive diffusion and resulting accumulation of experiences should also occur often. The arguments offered here should therefore be useful for revealing processes in other cases of successful deviations from an international model. For example, differences in neoliberal policies in the United Kingdom and the United States, on the one hand, and Germany and France, on the other, may result not only from local conditions (Prasad 2006) but also from different sources of influence (Robertson and Waltman

1993). The notion of reinvention through reactive diffusion may also be useful in analyzing policy outcomes in other settings, such as federal governments, where federal laws may reflect reactive diffusion of laws at the state level. In short, the study of accumulation of experiences due to reactive diffusion holds promise for analyses that situate local processes in a meta-local context, such as international organizations or federal governments, and treating the meta-local context to consist of interconnected local processes. It is through these multilayered processes that policies are, at times, remade.

Notes

1 First-line treatment is the recommended initial treatment for a disease. Second-line drugs, which are much more expensive, are reserved for cases when first-line treatment fails.
2 The movement from national divergences back to the international level is documented in some empirical studies (Dezalay and Garth 2002; Merkle 1980; Robertson and Waltman 1993), but rarely addressed in theoretical formulations (for an exception, see Walt, Lush, and Ogden 2004).
3 Note that international agreements such as TRIPS are implemented based on legal obligations rather than being diffused. A particular interpretation of a law, however, can be diffused. In the case of TRIPS, competing interpretations that emerged regarding provisions on flexibilities made this a case not of implementation of an uncontested law but diffusion of a contested legal interpretation.
4 I borrow the term reactive from the literature on path dependence, which distinguishes between reinforcing sequences, where each stage in a sequence reproduces early events, and reactive sequences, where previous events have major causal effects on later events but without subsequent events necessarily looking the same as the previous ones (Mahoney 2000).
5 On AIDS activism, see Bond 2003; Ford et al. 2004; Klug 2005.
6 Interview with Peter Piot, Executive Director of UNAIDS, Geneva, Switzerland, May 20, 2008.
7 Interview with Germán Velásquez, Drug Action Programme, WHO, Geneva, Switzerland, June 3, 2008.
8 Interview with Sello Ramasala, Department of Health, in Pretoria, South Africa, July 4, 2008.
9 Interview with James Love, Director of CPTech, Washington, DC, USA, May 7, 2009.
10 Interviews with IFPMA and ICTSD officials, Geneva, Switzerland, May 20, 23, and 26, 2008.
11 Interview with Nicolleta Dentico, MSF, Geneva, Switzerland, May 23, 2008.
12 Interview with Stavros Nicolau, Aspen Pharmacare, Johannesburg, South Africa, July 5, 2008.
13 Interview with James Love, Director of CPTech, Washington, DC, USA, May 7, 2009.
14 Interview with Sir Richard Feachem, Director of the Global Fund, San Francisco, CA, USA, March 27, 2007.
15 See *Bridges* 2004; Wise 2006; and http://www.cptech.org/ip/health/cl/recent-examples.html (accessed October 23, 2008).

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31

Development as Freedom (1999)

Amartya Sen

Introduction: Development as Freedom

Development can be seen, it is argued here, as a process of expanding the real freedoms that people enjoy. Focusing on human freedoms contrasts with narrower views of development, such as identifying development with the growth of gross national product, or with the rise in personal incomes, or with industrialization, or with techno-logical advance, or with social modernization. Growth of GNP or of individual incomes can, of course, be very important as *means* to expanding the freedoms enjoyed by the members of the society. But freedoms depend also on other determinants, such as social and economic arrangements (for example, facilities for education and health care) as well as political and civil rights (for example, the liberty to participate in public discussion and scrutiny). Similarly, industrialization or technological progress or social modernization can substantially contribute to expanding human freedom, but freedom depends on other influences as well. If freedom is what development advances, then there is a major argument for concentrating on that overarching objective, rather than on some particular means, or some specially chosen list of instruments. Viewing development in terms of expanding substantive freedoms directs attention to the ends that make development important, rather than merely to some of the means that, inter alia, play a prominent part in the process.

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Development requires the removal of major sources of unfreedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or overactivity of repressive states. Despite unprecedented increases in overall opulence, the contemporary world denies elementary freedoms to vast numbers – perhaps even the majority – of people.

[…]

The Perspective of Freedom

Forms of Unfreedom

Very many people across the world suffer from varieties of unfreedom. Famines continue to occur in particular regions, denying to millions the basic freedom to survive. Even in those countries which are no longer sporadically devastated by famines, undernutrition may affect very large numbers of vulnerable human beings. Also, a great many people have little access to health care, to sanitary arrangements or to clean water, and spend their lives fighting unnecessary morbidity, often succumbing to premature mortality. The richer countries too often have deeply disadvantaged people, who lack basic opportunities of health care, or functional education, or gainful employment, or economic and social security. Even within very rich countries, sometimes the longevity of substantial groups is no higher than that in much poorer economies of the so-called third world. Further, inequality between women and men afflicts – and sometime prematurely ends – the lives of millions of women, and, in different ways, severely restricts the substantive freedoms that women enjoy.

Moving to other deprivations of freedom, a great many people in different countries of the world are systematically denied political liberty and basic civil rights. It is sometimes claimed that the denial of these rights helps to stimulate economic growth and is "good" for rapid economic development. Some have even championed harsher political systems – with denial of basic civil and political rights – for their alleged advantage in promoting economic development….

Furthermore, economic development has other dimensions, including economic security. Quite often economic insecurity can relate to the lack of democratic rights and liberties. Indeed, the working of democracy and of political rights can even help to prevent famines and other economic disasters. Authoritarian rulers, who are themselves rarely affected by famines (or other such economic calamities), tend to lack the incentive to take timely preventive measures. Democratic governments, in contrast, have to win elections and face public criticism, and have strong incentives to undertake measures to avert famines and other such catastrophes. It is not surprising that no famine has ever taken place in the history of the world in a functioning democracy – be it economically rich (as in contemporary Western Europe or North America) or relatively poor (as in postindependence India, or Botswana, or Zimbabwe)….

But – most fundamentally – political liberty and civil freedoms are directly important on their own, and do not have to be justified indirectly in terms of their effects on the economy. Even when people without political liberty or civil rights do not lack adequate economic security (and happen to enjoy favorable economic circumstances), they are deprived of important freedoms in leading their lives and denied the opportunity to take part in crucial decisions regarding public affairs. These deprivations restrict social and political lives, and must be seen as repressive even without their leading to other afflictions (such as economic disasters). Since political and civil freedoms are constitutive elements of human freedom, their denial is a handicap in itself. In examining the role of human rights in development, we have to take note of the constitutive as well as the instrumental importance of civil rights and political freedoms….

Processes and Opportunities

It should be clear from the preceding discussion that the view of freedom that is being taken here involves both the *processes* that allow freedom of actions and decisions, and the actual *opportunities* that people have, given their personal and social circumstances. Unfreedom can arise either through inadequate processes (such as the violation of voting privileges or other political or civil rights) or through inadequate opportunities that some people have for achieving what they minimally would like to achieve (including the absence of such elementary opportunities as the capability to escape premature mortality or preventable morbidity or involuntary starvation).

[…]

Two Roles of Freedom

The analysis of development presented in this book treats the freedoms of individuals as the basic building blocks. Attention is thus paid particularly to the expansion of the "capabilities" of persons to lead the kind of lives they value – and have reason to value. These capabilities can be enhanced by public policy, but also, on the other side, the direction of public policy can be influenced by the effective use of participatory capabilities by the public. The *two-way relationship* is central to the analysis presented here.

There are two distinct reasons for the crucial importance of individual freedom in the concept of development, related respectively to *evaluation* and *effectiveness*. First, in the normative approach used here, substantive individual freedoms are taken to be critical. The success of a society is to be evaluated, in this view, primarily by the substantive freedoms that the members of that society enjoy. This evaluative position differs from the informational focus of more traditional normative approaches, which focus on other variables, such as utility, or procedural liberty, or real income.

Having greater freedom to do the things one has reason to value is (1) significant in itself for the person's overall freedom, and (2) important in fostering the person's opportunity to have valuable outcomes. Both are relevant to the evaluation of freedom of the members of the society and thus crucial to the assessment of the society's development….

The second reason for taking substantive freedom to be so crucial is that freedom is not only the basis of the evaluation of success and failure, but it is also a principal determinant of individual initiative and social effectiveness. Greater freedom enhances the ability of people to help themselves and also to influence the world, and these matters are central to the process of development. The concern here relates to what we may call (at the risk of some oversimplification) the "agency aspect" of the individual.

[…]

Poverty and Inequality

… There are good reasons for seeing poverty as a deprivation of basic capabilities, rather than merely as low income. Deprivation of elementary capabilities can be reflected in premature mortality, significant undernourishment (especially of children), persistent morbidity, widespread illiteracy and other failures. For example, the terrible phenomenon of "missing women" (resulting from unusually higher age-specific mortality rates of women in some societies, particularly in South Asia, West Asia, North Africa, and China) has to be analyzed with demographic, medical and social information, rather than in terms of low incomes, which sometimes tell us rather little about the phenomenon of gender inequality.

The shift in perspective is important in giving us a different – and more directly relevant – view of poverty not only in the *developing* countries, but also in the more *affluent* societies. The presence of massive unemployment in Europe (10 to 12 percent in many of the major European countries) entails deprivations that are not well reflected in income distribution statistics. These deprivations are often downplayed on the grounds that the European system of social security (including unemployment insurance) tends to make up for the loss of income of the unemployed. But unemployment is not merely a deficiency of income that can be made up through transfers by the state (at heavy fiscal cost that can itself be a very serious burden); it is also a source of far-reaching debilitating effects on individual freedom, initiative, and skills. Among its manifold effects, unemployment contributes to the "social exclusion" of some groups, and it leads to losses of self-reliance, self-confidence and psychological and physical health. Indeed, it is hard to escape a sense of manifest incongruity in contemporary European attempts to move to a more "self-help" social climate without devising adequate policies for reducing the massive and intolerable levels of unemployment that make such self-help extremely difficult.

Income and Mortality

Even in terms of the connection between mortality and income … it is remarkable that the extent of deprivation for particular groups in very rich countries can be comparable to that in the so-called third world. For example, in the United States, African Americans as a group have no higher – indeed have a lower – chance of reaching advanced ages than do people born in the immensely poorer economies of China or the Indian state of Kerala (or in Sri Lanka, Jamaica or Costa Rica).[1]

… Even though the per capita income of African Americans in the United States is considerably lower than that of the white population, African Americans are very many times richer in income terms than the people of China or Kerala (even after correcting for cost-of-living differences). In this context, the comparison of survival prospects of African Americans vis-à-vis those of the very much poorer Chinese, or Indians in Kerala, is of particular interest. African Americans tend to do better in terms of survival at low age groups (especially in terms of infant mortality) vis-à-vis the Chinese or the Indians, but the picture changes over the years.

In fact, it turns out that men in China and in Kerala decisively outlive African American men in terms of surviving to older age groups. Even African American women end up having a survival pattern for the higher ages similar to that of the much poorer Chinese, and decidedly lower survival rates than the even poorer Indians in Kerala. So it is not only the case that American blacks suffer from *relative* deprivation in terms of income per head vis-à-vis American whites, they also are *absolutely* more deprived than the low-income Indians in Kerala (for both women and men), and the Chinese (in the case of men), in terms of living to ripe old ages. The causal influences on these contrasts (that is, between living standards judged by income per head and those judged by the ability to survive to higher ages) include social arrangements and community relations such as medical coverage, public health care, school education, law and order, prevalence of violence and so on.[2]

[…]

Concluding Remarks

Seeing development in terms of the substantive freedoms of people has far-reaching implications for our understanding of the process of development and also for the ways and means of promoting it. On the evaluative side, this involves the need to assess the requirements of development in terms of removing the unfreedoms from which the members of the society may suffer. The process of development, in this view, is not essentially different from the history of overcoming these unfreedoms. While this history is not by any means unrelated to the process of economic growth and accumulation of physical and human capital, its reach and coverage go much beyond these variables.

In focusing on freedoms in evaluating development, it is not being suggested that there is some unique and precise "criterion" of development in terms of which the different development experiences can always be compared and ranked. Given the heterogeneity of distinct components of freedom as well as the need to take note of different persons' diverse freedoms, there will often be arguments that go in contrary directions. The motivation underlying the approach of "development as freedom" is not so much to order all states – or all alternative scenarios – into one "complete ordering," but to draw attention to important aspects of the process of development, each of which deserves attention. Even after such attention is paid, there will no doubt remain differences in possible overall rankings, but their presence is not embarrassing to the purpose at hand.

What would be damaging would be the neglect – often to be seen in the development literature – of centrally relevant concerns because of a lack of interest in the freedoms of the people involved. An adequately broad view of development is sought in order to focus the evaluative scrutiny on things that really matter, and in particular to avoid the neglect of crucially important subjects. While it may be nice to think that considering the relevant variables will automatically take different people to exactly the same conclusions on how to rank alternative scenarios, the approach requires no such unanimity. Indeed, debates on such matters, which can lead to important political arguments, can be part of the process of democratic participation that characterizes development….

The Ends and the Means of Development

Let me start off with a distinction between two general attitudes to the process of development that can be found both in professional economic analysis and in public discussions and debates.[3] One view sees development as a "fierce" process, with much "blood, sweat and tears" – a world in which wisdom demands toughness. In particular, it demands calculated neglect of various concerns that are seen as "soft-headed" (even if the critics are often too polite to call them that). Depending on what the author's favorite poison is, the temptations to be *resisted* can include having social safety nets that protect the very poor, providing social services for the population at large, departing from rugged institutional guidelines in response to identified hardship, and favoring – "much too early" – political and civil rights and the "luxury" of democracy. These things, it is argued in this austere attitudinal mode, could be supported later on, when the development process has borne enough fruit: what is needed here and now is "toughness and discipline." The different theories that share this general outlook diverge from one another in pointing to distinct areas of softness that are particularly to be avoided, varying from financial softness to political relaxation, from plentiful social expenditures to complaisant poverty relief.

This hard-knocks attitude contrasts with an alternative outlook that sees development as essentially a "friendly" process. Depending on the particular version of this attitude, the congeniality of the process is seen as exemplified by such things as mutually beneficial exchanges (of which Adam Smith spoke eloquently), or by the working of social safety nets, or of political liberties, or of social development – or some combination or other of these supportive activities.

Constitutive and Instrumental Roles of Freedom

The approach of this book is much more compatible with the latter approach than with the former.[4] It is mainly an attempt to see development as a process of expanding the real freedoms that people enjoy. In this approach, expansion of freedom is viewed as both (1) the *primary end* and (2) the *principal means* of development. They can be called respectively the "constitutive role" and the "instrumental role" of freedom in development. The constitutive role of freedom relates to the importance of substantive freedom in enriching human life. The substantive freedoms include elementary capabilities like being able to avoid such deprivations as starvation, undernourishment, escapable morbidity and premature mortality, as well as the freedoms that are associated with being literate and numerate, enjoying political participation and uncensored speech and so on. In this constitutive perspective, development involves expansion of these and other basic freedoms. Development, in this view, is the process of expanding human freedoms, and the assessment of development has to be informed by this consideration.

[…]

The *intrinsic* importance of human freedom as the preeminent objective of development has to be distinguished from the *instrumental* effectiveness of freedom of different kinds to promote human freedom…. The instrumental role of freedom concerns the way different kinds of rights, opportunities, and entitlements contribute to the expansion of human freedom in general, and thus to promoting development. This relates not merely to the obvious connection that expansion of freedom of each kind must contribute to development since development itself can be seen as a process of enlargement of human freedom in general. There is much more in the instrumental connection than this constitutive linkage. The effectiveness of freedom as an instrument lies in the fact that different kinds of freedom interrelate with one another, and freedom of one type may greatly help in advancing freedom of other types. The two roles are thus linked by empirical connections, relating freedom of one kind to freedom of other kinds.

Instrumental Freedoms

[…]

In particular, I shall consider the following types of instrumental freedoms: (1) *political freedoms*, (2) *economic facilities*, (3) *social opportunities*, (4) *transparency guarantees* and (5) *protective security*. These instrumental freedoms tend to contribute to the general capability of a person to live more freely, but they also serve to complement one another. While development analysis must, on the one hand, be concerned with the objectives and aims that make these instrumental freedoms consequentially important, it must also take note of the empirical linkages that tie the distinct types of freedom *together*, strengthening their joint importance….

Let me comment a little on each of these instrumental freedoms. *Political freedoms*, broadly conceived (including what are called civil rights), refer to the opportunities that people have to determine who should govern and on what principles, and also include the possibility to scrutinize and criticize authorities, to have freedom of political expression and an uncensored press, to enjoy the freedom to choose between different political parties, and so on. They include the political entitlements associated with democracies in the broadest sense (encompassing opportunities of political dialogue, dissent and critique as well as voting rights and participatory selection of legislators and executives).

Economic facilities refer to the opportunities that individuals respectively enjoy to utilize economic resources for the purpose of consumption, or production, or exchange. The economic entitlements that a person has will depend on the resources owned or available for use as well as on conditions of exchange, such as relative prices and the working of the markets. Insofar as the process of economic development increases the income and wealth of a country, they are reflected in corresponding enhancement of economic entitlements of the population. It should be obvious that in the relation between national income and wealth, on the one hand, and the economic entitlements of individuals (or families), on the other, distributional considerations are important, in addition to aggregative ones. How the additional incomes generated are distributed will clearly make a difference.

The availability and access to finance can be a crucial influence on the economic entitlements that economic agents are practically able to secure. This applies all the way from large enterprises (in which hundreds of thousands of people may work) to tiny establishments that are run on micro credit. A credit crunch, for example, can severely affect the economic entitlements that rely on such credit.

Social opportunities refer to the arrangements that society makes for education, health care and so on, which influence the individual's substantive freedom to live better. These facilities are important not only for the conduct of private lives (such as living a healthy life and avoiding preventable morbidity and premature mortality), but also for more effective participation in economic and political activities. For example, illiteracy can be a major barrier to participation in economic activities that require production according to specification or demand strict quality control (as globalized trade increasingly does). Similarly, political participation may be hindered by the inability to read newspapers or to communicate in writing with others involved in political activities.

I turn now to the fourth category. In social interactions, individuals deal with one another on the basis of some presumption of what they are being offered and what they can expect to get. In this sense, the society operates on some basic presumption of trust. *Transparency guarantees* deal with the need for openness that people can expect: the freedom to deal with one another under guarantees of disclosure and lucidity. When that trust is seriously violated, the lives of many people – both direct parties and third parties – may be adversely affected by the lack of openness. Transparency guarantees (including the right to disclosure) can thus be an important category of instrumental freedom. These guarantees have a clear instrumental role in preventing corruption, financial irresponsibility and underhand dealings.

Finally, no matter how well an economic system operates, some people can be typically on the verge of vulnerability and can actually succumb to great deprivation as a result of material changes that adversely affect their lives. *Protective security* is needed to provide a social safety net for preventing the affected population from being reduced to abject misery, and in some cases even starvation and death. The domain of protective security includes *fixed* institutional arrangements such as unemployment benefits and statutory income supplements to the indigent as well as ad hoc arrangements such as famine relief or emergency public employment to generate income for destitutes.

Interconnections and Complementarity

These instrumental freedoms directly enhance the capabilities of people, but they also supplement one another, and can furthermore reinforce one another. These interlinkages are particularly important to seize in considering development policies.

The fact that the entitlement to economic transactions tends to be typically a great engine of economic growth has been widely accepted. But many other connections remain underrecognized, and they have to be seized more fully in policy analysis. Economic growth can help not only in raising private incomes but also in making it possible for the state to finance social insurance and active public intervention. Thus the contribution of economic growth has to be judged not merely by the increase in private incomes, but also by the expansion of social services (including, in many cases, social safety nets) that economic growth may make possible.[5]

Similarly, the creation of social opportunities, through such services as public education, health care, and the development of a free and energetic press, can contribute both to economic development and to significant reductions in mortality rates. Reduction of mortality rates, in turn, can help to reduce birth rates, reinforcing the influence of basic education – especially female literacy and schooling – on fertility behavior.

[…]

This approach goes against – and to a great extent undermines – the belief that has been so dominant in many policy circles that "human development" (as the process of expanding education, health care and other conditions of human life is often called) is really a kind of luxury that only richer countries can afford. Perhaps the most important impact of the type of success that the East Asian economies, beginning with Japan, have had is the total undermining of that implicit prejudice.

These economies went comparatively early for massive expansion of education, and later also of health care, and this they did, in many cases, *before* they broke the restraints of general poverty. . . .

Different Aspects of China–India Contrast

The central role of individual freedoms in the process of development makes it particularly important to examine their determinants. Substantial attention has to be paid to the social influences, including state actions, that help to determine the nature and reach of individual freedoms. Social arrangements may be decisively important in securing and expanding the freedom of the individual. Individual freedoms are influenced, on one side, by the social safeguarding of liberties, tolerance, and the possibility of exchange and transactions. They are also influenced, on the other side, by substantive public support in the provision of those facilities (such as basic health care or essential education) that are crucial for the formation and use of human capabilities. There is need to pay attention to both types of determinants of individual freedoms.

The contrast between India and China has some illustrative importance in this context. The governments of both China and India have been making efforts for some time now (China from 1979 and India from 1991) to move toward a more open, internationally active, market-oriented economy. While Indian efforts have slowly met with some success, the kind of massive results that China has seen has failed to occur in India. An important factor in this contrast lies in the fact that from the standpoint of social preparedness, China is a great deal ahead of India in being able to make use of the market economy.[6] While pre-reform China was deeply skeptical of markets, it was not skeptical of basic education and widely shared health care. When China turned to marketization in 1979, it already had a highly literate people, especially the young, with good schooling facilities across the bulk of the country. In this respect, China was not very far from the basic educational situation in South Korea or Taiwan, where too an educated population had played a major role in seizing the economic opportunities offered by a supportive market system. In contrast, India had a half-illiterate adult population when it turned to marketization in 1991, and the situation is not much improved today.

The health conditions in China were also much better than in India because of the social commitment of the pre-reform regime to health care as well as education. Oddly enough, that commitment, while totally unrelated to its helpful role in market-oriented economic growth, created social opportunities that could be brought into dynamic use after the country moved toward marketization. The social backwardness of India, with its elitist concentration on higher education and massive negligence of school education, and its substantial neglect of basic health care, left that country poorly prepared for a widely shared economic expansion. The contrast between India and China does, of course, have many other aspects (including the differences in their respective political systems, and the much greater variation *within* India of social opportunities such as literacy and health care); these issues will be addressed later. But the relevance of the radically different levels of social preparedness in China and India for widespread market-oriented development is worth noting even at this preliminary stage of the analysis.

It must, however, also be noted that there are real handicaps that China experiences compared with India because it lacks democratic freedoms. This is particularly so when it comes to flexibility of economic policy and the responsiveness of public action to social crisis and unforeseen disasters. The most prominent contrast lies perhaps in the fact that China has had what is almost certainly the largest recorded famine in history (when thirty million people died in the famine that followed the failure of the Great Leap Forward in 1958–1961), whereas India has not had a famine since independence in 1947. When things go well, the protective power of democracy may be less missed, but dangers can lie round the corner (as indeed the recent experiences of some of the East Asian and Southeast Asian economies bring out).

[…]

Growth-Mediated Social Arrangements

… In our book *Hunger and Public Action*, Jean Drèze and I have distinguished between two types of success in the rapid reduction of mortality, which we called respectively "growth-mediated" and "support-led" processes.[7] The former process works *through* fast economic growth, and its success depends on the growth process being wide-based and economically broad (strong employment orientation has much to do with this), and also on utilization of the enhanced economic prosperity to expand the relevant social services, including health care, education and social security. In contrast with the growth-mediated mechanism, the support-led process does not operate through fast economic growth, but works through a program of skillful social support of health care, education and other relevant social arrangements. This process is well exemplified by the experiences of economies such as Sri Lanka, pre-reform China, Costa Rica or Kerala, which have had very rapid reductions in mortality rates and enhancement of living conditions, without much economic growth.

Public Provisioning, Low Incomes and Relative Costs

The support-led process does not wait for dramatic increases in per capita levels of real income, and it works through priority being given to providing social services (particularly health care and basic education) that reduce mortality and enhance the quality of life…. Despite their very low levels of income, the people of Kerala, or China, or Sri Lanka enjoy enormously higher levels of life expectancy than do much richer populations of Brazil, South Africa and Namibia, not to mention Gabon.

Even the *direction* of the inequality points opposite when we compare Kerala, China and Sri Lanka, on one side, with Brazil, South Africa, Namibia and Gabon, on the other. Since life expectancy variations relate to a variety of social opportunities that are central to development (including epidemiological policies, health care, educational facilities and so on), an income-centered view is in serious need of supplementation, in order to have a fuller understanding of the process of development. These contrasts are of considerable policy relevance, and bring out the importance of the support-led process.

Surprise may well be expressed about the possibility of financing support-led processes in poor countries, since resources are surely needed to expand public services, including health care and education. In fact, the need for resources is frequently presented as an argument for *postponing* socially important investments until a country is already richer. Where (as the famous rhetorical question goes) are the poor countries going to find the means for "supporting" these services? This is indeed a good question, but it also has a good answer, which lies very considerably in the economics of relative costs. The viability of this support-led process is dependent on the fact that the relevant social services (such as health care and basic education) are very *labor intensive*, and thus are relatively inexpensive in poor – and low-wage – economies. A poor economy may *have* less money to spend on health care and education, but it also *needs* less money to spend to provide the same services, which would cost much more in the richer countries. Relative prices and costs are important parameters in determining what a country can afford. Given an appropriate social commitment, the need to take note of the variability of relative costs is particularly important for social services in health and education.

It is obvious that the growth-mediated process has an advantage over its support-led alternative; it may, ultimately, offer more, since there are more deprivations – *other than* premature mortality, or high morbidity, or illiteracy – that are very directly connected with the lowness of incomes (such as being inadequately clothed and sheltered). It is clearly better to have high income *as well as* high longevity (and other standard indicators of quality of life), rather than only the latter. This is a point worth emphasizing, since there is some danger of being "overconvinced" by the statistics of life expectancy and other such basic indicators of quality of life.

For example, the fact that the Indian state of Kerala has achieved impressively high life expectancy, low fertility, high literacy and so on despite its low income level per head is certainly an achievement worth celebrating and learning from. And yet the question remains as to why Kerala has not been able to build on its successes in human development to raise its income levels as well, which would have made its success more complete; it can scarcely serve as a "model" case, as some have tried to claim. From a policy point of view, this requires a critical scrutiny of Kerala's economic policies regarding incentives and investments ("economic facilities," in general), despite its unusual success in raising life expectancy and the quality of life. Support-led success does, in this sense, remain shorter in achievement than growth-mediated success, where the increase in economic opulence and the enhancement of quality of life tend to move together.

On the other hand, the success of the support-led process as a route does indicate that a country need not wait until it is much richer (through what may be a long period of economic growth) before embarking on rapid expansion of basic education and health care. The quality of life can be vastly raised, despite low incomes, through an adequate program of social services. The fact that education and health care are also productive in raising economic growth adds to the argument for putting major emphasis on these social arrangements in poor economies, *without* having to wait for "getting rich" *first*. The support-led process is a recipe for rapid achievement of higher quality of life, and this has great policy importance, but there remains an excellent case for moving on from there to broader achievements that include economic growth as well as the raising of the standard features of quality of life.

[…]

Poverty as Capability Deprivation

… [I]n analyzing social justice, there is a strong case for judging individual advantage in terms of the capabilities that a person has, that is, the substantive freedoms he or she enjoys to lead the kind of life he or she has reason to value. In this perspective, poverty must be seen as the deprivation of basic capabilities rather than merely as lowness of incomes, which is the standard criterion of identification of poverty. The perspective of capability-poverty does not involve any denial of the sensible view that low income is clearly one of the major causes of poverty, since lack of income can be a principal reason for a person's capability deprivation.

Indeed, inadequate income is a strong predisposing condition for an impoverished life. If this is accepted, what then is all this fuss about, in seeing poverty in the capability perspective (as opposed to seeing it in terms of the standard income-based poverty assessment)? The claims in favor of the capability approach to poverty are, I believe, the following.

1. Poverty can be sensibly identified in terms of capability deprivation; the approach concentrates on deprivations that are *intrinsically* important (unlike low income, which is only *instrumentally* significant).
2. There are influences on capability deprivation – and thus on real poverty – *other* than lowness of income (income is not the only instrument in generating capabilities).
3. The instrumental relation between low income and low capability is *variable* between different communities and even between different families and different individuals (the impact of income on capabilities is contingent and conditional).

The third issue is particularly important in considering and evaluating public action aimed at reducing inequality or poverty. Various reasons for conditional variations have been discussed in the literature … and it is useful to emphasize some of them specifically in the context of practical policy making.

First, the relationship between income and capability would be strongly affected by the age of the person (e.g., by the specific needs of the old and the very young), by gender and social roles (e.g., through special responsibilities of maternity and also custom-determined family obligations), by location (e.g., by proneness to flooding or drought, or by insecurity and violence in some innercity living), by epidemiological atmosphere (e.g., through diseases endemic in a region) and by other variations over which a person may have no – or only limited – control. In making contrasts of population groups classified according to age, gender, location and so on, these parametric variations are particularly important.

Second, there can be some "coupling" of disadvantages between (1) income deprivation and (2) adversity in converting income into functionings.[8] Handicaps, such as age or disability or illness, reduce one's ability to earn an income. But they also make it harder to convert income into capability, since an older, or more disabled, or more seriously ill person may need more income (for assistance, for prosthesis, for treatment) to achieve the same functionings (even when that achievement is at all possible). This entails that "real poverty" (in terms of capability deprivation) may be, in a significant sense, more intense than what appears in the income space. This can be a crucial concern in assessing public action to assist the elderly and other groups with "conversion" difficulties in addition to lowness of income.

Third, distribution within the family raises further complications with the income approach to poverty. If the family income is used disproportionately in the interest of some family members and not others (for example, if there is a systematic "boy preference" in the family allocation of resources), then the extent of the deprivation of the neglected members (girls in the example considered) may not be adequately reflected in terms of family income.… The deprivation of girls is more readily checked by looking at capability deprivation (in terms of greater mortality, morbidity, undernourishment, medical neglect, and so on) than can be found on the basis of income analysis.

[…]

Fourth, *relative* deprivation in terms of *incomes* can yield *absolute* deprivation in terms of *capabilities*. Being relatively poor in a rich country can be a great capability handicap, even when one's absolute income is high in terms of world standards. In a generally opulent country, more income is needed to buy enough commodities to achieve the *same social functioning*.…

For example, the difficulties that some groups of people experience in "taking part in the life of the community" can be crucial for any study of "social exclusion." The need to take part in the life of a community may induce demands for modern equipment (televisions, videocassette recorders, automobiles and so on) in a country where such facilities are more or less universal (unlike what would be needed in less affluent countries), and this imposes a strain on a relatively poor person in a rich country even when that person is at a much higher level of income compared with people in less opulent countries. Indeed, the paradoxical phenomenon of hunger in rich countries – even in the United States – has something to do with the competing demands of these expenses.

What the capability perspective does in poverty analysis is to enhance the understanding of the nature and causes of poverty and deprivation by shifting primary attention away from *means* (and one particular means that is usually given exclusive attention, viz., income) to *ends* that people have reason to pursue, and, correspondingly, to the *freedoms* to be able to satisfy these ends….

Income Poverty and Capability Poverty

While it is important to distinguish conceptually the notion of poverty as capability inadequacy from that of poverty as lowness of income, the two perspectives cannot but be related, since income is such an important means to capabilities. And since enhanced capabilities in leading a life would tend, typically, to expand a person's ability to be more productive and earn a higher income, we would also expect a connection going from capability improvement to greater earning power and not only the other way around.

The latter connection can be particularly important for the removal of income poverty. It is not only the case that, say, better basic education and health care improve the quality of life directly; they also increase a person's ability to earn an income and be free of income-poverty as well. The more inclusive the reach of basic education and health care, the more likely it is that even the potentially poor would have a better chance of overcoming penury.

The importance of this connection was a crucial point of focus of my recent work on India, done jointly with Jean Drèze, dealing with economic reforms.[9] In many ways, the economic reforms have opened up for the Indian people economic opportunities that were suppressed by overuse of control and by the limitations of what had been called the "license Raj."[10] And yet the opportunity to make use of the new possibilities is not independent of the social preparation that different sections of the Indian community have. While the reforms were overdue, they could be much more productive if the social facilities were there to support the economic opportunities for all sections of the community. Indeed, many Asian economies – first Japan, and then South Korea, Taiwan, Hong Kong, and Singapore, and later post-reform China and Thailand and other countries in East Asia and Southeast Asia – have done remarkably well in spreading the economic opportunities through an adequately supportive social background, including high levels of literacy, numeracy, and basic education; good general health care; completed land reforms; and so on. The lesson of opening of the economy and the importance of trade has been more easily learned in India than the rest of the message from the same direction of the rising sun.[11]

India is, of course, highly diverse in terms of human development, with some regions (most notably, Kerala) having much higher levels of education, health care and land reform than others (most notably, Bihar, Uttar Pradesh, Rajasthan and Madhya Pradesh). The limitations have taken different forms in the different states. It can be argued that Kerala has suffered from what were until recently fairly anti-market policies, with deep suspicion of market-based economic expansion without control. So its human resources have not been as well used in spreading economic growth as they could have been with a more complementary economic strategy, which is now being attempted. On the other hand, some of the northern states have suffered from low levels of social development, with varying degrees of control and market-based opportunities. The need for seizing the relevance of complementarity is very strong in remedying the diverse drawbacks.

It is, however, interesting that despite the rather moderate record in economic growth, Kerala seems to have had a faster rate of reduction in income poverty than any other state in India. While some states have reduced income poverty through high economic growth (Punjab is the most notable example of that), Kerala has relied a great deal on expansion of basic education, health care and equitable land distribution for its success in reducing penury.

While these connections between income poverty and capability poverty are worth emphasizing, it is also important not to lose sight of the basic fact that the reduction of income poverty alone cannot possibly be the ultimate motivation of antipoverty policy. There is a danger in seeing poverty in the narrow terms of income deprivation, and then justifying investment in education, health care and so forth on the ground that they are good means to the end of reducing income poverty. That would be a confounding of ends and means. The basic foundational issues force us, for reasons already discussed, toward understanding poverty and deprivation in terms of lives people can actually lead and the freedoms they do actually have. The expansion of human capabilities fits directly into these basic considerations. It so happens that the enhancement of human capabilities also tends to go with an expansion of productivities and earning power. That connection establishes an important indirect linkage through which capability improvement helps both directly and indirectly in enriching human lives and in making human deprivations more rare and less acute. The instrumental connections, important as they are, cannot replace the need for a basic understanding of the nature and characteristics of poverty.

[…]

Concluding Remarks

[…]

Empirically, the relationship between income inequality and inequality in other relevant spaces can be rather distant and contingent because of various economic influences other than income that affect inequalities in individual advantages and substantive freedoms. For example, in the higher mortality rates of African Americans vis-à-vis the much poorer Chinese, or Indians in Kerala, we see the influence of factors that run in the opposite direction to income inequality, and that involve public policy issues with strong economic components: the financing of health care and insurance, provision of public education, arrangements for local security and so on.

Mortality differences can, in fact, serve as an indicator of very deep inequities that divide races, classes and genders, as the various illustrations in this chapter bring out. For example, the estimations of "missing women" show the remarkable reach of female disadvantage in many parts of the contemporary world, in a way that other statistics may not adequately reflect. Also, since the incomes earned by family members are shared by others in the family, we cannot analyze gender inequality primarily in terms of income differences. We need much more information than is usually available on the division of resource use within the family to get a clearer idea of inequalities in economic affluence. However, statistics on mortality rates as well as other deprivations (such as undernourishment or illiteracy) can directly present a picture of inequality and poverty in some crucial dimensions. This information can also be used to relate the extent of relative deprivation of women to the existing inequalities in opportunities (in earning outside income, in being enrolled in schools and so on). Thus, both descriptive and policy issues can be addressed through this broader perspective on inequality and poverty in terms of capability deprivation.

[…]

Furthermore, the need to discuss the valuation of diverse capabilities in terms of public priorities is, I have argued, an asset, forcing us to make clear what the value judgments are in a field where value judgments cannot be – and should not be – avoided. Indeed, public participation in these valuational debates – in explicit or implicit forms – is a crucial part of the exercise of democracy and responsible social choice. In matters of public judgment, there is no real escape from the evaluative need for public discussion. The work of public valuation cannot be replaced by some cunningly clever assumption. Some assumptions that give the appearance of working very nicely and smoothly operate through concealing the choice of values and weights in cultivated opaqueness. For example, the assumption – often implicitly made – that two persons with the same demand function must have the same relation between commodity bundles and well-being (no matter whether one is ill and the other not, one disabled and the other not, and so on) is basically a way of evading the need to consider many significant influences on well-being… That evasion becomes transparent, as I have tried to illustrate, when we supplement income and commodity data with information of other types (including matters of life and death).

The issue of public discussion and social participation is thus central to the making of policy in a democratic framework. The use of democratic prerogatives – both political liberties and civil rights – is a crucial part of the exercise of economic policy making itself, in addition to other roles it may have. In a freedom-oriented approach, the participatory freedoms cannot but be central to public policy analysis.

Markets, State and Social Opportunity

[…]

Need for a Many-Sided Approach

The case for taking a broad and many-sided approach to development has become clearer in recent years, partly as a result of the difficulties faced as well as successes achieved by different countries over the recent decades.[12] These issues relate closely to the need for balancing the role of the government – and of other political and social institutions – with the functioning of markets.

They also suggest the relevance of a "comprehensive development framework" of the kind discussed by James Wolfensohn, the president of the World Bank.[13] This type of framework involves rejecting a compartmentalized view of the process of development (for example, going just for "liberalization" or some other single, overarching process). The search for a single all-purpose remedy (such as "open the markets" or "get the prices right") has had much hold on professional thinking in the past, not least in the World Bank itself. Instead, an integrated and multifaceted approach is needed, with the object of making simultaneous progress on different fronts, including different institutions, which reinforce each other.

[…]

Interdependence and Public Goods

Those who have tended to take the market mechanism to be the best solution of every economic problem may want to inquire what the limits of that mechanism may be. I have already commented on issues of equity and the need to go beyond efficiency considerations, and in that context, I have tried to discuss why this may call for supplementing the market mechanism by other institutional activities. But even in achieving efficiency, the market mechanism may sometimes be less than effective, particularly in the presence of what are called "public goods."

One of the assumptions standardly made to show the efficiency of the market mechanism is that every commodity – and more generally everything on which our welfares depend – can be bought and sold in the market. It can all be marketed (if we want to place it there), and there is no "nonmarketable" but significant influence on our welfare. In fact, however, some of the most important contributors to human capability may be hard to sell exclusively to one person at a time. This is especially so when we consider the so-called public goods, which people consume *together* rather than separately.

This applies particularly in such fields as environmental preservation, and also epidemiology and public health care. I may be willing to pay my share in a social program of malaria eradication, but I cannot buy my part of that protection in the form of "private good" (like an apple or a shirt). It is a "public good" – malaria-free surroundings – which we have to consume together. Indeed, if I do manage somehow to organize a malaria-free environment where I live, my neighbor too will have that malaria-free environment, without having to "buy" it from anywhere.

The rationale of the market mechanism is geared to private goods (like apples and shirts), rather than to public goods (like the malaria-free environment), and it can be shown that there may be a good case for the provisioning of public goods, going beyond what the private markets would foster. Exactly similar arguments regarding the limited reach of the market mechanism apply to several other important fields as well, where too the provision involved may take the form of a public good. Defense, policing and environmental protection are some of the fields in which this kind of reasoning applies.

There are also rather mixed cases. For example, given the shared communal benefits of basic education, which may transcend the gains of the person being educated, basic education may have a public-good component as well (and can be seen as a semipublic good). The persons receiving education do, of course, benefit from it, but in addition a general expansion of education and literacy in a region can facilitate social change (even the reduction of fertility and mortality … and also help to enhance economic progress from which others too benefit. The effective reach of these services may require cooperative activities and provisioning by the state or the local authorities. Indeed, the state has typically played a major role in the expansion of basic education across the world. The rapid spread of literacy in the past history of the rich countries of today (both in the West and in Japan and the rest of East Asia) has drawn on the low cost of public education combined with its shared public benefits.

It is in this context rather remarkable that some market enthusiasts recommend now to the developing countries that they should rely fully on the free market even for basic education – thereby withholding from them the very process of educational expansion that was crucial in rapidly spreading literacy in Europe, North America, Japan, and East Asia in the past. The alleged followers of Adam Smith can learn something from his writings on this subject, including his frustration at the parsimony of public expenditure in the field of education:

> For a very small expence the publick can facilitate, can encourage, and can even impose upon almost the whole body of the people, the necessity of acquiring those most essential parts of education.[14]

The "public goods" argument for going beyond the market mechanism supplements the case for social provisioning that arises from the need of basic capabilities, such as elementary health care and basic educational opportunities. Efficiency considerations thus supplement the argument for equity in supporting public assistance in providing basic education, health facilities and other public (or semipublic) goods.

[…]

Financial Prudence and Need for Integration

I turn now to the problem of financial prudence, which has become a major concern across the world in recent decades. The demands for conservatism in finance are very strong now, since the disruptive effects of excessive inflation and instability have come to be widely studied and discussed. Indeed, finance is a subject in which conservatism has some evident merit, and prudence in this field can easily take a conservative form. But we have to be clear as to what financial conservatism demands and why.

[…]

Financial conservatism has good rationale and imposes strong requirements, but its demands must be interpreted in the light of the overall objectives of public policy. The role of public expenditure in generating and guaranteeing many basic capabilities calls for attention; it must be considered along with the instrumental need for macroeconomic stability. Indeed, the latter need must be assessed *within* a broad framework of social objectives.

Depending on the particular context, different public policy issues may end up being critically important. In Europe, it could be the nastiness of massive unemployment (close to 12 percent for several major countries). In the United States, a crucial challenge is presented by the absence of any kind of medical insurance or secure coverage for very large numbers of people (the United States is alone among the rich countries in having this problem, and furthermore, the medically uninsured number more than forty million). In India, there is a massive failure of public policy in the extreme neglect of literacy (half the adult population – and two-thirds of adult women – are still illiterate). In East Asia and Southeast Asia, it looks increasingly as if the financial system requires extensive regularization, and there also seems to be a need for a preventive system that can counteract sudden losses of confidence in a country's currency or investment opportunities (as is brought out by the recent experiences of these countries, which had to seek gigantic bailout operations by the International Monetary Fund). The problems are different, and given their complexity, each calls for a serious examination of the objectives and instruments of public policy. The need for financial conservatism – important as it is – fits into this diverse and broad picture, and cannot stand on its own – in solitary isolation – as *the* commitment of the government or of the central bank. The need for scrutiny and comparative assessment of alternative fields of public expenditure is altogether crucial.

Concluding Remarks

Individuals live and operate in a world of institutions. Our opportunities and prospects depend crucially on what institutions exist and how they function. Not only do institutions contribute to our freedoms, their roles can be sensibly evaluated in the light of their contributions to our freedom. To see development as freedom provides a perspective in which institutional assessment can systematically occur.

Even though different commentators have chosen to focus on particular institutions (such as the market, or the democratic system, or the media, or the public distribution system), we have to view them together, to be able to see what they can or cannot do in combination with other institutions. It is in this integrated perspective that the different institutions can be reasonably assessed and examined.

The market mechanism, which arouses passion in favor as well as against, is a basic arrangement through which people can interact with each other and undertake mutually advantageous activities. In this light, it is very hard indeed to see how any reasonable critic could be against the market mechanism, as such. The problems that arise spring typically from other sources – not from the existence of markets per se – and include such concerns as inadequate preparedness to make use of market transactions, unconstrained concealment of information or unregulated use of activities that allow the powerful to capitalize on their asymmetrical advantage. These have to be dealt with not by suppressing the markets, but by allowing them to function better and with greater fairness, and with adequate supplementation. The overall achievements of the market are deeply contingent on political and social arrangements.

The market mechanism has achieved great success under those conditions in which the opportunities offered by them could be reasonably shared. In making this possible, the provision of basic education, the presence of elementary medical facilities, the availability of resources (such as land) that can be crucial to some economic activities (such as agriculture) call for appropriate public policies (involving schooling, health care, land reform and so on). Even when the need for "economic reform" in favor of allowing more room for markets is paramount, these nonmarket facilities require careful and determined public action.

In this chapter – and in earlier ones – various examples of this complementarity have been considered and examined. The efficiency contributions of the market mechanism can hardly be doubted, and traditional economic results, in which efficiency is judged by prosperity or opulence or utility, can be extended to efficiency in terms of individual freedoms as well. But these efficiency results do not, on their own, guarantee distributional equity. The problem can be particularly large in the context of inequality of substantive freedoms, when there is a coupling of disadvantages (such as the difficulty of a disabled or an untrained person to *earn* an income being reinforced by her difficulty in making *use* of income for the capability to live well). The far-reaching powers of the market mechanism have to be supplemented by the creation of basic social opportunities for social equity and justice.

In the context of developing countries in general, the need for public policy initiatives in creating social opportunities is crucially important. As was discussed earlier, in the past of the rich countries of today we can see quite a remarkable history of public action, dealing respectively with education, health care, land reforms and so on. The wide sharing of these social opportunities made it possible for the bulk of the people to participate directly in the process of economic expansion.

The real problem here is not the need for financial conservatism in itself, but the underlying – and often unargued – belief that has been dominant in some policy circles that human development is really a kind of luxury that only richer countries can afford.

Perhaps the most important impact of the type of success that the East Asian economies have recently had (beginning with Japan – decades earlier) is the total undermining of that implicit prejudice. These economies went comparatively early for massive expansion of education, and later also of health care, and this they did, in many cases, *before* they broke the restraints of general poverty. And despite the financial turmoil that some of these economies have recently experienced, their overall achievements over the decades have typically been quite remarkable. As far as human resources are concerned, they have reaped as they have sown. Indeed, the priority to human resource development applies particularly to the *early* history of Japanese economic development, beginning with the Meiji era in the mid-nineteenth century. That priority has not really intensified as Japan has grown richer and much more opulent. Human development is first and foremost an ally of the poor, rather than of the rich and the affluent.

What does human development do? The creation of social opportunities makes a direct contribution to the expansion of human capabilities and the quality of life (as has already been discussed). Expansion of health care, education, social security, etc., contribute directly to the quality of life and to its flourishing. There is every evidence that even with relatively low income, a country that guarantees health care and education to all can actually achieve remarkable results in terms of the length and quality of life of the entire population. The highly labor-intensive nature of health care and basic education – and human development in general – makes them comparatively cheap in the early stages of economic development, when labor costs are low.

The rewards of human development go, as we have seen, well beyond the direct enhancement of quality of life, and include also its impact on people's productive abilities and thus on economic growth on a widely shared basis. Literacy and numeracy help the participation of the masses in the process of economic expansion (well illustrated from Japan to Thailand). To use the opportunities of global trade, "quality control" as well as "production to specification" can be quite crucial, and they are hard for illiterate or innumerate laborers to achieve and maintain. Furthermore, there is considerable evidence that improved health care as well as nutrition also make the workforce more productive and better remunerated.

On a different subject, there is much confirmation, in the contemporary empirical literature, of the impact of education, especially female education, on reducing fertility rates. High fertility rates can be seen, with much justice, as adverse to the quality of life, especially of young women, since recurrent bearing and rearing of children can be very detrimental to the well-being and freedom of the young mother. Indeed, it is precisely this connection that makes the empowerment of women (through more outside employment, more school education and so on) so effective in reducing fertility rates, since young women have a strong reason for moderating birthrates, and their ability to influence family decisions increases with their empowerment.…

Those who see themselves as financial conservatives sometimes express skepticism about human development. There is, however, little rational basis for that inference. The benefits of human development are manifest, and can be more fully accounted by taking an adequately comprehensive view of its overall impact. Cost consciousness can help to direct human development in channels that are more productive – directly and indirectly – of the quality of life, but it does not threaten its imperative interest.[15]

Indeed, what really should be threatened by financial conservatism is the use of public resources for purposes where the social benefits are very far from clear, such as the massive expenditures that now go into the military in one poor country after another (often many times larger than the public expenditure on basic education or health care). Financial conservatism should be the nightmare of the militarist, not of the schoolteacher or the hospital nurse. It is an indication of the topsy-turvy world in which we live that the school-teacher or the nurse feels more threatened by financial conservatism than does the army general. The rectification of this anomaly calls not for the chastising of financial conservatism, but for more pragmatic and open-minded scrutiny of rival claims to social funds.

Notes

1 These and other such comparisons are presented in my "The Economics of Life and Death," *Scientific American* 266 (April 1993), and "Demography and Welfare Economics," *Empirica* 22 (1995).

2 On this see my "Economics of Life and Death," and also the medical literature cited there. See also Jean Drèze and Amartya Sen, *Hunger and Public Action* (Oxford: Clarendon Press, 1989). On this general issue, see also M. F. Perutz, "Long Live the Queen's Subjects," *Philosophical Transactions of the Royal Society of London* 352 (1997).

3 I have discussed this contrast in an earlier paper, "Development Thinking at the Beginning of the 21st Century," in *Economic and Social Development into the XXI Century*, edited by Louis Emmerij (Washington, D.C.: Inter-American Development Bank, distributed by Johns Hopkins University Press, 1997). See also my "Economic Policy and Equity: An Overview," in *Economic Policy and Equity*, edited by Vito Tanzi, Ke-young Chu and Sanjeev Gupta (Washington, D.C.: International Monetary Fund, 1999).

4 This chapter served as the basis of a keynote address given at the World Bank Symposium on Global Finance and Development in Tokyo, March 1–2, 1999.

5 On this see Jean Drèze and Amartya Sen, *Hunger and Public Action* (Oxford: Clarendon Press, 1989).

6 On this see Jean Drèze and Amartya Sen, *India: Economic Development and Social Opportunity* (Delhi: Oxford University Press, 1995), and the Probe Team, *Public Report on Basic Education in India* (Delhi: Oxford University Press, 1999).

7 Drèze and Sen, *Hunger and Public Action* (1989); see particularly chapter 10.

8 See, for example, James Smith, "Healthy Bodies and Thick Wallets: The Dual Relationship between Health and Socioeconomic Status," *Journal of Economic Perspectives* 13 (1999). There is also another type of "coupling" between (1) undernutrition generated by income-poverty and (2) income-poverty resulting from work deprivation due to undernutrition. On these connections, see Partha Dasgupta and Debraj Ray, "Inequality as a Determinant of Malnutrition and Unemployment: Theory," *Economic Journal* 96 (1986); "Inequality as a Determinant of Malnutrition and Unemployment: Policy," *Economic Journal* 97 (1987); and "Adapting to Undernourishment: Biological Evidence and Its Implications," in *The Political Economy of Hunger*, edited by Jean Drèze and Amartya Sen

(Oxford: Clarendon Press, 1990). See also Partha Dasgupta, *An Inquiry into Well-Being and Destitution* (Oxford: Clarendon Press, 1993), and Debraj Ray, *Development Economics* (Princeton: Princeton University Press, 1998).

9 Jean Drèze and Amartya Sen, *India: Economic Development and Social Opportunity* (Delhi: Oxford University Press, 1995).

10 See the collection of papers in Isher Judge Ahluwalia and I.M.D. Little, eds., *India's Economic Reforms and Development: Essays for Manmohan Singh* (Delhi: Oxford University Press, 1998). See also Vijay Joshi and Ian Little, *Indian Economic Reforms, 1991–2001* (Delhi: Oxford University Press, 1996).

11 These arguments are more fully developed in Drèze and Sen, *India: Economic Development and Social Opportunity* (1995).

12 See particularly Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989); Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990); Lance Taylor, ed., *The Rocky Road to Reform: Adjustment, Income Distribution and Growth in the Developing World* (Cambridge, Mass.: MIT Press, 1993); Jong-Il You and Ha-Joon Chang, "The Myth of Free Labor Market in Korea," *Contributions to Political Economy* 12 (1993); Gerry K. Helleiner, ed., *Manufacturing for Export in the Developing World:Problems and Possibilities* (London: Routledge, 1995); Kotaro Suzumura, *Competition,Commitment and Welfare* (Oxford: Clarendon Press, 1995); Dani Rodrik, "Understanding Economic Policy Reform," *Journal of Economic Literature* 24 (March 1996); Jomo K.S., with Chen Yun Chung, Brian C. Folk, Irfan ul-Haque, Pasuk Phongpaichit, Batara Simatupang and Mayuri Tateishi, *Southeast Asia's Misunderstood Miracle: Industrial Policy and Economic Development in Thailand, Malaysia and Indonesia* (Boulder, Colo.: Westview Press, 1997); Vinay Bharat-Ram, *The Theory of the Global Firm* (Delhi: Oxford University Press, 1997); Jeffrey Sachs and Andrew Warner, "Sources of Slow Growth in African Economies," Harvard Institute for International Development, March 1997; Jong-II You, "Globalization, Labor Market Flexibility and the Korean Labor Reform," *Seoul Journal of Economics* 10 (1997); Jomo K.S., ed., *Tigers in Trouble: Financial Governance, Liberalisation and Crises in East Asia* (London: Zed Books, 1998); among other writings. Dani Rodrik has provided a helpful overall account of the need for an appropriate combination of public intervention, markets and global exchange; the chosen combinations may vary from country to country; see his *The New Global Economy and Developing Countries* (1999). See also Edmond Malinvaud, Jean-Claude Milleron, Mustaphak Nabli, Amartya Sen, Arjun Sengupta, Nicholas Stern, Joseph E. Stiglitz, and Kotaro Suzumura, *Development Strategy and the Management of the Market Economy* (Oxford: Clarendon Press, 1997).

13 James D. Wolfensohn, "A Proposal for Comprehensive Development Framework," mimeographed, World Bank, 1999. See also Joseph E. Stiglitz, "An Agenda for Development in the Twenty-First Century," in *Annual World Bank Conference on Development Economics 1997,* edited by B. Pleskovi and J. E. Stiglitz (Washington, D.C.: World Bank, 1998).

14 Smith, *Wealth of Nations* (1976 Campbell and Skinner edition), volume 1, book 2, p. 27, and volume 5, book 1, f, p. 785.

15 However, because of the impossible burden of international debt, some countries, especially in Africa, may not be able to exercise much choice at all in determining their fiscal priorities. On this issue the need for "visionary" international policy as a part of "realistic" economic possibilities is forcefully advocated by Jeffrey D. Sachs, "Release the Poorest Countries from Debt Bondage," *International Herald Tribune*, June 12–13, 1999.

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From Polanyi to Pollyanna: The False Optimism of Global Labor Studies (2010)

Michael Burawoy

In recent years there has been a spate of interest in Karl Polanyi's *The Great Transformation* among social scientists in general, and among labor scholars in particular.[1] Nor is this surprising since Polanyi warned us of the dangers of what he called the 'liberal creed' – belief in the self-regulating market whose pursuit brought economic misery and cultural devastation to modern civilization. Written in 1944 *The Great Transformation* traces the rise of the self-regulating market – the relation between the idea and the practice – from the end of the 18th century, through the 19th and into the 20th century generating protectionist counter-movements which brought social democracy and the New Deal but also Fascism and Stalinism. The reaction to market fundamentalism could be as bad as the curse itself, leading Polanyi to believe that never again would humanity indulge in such a dangerous experiment. Yet that is what we now confront.

Like Marx, Polanyi could see the downside as well as the potentialities of markets. Indeed, there are powerful resonances between Marx and Polanyi – Polanyi draws on Marx's early writings on money and alienation as the basis of his own moral indictment of unregulated commodification. But there are also fundamental divergences between their commentaries. Time and again Polanyi rails against Marxian theories of history that are based on the law-like dynamics of modes of production and their succession through history. His critique is founded on the claim that commodification rather than exploitation is the central experience of capitalism.[2] Chapter 13 of *The Great Transformation* undertakes a sustained polemic against the

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Marxian notion of exploitation, which, he claims, actually diminished during the industrial revolution, and therefore cannot grasp what was propelling change. According to Polanyi what lay behind the struggles of nineteenth century Europe was not exploitation but cultural devastation wrought by the market. In Polanyi's formulation the commodification of land, money and labor – so-called fictitious commodities – threatened to destroy 'society', the elusive foundation of humanity, and generated spontaneous counter-movements to defend society. In this analysis, classes become effective actors, not in pursuit of their own interests, but when they defend the universal interest in sustaining society. The focus, therefore, shifts from exploitation to commodification, from production to markets, and from classes to society.

Polanyi suffers from a false optimism on four counts. First, he so believed in the power of ideas that he thought the discredited ideology of market fundamentalism could not take hold of our planet again. Second, he postulated a nebulous and undertheorized notion of society, which, in the final analysis, so he claimed, would summon up its own defense in the face of a market onslaught. Third, in his hostility to orthodox Marxism – especially toward its theories of history and the centrality of exploitation – he lost sight of the imperatives of capitalist accumulation that lie behind the resurgence of markets. Finally, in focusing on the market and its counter-movement he too easily reduced state to society, missing their complex interplay. These four elements of false optimism find their echo in recent labor studies that, while drawing on Polanyi's critical ideas of the market, have found hope in his postulation of a counter-movement.

Accordingly, this essay is divided into two parts – two readings of Polanyi. The first part is a critique of optimistic renderings of Polanyi, especially renderings that appeal to and search for laborist counter-movements to market fundamentalism. As background I begin with some recent classics with an optimistic bent before turning to a longer treatment of *Grounding Globalization*, an award-winning book from South Africa. The second part of the essay is intended as an alternative, more pessimistic, reading of Polanyi. Locating his analysis of fictitious commodities in historical perspective, I seek to understand the peculiar nature of contemporary marketization and thereby problematize the possibility of global counter-movement, especially one centered on labor. …

False Optimism

There's no better place to begin than with Peter Evans, whose life-work has been in dialogue with Karl Polanyi. For much of his career he studied the political conditions of capital accumulation in developing economies, pointing in particular to the role of the state – first the tripartite alliance of state, national capital and international capital that produced dependent development in Brazil and then in a comparative study of India, South Korea and Brazil that showed how the most effective 'developmental' state, i.e. one that produces economic growth, is embedded in and autonomous from the economy. This corresponds well to Polanyi's notion of the 'market' as a political project that requires state regulation and direction.

Disturbed by the uneven benefits of capitalist accumulation that he had previously championed, Evans turned his attention to the forces that might challenge capitalist inequities. He explores Polanyi's second dimension – the so-called double movement, the counter-movement to market expansion.[3] Here he insists that a counter-movement must go beyond local and national levels to reach a global scale – a scale of resistance unanticipated by Polanyi – to produce what he calls 'counter-hegemonic globalization'. He, therefore, searches for 'progressive' social movements with the potential to transcend national boundaries – environmental movements, women's movements and above all labor movements – but it is not clear in what way these movements are counter-hegemonic, that is to say, in what way they represent an alternative 'hegemony', nor what it is that they actually 'counter', nor that they effectively build transnational solidarity.

Evans brings back the state to promote economic development but lets it fly out of the window when it comes to organizing struggles – struggles the state confines to the national arena. The result is a 'counter-hegemonic' globalization which clutches at straws. There's simply no there there. Far from counter-hegemonic, his movements seem to be organized on the terrain and within the limits of capitalist hegemony. There is no sign that their 'small transformations', or better their small perturbations, are more than an adjustment to capitalism. Important though they are in their own right, they are neither temporally cumulative nor politically (and geographically) connected, except perhaps momentarily when they assemble at the World Social Forum. Their activities may win the concessions, but they are concessions that forestall rather than prefigure any 'great transformation'.

By contrast, Beverly Silver ties labor struggles closely to capital accumulation as it advances through space and time.[4] Winning concessions does not lead to any 'great transformation', but to new strategems of capital. Her magisterial account of the history of labor since 1870 shows how capitalists compete with one another to drive down the costs of labor, engendering struggles that challenge the legitimacy of capital. Concessions ensue, thereby threatening profits. Capitalism lurches between crises of legitimation and crises of profitability, temporarily stabilizing itself with various 'fixes': spatial fix (relocation to new sources of cheap labor); process fix (technological innovation); product fix (turning to a new product or industry where profits are initially high); and, finally, financial fix (in which excess capital turns to financial outlets). Silver traces the movement of and struggles within textiles, the prototype of 19th century capitalism, and then of the auto industry as the prototype of 20th century capitalism, asking what will be the industry of the 21st century. She assumes that labor is always *interested* in resisting exploitation and its success depends on its *capacity*, that is the mobilization of two types of resources – structural and associational power. She, too, reveals an unstated optimism that exploitation always begets what she calls Marx-type struggles, or if not these then Polanyi-type struggles around the commodification of labor. In her analysis the latter are always a residual category, leaving unelaborated Polanyi's fundamentally different vision of capitalism, his very different theory of experience, and thus the different politics of contestation to which it gives rise.

Ching Kwan Lee's canonical text on China's new and old working class, *Against the Law*, advances Silver's account.[5] She gives equal weight to Marx-type struggles against exploitation by the young women who are employed in the electronics industry in the Chinese Sunbelt and to Polanyi-type livelihood struggles against commodification of the unemployed or underemployed industrial workers of the Rustbelt. Lee resolves the tension between Marxian and Polanyian struggles in empirical fashion, skirting the underlying theoretical divergences based as they are in very different conceptions of capitalism and its future. Although Lee, interestingly, ties the exploitation of labor in the Sunbelt to the partial commodification of land through the redistribution of property rights in rural areas, and thus moving in a Polanyian direction of alliances against the market, she makes no attempt to move her beleaguered state workers toward international solidarity. Indeed, Chinese 'decentralized legal authoritarianism' locks struggles into local political containers, so that they cannot even reach national solidarity let alone build international alliances.

Gay Seidman thematizes this issue. In her study of transnational consumer boycotts she questions the viability of a labor internationalism that does not give voice to labor.[6] Instead, she emphasizes the continuing importance of struggles to democratize nation states and to improve their labor regimes. Here she appeals to Polanyi to justify her focus on the state as a potentially positive force, advancing the interests of labor. Like Polanyi, however, she does not examine the relation of state and society to understand when the state might protect the interests of labor or when it might mount an assault on labor.[7] She follows the Nirvana Principle, according to which rejecting one solution, *ipso facto* makes its alternative preferable.[8] Just because international solidarity is both infeasible and problematic does not of itself imply that focusing on the state provides any better solution. In the contemporary era states have been notoriously hostile to labor.

Nonetheless, many recent studies do support Seidman's insistence on the centrality of national struggles, successful or not. Thus, in her comparison of labor struggles in South Korea and the United States, Jennifer Chun focuses on successful classification struggles that prioritize the link between state and labor movement, making international solidarity difficult to accomplish or even imagine.[9] An interesting variant on this theme is Robyn Rodriguez's study of transnational migrants organized by a Philippine State that brokers deals with other states.[10] Here Migrante International, a grass roots movement of migrant workers, does organize transnationally – not by building relations with workers from other countries but by focusing its demands on the Philippine State. Hers is the exception that proves the rule. Once again the state frames and limits the context of struggle. All these studies, and many others too, call attention to an untheorized dimension in Polanyi – his tendency to reduce state to society – and how labor is locked into an interdependent and antagonistic relation with the state that set limits on the very possibility of transnational solidarity.

Grounding Globalization

From the point of view of surfacing the limitations of Polanyi and the tensions with Marx one of the most interesting books to appear recently is Edward Webster, Rob Lambert and Andries Bezuidenhout's (WLB), *Grounding Globalization*, which compares the responses of labor in three white goods factories, namely LG in South Korea (Changwon), Electrolux in Australia (Orange), and Defy in South Africa (Ezakheni).[11] There's no doubt about the importance of the book in focusing on the experiences of workers beyond the workplace, and placing them within an overall societal context. The comparative analysis among countries is important. But their political desires overwhelm their analysis when they claim to see in their case studies movements – Marxian and Polanyian – thwarting the tide of neoliberalism. The counter-movement becomes a mirage, a fantasy that disavows their intention to ground globalization.

The book opens with a most promising engagement with the 'Polanyi Problem and the Problem with Polanyi', posing five questions about society and the counter-movement. (1) What is this society that spontaneously defends itself against the market? (2) What is the nature of the counter-movement to marketization? What reacts and under what conditions? (3) What place if any has labor in the counter-movement? (4) How should we conceptualize power in the double-movement, what sources of power can the movement draw upon? (5) At what scale should we think of the counter-movement – local, national or global? The trouble is that the third part of *Grounding Globalization* turns away from these questions, abandoning its original design as an excavator, digging in the trenches of society and exploring the lived experience of insecurity.

Let me be clear. The book is elegantly organized along Polanyian lines. Part I: Markets Against Society; Part II: Society Against Markets; Part III: Society Governing the Market? Thus, in Part I we are treated to a study of globalization for its real but different consequences – broadly speaking, consent to capitalism, leading to work intensification in South Korea; threatened closures in Australia; and livelihood strategies of survival in South Africa. In Part II WLB identify the following societal responses to capitalism: in Changwon the clandestine organization of a branch of the National Labor Federation (KCTU), and the creation of a Center for Contingency workers; in Orange, a campaign against plant closure, involving an alliance of labor and farmers, support for an independent political candidate, and an unsuccessful attempt to link communities affected by closure within a global Network of Electrolux Action Committees; in Ezakheni they claim a social movement unionism that linked struggles for land and labor, an open budgeting experiment at the local level, and semi-formal community based organizations.

This analysis portends significant insight into society – its meaning, its resilience, its defense, its relation to the state, but that's not what we get in Part III, 'Society Governing the Market'. As we see in Table 32.1, WLB conjure up the essential elements of a *Second Great Transformation*, by contrasting it with Polanyi's

Table 32.1 Contrasting Great Transformations

	FIRST GREAT TRANSFORMATION	*SECOND GREAT TRANSFORMATION*
MARKETIZATION	*North*: Rapid Marketization and commodification *South*: Colonial Conquest and land dispossession	*North*: Rapid liberalization *South*: Structural Adjustment
PRODUCTION REGIME	*North*: Market despotism in the workplace *South*: Colonial despotism	*North*: Shift to hegemonic despotism *South*: Market despotism
COUNTER-MOVEMENT	*North*: Emergence of workplace hegemony and construction of welfare state *South*: National Liberation Movement, leading to political independence and state corporatism	*North and South*: Embryonic global counter-movement in the post-Seattle period – WSF, new global unionism

Source: Based on Tables 3.1 (p. 53) and 3.2 (p. 55) in Edward Webster, Rob Lambert and Andries Bezuidenhout (2008) Grounding Globalization (Oxford: Blackwell)

account of counter-movements in England in the 19th and 20th centuries, the *First Great Transformation*. Here again we have postulated an 'embryonic global counter-movement', but what's the evidence for its existence? Here again we have a Polanyian teleology: a malignant past is first homogenized and then inverted into a radiant future. This false homogenization of history but also of geography (the dichotomous north-south distinction), becomes a flight of fancy into labor internationalism and utopian society – the one a Marxian dream, the other a Polanyian dream. Let us deal with each in turn.

WLB draw out two forms of labor internationalism, an old and a new. On the one hand, there was the labor internationalism, run by career bureaucrats operating in a centralized hierarchical organization, with restricted debate and a diplomatic orientation, focused only on workplace and trade unions, established by Northern male white workers. On the other hand, today, we have the promise of a new labor internationalism driven by a political generation of committed activists, linked by decentralized networks, engaged in open debate, with a mobilizational and campaign orientation, focused on coalition building with new social movements and NGOs, dominated by workers from Southern Africa, Asia and Latin America.

What are the foundations of this new labor internationalism? We are presented with the discursive maneuvers of SIGTUR (Southern Initiative on Globalization and Trade Union Rights), but what have they to do with the workers of Ezakheni, Orange and Changwon? Surely, if we are to think about labor internationalism we need to think through the experience of work in these factories (about which in the final analysis we do not learn a great deal), the lateral connections between workplaces, both the connections of interdependence (e.g. the role of outsourcing) and the relations of solidarity (built through common struggles). We need to look at the commodity chain and its weak links, but also the possibility of building ties with other fractions of the workforce that are not connected to the white goods industry. If, on the one hand, we need to have a deeper comprehension of the lived experience of insecurity, on the other hand we need a far more elaborated interrogation of the nature of 'neoliberalism'. We need to examine the forces behind the restructuring of the white goods industry globally, and the obstacles this creates for any industry based organizing. Yes, manufacturing may still matter, but what's the basis for thinking that industrial sector is the appropriate unit for organizing? Are WLB shining their torch in the right place?

WLB are good at moving vertically, locating the experience and response to neoliberalism within their national contexts, but they don't explain why these national contexts do not become a steel frame that shuts out possibilities of labor solidarity within countries let alone between countries. Could it be, as Seidman argues, that labor internationalism may undermine the very national projects that have greater promise of success? In South Africa, for example, as Webster et al. know only too well, the trade union movement is on the defensive, losing jobs to foreign lands and to the informal sector. Should unions, who represent wage labor, a shrinking labor aristocracy, be building ties with unions in other countries, or creating broader solidarities with informal sector workers in South Africa? Should the metal workers be concerned about labor brokers exploiting the national labor market, or should they be helping to defend workers against plant closures in the United States? Whatever unions should be doing, the workers described in *Grounding Globalization* seem to be largely trapped in localism.

If the Marxian dream of internationalism is dashed on the rocks of localism, what is the fate of the Polanyian societal counter-movement? Here WLB talk of a new vision of nature and of work, of the socially responsible corporation, of an active democratic society, of a new fair trade system, of a new global politics. As a manifesto for a new world it has little to do with labor in the age of insecurity, at least, on the evidence of the book's forgoing chapters.

Finally, between the alternative worlds of internationalism and counter-movement there is an unexplored tension. On the one hand, there is the Marxian project of labor internationalism that tries to link working classes across factories, localities, nations, regions and the world, united by their common exploitation. On the other hand, there is the Polanyian scheme which unites participants in a counter-movement against the commodification of land, money and labor, a counter-movement based on experience of the market as distinct from experience of production. But which is the most *salient* experience – *exploitation* which potentially brings together workers as wage laborers across geographical scale or *commodification* which brings together workers, expropriated farmers, people struggling for access to water and electricity?

Where one sits in relation to this question – exploitation vs. commodification – will dictate the strategy one deploys in moving forward: building alliances of workers across national boundaries or local alliances among those suffering from commodification. Whichever project we follow – and they are both deeply problematic – our theoretical frameworks need to dwell on the obstacles to contestation rather than on embryonic global counter-movement or counter-hegemonic globalization. We first need a more realistic analysis of production and marketization on a world scale in order to discern chinks in the capitalist armor, before celebrating internationalism or counter-movement.

Reconstructing Polanyi

This second part of the paper offers a preliminary sketch of a different rendering of Polanyi – an historicized account of capitalist globalization that centers on the commodification of labor, money and nature and their inter-relations. The argument is premised on commodification being the key experience in our world today, and that exploitation, while essential to any *analysis* of capitalism, is not *experienced* as such.[12]

My point of departure is Polanyi's failure to anticipate a subsequent round of market fundamentalism. Humanity had learned its lesson, he claimed, the self-regulating market had brought disaster to all. So it was not something that would ever be repeated. He couldn't have been further from the truth. Beginning in the 1970s with the oil crisis, humanity has faced another wave of marketization that has brought devastation but, with some interesting exceptions, no real significant counter-movement, at least so far. Why did Polanyi not anticipate another wave of marketization? My argument is that in rejecting Marxism, he rejected the very idea of capitalism with its imperatives for accumulation and new sources of profit. The re-embedding of markets in the North, during the postwar period, was costly for capital, which responded with an offensive against labor, the environment and money, all in the endless pursuit of profit.[13]

This renewed marketization creates profound problems for Polanyi's conceptualization of history. Like the Marxism he criticizes, he has his own teleology. *The Great Transformation* reduces a complex historical account to a single cycle: market devastation followed by counter-movement and regulated decommodification. Once this teleology doesn't work, once the relegation of evil to the past and good to the future is rejected, then one can see the history of capitalism as a succession of great transformations and a complex intertwining of marketization and counter-movement, but with no definite end in sight. Even following Polanyi's own account we can discern, at least, two distinct waves of marketization, and two great transformations between the end of the 18th century and the middle of the 20th century.

In Polanyi's history of Britain, the first wave of marketization is marked by the attack on the Speenhamland system, introduced in 1795 to subsidize wages with grants tied to the price of bread, a gross interference with the working of the labor market that was finally lifted in 1834 with the New Poor Law that eliminated outdoor relief. From then on labor became an actor on its own behalf, fighting against its commodification. In the beginning working class struggles, such as Chartism, were unsuccessful but when labor relinquished its radical bite in the latter half of the century and especially after the depression (1873–76) it gained decommodifying concessions – recognition of trade unions, reduction of the length of the working day, child labor laws, unemployment compensation and even the beginning of pensions. This was the First Great Transformation.

After World War I, marketization develops a second wind through international trade governed by the gold standard along with a renewed assault on the labor movement, insurgent in many European countries in the immediate aftermath of the war. The counter-movement that spread across Europe and North America through the 1930s and afterwards, first moved to decommodify money by insulating national currencies and then built the social protection of labor in diverse forms of political regime – from fascism to Stalinism, from New Deal to Social Democracy. This Second Great Transformation of welfare capitalism as well as the international monetary system organized under Bretton Woods saw to the regulation of the market. It was also the period of decolonization followed by state directed development in Africa and Asia. It was the period of uncontested state planning in the Soviet Union, Eastern Europe and China. Throughout the world the marketeers were in hiding and on the defensive. It was widely assumed that the market had to be regulated in the societal interest. This takes us up to the 1970s, whereupon an extraordinary reversal took place – market panaceas asserted themselves in the Thatcher and Reagan ideological revolutions, in the Washington Consensus, in structural adjustment, and in reform communism and finally in communism's collapse. Thus, state regulation gave way to a third wave of marketization in the middle 1970s, following the oil crisis.

What can we say about this third wave of marketization and the possibilities of a Third Great Transformation? In this heuristic model each successive wave of marketization is characterized by a new combination of fictitious commodities. In the first wave the (de)commodification of labor takes the lead, in the second wave we see the intersection of the (de)commodification of labor and money with money taking the lead. The third wave is characterized by the articulation of the (de)commodification of labor, money and nature, in which the (de)commodification of nature will ultimately take the lead. Figure 32.1 presents a graph of the three waves, with speculative dotted lines indicating possible futures.

So far the third wave has delivered new and wild forms of the commodification of money, turning it from a medium of exchange into a tool of profit making, based in derivatives, futures, and securitization of loans, and operating through hedge funds largely outside the control of states. This has brought with it a renewed recommodification of *labor* – a retreat from the commodification of *labor power* – together with a destructive decommodification of labor as it is pushed out of wage labor into the informal sector. Increasingly, exploitation is a privilege rather than a curse, especially in the South but also in the North with growing unemployment and underemployment. The fall of communism in 1989 and 1991, and the financial crises in Latin America, Asia and finally reaching the shores of the US in 2008 have only consolidated

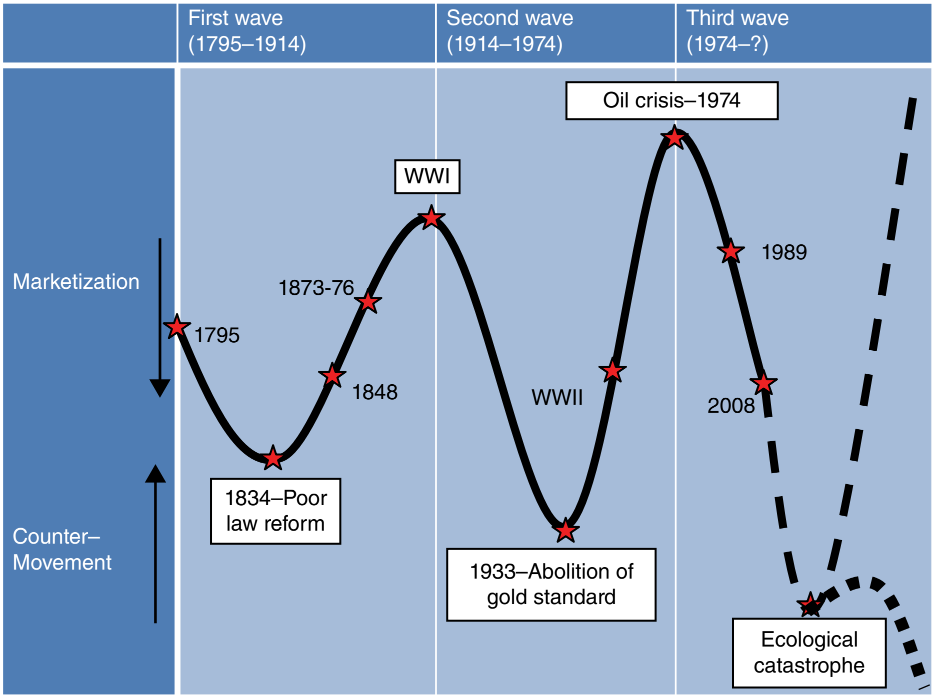

Figure 32.1 Three waves of marketization. Source: Author

third-wave marketization which, so far, in many ways does look similar to the second wave of marketization. Indeed, we can even see parallel state responses, whether in the form of Islamic and Socialist revivals that can be seen as attempts to regulate markets in the Middle East and Latin America, or the austerity programs that are spreading through Europe, especially in its peripheries.…

The true character of third-wave marketization, however, has still to be stamped with the deepening commodification of nature, that is of land, water and air. This is, of course, already proceeding apace, all over the world, most visibly in the semi-periphery in countries such as South Africa, China, India, Brazil. Land expropriation can be found in most of the South, perhaps nowhere more dramatic than in India. In reaction to second-wave marketization we find the era of state-led Nehruvian modernization, the expropriation of land *without* commodification (most notoriously for the construction of dams), while third-wave marketization has brought in its train expropriation *with* commodification, epitomized by Special Economic Zones. Elsewhere, for example in countries as far apart as South Africa and Bolivia, the commodification of water and electricity has attracted much popular protest, while the commodification of air through carbon trading has brought the environment into public attention throughout the world.

These commodifications of nature have a dramatic impact on survival and, thus, on the commodification of labor. Privatizing water or land puts more pressure on the demand for wage labor, intensifying its subjugation. New instruments of finance facilitate the unregulated commodification of energy supplies, illustrated in the operation of Enron, again outside the control of the state. We might speculate that the crisis of third-wave marketization will develop through successive environmental crises generated by unnatural disasters – climate change, tsunamis, earthquakes, oil spills, nuclear accidents, toxic waste – unnatural in either their origins as well as their consequences.

The heuristic model presented in Figure 32.1 shows a deepening of successive waves of marketization and a more dramatic restructuring that follows in part due to the intensification of commodification, but also due to the forms of and synergies among the commodification of different fictitious commodities. The graph raises the question of whether there are candidates for fictitious commodity other than nature, labor and money. Could 'knowledge' be a fictitious commodity as some have argued? For Polanyi a fictitious commodity is an essential factor of production which was never meant to be commodified and whose commodification destroys its essential character. In brief, we might say that a fictitious commodity is one which, by turning it into an object of exchange undermines its use value. Turning land into a commodity destroys the community which lives on and from it, turning labor into a commodity destroys its productive capacity, turning money into a commodity threatens its use as a medium of exchange. But knowledge? What happens to its use value when it becomes an object of exchange? Certainly, when knowledge is commodified, bought and sold, it is no longer a public good. It becomes intellectual property, privately owned, but does that change its character? Intellectual property rights may have led to the transformation of the production of knowledge, geared to those who can afford to pay for it, but does that distort it? One might argue that market pressures are driving universities to collaborative relations with industry that are at odds with their original purpose, but does that make knowledge a fourth fictitious commodity?[14]

As it stands this scheme assumes waves of marketization spreading throughout the world, transformative of the South as well as of the North. Even if such claims can be made the scheme does not recognize the differential impact of such marketization on different geopolitical regions. *The Great Transformation* focuses largely on England in the first wave of marketization, extending this to Europe in the second wave marketization, and today there is no alternative but to include the whole planet, which in turn compels us to also situate Polanyi's analysis of the first two waves and their counter-movements globally. While Polanyi does write about colonialism in South Africa as an extreme form of cultural devastation brought on by marketization, he actually misses the limits of and resistance to the commodification of land, labor and money and the specificity of first and second wave-marketization in the colonial world. A preliminary step would recognize the distinction between core and periphery in which the colonial periphery becomes a source of raw materials that entails the partial commodification of land and labor. Then, second-wave marketization can be characterized as imperialism in which the relations of core and periphery continue to revolve around access to raw materials, but now also revolve around crises of overproduction in the core requiring market access to the periphery. Just as the counter-movements in Europe and North America invoked state autonomy and regulation of the market, so correspondingly we can see decolonization, and the national development projects that followed, as counter-movements in the periphery, leading to dependency orchestrated through trade.

How then can we characterize third-wave marketization in global terms? We can call it the era of globalization in which the commodification of labor, money and nature – labor migration, finance capital as well as environmental degradation – for the first time takes on a truly transnational character that is often outside the control of the state. But third-wave marketization, coming on the heels of the Second Great Transformation that centered state regulation, has very different effects depending on national legacies and national strategies. Thus, the Soviet Union, capitulating before third-wave marketization, took the market road to market capitalism. With wanton destruction of the state and the planned economy, Russia's newly formed dominant class hoped that capitalism would spring fully-formed out of the ashes of state socialism. If capitalism emerged, it was capitalism of a very special type in which the expansion of the realm of exchange and an unregulated commodification of money destroyed the industrial economy, forcing labor into a reliance on subsistence. This was not revolution or evolution but involution.

What sort of counter-movement was this? Certainly, it was nothing like 19th century England or even 20th century Europe. This was a retreat to a pre-capitalist economy as Polanyi would describe it, a retreat from money to barter, retreat from wage labor to domestic production based on reciprocity, a retreat from collective farms to peasant production. In China, by contrast, third-wave marketization was strongly mediated by the state. There was no attempt to destroy the state but rather to incubate the market within the interstices of the state. The Chinese dominant classes had learned the Polanyian lesson that market society requires state regulation. To be sure it has been accompanied by the growth of inequalities, but, so far, 'cellular' social protest has been effectively absorbed by the state as opportunities to exploit the market have multiplied.[15]

That being the case what possibilities are there for the counter-movement to third-wave marketization? If the counter-movement to the first wave starts out from the local and reaches the national and the counter-movement to the second wave starts out at the national and reaches for the global, the counter-movement to the third wave must begin at the global level for it is only at that level that it is possible to contest the destruction of nature, let alone tackle the global machinations of finance capital. Although the effects of the degradation of the environment will be uneven and unequal, ultimately all will be affected, rich and poor, north and south. Some sort of global counter-movement may be necessary for human survival, but there is no historical necessity for it to appear. It has to overcome deep-seated geopolitical, but especially national containers as well as temporal constraints, especially the short time horizons engineered by marketization. A counter-movement to prevent ecological disaster would require immediate sacrifices for long term and uncertain gains. Perhaps long time horizons can only be imposed by authoritarian rule – the Polanyian nightmare of global fascism. There may be small counter-movements, small rather than great transformations, mopping up operations after every (un)natural disaster, but it is not clear how a succession of small transformations will turn into a great transformation. To the contrary, palliative care might forestall *any* collective commitment to contain capitalism's rapacious tendencies. The choice may no longer be limited to 'socialism or barbarism', but be extended to socialism or barbarism or death. Optimism today has to be countered by an uncompromising pessimism, not an alarmism but a careful and detailed analysis of the way capitalism combines the commodification of nature, money and labor, and thereby destroys the very ground upon which a 'counter-movement' could be built.

Notes

1 Karl Polanyi (1944) *The Great Transformation: The Political and Economic Origins of Our Time*. New York: Farrar&Rinehart; and (2001) Boston: Beacon Press.

2 Marx and Polanyi may not be so different in their account of the experience of capitalism. Marx always insisted on the mystification of exploitation, leaving open the possibility of struggles around commodification. However, Marx thought that exploitation set the limits and direction of the dynamics of capitalism – something Polanyi does not consider.

3 Peter Evans (2005) 'Counter-Hegemonic Globalization: Transnational Social Movements in the Contemporary Global Political Economy', in T. Janoski, A. Hicks and M. Schwartz, *Handbook of Political Sociology* (pp. 655–670). New York: Cambridge University Press; and Peter Evans (2008) 'Is an Alternative Globalization Possible?', *Politics and Society* 36(2): 271–305.

4 Beverly Silver (2003) *Forces of Labor: Workers' Movements and Globalization Since 1870*. Cambridge: Cambridge University Press.

5 Ching Kwan Lee (2007) *Against the Law: Labor Protests in China's Rustbelt and Sunbelt*. Berkeley and Los Angeles: University of California Press.

6 Gay Seidman (2007) *Beyond the Boycott: Labor Rights, Human Rights, and Transnational Activism*. New York: Russell Sage Foundation.

7 This relation between state and society is as complex as that between market and society. Polanyi only focuses on the latter, for the former we need to turn to other traditions. See Michael Burawoy (2003) 'For a Sociological Marxism: The Complementary Convergence of Antonio Gramsci and Karl Polanyi', *Politics and Society* 31(2): 193–261.

8 This was classically at work in the mind of Russians, struggling against state socialism, who assumed that, because planning was dysfunctional, markets must be efficient. Dismantle state planning and Nirvana will appear. Nirvana turned out to be Purgatory but with no assured exit.

9 Jennifer Chun (2009) *Organizing at the Margins: The Symbolic Politics of Labor in South Korea and the United States*. Ithaca and London: Cornell University Press.

10 Robyn Rodriguez (2010) *Migrants for Export: How the Philippine State Brokers Labor to the World*. Minneapolis: University of Minnesota.

11 Edward Webster, Rob Lambert, Andries Bezuidenhout (2008) *Grounding Globalization: Labour in the Age of Insecurity*. Oxford: Blackwell.

12 The mystification of exploitation was at the center of my analysis of capitalist production in *Manufacturing Consent* (Chicago: University of Chicago Press, 1979) – a book that was nonetheless profoundly flawed by its inadequate examination of global markets and states.

13 See, for example, David Harvey (2005) *A Brief History of Neoliberalism*. Oxford: Oxford University Press.

14 See Ayşe Buğra and Kaan Ağartan (eds) (2007) *Reading Karl Polanyi for the Twenty-First Century: Market Economy as a Political Project*. Part III. New York: Palgrave.

15 This is also the conclusion I draw from articles in *Global Labour Journal* 1.1 (January 2010): Xiao-Yuan Dong, Paul Bowles, and Honquin Chang, 'Managing Liberalization and Globalization in Rural China: Trends in Rural Labour Allocation, Income and Inequality' (pp. 32–55); Marc Blecher, 'Globalization, Structural Reform, and Labour Politics in China' (pp. 92–111); and Pun Ngai, Chris King Chi Chan and Jenny Chan, 'The Role of the State, Labour Policy and Migrant Workers' Struggles in Globalized China' (pp. 132–151).

33

The Developmental State: Divergent Responses to Modern Economic Theory and the Twenty-First-Century Economy (2014)

Peter Evans

In the political centres of twenty-first-century global finance, policy debates have a disturbingly anachronistic thrust. In Washington, ideological tropes from early triumphalist neoliberalism are repeated in exaggerated form, perversely combined with regressive calls for destructive austerity measures. The most fervent political clarion calls invoke a caricature of eighteenth-century America while echoing Polanyi's descriptions of the fiscal policies that led to the Great Depression. In London and Washington, faith that shrinking the size of the state will generate renewed economic dynamism continues to march forward with almost zombie like imperviousness to the historical record. It is tempting to simply see this discourse as signal and symptom of the fading relevance of Anglo-American political thinking to economic paradigms of growth and development. Dismissing regressive policy prescriptions as a symptom of decline would be a weak response in the absence of a credible alternative analysis, but an alternative analysis has gradually begun to coalesce.

In the 'emerging economies', the political debate on the contributions of public institutions to social and economic progress is quite different. In China, South Africa or Brazil romanticized fantasies of eighteenth-century society have no allure. Policymakers and politicians in these countries assume that the state has an important role to play. Policy practice reflects that assumption. While 'state capitalism' is completely inadequate as a label for the complex interplay of state and market in contemporary China … there was no hesitation in bringing the economic weight of

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the state to bear in response to the 2008 financial crisis. In Brazil, as in Taiwan and Korea, democratic pressures have nudged state action towards policies that look like efforts to construct a version of social protection that echoes the policies of the 'golden age of capitalism' in northwestern Europe more than they resemble a mimicking of Anglo-American neoliberalism. Meanwhile, in the Global North, the Nordic states quietly continue to evolve new amalgams of social protection and state entrepreneurship.

Global practice, especially in the Global South, diverges from neoliberal theory and ideology, but the divergence appears to be pragmatic and situational rather than grounded in a coherent analytical vision. Politicians and policymakers pull justifications from a grab bag filled with variegated theoretical and ideological elements, with the mix depending on complex vectors of national politics and economic circumstance. Invocations of the twentieth-century industrializing developmental state continue to find strong political resonance. Bygone images of socialism persist alongside less heroic references to social democracy. Myriad other projects claim followers in particular locales, but no single alternative analysis yet approaches the global hubris of neoliberalism.

Shared reluctance to claim epistemological primacy is healthy and refreshing. Nonetheless, the existing literature, both theoretical and historical, spanning a range of social science disciplines, converges to support stronger claims than pragmatic innovators are making. The discussion that follows here reviews the state of contemporary scholarship relevant to the role of the state in fostering social and economic progress… and suggests a surprising degree of convergence around a vision of the state's role that is almost the antithesis of the neoliberal model.

Historically, some version of 'developmental state' has always played a central role in economic growth and social transformation. The challenges of the twenty-first-century political economy, as seen through the lens of new theories, point towards an even more important developmental role as essential if human flourishing is to expand rather than regress. Understandings of the role of the developmental state have changed, first of all, because development theory has changed. In addition, the historical context of development has changed.

I will begin by reviewing contemporary development theory, starting with the 'new growth theory' as put forward by theorists such as Lucas (1988) and Romer (1986; 1990; 1993a,b; 1994) and developed by a range of economists such as Aghion (Aghion and Howitt 1998) and Helpman (2004). 'Institutional approaches' to development, as elaborated by a wide-ranging set of development economists – including Rodrik (1999; Rodrik, Subramanian and Trebbi 2004), Stiglitz (Hoff and Stiglitz 2001) and Acemoglu and Robinson (2006; Acemoglu, Johnson and Robinson 2005) – complement the new growth theory. Perhaps most interesting are the convergences between these theories of growth and the 'capability approach' to development as pioneered theoretically by Amartya Sen (1981; 1995; 1999a,b; 2001). This general theoretical literature provides a context for the literature on the twentieth-century developmental state, from Johnson (1982) to Amsden (1989) and Wade (1990) to Chibber (2003) and Kohli (2004), in which I am also implicated (e.g., Evans 1992, 1995).

I will then sketch some of the shifts in the historical character of development that are particularly relevant to the role of the state. I will argue that the narrative of 'development' that emerged out of the 'golden age of capitalism' in the rich countries of the North was always partly mythical and can no longer be sustained. This vision, in which relatively comfortable lives for a broad cross section of the population are anchored in the expansion of machine production and a 'blue-collar middle class', never fit the realities of the Global South. In the twenty-first century it is patently unsustainable in either the North or the South.

A twenty-first-century narrative must be grounded in the fact that growth has become increasingly 'bit-driven'. Value added comes from new ways of arranging bits of information in formulas, software code and images and less from the physical manipulation of materials to make tangible goods (cf. Negroponte 1996). Even in the Global South manufacturing employs a shrinking minority of the population. Most people's livelihood depends on delivering intangible services. For most it means poorly rewarded personal services. For a small minority this means highly rewarded 'business services'.

The role of information takes many different forms. Financialization (Krippner 2011) epitomizes the economic dominance of transactions that consist of particularly privileged kinds of 'information' over the production of tangible goods as the source of economic gain. The 'bit-driven' economy is, nonetheless, also a font of innovation that can dramatically increase people's ability to lead lives that they have reason to value. The confluence of endogenous growth theory with institutional approaches to development and capability help to make this possibility clear. Together they suggest that a positive trajectory of economic and social transformation in the twenty-first century will depend on generating intangible assets (ideas, skills and networks) rather than on stimulating investment in machinery and physical assets oriented to the production of tangible goods. This makes investment in human capabilities (which include what is traditionally known as 'human capital') more economically critical. At the same time, new development theories assume that economic growth depends on political institutions and the capacity to set collective goals. The capability approach sets out the political argument most firmly, arguing that only public interchange and open deliberation can effectively define development goals and elaborate the means for attaining them.

All of this has powerful implications for the institutional features of the state that are likely to be associated with 'development' in the sense of expanding human capabilities. I will turn to these implications in the final substantive section. Expanding investment in human capabilities depends above all on public investment. Allocating this investment efficiently requires much broader capacity to collect information. Implementation requires 'coproduction' of services by communities, families and individuals (see Ostrom 1996). The state-society ties required correspond nicely to the political propositions of new development theories.

In short, viewing shifts in the historical character of economic growth through the lens of modern development theory suggests that state capacity will have an even greater role to play in societal success in the coming century than it did in the last century. It also suggests that the specific kind of 'embeddedness' or 'state-society synergy' that was crucial to twentieth-century industrial transformation – dense networks of ties connecting the state to industrial elites – will have to be replaced by a much broader, much more 'bottom-up' set of state-society ties to secure developmental success in the current century.

The Recent Evolution of Development Theory

In what Hoff and Stiglitz (2001) call 'modern economic theory', the nineteenth century's fixation on capital accumulation as the necessary and sufficient bedrock of growth is left behind. 'Development is no longer seen primarily as a process of capital accumulation but rather as a process of organizational change' (Hoff and Stiglitz 2001, 389). There are two interconnected strands of the 'modern economics' of growth. One is the 'new growth theory', which emphasizes the increasing return to ideas as the real key to growth. The other is the 'institutional approach', which focuses on the key role of enduring shared normative expectations or 'rules of the game' in enabling forward-looking economic action. If we combine the two, the central question for growth becomes: What kind of institutional arrangement will best enable societies to generate new skills, knowledge and ideas and the networks needed to diffuse and take advantage of them? I will start with the 'new growth theory' (which has now been around for two decades) and then consider 'institutional approaches'.

In the late 1980s, theories of 'endogenous growth' or the 'new growth theory',[1] helped reorient theoretical discussions of growth. Its basic premises make intuitive sense. The dismal logic of diminishing returns, which limits development strategies based on physical capital (and even more thoroughly those based on land and natural resources), does not apply to knowledge and ideas. Since the cost of reproducing an idea is effectively zero, multiplying the use of valuable ideas generates returns that increase indefinitely with the scale of the market.

The new growth theory's emphasis on the centrality of idea production (rather than the accumulation of physical capital) fits well with the comparative empirical evidence on growth that has been amassed over the course of the second half of the twentieth century.[2] There is, nonetheless, a still large residual in most growth equations which is usually labelled changes in 'total factor productivity'.[3] Trying to account for this residual has been one impetus for the institutional approaches that now dominate the mainstream of development economics.[4]

The third element in the renovation of development theory is the 'capability approach'. Among all the recent contributions to development theory, the capability approach takes most seriously the universally accepted proposition that growth of GDP per capita is not an end in itself but a proxy for improvements in human well-being, to be valued only insofar as it can be empirically connected to improved well-being. Sen argues that we should evaluate development in terms of 'the expansion of the "capabilities" of people to lead the kind of lives they value – and have reason to value'.[5] Because it rejects the reduction of developmental success to a single metric, the capability approach identifies 'public deliberation' as the only analytically defensible way of ordering capabilities and puts political institutions and civil society at the centre of developmental goal setting.

There is also an interesting convergence between the capabilities conceptualization of development and the new growth theory. Sen emphasizes that the expansion of capabilities is simultaneously the primary *goal* of development and a principle *means* through which development is achieved. The emphasis of new growth theorists on the knowledge and skills embodied in the capabilities of individuals (and the networks that connect them) as key inputs to growth, buttresses the idea that 'capability enhancement' is a principal input to growth.[6]

At the same time, there is a different sort of convergence between institutional approaches and the capability approach. Advocates of the institutional turn are increasingly focused on the causes and consequences of the kind of collective goal setting that Sen (1999a; 2001) puts at the centre of the capability approach. Rodrik (1999), for example, argues that democracy is seen as a 'meta-institution' promoting the 'high-quality institutions' that in turn promote growth.

What are the implications of taking these strands of the 'modern economics' of development and applying them to the question: What is the most effective role for the state in the process of development? These theories give central importance to institutions that set collective goals, provide collective goods and maintain general rules and norms, vindicating those that have argued that the effectiveness of state institutions is central to developmental success. But we need to go beyond this generic assertion. In order to derive more specific implications, we need to first review the institutional character of the twentieth-century developmental state.

The Twentieth-Century Developmental State

To understand the implications of new development theories for the twenty-first-century developmental state, we must set them in the context of earlier models of the twentieth-century developmental state. While a variety of twentieth-century states have played important roles in promoting development, theorizing with regard to the twentieth-century developmental state has drawn most heavily on East Asia after the Second World War (e.g., Amsden 1989; Wade 1990).[7] The East Asian Tigers (including the 'city state tigers' of Hong Kong and Singapore) managed to change their position in the world economic hierarchy, moving from 'underdeveloped' to 'developed' in the course of two generations. This kind of shift is not only unprecedented among twentieth-century developing countries but exceptional even in the broader context that includes the historical experience of Europe and the Americas.

To focus on the East Asian developmental states is to focus on the importance of the capacity of public bureaucracies. Nearly everyone agrees that when East Asian public bureaucracies are compared with those of developing countries in other regions, they more closely approximate the ideal typical Weberian bureaucracy.

Meritocratic recruitment to public service and public service careers offering long-term rewards commensurate with those obtainable in the private sector were institutional cornerstones of the East Asian economic miracle.[8]

Despite the centrality of bureaucratic capacity, no student of the twentieth-century developmental state assumed ivory tower bureaucrats constructing policy in isolation from society. Given a capable, internally coherent state bureaucracy, the next challenge was connecting bureaucrats and corporations. In East Asia, the connection was made on at least two quite different levels. At the most general level, East Asian governments managed to generate a sense that they were genuinely committed to a collective project of national development. Despite political divisions and governmental missteps, this sense of a national project gained surprisingly widespread credence and constituted one of the most important 'collective goods' provided by the state. The essential complement to this broad ideological connection was a dense set of concrete interpersonal ties that enabled specific agencies and enterprises to construct joint projects at the sectoral level. 'Embeddedness' is as central to the standard portrayal of the twentieth-century developmental state as bureaucratic capacity.

Embeddedness was never a tension-free symbiosis. Based on the prior performance of local business, state officials assumed that the private sector's 'natural' strategy was 'rent seeking', looking for officially sanctioned niches that would allow them to buy cheap and sell dear without having to brave entry into newer, more risky sectors. Therefore the developmental state had to avoid being politically captured by its partners in order to keep private elites oriented towards national projects of accumulation rather than their own consumption. Maintaining dense ties to entrepreneurial elites while avoiding capture and being able to discipline them[9] is a defining feature of East Asian development states, distinguishing them from less successful states in Asia and Africa (see Kohli 2004).

East Asian's crucial ability to maintain autonomy from local industrial elites was not simply the fruit of bureaucratic competency and coherence. The revolutionary violence and chaotic geopolitics of the mid-twentieth century had the developmentally propitious consequence of wiping out landed elites as politically effective class actors in national politics in East Asia after the Second World War. Local industrial elites were weak, both economically and politically, and transnational capital largely absent from domestic processes of accumulation. Consequently it was possible to construct a form of embeddedness in which national projects of transformation carried strong weight relative to the particular interests of private actors.

Despite the ambivalent character of the twentieth-century developmental state's relations with industrial elites, ties to these elites were not balanced against connections to other social groups. To the contrary, civil society as a whole was excluded from the process of 'state–society synergy'. Private industrial elites were seen as key collaborators in enabling industrial transformation as well as key sources of information regarding the feasibility of specific industrial goals. Other social groups were peripheral if not threatening to this exclusive state–society partnership.

The basic vision of the twentieth-century developmental state remains compelling. A coherent capable state apparatus is paired with dense ties to private entrepreneurial elites to produce forward-looking investments that enhance productivity, grow incomes and lead to increased well-being. This narrative is certainly consistent with the 'institutional turn' in development theory, which emphasizes that functioning markets require a complex of underlying institutional arrangements in which the state is likely to be central.

The East Asian Tigers did development theory a huge service by providing a credible empirical foundation for debunking conventional enshrined myths of the superior growth consequences of the minimalist state. Nonetheless, theories built around the performance of these states in the 1970s and 1980s were prone to certain distortions. Fixation on the role of manufactured exports distracted attention from both the role of the growth of domestic markets and the even more fundamental role of prior investments in human capital. Second, emphasis on the obvious role of authoritarian leadership, particularly in the case of Korea, was never fully complemented by an analysis of the deliberative processes that were part of decision making and goal setting. The fact that state-business networks in Japan under a system of electoral democracy looked quite similar to those in authoritarian Korea never provoked deeper analysis of how the political institutions of the developmental state actually worked.

The evolution of development theory over the course of the past quarter of a century suggests reexamining the conventional model of the twentieth-century developmental state. The institutional character of twentieth-century developmental states need to be reexamined in terms of the new emphasis on collective goal setting, so central to both Sen and institutionalists such as Rodrik. In addition, the dynamics of economic growth in these states need to be interrogated in terms of the importance of gaining access to intangible assets (e.g., foreign technology), as emphasized by the 'new growth' theory and the importance of expansion of human capabilities (most obviously investment in education), as emphasized in a Senian perspective.

Rethinking the twentieth-century developmental state is not, however, sufficient for understanding the potential role of the state in the twenty-first century. The undeniable lacunae in dominant accounts of twentieth-century development itself must also be confronted. Fortunately, the evolving character of the global political economy over the course of the past half-century has made these lacunae almost impossible to ignore.

A Historical Shift in the Character of Development

In the conventional twentieth-century narrative of how development occurred in the rich countries of the North, machine production plays a starring role. In a very simplified (and slightly caricatured) form, the story runs something as follows: A massive shift of employment from agriculture to manufacturing takes workers out of a sector characterized by declining marginal returns and into one in which learning by doing, spillover effects and greater possibilities for technological progress enable long-term secular increases in labour productivity. Machine production lends itself in turn to political organization in the form of unions, both because workers are socially concentrated and because they are in a position to hold hostage the machines on which profits depend. Unions and the political parties associated with them enable a substantial part of the workforce to capture a share of the productivity gains generated by machine production and to enjoy relatively broad increases in incomes.

Even as a description of the nineteenth and early twentieth centuries, this narrative was somewhat fictitious, as Robert Solow pointed out more than half a century ago. Economic growth has always been primarily about changing ideas and institutions, not about increasing amounts of machinery. Nonetheless, looking at the evolution of twentieth-century manufacturing economies in the North, it was not implausible to posit a connection between industrialization and general increases in well-being. By the end of the Second World War, a combination of rising productivity and political struggle had produced in the rich, industrialized countries a 'golden age of capitalism' that allowed a relatively large blue-collar working class to share in many of the amenities of middle-class life.

By the late twentieth century, a scenario of broad-based expansion of incomes built around machine production had become untenable. Manufacturing was going the way of agriculture in the rich countries of the North – a source of employment for an ever shrinking minority of the working population. In the Global South, even impressive increases in manufacturing output proved incapable of generating a blue-collar class of a size and prosperity sufficient to anchor general increases in well-being (see Arrighi, Silver and Brewer 2003). As Ghosh (2003) points out, in most countries of the Global South globalization has destroyed more local manufacturing jobs than it has created. Carlson (2003) notes that between 1995 and 2002 manufacturing payrolls dropped globally by 22 million. A quick look at trends in a couple of the world's star export manufacturers should suffice to drive this point home.

China is perhaps the most telling case. Looking at the actual evolution of employment structures in China suggests that the sociopolitical implications of being the most dynamic manufacturing power of the twenty-first century are quite different from what they were in the nineteenth century and early twentieth century. Employment in Chinese manufacturing peaked at about one worker in seven in the mid-1990s, and it had already begun to decline at the end of the decade. An independent analysis by economists at Alliance Capital Management found that between 1995 and 2002, China lost on net 15 million manufacturing jobs (Carlson 2003). The 2008 crisis made the impossibility of relying on the market for manufactured exports in the United States as the foundation of broad-based income growth even more painfully obvious.

The field observations of researchers such as William Hurst (2004) and C. K. Lee (2007) give us a sense of the dynamics that underlie these statistical changes. The relatively more labour-absorbing state-owned manufacturing firms of the northeast are replaced as the dominant form of industrialization by the much more technologically advanced and relatively labour-saving joint ventures and foreign-owned firms of the southeast. The result is increasing output but falling employment in manufacturing.

A Global South in which manufacturing employs a shrinking minority of the population while most depend on the service sector undercuts the twentieth-century story of increased general well-being built around machine production. To figure out what new narrative makes sense, we must go beyond shifts in the structure of employment to the changes in the distribution of economic opportunities and returns that underlie those shifts.

The changing profile of economic activity has made much more obvious the centrality of growth driven more by ideas and information (both as means of production and objects of consumption) than by the physical transformation of nature, what might be called 'bit-driven growth'.[10] Bit-driven growth's rising role corresponds to the theoretical propositions of the 'new growth' theory and econometric observations of differential returns in the latter half of the twentieth century, which show growth and productivity as driven primarily by changes in the stock of ideas and in people's capacity to take advantage of them (i.e., levels of education and training).

Ideas are nonrival goods – an indefinite number of people can use them at the same time. Because the marginal cost of using ideas over and over again is essentially zero, returns based on the use of ideas increase indefinitely. When the ideas in question are 'producer goods', such as computer software or the chemical formulas involved in the production of medications, the enforcement of monopoly rights is likely to have more powerful antidevelopmental effects than the effects of the exclusive ownership of physical capital. When monopolists exclude others from using their ideas, they rob society of potential production, diminish the possibility that other users will find innovative new uses for the ideas and slow the overall rate of growth.[11]

There are negative distributional implications as well. The political protection of monopoly rights to productive ideas restricts people's access to the key tools, diminishes their ability to make use of their own 'human capital' and reduces the number of actors who can participate in the overall process of innovation. Without politically imposed restrictions on the use of ideas, entrepreneurially inclined citizens could have access to the intangible producer goods at the marginal cost of reproducing them, which is to say essential free access, a vision which is perhaps best exemplified by the case of open-source software (Weber 2004; Weber and Bussell 2005).

On the other hand, indefinitely increasing returns create unparalleled possibilities for profit in a global market. The increasing importance of 'intangible assets' (ideas, brand images, etc.) has, in turn, powerful political implications for the role of the state. Securing the appropriation of returns from ideas is notoriously difficult, requiring intensive, politically enforced protection of monopoly property rights. Consequently, for the most powerful economic actors in a bit-based economy, a state sufficiently powerful to enforce their monopoly rights to returns from their intangible assets is essential.

The contradiction between providing monopoly protection of traditional property rights and expanding people's access to productive opportunities is particularly sharp in the Global South. 'Human capital' is the South's most abundant potential economic resource and the extent to which this resource is underutilized is unconscionable. Markets are even less likely to invest in human capabilities in the South than in the North. Conversely, current political protection of monopoly control over ideas benefits northern corporations at the expense of southern access. Monopoly returns to intangible assets create a drain on the South's resources, as they flow to corporate headquarters in the North. As Ha-Joon Chang (2002) points out, the historical response of governments in the North to this dilemma was essentially to ignore the property rights of corporations based outside their borders. Today's increasingly globalized property rights regime makes it more difficult for governments in the Global South to take advantage of this obvious strategy.

Taking into account bit-driven growth and the increasing focus of profits on intangible assets and financial assets helps illuminate the consequences of the service sector's dominance as the source of modern employment. For most workers, the current shift from employment in manufacturing to service-sector jobs lacks the promise of the earlier shift from agriculture to industry. From the point of view of workers' incomes, the service sector is bifurcated. For a small minority of service-sector workers, employment constitutes an opportunity to share in the returns from intangible and financial assets. Privileged workers in the business and financial services sectors and the 'symbolic analysts'[12] who manipulate key information in other sectors enjoy a comfortable share of the returns from bit-driven growth. For the vast majority of those who work in the service sector, the situation is very different. Most service-sector workers are engaged in delivering some kind of interpersonal service – ranging from retail trade to education to health. The bulk of these jobs are underrewarded. A shift from an industrial to a service economy seems likely to be marked not by the creation of a new, relatively affluent working class but by expanding inequality and stagnating wages for the majority of workers.

Looking at the disprivileged majority of workers in the bifurcated service sector also points to a contradiction between the way the service sector is structured in practice and what might be considered optimal from the perspective of development. If the expansion of human capabilities is both the key means and central goal of development, then rewarding capability-expanding services and increasing their supply should be a developmental priority. Yet in practice capability-expanding services such as health and education are undersupplied as well as underrewarded.

Undersupply is hardly a paradox from the perspective of market logic. Since social returns on the expansion of human capabilities are substantially higher than private returns, private markets underinvest in human capabilities. For a private investor, investing in a human being is much riskier than investing in machines. Machines do what they are supposed to do. People can make choices (constrained choices, but choices nonetheless). No one who 'invests' in a person's capabilities can count on their 'investment' choosing to exercise his or her resulting talents in a way that will deliver specific returns to the particular investor. In short, private investors will underinvest in 'human capital' because they cannot fully control the human being in whom it is embodied. Private investors will chronically fail to supply optimal levels of the 'human capital' crucial to bit-driven growth. This is most disturbingly the case for the most fundamental of capability-expanding services, early-childhood education, where the capabilities generated will have an impact on productive capacity only in the distant future.

When private underinvestment in human capabilities is connected back to 'new growth theory' arguments, the disjunction between market logic and developmental logic becomes even more apparent. Ideas are generated in human heads and through their interaction. Underinvesting in human capabilities slows the increase in the stock of ideas that is the central driver of economic growth more generally. This brings us back to the increased developmental importance of the state in the light of current theory and the shifting character of the economy. Public investment is the only plausible route to optimal levels of investment in human capabilities.

The bit-driven character of twenty-first-century growth implies an expansion of the state's role relative to what was required by the 'machine production' of nineteenth- and early-twentieth-century growth. Economic marginalization will be the fate of countries that lack public effort and investment in an era of bit-driven growth. Ensuring maximum possible access to ideas that are tools for the further expansion of knowledge requires active state involvement, sometimes in opposition to the private owners of those assets. In short, to facilitate twenty-first-century bit-driven growth, the state must be agile, active, resourceful and able to act independently of private interests whose returns depend on restricting the flow of knowledge.

The question is not whether the state must take on a broad and aggressive role if development is to succeed in the twenty-first century. The question is whether there are plausible paths for the emergence of states with the institutional capacity and political character that will enable them to play the role required for developmental success. Arguments for the desirability of transformation are quite different than arguments for the feasibility of such transformation, and the question of feasibility is inescapable.[13]

The Programmatic Implications of New Theory and New Circumstances

New theoretical perspectives have alerted us to the underlying logic of the state's importance. The historic trajectory of the global economy makes this logic impossible to ignore. Citizens of the South, even more than citizens of the North, need aggressive action by entrepreneurial public institutions if they are to realize their potential productivity and enjoy the levels of well-being that the twenty-first-century economy is capable of providing. Only aggressive and efficient entrepreneurial engagement by public institutions can deliver what is needed. At the same time, state apparatuses must find ways to resist private political agendas that push them to overprotect monopoly rents from control of the existing stock of ideas, restricting access and utilization and thereby reducing both growth and well-being.

The most obvious starting point for more aggressive state action is ramping up the effective delivery of capability-expanding services. Since all modern states play a central role in the provision of health and education, this is a task that public institutions cannot escape in any case. The question is whether they invest in these activities in the aggressive developmental fashion warranted by their central economic importance. Such investment could also, of course, be used to counter the current underremuneration of capability-expanding services, making it a growth strategy with immediately positive distributional and welfare effects.

None of this implies tossing aside the institutional achievements of the twentieth-century developmental state. Looking at twentieth-century developmental states in the light of current theory underscores how earlier accounts tended to underemphasize some key features of these states' developmental contribution. Twentieth-century developmental states were pioneers in capability expansion. The East Asian Tigers began their periods of accelerated economic growth with education levels that made them outliers for countries at their income levels, and they continued to invest in the expansion of education throughout the period of their rapid expansion. In this optic, China's socialist period, which also involved heavy investment in human capability expansion, looks more like a developmental state. As Sen argues, China's investments in health and education, which were exceptionally broad-based, laid the foundations of its subsequent ability to exploit industrial opportunities and compete in global export markets.

Twentieth-century developmental states are also interesting cases with regard to accelerating the production of ideas and expanding access to the existing stock of ideas. 'Industrial policy' in both Taiwan and Korea was never restricted to subsidizing investments in plant and equipment. It always focused on increasing the access of local firms to productive ideas and creating networks and incentives to push entrepreneurs towards a greater emphasis on the production of new knowledge. In addition to finding ways to transplant and exploit the stock of knowledge that was ostensibly the property of northern corporations, the East Asian Tigers, such as China, resisted the overprotection of ideas monopolized by northern corporations, leading to cries of 'piracy' from the North but expanding the access of their citizens to productive ideas.[14]

Finally, these states had another capacity critical to capability expansion. They were able to extract revenues from their own private elites at a level sufficient to maintain the integrity of their own apparatuses and finance necessary investments in capability expansion. As Fitzgerald (2006) has pointed out, one of the main differences between Asian developmental states and their less successful counterparts in Latin America is the inability of the latter to tax their own elites, despite the fact that elites in Latin America appropriate larger shares of the collective national product for themselves (see also Di John 2006). Having the organizational capacity and political will necessary to collect adequate revenue was the prerequisite to investing in both capability expansion and industrial transformation.

Capable and coherent twentieth-century public bureaucratic apparatuses are an invaluable foundation for the additional capacities that need to be constructed to meet twenty-first-century challenges, but they are not sufficient. New forms of connection to society are equally important. In the twentieth-century manufacturing-focused development project, the symbiosis between private profitability and a shared national project was easier to execute. Shared projects around industrialization depended on counterbalancing private risk aversion and pushing private perspectives towards a longer time horizon, but the eventual productive capacity fit nicely into a profitability-focused market logic. Even so, as Chibber (2005…) points out, the 'national bourgeoisie' was always politically undependable.

Given the divergence between private and social returns that has already been laid out, it is clear that capability expansion fits less easily into a shared project with private capital. When capability expansion is the goal, risk abatement and horizon extension are unlikely to compensate for the persistent gap between social and private returns. Precisely because of the large 'collective goods' element in capability expansion, productive alliances with private capital are less easily constructed. State-society ties remain, nonetheless, critically important.

In the twentieth-century model of the developmental state, embeddedness was important both as a source of information and because implementation of shared projects depended on private actors. In the twenty-first-century version the same dynamics hold, but the interlocutors and the character of the networks are both different. Efficient allocation of capability-expanding investment requires a much broader set of information than that required for the allocation of investments in plant and equipment.

In the case of industrial investment, the key information involved figuring out which projects were feasible and how much this feasibility depended upon overcoming 'collective action problems' among firms. The same kind of information is required in the case of capability expansion, but it must be gathered from constituencies that are more numerous and less organized. In addition, the value of a project cannot be assessed on the basis of a simple technocratic measure, such as rate of return on investment or projected market share. Whether a project is worthwhile depends in large measure on how well its results correspond to the collective preferences of the communities being served.

The skills and organization required to aggregate and assess this kind of information demand qualitatively more capable state apparatus. Nonetheless, accurate information on collective priorities at the community level is the *sine qua non* of a successful twenty-first-century developmental state. Without multiple channels getting accurate information, the developmental state will end up investing inefficiently and wasting precious public resources.

Engaging societal actors in implementation is as crucial to capability-expanding strategies as getting information on goals from them. As Ostrom (1996) has emphasized, capability-enhancing services are always coproduced by their 'recipients'. Education is coproduced by students (and their families). Health is coproduced by patients, their families and their communities. The state needs their active engagement in the delivery of those services in order to ensure that the investments produce the desired effects. Delivery to passive recipients produces results that are suboptimal at best and sometimes counterproductive. Once again, the skills and organizational capacities required to stimulate this kind of engagement are more complex and harder to construct because they are more political than technocratic.

In order to be able to create effective state-society linkages, the state must facilitate the organization of counterparts in 'civil society'. The twentieth-century development state's interaction with industry gave industrial elites a reason to become a more collectively coherent class. The twenty-first-century developmental state must do the same for a much broader cross section of society. It won't be easy. 'Civil society' is a complicated beast, full of conflicting particular interests and rife with individuals and organizations claiming to represent the general interest. Still, shared interests in capability expansion are broad and deep. In addition, since capture is less of a danger in building ties with nonelites, the public institutions can concentrate on the positive side of this political project.

Returning to the political dimension of state capacity brings us back to institutional and capability approaches to development. Political institutions are foundational in the capability approach. Sen argues democratic deliberation is the only way of adequately defining what the desired economic ends might be. In addition, since the capability of making choices is one of the most important of all human capabilities, 'processes of participation have to be understood as constitutive parts of the *ends* of development in themselves' (Sen 1999a, 291). Institutional approaches have increasingly emphasized the political dimensions of the institutions that support growth. An archetypal example is Rodrik's (1999, 19) argument that it may be 'helpful to think of participatory political institutions as meta-institutions that elicit and aggregate local knowledge and thereby help build better institutions'. For Rodrik, the development of institutions that allow effective social choice is central to enabling societies to develop the capacity to 'build better institutions' of other kinds.

Explaining why it is useful to build deliberative and participatory state–society networks that encompass a broad cross section of society is easier than explaining how to garner the political power that could enable the construction of such networks.... [E]lectoral democracy is not sufficient.... [E]lectoral democracy can easily end up empowering private capital and undermining the capacity of the state to pursue collective goals rather than connecting public decision makers with a broad cross section of civil society.... [T]he immersion of local capitalists in the broader structures of global finance capital can undermine the capacity of democratically elected political parties to pursue developmental logics. At the same time, ... analysis of the Chinese case makes it clear that the absence of electoral competition is neither an aid to the pursuit of capability expansion nor insurance against the state becoming excessively responsive to the interests of capital.

[...]

The political foundations on which the developmental state ultimately depends are difficult to build and sustain. Even with astute, clear-headed political leadership, the structural power of capital stands in the way of the project. Capital remains a powerful force in the national politics in all but the most extreme outliers. Since our analysis suggests that only the most farsighted and enlightened capitalist is likely to see a confluence of interests with the construction of a democratic capability-expanding state, the political power of capital will stymie the ability of actually existing states to deliver the capability-expanding results that would enable political hegemony based on the delivery of capability-enhancing collective goods.

In short, the programmatic implications of development theory and the exigencies of the new 'bit-based' global economy are clear, but the possibilities for actual change 'on the ground' are anything but clear. Is the twenty-first-century developmental state a real possibility, given existing structures of power and the entrenched ideological 'common sense' in an era of global neoliberal capitalism? The question has no definitive answer, but it must be addressed.

Does the Twenty-First Century Spell the Transformation or the Demise of the Developmental State?

If state transformation depended only on the logic of theory and maximizing the opportunities available in new historical circumstances, capability-expanding twenty-first-century states would be springing up around the world. If the arguments that have been laid out here are correct, states that manage to move in the direction of capability expansion will be rewarded with more productive and dynamic economies. Their citizens will be better able to 'lead the kind of lives they value – and have reason to value'. In the long run, the achievements of such states should make them robust exemplars that less successful states will try to emulate. The image of the twenty-first century as the century of the capability-expanding developmental state is an alluring possibility.

Understanding the central importance of increased state capacity and a more encompassing embeddedness can also, however, lead to pessimism. If this is what is required, perhaps the hurdle is too high. Building the internal organizational capacity, external social networks and political support that would allow the state to play the expanded role demanded of it may be beyond the capacity of existing polities. If the transformations required to approximate a capability-expanding state were almost universally beyond reach, then the promise of the twentyfirst-century developmental state would become only a chimera.

The political obstacles to constructing twenty-first-century developmental states provide the main reason for believing the pessimists. Political obstacles at the national level are magnified by global power dynamics. Global networks, especially global financial networks, increasingly determine the strategies and preferences of private capital. Global capital has even less reason to support devoting resources to building strong state apparatuses and pursuing national projects of capability expansion than national capital. The private strategies of global capital fit the ingrained affinity for antiquated theory and ideology among what remain, at least for now, some of the world's most powerful states. Which brings us full circle to where we began. While a surprising number of states in the Global South have been able to resist following the Anglo-American ideological lead, global policy regimes, like the interests of global capital, work against those who would move in the direction of a twenty-first-century developmental state.

Given these circumstances, no state is likely to fully achieve the level of transformation required to become a twenty-first-century developmental state, not even those that best met twentieth-century requirements. Partial accomplishments are the most that can be expected in a reasonable time frame. Partial success would still be success, but if the pessimists are right, inability to achieve positive movement towards the twenty-first-century developmental state could unleash regressive alternatives, and regressive change under twenty-first-century circumstances could be devastating on a planetary scale. Barbarism always lurks, and it would be foolish to deny the possibility that it will prevail in the current conjuncture.

None of this should be used as an excuse for abandoning the analysis and pursuit of possibilities for constructing twenty-first-century developmental states. The existence of a coherent convergence of theory and historical experience that negates prevailing neoliberal models and illuminates possibilities for constructing more effective states is a real resource. Cardoso and Faletto's (1979, 176) classic affirmation of the surprising changes that can flow from 'collective action guided by political wills that make work what is structurally barely possible' remains a good guidepost. At least one conclusion is irrefutable: A more vigorous and open intellectual debate on the character and effects of different forms of the developmental state will facilitate movement away from nostalgic reiteration of nineteenth-century convictions in the direction of engagement with twenty-first-century possibilities.

Notes

1 See Romer (1986; 1990; 1993a,b; 1994) and Lucas (1988). For recent summaries, see Aghion and Howitt (1998) or Easterly (2001, chapters 3, 8, 9).

2 Elhanan Helpman (2004) provides one of the best surveys of this evidence. Private rates of return to investment in new knowledge are consistently higher than the rates of return to physical capital and social rate of return is much higher than the private rate of return. The effects of human capital are equally powerful. Putting ideas and education together, Jones (2002) argues 'between 1950 and 1993 improvements in educational attainments … explain 30% of the growth in output per hour. The remaining 70% is attributable to the rise in the stock of ideas' (cited in Helpman 2004, 48).

3 This represented a figure of 80% in Solow's (1956) original work, 60% in more recent work that includes human capital.

4 In their contribution to the *Handbook of Economic Growth,* Acemoglu, Johnson and Robinson (2005) argue unambiguously for the thesis that institutions are the 'fundamental determinants of long-run growth', Dani Rodrik, in a coauthored paper called 'Institutions Rule' (Rodrik, Subramanian and Trebbi 2004), is equally straightforward: 'the quality of institutions 'trumps' everything else'. Easterly and Levine (2003) and Bardhan (2005), among many others, offer further support for the primacy of institutions. See also Evans (2004; 2005a; 2007), as well as Chang and Evans (2005).

5 Among Sen's massive bibliography, *Development as Freedom* (Sen 1999a), is perhaps the most accessible synthesis.

6 Key examples include Boozer, Ranis, Stewart and Suri (2003) and Helpman (2004).
7 The literature on the twentieth-century developmental state is vast. For more recent analyses see Chibber (2003) and Kohli (2004). Likewise, Johnson's (1982) pioneering analysis of Japan should not be forgotten.
8 By the 1990s, even the World Bank (1993, 1997) had joined the consensus. See also Evans and Rauch (1999).
9 Particularly emphasized by Amsden (1989).
10 The term is from Nicolas Negroponte's (1996) observation that economic activities is less and less driven by the rearrangement of atoms (i.e., the physical transformation of goods) and more and more driven by the rearrangement of 'bits' –that is to say, information, ideas and images.
11 Opponents of this position will argue that the incentive effects of expected monopoly returns increase the output of new ideas and outweigh the negative effects of subsequent restricted access. How the balance works out in practice depends on specific institutional contexts. In the case of medications, for example, the evidence would seem to support the negative consequences of enforcing monopoly rights. See Angell (2004) for a popular but well-argued exposition.
12 The term is Robert Reich's (1991).
13 For a sophisticated theoretical engagement with the general question of how to meld the analysis of desirability and feasibility, see Erik Wright's (2010) treatise on 'real utopians'.
14 In this respect, as Chang (2002) underlines, twentieth-century developmental states followed the earlier historical practice of states in the North.

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