A WORLD MARKET OF OPPORTUNITIES?
CAPITALIST OBSTACLES AND LEFT ECONOMIC POLICY

Gregory Albo

As Ralph Miliband observed in his last book, Socialism for a Sceptical Age, the socialist project for a radical social order of equality has rested on two central propositions: capitalism constitutes a massive obstacle to resolving a range of social evils and injustices; a socialist alternative makes possible a resolution of these offences and inequities.' The pessimism that infuses the Left at the end of the century is founded, in the first instance, in the reassessment of capitalist market processes as more efficient in meeting human needs than previously conceded and, moreover, capable of extensive institutional variation so as to allow egalitarian policy outcomes without confronting capitalist social power. Economic efficiency can be combined with social equity.

It is further argued that socialist economic policy is, in any case, no longer capable – if it ever was – of advancing solutions to the injustices of capitalist markets (let alone of offering a plausible alternativesocial order). This political qua policy impotence is due, in large measure, to the formation of a world economy that provides an overwhelming external constraint to policies that are inconsistent with the irreversible processes of globalisation. The crisis years after 1974 have ceded, moreover, to an era of restabilized capitalism, ascendant and embraced in all comers of the world. So even if there is a margin of manoeuvrability for national economic policies, as Paul Hirst and Grahame Thompson assert (to cite a much noted recent example), this is merely a question of further building 'extra-market institutions' to manage the new conjuncture as capitalist markets have proven their greater inherent efficiency and dynamism.² If there are injustices still residing in capitalism, and even New Labour concedes there are, these are best resolved by measures that work with rather than against markets. Egalitarian policy measures should thus only seek to equalize market opportunities through widening the 'stakes' in capitalist enterprises via employee share ownership plans, self-employment initiatives, life-long training accounts, and the like.³ To
uphold socialist propositions in the face of the prevailing political consensus is, as Miliband himself recognized of the predictable charge, 'to demonstrate a lamentable lack of realism.'"

In the advanced capitalist countries, this broad disillusionment with left economic policy is deeply entwined with the last two decades of social democratic setback and retreat followed by further openings to the disciplines of neoliberalism and the world economy. The electorally most successful case of social democratic governance over this period, the example of Australian Labor, has only offered, in the brilliant analysis of John Wiseman, a 'kinder road to hell' of cutbacks and austerity in its efforts to recast itself as an 'East Asian capitalism.'" Labor's defeat at the polls in 1996 promises to veer Australia down the even more treacherous path of neoliberal austerity in a desperate effort to maintain a faltering external competitiveness. The postwar social democratic strongholds of Austria and Sweden have their governments extensively scaling back their welfare states, disposing state enterprises and adopting the neoliberal policy stance of economic openness and flexible labour markets. With the external sector bursting from capital outflows and unemployment at pan-European levels, it cannot seriously be maintained, as so many on the Left still attempted to do even during its 1980s breakup, that the Swedish model is still alive and prospering." A similar story could be told of the Rhineland Model of Germany, which has all of Sweden's problems and others. Its 'concertation capitalism' has witnessed over the last year increasingly ferocious efforts by employers to scale back employee benefits and involvement. Ever alert to new opportunities to proclaim that the legacy of reform is being cast aside, New Labour's Tony Blair, on a visit to Wall Street in April 1996, drew the lessons from these experiences that a social democratic Britain 'must be competitive internationally to help attract international business investment. I am a passionate free trader and unashamed anti-protectionist.'"

The divergent economic trajectories after 1974 that first seemed to characterize social democratic governments like Sweden's and technologically-ascendant economies like Germany's now only seem to be alternate routes converging in neoliberalism. Indeed, the varied experiences of the 'previously existing socialisms' of Eastern Europe and the anti-imperialist nationalisms of the Third World also appear to represent no more than circuitous and calamitous routes to ending up on the same capitalist road. The world economy in the 1990s accommodates, it seems, only one model of development: export-oriented production based on flexible labour markets, lower real and social wages, less environmental regulation and freer trade. Neoliberal economic strategies are proposed for political and economic conditions as vastly different as those faced by the new ANC government in South Africa, the Forza Italia centre-Left coalition and
transitional economies like the Czech Republic and Hungary.

These concessions to the imperatives of the law of value in the world market – 'we are powerless, there is no alternative' – has been met with a mixture of rejoicing and submission. The leading neoliberal periodical, The Economist, has exulted in the transformation so that today – without even a hint of reflexive irony – the central political 'challenge is to help the global capital market to become more effective in encouraging good behaviour [by governments].' The 'shock therapy' strategy for integration into the world economy is simply, as its foremost strategist Jeffrey Sachs puts it, the most efficient means to gain the 'organizational methods and financial capital needed to overcome the dismal economic legacy of the past forty years.'

The Left has met these developments with far more resignation but with the same sense of inevitability. A stalwart American liberal such as Robert Reich baldly concludes that 'as almost every factor of production ... moves effortlessly across borders, the very idea of an American economy is becoming meaningless.' Fritz Scharpf, a leading strategist of the German SDP, voices what is often convention on the Left that 'unlike the situation of the first three postwar decades, there is now no economically plausible Keynesian strategy that would permit the full realisation of social democratic goals within a national context without violating the functional imperatives of a capitalist economy.' Social democracy must rethink its traditional aspirations to accommodate the new imperatives of global capitalism to maintain, at least, 'socialism in one class.' The only egalitarian policy that it is possible to pursue in the context of internationally mobile capital – and Scharpf is more ambitious than most – is one that redistributes income and jobs among workers as 'growth rates are inadequate and because the distributive claims that capital is able to realize have increased.'

Yet, to make any sense of these formulations, a further set of premises must be held. The present geographical expansion of accumulation must be seen, for instance, as an irreversible process that reflects economic dynamism and stability supplanting instability and crisis. It must be argued additionally that any specific constraints to economic stability can be overcome by policies that further expand global market opportunities. Neoliberals argue for free trade and the deregulation of labour markets as the means to surpass the constraint of limited markets; social democrats opt for policies to train an insufficiently skilled workforce to overcome market constraints on labour adjustment. Within these confines economic policy disputes do indeed go 'beyond Left and Right,' as Anthony Giddens phrases it; they are limited to the issue of which specific constraint should be acted upon and the relative speed of flexible adjustment of market processes. But no one disputes that flexible adjustment of markets will eventually occur to allow the harvest of globalisation to be reaped.
A final premise is that capitalist globalisation represents a historically **progressive** development such that traditional socialist economic objectives, on grounds of political necessity and economic soundness, must be rejected as hopelessly flawed. There is no political need for the Left to put forward policies that encroach upon capitalist social property relations beyond that of a 'stakeholders' **capitalism**.'

Indeed, the principal struggle for socialists today, as writers from as diverse methodological backgrounds as Andrew Gamble and John Roemer have advised, should be limited to the Pareto-optimal distribution of 'ownership rights' between workers and capitalists in internationally competitive enterprises.

There is good reason, however, to at least qualify, perhaps even to reject, each of these premises about internationalisation. This essay will, first, briefly recall the instabilities that still reside at the centre of the world economy and the limitations of neoliberal adjustment measures. It will then question the claims made by social democratic economic policy advocates that only **specific constraints** need to be overcome to re-establish stability, concluding that Miliband's first proposition on the obstacles that capitalism poses **as a system** cannot be relinquished. Finally, an outline of emerging alternative principles for socialist economic policy to confront these obstacles and constraints will be presented. Rather than a world economy being a new opportunity, contemporary internationalisation of markets is a contradictory 'space of flows' between the 'spaces of places of production' that are constituted by the specific territorially-embedded conflictual social property relations of **capitalism**.

The economic programme of the Left cannot, following Miliband's second proposition, put to the side questions of market disengagement and the democratic organisational forms that will permit the **transition** to a more fundamentally egalitarian and co-operative economy.

### I. Neoliberalism and Imbalances in the World Economy

The neoliberal claim that market exchanges always tend to arrive at equilibrium depends upon a number of highly abstract assumptions; it is embedded in deductive models which, however rigorous, are set outside of concrete time and space. The neoliberal position begins from the proposition that overcoming the constraint of **limited markets** is central to resolving unemployment and trade imbalances. Capitalism is an economic system best understood as a process of free individual exchange operating in competitive markets. According to individual behavioural preferences, **individual** economic agents save, innovate and form firms to purchase labour; others prefer leisure, consumption and sell to their labour. In accord with the famous law of Say, all demand is effective demand; and if prices are not constrained flexible adjustment in competitive markets will ensure...
that all needs are satisfied and all markets clear. Unemployment is the 'mutual' and 'voluntary' product of limitations of local labour market flexibility and the global competitiveness of firms. The role of trade in expanding market opportunities and reallocations resources on the basis of Ricardian comparative advantage – that is, specialization in production where relative cost advantage is highest produces shared output gains for trading nations – depends on free trade in commodities and financial liberalisation to ensure that 'savings are directed to the most productive investments without regard for national boundaries.' Globalisation is, in other words, capitalism surpassing the limited market constraint on the division of labour: it is a market of expanding opportunities.

There are many angles from which to address strong objections to this idealised view of market processes always balancing. An unemployed worker willingly willing to work for a lower real wage, for example, does not itself lead to a job offer without resistance from existing employees whose jobs he may take away or whose wages may be cut. From the firm's perspective, given the incompleteness of market information, a low wage offer often — signals lower labour quality and hence a less employable candidate. Such lack of flexible prices world raises, of course, the traditional Keynesian argument that decreasing real wages in rigid labour markets not only fails to increase employment, but it also takes demand out of the system causing a further increase in the jobless. This is not to say that wage-cutting does not occur as unemployment levels rise, but that quantity adjustments are as important as price movements so that market-clearing is unlikely to be smooth and instabilities may be compounded. The trend claimed to have caused the real wage rigidity of the 1970s – demographic bulge, welfare and unemployment insurance rates, trade unionization – have been reversed and inflation has fallen to some of its lowest levels in over half a century but OECD area unemployed reserves remain high and climbing. As David Gordon acidly noted, it is more accurate to speak of a 'rising natural rate of unemployment' with no acceptable neoliberal explanation, except the preposterous notion of an exogenous shift in the preference functions of individuals toward more unemployment.

The existence of unemployment, whether from wage rigidities or information asymmetries, poses a serious problem for free trade policy. For comparative advantage to hold each country is assumed to have full employment and to be producing on their production possibility frontier, that factors of production are completely mobile internally and subject to perfect competition, that monetary fluctuations do not occur and trade is balanced. None of these, of course, are real world assumptions. Predictions from free trade theory, such as output and employment smoothly expanding in new export sectors, or no country consistently running surpluses or deficits, have only the most brittle historical foundation: they are only assert-
tions that in the long run it will all work out. The case for protectionism, or at least for the regulation of trade, is on stronger theoretical grounds purely in terms of employment considerations alone. Even granting all the assumptions necessary for static gains from trade, trade balance depends upon processes of adjustment occurring in actual societies and through history:

\[ \text{workers everywhere must have the capacity to raise wages and rates of technical progress must equalise over time or else competitive advantage and trade surplus will become cumulative.} \]

raising structural trade imbalances and problems of employment in deficit countries. The deficit country with strong trade unions and high money wages will be forced to adjust, but not the surplus country with weak unions and low wages. It is always difficult to impose appreciation or expenditure increases on surplus countries, as the U.S.-Japan trade rivalry over the last decade indicates. There is instead a tendency for competing countries to match devaluation and austerity to avoid large losses. Indeed, this becomes an imperative as economies become more open. In other words, trade liberalisation, especially in a climate of uncertainty and unemployment, tends to reproduce the same effects as protection: everybody attempts to export unemployment but now through competitive austerity which limits domestic demand for imports and improves the price of exports.

While international exchanges have grown tremendously, vastly outstripping the growth of the real economy, the argument that global markets ‘provide healthy discipline which in the long term will encourage better economic policies and performance’ cannot be sustained in the face of growing evidence of unevenness and instability rather than equalization and equilibration. Economic openness as measured by dependence on exports has increased from under 30 per cent in 1950 to almost 40 per cent by 1994 in the six largest OECD countries, with trade volumes in the U.S. alone doubling since the early 1970s. Structural trade imbalances have become a key feature of the world economy. The Third World debt crisis remains unresolved: total debt levels have continued to rise, and debt servicing in terms of GDP remains where it was when the debt crisis began in the early 1980s. As important for global imbalances, the structural current account deficit that the U.S. has been running since the early 1980s has made it the largest debtor in history. In contrast, Asia and Japan in particular have been running current surpluses. The clearest measure of the problem is that financial flows, in all forms increasing exponentially over and above trade volumes, have assumed ever greater salience in any calculation of global economic activity. International banking, for example, at the peak of the boom in the 1960s accounted at about 1 per cent of GDP of market economies while it now measures more than 20 per cent. Foreign exchange transactions are exceeding $1 trillion U.S. daily reflecting an explosion in speculation in global equity, bond and currency markets.
Financial movements of this order are completely out of any rational balance when trade volumes are only $3.5 trillion yearly. These trends certainly indicate a growth in interdependence of production zones through economic flows, but as much as a symptom of disarray, instability and stagnation as of dynamism.

As the economic crisis developed from the 1970s into the 1980s, the advanced capitalist countries turned to policies of disinflation. International trade became a competitive battle for market share and unit labour costs in a futile effort to maintain domestic employment. The mounting trade deficits of many countries—which floating exchange rates were promised to stabilize but failed miserably—were added to fiscal deficits arising from slow growth. As Paul Sweezy has argued, the financing of these deficits meant that international credit markets boomed but increasingly apart, and often directly at odds, from developments in the real economy. Yet rather than stabilize aggregate demand or the external sector, by the mid-80s all the advanced countries had begun to adopt supply-side policies of cutting wages and welfare, adding competitive capacity and financial liberalization. Third World countries went through a similar process of structural adjustment as import-substitution industrialization policies were abandoned for export ones to pay off credits. In other words, all countries were putting more resources into the external sector while cutting domestic demand. This could only increase volatility in the international market and the capacity of interdependent financial markets to transfer swiftly any economic instability across the world economy. In the 1990s most Latin American and African economies continue to be extremely depressed. All economies in Eastern Europe remain well below the pre-shock therapy output peaks of the 1980s. Stagnant growth and wage depression encompass all the advanced countries, including Northern Europe and Japan. Yet even more resources are being redeployed to the external sector at the same time as austerity policies dominate corporate wage-setting and government economic strategies.

We should be extremely careful to avoid attempting to explain every recent turn— from the collapse of state plans in India to unemployment protests in Paris to the defeat of a universal health plan in the U.S.—in terms of the forces of globalisation. It is difficult not to record, however, that a stable alternative for capitalist expansion is far from being achieved. Yet the imperatives of the world economy compel that this unstable process be kept going. Nobody is willing to break ranks first, which is understandable in light of the sanctions that would be viciously meted out by global markets. But this is not warrant to engage in the pretence that imbalances are being overcome, that neoliberal policies are theoretically coherent, that globalisation is irreversible or that labour market adjustment is producing socially just outcomes.
II. Open-Economy Social Democracy

The problems associated with market adjustment to imbalances of trade or unemployment have a lot to do with the fact that economic processes occur in real historical time rather than the timeless space of neoliberal equilibrium models. In discussing the future of the international payments system after the war, Keynes charged that 'to suppose that there exists some smoothly functioning automatic mechanism of adjustment that preserves equilibrium if only we trust to methods of laissez-faire is a doctrinaire delusion which disregards the lessons of historical experience without having behind it the support of sound theory.' In the real world, capitalist techniques and workers' wage demands do not alter instantly with excess labour supply; currency devaluation does not necessarily produce expenditure-switching to domestic industry or export demand: in the Keynesian view, relative price adjustments to restore equilibrium take time to work themselves out in a world of uncertainty.

According to social democratic economic policy, the temporal processes of adjustment signify that the market needs to be governed by managing the specific constraints impeding capitalism from reaching the full employment volumes of output that is to the benefit of all, capitalists and workers. This is the central – and ultimately conservative – message of Keynes' General Theory: 'if effective demand is deficient, not only is the public scandal of wasted resources intolerable, but the individual enterpriser who seeks to bring these resources into action is operating with the odds loaded against him.' In the postwar period this meant that capitalists had to support a 'national bargain' over taxes and investment, and workers had to endorse public consumption and to set nominal wages so as to control inflation to maintain external balance and a positive sum game of high profits, high employment and rising incomes. Within the capitalist bloc, the Bretton Woods system emphasis on national adjustment helped, as did the low trade volumes and partial controls over capital mobility left over from the era of depression and war. Temporary import controls, wage restraint through incomes policies or realignment of pegged currencies was enough to restore adequate payments balance. It was thought – in perhaps the most egregious of bourgeois modernism's faith in progress through quantity – that with the release of the constraint on demand growth could be endless (and that planetary ecology could take care of itself). The distributional relations necessary for high employment, however, have not been so easily found since the 1970s. Slow growth and declining productivity has meant that capitalists have been less willing to accept the old Keynesian 'national bargain' between the social classes. In order to restore profits, high unemployment rather than incomes policy has kept wage claims in check. Internationalization of production, too, has strengthened...
the leverage of capitalists to bargain wage restraint and rollbacks with unions, especially as the various GATT rounds lowered trade tariffs, and low wage production zones such as Korea and Brazil gained technological capacity and foreign investment. All this added to the competitive export pressures already internal to the advanced capitalist bloc. The social democratic experience of Sweden is telling: although developing the foremost 'social market' and raising its relative competitive position, Sweden has had an 'employer offensive' for over a decade to lower real wages, cut taxes and allow unemployment to rise. Direct investment by Swedish capitalists abroad has increased from below 1 per cent of GDP in 1982 to above 6 per cent by 1990, and it continues to rise." Andrew Glyn now notes that 'Sweden has joined the rush towards stabilisation and explicit anti-egalitarianism as the route to economic recovery.' Nowhere does the old social democratic positive-sum national compromise within a constraint-freed capitalism still hold.

As a consequence, the social democratic 'rethink' of economic policy for an alternative to neoliberalism has had to address the three options that must confront all Left economic policy. First, an attempt could be made to control internationalisation by controlling capital mobility, by protecting domestic producers and employment through controls over the traded sector and by building alternative planning mechanisms all the way from the local to the international spheres. Second, national stabilisation policies could try to maintain the welfare state, establish a competitive exchange rate to insulate domestic compromises and redistribute a more slowly growing output and income so as to keep unemployment down (although in consequence likely allowing national competitiveness to fall relative to less egalitarian countries willing to lower unit labour costs more directly). Finally, the challenge of the world market could be met head-on by attempting to raise national competitiveness relative to competitors through improving workplace productivity by involving highly-skilled workers, by adopting new production techniques and by developing new products for export.

The first option is closest to traditional socialist orientations (although it could vary tremendously in methods and ends) and would entail confronting the disembedded processes of the world market. It would, no doubt, alarm domestic and foreign capitalists, the consequences of which in a global market could be massively disruptive for individual states accepting the challenge. In the eyes of social democratic policy-makers (at least since the defeat of the Left inside social democratic parties in the early 1980s), this has never really been an option. Social democratic policy had already come to accept internationalisation of economic flows over the postwar period and this has been a parameter that social democratic leaders have not wanted to breach, above all because they know that capitalists would actively oppose it. The second strategy is closest to postwar social
democracy, and it once was plausible for countries with large and solidaristic unions. But such 'shared austerity' is entirely defensive in posture and increasingly difficult to sustain as external pressures increase and relative economic decline takes hold. There is, in any respect, little fondness any longer amongst capitalists for such a strategy as it keeps in check their market power relative to workers and closes off the option of higher unemployment for external competitiveness. The third option of forming an 'open-economy social democracy' amounts to a more offensive strategy, which, through the promises of increased productivity and output, would possibly re-found the positive-sum compromise between the social classes. This strategy has special appeal because it suggests that there is something 'activist' social democratic governments can do to protect the 'national interest.' If markets are imperfect historical processes, labour adjustment, trade flows and international specialization cannot be left to the working out of comparative advantage through free trade: states can and must help 'shape advantage' to improve labour market performance, trade balance and competitiveness. Some workers and some capitalists might, under the right conditions, even favour this third strategy of launching a 'stakeholders' capitalism.'

The case for a social democratic economic policy of national competitiveness has, moreover, a basis in the theoretical critique being advanced against the pure Ricardian trade theory of neoliberalism. One aspect comes from within the confines of general equilibrium theory itself. If imperfect competition and economies of scale are introduced into international trade models, then 'extra profit' can be gained for exporting industries as price will exceed marginal cost. In these cases, it cannot be ruled out that state intervention into industry may improve national economic welfare and domestic output. In industries with technological spillovers to other sectors or that may earn technological rents by protecting their initial product development the case is even somewhat stronger. New industries, for example, often require protection before they can face import competition. Historical precedence and increasing returns to scale can 'lock-in' market share before rivals gain a chance to develop. In this way, the technically superior BETA recorders lost out in the capitalist marketplace to the less capable VHS in the early 1980s. The earlier QWERTY typewriter case and the massive aerospace complex around Seattle are other oft-cited examples. It is possible, in other words, to have a 'strategic trade policy' to get new products developed and into markets as quickly as possible to maximize the profit-shift between countries. Thus even within general equilibrium theory states can 'logically' adopt protective tariffs and industrial policies that depart from free markets and comparative advantage: the ideologically contentious question is whether or not they are politically successful in choosing industr-
trial winners." For liberals, like Paul Krugman, the answer is no and the case for free trade stands. For social democrats, like Robert Kuttner, the answer is yes and the German and East Asian experiences suggest an alternative approach.

The social democratic case for shaped advantage can be bolstered once the general equilibrium model of individual agent market exchanges is let go, and alliances of competing states and firms are explicitly allowed to shape the 'path-dependency' of economic outcomes. That is, 'history matters' to economics. If the income elasticities of various commodities diverge through time, for example, as the early dependency theory critique of Raul Prebisch argued for primary commodities relative to manufactured goods, price divergence and growth polarisation may well occur. For countries locked into the production and trade of declining commodities, initial competitive advantage becomes an obstacle to future competitive viability. Shaped advantage can also be invoked to explain something about more general processes of economic decline and ascendancy that has historically shifted the places of states in the world economic hierarchy. Countries losing technological capacity, it is argued, can suffer the economic misfortunes vividly depicted by Britain's fall in world standing. In this case, every attempt at demand expansion by a 'weak' country to raise output 'to catch-up' ends in an economic policy 'stop' to avert a looming balance of payments crisis as high demand sucks in imports. A vicious cycle of stop-go keeps investment in check over the historical long-run because sustained high investment requires stable growth. But depreciation does not correct the underlying productivity differences and thus the reason for the imbalances. As a result, competitiveness increasingly comes to depend upon low cost production or continual competitive devaluations as new technical capacity is blocked from being built. In contrast, technologically ascendant competitors can continue to keep investment high in new techniques as this only adds to output capacity thereby enhancing the payments position and competitive advantage over the long-run.

This conception of 'cumulative causation', in which trade volumes and export and import propensities impact upon aggregate demand, unemployment and competitiveness, becomes more critical the more that states have large open sectors? Competitive performance holds the potential for competitive advantage (or disadvantage) and higher levels of employment (or unemployment). In a liberalized world trading system, the competitive pressures to achieve advantage intensify as technical development and product specialization spread in a continual process of imitation and innovation, of 'catching-up', 'forging-ahead' and 'falling behind'. The implications of this point -- so central to the programmatic designs of national competitiveness and the project of 'stakeholders' capitalism' -- need to be underlined. In this view, trade occurs not based on
'differential endowments' of the factors of production, but rather on the basis of 'country-specific conditions of technical learning and accumulation.' The conditions that define national (or regional) competitiveness can be summarised as the input efficiencies derived from product quality, workplace 'trust' between workers and employers, 'learning-by-doing' and research effort. As technological change is a continual process of building up technical skills capacity and entrepreneurship, a 'Schumpeterian technological dynamism' needs to be nourished as an overarching societal policy objective.9 In open economies, therefore, economic growth and unemployment levels are increasingly dependent upon world market share and export capacity derived from relative competitive advantage in the world hierarchy of competing nations. The social democratic redistributional agenda of the 'mixed economy' is thus succeeded by the 'mixed enterprise economy' of 'stakeholders' capitalism' that is at the core of open-economy social democracy. It is also what lies behind the conclusion, stated here by the British centre-Left Institute for Public Policy Research but held across social democratic parties, that 'globalisation offers more opportunities than threats for British business, people and government.'

There are several competing social democratic positions – though to some extent they complement each other – on how shaped advantage can be supplemented to meet also the internal balance of employment (while keeping unit labour costs competitive for external balance). The 'progressive competitiveness' strategy, most closely allied to the views of shaped advantage, emphasises the demand-side external constraint produced by internationalisation. Social democratic employment policy should, therefore, concern itself with the growth of productive capacities (or effective supply) so as to keep unit labour costs low by productivity gains rather than low wages. Productive capacities are, according to Wolfgang Streeck, productivity-enhancing collective goods such as training, research and development and workplace trust that encourage flexible adjustment of production and labour supply to externally set demand conditions.41 The problem, however, is that the market fails to provide an adequate supply of these collective goods and creates needless conflicts over the need for joint governance between capital and labour in their production. Yet, in fact, they form the national basis of competitiveness in high-waged high value-added economies. Training policies should, therefore, be the central component of a jobs and welfare strategy, while relationships of 'trust' and co-operation should be fostered within enterprises through works councils and other forms of 'associative democracy.' A strategy of effective supply can contribute, Joel Rogers and Streeck insist, to the 'restoration of competitiveness in western capitalism . . . [and] can establish a new bargain between equity and efficiency.'42
Another variant of the social democratic strategy is that of 'shared austerity.' It stresses that the internal constraint of distribution relations is critical. Incomes policy has a role to play in spreading work through wage restraint and keeping unit labour costs down for exports. For Andrea Boltho, the highly centralized collective bargaining institutions of the corporatist countries 'lead to a much greater responsiveness of real wages to unfavourable shocks' [lessening] their destructive effect on unemployment. Thus the control of inflation for export position falls on corporatist labour market institutions. These institutions also provide the basis, according to Andrew Glyn, for the solidaristic income and tax policies that allow 'employment-spread ing' of capitalist sector work and income and the financing of public sector employment. 'In a context of weak private demand and slow productivity growth, maintaining full employment required severe restraint on workers' pay and consumption to keep exports competitive, investment profitable and the budget under control. Where social democracy was capable of mobilizing such support, full employment was sustainable.' Glyn argues that in today's world the key issue is not economic openness, but rather the need to re-establish these mechanisms 'for regulating conflicting claims over distribution and control.' But given that the key distributional compromise today excludes the capitalist class, high employment depends upon the collective capacity of trade unions (supported by social democratic parties) to impose restraint on their members – 'shared austerity in one class'.

A third position, the 'international Keynesian' perspective, maintains that removing the demand constraint of an open-economy simply requires the political will to re-establish expansionary policies at the supranational level where leakages to exports and capital outflows would be irrelevant and where competitive firms could realize the additional output through exports. This was the view some on the Labour Left arrived at in the aftermath of the Mitterand 'U-turn' in France in the early 1980s. As bluntly stated recently by David Held: 'government economic policy must to a large degree be compatible with the regional and global movements of capital, unless a national government wishes to risk serious dislocation between its policy objectives and the flows of the wider international economy.' International co-ordination of economic policy is, therefore, required to re-establish the basis for adequate effective demand conditions for higher growth and lower unemployment that are now beyond the capacity of any single state. A 'cosmopolitan democracy' imposed on global governance structures, of the kind favoured by Held, would be one means to legitimate the rules of international economic co-ordination.

All these views avoid the neoliberal illusions that free trade and deregulation of labour markets will resolve trade and employment balances. There is an understanding here of the processes of cumulative causation, of
the interaction between internal and external imbalances, of actual contemporary trade patterns and the comparative cost advantage of various competitive capitals, the differentiation of development amongst regions, and of the variable means by which employment may be spread. Unfortunately (but all too common among progressive economists), as Leo Panitch has pointed out, there is little analysis of why social democratic governments have instead gone so far to accommodate neoliberalism. The answer may lie, as he suggests, in the inadequacy of the strategy of shaped advantage. For the fact is that it fails to adequately account for the mechanisms behind the constraints on governments and thus the obstacles capitalism poses to stabilizing the imbalances resident in the world market.

First, let us consider the treatment of the growing reserve army of unemployed. Unemployment is regarded as the result of the rate of accumulation generated by competitive capacity and demand conditions. Employment must then be a constant coefficient of average labour required per unit of output. Shaped advantage to improve competitive capacity, however, will lower this coefficient through labour-saving technological change (the basic form of technical change within capitalism). If work-hours and employment ratios are left constant despite technical advance, there must be an increase in total income and total employment to compensate for the labour-saving per unit of output otherwise demanded to maintain even the conditions of the 'golden age.' But when the strategy must be implemented in our actual historical time and with the expectation that external trade will increase relative to domestic output, it becomes fanciful to imagine that this balance can be achieved.

Indeed, growth in trade will need to exceed the growth rate of output, which must itself exceed the combined growth rates of productivity and employment to absorb the many forms of the reserves of unemployed. Moreover, as technological change continues through time (notably in the traded goods sector whose advantage is being shaped), the growth of trade must continue at an accelerating rate to generate a given volume of employment and hours of work. In a stable world economy with a coordinated international macroeconomic policy it is extremely dubious that this would all work out; in a capitalism that generates differentiated competitive capacities and that is exhibiting the trade asymmetries and currency instability that exist today, it is quite impossible to envision. Shaped trade advantage to improve external competitiveness in the hope that trade growth will overcome internal obstacles to high employment is no substitute for national and local employment policies to constrain the capitalist market.

Apart from the issue of unemployment, a second fundamental problem is an equally questionable presumption that shaped advantage offers a
solution to the external imbalances that derive from the uneven development of competitive capacities within capitalism. Indeed, the reliance on market adjustment may well compound global external imbalances by the competitive imperatives of shaped advantage in the present world configuration. Let us further consider the obstacles capitalism presents just on the basis of developing the theme of uneven competitive capacities as it relates to individual country strategies. At the conceptual level, a trade surplus presupposes unit labour costs and hence export prices that are internationally competitive. Countries of successful export-led growth can sustain high investment without fear of a balance of payments crisis. The trade surplus is expected, moreover, to have positive effects on national income and employment. If the profit from full capacity utilization is reinvested in new technological capacity, and exchange rates do a poor job of equilibrating trade balance through appreciation, then economic growth and competitiveness will be maintained through decline in unit labour costs from productivity advance in surplus countries?" The point is, however, that the opposite will be the case for deficit countries which will have listless investment and faltering technological capacity. This seems to explain in good part the consistency of countries in structural current account deficit and declining competitive capacity such as Britain and the U.S., in relation to countries such as Germany and Japan that have been relatively in constant surplus. In other words, uneven development and trade imbalances can be expected to persist as one of the normal obstacles capitalism presents to alignment of market-friendly development trajectories.  

For individual technologically laggard countries, then, the problem is to rupture the vicious circle of stagnation before it perpetuates chronic relative decline or even the potential falling per capita incomes of absolute peripheralization. The strategy of shaped advantage proposes to convert the institutional structures and social relations that have fostered a particular model of development over time into a new development model of national (or regional) competitiveness. Strengthening competitive capacity will require, for example, a shift in existing resources out of present usage (and they may still be at maximum usage even if relatively uncompetitive) or mobilisation of unused resources if unemployment exists or plant is laying idle. This investment shift would, then, entail a 'collective' decision either to lower wages, to reduce public consumption or to tax the financial and productive sectors to raise capital. The investment in new capacity, moreover, would have to be planned and investment banks of considerable size and dynamism established to push through the industrial policy programme. All of this requires a great degree of non-market co-ordination and political mobilisation. This raises—all the well-known problems of attempting to graft an economic model (or set of technologies) from one
institutional context to another: the existing social relations and geographies of production provide an enormous obstacle to mobilization in new production sectors and work relations.

This is what we can call the 'capitalist reformer's dilemma': market-led processes will tend to reinforce the existing patterns that are judged to be inadequate. But state-led projects will run up against embedded market power and require the co-operation of the actors that command these resources. There may thus be no co-operative political foundation for the project of shaped advantage from the capitalist classes internal to declining societies or within the capacities of the existing state apparatuses. The foundation may be as weak on the workers' side: it will involve union leaderships in taking on the corporatist agenda of external competitiveness at the expense of traditional collective bargaining and social demands. If the strategy is vigorously pursued to its final logic in national competitiveness, it is more likely to split than unite workers in rising sectors from those in declining sectors (over subsidies, adjustment policies, exchange rates) and those in the private from the public sector (over competitivetax rates, comparable pay levels, commodification). There is, at the level of the structural logic of collective action, no 'common interest' in national competitiveness that does not have to confront the institutionally and geographically embedded social property relations of power. From the vantage point of the capitalist reformer's dilemma, shaped advantage is simply infeasible.

The relative decline in competitive capacity in existing plant will, therefore, tend to push these countries to put their wage structures into competition to lower unit labour costs to resolve trade imbalances. As the Anglo-American cases of the U.S., Britain and Canada have demonstrated over the last decade, it is quite possible to restore relative competitive capacity in certain sectors, or even across countries as a whole, on the basis of devaluing labour and intensifying work-hours, although the damage to the welfare of the working population may be enormous. Given the potential basis for competitiveness in devalued wages, the ruling bloc may quite logically – and quite consciously with Labour and Socialist Party Governments as in New Zealand and Spain – prefer the option of raising the rate of exploitation by undermining workers' rights and thus actively – and not merely passively – oppose moving in the direction of industrial planning. This strategy is not blind irrational logic which a better policy mix would change, as social democratic theorists often claim, but an accumulative logic within the system itself.

Putting wages into competition and opposing policies of shaped advantage may, moreover, be a quite logical response even in countries that would appear to have the foremost institutionalised conditions for opposing low wage strategies. Hypothetically, it is possible to envision
external competitiveness being shaped on the foundation of the 'high institutional prerequisites' of a stakeholders' capitalism of shaped advantage (although quite clearly not all countries can do so in an unregulated world market). This conceptualisation would posit a 'world indifference curve' between the external competitiveness of diverse (national) economic models differentially internalising environmental costs and involving highly-skilled workers. The 'competitiveness indifference curve' depicts a static equivalence from the standpoint of capitalists between the strategies of environmental dumping and cheap flexible labour versus environmental cost internalization and expensive skilled workers. On a static basis alone it is quite unclear why capitalists would choose the latter model except for a minority of workers in key production positions when undertaking the former involves fewer costs. Nor does the flexible labour model prevent firms from undergoing continual innovation in product and technique (as the 'drive system' of exploitative work-hours applied to American software engineers proves all too well).

The only way to avoid this conclusion is to fall back on technologically determinist claims that the flexible specialisation of new technologies (or that of Japanization or Kalmarianism) uniquely leads to skills upgrading across the labour force. This is not an empirically or theoretically plausible argument: capitalists in even technologically leading countries are just as likely to forward policies for devaluing labour and limiting the skills upgrading of workers to as narrow a stratum as feasible. The foreclosure of the cheap labour option to competitiveness depends upon strong and mobilized unions actively opposing — rather than co-operating with — capitalists in the pursuit of national competitiveness. To accept national competitiveness as the objective of economic policy as proposed by the capacity of workers to oppose propose this, as they inevitably do, the very hierarchies of competitiveness. And it is to sacrifice the long-time egalitarian project of building up workers' independent productive capabilities apart from the logic of the capitalist enterprise. Capitalism provides a blockage to shaped advantage producing egalitarian outcomes in technologically ascendant countries too.

Beyond the drawbacks at the level of individual countries, there are even greater contradictions for social democratic economic policies of shaped advantage at the level of the system as a whole. This third fundamental problem can be seen, first, by simply moving from one country to a second trading partner whose only objective is maintaining payments balance so as to avoid a deterioration in internal economic conditions. To the extent that shaped advantage relies on export-led growth at the expense of internal demand, trading partners must leave their economies open while the country shaping advantage improves its competitive position. An
immediate problem arises: if the partner whose market is to be penetrated responds with austerity or protectionism (or even the potentially more disruptive shaped advantage policies of their own) to preserve their payments position, any trade and employment gains are wiped out. There may be internal efficiency gains from industrial rationalisation, but how they affect employment and output will be determined by both countries' internal policies as the payments position will simply balance. Whatever output and employment gains occur if overall trade volumes increase, given payments in balance, depends upon an assessment of static gains from trade against the loss of macroeconomic control from opening the economy. The extent to which economies have gained from trade has always been a historical minefield (given that trade shares and output gains have a complex interaction and not a uniform correlation). The macroeconomic loss of control may be small initially but everyone except neoliberals would concede that it can cumulatively build so as to be damaging. Managed trade such as voluntary export restrictions provides a partial solution to the problems arising between two trading partners shaping advantage, although this is less generalisable to the international economy as a whole. But trade controls of even this sort lead to a broader range of planning than is implied by shaped advantage.

If the actions of a single trading partner encounters obstacles for shaped advantage, a world of many – if not all – countries seeking to shape advantage for national competitiveness poses enormous hurdles for social democratic economic policy. There is a basic compositional fallacy of aggregation underlying a strategy of shaping advantage for national competitiveness: all countries cannot be export-oriented to solve their individual employment imbalances. The world market as an opportunity to increase output and employment may work if virtually no one else follows. But the more countries that adopt a strategy of shaped advantage, the less likely this is to be the case – in other words, a positive game for some can become a negative-sum game for all. The reasoning is straightforward. For individual country strategies, there is every incentive for national competitiveness over unit labour costs to spread from productivity-gains to austerity even in technologically leading countries as trade imbalances persist. Technological laggards must compete on lower wages to reduce unit costs or face a deteriorating trade deficit (especially as surplus countries may not increase aggregate demand). The sluggish conditions for the realisation of profits, while capacity to produce more output is increasing from productivity advance, makes it imperative that technological leaders eventually follow or lose their surpluses and employment. The pole of structural competitiveness will keep being pushed higher as economic openness increases so that all regions – from Johannesburg to Delhi to Manchester to Montreal – must keep up with the pace being set by
productivity advance in Frankfurt and Tokyo and by low wage manufacturers exporters in Shanghai and Nogales.

This is, more or less, the configuration that the world economy is now locked into. The increased congruence and depth of business cycles since the economic clampdown and oil crisis of 1971-73, particularly the Volcker shock of 1981-82, the stock market deflation of 1987 and the 1991-2 U.S. Budget slowdown, illustrate the demand-side precariousness that is now embedded and successively leaving unemployment at higher levels over the cycle. Every time the U.S. moves to remedy its structural imbalances by deflating or devaluating (which blocks export strategies elsewhere), the rest of the capitalist countries must respond or face massive upset (of which Japan, in its own way, is now a victim). But then it becomes quite unclear – and no one has an answer to it – how the credit-money being advanced to the U.S. will be paid for by eventual U.S. payments surpluses. So the world economy moves sideways; and even the technologically advanced countries with an explicit policy of shaping advantage like Japan and Germany begin to feel the sting of 'competitive austerity' through spreading informalisation and increased exploitation.

In countries with a more egalitarian policy legacy such as Sweden, the 'shared austerity' strategy of using incomes policies to spread work and keep unit labour costs low will be increasingly invoked as traditional competitive devaluations are now ruled out by capital mobility, responses by trading partners and capitalists less willing to make national bargains over income distribution. This strategy, however, might well worsen the international demand problem too by reducing purchasing power and throwing more exports into a world market less capable of absorbing them. And this external impact will feed back through a neoliberal world to make more 'advanced' compromises on work conditions and wages consistent with external competitiveness difficult to sustain (especially as competitive devaluations become more difficult to undertake as increased openness favours currency stability and capital outflows). Internally, in a world hostile to alternate development models, employers will become increasingly opposed to centralised bargaining and more openly politicised to break with the 'egalitarian model.' But 'shared austerity in one class' will also become politically unstable as it reaches the limit of the organisational capacity of unions to continually demand restraint for national competitiveness, especially in a context where the class distribution of income is becoming more unequal.

The North American bloc of countries, in contrast, explicitly adopt a strategy of devaluing labour and informalisation so as to combine both high levels of productivity, intensive resource exploitation and relatively cheap labour: At the moment, they are rewarded by climbing the ranks of the world competitiveness charts, while peripheral economies that are
severely indebted like Ghana, or that depend upon exploiting environmentally endangered resources like Newfoundland, eventually buckle and collapse from the exhaustion of a never-ending competitive spiral. Thus external competitiveness increasingly turns to those societies that combine cheap labour with improving technological capacity and externalisation of environmental costs. But even in Korea this does not appear to be enough. In justifying the passage of repressive trade union laws that weaken job security in secret session in the middle of the night, Korean President Kim Young-Sam responded: 'The stark reality facing us today is that without the labour reforms, workers will get neither the income nor jobs in the face of cut-throat global economic...

There is still a fourth fundamental obstacle to shaped advantage strategies if we add the real world condition of massive capital mobility. Here the problem is more indirect but equally damaging to the assumption that globalization is irreversible. Shaped advantage requires long-term planning horizons and thus what social democrats like to call 'patient capital'. Yet financial capital in a global market is increasingly driven by short-term demands for profit and liquidity against risk. In contrast to the wisdom of the financial press for investors, for borrowers international diversification of financial portfolios makes any degree of risk (which increases with the period of investment) and profit for a specific country less acceptable as there are more options to combine less risk and more profit. This will produce pressure toward a world interest rate the more that net capital flows grow relative to trade balances and thus a reference rate of return for capital advanced will be formed irrespective of specific conditions for accumulation. In purely static terms, then, global financial markets pose an obstacle to industrial policy. If there is instability, this increases risk and creates dynamic uncertainties which means that financial capital will be even less willing to be tied to the long-term investments necessary to increase capacity in export industries. Moreover, speculative runs stemming from either systematic trade imbalances or alternative political projects, such as with Mexico at the end of 1994 or France in the early 1980s, can rapidly destabilize any industrial plans.

Capital mobility and floating exchange rates in a world economy thus raise to a new level the old Keynesian problem of the mismatch of time horizons of capital. The ‘Tobin Tax’ proposals to throw sand into the wheels of capital by a levy on international capital transfers might slow some of these processes at the margin. But it neither can prevent new speculative instruments from emerging nor address the source of the problem in the increasing autonomy of the circuits of credit money from the real economy. We face a situation where rentier interests increasingly determine national development models and can veto alternatives through the currency convertibility of capital flight.
The obstacles this poses to shaped advantage in fact makes the traditional socialist argument that democratising financial capital and 're-embedding' international financial flows are necessary conditions for political alternatives *more economically sound and politically necessary than ever.*

The international Keynesianism forwarded by some social democrats as the means to regulate the imbalances of a global economy do not resolve the trade or capital mobility problems. To call for democratised structures of international governance simply begs the question: 'to do what?' At the national and regional levels, it is already known from postwar experience that capital allocation for industrial plans requires extensive constraints on capital mobility. More democratic international institutions of themselves only imply a greater political legitimacy to the global economic space formed by internationalized capital movements. Any other agenda pursued by these agencies could require a break from the-consensus that globalization is irreversible and the capitalist market essentially efficient that forms the basis for the social democratic policy of shaped advantage.

Similarly, international Keynesianism must assume that world market imbalances only stem from a specific problem of adequate demand. Yet global demand stimulation to reduce unused capacity would likely only compound the trade imbalances already evident in a situation of differentiated competitive capacity. It will do nothing to clear these imbalances. Neither will it reverse unemployment in economically declining regions that lack industrial capacities (or who have lost an earlier advantage in natural resources, as with the competitive assault on the Atlantic fishery). Nor will it reverse the cheap labour strategies adopted in, say, southern U.S. states like Alabama. Moreover, the capitalist market imperatives prevent the co-operation necessary for international reflation. How do you compel co-operation when it is always possible to do better in terms of trade balance and employment by cheating, through import restraints, cheap currency or austerity, before your competitor does? The lack of symmetry in adjustment processes, uneven development and the export fallacy of shaped advantage all raise capitalist obstacles that only stronger forms of international co-ordination than mere international reflation, or vague calls for democratic international governance, could meet.

The key obstacles confronting the social democratic case for shaped advantage stem from the differentiating processes produced by competitive capitalists in a world market. The objective of equalisation of relative competitiveness and output levels lies behind the project of national competitiveness. But this objective runs up against the capitalist reformer's dilemma. It is not the state that guides economic enterprises (even ones with stakeholders' rights), allocates investment and, most plainly, controls
balance of payments flows in a competitive world market. These all depend upon the actions of profit-seeking capitalists who may or may not identify their particular interest with the ‘national interest’ of a stakeholders’ capitalism in external competitiveness. In any respect, the national interest is defined by the state in relationship to the structural attributes of the various blocks of capital resident in the national formation and their historical models of development. Canadian capitalists, for instance, have favoured large capital inflows to prop up their domestic investment levels and thus have typically not been preoccupied about the composition of exports or a chronic current account deficit. British capitalists have typically exported long-term capital and allowed a weak payments situation to be covered by short-term borrowing (a process only modestly shifted under Thatcherism). Each state has accommodated rather than challenged the relative competitive weakness and economic decline that these different processes have entailed. The balance of payments as a constraint of competitive capacity (as registered in the flow of accounts) is always relative to particular class strategies and the institutional arrangements and economic structures that are inscribed in these strategies. The embedded social relations stand in the way of all attempts by individual states to import models of national competitiveness developed through different historical processes and class relations.

The strategy of shaped advantage suggests all economic actors can adopt outward-oriented trade and industrial strategies while ignoring the contradictions that such actions pose for capitalism as a whole. Some advocates of shaped advantage, such as Robert Kuttner and Susan Strange, have argued for managed trade to maintain balance between states to avoid generating competitive austerity. But trade management only makes the case that the capitalist obstacles which prompt a strategy of shaped advantage can not really be resolved by it: they require international regimes that plan trade and control capital mobility. What is altogether contestable, however, is an open-economy social democracy that begins from the premise that ‘states are not like markets: they are communities of fate which tie together actors who share certain common interests in the success or failure of their national economies.’ Such tenuous arguments as Hirst and Thompson advance can hardly be said to constitute an adequate defence of the notion that the world market constitutes an opportunity for social development that is historically progressive so as to make socialist economic policies inappropriate and irrelevant. But even the strongest case for social democratic economic policy for national competitiveness must rest on indefensible assumptions that globalisation is irreversible, that market imperatives require the global economy be maintained as it is, and that, even if the planet is ravaged by endless economic growth, there is no other way to sustain employment.
III. Socialist Alternatives and Diversity of Development

Capitalist economic policy is usually narrowed to the choice-theoretic definition of the most efficient use of scarce resources as determined by self-interested individual agents. Socialist economic policy may be defined as the development of democratic capacities for control of the transformation of economic structures towards egalitarian ecologically-sustainable reproduction. In capitalist economies, this is primarily the issue of market disengagement and control strategies. In socialist economies, this is the issues of democratic planning and economic coordination. The internationalization of capitalist economies no doubt accentuates the imperatives of the market, placing limits on socialist economic policy. Yet the only thing that obliges us to conclude that there is no alternative to the pursuit of international competitiveness is the a priori (and unexamined) assumption that existing social property relations – and hence the structural political power sustained by these relations – are sacrosanct. Even The Economist seems to concede the point. They admit that the 'powerless state' in the global economy is a 'myth' in that governments have 'about as many economic powers as they ever had.' It is in this sense that the notion that the nation-state acted as an institutional container of social power and regulator of economic activity before globalisation, and that it is no longer capable of doing so today, is fundamentally misleading. The processes of world market formation together with the 'international constitutionalism of neoliberalism has taken place through the agency of states.'

This does not mean that the imperatives of competition in a world market have not lessened the autonomous agency of individual capitalists or states. The NAFTA, Maastricht, and the WTO agreements all have restricted the capacity of nation-states (or regions) to follow their own national (or local) development models. It does mean, however, that the limits on state policy are to a significant extent self-imposed. The world market certainly places limits on state policy, but there is no obligation to accept these imperatives. If we are prepared to question the social property and power relations of capitalism that impose world market imperatives – a proposition that should lie at the centre of socialist economic policy – the scope for state action and the range of alternatives increases.

Globalisation has to be considered not just as an economic regime but as a system of social relations, rooted in the specifically capitalist form of social power, which is concentrated in private capital and the nation-state. Globalisation basically means that the market – now the world 'space of flows' or exchanges – has become increasingly universal as an economic regulator. As the scope of the market widens, the scope of democratic power narrows: whatever is controlled by the market is not subject to
democratic accountability. The more universal the market becomes as an economic regulator, the more democracy is confined to certain purely 'formal' rights, at best the right to elect the political ruling class. And this right becomes less and less important, as the political disrepute of parliaments testifies, as the domain of political action is taken over by market imperatives. So the more internationalised capitalism becomes, the less possible it is for socialists just to tinker with economic policies to improve equity or firm-level competitiveness. The more internationalised the economy the less possible it is for socialist economic policy to avoid political contestation over the social property relations of capitalism.

An alternative to globalisation, then, is as much a question of democracy in opposition to the imperatives of the market as it is of alternate development models. The opposite to globalisation is democracy, not only in the crucial sense of civil liberties and the right to vote, but also in the no less crucial sense of the capacity to debate collectively as social equals about societal organisation and production, and to develop self-management capacities in workplaces and communities. Democracy in this sense is both a form of political organisation and an alternative to the market as an economic regulator.

The geographic expansion of production prompts, then, challenging questions for socialists about the spaces and scales for both economic activity and democracy. (I say for socialists, but it is hard to conceive how anyone genuinely committed to democracy can seriously avoid these questions.) The alternative logic to the imperatives of a global capitalist market suggests a dual, and somewhat paradoxical, strategy: expanding the scale of democracy while reducing the scale of production.73 Expanding the scale of democracy certainly entails changing the governance and policy structures of international agencies and fora, but also of extending the basis for democratic administration and self-management nationally and locally. Let us be clear here. Expanding the scale of democracy along these dimensions in any meaningful sense will entail a challenge to the social property relations of capitalism. To make collective decisions implies some democratic capacity, backed by the coercive sanctions of the state, to direct capital allocation and thus to establish control over the economic surplus. The point is to enhance, with material supports, the capacities of democratic movements (which will vary tremendously according to the class relations and struggles in specific places), at every level, from local organizations to communities up to the nation-state and beyond, to challenge the power of capital.

Reducing the scale of production means shifting towards more inward-oriented economic strategies, but also forming new economic relations of co-operation and control internationally. The logic of the capitalist market creates a need for large-scale production, an obsession with quantity and
size, to which all other considerations – of quality, of social need, of bio-regionalism, of negative externalities, of local democracy – are subordinated. The general objective of socialist policy should be to devalue scale of production as the central economic objective by putting other social considerations before quantity and size. Of course, the massive material inequalities between nations mean that the general principle of reducing the scale of production will vary between developed and developing countries. Certain major industrial sectors necessary to produce adequate levels of welfare will obviously need to be put in place. Scale economies will also be important in some sectors to achieve the most efficient plant size in terms of reducing inputs and environmentally damaging outputs. But the reduction of scale should remain the general guiding principle, in keeping with the socialist conviction that production should above all meet basic needs, foster self-management capacities and adopt more labour-intensive techniques when capital-intensive ones, like clear-cut foresting or chemicalized agriculture, have crippling environmental consequences. The desperate levels of economic insecurity, the volume of contamination and resource use, and degradation of local ecologies in the developed countries has surely made clear that economic growth cannot be equated with human welfare in any simple manner?

There are two corollary propositions that would seem to follow from this strategic orientation for socialist economic policy. First, it implies taking a strong stand in favour of the institutional structures at the level of the world economy that sponsor alternative development models. There is a sound basis to this approach. The postwar period displayed a variety of models of economic development, in the diversity of Fordism in the North, import-substitution industrialization in the South, and the various 'socialist experiments'. Even the attempt to impose a neoliberal homogeneity of development confirms this: there is now a diversity of disasters across the North, the East and the South. The concept of inward strategies is, to a degree, a notional orientation as all economic strategies will necessarily have a vibrant open component and in all cases the world configuration will need to be accounted for. But, as Ajit Singh has argued, openness is a multi-dimensional concept that can apply variously to trade, capital movements, migration and culture and between times and places. International economic relations should not be a uniform market compulsion, but always encompass a 'strategic degree of involvement' in external exchanges. In this view, balance of payments is still an accounting measure of the 'space of flows' of money and commodities internationally (although necessarily disaggregated to account for the distributional interests of social classes) and a constraint indicative of productive capacities in specific 'spaces of production.' But payments balance also represents, however indirectly, the articulation between
diverse economic models and thus the social relations of production between specific places of production. It is impossible for socialists to put forward alternatives unless it is insisted that there are variable ways of organizing economic and ecological relations, and of managing the external relations between diverse models. The objective of such a solidaristic international economic policy can be summed up like this: the maximization of the capacity of different national collectivities to choose democratically alternate development paths subject to the limitation that the chosen path does not impose externalities (such as environmental damage or structural payments surpluses or deficits) on other countries. This objective can only be realized through re-embedding financial capital and production relations in democratically organized national and local economic spaces sustained through international solidarity and fora of democratic co-operation.78

Second, full employment has come to mean a level of unemployment associated with stable prices even within social democratic employment policy. But this mixes up labour and product market performance and contains nothing of the traditional demands of the Left that employment be related to production for need and not for exchange. As Joan Robinson once noted, it would be 'preferable to take a simple-minded definition, and to say that there is "full employment" when no one is unemployed.'79 Better still would be a definition that incorporated the measure of adequate labour market performance. Full employment might then be seen in relation to the maximization of voluntary participation of the adult population in socially-useful paid work at full-time hours for solidaristic wages.

This strategic orientation for a socialist economic policy for market disengagement allows us to put some order around a set of economic principles that have been emerging out of the Left and Green movements. These principles should be envisioned as transitional (they neither represent socialism nor even the model-building of recent years) in the sense of 'structural reforms' that initiate democratic modes of regulation against market imperatives.80 For both substantive reasons, as well as to maximize support today for socialist economic policy, they should be conceived as a strategy to move in the direction of full employment through alternative development models which encompass aspects of the following ten principles.81

1. Inward-oriented economic strategies will be necessary to allow a diversity of development paths and employment stability. Economic policies have been geared to cost-cutting, fostering capital mobility and common treatment without regard to the integration of national economies or local production. Governments have poured an inordinate amount of resources into the export sector, although these efforts have not dented
unemployment (and probably could not, even in the absence of stagnation). Yet, it is an absolute falsehood that freer trade will necessarily lead to an expansion of employment and income. There are all sorts of conditions, such as infant industries, mass unemployment or research market failures, that make the theoretical case for protective devices such as quotas and tariffs for positive industrial strategies. There is an equally strong theoretical – not to speak of moral – case against free trade in goods produced in absolutely appalling labour conditions.

The Left debate about trade and protectionism has often been, therefore, specious and hopelessly contradictory. Free trade is recognized as a neoliberal project, but rejection of it is shied away from as an affront to internationalism. It is feared that protection of domestic workers will come at the expense of workers abroad. Yet, it should not be a question of being for or against trade: this is a conjunctural strategic issue related to stability and egalitarian outcome. World trade in its present form is massively imbalanced, unstable and coercive in its regulatory impact on national economies; the consequence is increased social polarisation of income and work. At stake, then, is a wider principle: the active pursuit of alternative development paths for full employment requires that the open sector not restrict domestic priorities, and that the international system support rather than undermine these options. The export orientation of all economic strategies is neither sustainable nor desirable; it will have to be replaced by a strategy of inward development (which is essential to any egalitarian economic strategy). This is partly what the early Bretton Woods system permitted through temporary trade restrictions to allow full employment policies.

This casts a quite different light on what should be expected of trade. It means, for example, that trade would have to come under regulation to allow different orientations on local production, environmental standards, restrictions on child labour, and so on, without sanction from ‘worst-practice’ production models. In other words, divergent economic models imply a degree of tariff protection and control over the open sector. It has proven impossible, moreover, for surplus countries to inflate enough, or deficit countries to deflate enough, to restore payments balance without further job losses. A single global market, with no common labour or ecological standards, will inevitably bargain standards down in response to the fear of competitive losses in conditions of competitive austerity. Of course, if the use of tariffs and quotas in support of employment, or to resolve payments imbalances, is to be minimised a degree of international co-ordination and planning of trade is required. None of these measures imply closing the economy from trade as economies of scale, diversified consumption, and transfer of new products and processes remain important. However, they quite clearly imply planning the open sector in
the national context with international regulation and co-ordination required for the clearing of balances and the reinforcement of long-term diverse development trajectories.

(2) **Financial capital must be subjected to democratic controls on debt payment and capital mobility.** It seems quite clear from the histories of the interwar period and the post-1974 experience that the external constraint on national economic policy less imposes itself from outside than grows out of the internal contradictions of domestic accumulation and the actions of the national state. A phase of material expansion, as Giovanni Arrighi and Elmar Altvater contend, ends in a phase of internationalization as products seek markets and capitalists seek higher returns in financial

A series of problems arises: financial assets are increasingly oriented to short-term returns because of stagnant output; debts cannot be serviced; national economies are increasingly vulnerable to currency movements as central bank reserves are dwarfed by financial flows.

International debts, with virtually all countries becoming more indebted, pose a special difficulty. Settling them requires a net surplus of exports: everything goes into competitive and export capacity with the hope of paying debts plus interest. But other countries adopting the same approach of expanding exports and lessening import demands generates weaker employment conditions all around. Because of weaker demand, meeting debt and interest payments requires further squeezing of the public sector and workers' living standards. It is impossible, then, to redistribute work at solidaristic wages and to continue to transfer massive funds to financial interests. Finding an alternative way out of the debt crisis is essential to the expansion of employment and alternative development. The debt burden can only be alleviated by either a controlled inflation leading to negative or minimal real rates of interest or a rescheduling of payments that accomplishes the same thing. Anything else simply temporally displaces an inevitable default into the future while running down resources and capacities in the present. A hierarchy of credit and capital controls – a credit regime – also needs to be drawn up and implemented to constrain the power of financial capital over national development. Such measures might range from: micro-banks; more democratic control over national banks and credit allocation to enforce planning; short term taxes on speculative turnover in currency, bond and equity markets; quantitative capital controls; and restructured international agencies that regulate credit repayment and long term capital flows. Macroeconomic stability will be wishful thinking without financial controls.

(3) **Macroeconomic balance requires not only aggregate demand management, but also new forms of investment planning and collective
bargaining norms. It is one thing to say that there is a capitalist employment crisis and quite another to say that releasing the aggregate demand restraint to increase output will necessarily lead to employment expansion. This misses the point that capitalist development means increased output but with increased surplus labour (and an indeterminate effect on workers' incomes). An appalling dimension of capitalism, and neoliberal employment policy, is that the costs of the system's need for flexibility are born by workers while the benefits are reaped by capitalists. This is as unacceptable today as it has ever been. Macroeconomic stability should translate into employment stability through firm level job security but also a social guarantee of retraining and new job creation in local communities facing industrial restructuring. Such macroeconomic balance will have to entail new mechanisms of control over market forces: national and sectoral planning councils; planning agreements over investment flows and technology strategies; regional and local development boards; public ownership of core sectors (including financial industries).

Macroeconomic balance means something quite beyond control of demand volatility of the Keynesian kind. There are distributional imbalances between the social classes, public and private goods, present consumption and future sustainability. On ecological, anti-globalisation and equity grounds a redistributational macroeconomic balance makes eminently more sense than one of unrestrained growth.

For effective demand to be restored, the break that has been put on productivity-sharing with workers to the end of cost-cutting needs to be revoked. But egalitarian employment also requires more than this. Increased production requires consumers for the output and the income for this should certainly go to workers. Yet output increases have to become more ecologically constrained. So reductions in work-time, which are the most effective means to increase employment historically, should be strongly pushed. A trade union bargaining norm of an 'annual free-time factor' should, in solidarity with the unemployed, have precedence over an 'annual wage improvement' in sharing out productivity increases (allocated to favour additional employment and the poorest workers). Any decline in employment will also depend upon the form the expansion takes. Capitalist sector jobs are governed by the logic of profitability; non-capitalist sector jobs (in the state and collective organizations) are governed by the logic of redistribution. The decline in capitalist sector employment in the manufacturing sector is permanent. Employment in the manufacturing sector is more labour-intensive. The question really is not one of work to do: there is a serious lack of adequate facilities from new classrooms to art galleries; there is a tremendous demand for affordable health care, housing and public transportation; and there is a great deal to be done.
in terms of environmental clean-up from the wreckage caused by industrialization and neoliberalism.

(4) Reducing unemployment will entail both less work and a redistribution of work. Postwar employment policies fought unemployment through faster growth of output and exports. Contemporary capitalist employment policies attempt, with little success, to do the same. If export-led strategies to increase employment in conditions of competitive austerity soon become a zero-sum (or negative) game of dumping job losses on other countries which will eventually respond in kind, national macroeconomic expansion will not be sufficient to lower unemployment. In the absence of measures to restrict population growth (and given the objective of not lowering the participation rate of adults in the economy), employment growth alone would require a significant level of expanded output. The increased capital-intensity of production suggests, moreover, that growth rates would have to consistently approach, or exceed, levels of the postwar boom to lower unemployment (at present average hours of work and labour force growth). This still would leave unaddressed unused labour stocks and productivity gains that even at modest levels would require significant growth. Yet levels of growth of the postwar period, with similar extensive growth bringing more land and resources into production, would be enormously costly to the natural environment. Growth-centred employment strategies must now be firmly rejected as both unviable in reducing unemployment and undesirable on ecological grounds.

An unexpected side-effect of globalisation has been an increase in work-time as part of competitive austerity (time reduction initially stalling with the crisis in 1974 and now getting longer and more polarised). Hours of work and intensity of work have increased even as workers' purchasing power has been cut. The movement to lower hours has typically required an international movement to impose an alternate logic on capitalism's tendencies to increase work intensity and hours. In a static sense, it is quite obvious that work, like income, is unequally distributed. But unlike income redistribution work redistribution has the positive consequence of producing free-time. A variety of measures are equalising of work-time (especially if developed as universal standards): overtime limits and severe restrictions on 'double-dipping' by professionals; extending vacations and national holidays; and voluntary job-sharing plans by work-site. But to have a major impact on unemployment nothing will do except a sharp reduction in standard work-time with the clear objective of moving to an average annual volume of, say, 1500 hours of work with a 32 hour work-week (bringing the advanced industrial countries below current German levels). Existing plant might be worked harder (until fixed investment expands) through expanded shift work. But with slow output increases, the
short term reduction in unemployment will require a shift in income (offset by productivity gain, less hours, lower unemployment claims and better public services) as well as work. So a strategy of less work must be implemented in as egalitarian a manner as possible (avoiding the folly of having only the public sector work shorter hours, which both ruins public goods and increases inequality). An expansion of output will then have the maximum impact on employment. A defensive struggle to spread work can form the basis of an offensive struggle for a different way of life.

(5) A 'politics of time' should extend beyond setting standard hours to consider the allocation of work-time and free-time. 'Work without end' has been the history of capitalism. Fordism added 'endless consumption' and the Keynesian conviction—check the old textbooks—that expanded output should always have precedence over reduced work-time for any labour time freed by productivity advance. Changing this orientation will raise questions of an existential order about work, employment and the self-management of time. This has a collective and a personal side. On the personal side, there is an obvious increase in discretion over free time. It is also possible to pursue more flexible patterns of work-time through flex-time, banked time, single seniority lists based on hours worked, and paid educational leaves that re-shape the control of time. There is an equally important collective side to lowering work-time. There is, for instance, more ample time, as both Andre Gorz and Ernest Mandel have argued, for collective decision-making in administrative and legislative activities. The radical reduction in work-time, with greater worker control over the allocation of time, raises the concrete possibility of realizing the long-standing goal of the socialist movement for a 'democratically controlled economy.'

(6) Productivity gains in the labour process should be negotiated against the requalification of work. The economic crisis also relates to the supply-side crisis of production (which in turn structures labour demand). The new technologies further restructure the supply-side through changes to the labour process and work-time. Competitive austerity, however, is compelling work speedup and job fragmentation of a Taylorist kind, even though this often involves sacrificing productivity gains that might occur from increased worker input into production. A positive restructuring—which would depend upon altering the balance of class relations on the shopfloor and in society—would entail exploiting the capacity of the new technologies to involve workers in production and the planned elimination of boring, repetitive jobs. The fight against Taylorism extends into the kind of training that is premised on preserving and expanding workers’ skills. This means long-term, broad skills rather than short-term, specific ones;
transferable skills over firm-specific skills; theoretical as well as practical knowledge; and skills that extend worker autonomy over the labour process. Thus formal qualifications, earned through institutional training or a mixture of formal training and on-the-job training, tend to allow workers more flexibility and control over their labour process. The requalification of work would extend broad skills of technical competency to all workers.

Employment and education have always been linked. Training plays a central role in industrial policy and thus aggregate and sectoral labour demand, in matching labour supply with skills demand, facilitating adjustment between jobs, and in improving skills in cyclical downturns. So training has to fit with other initiatives as it cannot create labour demand for imaginary jobs. But building workers' capacities and skills as a continual process has the positive benefit of providing an oversupply of high skills, which can make easier adjustment to demand and technology shifts. Increased worker participation in the labour process to increase productivity is undoubtedly a struggle waged on the terrain of the capitalists. Yet reuniting conception and execution and rebuilding workers' capacities advances materially the possibility of worker self-management which any democratic socialism must be premised upon. Life-time education rather than narrowly conceived 'training' should really be the goal.

(7) The requalification of work should be linked to quality production within a quality-intensive growth model. It is not possible any more to simply lay to one side the quality of the growth process, issues of work process and product design, or production for social need. The failure of social democratic Keynesianism was possibly greatest here, in that it never developed state, community or worker planning capacities or offered a 'different way of life.' Keynesianism above all attempted to alleviate the capitalist unemployment problem by growth in the quantity of consumption goods and thereby the quantity of employment hours demanded. Yet it is now more necessary than ever to connect the skills, resources and employment that go into the labour process to the ecological quality of the production process and the use-values which come out.

An alternative socialist policy might accentuate a number of positive trends that can be discerned. The requalification of work, for example, makes it feasible for unions to develop their own technology networks, popular plans for industry, and socially-useful products. As well, there is an element of the new technologies that does allow decentralized small-scale batch production or flexible specialization (although this cannot be generalized into an entire economic system as some wildly wrong theories did in the 1980s). This allows for a whole range of customized instruments, clothing, housewares. Quality-intensive growth also speaks to the
provision of public services. Here the problem is two-fold. The bureau-
cratic Fordist-style of the postwar public sector can also gain from
diversified and quality production to overcome standardization and **input-**
controlled production of public services. The quantitative restrictions of
austerity have also seriously damaged the quality and range of public
goods from such basics as clean streets to the variety of art available in
public spaces. A socialist economic policy will foster, therefore, a quality-
intensive growth model that encourages workers' skills and capacities,
incorporates resource-saving and durable production techniques, and
produces free time, collective services and quality products.

(8) **The decline in work-time allows the administrative time for workplace
democracy.** An unexpected benefit from decreased work-time is that it
allows for a democratic expansion of employment by freeing adminis-
trative and deliberative time for workplace and community planning of
output and work. With work-time reduction and job security so central to
an alternative, it is quite necessary and possible to put workplace planning
agreements on the bargaining table. These include, most obviously, informa-
tion on compensation, profits, trade and investment plans, but also
should advance toward product design and long term workers' plans.
Labour productivity gains not taken in increased output can be taken in
increased time devoted to workers' control and environmental sustain-
ability. Of course, capital will not yield such 'structural reforms' over
democratic control without threat of capital strike. Capital would prefer to
continue with Taylorism than risk worker self-management. But it is
exactly this that makes the external regulation over capital flows so critical.

(9) **Local planning capacities will be central to sustaining diverse develop-
ment and full employment.** Postwar Keynesianism concentrated on
centralized aggregate demand management with little economic planning.
It was recognized that employment planning and adjustment policies were
a necessary supplement to demand management in tight labour markets.
Yet this largely remained limited to forecasting occupational and labour
force trends. It did not involve planning resource usage and never even
extended to implementing the postwar idea of a 'public works shelf' of
projects to be taken up in downturns. The local component of planning was
labour exchanges which served largely as a location for job listings and
counselling, but which never did much in the way of identifying local job
or skill needs. In many countries, even these limited services provided by
local employment centres have been allowed to run down under neoliberal
policies. An alternative employment policy will, in contrast, have as a
priority the development of local administrative capacities. **There is a**
desperate need to formulate local labour plans accounting for the existing
labour stock and skills, but also that forecasts local labour force trends, skill shortages and job trends. This kind of knowledge cannot be found or developed centrally. Local labour market authorities, therefore, must become much more forward-looking and active planning units rather than the passive dispensers of dole payments or centres for the video display of job postings that they have become.

There is an added dimension to local planning. In the service sector, where most job growth will be, the challenge is not only to raise the quality of work and pay, but also to collectivize many service activities that are too expensively provided by private markets (daycare), or are not available at all because of underfunding (cleaner environment). It is impossible to envision these being done without planning of resource use and input from users and producers of the services. How does one go about providing library resources in a multi-cultural society from an office tower in Washington or Berlin? Decentralized popular planning should be central to a non-capitalist 'third sector,' that is, self-managed community services (either newly formed or partly devolved from traditional state administration) such as cultural production, environmental clean-up, education and leisure. These activities will have to be planned, through local labour market boards, to determine socially-useful activities, community needs, and local skills. This reinforces the linkages between the expansion of employment and the formation of democratic capacities.

(10) Socialist economic policy should encompass new forms of democratic administration. Employment policy, the central focus of this discussion, is typically administered through traditional hierarchical bureaucracies of central offices of control, planning and funding and decentralized employment exchanges. The exchanges grew in prominence with war mobilization and the subsequent adoption of unemployment insurance schemes. The exchanges embodied, in many ways, the worst aspects of postwar bureaucratic administration: poorly planned and ill-focused at the centre and rigid and remote in local communities. Where could it have possibly been said that the local employment centre was the key location for discussing and planning work in the community? Yet, in a democratic society where most of us spend a large portion of our adult lives working (or seeking work), this is exactly what they could and should be. It would be quite possible to establish a statutory labour market system structured through local, democratically accountable bodies. This could be encompassed within a national employment policy, with the local boards allowed a decentralization of decision-making and thus local communities a more active role in establishing production, employment and training priorities. Such democratically elected boards could serve as a 'space for the alternative' on a broad range of local issues: where workers' plans are linked to
IV. Conclusion: Capitalist Obstacles, Socialist Imperatives

It is conventional wisdom that the internationalisation of capitalist economies at the end of the twentieth century has created historical conditions that have vitiated traditional socialist economic objectives and, indeed, their policy means as well. This accounts, in part, both for the boldness with which neoliberal policies are being pursued and the appalling servile character of the latest revisionist turn of social democracy. I have argued, in contrast, that the internationalisation of market processes has caused unmitigated disasters in many parts of the world as well as economic imbalances and social polarisations between and within countries that cannot be resolved by economic approaches that would intensify these processes. This is the case for both neoliberal and social democratic policies targeted at widening the economic space for internationalisation. Widening the space for international governance of the market to match its global expansion, as the advocates on the Left for a 'cosmopolitan democracy' and the formation of an 'international civil society' argue, begs far more questions than it answers and depends upon an untenable view of market processes (even when accompanied by the laudable goal of 'throwing sand into the wheels' of global financial capital). Capitalist social relations remain a massive obstacle to social justice.

There are eventually only two options facing individual countries in the hyper-competitive conditions of structurally imbalanced and unmanaged internationalised capitalist markets – protectionism or austerity. In the current conjuncture, the neoliberal 'Washington Consensus' of the IMF, World Bank and the GATT-WTO has ruled out protectionism – and thus the 'begging-thy-neighbour' process of exporting unemployment of the 1930s – by lowering tariff and non-tariff barriers. The Consensus's constraint on protectionism, however, does not resolve the underlying pressures but only shifts them elsewhere (particularly as the WTO is as much an investment pact for private investment flows as a trade
of this defensive adjustment produces a spiral of ‘competitive austerity’ so that the pressures to rationalise and cut costs is ceaseless. Improving external balance and competitiveness in the 1990s takes the form of 'beggar-thy-working class' policies of expanding unemployment at home. Neither neoliberal free trade nor social democratic proposals of shaped advantage for national competitiveness provide an exit from this destructive form of capitalism. Nor would simply taming financial markets resolve it as this would only modify the temporal dimension of the asymmetries in the world economy and not their spatial underpinnings. These obstacles also apply to the misguided faith common amongst the new market socialists in the allocative efficiency of global markets in determining investment and research and development, as opposed to the allocative efficiency of democratic planning in determining where these expenditures might best meet social needs. This is an impossibly shallow view of consumer sovereignty and the sustainability of present distributional and consumption patterns.

These criticisms still leave, of course, the most difficult question: on what basis might a political challenge to these processes be mounted and socialist economic policies be forwarded? The social democratic proposals to forge a progressive competitiveness approach to internationalisation, often put in terms of creating a 'stakeholders' capitalism', has been the pole of attraction for most Left political parties and intellectuals. But as a result of the contradictions analysed here, nowhere is this strategy posed as a serious alternative to neoliberalism. It is the North American model of longer hours of work at income-splitting, insecure jobs and an impoverished public sector that is spreading. This is the case even in Sweden and Germany, which best combine the pre-conditions of strong labour movements brokering compromises with a national bourgeoisie traditionally committed to national competitiveness. Similarly the East Asian miracle economies, so commonly put forth as a progressive alternative to neoliberalism in even the usually most clear-headed socialist periodicals, only makes the case that state intervention to support national industry is not always a failure in raising output levels. They are neither generalisable models because of the external constraint nor desirable ones on the egalitarian, democratic or ecological grounds of socialist politics.

I have argued in this essay, again in opposition to most current thinking on the Left, that socialist economic policy still provides a vital alternative to resolving these problems. This is not to declare that ready-made blueprints can be offered: it is to search for viable sets of strategic orientations and principles around which struggles in specific times and places might advance. The calls made in this context for re-territorialisation of the 'spaces of production' and for constraints over the 'space of flows' of monetary and commodity exchanges at the world level should, then, hardly
be controversial. To cite Miliband again: 'The fact of class struggle on an international scale inexorably points to the need for a socialist government to preserve as large a measure-of independence as is possible... socialists cannot accept a parallel political internationalization which, for the present and immediate future, is bound to place intolerable constraints on the purposes they seek to advance.' The point of controversy more properly resides in two areas: at what political moment, to what extent and in what forms should sovereignties be sacrificed to democratised multi-national blocs and international agencies reinforcing the diverse autocentric, ecologically-sound development trajectories of their constituent members; and at what moments, to what extent and in what forms should democratic forums within states have priority to plan and control production and ecology? Working through these challenges requires political movements which are thoroughly international in their thinking, linkages and solidarities. But such movements can only arise if they are firmly rooted in their own local and national communities and ecologies in developing their democratic capacities and economic alternatives. The obstacle lies not in the impossibility of developing viable socialist economic policies for these movements to pursue as opportunities present themselves. Nor are the sentiments of a majority of the world's population North and South, who wish for a 'different way of life' from the competitive treadmill and despair of capitalism at the end of the century, inhospitable to such policies. The obstacle is a minority class that draws its power and wealth from a historically specific form of production. There is a route forward if the market basis of this power is seen for what it is: contingent, imbalanced, exploitative and replaceable.

NOTES
2. P. Hirst and G. Thompson, Globalization in Question (Oxford, Polity Press, 1996). They put it: 'The opposite of a globalized economy is thus not a nationally inward-looking one, but an open world market based on trading nations and regulated to a greater or lesser degree both by the public policies of nation states and by supra-national agencies.' Their case is built around, inter alia, protection of investment flows, co-operative capitalists and faster growth. See: Globalization, p. 16.
4. Ralph Miliband, Socialism for a Sceptical Age, p. 2.
6. Just at the time many Marxists were coming to praise and advocate the Swedish model as the way of the future, one of its main architects was decrying its end. See: R. Meidner, 'Why Did the Swedish Model Fail?' in R. Miliband and L. Panitch (eds.), Socialist

7. 'Labour Leader Seeks to Reassure NY Financiers,' Financial Times, 11 April 1996. After his new year interview with the Financial Times, 16 January 1997, it was reported that Blair 'really does believe the ideological battles over economics during the present century will be seen in the long sweep of history as an aberration.'


12. Ibid. Scharpf invokes 'socialism in one class' positively, if gloomily, as the necessary strategy for the present period. In contrast, Leo Panitch, in Social Democracy and Industrial Militancy (Cambridge, Cambridge University Press, 1976), p. 244, first used the term to denote the loss of the objective of taking anything away from capital.

13. I follow here E. Wood's distinction in conceptualizing capitalism between the market as opportunity 'always conducive to growth and the improvement of productive forces,' and the market as imperative with 'its specific laws of motion which uniquely compel people to enter the market and compel producers to produce "efficiently" by raising labour productivity.' See: 'From Opportunity to Imperative: The History of the Market,' Monthly Review, 46:3 (1994).


15. The idea of stakeholding refers to some notion of inclusiveness and partnership in private enterprises, but the rhetoric of partnerships is easily applied by social democrats to state policy as well. There may or may not be some participation or property rights attached to the term. It describes well the type of capitalism favoured by social democratic policies for national competiveness.

16. J. Roemer, A Future for Socialism (Cambridge, Ma., Harvard University Press, 1994); and A. Gamble and G. Kelly, 'The New Politics of Ownership,' New Left Review, 220 (1996). This view recalls Paul Samuelson's comment, in the midst of the 1950s 'end of ideology' phase, that as far as economic theory was concerned it was a matter of indifference if workers hired capitalists or capitalists hired workers. The mixed economy had made dispute over modes of production pointless. For the new market socialists, socialism is now a question of degrees of ownership mixes in a global marketplace.

17. The coherence, such as it is, arises out of the conversion of temporal patterns into spatial restraints to accumulation. Surplus value must be produced and realized within a certain timespan. If time is needed to overcome space, surplus value must also be produced and realized within a certain geographical domain... It is production in particular locales that is always the ultimate source of [capitalist] power.' See: D. Harvey, The Limits to Capital (Oxford, Basil Blackwell, 1982), pp. 416,423.


21. 'The World Economy,' *The Economist*, 7 October 1995, pp. 4-5. *The Economist* goes so far as to argue that the outcomes of trade liberalization are efficient because they are the result of freer markets even when they 'give perverse signals.'


25. By social democratic economic policy we mean the set of economic ideas and practices to compensate for specific market constraints and failures within capitalism. These policies are market controlling and not transitional strategies.


27. This national compromise had its parallels in the import-substitution industrialisation strategies of the South and the command economies of Eastern Europe.


30. Ian Roxborough, for example, in looking at open-economy social democracy in Latin America, argues that 'there is no question of attempting a complete reversal of all neoliberal reforms.' See: 'Neoliberalism in Latin America: Limits and Alternatives,' *Third World Quarterly*, 13:3 (1992), p. 432.


33. W. Ruigrok and R. van Tulder's *The Logic of International Restructuring* (London, Routledge, 1995), ch. 9, goes even further in arguing that virtually the entire Fortune 100 list of the world's largest non-financial corporations enjoyed key government support and trade protection. This is another example of just how ideological the theoretical defence of free trade is.


shaped advantage is that the key issue is surplus trade in manufactured goods for high growth. But as students of Canada have long noted, there can be high growth with deficits in value-added trade. The real question becomes the form, quality and control of development, an assessment precluded by notions of national competitiveness. The classic argument remains: M. Watkins, 'A Staple Theory of Economic Growth,' Canadian Journal of Economics and Political Science, 29 (1963).

37. The cumulative causation argument builds on the work of Nicholas Kaldor and Joan Robinson. The implications of the arguments today, however, have become skewed away from the need to control the open sector, as the Cambridge Economic Policy Group and the British Alternate Economic Strategy argued in the late 1970s in its case for import controls, toward primarily export promotion in high technology industry as globalisation has blocked other options. There is some relation to the Marxian notion of absolute cost advantage as developed in different directions by dependency theory, especially in A. G. Frank, Capitalism and Underdevelopment in Latin America (1967) and S. Amin, Unequal Development (1976), and in value theory by G. Carchedi, Frontiers of Political Economy (1991) and A. Shaikh, 'Free Trade, Unemployment and Economic Policy,' in J. Eatwell (ed.), Global Unemployment (Armonk, M.E. Sharpe, 1996).


39. Thus the social democratic case for shaped advantage has particularly strong advocates in the economically declining powers of Britain, Canada and the U.S., as with popular writers like Will Hutton, James Laxer, Lester Thurow and Robert Reich.


42. J. Rogers and W. Streeck, 'Productive Solidarities: Economic Strategy and Left Politics,' in David Miliband, ed., Reinvesting the Left, p. 143. See also the critique of these views developed by Ash Amin, 'Beyond Associative Democracy,' New Political Economy, 1:3 (1996).


44. 'Social Democracy and Full Employment,' New Left Review, 211 (1995), pp. 54-5. This view, of course, is somewhat marginal to the actual policy orientation toward national competitiveness of social democratic parties today. In actual practice the solidarity is invoked by social democratic governments to impose real wage losses on workers via a consensus to lower unit labour costs and tax loads.

45. See, for instance, S. Holland (ed.), Out of Crisis (Nottingham, Spokesman, 1983).


47. 'Globalisation and the State,' in R. Miliband and L. Panitch (eds.), Socialist Register


49. Thus Canada exhibited what I have termed a 'limping golden age' to describe growth conditions that were more extensive than the intensive growth of other Fordisms and also that exhibited a secularly growing unemployment level since the 1940s. See: G. Albo, The Impasse of Capitalist Employment Policy? Canada's Unemployment Experience, 1956-74 (Ottawa, Carleton University Ph.D. Thesis, 1994).


Devaluation also loses some of its impact for deficit countries in that the increased complementarity of economies makes imports less price-sensitive. This is another consideration in terms of the need to control the open sector and to reduce import elasticities.


This position has been best articulated by the most dynamic and successful union in North America: Canadian Auto Workers, False Solutions, Growing Protests: Recapturing the Agenda (Toronto, CAW, 1996).

52. This formulation is offered by A. Lipietz, moving somewhat away from his earlier views, but its antecedents also lie in the position of R. Boyer on offensive and defensive forms of flexibility strategies. They are, of course, arguing for the more egalitarian outcome and do not gloss over some of the contradictions as do advocates of flexible specialisation, diversified quality production and others. See: A. Lipietz, 'The New Core-Periphery Relations: The Contrasting Examples of Europe and America,' in C. Naastepad and S. Storm (eds.), The State and the Economic Process (Cheltenham, Edward Elgar, 1996); and R. Boyer and D. Drache (eds.), States Against Markets: The Limits of Globalization (London, Routledge, 1996).

53. For a critique see the excellent J. Peck, Work-Place: The Social Regulation of Labour Markets (New York, Guilford, 1996).


55. This formulation is offered by A. Lipietz, moving somewhat away from his earlier views, but its antecedents also lie in the position of R. Boyer on offensive and defensive forms of flexibility strategies. They are, of course, arguing for the more egalitarian outcome and do not gloss over some of the contradictions as do advocates of flexible specialisation, diversified quality production and others. See: A. Lipietz, 'The New Core-Periphery Relations: The Contrasting Examples of Europe and America,' in C. Naastepad and S. Storm (eds.), The State and the Economic Process (Cheltenham, Edward Elgar, 1996); and R. Boyer and D. Drache (eds.), States Against Markets: The Limits of Globalization (London, Routledge, 1996).


60. In other words, the rate of return to capital is set by world market forces and wages must adjust, with corporatist institutions providing the best means to do so. This recalls Marx's old warning that 'wages are the dependent and not the independent variable' in terms of capital accumulation.

61. 'Seoul Threatens to Expel Foreign Trade Union Groups,' Financial Times, 14 January 1997.


64. Thus the regional differentiation of competitive capacities must be compensated by regional planning agencies of the multi-national authorities whose tasks are to do what other levels of government previously did, but with the loss of the main instruments to control development—currency control and import controls.


67. The point is that the 'capitalist reformer's dilemma' cannot be overcome within its own terms. As Mike Lebowitz argues, there is in fact a need for socialists to create a 'capitalists' dilemma': the penalty for refusing to compromise is a loss of control over financial and productive assets. See, for example, his 'Trade and Class: Labour Strategies in a World of Strong Capital,' *Studies in Political Economy*, 27 (1988).

68. The 'Myth of the Powerless State,' *The Economist* (7 October 1995), p. 16. They were, of course, warning of the dangers of state intervention.


70. As Elmar Altvater puts it: 'Successful adaptation to exogenous conditions has relatively little to do with the functioning of markets; on the contrary, it depends on the extent to which nations manage to control the operation of world market forces by political power.' See: *The Future of the Marker*, p. 81.


73. This is, of course, a theme from the ecological Left going back to the 1970s, but also now among some Marxists, notably in the important journal *Capitalism, Nature, Socialism* under the editorship of Jim O'Connor. This should not be confused with an autarkic strategy, but control of the external sector internationally and nationally for reasons of democratic diversity, ecology and equality.

74. Economies of scale here means increased output for a given amount of inputs through long production runs. Increasing returns to scale are conceptually possible from other forms of organizing production by combining flexibility, external organizational economies and specialization. Robin Murray's varied writings have made this point most forcefully in attempting to find the rational kernel in current debates about production. See, for instance, 'Ownership, Control and the Market,' *New Left Review*, 164 (1987).


76. The variability of capitalist development has, if anything increased, now that the world configuration is no longer that of the classic age of imperialism. The flows of the world economy are no longer a one-sided necessity for capitalism in the North. How else can we account for the four tigers of Asia, the relative economic decline and trade problems of the U.S., and the mobilization of national capitalists in numerous countries against inward-oriented economic policies? The study of imperialism today is about the particular mechanisms which allow a centre economy to advantageously control the local resources of a periphery, rather than a search for uniform laws. This definition also encompasses relations of dependence between advanced capitalist states, as between Canada and the U.S. On the importance of national models see: S. Berger and R. Dore (eds.). *National Diversity and Global Capitalism* (Ithaca, Cornell University Press, 1996); and J. Zysman, 'The Myth of a "Global Economy": Enduring National Foundations and Emerging Regional Realities,' *New Political Economy*, 1:2 (1996).
77. A. Singh, 'Industrial Policy in the Third World in the 1990s: Alternative Perspectives,' in K. Cowling and R. Sugden (eds.), Current Issues in Industrial Economic Strategy (Manchester, Manchester University Press, 1992). This is to say that differentiated competitive capacities do not always lead to cumulative competitive weakness; that external relations must be managed so as not to defeat other planning objectives; and that internal class struggles are crucial to embedding a process for more autonomous and integrated economies. These points are argued forcefully by C. Leys, The Rise and Fall of Development Theory (London, James Currey, 1996) and M. Bienefeld, 'The New World Order: Echoes of a New Imperialism,' Third World Quarterly, 15:1 (1994).

78. This would appear to be a strong version of Robert Cox's suggestion that 'the core institutions of a new multilateralism would have to reflect [civilisational] diversity, . . . a weak centre in a fragmented whole.' See: 'Civilisations in a World Political Economy,' New Political Economy, 1:2 (1996), pp. 153-4.


87. See: C. Sabel, 'Flexible Specialization and the Re-emergence of Regional Economies,' in P. Hirst and J. Zeitlin, (eds.), Reversing Industrial Decline (Oxford, Berg, 1989). This is a point on which Wolfgang Streeck’s work cited above has been most insightful, but also see R. Mahon, 'From Fordism to ?: New Technologies, Labour Markets and Unions,' Economic and Industrial Democracy, 8 (1987).


89. Socialism for a Sceptical Age, pp. 179-80.