CHAPTER 1

Globalization and Change in America

Overview

- Today's two-income family earns 75 percent *more* than the single-income family a generation ago but actually has *less* disposable income.
- Having a child is now the single best predictor that a woman will end up in financial collapse.
- The average middle-class family can no longer buy a home without two incomes.
- In 1981, about 69,000 women had filed for bankruptcy; by 1999 that figure had jumped to 500,000.
- An estimated one in seven families with children will declare bankruptcy in the first decade of the twenty-first century.

So began the twenty-first century, according to Elizabeth Warren and Amelia Warren Tyagi in their book *The Two-Income Trap* (2003). These examples are illustrative of the profound transition in U.S. society over the past 30 years: a society that has evolved from a predictable world with the opportunity for upward **social mobility*** to a less predictable and less secure one. From roughly 1945 until the 1970s, workers married, had children, bought homes, enjoyed a balanced work and home life, and enjoyed a range of financial and social benefits provided by their employers and the **state** (Rubin 1996, 8; Fraser 2001, 10).

The idea that hard work should be and would be rewarded dominated not only the cultural values and social norms of the United States but also the actions of its employees and employers. An optimistic spirit meant that social problems were not intractable but resolvable through individual *and* **government** efforts. **Social movements** organized in response to society's most pressing problems and forced the local, state, and federal governments to create social programs that would increase civil and political rights and

* All boldface terms are defined in the glossary at the end of the book.

opportunities (Rubin 1996). Many will recognize these as the basic elements of the American Dream. While we do not want to romanticize the period—which was also characterized by entrenched gender, racial, ethnic, and class inequalities—the changes depicted in *The Two-Income Trap* provide a revealing contrast to the 1950–1980 period (Rubin 1996, Munck 2002).

In this chapter, we summarize these basic patterns of change. In so doing, we introduce the essential connections between globalization and the transformation of the United States and identify the concepts used in our analysis. We begin by clarifying our frame of reference: globalization.

Globalization Defined

As you may have already gathered, defining *globalization* is no easy task. Let's begin with the word *global*. Although over 400 years old, the term *globalization* seems to have emerged in the 1960s (Waters 1995, 2). According to Waters (1995, 1), by the 1990s globalization eclipsed "postmodernism" as *the concept*, becoming the "key idea by which we understand the transition of human society into the third millennium." Social, political, and economic trends are increasingly discussed in terms of global processes and connections, from global production to global politics to global culture. In short, we are said to be experiencing "globalization," to be living in a "global era."[1]

Does this mean that globalization is new? As we discuss in later chapters, one of the more contentious issues in the globalization debate is over its novelty. For many, globalization reflects a significant historical development, differentiating the present period from earlier ones. Consider the following examples that bring to life some of the cultural and technical transformations of the last third of the twentieth century. Today, major banks store money not in vaults but in cyberspace; fast-food lovers consume McArabia sandwiches in the Middle East and Teriyaki McBurgers in Japan; and millions of children in the United States have been mesmerized by the Japanese produced Pokémon game and television program *Dragon Ball Z*. Costa Ricans listen to Mexican music on stereos manufactured in China, while in Iran the popularity of Valentine's Day continues to rise, despite attempts by authorities to halt the spread of the celebration.

Others are not so convinced that globalization reflects a dramatic break with past patterns. For instance, as early as AD 1000, the global reach of science, technology, and mathematics was changing the nature of the world, with innovations typically moving from the East to the West and later from the South to the North. While we are all familiar with the global contributions of the Chinese (the technologies of printing, of gunpowder, and of the magnetic compass, to name only a few), how many know that the word *algebra* comes from the title of a book by the Arab mathematician Musa al-Khwarizmi? How many of us are aware that Chinese technology produced the world's first printed book? Or that the book, an India Sanskrit treatise on

Buddhism, was translated into Chinese in the fifth century by a half-Indian and half-Turkish scholar who had migrated to China from a part of eastern Turkistan, called Kucha (Sen 2000)?

So what does all this mean for our definition of *globalization*? Our point of departure is that globalization is a multifaceted *set of processes* involving objective and subjective dimensions, a long uneven course that is linking together the people of the world. Globalization is not a *thing;* it is not reducible to economics and free markets; and it is not a new phenomenon. The unfolding of globalization can be distinguished by various phases, the most recent dating from the 1970s. In this book, we take a particularly close look at this current phase of accelerated globalization to examine the factors that distinguish it from earlier ones.

The characteristics of contemporary globalization include fewer barriers and risks to trade and financial and investment capital flows and, thus, greater global economic integration, greater flexibility in labor markets, a compression of time and space, universally recognized cultural symbols, the growth of new global actors and declining state power, and finally **deterritorialization** or supraterritoriality. Subjectively, individuals experience these conditions through an increasing recognition that they belong to something larger than the more immediate **nation-state** (e.g., a "world society"). In other words, globalization is a process of growing transborder connectedness representing significant changes at both the objective-structural and subjective-individual levels. We return to these issues in Chapters 3 and 4.

Globalization: From Fordism to Flexibility

Although the influence of global processes is not new, until quite recently the United States enjoyed the luxury of a relatively self-contained and isolated economy because of its extensive resource base, large domestic market, and the natural insulation provided by the Pacific and Atlantic Oceans. After the 1960s, increasing global integration engendered a transition in the United States (and most advanced capitalist societies) from a "fixed" (highly regulated) development model centered on mass production, mass consumption, and social welfare to a "flexible" (unregulated), individualized, and market-based neoliberal one. The shift not only marked a reversal in economic philosophy and strategy, as well as cultural values and social norms, but also initiated a process of change that altered the institutional structures of society and the lives of the individuals embedded within those institutions.

The fixed model of development, dubbed **Fordism**, is an idea and a strategy of production, technology, and distribution. The model originated in the early decades of the twentieth century when Henry Ford used F. W. Taylor's time-and-motion methods to increase the efficiency of his technologically driven factory assembly line.[2] Ford's ideas revolutionized production and dramatically increased the output of consumer goods; the time needed to build an automobile, for instance, declined from 12.5 hours to 1.5 hours. Lurking in the background, however, was a fundamental question: Who would buy all these new goods produced by Ford's innovative and machine-driven process? Clearly, increased production would require an equal increase in consumers. As John Maynard Keynes would later argue in his *General Theory of Employment, Interest and Money* (published in 1936), too few consumers able to buy the goods produced would result in layoffs, which would produce still fewer consumers, causing more layoffs in an ever downward cycle. Aware of this possibility, Ford introduce the idea of the "daily wage," not only to attract workers to his automobile factories but also to ensure that employees could afford the goods they produced. When President Franklin D. Roosevelt responded to the Great Depression by introducing the New Deal regulatory and social welfare policies in the 1930s (theoretically legitimized by Keynes's *General Theory*), the package was complete and "Fordism" was born.[3] The Fordist model was considered rigid or fixed because it involved social welfare policies and high levels of state regulation—or, in some cases, state ownership of industries—that constrained the economic behavior of the business sector.

After the Second World War, the Fordist mass-production/Keynesian regulation strategy increasingly dominated Western Europe, Mexico, Brazil, parts of South Asia, Japan, and South Africa (Tichell and Peck 1995). Particularly in the United States, Britain, and most of Western Europe, the approach culminated in the 1950s with a **social compact**, or a set of formal rules and regulations and informal social norms, that institutionalized class conflict, stabilized the social system (Munck 2002), and created the predictable and secure world of the 1945–1970 period.[4]

The global corollary to local Fordism was the Bretton Woods system. Designed to stabilize the global system, the Bretton Woods system consisted of the World Bank, the International Monetary Fund, and the General Agreement on Trade and Tariffs/World Trade Organization. As we discuss in Chapter 2, a series of events occurred in the 1970s to bring about the end of the Fordist era, which also included fundamental shifts in the Bretton Woods system. One crucial and immediate cause for the collapse of the Fordist strategy and the Bretton Woods system was the onset of **stagflation**, or the simultaneous occurrence of stagnant economic growth and inflation with high unemployment.

Stagflation was particularly troubling. According to Keynesian theory, stagflation was impossible. Yet, during the 1970s, the United States was experiencing falling productivity, declining profits and investment, increasing interest on consumer loans, and growing unemployment. Economic anxieties deepened as imports increasingly competed with U.S.-produced goods and the Arab oil embargoes pushed the price of gasoline to record highs. The volatile decade culminated in 1979 with the Iranian Revolution and the taking of U.S. hostages, which convinced many in the United States that the country

was dangerously vulnerable and unable to control events at home or abroad. By the end of the 1970s, there was a growing consensus that the United States was in the midst of no ordinary cyclical economic downturn.

Conservative analysts blamed the crisis on labor unions that had become too powerful in conjuncture with a tax-and-spend government that overregulated capital and labor markets and monopolized activities that were traditionally the function of markets. Thus, a new consensus emerged among many economists and politicians that state intervention *was not* essential to the operation of the market economy, as Keynes thought, but *the* cause of economic contraction.

In response to the chaos, despair, and uncertainty of the 1970s, U.S. voters elected Ronald Reagan as president to restore order, hope, and respect—order and hope at home and respect abroad. Reacting to a similar set of economic and social problems and with the hope of restoring domestic order and growth, English voters elected Margaret Thatcher as prime minister. Within the changing global context, domestic social coalitions in both countries shifted away from largely a labor-based one to a more middle- and upper-class one. The transforming social coalitions empowered the Reagan and Thatcher administrations to fundamentally alter the existing economic philosophy and strategy that had dominated government policy since the Great Depression. Beginning in the early 1980s, Fordism and the interventionist theory of Keynes were replaced by the **flexible market strategy** of Friedrich von Hayek, known as neoliberalism (see Table 1.1).

In contrast to the earlier Fordist strategy that involved state regulation of the economy and social welfare, neoliberal policies called for tighter global economic links through privatization and market (deregulation) reforms as a means to generate competition, efficiency, and ultimately growth (Hytrek 2001). Likewise, corporate taxes (and taxes on the wealthy) and social welfare spending should be decreased as a means to lower the cost of production and stimulate further economic growth and job creation. Based on these ideas, politicians weakened or outright destroyed unions, deregulated and privatized the economy, and reduced social spending and corporate taxes in order to free markets from rigidities thought to hinder innovation and risk taking. Now, markets, not governments, would "efficiently" guide investment decisions and open up opportunities for generating wealth. Governments would continue to support the business sector but would no longer regulate it. As these policies shifted power away from the state to **capital**, corporations became more flexible, mobile, and global. Between 1970 and 1998, for instance, the number of **transnational corporations** (TNCs), or corporations headquartered in one country with design, production, marketing, and service divisions in many other countries, grew from 7,000 to an estimated 53,600. Today, there are over 65,000 TNCs with some 850,000 foreign affiliates coordinating global supply chains which link firms across countries, including local subcontractors who work outside the formal factory system and outsource to home workers (ILO 2004, 33).

Table 1.1 Neoliberalism

Neo means something new, a "new" kind of liberalism. Neoliberalism is rooted in the classical or "old" liberal ideals of Adam Smith (1723–1790), who wrote *The Wealth of Nations* (1776), and David Ricardo (1772–1823), who published the *Principles of Political Economy* (1817). The economic strategy of the day, called "mercantilism," was based on state control and promotion of economic activity. Smith instead advocated the abolition of state intervention in economic matters, asserting that markets self-regulate and the natural balancing forces of the marketplace tend toward equilibrium, stability, and efficient utilization of resources. Forty years later, Ricardo developed the theory of comparative advantage that established the basis for international trade and an international division of labor. He suggested that the optimum use of worldwide resources would be best achieved if countries specialized in and exported products that were the least expensive for that country to produce and imported products that were the most expensive to produce. Together these two basic ideas formed the theoretical basis for laissez-faire (literally, "to leave alone" or "noninterference") capitalism. This system permitted no restriction on ownership, production, or trade. Such ideas were considered "liberal" in the sense that they ran counter to the prevailing orthodoxy of state control. Thus, the principal actors in this theory are competing individuals. Individualism is believed to encourage "free" enterprise, "free" competition, and the survival of the fittest; it spurs innovation and wastes fewer resources. Classical economic liberalism ended with the market crash in 1929, while the economic crisis of the 1970s revived this theory; hence, the term *neoliberalism*.

Philosophical Tenets of Neoliberalism

In the United States, neoliberalism began around 1980 with the election of Ronald Reagan. If you have not heard the term *neoliberalism*, it is because in the United States we tend to use such expressions as "Reaganomics," "trickle-down economics," or more recently the "**Washington Consensus**." The latter also reflects a shift to a more global application of the tenets of neoliberalism.

1. *Rule of the market*. The markets and private sector are the primary engines of economic growth; growth is promoted by liberating private—individual—enterprise and markets from any bonds imposed by the federal government—the state—unions, or public ownership. Note that the strengthening of the market does not mean that the state no longer supports capital, only that state control of capital through regulation and taxation declines.

2. *Emphasis on individual responsibility*: The concept of the public good is replaced with "individual responsibility." The value of competitive individualism in the United States is the hallmark of individual responsibility, meaning that individual success or failure is based on individual effort. Therefore, the solutions to poverty are to be found at the individual level; the poor themselves are supposed to find solutions to their lack of health care, education, and employment.

Basic Policies

1. Privatization of public enterprises
2. Deregulation of the economy
3. Liberalization of trade and capital markets
4. Tax cuts (for corporations and the wealthy)
5. Strict control of interest rates
6. Reducing the power of organized labor
7. Cutting social-service expenditures
8. Reducing the size of the government

These policies roll back the welfare state and create the neoliberal state.

Source: Adapted from Martinez and Garcia n.d.

The shift in economic philosophy and strategy engendered two structural changes:

Nationally, the Keynesian–Fordist regulation model was replaced by the **neoliberal state**, a new flexible strategy based on the deregulation of labor and capital markets and a shrinking of the social-welfare system. The key change is a shift in government priorities; social welfare spending was deprioritized in favor of continued and even increasing support for capital (i.e., the business sector). These policies restructured state–society relations and changed the way people worked, governed themselves, related to each other, and understood their world and their place in it.

Globally, the strategy accelerated transnational interactions among people, knitting an ever-tighter weave of globally crosscutting relations: for the first time in human history, anything could be made anywhere and sold everywhere (Thurow 1996, 114). As these processes eroded the territoriality of social geography, national borders were becoming, if not obsolete, at least less meaningful in the new globalized world order.

Globalization and Power

Ultimately, globalization invokes issues of power and the changing distribution of power between the global and the local and among the (local) society, social movements, **nation-states**, and (global) transnational organizations and institutions. This raises several questions: Is globalization inevitable? Is globalization concentrating power into the hands of global actors at the expense of local ones? How is globalization transforming economic structures, and what are the political and economic effects? How is globalization shaping individual- and group-level responses to these political and economic changes?

Structures, Agency, and Power

If you think about the shift to neoliberalism in the United States and England and the effects of these strategic and ideological shifts, it becomes clear that globalization did not simply happen out of necessity or law-like forces (see also Chapter 2). Nonetheless, as Roberto Mangabeira Unger (1998) points out, the globalization debate often suffers from "necessitarianism," or the notion that we are simply "puppets" in a social world created by objective forces. To ignore the role of agency, however, is to miss the way in which globalization has been, and *is being*, designed. As we suggest in Chapter 3, globalization is a deeply political and contested process that empowers and strengthens some actors and institutions while disempowering and weakening others. How globalization is altering U.S. institutions that shape patterns of inequality and how people embedded within these structures respond to these challenges are central concerns of our analysis. We take up these issues in later chapters by examining the connections among globalization, institutional changes, and patterns of inequality with a specific focus on class, gender, race, and ethnicity.

Understanding the local (societal and societal sublevel) effects of globalization is impossible without examining how the evolving relationship between the state and transnational organizations shapes state–society relations. Fundamental to this relationship is the degree to which globalization has shifted power away from the state and nationally based social actors toward global organizations. As global actors, such as TNCs or the World Trade Organization (WTO), gain power relative to the state, they can undermine the state's ability to define and pursue national economic development.

First, evidence suggests that with the greater integration of financial markets and increased financial and investment capital mobility, transnational organizations and financial class actors gain advantage. A corporation's ability to produce anything anywhere in turn weakens nationally based social movements, including labor unions, which have typically provided a social basis for the **welfare state**. How, for example, can labor unions that are organized nationally combat falling incomes and disappearing benefits when a corporation can hire computer programmers in India under prevailing Indian wages and conditions to work on computers located in the United States? How can unions enforce overtime regulations when corporations can hire across time zones to "staff" 24-hour customer-service centers? The next time you have a product-related problem and call the customer-service line, ask the company representative where he or she lives—you may be surprised. With globalization, corporations can more easily move jobs to workers (Firebaugh 2003, 198–201), effectively eliminating problems of labor immobility for many jobs.

Second, the mobility of corporations affects taxation and the fiscal health of the state. Corporations and jobs that have moved **offshore** reduce the amount of tax revenue owed local and national governments. Today, for instance, a U.S. corporation can move its headquarters to the Bahamas and declare that the company has no U.S. profits and therefore owes the U.S. government no taxes. As Clawson (2003, 136) points out, "not so long ago this would have been illegal; today it is an increasingly common corporate practice." This can exacerbate the federal government's budget deficits. Equally disastrous has been the general withdrawal from progressive taxation, a shift in the tax burden away from capital to labor as a means to enhance the attractiveness of the United States (or an individual state) as a site for investment.

Third, as TNCs disinvest in the industrial sectors of societies such as the United States, millions of workers are displaced from their manufacturing and ancillary jobs in a process of deindustrialization whereby regions, societies, or cities lose entire subsectors of the manufacturing sector.[5] This shifting of investment restructures the economy away from industrial to service occupations. Today in the United States, for instance, more than eight out of every

ten jobs are in the service sector. Is this necessarily problematic? No. However, those moving out of the industrial sector and into the service sector enter a highly diverse world that ranges from accountants and attorneys to street sweepers and street vendors. Inequality is worsened by the shift to service sector jobs as factory workers untrained and "uncertified" in law or accounting end up in the low-wage service sector. What we find is a service sector characterized by wage polarization as the growth in low-paying service sector jobs outpaces the growth in well-paying ones, meaning the $20 per hour factory job is often replaced with a $7 or $8 per hour service one.

Finally, with the erosion of the social and fiscal bases of the state, the state is less able to respond to economic dislocations through classic social welfare policies. The inability to resolve basic social problems weakens the responsiveness of democratic institutions, creating what has been labeled the "**democratic deficit**"—or the inability of citizens to shape public policy consistent with their needs. Thus, the potential for globalization to shift power to the global level raises the fundamental issue of efficacy: if the structural changes accompanying globalization are reducing the power of states and undermining democratic institutions, you may well respond: "How can I possibly affect processes beyond the reach of my government?" "Why should I bother to try and make a difference in the world if my government is incapable of challenging global actors?"

Such reactions reflect a process in which power is being redefined and the limits of politics and state power are being exposed. With globalization, power is less something to "seize" than a "diffused and plural element woven into the fabric of society" (Munck 2002, 20). As a result, there is a trend for social movements to emphasize autonomy from party politics and to prioritize horizontal organizing around issues of social justice within **civil society** to pressure government officials. For some scholars, local nongovernmentally developed and implemented programs and projects are emerging in the political vacuum—i.e., democratic deficit—created by the withdrawal of the federal government from the lives of ordinary people and the shrinking of the welfare state (see McGrew 1997; Brecher, Costello, and Smith 2002).

A widespread set of issues, from increasing **poverty** and crumbling social infrastructure to the environment to classic labor issues of wages and jobs, are potentially creating the objective basis for a "globalization from below" movement to emerge and respond to the challenges of globalization. As people increasingly inhabit transnational spaces and begin to connect their struggles with similar struggles in other parts of the world, localized forms of resistance may evolve into a global countermovement (Brecher, Costello, and Smith 2002, 10). This is what Munck (2002) and others (e.g., McGrew 1997) seem to suggest when they argue that globalization is increasingly integrating the world and simultaneously creating the possibility for transnational processes of empowerment. In other words, the conditions allowing "corporate and political elites to reach across national borders to further their agendas" (Brecher, Costello, and Smith 2002) are the same conditions allowing social movements (e.g., environmental, human rights) and labor activists to create a countermovement capable of confronting the corporate agenda.

As globalization diffuses power *downward*, the emerging movement may offer a resolution to the democratic deficit by engendering a process of democratization (globalization) from below. Central to this process is the emergence of opportunities for new actions and strategies that may interface with old ones to directly pressure governments, to bypass governments and act directly on corporations, and to forge meaning in a more and more complex and less intelligible world. As this happens, globalization is altered in small and big ways. To be sure, we do not wish to suggest that globalization can be easily or quickly changed or that most people can easily or quickly become social activists; globalization is too powerful and many people too powerless. In Chapter 9, we return to this issue of how local efforts are responding to globalization and attempting to redefine the relationships between civil society and the state as they forge new connections with *various levels* of government.

Globalization and Stratification

At the beginning of the twenty-first century,

- Fifty-four of the world's largest "economies" are corporations.
- General Motors is larger than the combined **gross domestic products** (GDP) of sub-Saharan Africa (Newman 2002).
- The world's richest three individuals have assets greater than the GDPs of the 48 least developed countries (Crossette 1998).
- Wal-Mart surpassed General Motors to become the largest employer in the United States in 1997 (*Forbes* 1996, 1997).
- Seventy-one percent of white children in the United States are covered by health insurance compared to 44 percent of black children (Lusane 1997, 18).
- The unemployment rate for black workers in the United States is twice that of white workers (U.S. Department of Labor 2002).
- The infant mortality rate is 13.5/1,000 for black children and 6.8/1,000 for white children (Mathews and MacDorman 2006).
- The term *jobless economic recovery* emerges as economic growth coincides with low job creation.

What springs to mind when you read this list? At some point we hope that you think inequality; these are all illustrations of different forms of inequality or a condition in which groups of individuals have unequal access to goods, services, resources, and opportunities. These examples further illustrate that inequality can be based on a number of characteristics from class to race to gender to geographical location. You may also recognize that these are not new problems but reflect traditional social problems of poverty—unequal access to health and education, a lack of available well-paying jobs or of affordable housing.

So what are the connections to globalization? Our point is that globalization is not necessarily creating new problems; rather, globalization is redistributing power and exacerbating and sharpening existing contradictions manifested in patterns of inequality. In some cases, global processes are creating new forms of inequality, as we mentioned in the Preface, by changing who joins the ranks of the poor, unemployed, underemployed, homeless, or hungry; in other instances, globalization is exacerbating existing patterns of inequality. Yes, inequality and poverty remain entrenched social problems, but what do we mean by *inequality*?

Inequality and Stratification

We all use the terms **inequality** and **social stratification** to refer to unequal distribution of *things*, such as material possessions, abilities, or technology. Social scientists make an important distinction between the two terms: *inequality* is the unequal distribution of things, while *stratification* refers to a hardening or institutionalizing of inequality. Stratification, then, is an institutionalized hierarchical ranking of groups of individuals based on such variables as class and social status.

Historically, different forms of stratification have dominated the social relations of societies, such as slavery, caste, and estate; some of these forms continue to exist today, and even class inequality has evolved over time. A major form of stratification is **class**, understood as an **achieved status**, meaning that we have some control over our class position. *Class* is defined as a group of individuals with similar political and economic interests who share similar **life chances**[6] and possess similar resources (including power). Measures of class typically include such variables as **income**, **wealth**, and occupations. As we discuss in Chapter 5, class is closely connected to other inequalities, such as health, education, and political power.

Class is also related in complex ways to **ascribed status** dimensions of stratification, such as race, ethnicity, and gender. These are attributes given (ascribed) to us at birth and over which we have little or no control, one's **sex** for instance. *Status*, as Kerbo (2003, 14) points out, is often used in two different ways: to indicate a position within the social structure, such as student, mother, or child, with certain rights and duties attached to such positions, or to indicate a noneconomic position in a hierarchy. In this book, we use this latter notion of status as a form of "popularity" or respect accorded groups based on certain social criteria (e.g., education) that can vary independently of class. Following Weber (1978, 305–307), we understand status as involving a specific *style of life*, with expectations and restrictions on social interaction imposed on all those who "wish to belong to the circle." **Race**, **ethnicity**, and **gender** are unequal statuses that, in many instances, reflect restrictions (social and legal) on social interaction, occupational position, and control of and access to power.

Our discussion would be incomplete without reference to **power**. What is power? For Weber (1978), power is the ability to accomplish one's goals despite resistance from others. Power is a generalized commodity—expressed as economic, military, and political, among others—that can serve a variety of goals and interests; power is central to any stratification system that fundamentally depends on some group dominating other groups.

Finally, stratification functions as both a distributional and a legitimizing mechanism through which goods, services, and resources are dispersed and outcomes are justified. These goods, services, and resources include the obvious, such as money and wealth, but also occupations, health, life expectancy, literacy, and power. Unequal distribution of these goods is also *explained* by the system as equitable; those who contribute more to a society or hold more important positions within a society deserve greater rewards, for instance. Within any stratification system, people come to expect that individuals and groups with certain positions will be able to demand more influence and respect and accumulate a greater share of goods and services. Although such inequality may or may not be accepted equally by a majority in the society, it is recognized as the way things are (Kerbo 2003, 11). Therefore, any discussion of social stratification implies reference to the economic system, but most social scientists agree that stratification is closely linked to other institutions, such as politics and culture.

Social Mobility

The effects of politics and culture are clearly evident in different systems of stratification. In **closed stratification systems**, such as slave or caste systems, the primary means of legitimizing the social location of groups are legal (political) and ideological (cultural practices) and often a combination of the two. Importantly, in these systems there is little or no possibility of moving from one social location to another. A second system, called an **open stratification system,** is represented by the class system and differs from the above examples in several ways. First, class systems are based on an industrial (as opposed to an agrarian) economic base. Second, there is the possibility of social mobility, upward or downward, in the system. Positions in the hierarchy are based to a greater degree on merit—or achievement—rather than on qualities ascribed to an individual or those beyond an individual's control, which we find in caste or slave systems.

Nonetheless, legitimization of inequality also relies on the political and cultural systems in class societies. Let's look at health care, for instance, where 64 percent of the over 41 million people in the United States under age 65 with no health coverage have incomes below 150 percent of the **poverty line**—the poor and near poor (National Center for Health Statistics 2004, Table 131). The fact that individuals with higher incomes are more likely to have health-care coverage in industrial societies makes sense. After all, in open stratification systems, as the argument goes, social mobility is possible

as individuals with different abilities and motivations compete for scarce resources (e.g., education or high-paying jobs), which then translates into access to other goods, such as health care. The system simply rewards and punishes individual efforts accordingly. In the United States, the idea of competitive individualism holds that those who work the hardest and have the greatest abilities will be rewarded with upward mobility and greater resources; less successful individuals will remain in the same social location or experience downward mobility.

You may ask if such outcomes are *unfair*. Is inequality inevitable, or even desirable, as a mechanism to motivate the "best" and the "brightest" to excel? Can inequality be lessened? Should individuals be blamed for their lack of upward mobility? Should social structures and institutions that affect available opportunities be blamed? Or should both individual efforts and social structures factor into the analysis? Has inequality increased or decrease over time? What have been the effects of globalization on patterns of inequality? These are some of the central debates within the globalization and stratification literature, which we focus on in this book.

Global–Local Class Inequality Patterns

Within the context of globalization, patterns of inequality reflected in the distributional data on income, wealth, poverty, and employment reveal geographically new and complex forms. One manifestation is the blurring of the global geographical division between the wealthy "northern core" (e.g., the United States, Western Europe) and the poor "southern periphery" (e.g., Africa, Latin America, South Asia). As the traditional forms of vertical stratification erode between wealthy industrialized societies and poor developing ones, new horizontal patterns that crisscross national boundaries emerge. One can take Sunset Boulevard in Los Angeles, for instance, and travel west to east passing through wealthy "First World" affluence to "Third World" poverty in less than an hour; or Rio de Janeiro, where neighborhoods with open sewers abut those whose residents drive Range Rovers and vacation in the Mediterranean. Throughout the world, contemporary forms of stratification often retain patterns that were shaped by conquest and racial, ethnic, and gender attributes, yet these patterns increasingly show little regard for national borders as globalization renders geographical location less meaningful. Let's take a brief look at some of these patterns in the United States and the world.

Local Class Inequality in the United States

Between 1979 and 2001, the top 5 percent of the total population in the United States increased their average income from $68,360 to $280,312 (U.S. Bureau of the Census 2001), while the number of children in poverty increased from

3.4 million to 12.2 million, or from 14.9 percent to 16.9 percent of the population (Eitzen and Baca Zinn 2003, 182–183). Today in the United States, there are over 7.5 million millionaires (Christie 2005), over 400 billionaires (Forbes 2006), and 37 million officially defined as poor.

Often, however, we forget that real people exist behind these statistics. We hear about individuals like Bill Gates who can lose $30 billion in one year and still remain the richest individual in the world worth $60 billion (*Forbes* 1999, 2000). A second is Jeffrey Bezos, the force behind Amazon.com, who at the age of 35 was worth an estimated $10 billion (*Forbes* 2003). On the other hand, we seldom hear about people such as Amanda Tomberlin, who worked for Pillowtex. Formerly the largest employer in Kannapolis, North Carolina, Pillowtex made sheets and towels before declaring bankruptcy in August 2003. For these workers, the area's best options for employment after Pillowtex required a high school degree, which excludes almost half of the Pillowtex workers. Low levels of education combined with an average age of 46 years means the future prospects for former Pillowtex employees are few. J. C. Ward, a former Pillowtex employee, perhaps summarizes the feelings of millions of former factory workers across the United States: "I'm 57 years old and feel trapped; too young to retire, but too old to start a new career" (Hochberg 2003).

While the closing of Pillowtex made for a brief story on National Public Radio, other stories seldom make the news. The Hobbs family, from Beattyville, Kentucky, has lived for years in a house without indoor plumbing, insulation, or a safe foundation. "We could feel the air coming through the cracks in the walls, [and] hear animals in the walls" (cited in Hurst 2004, 2). Or Russell Tanner, who in his mid-40s had 21 years of seniority with General Motors when the plant at which he worked closed. Russell represented the third generation of Tanners who had worked in this plant. As his wife began working two jobs, the sudden role reversal placed a great deal of strain on their marriage and on his relationship with his children. He began to withdraw and drink more and more, which put even greater strain on the family (Bradshaw and Wallace 1996).

Global Class Inequality

So what about the rest of the world? The kinds of patterns depicted above in the United States are replicated throughout the world, although with sharper distinctions between the impoverished and the new globalized super wealthy elites in countries such as Mexico, Thailand, India, Chile, China, and the Philippines. According to the United Nations Development Program (UNDP 1999), the income gap between the fifth of the world's people living in the richest countries and the fifth in the poorest was 74 to 1 in 1997, up from 60 to 1 in 1990 and 30 to 1 in 1960. In 1999, the number of people worldwide living below $1 a day, considered the benchmark for abject poverty, was estimated at 1.3 billion—up 200 million from 1993.[7]

Who are the rich and famous? Consider, for instance, Mexican billionaire Carlos Slim Helú who purchased CompUSA in 2000 and has other holdings in telecom, retailing (e.g., OfficeMax, Circuit City, and Borders), and financial services. Carlos Slim Helú lost $3.4 billion in a 2-year period and was still worth $7.4 billion in 2003; in 2006, *Forbes* listed him as the third richest individual in the world at $30 billion (*Forbes* 2006). Or the Indonesian Rachman Halim family who is worth $1.9 billion (2006) and own and run the publicly traded PT Gudang Garam Company, Indonesia's largest producer of clove cigarettes (*Forbes* 2006). Compare these two examples to Maria Guadalupe, who started working in a Mexican *maquiladora* (or assembly factory) at the age of 16 earning $27 for a 48-hour workweek (Guadalupe 1999). Or the Indonesian Sadisah (the only name on her pay stub), who worked 10.5 hours a day, 6 days a week for 14 cents an hour for Nike in the early 1990s (Bradshaw and Wallace 1996).

Global–Local Connections

In thinking about these data, reflect on how the lives and fortunes of producers and consumers are increasingly linked and shaped by decisions made far from the point of impact. Globalization means that corporations, now more agile than ever, can more easily take advantage of sharp disparities between production costs in the United States and other parts of the globe. As U.S. capital moves offshore or companies **subcontract** jobs to lower their production costs, low-income nations become more industrialized, thereby employing Sadisah or Maria, and the United States becomes more service-oriented, causing Russell Tanner or Amanda Tomberlin to take service sector jobs. While the movement of investment capital may industrialize low-income countries and actually *decrease* economic inequality between countries, the process potentially *increases* inequality within high-income countries as these societies become more service-oriented (Firebaugh 2003). At the same time, if consumers in the United States boycott Nike because of its labor practices, Sadisah may lose her job because of weakening market demand. Similarly, if labor costs in Indonesia increase relative to Vietnam or labor costs in Mexico increase relative to Haiti, Sadisah and Maria's jobs will be jeopardized as corporations relocate to areas with lower labor costs. With accelerated globalization, the notion that production and consumption are social processes has taken on new and more complex dimensions.

Sociology has a long history of examining these kinds of changes, emerging as a discipline within the context of an earlier transformation—the industrial revolution—which restructured societies that had been relatively stable for generations. Then, as now, some of the most profound changes are reflected in new productive systems that are undermining existing occupations and expanding or creating others as well as technological advances that are altering the physical and social environment and affecting the way people raise families, educate their children, govern themselves, and live their lives. Thus, the forces underlying the industrial revolution continue to induce change as manifested in the introduction of new concepts such as globalization, downsizing, **economic restructuring**, and **deindustrialization.** How these forces (and conditions for globalization), which we examine in the next chapter, are transforming the nature of social relations, political organizations, and social and economic structures in the United States is the focus of this book.

Conclusion

With the emergence of neoliberalism in the 1970s, the pace and nature of change reflecting the greater importance of global processes allow us to talk of a different—though not necessarily new—period in human history. The scope of these changes is vividly manifested in the reorientation and restructuring of U.S. society. As Peter Drucker points out, the United States is no longer the single most powerful global actor but one of several "centers" in the global economy. This transformation is further reflected in strategic and ideological shifts responsible for changes in the quality and quantity of jobs in the United States Thus, an understanding of contemporary U.S. society is impossible without reference to globalization.

Globalization is a multifaceted and *abstract* process, which leads many to conclude that it is a product of powerful unseen forces far removed from their daily lives. Yet, this is only partly true. Globalization is indeed a complex *set* of processes, but the danger is in ignoring the consequences of our actions *and* inactions and believing that globalization is inevitably unfolding along a path predetermined by the world's most powerful individuals. To be sure, globalization has evolved along the lines determined by powerful forces—as we note in a later chapter—but millions of women, men, and children have begun to challenge the existing course of globalization through their struggles to make their communities safer, cleaner, and healthier. We focus on some of these efforts in later chapters, motivated by a belief in the potential for social activism to transform ordinary people into the architects of their own destinies. By calling attention to the impact of these global forces in our private lives and our reactions to these changes, we can more clearly understand the meaning of these larger forces in our lives and the lives of others around the world.

CHAPTER 2

Globalization

The Context

- In 1935, President Franklin D. Roosevelt charted a new activist role for the U.S. federal government with the passage of the Social Security Act.
- In 1944 at Bretton Woods, New Hampshire, leaders from 44 nations designed a new global institutional framework to stabilize and manage international economic relations based on John Maynard Keynes's idea that markets often fail to resolve problems of unemployment and poverty.
- In 1946, the U.S. Congress passed the Employment Act, committing the government to full employment and reflecting Keynes's idea that the state has a role to play in stimulating economic demand and maintaining full employment.
- In 1978, President Jimmy Carter signaled the onset of a new era of less government control in the United States with the passage of the Airline Deregulation Act.
- In the 1980 campaign, candidate Ronald Reagan defined a new strategy by invoking Friedrich von Hayek's idea that governments were not part of the solution to unemployment and poverty but the causes of such problems.
- In the early 1980s, David Stockman, President Ronald Reagan's budget director, argued that the vision of the good society rested on the strength and productive potential of free persons in free societies, reflecting the idea that unfettered corporations and individuals would solve the most pressing social problems.
- In the 1980s, leaders of the International Monetary Fund and World Bank, founded at Bretton Woods, no longer saw markets as fallible and began to champion market supremacy by forcing countries to privatize and deregulate their economies as solutions to the problems of unemployment and poverty.

These examples illustrate two ideas that have long shaped debates over how best to resolve unemployment, inequality, and poverty. The debate pivots on the fundamental question of what should be the proper role of the state and markets in society: should governments or markets organize society and resolve social problems? Understanding why one idea gains primacy over another requires an examination of the sociopolitical context. For instance, in the aftermath of the Great Depression and the Second World War, the world adopted a new approach to these old problems. As we discussed in the previous chapter, John Maynard Keynes argued that, in contrast to the idea of classical economic liberalism, markets do fail and produce such catastrophes as the Great Depression. To avoid inevitable recessions and depressions, governments should actively intervene to control markets and manage economic change. A new consensus took root—based on Keynes's theory—and informed the policies of Franklin Roosevelt in the 1930s and the Bretton Woods convention in the 1940s. Keynes's ideas guided government policy for almost 30 years. Beginning in the late 1960s, however, a shifting sociopolitical context created the possibility for an alternative set of ideas. The unraveling of the Keynesian strategy in the 1970s is illustrated by President Carter's deregulation of the airline industry and by Ronald Reagan's popularizing the idea that state intervention was the *cause* of economic and social problems. Reagan's approach to poverty and inequality reflected the neoliberal ideas of Friedrich von Hayek, who argued that any state control of markets would be disastrous for economic stability and growth. The crisis of the 1970s provided an opportunity to put Hayek's theory into practice.

Initiated in the United States and England during the late 1970s and 1980s, policies of deregulation and privatization replaced Keynesian intervention. As Hayek's neoliberal market ideas spread throughout the world, the accompanying policies triggered the contemporary—or "accelerated"—phase of globalization. For students of Hayek, the demise of Keynesianism was inevitable. In their view, attempting to control markets, which are natural forces like the "waves of the ocean," is something that can be done only "at one's peril." From this perspective, globalization is also an inevitable and natural process. The story is more complex, however. The problems of the 1970s created an opportunity for the shift to neoliberalism and thus neoliberal globalization, but how globalization evolved must be seen within the context of the economic, political, institutional, and technological changes that occurred after the Second World War. In this chapter, we examine these changes in order to better comprehend how politics and political policies created the current form of globalization.

Strategic Shifts

Struggling with the combined effects of the Great Depression and later World War II, many scholars, activists, and politicians came to believe that capitalism had an inherent tendency toward self-destruction. Unregulated markets, they believed, would create ever deeper crises that would devastate democratic societies. Economists such as Keynes and the social historian Karl Polanyi argued that the Great Depression was a normal by-product of a system that prioritized profits above the well-being of people.[1] Profits, Keynes argued in his *General Theory of Employment, Interest and Money*, depend on

lowering wages and production costs by substituting machines for labor. You might recall from the last chapter that Keynes's theory suggested that by lowering wages and laying off workers employers could increase profits but only at the expense of reducing the number of consumers able to buy the goods produced. Decreased sales lead to additional layoffs in an ever downward cycle. Keynes's solution proposed that governments manage economic development and ensure full employment by actively regulating the business sector and by acting as an investor to stimulate the economy when private capital was either unwilling or unable to provide needed investment.

Keynes's ideas that societies could manage and control economic forces were revolutionary and led many to believe that he had discovered the solution to such problems as poverty and unemployment. His ideas spread quickly and legitimized interventionist "Fordist" legislation in the United States, Western Europe, Canada, Australia, and elsewhere. As a principal participant in the Bretton Woods Conference, Keynes also provided the theoretical basis for a new global institutional structure. Yet, by the 1970s, Keynesianism came under increasing criticism as domestic instabilities, particularly stagflation, challenged the viability of the strategy. What happened? Why did the Keynesian *solution* for economic stagnation become viewed as the *cause* of the economic malaise that materialized in the 1970s? To answer these questions, we need a historical vantage point; our answer begins with a discussion of the changing conditions through which the basic economic forces operate.

Forces and Conditions for Globalization

Capitalism is the economic system of our age. The key forces of capitalism—profits and competition—are central to creating what we call today "globalization." Yet, profits and competition have been around a long time and cannot *explain* the current manifestation of globalization. To understand globalization in its present form, we must study the *conditions* through which these basic forces operate. Specifically, we need to examine the composition of the global information infrastructure and recent advances in communication technologies, improvements in transportation, and finally politics and political ideology.

Information Infrastructure

Transformations in the information infrastructure contribute immensely to the compression of time and space to which Anthony Giddens (2003) and others refer when discussing globalization. By the *information infrastructure*, we mean networks of communication technology, including communication satellites, fiber-optic lines, digital information formats, and the Internet (see, e.g., Castells 2000). The information infrastructure affects globalization by

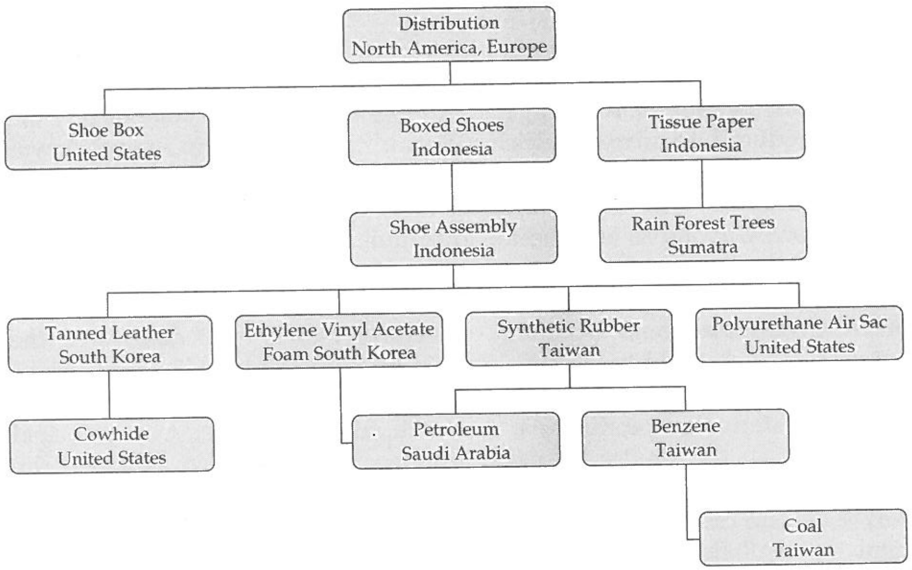

Figure 2.1 Global production of an athletic shoe. *Sources*: Ryan and Durning (1998), McMichael (2000).

facilitating or constraining the intensity and extensity of global connectedness and interaction. Likewise, the potential scale of interaction among the world's people is determined primarily by technological capacity and communications technology. Radical innovation in these technologies and the emergence of instant and almost real-time communication have significantly altered the nature of global interaction. We all talk about the "global assembly line," for instance (see Fig. 2.1). Changes in the information infrastructure have allowed corporate and individual capital to create such processes by coordinating production across national boundaries. This ability also means that companies can take advantage of differences in resources and regulations between nation-states or regions by switching activities between them in the competitive pursuit of profits (Dicken 1998).

Two points are significant:

1. *Intensity*: Changes in the information infrastructure precipitated a dramatic increase in the speed and volume (or intensity) of goods and services circulating in global markets—though we cannot neglect how the movement of goods and services is also linked to advances in transportation and decreasing costs of moving goods (see Held et al. 1999, 168–175). The intensity is illustrated by declining transportation costs, unprecedented flows of capital, and the increase in the volume of communication. For instance, between 1960 and the late 1990s, airline transportation costs fell by more than 60 percent; between the early 1970s and 1997, the balances on transborder bank loans increased from $200 billion to $10.383 trillion (Scholte 2000b, 86); in 1999, $1.5 *trillion* moved across international borders *daily*, up from "mere" billions in the 1980s; between 1985 and 1998, Internet users increased from 0 to 180 million (Scholte 2000b, 86); between 1990 and 1998, transborder telephone traffic increased from 33 billion minutes to 70 billion minutes (UNDP 1999, 25); between 1965 and 1995, trade between developing and industrialized countries increased from 32.5 percent of total world trade to 38 percent, while trade between developing countries increased from 3.8 percent to 14 percent during the same period (Held et al. 1999, 172).
2. *Extensity*: As we already mentioned, the information infrastructure creates the possibility for global factories to produce goods in decentralized global assembly lines. The advent of global assembly lines illustrates the extensity—or expansion—of the global system. The European version of the Ford Escort offers a useful example. In the early 1990s, the Escort was assembled in the United Kingdom and Germany from components produced in 15 different countries, including the United States, Italy, Switzerland, Japan, Canada, The Netherlands, Spain, and others. Another example is the Toyota Motor Company, which is headquartered in Japan and produces and markets products using 56 manufacturing plants in 25 countries, including the United States, Brazil, and Thailand (Gabel and Bruner 2003, 40–41). An even more dramatic example is Nike, which is headquartered in the United States and subcontracts 100 percent of its production to 75,000 workers in China, South Korea, Malaysia, Taiwan, and Thailand (Steger 2003, 49).

Computer-based technological advances make possible global factories by facilitating the coordination of activities across geographical space and the **outsourcing** of jobs previously confined to local areas (see Gwynne, Klak, and Shaw 2003, Chapter 11). The informational infrastructure *institutionalizes* these underlying global networks and patterns of interaction (movement of car components, e.g.) across time and space. As these interactions are institutionalized or regularized, new possibilities are opened up for the geographical (re)configuration of activity through the inclusion of different countries or regions into the global productive system. Thus, as corporations confront the competitive pressures of global markets, they often create sophisticated global factories that expand the system—and intensify global competition. Figure 2.1 illustrates the global production system.

At this point, you may be wondering if transnational corporations, or for that matter foreign investment, are really recent inventions? The answer is no; both have a long history. We can think of the East India Company, formed in 1600, or U.S. Singer Sewing Machines, which opened a factory in Scotland in 1867 as examples (Gabel and Bruner 2003, part III). Beginning in the 1980s, however, the nature of global interaction changed: competition intensified, the number of transnational corporations increased dramatically, while foreign investment soared and diversified beyond the traditional European and U.S. sources. Today, almost every country is connected through transnational production and investment, and these connections are far stronger than portfolio investment (the buying of stocks of foreign companies) that dominated earlier forms of globalization (see Gabel and Bruner 2003). The process of global intensification and extensification cannot be understood, however, without reference to the shift in political ideology that we touched on in the previous chapter.

Political Policies and Ideology

After 1980, two intertwined political processes emerged. First, regional projects that subordinate national governments to supranational institutions were negotiated. Examples of these include the Maastricht treaty, creating the European Union; the North American Free Trade Agreement (NAFTA) between Canada, the United States, and Mexico; and the Asia-Pacific Economic Cooperation (APEC), designed to enhance intergovernmental cooperation among Pacific Rim–Asian countries. A more dramatic example is the incorporation of the former Soviet Union countries and China into one (or more) global organization such as the **G-7 group**, the **North Atlantic Treaty Organization** (NATO), and the World Trade Organization (WTO).

Second, the shift in political philosophy reflected in the rejection of Keynesianism and the reversal of state intervention deepened the intensity and extensity of global interconnections. Policies deregulating and privatizing economies transformed nationally (publicly) owned industries into private (often foreign) ones and accelerated the mobility of goods and services by opening up societies and freeing markets. Even in the United States, where deregulation has been the hallmark of the neoliberal strategy, "no part of the public sphere has been immune to the infiltration of for-profit corporations" (Bakan 2004, 113). Bakan notes that political debates surrounding the attempt to partially or fully privatize public utilities, such as water,[2] as well as Social Security, prisons, and highways are all part of the vision of a "new society." In effect, the idea is to reduce the function of the state to perhaps no more than maintaining a military (Bakan 2004, 113–114), but even here outsourcing and privatization are creating a new privatized military industry (Singer 2003). In cases where deregulation or privatization has not been politically feasible, such as eliminating the Environmental Protection Agency, the Occupational Safety and Health Administration, or the Securities and Exchange Commission, the strategy in the United States has been to reduce funding for these agencies. As budgets shrink, regulatory agencies find they lack the resources necessary to enforce existing laws. In these cases, big business can ignore regulations and laws, such as those governing child labor, minimum wages, working conditions, accounting practices, stock trading, and others, with little fear of being held accountable.

Thus, the goal of domestic policies is to minimize state interference in markets and maximize the freedom of capital either by eliminating national-level institutions or by reducing the resources necessary for remaining institutions to control the behavior of private economic actors. As societies become more open to the global system and capital becomes more mobile, the competitive struggle for profits accelerates.

Proponents of neoliberalism often neglect what these political shifts mean: the way globalization has unfolded was by no means inevitable or apolitical, as they assume. Policies of deregulation and privatization initiated in the United States and England shaped this process; yet globalization implies that other nations also reduce barriers to interaction. Had the shift to neoliberalism stopped in the United States and England, the current globalization trajectory would have failed to materialize. Thus, some mechanism was necessary to globalize the neoliberal strategy, to reduce barriers to interaction *throughout* the global system. This mechanism was the global institutions founded at Bretton Woods after the Second World War.

Global Institutions

In the aftermath of the Second World War and with the Great Depression fresh in mind, leaders from 44 nations converged in Bretton Woods, New Hampshire, to decide the future of the global system.[3] Led by England and the United States,[4] negotiations produced three major agreements intended to achieve global and national financial and economic stability. First, participants established a set of rules of international activities, such as the removal of restrictions to the flow of goods. Second, they created a stable monetary exchange by establishing a "flexible" **gold standard**, through which the currencies of other countries were pegged to a fixed gold value of the U.S. dollar (Steger 2003, 38). This meant that the dollar could be exchanged for gold or, in other words, the U.S. dollar "was as good as gold." Third, the group created an institutional framework, the "**Bretton Woods Trio**," designed to govern the economic and monetary activities of the international economy. The Trio consisted of the International Monetary Fund (IMF), the World Bank (WB), and the General Agreement on Trade and Tariffs (GATT); over time, these three institutions became the world's most powerful forces for globalization. As we summarize below, the Trio's original division of labor began to break down after 1980.

International Monetary Fund

The IMF began operations in 1947 with 29 member nations; today, there are 182. The original mission of the IMF was to administer the international monetary system: to oversee a system of fixed exchange rates, to ease the exchange of one currency for another, and to act as a "lender of last resort," meaning it would be the world's banker in emergencies. The overall intent of the IMF was to act as a mechanism to stabilize the international monetary system by providing funds to maintain adequate global demand, employment, and hence global economic stability. A driving force behind the creation of the IMF was Keynes, who was convinced that inadequate global demand was largely responsible for the Great Depression of the 1930s. To prevent future global depressions, Keynes wanted to create an institution that would provide funding when necessary to maintain global demand. You may be surprised, but in Keynes's initial design the institution had no control over a government's economic decisions, nor could it intervene in national policy.

The IMF was intended to function like a credit union. In the case of the IMF, member-nations contribute funds that can be lent to other member-nations experiencing temporary shortages of resources needed to stimulate domestic economic growth. Funds provided to the IMF are based on a quota determined by the size of the member-nation's economy: the larger the economy, the larger the quota. The size of the quota in turn determines how much foreign exchange member-nations have access to in emergencies and, more importantly, how many votes member-nations have in deliberations over which country will get a loan and under what conditions.[5]

Over time, the conditions under which the IMF provides funds have changed. Increasingly after the 1980s, the IMF provided funds *only* if countries agreed to adopt what have become know as **structural adjustment programs** (SAPs). Essentially, SAPs require governments to deregulate the economy, privatize the public sector or state-owned enterprises, reduce barriers to trade, cut government spending on social programs and social services, raise (usually noncorporate) taxes, and raise interest rates (see Stiglitz 2002; Gwynne, Klak, and Shaw 2003, 111–112). The SAPs not only represent the very opposite of what Keynes had in mind but are precisely the kinds of policies that open societies to the global system and deepen the intensity and extensity of global interactions.

International Bank for Reconstruction and Development (World Bank)

Keynes's other innovation was the WB, founded in 1946. As with the IMF, the WB was designed to prevent global depressions—and future conflicts—by lending reconstruction and infrastructure projects necessary for economic growth. Initially focused on rebuilding Europe after the devastation of the Second World War, the WB's focus expanded in the 1950s to include funding for projects to further industrialization throughout the world. Since its inception, the WB has created several additional departments to support private-sector investment and to provide insurance to foreign corporations investing in member countries.

As was the case with the IMF, the WB's mission shifted dramatically in the 1980s to focus more narrowly on making certain kinds of loans: structural adjustment loans (Stiglitz 2002, 13–15). Increasingly, both institutions concentrated on furthering the neoliberal policies of deregulation and global market integration by forcing countries to participate in the world economy under their rules. Today, the WB will provide funding *only* if a country commits to an IMF SAP.

General Agreement on Tariffs and Trade/ World Trade Organization

The third pillar of the Bretton Woods Trio was GATT. Created as a forum for negotiations on trade liberalization, its mandate was to provide a means to lower trade barriers through the establishment of multilateral trade agreements. The idea was to avoid the competitive trade policies that had hobbled the global economy before the Second World War (Ellwood 2002, 32). Always intended as a temporary agreement that would be replaced by a permanent trade organization, GATT was succeeded by the WTO in January 1995. Currently, there are 137 member-nations and 30 "observers" that participate in the WTO.

The WTO continues to function much as GATT did, as a means to lower trade barriers, with several significant differences (NAFTA can be understood as a smaller version of the WTO). First, the WTO has the official status of an international organization, rather than a loosely structured treaty. Second, the WTO's mandate has been vastly expanded beyond traditional commercial matters of **tariffs** and import **quotas** to include telecommunications, banking and investment, transport, education, health, and the environment (Ellwood 2002, 32). Third, the WTO is much more powerful than GATT. Armed with a **dispute settlement body** (DSB), the WTO has the authority to make binding judgments in cases where trade rules are subject to dispute (Held et al. 1999, 165).

Under current WTO rules, any form of regulation or standard can be challenged as an unfair impediment to free trade. General issues, including local content laws, direct and indirect government subsidies, and product labeling policies, as well as specific issues, such as regulation of chemicals in children's toys, can all be viewed as "unfair" trade policies. In contrast to GATT rules that required every member to agree on decisions concerning free trade, the WTO's DSB panel of corporate experts hears and decides cases behind closed doors. Once the DSB hands down a decision, it is final; the only way to nullify the decision is if *all* WTO members oppose the decision—a virtual impossibility, according to Ellwood (2002, 34).

Post-1945: Crisis and Change

Initially, the Bretton Woods agreements created a tripartite system of supranational institutions that allowed nation-states to set their own political and economic agendas. In Western Europe, Australia, New Zealand, and the United States, the interventionist Keynesian–Fordist strategy evolved within this global "macromanagement" framework to create what is often called the "**Thirty Glorious Years**." Between the 1940s and the 1970s, the strategy produced that stable and predictable world of near full employment and the expanding welfare system we mentioned in the last chapter. In the United States, this was a period of unprecedented upward social mobility for blue- and white-collar workers alike. Thus, individuals without high school diplomas, like those with high school diplomas and college degrees, could expect to step into jobs promising long-term security, jobs that would enable them to buy homes and cars, send their children to college, and retire comfortably.

All of this changed in the 1970s with the end of the Keynesian era. For Hayek, the demise of Keynesianism was an inevitable result; it is simply impossible to control markets without stifling individual initiative and economic growth. As we have suggested, however, the situation was more complex. Yes, Hayek and his students identified serious problems in the economy, but the problems they focused on were *symptoms* of the crisis, not the primary cause—globalization. As a result, the global economic integrationist tendencies and the dispersion of economic and political power were ignored. So, what were these twin processes of integration and dispersion?

Beginning in the 1950s and continuing through the 1960s, there was a dramatic expansion of private investment money, called "**Eurocurrency**." **Eurocurrency markets** developed out of money deposited in Western European banks by the Soviet Union,[6] and transnational corporations that did not want to send profits back home where they would be taxed. Eurocurrency markets grew as European banks lent out dollars they received rather than converting them into national currencies; in other words, a *parallel* source of funding emerged outside the control of national governments. Thus, investors could raise funds on the Eurocurrency markets that were not subject to national banking regulations. Eurocurrency markets expanded because they were a convenient and largely unregulated source for raising huge sums of money for large public corporations, private global corporations, and public authorities. With the growth of the unregulated Eurocurrency markets, there was increasing strain on the Bretton Woods system, which worked because it could control the international credit system. As the supply of "private" and "unregulated" dollars in the international system increased, the political institutional regulation of the Bretton Woods system eroded.

With the world's economies increasingly open and globally connected, inflation could no longer be controlled at the national level. Recall that one of the goals of the Bretton Woods system was to reduce international barriers to exchange. By the 1970s, these efforts had produced a much more integrated set of commodity, product, and capital markets. As a result, inflation could more easily flow throughout the system (see Gilpin 1987). As the United States tried to fund both the war in Vietnam and its Great Society social programs, its excessive monetary creation spread inflation throughout the global system. This, in turn, eroded global confidence in the U.S. dollar, which served as the basic currency for international exchange.

Finally, by the 1970s the U.S. economy was no longer the single most dominant economy in the global system. From 1960 to 1973, for instance, Japan's annual production of per capita goods and services increased four times faster than that of the United States and West Germany's grew more than twice as fast; between 1973 and 1988, Japan's level of production expanded five times and West Germany's four times faster than the U.S. economy (Craypo and Nissen 1993, 231, note 2). As the Japanese and West German economies grew, so too did imports into the United States, producing the first **balance-of-trade** deficit since 1893 (Cohn 2003, 167). By the mid-1980s, the United States was importing 26 percent of its cars; 25 percent of its steel; 60 percent of its televisions, radios, and tape recorders; and 53 percent of its numerically controlled machine tools. Twenty-two years earlier, imports had accounted for less than 10 percent of the U.S. market for each of these products. Overall, foreign-made products were competing with more than 70 percent of goods produced in the United States (Fraser 2001, 115).

Thus, by the 1970s Western Europe and Japan were challenging the dominance and ultimately the autonomy of the United States in the global system: (1) European and Japanese exports were successfully competing with U.S. products; (2) the vast amount of dollars held by Europeans (due to the Eurocurrency markets and the growing trade deficit) meant that European countries could use these holdings to control the value of the U.S. dollar.[7] These factors not only conspired to create the domestic problem of stagflation but reflected a diffusion of power in the global system. Finally, declining international barriers to exchange created a more integrated global system sensitive to national-level phenomena such as inflation.

Responding to these global changes, the Nixon administration suspended the official convertibility of the dollar into gold. The dollar quickly lost value vis-à-vis other major currencies, making U.S. exports cheaper and imports more expensive. It was hoped that this would improve the deteriorating U.S. trade position. Additionally, Nixon imposed a 10 percent surcharge on all dutiable imports, promising to remove it when other countries, such as West Germany and Japan, altered the "unfair" exchange rates that made U.S. exports expensive and Japanese and German exports cheap (Cohn 2003, 127–128). The immediate result of suspending the convertibility of the dollar into gold on August 15, 1971, was to shatter the Bretton Woods system (Gilpin 1987, 139–141).

The world of the 1970s was a changed one. The ability of the United States to control global economic and political events had declined, as evidenced by the taking of U.S. hostages in Iran, mentioned in the previous chapter; by the Organization of Petroleum Exporting Countries (OPEC) quadrupling the price of oil; and by the inability of the United States to win the war in Vietnam. At the end of the 1970s, the stock market was in a prolonged slump, the worst the nation had seen since the 1930s, interest rates were approaching 20 percent, inflation was close to 15 percent, unemployment was over 8.5 percent, and productivity continued to decline (Fraser 2001, 114). David Rockefeller, then chair of Chase Manhattan Bank, appears to have recognized the profound nature of these changes when he wrote in the bank's 1971 annual report: "It is clear to me that the entire structure of our society is being challenged" (quoted in Clawson 2003, 38).

With the crisis spreading throughout the increasingly integrated global system, politicians and political parties associated with Keynesianism suffered electoral defeats at the hands of market-oriented (neoliberal) politicians. Although Nixon formally ended the Bretton Woods era, the Bretton Woods Trio still existed and the rise to power of neoliberal politicians in the United States and England after 1980 allowed neoliberal politicians to place like-minded economists in charge of the IMF and WB. Recent WB Chief Economist Joseph Stiglitz (2002, 13–14) argues that the activities of the two institutions became increasingly intertwined in the 1980s and demonstrated a more ideological approach to global and domestic political policy than they had in previous decades. In contrast to the Keynesian idea that markets were a means to an end, the strategies of both organizations began to emphasize free markets as an end in themselves. The WB began to provide countries with funds for infrastructural projects *only* when the IMF gave its approval, and with that approval came IMF-imposed SAP conditions. As the global crisis of the 1970s deepened and spilled over into the 1980s, developing countries were even more in need of financial help and that financing came from the IMF and WB. Based on the new market ideology, the growing involvement of the IMF and WB in the financial affairs of countries extended and reinforced global integration and, thus, globalization.

The WTO and NAFTA

As we have discussed, the IMF and WB performed a central role in accelerating globalization, but what about the third leg of the triad: the WTO? We mentioned earlier that the WTO—and its regional counterpart NAFTA—continues to operate in much the same way as the GATT. Unlike the GATT, however, the rules of the WTO—and NAFTA—cover a vast array of issues previously the purview of the nation-state, including food safety, the environment, social-service policies, intellectual property standards, government procurement rules, and more.

For instance, the Chapter 11 provision of NAFTA states that no government may directly or indirectly nationalize or expropriate an investment or take a measure tantamount to nationalization or expropriation (Mooney 2001, Moyers 2002). Cases of nationalization or expropriation are heard in NAFTA's investor-to-state system. To date, however, the majority of cases have not challenged policies of nationalization or expropriation but have

focused on environmental laws, regulations, and other government decisions at the national, state, and local levels:

- Foreign corporations have taken two lawsuits they lost in U.S. domestic courts to be "reheard" in the NAFTA investor-to-state system, one challenging the concept of sovereign immunity regarding a contract dispute with the city of Boston and one challenging the rules of civil procedure, the jury system, and a damage award in a Mississippi state court contract case.
- The U.S. company United Parcel Service (UPS) filed a suit challenging the governmental provision of parcel and courier services by the Canadian postal service.
- A Canadian steel fabrication company challenged a federal "Buy America" law for construction projects in the United States.

Similarly, the WTO enforces "fair" trade throughout the global system with its general rules on trade or more specific rules, such as the Trade-Related Aspects of Intellectual Property (TRIP) agreements, which set enforceable global rules on patents, copyrights, and trademarks. Often, these rules are used to circumvent or obstruct the enforcement of local regulations or laws:

- Switzerland and the European Union challenged U.S. steel import duties that were introduced in March 2002 to protect the struggling U.S. steel industry. In fall 2003, the WTO ruled that the duties were "inconsistent" with trading regulations, requiring the George W. Bush administration to remove the tariffs.
- The U.S. Gerber Products Company refused to comply with Guatemalan infant formula labeling laws based on the World Health Organization/United Nations Children's Fund (UNICEF) "Nestlé's Code" on the grounds that the laws violated trademark protections provided in the WTO's TRIP agreement. While the local law may have withstood the challenge, the prohibitive cost of mounting an uncertain defense forced Guatemalan authorities to exempt imported formula from the law.[8]

Placed within the earlier discussion, these examples reveal something quite important about the present world; yes, globalization is increasingly interconnecting the globe, but the *way* in which the process has unfolded has been determined by specific rules and regulations. In contrast to what is often portrayed, globalization has been a politically constructed process dependent upon the opening of societies throughout the world, with the shift in ideology key to understanding the nature of globalization. Specific ideas emphasizing the centrality of markets to development and as solutions to unemployment and poverty underlie these policies and strategies. As the United States and England deregulated and privatized the labor and capital sectors, like-minded neoliberal technocrats placed in charge of the IMF and

WB globalized the strategy by requiring other societies to adopt similar policies. The results were to intensify and extensify global connectivity.

Conclusion

The often-used quotation from Thomas Friedman is a fruitful way to conclude this chapter. In his book *The Lexus and the Olive Tree* (2000, xxi–xxii), Freidman argues, "I feel about globalization a lot like I feel about the dawn. Generally speaking, I think that it's a good thing that the sun comes up every morning. . . . But even if I didn't much care for the dawn there isn't much I could do about it." Yet, is this an accurate description of globalization? As we have argued in this chapter, the current globalization trajectory, based on maximal market freedom and minimal state intervention, was neither inevitable nor apolitical; rather, it evolved within the context of changing technical, economic, and political conditions after the Second World War.

Changes in the role of the Bretton Woods Trio have been central to this process. None of these conditions alone would have produced the present globalization trajectory. In combination, however, they created what many still see as an inevitable and natural process of change that is much like the "dawn." The intertwining of these factors is evident on two levels:

> *The societal level*: Governments seeking international loans were compelled to adopt neoliberal policies of financial and market deregulation and privatization. These reforms created neoliberal states by opening often closed or heavily state-directed societies to global pressures.
>
> *The global level*: Neoliberal states pursuing neoliberal policies accelerated global capital mobility, global integration, and hence globalization.

Thus, as the basic forces of profit and competition operated under the emergent conditions of the post-1970s period, the present globalization trajectory took shape. Yet, even among those who agree that these dramatic changes have been a political construction, there is disagreement over whether these processes of change constitute globalization. As we discuss in the next chapter, the fundamental point of debate is whether *globalization* is an accurate term to capture these changes evident in the past 30 years.

CHAPTER 3

The Globalization Debate

In 1997 Max Perelman, a young U.S. college student, was traveling through remote regions of China. While stranded by winter weather in west Sichuan, fifteen hundred miles from Beijing, he encountered a group of Tibetans bound for Lhasa, their capital. Perelman recalled that these young Tibetans had never strayed far from their native village, and apparently had never seen anything like his camera. As they shared with him bites of meat from an unspecified animal retrieved from their rucksacks, the group began to discuss things American. Just how, one of the Tibetans asked Perelman, was Michael Jordan doing (LaFeber 2002, 14)?

Such vignettes are suggestive of the world in which we live. As Anthony Giddens (2003, 7) writes, "We are being propelled into a global order that no one fully understands, but which is making its effects felt upon all of us." Attempting to capture the nature of these effects, globalization has emerged as *the* concept by which we are to understand the transition of human society into the third millennium (Waters 1995, 1).

Intense disagreements over the meaning and usefulness of globalization have spawned a tremendously rich and often contradictory body of literature that does not neatly fit into existing categories, such as conservative, liberal, or socialist. Equally discomforting, no one account has achieved the status of orthodoxy (Held and McGrew 2000, 2–3). In this chapter, we sort through these inconsistencies and contradictions by focusing on how writers conceptualize and explain the economic, political, cultural, and inequality outcomes. Taking the lead from David Held and Anthony McGrew (2000), we categorize the authors into two general groups, distinguished by their assumptions and understandings of the processes of change: the **globalists** and the **skeptics** (see also Sklair 2000, Michalak 1994).[1] We begin by describing the positions of the skeptics and globalists and follow with an assessment of these arguments in the next chapter.