PART II
The Political Economy of Crisis

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Globalization: Waiting — In Vain — for the New Long Boom

ROBERT WENT

ABSTRACT: Upbeat predictions by international organizations and policymakers that because of globalization and new technologies a new global long boom is around the corner have not materialized, while social differences have increased. The reduced growth and increased inequality that we have seen since the end of the 1970s are not accidents or temporary phenomena, but structural features of today's capitalist world; prospects for a new worldwide long boom are therefore rather dim. This discrepancy between what is objectively possible and "really existing global capitalism" should increase the momentum of the international movement for a different globalization.

THIS PAPER ARGUES THAT the fall off of economic growth and increase in inequality that we have seen since the end of the 1970s are not accidents or temporary phenomena, but structural features of today's capitalist world. The virtuous cycles linking accumulation, rising productivity, economic growth and consumption that were characteristic of the postwar long boom — the so-called "golden years of capitalism" — have been broken, and a new self-reinforcing dynamic has developed in which finance is dominant and increasing social differences have become functional.[1] The first

1 Or in the words of James Crotty (2000, 4–5): "In the Golden Age, a *virtuous circle* was formed connecting rapid aggregate demand growth under government Keynesian macro policy

section sketches the record of neoliberalism over the last 25 years. The second section discusses the relation between neoliberal regime change and globalization. The third and fourth sections set out how globalization magnifies fundamental problems of capitalism. Finally, section five looks at prospects for the future.

1. *The Malign Record of Global Neoliberalism*

Because of major changes in the world economy — including liberalization of trade and financial flows, deregulation, privatization, and the introduction of new information technologies — international organizations and policymakers have become quite upbeat about the world economy's future. Their optimistic scenario is that a new global long boom — "where world GDP growth could be in the 4% per annum range and might lift world per capita GDP growth rates above the 3% mark" (Michalski, *et al.*, 1999, 8) — is around the corner. According to a study by the Central Intelligence Agency (2000, 34), for example, the "global economy is well-positioned to achieve a sustained period of dynamism through 2015. Global economic growth will return to the high levels reached in the 1960s and early 1970s, the final years of the post–World War II 'long boom'."

But why proponents of contemporary globalization expect their recipes to lead to a new "golden age" in the near future remains a mystery. The long global boom has not begun so far, after all, despite more than two decades of neoliberal policies. True, the restructuring of world capitalism since the end of the post–Second World War long boom has had an impact on profitability. International organizations and financial analysts have reported that profit rates have increased to levels comparable to those of the late 1960s (see, *e.g.*, Duménil and Lévy, 2000; Husson, 1999; 2001; Wolff, 2003). But this upswing in the rate of profit has not given rise to a new global

management, 'corespective' (or partly cooperative) relations among firms in important oligopolistic industries, and worker friendly or high-road enterprise–labor relations. In stark contrast, neoliberal globalization has created a dynamic interaction among pro-business states (that consider low inflation the only worthwhile macro policy objective), fierce or cutthroat competition in most globally contested markets, and anti-worker, low-road labor relations. This triad constitutes an economic *vicious circle* that makes it impossible to sustain rapid growth, full employment, high investment spending, rapid productivity growth, and distributional equity."

boom with increased worldwide economic growth. The IMF's *World Economic Outlook* (1999, 3) documents an average growth rate of world output in the 1990s that is below the average growth rate of the 1980s, which in turn is below that of the 1970s. This decrease of economic growth has hit advanced as well as developing countries, as can be seen from the data in table 1.

After having analyzed growth per capita data of 116 countries, Weisbrot, Naiman and Kim (2000) conclude that the "growth slowdown of the last two decades was a worldwide phenomenon." They calculate that countries for which data were available had an (arithmetic) average growth of output per person for the period 1980–2000 of 33%, while for the period 1960–1980 this was 83%. And William Easterly (2001, 135) comes to the conclusion that "in 1980–1998, median per capita [annual] income growth in developing countries was 0.0 percent as compared to 2.5 percent in 1960–79."[2] For Latin America, for example, Weisbrot, Naiman and Kim calculate a per capita growth of 75% for 1960–1980, and 6% for 1980–1998. Growth has especially slowed in the least developed countries, such as those

TABLE 1
Growth of Output, Population and Per Head Output in Advanced and Developing Economies (Annual Percentage Rates during Specified Decades)

	1970s	1980s	1990s
Advanced economies			
GDP	3.5	3.1	1.9
Population	0.8	0.7	0.5
Per capita GDP	2.7	2.4	1.5
Developing economies			
GDP	5.3	3.1	2.9
Population	2.3	2.1	1.7
Per capita GDP	3.0	1.0	1.2
World			
GDP	4.0	3.1	2.1
Population	1.9	1.7	1.5
Per capita GDP	2.1	1.4	0.6

Source: Patnaik (2003, 6).

2 For a balance sheet of neoliberal globalization, see also Pettifor, 2003.

of sub-Saharan Africa. While GDP per capita in these countries was still growing in the first period, by 36%, it has since *fallen* by 15%.

If we look at different regions of the world and compare GDP growth rates during the long post–World War II boom with the quarter of a century since then, we find that all but one region — where, incidentally, growth has subsequently decreased — have been affected by the falloff of GDP growth (see table 2). Freeman (2003, 153) calculates the outcome of this declining growth, which is that world GDP per capita has declined in the 1990s (see table 3). Not only has global growth gone down, but the same applies to capital accumulation, productivity growth, and real wage growth (see, *e.g.*, Crotty, 2000; Crotty, 2002; Felix, 2003). As is to be expected, the consequences of this decline are not shared equally but distributed very unevenly. This can be seen from the data in table 4.

More than two decades of global neoliberalism have led to an increase of inequality among and within (most) countries. As UNCTAD General Secretary Ricupero noted (UNCTAD 1997, 5):

> The big story of the world economy since the early 1980s has been the unleashing of market forces. . . . The "invisible hand" now operates globally and with fewer countervailing pressures from governments than for decades. Many commentators are optimistic about the prospects for faster growth and for convergence of incomes and living standards which greater global competition should bring. However, there is also another big story. Since the early 1980s the world economy has been characterized by rising inequality and slow growth.

TABLE 2
Annual GDP Growth Rates, 1950–1998

Regional groups	1950–73	1973–98	% change
Western Europe	4.81	2.11	–56.1
Western offshoots*	4.03	2.98	–26.1
Japan	9.29	2.97	–68
Asia (excluding Japan)	5.18	5.46	5.4
Latin America	5.33	3.02	–43.3
Africa	4.45	2.74	–38.4
World**	4.91	3.01	–38.7

* The U.S. and British dominions
** Includes the Soviet and ex-Soviet Countries
Source: Felix (2003, 10)

TABLE 3
Growth Rate of World GDP and GDP Per Capita in Constant 1995 Dollars Converted from National Currencies at Current Exchange Rates

	World GDP	World GDP Per Capita
1970–80	5.51%	3.76%
1980–90	2.27%	0.69%
1990–00	1.09%	–0.19%

Source: Freeman (2003, 153)

Data to support this analysis have also been presented by the UNDP (1998, 29), which notes that 20% of the world's population living in the richest countries increased its income from 30 times the poorest 20 per cent's income in 1960 to 82 times in 1995. World Bank economist Milanovic calculated, in a study covering 85% of the world's population from 91 countries, that the richest 50 million people in the world earn as much as the poorest 2.7 billion (Elliot and Denny, 2002). And to give another example, Weller, Scott and Hersh (2001, 7) conclude that the "distribution of world income between countries grew unambiguously in the 1980s and 1990s," with the effect that the rich countries have gotten richer and the poor countries have gotten poorer: "The median per-capita income of the world's richest 10% of countries was 76.8 times greater than that of the poorest 10% of countries in 1980, 119.6 times greater in 1990, and 121.8 times greater in 1999. The ratio of the average per capita income shows a similar, yet more dramatic, increase."

Sutcliffe (2003, 33) notes that exact conclusions about the change of global inequality are difficult to establish, because there are many data problems (see also Sutcliffe, 2001). But it is nevertheless possible to draw some general conclusions. Wade (2003, 40) recapitulates that

TABLE 4
GDP Per Capita in Constant 1995 Dollars

	1982	2000	% change
Rest of the world	1,457	1,116	–23.4
Advanced or advancing countries	15,383	26,134	+69.9

Source: Freeman (2003, 158)

"several recent independent studies, using different methodologies, different samples, different time periods, do find that world income inequality has risen since the early 1980s." And Pollin (2003, 133–136) illustrates with data that have been reproduced in table 5 that there really can be no doubt that inequality between the very rich and poor has increased over the neoliberal era. The only debate is whether China, which has grown while it did not follow neoliberal policies, should be included in the picture.

We should also realize that global inequality is even greater if we look at property and wealth.[3] "Affluent people typically have more wealth than annual income, while the poor normally own significantly less than one annual income," Pogge notes (2002, 98), quoting from the United Nations Development Program (UNDP) that the assets of the top three billionaires in the world are more than the combined GDP of all least developed countries and their 600 million people.

It is therefore no wonder that there is a growing sense among citizens all over the world that a central feature of today's globalized world economy is

> the egregious and historically unprecedented degree of global inequality — in income and wealth, and life chances broadly construed. Though inequality between the North and the South is particularly extreme, there are stark (and rapidly deepening) inequalities within each of these regions as well. (DeMartino, 2000, 218.)

TABLE 5
Change in Global Distribution of Income between 1980–98

	Including China	Excluding China
Income of richest 50% as share of poorest 50%	14% more equal	4% more unequal
Income of richest 20% as share of poorest 20%	30% more equal	8% more unequal
Income of richest 10% as share of poorest 10%	5% more unequal	19% more unequal
Income of richest 1% as share of poorest 1%	68% more unequal	77% more unequal

Source: Pollin (2003, 133)

3 Also, as, *e.g.*, Destremau and Salama (2002) argue, it should be realized that poverty has more dimensions than the monetary one.

This reality contrasts sharply with the beliefs and expectations of many economists, policymakers and opinion leaders about the effects of globalization. According to mainstream economic theory, more economic integration is supposed "to lift all boats" and to lead to convergence of growth, productivity and income levels.[4] But after more than two decades of neoliberalism the conclusion that "there are serious doubts about the empirical evidence on fast growth and convergence with the world economy becoming more open" (Rowthorn and Kozul-Wright ,1998, 9–10) seems an understatement.

2. *From "Golden Years" to Globalization*

Economic developments are neither random nor completely determined by general laws and tendencies: different historical periods can be distinguished in social formations. The best-known description of specific periods in the history of capitalism is the theory of Kondratiev cycles, which were discovered and discussed as early as the 1920s.[5] But the deterministic role assigned to technological developments by the Kondratiev cycles theory is very problematic, because technological developments are enabling but in themselves cannot account for the trajectory of economies. For as Perez (2002, 25) concisely argues,

> though technological revolutions are indeed profound transformations of the economy, the working of markets cannot by itself explain the recurrence of major crashes and depressions or the appearance of long-lasting centrifugal trends, turbulences and chaos, much less account for the return to prosperity. To explain the emergence of such wider phenomena affecting the very fabric of society the analysis must bring into the picture the tensions, resistance, obstacles and misalignments that arise from within the wider social and institutional scene.

4 Significantly, the International Fund for Agricultural Development (IFAD), a United Nations Agency, concluded in its Rural Poverty Report 2001 (www.ifad.org) that the modest pledge by international organizations such as the IMF and World Bank, to halve poverty by 2015, is doomed to failure: "Progress in reducing rural poverty has stalled. In the 1990s, it fell to less than one third of the rate needed to meet the United Nations' commitment to halve world poverty by 2015." Similarly, OXFAM (2000, 10) calculated that the actual rate of poverty reduction in the world from 1990 to 1998 was less than one-third of what would be required to meet the 2015 target.

5 The (possible) existence of such cycles is also known in mainstream economics thanks to Schumpeter, who gave them their name.

There is no spontaneous symmetry between (changes in) forms, scales, and rhythms of capital accumulation and institutional developments. The relationships of forces in and among capital, labor and social movements, among others, co-determine the concrete forms and contents of regulation and state functions. In the 1970s three alternative approaches — the Regulation approach, the Social Structure of Accumulation approach and a long wave theory (Mandel, 1972; 1995) — have been presented that do allow for a non-deterministic understanding of distinctive periods or stages in the history of capitalism. It is not always acknowledged, but these approaches have a number of features in common, which has incidentally already made some degree of cross-fertilization possible.

Based on these three approaches the following points can be formulated as a theoretical framework to analyze and compare different periods of capitalist development, and to make sense of their dynamics and inner conflicts.[6] There are, to begin with, general requirements for the reproduction of the capitalist system. However, capital accumulation is not simply an economic process. A wide range of institutions and social forces have to be taken into account in an understanding of how real economies operate. The concrete forms capitalism takes are therefore not defined exclusively by the necessities of accumulation, but depend on the changing relationship of forces within and among capital, labor and social movements. These three elements together form the dynamic structure of the system. It follows that while the concrete forms capitalism assumes are characterized by a dominant mode of functioning, the trajectory of capitalist development is not predetermined. Social actors have a certain relative autonomy and the outcome of their struggles is of essential importance for the development of the profit rate and the specific evolution of production relations.

For an understanding of the development and alternation of stages, it is necessary to differentiate between two kinds of economic stagnation. In addition to periodic crises — the business cycle — there are also long periods of structural stagnation, characterized by a significant reduction in rates of accumulation and economic growth over a longer period of time. The latter are harbingers of transitions be-

6 This — for space reasons rather schematic — presentation is based on chapters 5 and 6 of Went, 2002.

tween different stages of accumulation, and occur when processes of accumulation and institutions run into serious problems. Concretely, a new stage of accumulation has always begun up until now with a long period of expansion that is eventually followed by a long period of stagnation. This turn from expansion to stagnation occurs essentially because at a certain moment the inner conflicts of the capitalist mode of production can no longer be bridged over. This results in a fall of the profit rate, leading to a decrease in accumulation, stagnation of economic growth and employment creation, and changes in and a reconsideration of the existing relationship of forces in and among classes as well as economic, social, and political institutions. The resolution of stagnant (or depressive) phases has therefore as its basic preconditions a sharp rise in the rate of profit and a corresponding overhaul of former institutional forms.

Once economic stagnation has set in, a process of restructuring begins, which may give way to a new stage of accumulation and a new expansionist phase. However, since contingent developments of institutions and outcomes of struggles co-determine the conditions, supporting structures and institutions of capital accumulation, there is no guarantee that a successful new ensemble will emerge. There is therefore no reason to expect that the expansive and stagnant phases of a long swing will last any specific number of years, or that long swings will have the same duration.

With this framework it is possible to make sense of the qualitative changes that have taken place since the so-called golden years of capitalism came to an end in the early 1970s. The "long boom" of capitalism after the end of World War II has been described countless times, and can for example briefly be characterized as follows:

> National economies, even those in which markets played a very powerful role, were placed under the ultimate control of governments, while international economic relations were consciously managed by the International Monetary Fund (IMF) and World Bank. Western governments, with varying degrees of enthusiasm, lent support to unions, regulated business, tightly controlled financial markets, and built social welfare systems. They also began to regulate aggregate demand in pursuit of high employment and fast growth, a phenomenon known as the "Keynesian revolution." Business and financial interests accepted these changes in part because strong capital controls and low levels of trade and investment flows after the war left them without a credible "run-away" threat to undercut government economic

policies they disliked. The global prosperity that characterized the quarter century following the war — the so-called "Golden Age" of modern capitalism — reinforced the belief that market economies need strong social regulation to function effectively. (Crotty, 2002, 2.)

The particular set of institutions that supported this long boom ran out of steam in the mid-1970s. Worldwide, corporate profitability declined from the mid-1960s on, reducing accumulation and GDP growth. Capitalism has since then been restructured, and powerful economic interests have imposed a neoliberal agenda, adapted the role of international organizations such as the IMF and World Bank to their perceived interests, and rolled back the regulatory power of national governments (see, *e.g.*, Peet, 2003). A central outcome of this reorganization is that sales, finance and production have been internationalized to an extent that has never been seen before in history. Contemporary globalization is often compared with the internationalization of capital from 1870 to 1914. But different from that period, today's world economy is for the first time in history characterized by a combined internationalization of trade, finance and production, that is all three circuits of capital (Marx, 1884).

Not only is capital extending capitalist social relations to more and more people and more and more aspects of people's lives, so as to be able to accumulate; this process also entails expansion of the scale of production through the growth of individual capitals (concentration of capital) and the extension of command over capital via agglomeration of existing capitals, that is by way of mergers and acquisitions (centralization of capital). This state of affairs is the outcome of a long process of international concentration and centralization of capital (Mandel, 1972, 310–342).[7] The trend toward

7 Before the end of capitalism's golden years, Mandel (1972, 310–42) distinguished three stages in the concentration and centralization of capital. The early capitalist era of so-called free competition was characterized by relative international immobility of capital; concentration remained predominantly national and centralization exclusively so. The following era of imperialism saw an increasing international concentration of capital, but hardly international centralization of capital. As competitive struggles among the big imperialist powers and fights for control over geographical zones intensified, national monopolies were pitted against each other. Only in the decades after the Second World War did the international concentration of capital begin to develop into international centralization, as multinational companies became more and more the determinant form of big capital.

increasing international concentration and centralization of capital accelerated after the end of the postwar productive order in the mid-1970s. This is exemplified by the rapid growth in both number and size of the biggest multinational companies (MNCs) — the companies involved in international trade, finance and/or production. According to the authoritative *World Investment Report*, which is published annually by UNCTAD (2003, xvi), there are now over 64,000 transnational companies with 870,000 foreign affiliates.

A major feature of today's world is that, in contrast with capitalism's golden years, "the dynamism of direct investment has supplanted that of trade, and in its turn financial capital is piloting the redeployment of productive capital" (Boyer, 2000, 289).[8] As Kirshner (2003, 3) recapitulates:

> For most of the second half of the twentieth century, the real side of the economy dominated the agenda. International concerns centered largely on questions of trade, especially strategy, liberalization, and integration, while within societies lively conflicts over taxes, transfers, and subsidies defined the political scene. These issues have lost much of their salience over the course of the last decade and have been eclipsed by financial liberalization, monetary unification, inflation fighting, and central bank independence.

The globalization of finance means "that increasingly its dynamics serve as the engine of the global capitalist system" (Bello, *et al.*, 2000, 4–5). Global norms for yields and profitability play a central role, because banks

> draw and place funds within an essentially globalized payments system, and the terms on which they do so are externally determined. Central banks certainly have some influence on the day-to-day price of these funds, but this influence is tightly constrained and has to be exercised in a way that

8 Perez (2002) argues in her very stimulating book that about every half century the sequence *technological revolution — financial bubble — collapse — golden age — political unrest* recurs, based on causal mechanisms that are in the nature of capitalism. She argues that these mechanisms stem from three features of the system, which interact with and influence one another: the fact that technological change occurs via clusters of radical innovations; the functional separation between financial and production capital, each pursuing profits by different means; and the much greater inertia and resistance to change of the socio-institutional framework in comparison with the economic and technological ("techno-economic") sphere.

does not threaten the stability of bond yields. Bonds are not only globally traded but also globally priced, and bond yields establish a reference point, for any marketed credit instrument. (Grahl, 2001, 35–36.)

The obsession with shareholder value is therefore

not — or not only — an ideology, but a real consequence of financial globalization. It represents a new balance of forces between proprietors and managers, very much in favour of the former. And it is driven not only by the as yet very limited cross-border market in equities, but also by the global transformation of currency and debt markets in ways which universalize these pressures, even in economies where equity itself is traded predominantly among domestic agents. (Grahl, 2001, 40–41; see also Henwood, 1997.)

As a consequence of the pressures these mechanisms create, Boyer's observation (1996) that "bad capitalism" tends to drive out forms of "good capitalism" has become increasingly plausible.

The restructuring of worldwide capitalism since the mid-1970s has proceeded on the basis of a reduction of the power and influence of organized labor in major capitalist countries and a narrowing of the space for national development projects in the South. Fundamental changes in the conditions of accumulation have thus drastically shifted the relationship of forces to the benefit of capital, which has taken advantage of sharply increased unemployment and the debt crisis. The development of state functions and regulation reflects these shifts, and the unprecedented internationalization of capital since the mid-1970s has thus been accompanied by a rather one-dimensional or asymmetrical globalization of regulation and governance. The post–golden age world has seen a multiplication of attempts and proposals to promote, establish or redefine the tasks and forms of (existing) international organizations. But the serious initiatives have concentrated on encouraging and facilitating internationalization of the three circuits of capital: trade, finance (IMF), and production. These forceful initiatives have not been accompanied by policies to globalize social rights, or ensure provision of public goods, democracy and environmental norms. Pro-globalization ideologues claim that "free markets" will produce benign social outcomes; to not disturb that "invisible hand," international organizations that promote and facilitate such policies are therefore kept weak and almost non-existent.

3. *Three Problems of Free-Market Systems and a Political Trilemma*

This section and the following deal with how the neoliberal global regime magnifies the deficiencies of national capitalist economies. For this purpose it is helpful to first borrow from Robert Pollin (2003, 12–18) three fundamental problems that result from a free-market system: the "Marx problem," the "Keynes problem," and the "Polanyi problem."

The "Marx problem" is about the difference in bargaining power between employers and workers, because the latter have to sell their labor power to stay alive and generally have no other means to meet their needs. As Marx explained — and this can be seen in the real world every day — an increasing reserve army of unemployed and underemployed undermines the position of workers and their organizations.

The "Keynes problem" refers to important consequences of the fact that investment decisions are taken privately in capitalism. Because such decisions are always risky — among other reasons because you never know for sure what your competitors are doing — these investment decisions will fluctuate. As Keynes argued, declining investment can lead to more unemployment, less demand, reduced opportunities for profitable investment, less investment, and ultimately mass unemployment, financial crises and recessions. In addition, he warned that expanding financial markets — which serve, among other functions, to mitigate risk — may boost speculation, even to the extent that real economic activities become a byproduct of financial transactions.

Finally, the "Polanyi problem" refers to Polyani's argument that market economies need a minimum of fairness, and must therefore be embedded in social norms and institutions to keep "acquisitiveness and competition" from becoming dominant and making "life under capitalism a Hobbesian 'war of all against all'" (Pollin, 2003, 16).

As Pollin explains, none of these problems is fatal. With public regulation of and intervention in capitalist markets it is, *e.g.*, possible to reduce unemployment and speculation, to encourage stability in financial markets and economic growth, and to foster a more equitable distribution of income and wealth. Without prettifying the 1950s and 1960s (see, *e.g.*, Webber and Rigby, 1996), this is of course what we have seen to a certain extent during the "golden age" of capitalism after the Second World War. But public interventions to civilize capitalism during those decades were executed by governments within relatively closed national economies, a world environment that has changed considerably since then.

Dani Rodrik (2002) offers a useful conceptual tool to make sense of this change: Figure 1, which represents the "political trilemma of the global economy" (for more extensive treatment, see Went, 2004).

The basic idea behind this triangle is that the nation–state system, deep economic integration, and democracy — that is, among other things, the possibility to decide about economic and social priorities — are mutually incompatible. As Rodrik explains:

> We can have at most two out of these three. If we want to push global economic integration much further, we have to give up either the nation state or mass politics. If we want to maintain and deepen democracy, we have to choose between the nation state and international economic integration. And if we want to keep the nation state, we have to choose between democracy and international economic integration.

The base of the triangle represents the so-called Bretton Woods compromise, operational from the end of the Second World War to the mid-1970s. In that period cross-border capital flows were restricted, which left countries room to decide their own economic and social

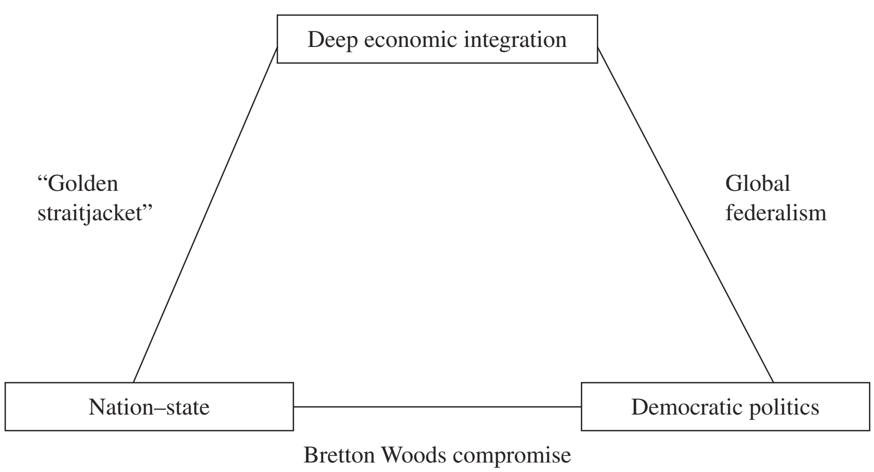

Figure 1: Pick two, any two
THE POLITICAL TRILEMMA OF THE GLOBAL ECONOMY

priorities and development paths. With the liberalization of financial markets and the neoliberal counter-revolution since the mid-1970s, most countries have now abandoned this option, voluntarily or after considerable arm-twisting from international organizations such as the IMF and the World Bank.

More and more countries have thus moved in the direction of the left side of the triangle, which Rodrik calls the "golden straitjacket," following Thomas Friedman. In a perfectly integrated world economy, individual nation–states have to focus on being as attractive as possible to international markets. Room for independent or deviant policy decisions is heavily curtailed, and public goods (for example) can only be provided as long as they don't go against the logic — and for that matter whims or herd behavior — of traders, investors, speculators and other big players on the integrated global markets. As Friedman (1999, 86–8) neatly explains:

> When your country recognizes . . . the rules of the free market in today's global economy, and decides to abide by them, it puts on what I call "the Golden Straitjacket." The Golden Straitjacket is the defining political–economic garment of this globalization era. . . . As your country puts on the Golden Straitjacket, two things tend to happen: your economy grows and your politics shrinks. . . . On the political front, the Golden Straitjacket narrows the political and economic policy choices of those in power to relatively tight parameters. That is why it is increasingly difficult these days to find any real differences between ruling and opposition parties in those countries that have put on the Golden Straitjacket. Once your country puts on the Golden Straitjacket, its political choices get reduced to Pepsi or Coke — to slight nuances of taste, slight nuances of policy, slight alterations in design to account for local traditions, some loosening here and there, but never any major deviation from the core golden rules. Governments . . . which deviate too far from the core rules will see their investors stampede away, interest rates rise and stock market valuations fall.

As his use of the word "golden" — instead of, *e.g.*, "leaden" — indicates, Friedman subscribes to the increasingly less credible sanguine view that the economic and social consequences of globalization are generally positive, and holds for example that "on the economic front the Golden Straitjacket usually fosters more growth and higher average incomes — through more trade, foreign investment, privatization and more efficient use of resources under the pressure of global competition" (Friedman, 1999, 87). But since the crises in Argentina and Brazil even leading economist Paul Krugman is no longer so sure:

> Why hasn't reform worked as promised? That's a difficult and disturbing question. I, too, bought into much though not all of the Washington consensus; but now it's time, as Berkeley's Brad DeLong puts it, to mark my beliefs to market. And my confidence that we've been giving good advice is way down. One has to sympathize with Latin political leaders who want to temper enthusiasm for free markets with more efforts to protect workers and the poor. (*New York Times*, August 9, 2002.)

Obviously, today's world economy is far from perfectly integrated. But very few people would disagree that the contemporary global economy taken as a whole is more internationalized than it has ever been before. And without subscribing to the exaggerated claim that nation–states have nowadays no power left (see, *e.g.*, Weiss, 1998; Weiss, 2003), the limitation of policy choices on a national level that Friedman describes is very recognizable (see, *e.g.*, Rodrik, 1997). The obvious answer to the curtailment of democracy on a national level as a consequence of economic globalization would be the concomitant development of democracy on a global level. As the Directorate-General for Economic and Financial Affairs of the European Commission (2002, 29) acknowledges in a study on globalization: "While internationally mobile capital and regulatory competition between countries can help to discipline governments and enhance the efficiency of public institutions . . . the political pressures created by the process of globalization could place national governments in a regulatory race to the bottom that reaches well beyond the sphere of financial markets."

When moving in this way to the third (right) side of the triangle, politics would not disappear but be relocated to the global level. "Under global federalism national governments would not necessarily disappear, but their powers would be severely circumscribed by supranational legislative, executive, and judicial authorities," Rodrik (2002, 16) holds. As logical as this may be conceptually, it is clearly not what we see in the real world. "If this sounds like pie in the sky, it is," Rodrik therefore assesses. And dashing hopes of future changes for the better, he prophesies that federalism on a truly global scale "is at best a century away."

4. *How Globalization Magnifies Deficiencies of Capitalism*

We will now consider how this global constellation works out for the three fundamental problems of capitalist market economies that have been introduced above. For the "Marx problem," to begin with, the main effect of neoliberal globalization is that the reserve army of labor is immensely expanded. As Pollin (2003, 54) registers, "firms can now *credibly claim* that their own relatively high labor costs will threaten their export markets and increase import competition from low wage competitors," while in addition firms can often *credibly threaten* to offshore parts of their production to countries with lower wages or less labor or environmental regulations. This does not mean that all companies are now "footloose" and can pack their bags and move to another economy instantly, nor that threats to make such a move are always credible and implemented (see, *e.g.*, Doremus *et al.*, 1998; Ruigrok and van Tulder, 1995). But the increasing globalization of trade, finance and production does seriously weaken the bargaining positions of workers and their organizations, especially when trade unions are hardly coordinating their activities across borders, as is unfortunately often the case.

Threats to offshore production — claiming, *e.g.*, that wages or taxes are too high, or unions are too influential — are often an effective tactic to intimidate workers into accepting less benign conditions. This is very understandable, because workers may lose their jobs and become unemployed, or only be able to get a less attractive new job. *Business Week* wrote, for example, that the McKinsey Global Institute calculated that only 36% of U. S. workers who lost their jobs because of displacements over the last two centuries found new jobs at the same or higher pay, while a quarter saw their income drop 30% or more (Kripalani and Engardio, 2003, 43).

The number of displacements and threats to offshore production will undoubtedly increase further in the coming period because more and more sectors are internationalizing. Not only has labor-intensive manufacturing internationalized; the same is happening more and more with capital-intensive production. And similar developments can increasingly be seen in the service sector, as noted in the *Financial Times* ("No End in Sight for America's 'Jobless Recovery'," January 10, 2004): "Speaking at a conference organized by the Computer Systems Policy Project, which lobbies on technology policy, Craig Barrett, chief executive of Intel, said: 'It had been assumed we had a lock on white-collar jobs and high-tech jobs. That is no longer the case. America now has to compete for every job'."[9]

Threats to move facilities or invest elsewhere also make local and national governments more inclined to soften environmental or labor regulations, or to increase subsidies or tax deductions for companies, because they are keen to attract new and to keep already existing foreign direct investments (FDI). As van den Berghe notes (2003, 262–3):

> Governments increasingly see FDI and international production by MNEs [multinational enterprises] as the motor behind, amongst others, employment generation. National and local governments increasingly adopt policies to attract FDI by foreign MNEs or to hinder existing MNEs from divesting in the national and local economy. These policy aims combined with a global market place for attractive investment sites for MNEs, facilitated by a general reduction of tariff and non-tariff barriers to trade in the wake of regional integration schemes and the liberalization of investment policies worldwide, have led to intense competition between regions and localities for FDI to generate jobs. These locational tournaments are reflected in the bidding wars for FDI trophies by offering attractive incentives to potential foreign investors (often in the form of fiscal incentives or investment subsidies).

More generally, none other than Vito Tanzi (2000) of the Fiscal Affairs Department of the IMF warns about a number of "fiscal termites" that are "busily gnawing" at the foundations of "the fiscal house" of countries, such as growing use of electronic commerce and electronic transactions, the increasing importance of off-shores and tax havens for financial investments, the growth of new financial instruments such as derivatives and hedge funds, the growing trade *within* multinationals (between different parts of the same firm in

9 Or as Kripalani and Engardio describe it (2003, 41–2): "Few aspects of U. S. business remain untouched. The hidden hands of skilled Indians are present in the interactive Web sites of companies such as Lehman Brothers and Boeing, display ads in your Yellow Pages, and the electronic circuitry powering your Apple Computer iPod. While Wall Street sleeps, Indian analysts digest the latest financial disclosures of U. S. companies and file reports in time for the next trading day. Indian staff troll the private medical and financial records of U. S. consumers to help determine if they are good risks for insurance policies, mortgages, or credit cards from American Express Co. and J. P. Morgan Chase & Co."

different countries[10]), and the growing inability of countries to tax financial capital. This means that it is becoming more difficult for national governments to counter the social consequences of globalization, just at the time when this is increasingly needed.[11]

This "fiscal termite-ism" is the first important dimension of the deepening effect of neoliberal globalization on the "Keynes problem," which incidentally also adds to the "Marx problem." For when governments are — or pretend to be — less able to intervene in the economy — stimulate demand in times of recession, or maintain social safety nets — the stakes for workers who are threatened with loss of jobs become even higher than they already were. Obviously, this increased risk generally plays into the hands of the management of companies.

Neoliberal globalization also magnifies the other dimension of the "Keynes problem" — the negative economic consequences of expanding financial markets for the stability of economies and real investments. Since the mid-1970s, barriers to cross-border financial flows have rapidly been torn down in an increasing number of countries. The immense internationalization of finance that followed "adds powerfully to the domestic exit options already available" to capital, and has constrained policy by increasing "the speed at which, the drama with which, and the costs imposed when financial markets bring retribution on governments whose policies are not deemed credible" (Glyn, 1998, 403, 408).

Finance has become dominant and real long-term interest rates have increased. The de-control of cross-border capital flows has

10 An investigation by the *Financial Times* (July 21 and 22, 2004) into corporate tax avoidance concluded that "revenue authorities are fighting a losing battle against tax arbitrage, whereby multinational companies locate revenues, costs, borrowing and profits in the most favorable jurisdictions for overall group profits." FT journalists Plender and Simons refer among others to a study of economists that estimated the total tax loss for the USA from artificial transfer pricing at $53 billion in 2001. "What is clear," they conclude, "is that the potential for tax arbitrage that results from globalization creates a considerable and continuing incentive for domestic companies to internationalize their business. The pressure on the global corporate tax base can only increase."

11 As the *Financial Times* editorialized ("No Need to Moan about Services," December 31, 2003): "The growth of foreign outsourcing seems bound to create upheavals in western labor markets — and pressures on governments. They can best respond with policies that maximize employment, innovation, creativity and flexibility." It should be added that upheavals are to be expected not only in the most developed countries but also in the developing countries, among others because "competition among workers in alternative low-wage countries or regions and among industrialized countries is greater than between high- and low-wage countries" (van den Berghe, 2003, 260).

weakened the power of central banks to influence long-term interest rates by setting short-term rates, because bondholders can now escape to foreign debt instruments with higher interest rates and favorable exchange rate prospects, as is shown by the explosion of international transactions in debt instruments (Felix, 2003, 17).[12] This increase in real interest rates has among other things depressed real investments and oriented many companies to more financial activities. As Guttmann argues (1994, 301):

> Hit by excess capacity and a much higher cost of capital, many firms hesitated to sink a large amount of funds into long-term investment projects with uncertain returns. Much of the income they amassed was reinvested instead in financial assets. Apart from being more liquid, these also promised a chance for higher returns within a short period of time than industrial investments.

As a consequence, a rising share of economic resources has been drawn into financial activities. High real interest stimulated a redistribution of profits and wealth from the productive sector to the financial sector (van der Pijl, 2001). Brenner (2004, 76–7) reports for example about the USA that between 1994 and 2000 profits for the financial sector doubled. During these years the financial sector accounted for 75% of the increase of corporate profits, and this increased further to 80% between 2000 and 2003.

Epstein and Power (2003) present for OECD countries estimates of rentier income, defined — following Kalecki — as the income received by owners of financial firms plus the return to holders of financial assets generally. Their data show that, despite variety, in many countries rentier shares of income began to increase significantly in the late 1970s or early 1980s. When capital gains are included in the calculation, the rise of rentier incomes for most countries for which they have data continues until the late 1990s.[13]

12 Felix (2003, 16) reports the following real interest rates on 10-year government bonds minus the real GDP growth rate for the G7 (unweighted averages): 1881–1913: 0.97%; 1919–1939: 2.40%; 1946–1958: 0.36%; 1959–1971: –3.23%; 1972–1984: –1.67%; 1985–1997: 2.15%; 1998–2002: 2.08%.

13 "An important exception to this generally upward trend (since the early 1980s) of rentier incomes, are semi-industrialized countries that have experienced significant financial crises. These countries have seen a decline in their rentier shares. This suggests that the interest of local rentiers — particularly in the developing world — and those of international rentiers, might not be fully aligned. This is especially the case in periods of financial crisis" (Epstein and Power, 2003, 4).

Both domestic and external financial liberalization contributed to this rise of rentier income via a number of mechanisms. Banks and other lenders could raise nominal interest rates thanks to financial liberalization, which in turn contributed to higher real interest rates. In addition, financial liberalization allowed financial firms to innovate with new products and expand to new markets, which lead to new opportunities for profits. And third, because financial liberalization creates more financial instability economic actors need more financial products (*e.g.*, derivatives) to insure against this volatility. Einstein and Power (2003, 9) conclude that "this process represented a kind of virtuous circle of liberalization, instability, more financial activity, more profits for financial firms. These firms often lobbied for more liberalization which then led to a further running of the cycle."

This dominance of finance has negative effects for nonfinancial corporations. As Crotty (2002) argues, these firms are confronted with a shift from "patient finance" that seeks long-term growth to "impatient finance" that is hunting for short-term profits, as reflected in the gross overrating of the importance of the stock market for the real economy (see Henwood, 1997) and concurrent fixation on "shareholder value." Because global demand has also slowed down and international competition has increased, nonfinancial companies face what Crotty (2002, 4–5) calls a *neoliberal paradox*: international competition has made it very difficult for most NFCs to achieve high earnings, but financial markets demand that their profits increase endlessly, on penalty of falling stock prices and hostile takeovers. Because of the negative effects this has for start-up firms and long-term investments, researchers of a very mainstream Dutch research institute for small and medium-sized enterprises have argued for such nonconformist proposals as restriction of more speculative stock market trading strategies, and a minimum number of days for buyers of shares to hold their stock before they are allowed to re-sell it (van Hoesel, Jaarsma and Meijaard, 2001).

For all that, the fact that the financial sector is dominant does not mean that all non-financial companies are suffering. Epstein and Power (2003) find little evidence that increased profits in the financial sector have in general come at the expense of profit-shares of non-financial companies. They suggest therefore that there is a material basis for unity, rather than rivalry, between industrial and finance capital. No need to argue that labor must foot the bill when both financial and non-financial companies increase their profit shares.

Finally, after the introduction of the "political trilemma of the global economy" in the previous section, not many words are necessary to explain how neoliberal globalization amplifies the "Polanyi problem." As we have seen, contemporary globalization reduces economies' room to maneuver and limits the space for independent policies and democratic control on a national level. A global substitute for the provision of social policies, public goods and environmental norms is, however, not even in the making in the foreseeable future. Reflecting the current relationship of forces between capital and labor, regulation and governance are asymmetrically globalized primarily to facilitate the increasing internationalization of trade, finance and production, that is the three circuits of capital. The minimum of fairness and embedding in social norms and institutions that economies need, according to Polyani, to avoid a war of all against all, is therefore seriously undermined on a national level without alternative provisions internationally, as is shown by increasing social differences and environmental degradation.

5. *What Future?*

So where will all this bring us in the coming period? The dominance of unleashed international finance has far-reaching consequences for the perspectives of the global economy. As Henwood (2003, 203) argues:

> Financial power is about more than monetary transfer; financial claims confer real authority on their owners. Stockholders have demanded steadily higher profits, which kept corporations downsizing and outsourcing even in the best of times. Bondholders have pressured state and local governments to trim their budgets. Bankers and bondholders (in alliance with state institutions like the IMF) have forced severe economic restructurings on debtor countries.[14]

The rise in inequality of income and wealth in and among countries since the end of the post–Second World War boom has thus become

14 Or as Kirshner states (2003, 3): "Monetary phenomena are *always* and *everywhere political*."

self-reinforcing, that is an important element in the logic of today's world economy. Different from the golden years of capitalism after the Second World War, growth in global demand is now increasingly dependent on rentier income, on the development of stock markets and other segments of the financial sector, and on expenditure by the well-off.[15]

The net result is that economic growth has slowed since the 1970s, while billions of global citizens lack basic provisions of health care, education and a minimal income to live on. Crotty (2000, 29–31) identifies six factors that have contributed to this depression of global growth: 1) slow growth of wages and of mass consumption (smaller productivity increases, higher unemployment, a less favorable relationship of forces for labor); 2) the evolution of the financial sector (high real interest rates, central banks obsessed by inflation, the rise of rentier interests); 3) the pace and character of global investment (retarded by the slow growth of aggregate demand, and more labor-saving); 4) an increasingly restrictive fiscal policy[16]; 5) increased weight of international institutions such as the IMF and World Bank (dictating austerity programs to developing countries); and 6) weakening of East-Asian type models of state-guided development.[17] As these factors are not temporary but enduring and supported by vested interests, the upshot can only be that prospects for a — regularly prognosticated — new worldwide long boom are rather dim.

15 Perez (2002, 100, 109) argues that every "great surge of development," a term she now prefers over "long wave," has had such a period of "frenzy" in which "the rich get richer and the poor get poorer," with financial capital as accelerator. "Frenzy is the true 'gilded age,' the golden shine on the base metal heart. Love of money flourishes more than at any other phase and the ways of acquiring it in limitless quantities recognize no boundaries. Individual interest is glorified; social interest scorned. Being rich is being 'good'; anything else is failure. The ethics of success at any price are the only valid norms. That is the attitude driving the ample diffusion of the doubtfully legitimate financial practices developing in the gambling context of the frenzy phase."

16 The restrictive "Maastricht criteria" and misnamed "Pact for Stability and Growth" that member-states of the European Union have encapsulated themselves in, is a case in point. See www.epoc.uni-bremen.de/home.htm of the "European economists for alternative economic policies in Europe" for annual Euromemoranda, signed by a couple of hundred progressive European economists, with criticisms of these EU policies and alternative proposals for full employment and more social equity.

17 See Chang (2002) for an excellent exposition of how rich countries and organizations such as the IMF and World Bank demand so-called "good policies" and "good institutions" from international organizations that developed countries did not themselves use when they were still in the process of developing.

As for alternatives to neoliberal globalization, this analysis suggests that the nation–state remains an important terrain for decision-making and therefore for struggles, which should not be sacrificed to the globalization of financial markets, more international trade or bigger and more numerous multinationals. The deepening of economic integration should not be a mantra or good in itself, but made conditional on its effects on the social and environmental rights of the peoples in the world and on their possibilities for democratic control. From this perspective, proposals to restrict the power of international finance, such as capital controls and governmental control over foreign direct investments, will have to be part of alternatives to the current economic world order. Also, developing countries should have the right to decide themselves to what extent they want to open themselves up to international trade and financial flows. For without this right they will never be able to develop, as the already developed countries should remember from their own experience. However, since many questions have to be solved on regional or global levels and many multinational companies escape from the control of national economies, to stick to or even idealize the national level is a dead end.[18] It is not difficult to see that multinationals will become even more powerful without international approaches to control them, and to globalize social rights, basic requirements and public goods (see DeMartino, 2000, ch. 7).

Over the last few years neoliberal globalization has lost much of its appeal. "Really existing global capitalism" has provoked many protests, criticisms and proposals for alternative policies from social movements, non-governmental organizations and scholars.[19] A promising new international movement has thus developed that is mobilizing against all kinds of consequences of neoliberal globalization, inventing new international forms of struggle, and developing alternatives, for example at the World Social Forums and regional assemblies. This is not a marginal movement, as shown by the fact that doubts and skepticism about neoliberal globalization have reached the broader public. In a European Commission opin-

18 See chapter 4 of Henwood, 2003 for a critical discussion of antidevelopmentalist and nationalist criticasters of globalization.

19 This vindicates Polanyi, who insisted that "for every movement towards marketization there would be an opposing force to re-embed economics in social relations — producing a powerful and destabilizing double movement" (Best, 2003, 364).

ion poll about globalization in November 2003, for example, 63% of EU citizens expressed their support for globalization, while no less than 79% endorsed the idea that politicians must listen more to activists struggling for a different globalization, because they are experts on undesirable effects of globalization (*Financieel Dagblad,* November 22, 2003).

The so-called "anti-globalization" movement — a misnomer because it is predominantly not against globalization in general but for a different globalization[20] — has already occasionally succeeded in limiting the scope of neoliberal projects, and has put the inhuman face of contemporary globalization on the agenda of many policy makers and international institutions. This has, of course, not yet led to major changes. Alternatives to the current economic and social world order will require a turnaround of the current political and ideological relationships of forces, and we do not seem to be near such a turn.[21] The subjective obstacles to more fundamental changes should not be underestimated. Most importantly, there simply is no credible overall alternative in existence. In addition we should realize, as Wright and Brighouse (2002, 216) argue, that capitalism will not collapse on its own; ruptures with capitalism will have high transition costs; the rise of inequality in recent decades has strengthened an inegalitarian coalition; and a significant part of the population of developed countries is doing quite well, while the majority has a standard of living that is well above the poverty line. Not only is a new long boom remote, therefore, but the same also applies to the implementation of more equitable and sustainable alternatives.

However, the international movement for a different globalization should be able to grow further in the coming period on the basis of widespread, increasing discomfort and discontent with aspects and consequences of the world as it has developed. Based on these

20 In a portrait of the international movement for a different globalization, even the *Financial Times* noted (September 11, 2001): "Nor is it strictly speaking 'anti-globalization.' The vast majority of activists are pro-globalization, indeed products of it."

21 Perez (2002, 165) argues that a "new line will be drawn between those who look back with nostalgia, trying to hold on to past practices, and those who embrace the new paradigm and propose new institutions to fit the new conditions. This blurs the previous connection between certain values or goals and the specific means of attaining them. Though the goals may remain unchanged, the adequate and viable means to pursue them change with each paradigm shift. This can lead to temporary confusions, internal confrontations, divisions, revamping of traditional parties, new movements and other forms of realignment, which are likely to redefine the political spectrum for the following decades."

new experiences, movements and proposals for alternatives can then become more united and coherent, showing — contrary to what Margaret Thatcher claimed — that a different world is indeed possible.

Faculty of Economics and Econometrics
Universiteit van Amsterdam
Roeterstraat 11
1018 WB Amsterdam
The Netherlands
r.c.p.m.went@uva.nl

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