

# Blog on Capitalism

Exploring the nature of Capitalism

## Global economic forces, local realities

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1997 (Revised January 2010)

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The financial shocks of the past three years in Western countries have alerted people who live in these countries to the fragility of the financial environment upon which they depend for present wellbeing and future security. Similar shocks have been experienced in Third World <sup>1</sup> countries at regular intervals since the 1970s. The recent crisis pales in comparison with the currency problems endured in Asian, Central/South American and African countries between 1990 and 2000.<sup>2</sup>

There is something fundamentally unstable about the current World Economic Order.

It is time to examine and contextualise the neo-liberal drive to deregulation and globalisation of market activity in both Western and Third World communities over the past forty years. We should also examine the nature and consequences of the *structural adjustments* <sup>3</sup> which have been required for successful participation in the neo-liberal world economic order which has

emerged over that time.

Between the early 1930s and the middle to late 1970s, most Western governments promoted protectionist, 'developmentalist' policies aimed at harnessing economic activity to national and community needs. Governments limited and directed market activity through imposing rules and regulations on imports and exports and on fiscal and financial activity. From the mid-1960s, neo-liberal arguments were increasingly successful in challenging the legitimacy of the protectionist legislation of the period. Neo-liberalism places the market at the centre of 'development'. The presumption is that if the state privatises as much of its activity as possible, making it directly answerable to 'market forces', and deregulates fiscal and financial activity, market forces will ensure rational, efficient economic organisation and activity which will, in the long-run, result in a more rational organisation of society, to the benefit of its members (see [Capitalism and Third World Nations](#) for more on this). It has been in the context of this deregulation of national economies, and the facilitation of international economic activity that the present global economy has emerged.

In this discussion we will briefly examine the relationship between community social templates, resource utilisation and the constantly escalating productive and consumptive demands of Western communities. We then trace the emergence of what, in the West, came to be called the welfare state, and some of the reasons for the imposition of protectionist legislation on economic activity. This provides a platform for understanding the post-1970s demand for the lowering of protectionist barriers to market activity which characterises the neo-liberal economic reorganisation of the past thirty years. The global economy which has emerged has been based on a progressive removal of national governmental restrictions on international market activity. We will examine some of the demands made for the internationalisation of market activity over the period and some of the consequences of unregulated, international market exchange for both First and Third World communities

It became accepted during the 1930s in Western countries that people were wholly dependent on wage incomes for their livelihood and that the state should, therefore, accept some responsibility for their social welfare if they lost employment. On the other hand, those responsible for policy development and implementation in colonial territories considered that people in non-Western communities, if they lost employment, could return to their home communities and depend on subsistence resources for their livelihood. Since this presumption has led to some of the most important strains and stresses on both Western and non-Western communities in the past twenty years, it is necessary to understand both the rationale and the consequences of this belief in the continued existence of viable subsistence alternatives for non-Western people.

The relationship between community social templates, resource utilisation and constantly escalating productive and consumptive demands

Prior to European intrusion, most non-Western people lived in subsistence orientated communities (see [Subsistence and status](#)). Economic activity was focused on the provision, by its own members, of most of the goods and services required by the local community, and that community accepted responsibility for the well-being of its members. Trade was usually limited to a few products or raw materials not directly available to the community. It was often focused directly on the circulation of status-related goods and was not central to the supply of everyday needs and wants. As has been outlined (see [Subsistence and status](#)), in most communities the material requirements of individuals and groups have been socially circumscribed and fit the productive potential of the environments they inhabit. So, over long periods of time, such communities have been able, in all but very adverse physical conditions, to meet most of their needs from their own environments.

### [Pressure on Technologies](#)

Since material needs and wants have been socially circumscribed, the technologies necessary for their production have also remained relatively stable. There is little need to develop more sophisticated, efficient, and streamlined production techniques and technologies where those which have been developed provide both the quantity and quality of goods required and where requirements do not constantly escalate. Rather, people spend their time in pursuits which directly relate to the requirements of the social templates of their communities, through which they achieve increased social status and respect.

Western Europeans, on the other hand, became involved in material production and in the consumption of goods and services for very different reasons. Western European social templates focus directly on the production and consumption of goods and services. They are economically orientated. They are also focused on individual competitive opposition, on what economists call 'market activity' (see [Reciprocity and Exchange](#)). In such templates, where individuals gain status and respect through the competitive accumulation and consumption of goods and services or of the means for obtaining these - through accumulating money or resources which can directly or indirectly be converted into cash income - the supply of goods and services in the community is inherently inflationary. Therefore, those items which are in shortest supply, but in greatest demand, become the most highly 'valued', that is, the most important in determining relative status.

Since people are involved in individualised competitive accumulation and consumption, there is constant pressure to produce increasing quantities of goods to feed the acquisitive and consumptive appetites of community members. There is, therefore, constant pressure being placed on current productive techniques and technologies, since the requirements placed on current technologies are constantly escalating. Producers who are able to improve productive efficiency through more 'economic' use of their resources, through streamlining production techniques, and through improving technology, gain a competitive edge over their rivals.

The consequences of this drive are that techniques and technologies are

constantly being improved and refined to enable constantly increasing production; constantly increasing exploitation of the environment; and constantly decreasing materials and production costs. Community resources are placed under constant pressure. They are in short supply, or, as economists are wont to remind us, they are 'scarce'. As such, they become increasingly 'valuable' and therefore become desired possessions in the drive for status and respect. This, in turn, leads to their accumulation by those with the wealth and power to appropriate them <sup>4</sup>.

### Alienation of rural small-holdings and reliance on wage labour

In early modern Western Europe this led to land enclosure and the dispossession of increasing numbers of rural dwellers <sup>5</sup> who were forced, by their loss of subsistence resources, to become poorly paid rural labourers or to migrate to the towns where they might be able to live by their wits or, if they were lucky, find paid employment. Land became unavailable to most members of the community for subsistence lifestyles. It had become incorporated into the social template as one of the possessions through which people could attain and maintain status. As such it had to be 'owned' by the individual rather than by the community, and the individual had to limit the possibility of others enhancing their statuses through its use. That is, laws of trespass became inevitable <sup>6</sup>.

Losing access to subsistence resource bases, people had to rely on cash income both to ensure subsistence and to maintain and enhance their social statuses. Poverty became defined not only in terms of loss of access to subsistence resource bases, but also in terms of the ability to maintain the levels of accumulation and consumption of goods and services which were required for the social statuses which people had attained. The 'success' of individuals could be determined by the cash income available to them, or by the cash value of their holdings.

In Western communities, increasing numbers of people could only maintain their statuses and satisfy their expanding needs through wage labour. As Marx observed, the only saleable commodity left to many individuals was their ability to labour. They became compelled by both their subsistence and status-related needs to sell their labour power to those who controlled the means of production. And, since labour power became another source of wealth and therefore of status, it was used as all other resources were used, to increase the wealth of those who controlled it - to produce the maximum output for the minimum input. So Marx claimed:

The Roman slave was held by fetters: the wage-labourer is bound to his owner by invisible threads. The appearance of independence is kept up by means of a constant change of employers, and by the *fictio juris* of a contract.

(Marx 1867, vol. 1, pt 7, ch. 23)

With labour in plentiful supply and employment difficult to find, employers could reduce labour costs and make it more pliant through challenging social restrictions on the exploitation of labour. It soon became argued that all

forms of social interference in the marketplace of labour should be removed. As Townsend ([Joseph Townsend \(1786\)](#) also see Polanyi 1957, p.113) argued in the late eighteenth century, labour should be made directly available, without social impediments, through the marketplace. People should be 'freed' from social 'restrictions' on their 'right' to sell their labour power to the highest bidder and businesses should be 'freed' from 'political interference' to engage labour at 'market prices'. Of course, in a period of plentiful labour, market forces ensured that such prices would be very low. As Marx explained:

To become a free seller of labour-power, who carries his commodity wherever he finds a market, he must ... have escaped from the regime of the guilds, their rules for apprentices and journeymen, and the impediments of their labour regulations. Hence, the historical movement which changes the producers into wage-workers, appears, on the one hand, as their emancipation from serfdom and from the fetters of the guilds, and this side alone exists for our bourgeois historians. But, on the other hand, these new freedmen became sellers of themselves only after they had been robbed of all their own means of production, and of all the guarantees of existence afforded by the old feudal arrangements. And the history of this, their expropriation, is written in the annals of mankind in letters of blood and fire.

(Marx 1867, vol. 1, pt 8, ch. 26 -  
see [Thomas More \(1516\)](#) for a 16th Century account of the consequences of that expropriation)

Thomas Jefferson, writing home from Paris in the late 18th century, put it starkly:

...they have divided their nations into two classes, wolves and sheep. I do not exaggerate. This is a true picture of Europe. ...man is the only animal which devours his own kind; for I can apply no milder term to the governments of Europe, and to the general prey of the rich on the poor. (Thomas Jefferson, 1787) [7](#)

Where people lose access to their subsistence environments and become entirely dependent on wage labour for the supply of their needs and wants, loss of employment leads to both socially-defined and absolute poverty. The history of the emergence of capitalism in Western Europe is, simultaneously, the history of endemic poverty for large numbers of displaced people who were compelled to sell their labour power on the open market. The improvement in the quality of life of Western European wage labourers coincided with the expansion of Western Europe into the rest of the world.

### [Invaded environments, Mono-cropping, Cash-cropping and snowballing production and consumption](#)

When Western people entered non-Western territories, they quickly began to reorganise the invaded environments to contribute to the snowballing production and consumption needs of the West [8](#). They oversaw an expansion

in utilisation of available resources, stepping up production and export to the raw materials markets of Western Europe. This ushered in a period in which non-Western regions were reorganised to mass produce particular commodities for European markets. Regions became devoted to 'mono-agricultural' export, to large-scale production of a very few primary commodities for export, rather than for the communities whose environments were reorganised. Where mono-agricultural development in large holdings was not feasible, indigenous communities were re-organised to emphasise cash-cropping, producing agricultural products required for European markets on small-holdings.

This, over time, made such regions very vulnerable to fluctuations in market demand for their produce. In any period of economic downturn in the West, local people, increasingly reliant on cash income from commodity exports for their subsistence, found their source of income diminished, and therefore their subsistence under threat. Further, the inherent drive of the capitalist system to reduce costs, resulted in constantly decreasing returns to raw materials producers, in turn, this resulted, inevitably, in constant pressure to increase production quantities. Naturally, this led to further pressure on prices and a spiral of over exploitation of the environment simply to maintain subsistence lifestyles.

Once Western economic forces gained control in non-Western areas, whether local peoples were or were not orientated to the same acquisitive and consumptive drives as Western people, they soon found their environments being reorganised to suit Western needs. Increasing numbers found themselves involved in wage labour, in cash cropping, and in placing increasing productive demands on their own environments. And, as in Western Europe in earlier centuries, increasing numbers of people found themselves displaced from their subsistence resource bases as Western forms of productive organisation and ownership were imposed and more and more land became individually owned and committed to commercial crop production.

Since most non-Western communities limited their needs and wants to the productive potential of their own environments, any additional demands, beyond those of their own communities, very soon expanded use of the environment beyond sustainability. Even where there was no alienation of land for commercial purposes, new demands placed on environments to provide not only for the ongoing needs of local communities, but also crops for sale to gain cash income for new goods offered by Western traders, placed new pressures on local environments. In the long run, the new demands, stimulated by Western trade and directly required by Western authorities, led to the depletion of their resources, and forced increasing numbers of people into wage labour as the primary means of subsistence.

Whether non-Western people adopted Western status systems or not, their environments could not be protected from the constantly escalating productive demands of the West.<sup>9</sup> The current environmental crises of the vast majority of Third World countries are not, as many Western experts

would have us believe, a consequence of uncontrolled population growth <sup>10</sup> and ineffective and inefficient technologies. They are, rather, the consequences of attempting to reorganise non-Western communities to live by Western presumptions and of requiring them to utilise their environments, not only to meet their own needs and wants, but also to contribute to the snowballing needs and wants of the Western world. The production stimulated in and forced upon Third World communities was not focused on the needs and wants of those communities. It was focused on the needs and wants of Western communities. It was, and still is export orientated production.

### The emergence of welfarism

The influx of new raw materials ushered in a prolonged period of rapid growth in commodity production in Europe which, in turn, fuelled an explosion in consumption in Western countries. This, of course, increased labour requirements and labour, in Western countries, became relatively scarce. Now, for the first time, market forces actually led to an improvement in wages and conditions for labourers. Wage labourers could begin to negotiate better employment terms. Unions became increasingly powerful since their members were not threatened by loss of employment if they insisted on improvements in their wages and conditions. It also gave credibility to the claims of 'free marketeers' that 'free'<sup>11</sup> competition would, inevitably, result in improved lifestyles for those who entrusted their lives to 'market forces.' The prolonged economic difficulties of the last quarter of the nineteenth century did little to dent this belief in the efficacy of market forces, though they did strengthen the determination of workers' organisations to have legislative protections put in place against excessive exploitation by employers.

Western social templates result in constant, though relatively slow, expansion in the felt needs of community members. This is so because in order at least to maintain one's social status relative to others, one must ensure that one is at least as affluent as, or, preferably, slightly more affluent than they are. Of course, to increase significantly one's private possessions and/or publicly stated income is to improve one's social standing beyond that of one's 'social equals' and enter into a new group, within which one will need to establish oneself and probably accept a disadvantageous position until accepted by the group. The costs associated with such a leap in status deter many from attempting to 'climb the ladder'. Comparisons are usually made between others of similar wealth to oneself, attempting to gain as high a position in their estimation as is possible without having to move into a new status group.

So, over time, because of this competition within status groups,<sup>12</sup> the felt needs of Western people expanded. As the needs expanded so the necessary income to support those needs also expanded. During periods of economic growth in Western countries, people (obtaining higher wages through improved bargaining power) transfer discretionary incomes into necessary income through expansion of felt needs, and so set new baselines for

wages.<sup>13</sup>

Inevitably, over time, the perceived needs of Western people became far greater than the perceived needs of people in communities governed by other social templates. In the eyes of most non-Western people, Westerners became, and still are, materially very wealthy. So, the incomes deemed 'necessary' by Western people have to cover the acquisition of necessities not perceived as such by people in most other communities.

Thus, even without factoring in the social welfare needs of Western communities, the necessary incomes will be substantially higher than necessary incomes in non-Western communities. A distinction needs to be made between the necessary income to meet perceived individual needs and the social welfare component costs of production. Wages are not higher in Western countries because they include a social welfare component, they are higher to cover the perceived needs of Western individuals.

Social welfare costs refer to both the costs of the community and the responsibilities of the community toward all its members, not only those related to the 'poor box', but also those related to the general well-being, education and organisation of the community and its members. Over the past two hundred years, Western countries have increasingly emphasised individual rights and responsibilities at the expense of those of the community. In the process, the community becomes weakened until it no longer provides its members with a strong, immediate sense of shared responsibility and identity. This move toward the individualisation of the population and weakening of the responsibilities and cohesion of communities has been accentuated over the past twenty years.

It took Western communities a long time to come to terms with the need to provide a coherent social welfare program which included both the funding of general community responsibilities and protection of those in the community who had lost access to subsistence resources and could not find employment. It was not until the early 1930s that concerted efforts were made by Western governments to establish welfare legislation to underwrite health, education and the livelihoods of the least affluent of their populations. Prior to that, piecemeal legislation existed in conjunction with community-based charities to meet the needs of those in the most desperate of economic straits.

In the eighteenth and nineteenth centuries, the most common attitude amongst the 'middle classes', those who had most completely absorbed the capitalist ethic, to those who had lost access to subsistence resources but had no cash income is well expressed in a paper written by R. J. Morrison in 1842 entitled, 'Proposals to abolish all poor-laws except for the old and infirm: and to establish asylum farms on which to locate the destitute able-bodied poor; who might thereon maintain themselves and benefit the country £18,600,000 annually'. The paper was written in defence of an 1834 amendment to the Poor Laws in which the destitute were to have social welfare supports removed in order to compel them to accept whatever wages and conditions the market might impose. There was also, of course, a range of papers written by individuals and groups concerned for the welfare of the destitute,

arguing for state protection of the poor. Legislative measures to provide for the poor were, however, at best partial and under constant attack from economic enterprises which saw them as imposts threatening the competitive viability of industry.<sup>14</sup>

It was not until Western nations were plunged into economic depression following the stock market collapses of 1929 that Western governments were forced by popular pressure into building coherent sets of social welfare policies and institutions. From the 1930s to the 1970s, in Western nations, as Stephen Gill explains:

... statist planners and productivist forces pressed successfully for the creation of a national economic capacity (and also autonomy), welfarism, and Keynesianism, with specific policies designed to inhibit the pure mobility of short-term speculative capital. The aim, in the words of the US Secretary of Treasury during the New Deal, was to make finance the 'servant' rather than the 'master' of production.

(Gill 1994, p.174)

After the 1929 financial collapse, people in Western nations, who had been experiencing economic boom conditions over the preceding ten years, found out just how vulnerable they were to the vagaries of the international marketplace. Stock markets crashed, businesses collapsed, and millions of people lost their jobs. Since most Western wage earners, by the 1930s, no longer had access to subsistence resources, loss of employment meant destitution for millions. In the wake of this economic depression, voters in many Western countries turned to political parties which promised that they would directly address the problems of the Depression period.

In the USA, Franklin D. Roosevelt promised the population a 'New Deal' which would introduce a range of measures to protect people from such disasters in the future. Amongst the measures he introduced were:

*The Fair Labor Standards Act* (1938). The Administration, in 1933, attempted to set up an agency to enforce codes of fair practice for business and industry. The legitimacy of the initial agency was successfully challenged in the courts, but, by 1938 its intentions had been successfully established through the above Act. The codes included minimum age; minimum wages; maximum hours; the right of workers to join unions; and provided means for establishing minimum prices to protect businesses from unscrupulous price cutting.

*The Social Security Act* (1935) which aimed to provide workers with a guarantee that, in the event of their encountering reduced circumstances, their basic needs would be met. Among the programs which were established over time were: unemployment, old age, and disability insurance; public assistance for the needy; and child welfare. In 1965, Medicare was added to the Social Security system to provide hospital care, nursing homes, and other medical services for those over the age of 65 years.

*The National Labor Relations Act* (1935) which, amongst other things, guaranteed workers the right to organise and collectively bargain with their

employers; guaranteed workers the right to strike; prohibited unfair labour practices by employers; outlawed company unions or employer-controlled unions; prohibited discrimination against employees who brought charges against or testified against a company in court; and made it unlawful for the employer to refuse to bargain collectively with an authorised employee representative.

As Paul Boller says, 'In its efforts to cope with the Great Depression, the federal government under Roosevelt took measures to help the poor and jobless for the first time in American history' (1981, p. 259). Through measures such as these, Western governments accepted direct responsibility for managing their economies in the interests of their constituents.

Effectively, producers were required to include a 'social welfare' component as part of the costs of production. The price of each product included not only the direct costs of labour, material resources, infrastructure and technology, and a 'profit' component; now the price also included the social welfare requirements of workers, their dependents and other members of the community.

Most of those who were involved in managing economic enterprises saw these new costs as illegitimate imposts on business. It is possible to argue, however, that after more than two hundred years of social trauma resulting from the market-driven need to cut costs (to which social costs seemed most vulnerable), Western nations had matured. At last, communities were insisting that capitalist enterprises be geared to meeting the needs and wants of the communities within which they existed. This was not an illegitimate demand. Where enterprises are required to purchase material resources, from the outset it has been accepted that the price of resources includes two separate components. The first component comprises the costs of extraction and processing of the resource. The second component comprises the profit margin of the supplier. Any supplier which, over the long run, sold its product for less than the cost of extraction and processing, would, by definition, fail.

### Capitalism and Parasitism

While all enterprises drive to reduce costs, there is a cost of material resources below which, over the long run, prices cannot be maintained. This same logic, however, had not been applied to the supply of labour. Because, in the early years of European capitalism, labour had been supplied from communities which still had access to subsistence resources and which relied on, as Marx put it, 'all the guarantees of existence afforded by the old feudal arrangements', it was assumed that business only had to pay the competitive market rate for labour, without a baseline determined by the 'costs of extraction and processing' of labour. In a real sense, capitalist enterprise, as it evolved in Western Europe, was parasitic upon the communities within which it operated.

As those communities became reshaped by the new forces of capitalism, they increasingly became dependent upon capitalist forms of production and consumption for subsistence. That is, communities lost other means of subsistence and had to rely on market-driven production and employment for all their needs and wants.<sup>15</sup> Community needs and wants do not only relate

to employed people and their dependants, but include the requirements of all community members, and of all the activities and responsibilities of the community. Capitalist activity became the basic means by which communities supplied their needs and wants. However, since businesses had long calculated their inputs excluding any costs associated with support of the communities within which they operated, they, inevitably, saw any attempts at imposing such costs as illegitimate and parasitic.

Capitalist enterprise in its evolution was parasitic on communities in which both individual subsistence and the community's needs and wants had been supplied by other means. While it undermined and displaced those alternative avenues of need and want provision, the presumption that community welfare requirements were met through other means remained. In a peculiar way, which can only be understood as one understands the primary ideologies of Western people (see [Ideology and Reality](#)), economic activity was assumed to be separate from social and political activity, subject to its own laws and regulations and with its own independent sets of responsibilities relating to performance within the marketplace. Communities, it was argued, should take responsibility for the provision of their own needs and wants. They should not become 'parasitic' on business.

### [Protectionism](#)

In the 1930s, Western communities finally required economic enterprises to accept social welfare needs as part of production costs. As long as all businesses within a nation accepted the welfare component as an inescapable cost of production, and could be protected from competition from imported products which did not include such a cost, social welfare could be maintained as a reasonable cost on production. After all, the real issue at stake was whether productive activity occurred primarily for the good of the community or whether production could be divorced from social responsibility. Was 'the economy' separate from, and not responsible to 'the community', or was it simply the means by which the community met *all* of its material needs and wants? In the climate of the 1930s and in the post Second World War era, the answer was very definitely that 'the economy' was the means by which a community met its needs and wants, which included the needs and wants of its least advantaged members. Governments, therefore, managed economies in the interests of their populations.<sup>16</sup>

Of course, since success in the marketplace is based on keeping costs as low as possible in order to remain competitive, those involved in economic enterprise have, since the 1930s, strongly resisted and protested the 'imposition' of social welfare costs. This opposition has been expressed both through 'neo-conservative' politics and through the policies of the 'radical right', that is politics based on arguments about the centrality of the marketplace; the separation of economic activity from political and social activity; and the reinstatement of pre-1930s conditions for industry.

In a market economy, the costs of raw materials are based on demand and supply and costs of extraction and processing. The social costs of production however, are, in the 1990s, claimed to be based only on demand and supply.

The costs of the community in which that labour is situated are separated from the costs of labour itself. That is, the costs of 'extraction and processing' of the labour are shifted away from the enterprise to the community to the extent that economic enterprises can convince the community that they are separate from it and bear no responsibility for its well-being <sup>17</sup>. Even where wages include a component for the upbringing of offspring and for the old age of the worker, these costs are assumed to be related to the personal requirements of the individual worker. As the British Prime Minister Margaret Thatcher proclaimed in the 1980s <sup>18</sup>, there is no society, only individuals who choose to congregate and should, as individuals, meet the costs of their interaction. That is, 'user pay' principles should apply to social costs, and most social costs, as distinct from economic costs, are, of course, costs on individuals rather than on economic enterprises. This has been the argument at the centre of neo-conservative political demands for removal of social welfare costs from economic enterprise. As we will see, in the 1980s and 1990s these arguments were increasingly effective in reducing social welfare costs to industry.

In a period of booming economic growth following the Second World War, Western countries continued to accept responsibility for the social and economic welfare of their populations and a range of taxes and charges were instituted to cover the costs of education, health, and social welfare programs. In the 'small I' liberal climate of the period, it was considered socially responsible to redistribute incomes toward the poor through such programs. This resulted in the sliding taxation scales of the period and increases in company tax rates. After all, it was argued, businesses not only benefited directly through better educated, better nourished and more contented employees, they were also, in the final analysis, community assets, which should contribute to community well-being. Businesses had a 'social' responsibility. The society did not exist to service the economy, rather, the economy existed to provide a better quality of life for community members.

In this climate, with the economy servicing the community, industries and, therefore, the jobs which they created and the contributions they made to social welfare, could be 'protected' through the imposition of a range of tariffs on competing imports. The inflow of goods could be regulated by a range of permits, licences, quotas and charges. This 'interference' with 'free' international trade was strongly justified in terms of governmental responsibility for insulating its population from the effects of unregulated international competition. Because of the experiences of the 1930s, this included governmental responsibility to safeguard jobs which would, otherwise, be lost to those countries where production was cheaper because those who controlled production did not accept that economic pricings should include costs related to the maintenance of social welfare.

Effectively, Western governments required the value of goods to include a component for the social welfare - the 'costs of extraction and processing' of the communities in which they were produced. They, therefore, had to protect producers and manufacturers from unfair competition from counterparts in other countries whose pricings did not include such a

component and a range of barriers to trade were instituted. Since the mid-1970s this 'protectionism' has been blamed by neo-liberal commentators for most of the economic problems facing businesses, since it made business internationally 'uncompetitive'.

It was also believed that there needed to be strong checks on the fluidity of capital, so that it could not flow in and out of countries at will. This belief was founded in historical experience. In the eighteenth and nineteenth centuries, as banking expanded to provide facilities to increasing numbers of investors, it was found that unless legislative checks were instituted, banks were at risk of collapse, based, not on their own performance, but on rumour and speculation in the community [19](#). If people heard that a bank was in trouble they, quite reasonably, hurriedly withdrew their deposits. Since banks make money through re-lending and investing income received as deposits, no bank, if required to return all deposits, could continue to operate. Without legislative protection from such runs on their holdings, banks collapsed; they were 'bankrupted'.

In fact, the New Deal legislation of Roosevelt in the USA quite explicitly included further reinforcement and refinement of such protections, since it was widely held that a prime cause of the 1930s Depression had been the failure of major banks. The Glass-Steagall Act of June 1933 gave government the authority to curb speculation by the banks and established the Federal Deposit Insurance Corporation (FDIC) which guaranteed all deposits up to \$US2500. This was aimed at convincing small investors that their money would be secure in a bank so that they would not withdraw deposits in anticipation of bank failure. The maximum amount has been periodically increased since then to more or less keep pace with inflation [20](#). In 1935, Congress transferred a great deal of the authority formerly wielded by regional Federal Reserve Banks to the Federal Reserve Board in Washington which, in addition to its basic fiscal responsibilities, was given power to exercise direct control over interest rates and could therefore 'manage' economic activity in the marketplace by encouraging or discouraging bank lending.

Just as it was necessary to stabilise banks and manage them to contribute to community well-being, it was believed countries were at risk unless legislation was in place to limit the possibility of invested capital being withdrawn from a country whenever it appeared that there was some kind of economic problem which threatened short-term profits. This safeguarded productive enterprises from short-term economic swings over which they had little or no control. Similarly, national currencies were protected from international exploitation. Exchange rates were fixed by governments and legislation existed limiting the possibility of trade in currency. In these and a range of other ways, governments 'managed' their economies [21](#). The economy was servant to the country rather than the country being servant to an internationalised economy which could claim to be independent of communities and not responsible for their social welfare.

The situation was a little different in the Third World, since many of the

welfare programs established in Western nations were not established in postcolonial countries. Most colonial governments assumed that wage labourers in their regions belonged to rural communities which would support them and had access to subsistence alternatives if they lost employment. They therefore saw little need to provide economic safety nets for people who had little or no cash income. So, few Third World nations developed the kinds of social welfare programs which became standard in most First World countries. Those who lost employment should, as colonial governments had insisted they must, return to their rural bases and become involved once again in rural communities and subsistence forms of livelihood. This presumption of the continued existence of viable subsistence alternatives to wage employment has persisted in the face of mounting evidence of the degradation of rural environments and burgeoning rural poverty. In consequence, those who have no viable subsistence alternatives find themselves destitute and the problem of deepening rural and urban poverty in Third World countries mounts daily.

Because wage rates and taxes and charges on businesses are calculated to cover the costs of welfare in Western countries, industries have to factor in such costs. On the other hand, where no such welfare is provided, the costs of industry are much lower. Third World countries, which originally attracted labour-intensive industry on the basis of much lower labour costs, cannot, therefore, institute welfare programs, since this would raise costs and discourage the entry of labour-intensive industry.<sup>22</sup> So, although the subsistence alternatives in many countries are now more imagined than real, Third World governments and industries continue to calculate wages excluding a social welfare component. This, coupled with a smaller range of perceived needs and therefore lower necessary incomes for Third World workers, make labour-intensive industrial goods much cheaper than such goods manufactured in Western countries.

Western countries, during the 1950s and 1960s, were well aware of the possibility of losing labour-intensive industry to low-wage countries. This was one of the reasons for maintaining tariff barriers. They were aimed at supporting local enterprise from low-wage competition. Although with booming economic conditions, this did not prevent the development of immigration programs which brought low-skilled, low-paid labour into Western countries to provide workers for those positions considered menial by Western people. This kind of 'protectionism' could only continue, of course, if Western governments concurred and import restrictions were biased against producers whose prices did not take into account both a social welfare component and the heightened needs base of Western workers.

### The triumph of neoliberalism

During the late 1960s and the 1970s, international organisations such as the World Bank and the International Monetary Fund, and a range of non-government organisations committed to improving the economic lot of Third World peoples, argued strongly that Western governments should 'deregulate' economic activity and encourage international economic interaction through lowering tariff barriers and allowing imports from low

wage countries. Transnational companies increasingly began to locate their low-wage production activities in selected Third World countries, taking advantage of new transport developments, particularly the development of container shipping which transformed Western waterfronts during the 1970s. Those who were most directly involved in Third World development planning and programs saw this new movement to produce low-wage goods in Third World countries as providing a new base for national development in those countries. With the failure of import substitution industrialisation, and the faltering of value-added industrial development, this new move by transnational companies to relocate in Third World countries was seen as a 'window of opportunity' for Third World people. Where government-directed planning had not succeeded, private investment from Western countries would. Development agencies, therefore, strongly promoted various forms of deregulation to facilitate transnational investment in the Third World.

From the late 1970s, Western governments, seeking ways in which to stimulate their own faltering trade, began to take such advice seriously and a number of Western countries lowered tariff barriers to selected Third World countries. However, the consequences have been rather different than initially anticipated by the experts. As Jorge Nef recounts:

The transnationalisation of production and the displacement of manufacturing to the semi-periphery, on account of the 'comparative advantages' brought about by depressed economic circumstances and the 'low-wage economy', results in import dependency in the North. This deserves further explanation. The import dependency mentioned here does not mean that developed countries become dependent on less-developed countries for the satisfaction of their consumption needs. Since most international trade takes place among transnationals, all that import dependency means is First World conglomerates buying from their affiliates or from other transnationals relocated in peripheral territories. The bulk of the population at the centre, therefore, becomes dependent on imports coming from core firms domiciled in 'investor friendly' host countries. Via plant closures and loss of jobs, such globalism replicates in the centre similarly depressed conditions to those in the periphery.

Manufacture evolves into a global maquiladora operating in economies of scale and integrating its finances and distribution by means of major transnational companies and franchises (for an analysis of maquiladoras, see Kopinak 1993, pp.141-162). Abundant, and above all cheap, labour and pro-business biases on the part of host governments are fundamental conditions for the new type of productive system. Since there are many peripheral areas with easy access to inexpensive raw materials and with unrepresentative governments willing to go out of their way to please foreign investors, a decline of employment and wages at the centre will not necessarily create incentives to invest, or increase productivity. Nor would it increase 'competitiveness'. Since production, distribution, and accumulation are now global, it would rather evolve into a situation of

permanent unemployment, transforming the bulk of the blue collar workers - the 'working' class - into a 'non-working' underclass.

(Nef 1995, ch. 3)

This relocation of low-wage production to Third World countries and the importation of goods into First World countries resulted in an altered balance of payments without there being any shift in purchasing patterns in those countries. That is, the 'balance of payment crisis' which has been a major cause of concern in Western countries over the past fifteen years, has, in large part, been a consequence of the internationalisation of production which came with the lowering of tariff barriers and transfer of low-wage industry to Third World countries. The move to lower tariff barriers and to allow cheap imports from low-wage countries required a reduction in protective legislation in Western countries and, from the late 1970s, Western governments began to make such changes. As an FAO report describes:

In the process of adjustment the inward-orientated industrialisation strategies of the 1960s and 1970s were replaced by more outward-looking ones. At the same time, a new institutional structure for trade was being constructed. The Uruguay Round of the General Agreement on Trade and Tariffs (GATT) negotiations, dedicated to reducing protection according to a predefined schedule, were concluded [in 1994] and the World Trade Organisation (WTO) was founded.

(FAO 1996, p. 2)

Economic experts giving advice in these matters seemed unaware of the social welfare differentials between Western and Third World countries, or seem to have accepted, unreservedly, that such considerations should not be taken into account in moves toward the internationalisation of economic activity.<sup>23</sup> Economics focuses on 'the economy' as a self-existent, independent environment subject to its own laws and constraints, which, in the process of producing and distributing goods and services, generates income for the community through the economic interactions of individuals. Political and social environments are considered to be similarly independent. The requirements of each should, therefore, be met from within their own 'resource bases'. Economic activity should be freed from political and social 'interference'. There is no presumption of the necessity for a 'social welfare' component to costs. So, the best economy is one which is 'freed' to pursue economic goals, unfettered by social and political constraints aimed at harnessing economic activity to other ends. Low-wage economies, if they are subject to fewer such constraints, are, by definition, more 'efficient' than high-wage economies if they are based on social and political 'protectionism'. If Western businesses were to compete 'on a level playing field' with businesses from these countries, they needed to be freed from the shackles placed upon them by protectionist legislation and 'excessive' social welfare demands.

Of course, economic experts have not only ignored the social welfare requirements of communities, they have been equally myopic about the

environmental costs of economic activity. As Stephen Shrybman says:

Nowhere is the failure to integrate the environment and the economy clearer than in the GATT negotiations in which, with only limited exceptions, evaluating the environmental implications of trade proposals is not even on the table. To make matters worse, the negotiations are veiled in secrecy, and virtually no opportunity exists for public comment or debate.

(Shrybman 1990, p. 17)

Just as economists have failed to accept that social welfare costs should be incorporated into pricings, so they failed to consider the environmental costs of economic exploitation. In both cases, the costs involved, not being immediate and inescapable imposts on the producer, could be ignored in the interests of competitive pricing.

As in the eighteenth and nineteenth centuries, Western countries were again being told that they should accept the 'logic of the marketplace', and accept that an efficient economy would deliver social welfare rewards. And, once they were required to confront the issue, many economists also argued that, as the environmental impacts of industry became economically significant, they, too, would automatically be factored into production costs. There is, however, as we have seen, no evidence from history that in the absence of legislation requiring social welfare and environmental costs to be built into price structures, improved 'market efficiency' will deliver social welfare returns and ensure the protection of the environment from pillage. No argument is made that costs of extraction and processing should be removed from the pricing of material resources, on the presumption that, in some strange way, they will be returned to extractive industry through improved market conditions - the argument would be patently absurd. Yet, this argument is made, with no apparent awareness of its absurdity, in relation to the social welfare costs of labour. As Samuels and Shaffer claim, the argument that regulation of businesses increases costs, while deregulation improves economic efficiency and will lead to benefits for both businesses and the communities which are required to support them in the deregulated environment, is based on a false premise:

... rather than creating costs, both regulation and deregulation shift them. For example, regulation of an upstream polluter will increase the polluter's costs of production. But these are costs which hitherto had been borne by others. In this case, the costs formerly borne by the downstream pollutee will be lowered by regulation ... Regulation has not created the costs, only reassigned them, and that is precisely what deregulation will do. Regulation and deregulation each consists of lower costs for one party and higher costs for the other.

(Samuels & Shaffer 1982, p. 467)

It is the nature of 'market competition' that prices will be driven to the margins of profitability. If no social welfare component is built into industrial costs then prices fall below levels at which social welfare can be sustained. In

the absence of alternative means of ensuring social welfare, allowing social welfare costs to be excluded from calculation of the costs of production leads, inevitably, to the impoverishment of those who cannot obtain employment or who are not employable. It also leads to a necessary scaling down of 'non-economic' community activity and organisation. In a most peculiar way, 'economic activity' becomes a form of 'non-social' activity which only contributes to social welfare through the personal incomes generated by economic activity - which, themselves, will not include a social welfare component so long as competition for jobs keeps wage rates low.<sup>24</sup> 'The economy' becomes an environment which is separate from, and not responsible to, the community which sustains it (see Geddes 1995 for an examination of the nature of this peculiar detachment of the economic from the social).

A number of theoretical models emerged during the 1970s purportedly demonstrating the inadvisability of allowing 'political interference' in economic activity. Government regulations constraining economic activity are assumed to be detrimental to both the economy and to the community which depends on a healthy economy for well-being. Further, since a prime assumption of economic theory is that all individuals act out of self interest, including those in government, the activities of government will, by definition, advantage special interest groups. The imposition of government imposts on economic activity is, therefore, not in the interests of the community but of privileged interest groups. If, however, government backs out of economic regulation, competition in the marketplace will lower prices, improve products, allow for the accumulation of profits, encouraging investment which, in turn, will result in job creation which will flow back to the community as increased community well-being. As Peter Kahn has described:

Support for the wave of deregulation that began in the 1970s came from liberal as well as conservative economists. But deregulation was pursued with single minded vigour during the 1980s at least in part for ideological reasons. It embodied a political theory which justified the administration's distaste for activist government. That theory, called 'public choice', was espoused by a group of market-orientated economists and lawyers who claimed to demonstrate two things: first, that an activist government is all but incapable of reaching efficient public-spirited decisions, and second, that private markets do so routinely and automatically. According to public choice theory, regulatory policy results from a badly flawed political marketplace, which makes decisions based not on economic efficiency, but on the power of interest groups to use government to pursue private benefit at the expense of general welfare ... Public choice theory played an important role in the economic policy of Presidents Reagan and Bush. The proposed balanced budget amendment, and other schemes to limit government or place it on automatic pilot, grow out of this body of theory.

(Kahn 1991, p. 44)

'Public choice' theory has, similarly, played an important part in the economic

policies of President Clinton. As economic activity became internationalised and the demands of governments increasingly came to be seen as obstructing and distorting economic efficiency, economic justifications for freeing economic endeavour from political constraint became elaborated. Now, all the problems of the 1970s and early 1980s could be attributed to 'government interference' in the marketplace. The 'gains' made through the liberalisation of international trade seemed to be obvious.

By the late 1970s, people in Western countries were beginning to benefit from the lower-priced imported goods from low-wage countries as major retailers began to obtain the bulk of their merchandise from such sources. As the majority of people in Western countries felt the effects of this flowthrough of lowered costs in the form of cheaper goods, they willingly bought these in place of higher-priced locally manufactured alternatives. Within a short period the effect of lowering tariff barriers became noticeable. Unemployment began to rise in First World countries, with those who worked in labour-intensive industries being the first to feel the effects of low-wage competition.

This unequal competition forced First World manufacturing enterprises to consider a number of strategies to 'level the playing field'; they could:

- relocate their manufacturing activities in overseas low-wage areas, thus avoiding the increased 'needs' related wage and welfare component costs of employment in First World countries;
- focus on improving efficiency through altering production techniques and technologies, displacing employees with cost-saving machinery, taking advantage of the new technological innovations which have accompanied the continuing computerisation of the First World (and, incidentally, avoiding many of the social welfare costs which have been, in one way or another, levied in association with employment);
- argue strongly for lowering wage rates and the removal of welfare orientated taxes and levies so that they could remain competitive within their present country; or,
- move out of labour-intensive industry, investing in the newly emerging international bond, stock and money markets.

Whether businesses invested in low-wage countries or in the rapidly expanding financial markets, they found the transfer of funds across national boundaries impeded by the range of regulations imposed on financial transactions in previous decades. Therefore, businesses joined with importers and financial institutions in demanding removal of the fiscal and financial regulations imposed by Western governments to control both investment and the money supply. In the process, national controls on economic activity have been continually reduced, freeing an internationalising economy from the demands of the communities which supply the labour and other resources for

their activities.

Over the past twenty years all the above strategies have been utilised by businesses seeking an advantage in the marketplace. Many companies initially moved their labour-intensive operations 'off-shore', to take advantage of labour costs in countries where perceived needs are lower and no social welfare component is built into industrial costs. In the process they argued for further lowering of tariff and quota barriers to facilitate this 'internationalisation' of economic activity. The growing internationalisation of business gave further impetus to arguments for government deregulation of economic activity. Successful companies were 'transnational'. Governments, at the instigation of 'economic experts', strongly encouraged the internationalisation of home-grown businesses, providing tax and other incentives to such expansion. This, of course, facilitated the move of labour-intensive industry to low-wage countries and the freeing of economic enterprise from residual national constraints.

Many Western-based firms altered their focuses and forms of organisation, reducing their reliance on wage labour through automating production, while those that continued to rely on unskilled labour gained a clear advantage through increased competition for jobs in Western countries as the numbers of unemployed grew. As James Mittleman describes:

In the early and mid-twentieth century, industrial organisation in the USA and other Western countries centred on mass production and the assembly line staffed by semi-skilled workers who could easily be replaced. In the last decades of the twentieth century, the Fordist system of mass production and mass consumption has tended to give way to another structure. Post-Fordism entails a more flexible, fragmented and often geographically dispersed labour force. The new model is based on greater specialisation - batch production in small firms linked through dense networks and niche marketing.

Accompanying the movement from Fordism to post-Fordism is a shift from vertical integration of production to vertical disintegration, especially as enterprises seek to establish distinct niches ... An integral part of this restructuring process is the weakening of trade unions based in the old Fordist industries. The strength of organised labour has clearly declined in the West, and workers are docile in some other regions, notably so in East Asia ... Whereas capital is forming large unregulated markets, labour is less capable of transnational reorganisation. Capital is increasingly globalised, but labour unions and the collective rights of workers still primarily delimit their reference point as the nation-state. The changing relations between capital and labour - the one clearly on the ascent and the other markedly defensive - are linked to the tension between the economic globalisation trend and the Westphalian territorial mode of political organisation.

(Mittleman 1994, pp. 283-4)

Businesses, in the face of union opposition, argued that if automation was not

allowed they could not remain viable in the new climate of international economic competition. Given the burgeoning unemployment and obvious' globalisation' of economic competition, neither governments nor labour unions were able to counter such demands and by the mid-1980s the move to automation was commonplace. The major costs of production now centred in technology rather than labour. What started out as a move to automation by labour-intensive industries to counter international competition, became a general move by industry to take advantage of the new forms of automation made possible by developments in computer technologies. As Kukowski and Boulton describe of the Sony Corporation's moves to automation:

Sony management described the following as an example of the benefits gained from the company's factory automation activities: It took three to four months to start up Sony's original production lines in Japan, but it required only two to three weeks to bring replicated lines up to speed in Singapore and France. Changing models required only 9.1 % of additional capital investment in Sony's first changeover, 3.5% in the second changeover, and only 1.5% in the third changeover. In addition, the move to automation resulted in improved quality. The best defect rate using manual labour was 2000 parts per million (PPM), compared to 20 PPM after the first week of automation. Sony's personnel policy was to remove employees from manual labour jobs through automation so that 'they could become more creative in solving problems and improving operations'. Due to Sony's strong knowledge base in automation and its focus on design for manufacturability, between 1987 and 1990 it increased sales by 121 % with an increase of only 35 employees.

(Kukowski & Boulton 1995, ch. 5 s. 3)

The Sony policy of removing 'employees from manual labour jobs through automation so that "they could become more creative in solving problems and improving operations"' is, of course, disingenuous. Typically, the problem-solving skills required in the new plants require a level of expertise beyond that held by manual labourers. The numbers of such people in a fully automated plant, as Kukowski and Boulton show, is far smaller than required in a non-automated factory. Not only have low-skilled workers found their jobs under threat by these moves, increasing numbers of skilled workers have found that their positions have disappeared as automated processes displace them. As the authors say, a 121 per cent increase in sales by the company was accompanied by the employment of a further thirty-five workers.

The new catchcry of industry, taken up and echoed by First World government, educational, health and other institutions has become 'flexibility'. As a Report to the Alberta Government on new economic practices in the 1990s explains:

Human resource consultants Olmsted and Smith said that: With much of foreign competitor's success credited to cheap labour and with technological advances that permit work to be performed by fewer but

more sophisticated employees, American companies are focusing on assessing and redirecting labour costs in order to become more profitable [1989, p.vii]. In 1993 the u. s. Labour Secretary Robert Reich said: Firing workers to cut costs has gone so far that even reasonably healthy companies are cutting jobs. The cost of these butcher strategies is borne by all, not only in lost output but in higher taxes ... With the worst of the layoffs behind them, companies are searching for ways to become 'lean and mean' but effective, and 'flexibility' is today's buzzword. Flexibility is increasingly viewed as providing ways to manage time, space and people more effectively within the upswings and downturns of a global economy. It is also seen as a way to attract and retain good employees in a labour market that is steadily becoming more competitive. Two different strategies have begun to emerge about how to create a more flexible workplace. The first strategy would create flexibility by using a 'core' workforce and a 'contingent' workforce to manage the workload. The second is to allow flexible working hours and various forms of reduced working hours to meet demand.

(Alberta Labour 1994, p. 3)

As Mittleman (1994) says, Fordist industrial organisation is now most usually employed in the remaining labour-intensive industries. Those which have moved to new technologies have usually also moved to new forms of organisation. These often include the networking of small, closely interlinked companies or company divisions, usually controlled by a 'parent' company, each of which takes responsibility for production of a particular product component. The new organisation of production, often called Just-In-Time (JIT) production processes, coupled with Total-Quality-Control (TQC) systems of surveillance, emphasise direct worker responsibility for the quality of output, coupled with direct accountability to authorities for performance. The term 'just in time' refers to the relationship which is anticipated between supply and demand. This form of organisation aims to reduce the inventories of manufacturers to a minimum, relying on efficient production techniques to produce item components as they are required, and to have quality control built into the process of production, rather than relying on post-production testing.

JIT processes require a direct link between the supplier and the marketplace. This form of organisation allows for rapid responses to increases, decreases and changes in demand. It therefore assumes rapid filling of orders, rapid scaling down of production as markets become saturated, and rapid retooling and reorganisation as products are altered or displaced to meet new demand. As in Sony's case, factories can be built quickly to meet particular demand, and dismantled and moved just as quickly. And the factory is built at the source of demand. This, in the 1990s, has resulted in a shift of investment in industry away from low-wage countries and back into major markets. It has emphasised the development of a skilled, versatile, mobile and yet expendable labour force which can rapidly respond to changes in market preferences, rather than a workforce which supplies low-skilled, cheap labour

inputs.

It requires flexible employment arrangements, the use of short-term contracts rather than long-term commitment to maintenance of a stable body of employees. In introducing these changes, businesses have capitalised on the high unemployment levels in developed countries to institute new styles of relationship between managers and employees, based on employee uncertainty and 'management by stress' (Sewell & Wilkinson 1992, p. 279). In a very real sense, businesses, in the 1990s, have renounced responsibility for the social welfare of their employees along with renouncing responsibility for meeting the social welfare requirements of the communities within which they operate. Their responsibilities relate to ensuring 'economic efficiency', not to contribution to the quality of life of those they employ. They have become international organisations, geared to exploiting temporary markets wherever they arise and geared, equally, to the most economically efficient use of all inputs, including labour. As the Alberta report cited above says:

Increasing use of temporary workers has been a major change in the workplace. Temporary workers may be hired on a contract, through a temporary agency or they may be placed on a company's payroll.

They are different from other employees in that companies make no commitment to these employees; they are expendable. This 'contingent workforce' includes part-time employees, temps, contract employees and freelancers. Traditionally temporary workers filled mainly low-skilled jobs; these days skilled technical, professional and executive positions may also be filled on a temporary basis. Many sources estimate that 20 to 25 per cent of the U.S. workforce are contingent workers. The Canadian situation is similar. Most predict that this trend towards relying on temporary workers will grow, forecasting that up to one half of all workers could be employed on this basis by the year 2000. The largest private employer in the U.S., by number of employees, is Manpower Inc. with 500,000 workers. Manpower Inc. supplies other companies with temporary workers. Several factors have contributed to this significant change in human relations practices. A key factor is the corporate downsizing of the past ten years. Many companies including blue chip firms have laid off staff. Some companies have had several rounds of layoffs. Even as business improves companies remain reluctant to hire on more employees in case the recovery is temporary. For some companies it makes more sense to operate with a core group of regular employees whose skills are critical to the business, and then expand and contract the work force as needed.

(Alberta Labour 1994, pp.3-4)

This move to temporary employment is also a move toward increasing stress amongst employees. Since any downturn in company performance will result in the layoff of temporary staff, those who are in this category - or those who feel that they are next in line to be reduced to temporary status - feel a constant sense of insecurity, and are driven to perform by the fear that if they are seen as less than totally committed to improved performance they

will be the first to go. Not only have the new management techniques introduced increased 'economic efficiency', coupled with decreased contribution to social welfare costs of the communities in which they operate, they have also introduced endemic stress to those communities. Increasing numbers of people live in constant fear of losing their jobs, and therefore their incomes. More and more people live with a gnawing sense of threat which they cannot escape. And, in the new climate which dissociates businesses from 'social responsibility', this increase in stress is seen as positively contributing to 'economic efficiency'. Of course, even in this area, such increases in stress are of short-term value. In the long term, they result in decreased not increased performance from employees. However, economic experts have not shown versatility in thinking through such consequences of their logically-constructed models. No doubt, before long, there will be an expert who 'discovers' this commonplace truth as a new insight, a new contribution made by economics to understanding the human condition!

Alan Jenkins outlines some of 'the existing techniques and practices germane to JIT, covering a number of areas of management':

Streamlining or smoothing of process flow by rearranging the physical layout of production.

Reducing work set-up times to reduce batch sizes.

Reducing inventory/buffer stock levels to render more visible process and quality defects ...

Flexibility and multi skilling of the workforce in order to match Product simplification.

production levels to order demand at all times.

Autonomous teams, with wide responsibilities, working in production cells ...

(Jenkins 1994, pp. 23-4)

These techniques veil a number of consequences for employees and for the businesses which employ them. First, although employees are grouped into teams, in the interests of quality control, team members are required to monitor the performance of colleagues. Since the teams are small, if the quality of production is poor, all members are under threat. There is no security of tenure. In such a climate, as Sewell and Wilkinson describe of a British factory:

... the operators at Kay work in the knowledge that their basic work activity is subject to constant scrutiny, a factor which, when combined with the certainty of immediate public humiliation which will accompany the exposure of their divergences, invokes a powerful disciplinary force ... up to the point when a member finally absents themselves [sic] from the shop floor at Kay they are, at least tacitly, acceding to being constantly subjected to close surveillance of an *Electronic Panopticon* which has the ability to penetrate to the very core of an individual's work activities, providing a mechanism of

*Power/Knowledge* which can bring out the minutest distinctions between individuals. Thus, in attending work, members simultaneously submit themselves to 'the direction of their tasks, their nature, method, pace and quality of work [by management] ... [and] a system of worker evaluation, punishment and reward'.

(Sewell & Wilkinson 1992, pp. 283-4, 287)

In this new, far more flexible era of production, what firms need is rapid access to markets and a close relationship between design and production processes. That is, with social welfare costs being reduced through minimising employment, firms can now relocate production closer to markets. Many companies are relocating in Western countries, where their markets are strongest. In consonance with this return to high-wage areas, there have been concerted political campaigns aimed at lowering or removing the residual social welfare components of industrial costs in Western countries.

Concurrently with this move to JIT and TQC processes, all over the world there have been insistent demands for fiscal and financial deregulation, both to facilitate the 'internationalisation' of productive enterprises taking advantage of cost anomalies in different parts of the world, and to enable speculation in currencies and stocks and bonds. As the attack on investment and fiscal regulations became increasingly effective in the late 1970s and early 1980s, people began investing money in the rapidly expanding international currency, bond and stock markets which provided lucrative options for investors to developing alternative forms of productive enterprise. As Susan Strange has described:

Changes in the global financial structure in recent decades can be considered under five main headings:

- (1) the system has *grown* enormously in size, in the number and value of transactions conducted in it, in the number and economic importance of the markets and the market operators;
- (2) the *technology* of finance has changed as fast as the technology in any manufacturing or productive sector in the world economy;
- (3) the global system has *penetrated* national systems more deeply and effectively than ever before - though some people are apt to retort that there is nothing new in international banking or international debt, the degree to which both have played a growing part in national economies and societies is quite new;
- (4) The provision and marketing of credit have become overall a much less regulated and much *more competitive* business than it used to be when national systems were less integrated in the global system; and, not least,
- (5) the *relation of demand for and supply of credit* has changed rather radically, with very large implications for the world political economy and for the material prospects of many social groups and social institutions in the future.

(Strange 1994, p. 232)

Although it is difficult to quantify the growth in international financial speculation, there is no doubt that it has eclipsed investment in productive enterprise over the past two decades. Hundreds of billions of dollars are shifted daily to take advantage of fluctuating currency values and changes in the value of stocks and bonds based on short-term predictions related to movements in interest rates, government decisions, perceived threat to profits, and short-term profit-taking. Government decisions around the world are increasingly made with an eye to 'market response' to their policies, and news bulletins regularly report 'market fluctuation' based on reactions to policy decisions, or even to chance comments by politicians. And financial markets, conversely, react to such reports of their own responses, thus magnifying short-term investment responses to often marginally important government activity. As Strange concludes:

No one who knows anything about international finance is in any doubt that it has grown rather phenomenally in the last quarter century. There is, however, the problem of measurement and, connected with it, the problem of definition. The numbers that are available are only rough indicators, not precise indices. Here are a few of them:

Transactions in the Eurocurrency markets had risen to over US\$ 1,000 billion - 1 trillion - in the year 1984, compared with US\$75 billion in 1970 and only US\$3 billion in the early 1960s.

Trading in the foreign exchange markets worldwide in the late 1980s amounted to over US\$600 billion *a day*, no less than 32 times the volume of international commercial transactions worldwide.

Between the mid-1960s and the mid-1980s, international banking grew at a compound rate of 26 per cent a year on average, compared with an average growth in output of a little over 10 per cent.

The issue of bonds is a credit instrument traditionally associated with international finance since the last century. Equal in value to 2 per cent of world exports in 1980, their total value had risen to 9 per cent of world exports by 1985 and they have continued to grow in popularity since. ECU-dominated bond issues, which totalled ECU 1.9 billion in 1982, totalled nearly ECU 17 billion in 1988.

Transnational trading in shares was comparatively rare even by 1980. Most national stock exchanges dealt only in the shares of nationally registered companies within the state. By 1989, more than 18 per cent of all share trading was in the shares of foreign corporations-only the major multinationals. Among the significant numbers, we should also note the growth of trading in futures and options in some of the main international financial centres like London, Paris, and Frankfurt.

(Strange 1994, pp. 233-4)

The 'entrepreneurs' of the 1980s were not 'industrialists' but players in international currency, bond and stock trading and experts in financial

manipulation. They knew a great deal more about Wall Street possibilities than about new productive enterprise. As Robert Guttman has described:

Deregulation of money has turned many Americans into investors (see especially the role of pension plans and mutual funds), and has allowed the middle class to join the rentier class (the 'money class'). This change in class composition is reinforced by aging baby boomers going from being debtors in the 1970s (favouring inflation) to becoming savers (favouring low inflation and high 'real' interest rates). This gives the Federal Reserve a political constituency for the 'hard money' course of the last fifteen years, which favours financial investors. Deregulation of money has also led to much more volatile interest rates and exchange rates, which in turn have dramatically accelerated the use of hedging and speculative investments for capital gains as the new profit-centre of MNCs and TNBs, and with a concomitant wave of innovations to facilitate this activity (e.g., financial futures and other derivatives). The trend toward the dominance of a new kind of financial capital, which I characterise as *fictitious capital*, has also been profoundly deepened by the rapid *securitization* of credit (as a now more attractive form of financial capital for both sides, as opposed to the traditional loan capital mediated by commercial banks), which has helped to promote securities trading as a profitable, high-risk activity. This leads to an unprecedented combination of financial explosion and industrial stagnation, with ST-orientated shareholder capital combining with international competition battles and the labour-saving information revolution to enforce global 'downsizing'. Electronic money is entirely global in nature, composed of an unregulated worldwide Euro-banking network, global investment portfolios, and interconnected financial markets.

(Guttman 1995)

Effectively, in the short-term, what the removal of tariff barriers did was to transfer the difference in wage rates between labourers in First World and Third World countries into the pockets of those who retained their employment, and therefore their incomes, in First World countries. So, for the bulk of the population, the lowering of prices meant an increase in discretionary income. This allowed middle-income earners to join in the new speculative investment boom of the 1980s. This, in turn, gave them a vested interest in changes in working conditions which might positively contribute to increased investment returns and led them to support arguments for further deregulation and 'streamlining' of business, reduction in government expenditures and taxation 'relief'.

The transfer of income from low to middle wage earners resulted in a transient sense of affluence. Consequently, there was less pressure on employers to give regular wage increases to provide increased income for expanding wants and needs during the first years of this transfer of work to Third World communities. In the 1980s real wages grew more slowly in First World countries. However, an expansion in discretionary income is usually

followed by an expansion in perceived needs in Western communities. As the initial flush of felt prosperity waned, more and more middle-income earners accepted neo-liberal arguments for 'governmental downsizing' and tax reform, aimed at providing them with further discretionary income.

In a time when wage increases had become closely linked with increases in 'productivity', that is with increases in company profits resulting not from price increases but from an improved ratio between wage costs and material output, one way of expanding incomes was through reducing government taxes and charges-introducing 'user-pay' schemes which placed the same demands on all people, regardless of income. This new emphasis on reductions in government spending, once again effectively shifted income from low-wage to middle- and high-wage individuals. This resulted in further widening the gap between low-wage earners and middle- and upper-income earners.

In the 1980s, Western middle-income earners experienced a sense of affluence at the very time that unemployment statistics showed a rapid growth in the numbers of people who could no longer find work, and in the numbers of those who had to accept lower wages and deteriorating work conditions in order to retain employment. This, in turn, lessened the sense of threat amongst the more articulate members of Western communities which would otherwise have accompanied a rise in unemployment statistics in the community. Those most directly affected by the changes could, therefore, find little support from the bulk of the population. Not even the labour unions which were trapped by the dual effects of this shift could mount an effective campaign against the relocation of industry and deteriorating work conditions for low-paid workers. Labour leaders found that they simply could not motivate the majority of Western employees in the face of their new-found affluence.

Over time, however, the savings which middle-income earners had experienced with the lowering of tariff barriers, were whittled away. The wants of those whose real incomes had been improved by the import of low-wage manufactures expanded, so that, over time, the requirements of such people became greater, effectively reducing their discretionary incomes. Now, First World countries had lost their labour-intensive industries-or had mechanised them or had established 'informal sweatshops' in which people are subjected to 'Third World conditions and pay' and the initial advantages to consumers which had accrued from the internationalisation of competition began to disappear.

The lowering of tariff barriers in First World countries and the resulting distortion of First World economies gave doctrinaire, right-wing economic experts a platform from which to argue for drastic reformation of First World economies. Pointing to the distortions and their effects, right-wing politicians were able to argue that the burgeoning unemployment and its side effects in increased crime, increased youth unemployment, and ghettoising of low-waged residential districts were the result of economic distortion *within* First World countries.

It was argued that well-meaning, but short-sighted, liberal governments had expanded governmental services beyond the capacity of their economies to absorb the associated costs. The only way in which First World countries could regain the economic initiative would be for governments to step back from their failed attempts at 'economic management' and allow 'market forces' to rectify the problem. High on the lists of remedies for unemployment and the renovation of economies were: the establishment of 'individual contracts' and the removal of 'collective bargaining' by workers; the lowering of minimum wage rates; the watering down of maximum hour rates; the removal of price protection; and the scaling down of social welfare benefits. All those provisions which had been central to the 1930s 'New Deal' in the USA and which had been echoed in other Western countries were now under attack as 'economic luxuries' which no country could permanently afford.

In the climate of reform engendered by neo-liberal arguments, rather than economic enterprises contributing to government social welfare expenditures, the emphasis was reversed. Government should provide stimulus to private enterprise. As Mitchell and Manning claim:

During the Reagan administration, the ideas of privatisation, deregulation, and public-private partnerships became entwined in the USA, as they had during the Thatcher years in Great Britain ... They are the primary components of an industrial policy founded in what has come to be called *neo-orthodox economics*. Along with supposedly tight fiscal policies and judicious monetary policy, they make up the core of both the Thatcher and Reagan approaches to promoting economic growth and development by unleashing the powers of the private marketplace ... [With the emergence of the Third World 'Debt Crisis' in the mid-1980s, the GECD, UN, World Bank and IMF attempted to provide policy direction to those countries involved.] Their prescription for Third World governments, *economic adjustment*, was drawn directly from the Thatcher/Reagan doctrines of neo-orthodox economics: cutbacks in public expenditures, privatisation, deregulation, and public-private partnerships [PPP]. New loans from the Bank or the IMF today enforce the adoption of such policies ... and the USA Agency for International Development [US AID] promotes public-private partnerships as the key to achieving higher rates of economic growth ... PPPs themselves, rather than being the centrepiece of a development strategy, are primarily a set of institutional relationships between the government and various actors in the private-sector and civil society ... In the typical confusion of terms, US AID and other donor agencies promote privatisation and government subsidies to private entrepreneurs in the name of building public-private partnerships ... But privatisation is privatisation and subsidies are subsidies; public-private partnerships they are not.

(Mitchell & Manning 1991, pp. 46-9)

Under the New Deal, private enterprises were required to incorporate a public social welfare component into the costs of production. However, under neo-liberal direction in the 1980s and 1990s, the 'public-sector' has provided

'incentives' to private enterprise, believing that such stimulation of industry is needed to ensure a growth in employment and therefore increased social welfare. At the same time, the social welfare costs of the past become illegitimate imposts which make productive enterprises uncompetitive and so cost jobs. Therefore, social welfare imposts are, according to the new logic of the 1990s, counterproductive. Instead of promoting social welfare they create unemployment and consequent social misery. By sleight of hand, social welfare demands made of economic enterprises are considered irresponsible, but the tapping of public resources by private enterprises is considered socially responsible.

Since private businesses are now competing with businesses which are able to tap the resources of countries where no social welfare component is included in production, Western enterprises must be compensated by government for any continuing residual social welfare costs associated with production. Only in this way can governments ensure that enterprises based within their territories are able to compete 'on a level playing field' with those based in Third World territories where they not only have few, if any, social welfare imposts, but are also publicly subsidised through a range of 'incentives' in order to ensure that they remain in the territory.

### From Developmentalism to privatisation

The presumption that government had a responsibility to direct economic activity also underwrote political activity in Third World countries in the post-Second World War years. This set of assumptions, and the practices that followed from it have, in the literature, usually been referred to as 'developmentalism'. Worldwide economic activity was considered to be the result of the interaction of many separate, but interconnected, 'national economies', each controlled by a national government which tried to ensure that the economy was managed and 'developed' to provide the best possible returns for all community members within its own borders.

As colonial territories gained independence, this presumption of separation and responsibility for internal 'development' passed to the new governments. However, since it was assumed that such governments had little expertise in managing economies, most colonial powers retained strong economic ties, providing economic management advice and, through linking economic assistance with scrutiny of economic performance, also providing constant economic direction as a condition of aid. Inevitably, therefore, the economies of most postcolonial countries remained strongly tied to economic actors in the former centres of colonial power. Independence brought little change in economic organisation or in the established emphasis on export-orientated production, feeding industrial enterprises in the First World.

Whereas it was assumed that First World governments managed their economies in the interests of their populations, Third World governments were assumed to be managing their economies in the interests of 'economic development'. Since governments needed to be funded from within their own territories, it was seen as necessary that a first prerequisite of Third World governments was to establish the necessary infrastructural support so that

industrial development could proceed. Money and effort were to be spent on major development projects, on building dams, in constructing ports, in constructing road and rail networks, and other infrastructural requirements of an industrialised country.

These developments, from 1950 to the 1970s, were assumed to be focused on two kinds of industrial development: the export of raw materials to the First World, and the development of import substitution industry (ISI) within the country. While it was recognised that few Third World countries could develop competitively viable export industries in the short term, it was believed that if a range of protective tariffs and import restrictions were imposed on the importation of particular commodities, local industries would develop to supply the local market. As they grew in strength, they could then reorientate their activities toward export, thus providing a base for further export-orientated production. This apparently logical development plan was, however, fraught with many hidden pitfalls. As Erica Schoenberger explains,

Investments in developing-country markets such as India, Brazil, Argentina, or Mexico were driven mainly by extremely high protectionist barriers associated with import substitution policies. In general, these markets were not sufficiently large to sustain optimum volume production, so costs tended to be high in any case (see Holmes 1983; NofaI1983). Nor were they large enough to allow for fully integrated or wholly self-contained production. Thus the system as a whole functioned on the basis of long-distance-sometimes extremely long-distance--supply lines.

(Schoenberger 1994, p. 55)

Import substitution policies failed to recognise two fundamental problems. First, local businesses, having to import all their technology and rely on overseas expertise in establishing enterprises (as well as supplying a far smaller market than major overseas exporters), could not hope to compete with overseas products. The cost of such import substitutions was usually much higher than that of the previously imported items. Second, in communities which still saw purchased commodities as alternatives to locally-produced items (for which the expertise still existed in most communities), demand fell as price increased. ISI businesses, with few exceptions, failed to expand as anticipated in the face of falling demand coupled with expanding costs. In some countries industries were, in the interests of development, subsidised to make their products affordable. This, of course, defeated the initial reasons for their establishment, which were to generate revenue for government and to provide a base for further industrial development.

As import substitution failed to fulfil its mooted potential, to meet their growing debt commitments and fund further 'development' activities, countries placed increasing emphasis on the export of primary commodities to generate income. This resulted in constantly expanding production and export of raw materials to industrialised countries. Until the mid-1960s, with the industrialised world in a period of booming growth following the Second World War, this expansion was absorbed with little reduction in price.

However, from the mid-1960s, as industrialised production started to contract in the face of over-supply, prices of primary commodities began to fall. Since then, countries relying on primary product sales to fund their development activities and service their debts have found themselves caught in a classic capitalist conundrum. As prices fell countries needed to export greater quantities to meet their commitments. As supply increased, prices fell. Since they had little short-term alternative, Third World countries then had to attempt further to increase supplies to maintain their incomes. During the same period, the industrialised demand for primary products fell. During the 1980s, primary commodity imports to industrialised countries fell by more than nine per cent, resulting in a primary commodity glut on world markets. Together, these factors led to falling prices for finished goods in industrialised countries and an increasingly serious debt problem in Third World countries.

Third World countries, which had relied on the twin strategies of primary commodity export and the development of import substituting industry to kick-start their economies into what W. W. Rostow (1961), in a wonderfully optimistic turn of phrase, called a 'take-off into self-sustained growth', found, to their dismay, that the anticipated rewards of their sustained attempts at 'development' had led them into a state of chronic indebtedness. First World 'development agencies', looking for reasons for the failure of their confidently promoted development schemes and projects, in large measure found them, not in the rationale of the plans themselves, but in the 'corruption' of Third World governments. From the mid-1960s, it became fashionable in development circles to speak of the endemic corruption of politics and government in Third World nations. Patron-clientism, which was and is an expression of the 'personalisation' of leadership which is standard in most of the world (other than in Western countries), came to be seen as a major obstacle to development.

From the early 1970s, with import substitution failing to deliver the expected rewards, and primary commodity prices faltering, development agencies began to look elsewhere for the key to successful Third World development. An important alternative to import substitution was, obviously, the further processing of primary commodities within the country of origin, rather than shipping raw materials for processing in industrialised countries. Primary commodities should have 'value-added' to them prior to shipment. Rather than shipping raw materials, money should be spent on processing plant, thus earning exporting countries additional income and, in the process, kick-starting their economies through the establishment of a processing industry which would take advantage of, and stimulate further, infrastructural developments.

Unfortunately, the enthusiasm of 'development experts' seems once again to have outstripped their expertise. While it seemed logically sound to develop 'value-added' enterprises in Third World countries, the rationale failed to take into account the existing industries in industrialised countries. No industry voluntarily commits suicide, and no industry in the industrialised world was going to help a competitive industry in a Third World country to become established. The expertise was not provided, outdated technology was

supplied, and, most importantly, the network of purchasers established by processing industries in industrialised countries was not available to Third World suppliers. With all the disadvantages stacked against Third World 'value-added' industry, it was inevitable that Third World enterprises would fail to compete against their well established rivals. Not only was this true, but, given that demand in industrialised countries was shrinking or stalled, the timing for such value-added industrial expansion was less than propitious. Once again, an anticipated success story turned into a financial millstone for Third World countries.

Again, development agencies looked for reasons for the failure and saw the problem not as lying in the development direction established by themselves but in the performance of governments. The reasons for failure lay in the lack of expertise in government, in political interference, in the syphoning of capital out of businesses and into the hands of politicians, bureaucrats and their supporters. And, as we have seen in [Capitalism and Third World Nations](#), there was substantial evidence that businesses caught in the web of patron-client networks were often milked for funds. However, once again, rather than seeking to understand the phenomenon, patron-clientism and 'corruption' came to be seen as stumbling blocks to economic development.<sup>25</sup>

In the middle to late 1970s, as aid agencies took stock of yet another round of failed plans and projects, they did so in the intellectual and ideological climate of neo-liberalism. The problem was now perceived as one of public distortion of private enterprise. Governments should not be involved in economic enterprise. Rather, governments were there to provide a stable backdrop to private economic activity. As Third World countries, burdened by insupportable debts, turned to the International Monetary Fund for assistance, they found themselves faced with a new set of development requirements. The old had failed, but, at last, aid agencies had found the touchstone to development-privatisation. No longer should governments seek to actively develop the economies of their territories. Now they should provide the kinds of political and economic environments which would stimulate the natural entrepreneurial instincts of their populations.

From the mid-1970s, economic conditions began to deteriorate around the world as a result not only of rapidly increasing oil prices resulting from the monopoly practices of OPEC (a cartel formed by major oil producing and exporting countries to control oil prices), but also from a general stagnation in economies around the world. Everywhere, and in every economic area, the world seemed to be producing more than it could reasonably consume and so markets faltered and prices fell. This provided an excellent platform for economic theorists and practitioners who were opposed to the 'soft', 'uneconomic' policies of developmentalism.

Neo-liberal economic experts managed to convince governments everywhere that the only way in which countries could ensure long-term 'economic well-being' was through removing those programs and regulations which distorted 'market activity'. It was in the distortion of processes of economic exchange that the evils of the late 1970s and 1980s could be located. In this brave new

world, it would be the responsibility of governments to provide a stable political and social environment and provide the necessary institutional frameworks within which private, independent individuals, whether real or artificial (see Geddes, Hughes & Remenyi 1994, pp.90f£.), could engage in uninhibited, competitive, accumulative exchange. Governments, it was argued, should get out of economics. Economic activity should be 'deregulated'. The presumption has been that when markets are freed from government interference, nations and communities will reap the rewards which accrue to those who operate within streamlined, efficient economies.

As Haworth describes:

Contemporary theoretical discussion around Public Choice Theory, Agency Theory and Transaction Cost Analysis has presented a view of government as parasitical on individual interests and resources. In this critique, politicians and civil servants are transformed from Weberian constructs, offering public service on a professional and vocational basis, to self-interested abusers of resources coerced from the people ...

It follows from these arguments that the state as government requires substantial pruning of its purview and an equally important reorientation of its functions. This is perhaps most succinctly captured by Friedman who baldly argued for government which:

... maintained law and order, defined property rights, served as a means whereby we could modify property rights and other rules of the economic game, adjudicated disputes about the interpretation of the rules, enforced contracts, promoted competition, provided monetary framework, engaged in activities to counter technical monopolies and to overcome neighbourhood effects widely regarded as sufficiently important to justify government intervention, and which supplemented private charity and the private family in protecting the irresponsible, whether madman or child ... the consistent liberal is not an anarchist.' [Friedman & Friedman 1962, p. 34]

(Haworth 1994, p. 28)<sup>26</sup>

Neo-liberal attitudes to government are well summed up by Cristobal Kay:

The neo-liberals are ... hostile to the state and trade unions, advocating privatisation, liberalization, private entrepreneurship and deregulation of the labour markets. The state is seen as the source of most of the development problems of the LDCs [Less Developed Countries]. They argue that state interventionism (or *dirigisme* in Lal's terminology) has created distortions in the price mechanisms which has resulted in the misallocation of productive resources and therefore lower rates of growth. The neo-liberal slogan is that imperfect markets work far better than imperfect governments and planning.

(Kay 1993, p. 695)

Fundamental to the neo-liberal creed is the presumption that Government should not interfere in the functioning of national or international market

exchange, either through regulations which attempt to straitjacket market activity or through the supply of goods and services to the community. It is there as an arbiter of disputes among suppliers and consumers, and its most important role is in the maintenance of those rules and regulations which will ensure that economic activity—the production, exchange, and consumption of goods and services—remains equitable. This requires two important forms of legislation.

The first is aimed at ensuring that those involved in a transaction are 'free' from coercion to be involved in, or to settle the transaction to their disadvantage. That is, the state should ensure that economic activity takes place on a 'level playing field'. As Milton Friedman, a neo-liberal theorist, explained, governments are responsible to ensure 'the protection of individuals in the society from coercion whether it comes from outside or from their fellow citizens. Unless there is such protection, we are not really free to choose' (Friedman & Friedman 1980, p. 29).

Secondly, the state should ensure that the market remains truly competitive. That is, it should ensure that there is no collusion on the part of suppliers or purchasers to fix prices or to gain a monopoly in any area of trade. This is because the most efficient economy is that which is most competitive. Unfettered competition will ensure that prices are kept low, that quality is constantly improved and that supply is similarly constantly improved. It will also ensure that the reach of markets is constantly expanded as competitors strive to remain viable through expanding sales. This will result in the 'internationalisation' of business activities. Companies should be strongly encouraged to operate across national borders, and a prime responsibility of government is to make such internationalisation possible through removing legislative obstacles. Unfettered competition will also ensure that suppliers are forced to be innovative in improving and diversifying their product ranges so that they might keep ahead of the inevitable saturation of the market by particular products. This constant emphasis on innovation, it is argued, results in human beings continually exploring their environments, searching for new ways in which to profit. In the process they expand their horizons, thus ensuring fuller development of the human potential.

These two requirements of government preclude it from involvement in economic activity. One cannot allow the referee to start playing because if the government is a player, it will also be a biased arbiter. Further, since those who work for the government are not primarily focused on material profit, but on the provision of services in the absence of competition, they will, by definition, be less efficient than private enterprise. Such services should therefore, wherever possible, be privatised to improve their efficiency. So, there must be a clear and unequivocal separation of the public realm of government from the private realm of economic activity. The primary responsibility of the public realm is to ensure that private players abide by the rules of fair trading.<sup>27</sup>

The rules of fair trading and economic development require two fundamental principles to be maintained. The first is that no individual can be compelled to

enter into a transaction with another individual. The second is that self-interested accumulative activity, provided it does not infringe the first principle, should be rewarded. The person who, playing the game by the rules, is able to accumulate property of one kind or another is not only entitled to that property, but should be recognised as having substantially contributed to the public good in the act of accumulation. Unless such people are able to directly, materially benefit from their activity they will put less effort into it. This, in turn, will result in economic stagnation. On the other hand, if those who generate profits are allowed to retain them, they, through reinvesting those profits, will generate increased economic activity. This is because those who succeed in the marketplace will be those who have most aggressively and single mindedly focused on production and exchange, on expanding supply and on innovation. In short, the person will have proved himself or herself to be an 'entrepreneur'.

The term is an important one, for it sums up all that is best in a neoliberal world. Webster's *Dictionary* defines the entrepreneur as 'one who organises, manages, and assumes the risks of a business or enterprise'. Synonyms include: capitalist, contractor, executive, producer, financier, businessperson, broker, industrialist, merchant, retailer, impresario, backer, and investor. In all these synonyms, the key feature is the assumption of risk in making a profit, for the proof of entrepreneurial skill is in the rewards that are accumulated.

To a person well enculturated in a Western industrial society, this is unremarkable. We are all aware that economic success brings status and respect. Those who fail economically lose respect and status; those who succeed gain status; and those who manage to maintain their economic position relative to those around them, in doing so maintain their present statuses.<sup>28</sup> However, since economic activity is by definition inflationary (that is it presumes constant expansion of income), in order to maintain status Western individuals are required to keep on achieving in the realm of work, in the pursuit of wealth.<sup>29</sup> The dominant status system of Western societies is based on constantly expanding income, which allows for constantly expanding consumption. One of the ways in which people demonstrate expanding income is through expanding conspicuous consumption. This, in turn, requires constantly expanding production to meet the wants of those involved in maintaining and enhancing status, which, of course, should generate increased employment making further increases in national consumption possible.<sup>30</sup>

These assumptions are considered to be fundamental to human nature.

It is assumed that since human nature is the distillation of millions of years of evolutionary experience, human beings as individuals will be adapted innately (through natural selection) to make the best of their natural and social environments. (Of course, there are many who do not accept an evolutionary explanation, preferring to rely on the 'natural law' argument [see Geddes 1995] as justification for their belief in the primacy of independent and competitively opposed individuals.) Effectively, therefore, if one removes all

social inhibitions aimed at channelling and distorting human behaviour, human beings will be freed to real self-development which, inevitably, will be most satisfactorily expressed in involvement in market exchange. So, human communities are best served, and individuals will benefit most, if they are empowered to engage in the uninhibited, competitive exchange of goods and services. All human beings, it is claimed, are naturally and individually competitively opposed to each other and intent on accumulation.<sup>31</sup>

In the light of these presumptions, it becomes inevitable that neo-liberal advisers will argue for the 'privatisation' of government agencies and activities. Government should not be involved in the marketplace, so all services and goods supplied by government should be divested to private investors. The only responsibility of government is to ensure safety and equity amongst its populace. In Western nations, the movement towards privatisation has resulted in a range of government agencies being sold in order to be operated by private individuals or firms for private profit. In the Third World, the consequences of this neo-liberal belief in the efficacy of 'market-led recovery' have been far more dramatic.

Both the International Monetary Fund and the World Bank have developed programs for the reorientation of Third World economies which directly reflect the basic assumptions of the neo-liberal belief in the power of private enterprise to kick-start Third World economies. These policies have come to be known collectively as 'Structural Adjustment Programs' (SAPs). Barry Riddell claims that:

... the I.M.F. has imposed 'conditionalities' in sub-Saharan Africa as integral elements of Structural Adjustment Programs (S.A.P.s) that affect not only the lives of all the inhabitants, but also the nature and landscapes of the nations concerned-their very geographical composition ... Although the specifics of S.A.P.s differ, four basic elements are always present: currency devaluation, the removal! reduction of the state from the workings of the economy, the elimination of subsidies in an attempt to reduce expenditures, and trade liberalization ... at the same time, the countries themselves are altered in certain fundamental ways. These involve the organisation of the state, the character of the environment, the supply of food, the meaning of development, urban-rural interaction, and distinctly different future prospects for the several areas that make up the Third World.

(Riddell 1992, p. 53)

Governments are fundamentally affected by structural adjustment programs in a number of ways. First, the old active involvement in planning and promoting economic development, assumed under previous development regimes, disappears. The government should now avoid any involvement in planning and promoting economic activity. This should be left to the 'private-sector'.

Second, the government should divest itself of all those areas of service provision which, in the past, have largely been its rationale for existence.

Now, those government departments and agencies involved in the delivery of services to the population should be sold to private enterprise. Governments should, in this new climate, distance themselves from service provision. This policy of privatisation originated, as Mitchell and Manning say, in First World government reorganisation:

The contemporary idea of public-private partnerships as an approach to economic development had its origins in American and British public policy during the late 1970s. Faced with a mushrooming budget deficit and a stagnant economy, the Carter administration tried to curb government spending through the introduction of *zero-based budgeting* and championship of the concept of *privatisation*. The former meant justifying government spending programs each year during the annual budgeting cycle. The latter advocated spinning off feasible programs to the private-sector, where they would be operated on a for-profit basis ... Both tactics were meant to save the government money, and perhaps make the economy work more efficiently, by broadening the sphere of activity directed by market forces.

(Mitchell & Manning 1991, pp. 45-6)

The emphasis on privatisation in the 1990s is primarily a movement away from treating individuals as 'citizens' to treating them as 'clients' and 'customers' (see Sharp 1994, p. 4), from seeing the population as members of a co-operative community, to seeing them as competitive, individualised consumers. In such circumstances, individuals are required to accept the costs of services as individually attributable. Any who require 'subsidiisation' in order to meet their needs and wants are therefore exposed as 'inefficient,' as a 'cost' on other individuals, as a 'tax burden'. This movement from community to individual responsibility is based on a definition of all acceptable exchange as competitively balanced and individualised.<sup>32</sup> Social responsibility has, therefore, to be legislated and 'public watchdogs' appointed to ensure the welfare of those who rely on 'subsidies' to make ends meet while eliminating 'cheats' and 'frauds'.

In Third World countries, an implicit purpose of this privatisation of service provision is, of course, to sever the political connection with revenue raising, thus, supposedly, reducing the level of political opportunism and corruption associated with service provision and the syphoning of resources from government coffers into political networks. Of course, as has been described in *Capitalism and Third World Nations*, such syphoning of funds into patron-client networks is a feature of both government and business organisation in many Third World countries. In order to reduce political involvement in business organisation and activity, it becomes necessary to deregulate private enterprise, to remove the legislative levers which can be manipulated by politicians and their associates to ensure access to revenue from private business.<sup>33</sup> Once this happens, since transnational companies can now develop their activities within Third World countries with less need for political sponsorship, business activity quickly passes into the hands of foreign entrepreneurial forces. Transnational companies have learned, over the past

twenty years, to utilise their superior international integration in order to maximise their control within national boundaries. As the Secretary-General of UNCTAD explains:

International trade and production have not expanded at the same rate as international financial transactions, but production by transnational corporations has grown faster than trade. More importantly, trade and the internationally integrated production of TNCs have acted both separately and in interplay with each other to increase interdependence of economies in terms of production activities, lending a qualitative dimension to globalisation that distinguishes it from its earlier variants ... The principal driving force in the globalisation process today is the search of both private and publicly-owned firms (and more generally, producers and asset holders) for profits worldwide. Their efforts are made possible or facilitated by advances in information technology and by decreasing transport and communication costs. To maintain or increase market share and maximise profits in a world economy with rapid technological change, converging consumer tastes and liberalised flows of goods, services, capital and technology across national boundaries, firms are pursuing strategies that allow them to exploit all available sources of competitive strength, combining their own, firm-specific assets with assets that are specific to particular locations. They minimise transaction costs and maximise efficiency and profits through appropriate choice of modes of international transactions and distribution of assets and of international production activity ... As firms increasingly see transnational production as necessary for their competitiveness and profitability, they are exerting more and more pressures on Governments to provide conditions that will allow them to operate worldwide. This involves not only further liberalization of international trade but also freedom of entry, right of establishment and national treatment, as well as freedom for international financial transactions, deregulation and privatisation ... Macroeconomic forces have, meanwhile, exerted other pressures on firms and Governments. Slow growth of demand, stagnant wages and persistently high unemployment in the developed countries over the past 20 years have resulted in pressures from firms and workers that have influenced these countries' policies. The slow growth of domestic demand and the related squeeze on profits in developed countries has led firms there to intensify their search for growth and profits in other markets; in so doing, they also apply pressure on their home Governments to demand greater openness of foreign markets.

(UNCTAD 1996, ch. 1, pp 15-16,20-21)

Not only have neo-liberals seen big government as the *bete noire* of development and emphasised privatisation of government activity and the deregulation of private enterprise to counter this, they have also seen such government as responsible for the debt crisis of Third World countries. Since the late 1970s, First World lenders have remained concerned about the ability of Third World countries to service debts accumulated during the heady days

of the 1970s. During the 1970s, as OPEC countries tried to reinvest windfall profits from the rapid rise in oil prices around the world, First World banks, embarrassed by the large amounts of money available for investment, were less than cautious in their lending policies, encouraging Third World governments and private enterprises to borrow heavily on very little security. One of the consequences of the flood of money available to Third World elites was a rapid inflation in the purchasing power of those who had access to the borrowed money. As Briones and Zosa describe for the Philippines:

The benefits of the debt have long been enjoyed by the governing and favoured elite, and they are still reaping the benefits of the current debt management strategy. The masses, on the other hand, bear the burden of debt service through expenditure cuts in economic and social welfare services in the national budget.

(Briones & Zosa 1994, p. 258)

As we have seen for both Indonesia and Nigeria (see chs 2 and 9), Third World elites, linked through a range of patron-client relationships, gained access to money borrowed by both government and business interests and were able to use this money to further their own status aspirations. ~ resulted in an inflation in expectations amongst elites. Since, in communities where social templates are not primarily based on material accumulation, any inflation in the material requirements of those with status becomes firmly institutionalised, this inflation results in a rapid reduction in the material quality of life for those of lower status as soon ~ access to external borrowings dries up (see Geddes, Hughes & Remenyi 1994, pp. 112ff.). Rather than the anticipated 'trickle down' effect, assumed to result inevitably from investment of the borrowed funds in productive enterprise and the consequent increase in labour requirements, Third World communities experienced the reverse. Communities experienced a 'trickle up' effect as patrons sought new avenues of funding for their new need~ and clients realised that their patrons were only useful if they could retain their status positions, which required them to contribute to the costs 0 those needs.

During the 1980s, those Third World governments and private enterprises which had gained access to the windfall funds of the 1970s inevitably found themselves unable to meet debt servicing costs and First World lenders became concerned that they might default on their loans. They took steps to ensure that this would not happen. As Briones and Zos. describe of the Philippines:

... for more than two decades, external debt accumulation in the Philippines has been characterised by an accelerating trend. These are monetary and non-monetary liabilities incurred by both the public and the private-sector from foreign entities such as commercial banks, multilateral organisations, the International Monetary Fund, the private bond market, foreign government and bilateral agencies, and other foreign institutions ... The Philippines external debt increased almost ninefold between 1972 and 1982 ... This illustrates the policy of development financing during the period-a policy where

development projects were financed by borrowings from external sources, particularly from the international financial system, which was awash with recycled petrodollars ... Investment and international financial resources flowed into their economies. Unfortunately, global finance innovations also facilitated the outflow of these resources in larger amounts through capital flight, which resulted from the unsettling political and social events prevailing at the time. The outcome was the 1983 debt crisis where debtor economies like the Philippines had to declare a series of moratoria on debt service payments ... Even after the debt crisis, the Philippine external debt continued to rise. This was accounted for mainly by net availment of foreign loans, foreign exchange fluctuations, and capitalised interest on debt service payments after the debt reschedulings following the moratoria ... Again, shift in the international financial and monetary systems played a major role in the structure of the Philippine external debt. With the capitalisation of unpaid interest after the moratoria, debt stocks rose and correspondingly bloated debt service payments. This necessitated the need for more loans and financial assistance, which the international financial community provided at increasingly higher costs financially, economically, and politically. The access enjoyed by developing countries to Eurocurrency credit markets in the 1970s and 1980s made these debtor nations more vulnerable to foreign exchange fluctuations.

(Briones & Zosa 1994, pp. 253-5)

A feature of most structural adjustment programs instituted in Third World countries has been the emphasis placed not only on the privatisation of government services, but also on the need to attract foreign direct investment (FDI). One way in which to lure investors into Third World countries and, simultaneously, tackle their debt burden has been the promotion of a variety of debt reduction schemes through which investors can avail themselves of national assets at bargain basement prices. These 'debt-equity conversion programs' include ways in which foreign investors can avail themselves of national assets, usually in the process of the privatisation of government assets in the course of structural adjustment programs devised and overseen by the World Bank and the International Monetary Fund. The schemes involve governments in reducing debts, primarily to commercial banks, in exchange for government assets or for private-sector assets, often bought with discounted local currency. This is best explained through an example. The following is a debt-equity swap arranged by General Motors in Mexico. The summary comes from the presiding Judge Stephen Swift's summation of a case brought before the US Tax Court by the US Inland Revenue Service against General Motors for understating its gains in the transaction:

In October 1987, G.M. Trading paid \$600,000 to the NMB Nederlandsche Middenstandsbank N.V. Bank (NMB) for \$1.2 million of U. S. dollar-denominated debt guaranteed by the Mexican government, reflecting the prevailing market discount rate of 50% for such debt. The company incurred \$34,000 in fees as a result of the

transaction. In November 1987, the Mexican Ministry of Finance and Public Credit deposited 1,736,694,000 pesos-equal to \$1,044,000, or \$1.2 million at a 13% discount-into an account established in Procesos' favour. Procesos then transferred 173,670 shares of its class B stock-one share for every 10,000 pesos or remaining fraction thereof-to the Mexican government, which transferred them to G.M. Trading in exchange for cancellation of the \$1.2 million dollar-denominated debt. The Internal Revenue Service argued, and the court agreed, that G.M. Trading realised a \$410,000 gain on the debt-equity exchange-the fair-market value of the 1,736,694,000 pesos less its \$634,000 cost of participating in the exchange.

(Zobrist, Wichman, Murai & Ichiki 1992)

As this example illustrates, debt/equity transfers often involve the transfer of debts incurred by private enterprises to the government. The buy-out of Procesos by G.M. Trading was based on an initial Mexican Government bail-out of the company to the tune of \$US1 044 000, for which G.M. Trading paid a total of \$US634 000 in external funds.

During the 1970s, many development advisers believed that the flood of investment finance available to Third World enterprises would ensure rapid industrial development. They advised governments, therefore, to underwrite private enterprise borrowings, assuring them that future investment returns would not only meet debt repayments but also generate increasing public revenues. As private enterprises failed, governments found themselves responsible for their external borrowings. Short of defaulting on their commitments, there have been two principle ways in which they have grappled with the mounting debt burden created by private enterprise failure. They could assume responsibility for the debt, and pay it out in local currency through the transfer of resources to transnational companies, as in the above case, or they could buy back the debt papers from banks themselves at a fifty per cent discount, though this, of course, usually requires further borrowing of 'hard currency' to fund the buy-back-usually at high interest rates because the credit worthiness of governments facing such difficulties is obviously low. The result of either practice can create new problems for Third World governments, as Briones and Zosa describe for the Philippines:

The Philippines has reduced around \$3.4 billion of external debt through the above-mentioned schemes, including its debt buy-back of US \$1.3 billion. It is important to stress that, although these voluntary debt reduction schemes may ease cash-flow payments, they are clearly inadequate to reduce overall debt stocks. Furthermore, these schemes are expensive and require foreign exchange resources to implement. For example, the cash buy-back of US \$1.3 billion (which involved purchasing the debt papers at 50 cents in the dollar) had to be supported by an official loan of US \$650 million from multilateral and bilateral creditors as the Philippines did not have the reserves to support the buy-back. Thus, what was gained in reduction of commercial bank debt was lost in terms of an increase in official loans. Furthermore, debt-equity programs and other debt schemes

also create undue inflationary pressure. These, too, link the debt problem to investments in debtor economies like the Philippines. As scarce capital deters local investors, the premium enjoyed by investors in debt-equity programs and debt-for-note/debt programs favour foreign investors and accords them the opportunity of availing themselves of the assets/resources in the economy at 'sweet-heart' prices. The hold of transnationals in key industries and sectors of the Philippine economy remains a burning issue. In the medium and long-term, the pressure on foreign exchange reserves brought about by profit remittances will also have to be addressed.

(Briones & Zosa 1994, pp. 269-270)

It is little wonder that political leaders in Third World countries are now speaking of a new age of colonialism, in which those major assets of Third World countries which are not already foreign owned pass into the hands of transnational companies at bargain-basement prices. In these new arrangements, Third World governments often become partners in public-private partnerships dominated by overseas interests. Those interests invariably argue for further reorganisation of national economies along neo-liberal lines, decreasing government involvement in economic activity, and further deregulating economic and financial activity. This, in turn, further facilitates the free movement of capital and enables the ready transfer of profits from Third World countries into the rapidly expanding financial markets of the West. There are a number of important consequences of reorganising communities in terms of neo-liberal principles.

The first is that uninhibited competition will always act to drive down costs and prices. The most successful firm will be the one which is able to lower costs, and therefore lower price, and so gain an edge over rivals in the marketplace. Over time, this inevitably puts downward pressure on primary commodity prices, that is on the raw materials of production, or the basic production inputs. As those prices decrease, small holdings become non-viable and smallholders are forced to sell and move off the land. The processes of land consolidation and constantly increasing economies of scale result, inevitably, in the movement of people out of the countryside and into towns and cities. This phenomenon is not confined to Third World countries. Average farm sizes in Western nations have similarly expanded over the past century. The consequences are the rural-urban migration phenomenon of the twentieth century and the emergence of a growing population of people who have lost access to subsistence resources and must rely on whatever money they are able to obtain from activity in towns for subsistence. This, in turn, has resulted in very large *informal economies* in most Third World countries. As Charmes describes:

Estimates of the informal sector as comprising between 20 and 60 per cent of urban or non-agricultural employment are now accepted truths, and the wide margin is taken as evidence that the lower level of development of a country, the larger its informal sector ... Whilst these data provide a measure of the importance of informal activities in the towns or urban regions concerned, they cannot be used for

more thorough analysis or for international or temporal comparisons because of the diversity of definitions adopted, sources used and assumptions needed to reach these estimates. Some of them are based on a definition by income level (Asuncion, for example) or by nonwage employment, while others give no specific definition because of the lack of genuine national data (Niger). For this reason, estimates based on the application of a single criterion of definition are of greater value: this criterion may be the non-agricultural and nonwage labour force, a statistic which can be drawn directly from population censuses, or the non-agricultural and non-registered labour force, a statistic which requires comparison of population census findings with registration sources, such as enterprise surveys.

(Charmes 1990, p. 17)

Perhaps the most important point to remember in considering informal economic activity in Third World countries is that people are involved in supplying their subsistence and status-related needs and wants in ways which are acceptable to people in their own communities. They are organising activity in ways which 'fit' the requirements of the social templates which underwrite all communal organisation and activity (see Geddes 1995). The forms of productive exchange and consumptive organisation and activity which emerge are likely to reflect more closely forms from the community's own past than formal economic organisation and activity. For this reason, a great deal of the activity will only coincide poorly with the requirements for involvement in Western economic activity, that is in 'formal' economic activity. Attempts by well-meaning development agencies to 'harness the informal sector' in promoting formal economic development are inappropriate since they are attempts to refashion such activity to fit the presumptions and requirements for involvement in Western social template activity. The social engineering implications of such attempts are enormous, though seldom recognised by those who promote such refashioning.

Formal economic activity will always focus on areas where money is to be made. That is, by definition, production will continue to expand until it is surplus to requirements. Western economies are premised upon a supply *glut*, not on supply *scarcity*. This feature, in combination with the consequences outlined above, results in the stimulation of production at ever reduced cost since once an individual or firm has invested capital in production, it is often difficult in the real world to diversify. So, the only way to maintain income as prices are being driven down is to increase production. This results in a paradox. The less profitable that production becomes, the greater the effort to increase production to compensate for falling returns through increased sales. Until, of course, the firm or individual can no longer compete and the business collapses. The consequences of this are, of course, that constantly increasing demands are made of the environment. At the very time when those involved are *least able* to afford the costs of environmental protection, they are being forced into expanded utilisation of the resources available to them. Under such circumstances, relatively costly conservation programs are beyond the means of those whose activity is most likely to result in long-term environmental degradation. This has, in many Third World

countries, resulted in looming environmental disaster. As James Speth has described:

... according to recent estimates by the world's leading soil scientists, an area of about 1.2 billion hectares-about the size of China and India combined-has experienced moderate to extreme soil deterioration since World War II as a result of human activities. Over three-fourths of that deterioration has occurred in the developing regions, most of it in arid and semi-arid regions. When combined with other environmental threats to the agricultural resource base-loss of water and generic resources, loss of cultural resources, and climate change, both local and global-the situation is disturbing indeed.

(Speth 1994)

As long as there is money to be made from an activity, the number of producers will continue to multiply and the exploitation of resources will continue to expand until they are in short supply. That is, economic activity becomes premised on a *scarcity of resources*. As resources become scarce, people, inevitably, utilise those which are only marginally productive. This process has been compounded in Third World countries through the expropriation of resources for capitalist development. As Dharam Ghai says:

The establishment of colonial rule in the 19th and early 20th century in most parts of Africa set in motion a series of developments with profound implications for the environmental balance. The principal mechanisms disturbing the equilibrium were expropriation of land for settlement and plantations, assumption of state sovereignty over natural resources, commercialisation of agriculture, development projects and policies and population growth ... these developments not only disrupted the long established systems of shifting cultivation and nomadic pastoralism but also confined indigenous populations to restricted areas often of low agricultural potential ... The situation varied by regions and colonial authorities but the general trend was towards increasing central control and growing disenfranchisement of local communities ... The process continued after independence from colonial rule ... The search for profits brought an ever increasing area of land under cultivation. Some of the earlier practices of crop rotation, intercropping, mixed farming and shifting cultivation were either abandoned or restricted ... the growth of export commodities such as cotton and groundnuts reduced soil fertility and increased its vulnerability to erosion. This was especially the case with continuous mono-cropping. The deleterious effects on soil fertility have also been observed with continuous mono-cropping of food crops such as maize even when fertilisers are used.

(Ghai 1993, p. 65)

While resources are available, the number of suppliers and the volume of production will continue to expand until production exceeds the requirements of the marketplace. This has been an experience shared by most Third World communities over the past fifty years. What starts as a specialised product

for a niche market, becomes the flavour of development programs as word passes from one aid organisation to another. Before long, the market has been saturated and the investment made in necessary infrastructure becomes added to the debt load of the country. In almost all cases, the number of suppliers greatly exceeds the number of buyers, the market forces competition upon suppliers, forcing down prices until returns on production are marginal. At that point, and not before then, production stops expanding. With production marginally in excess of market requirements, producers remain in competition and economic success depends on reorganisation of production to trim costs. Those producers who do not reorganise production, or do so less effectively, become uncompetitive and drop out of production. This, over time, leads to economies of scale so that small producers find themselves unable to compete with large producers. As the size of productive enterprises grows, the sophistication of production also increases as producers look for new ways of cutting costs, leading to increased use of machinery and other forms of cost-reducing and production-increasing technology. As this happens, the capital requirements of being involved in production escalate, making it less likely that new firms can successfully enter into the marketplace to challenge the dominance of the large players.

Many Third World countries, in trying to develop viable industrial sectors, have found themselves in just this position in relation to already industrialised countries. With the emergence of Just-In-Time production processes, they become relegated to the position of suppliers of cheap labour until the industries which have relocated to take advantage of that resource re-tool with emerging technology and relocate nearer their major markets. Consequently, in attempts to attract and then retain industry to their regions, governments find themselves having to offer greater and greater incentives, sometimes supplying most of the necessary infrastructural supports, in order to lure companies to relocate. Of course, the smaller the necessary investment in establishing a factory, the easier it is for the business to relocate elsewhere in pursuit of cheaper labour or more attractive inducements. Third World governments find themselves subsidising transnational corporations in order to ensure that they locate and remain in their countries. At times, the returns to Third World countries barely cover their outlays in attracting and retaining transnational corporate investment in the country. As John Borrego describes:

The spatio-temporal unity of the polity and economy, characterising the earlier phases of capitalist development, has been fractured. The State's capacity to mediate between market and society has been weakened. In particular, global capitalism has substantially reduced the local, regional and national State's control over its economic and non-economic environments (Ross & Trachte, 1990). Post-Fordist firms seek settings with 'good business environments'. While this concept can suggest qualities such as a skilled labour force and highly developed and maintained infrastructure, it can also mean low wages, weak unions, and lax regulation of the work place and environment which disempower people and communities. In this setting, States use tax abatements and various other subsidies to attract or simply

hold businesses. 'Economic development' often means States encouraging competitive rollbacks in all these areas which force communities into 'placewars' in order to attract globally mobile capital (Mingione, 1991; Donald Haider, 1992: 127-134).

(Borrego 1995, pp. 37-8)

Since only those producers who are able to respond to market forces will survive, those who find themselves no longer able to economically compete in a particular product area will, if they are to remain economically viable, have to find other products for which there remains a strong demand. That is, they will have to diversify. So, long-term economic success in the Western marketplace requires access to, and understanding of, the emerging technologies for reducing costs and increasing production and/ or sufficient grasp of market realities to be able to predict future demand and gear production to that prediction.

In the real world, of course, few small operators are able to rapidly change from one form of production to another as the market becomes saturated. This kind of rapid response to market demand requires the sort of sophisticated technologies, organisation and information employed by Sony, as we have already seen. Small producers do not have access to the necessary information, technology and organisational expertise and so are unable to successfully compete with transnational companies. Instead, as profitability drops, production tends to expand until the cash reserves of producers are expended and they have been driven into debt. Then, already in debt, they are forced out of production-there is little possibility of diversifying into more profitable forms of production since that would require capital and they have already used their surplus in a vain attempt to remain viable in the current form of production.

This scenario is played out all over the world as product supply to the market reaches saturation levels. And, since the aim of production is to make money, the only way in which a producer can ensure that he or she remains in a profitable venture, other than through cutting costs and increasing production, is through cornering the necessary resources for that production, that is through gaining a monopoly in an area of production. This is seldom possible in primary production, and Western nations have laws limiting the possibility of monopoly control of production since it is well understood that cartel price-fixing arrangements, or the cornering of a market by a single producer, limits the possibilities of production and therefore erodes the efficiency of the marketplace.

The inevitable end result of this play of market forces is not increased well-being for small producers, but marginal subsistence. Only those producers who are prepared to lower prices until they can just survive will remain. All others will lose market share. The sweat shop is not a step on the road to 'economic development', it is the destination of most Third World people who aspire to Western-style economic development. Western economic forces, given free rein, lead to the mass of people living lives of borderline starvation, of endemic poverty, with the few who control the means of

production able to maintain wealthy lifestyles.

One of the important reasons why Western nations introduced baseline wage rates through the last part of the nineteenth and the twentieth centuries has been because without them market forces would have reduced the bulk of the population to this level. Now, through deregulating national economies and universalising competition, those countries which decide to retain basic wage rates find themselves unable to compete in labour-intensive production with countries which do not have basic wage rates. Inevitably, therefore, those who are ideologically committed to allowing market forces free play argue that it is 'rational' to remove basic rates. But rational for whom? If the consequences of allowing market force: free rein is the long-term impoverishment of the majority of the population then that which is rational in terms of the marketplace becomes irrational in terms of the long-term well-being of communities of people.

The presumption that there is an 'unseen hand' ensuring that what is good for the marketplace is good for society is an ideological one, and is not based upon a rational assessment of the long-term results of organising society to serve the marketplace, but is based upon an historical argument which certain sections of Western European communities used in justifying a break with feudalism and a loosening of government restrictions on profit making. The organisation of society to serve the marketplace was not to the advantage of the majority of people in the eighteenth century or in the first half of the nineteenth century, and its success for Western nations in the latter half of the nineteenth century and during most of the twentieth century has been based upon privileged access to the resources of the world and low-cost primary production to an expanding world market. However, the last two decades of the twentieth century have, indeed, ushered Western communities into a 'new world order'.

Western nations have accepted the arguments of neo-liberal economics that in order to ensure 'economic efficiency', national economies need to be deregulated and opened to worldwide competition. Of course, the arguments are logically impeccable, given the forces driving Western economic organisation and activity. In a deregulated world, those who don't deregulate cannot compete in the international marketplace. But the reason they can't compete is that they have retained those minimum standards of well-being which were set in place during times of economic expansion.

In the long run, in a deregulated worldwide economy, there are no winners. Since costs are always driven down, and prices are similarly adjusted to the margins, the logical outcome of allowing market forces full play is that small businesses become uncompetitive and large ones are made marginally profitable. There seems to be a 'law of entropy' in action in the marketplace, driving down production costs and prices and, in the process, reducing the bulk of people involved in small-scale primary production to penury. As Paul Burkett describes:

The severe economic crisis experienced in most of the periphery in the 1980s is shown by World Bank data. During the 1980-88 period,

the average annual growth rate of real per capita gross domestic product (GDP) in the countries of Sub-Saharan Africa (excluding South Africa) was -2.4 per cent. For Latin America and the Caribbean, per capita GDP growth averaged -0.7 per cent. Overall, per capita GDP shrank at an average annual rate of -0.8 per cent in the countries that the World Bank classifies as 'low-income' (excluding China and India).

(Burkett 1991, p. 475)

Burkett asks why centuries 'of production for the world market left the majority of Third World people with appallingly low living standards' and concludes: 'One answer is that it is the global capitalist economy that *itself* reproduces underdevelopment and poverty in the Third World' (1991, p. 477).

Over the past twenty years, the world has become aware of a growing population of destitute people living not only in Third World slums and areas of rural depression, but also in First World cities. Stephen Gill suggests that what has happened through most of the world is an extension of the kind of disorder experienced in the old Soviet Union in the wake of Gorbachev's policy of *perestroika*. As he says:

Robert Cox (1992) has coined the phrase 'global perestroika' to describe this process. Thus, rather than being simply explicable in terms of conscious political decisions and the direct use of political power, global perestroika (that is, the process beyond the former USSR) has produced a type of institutionalised chaos that is propelled by the restructuring of global capitalism. Of importance here are accelerating changes in production, finance, and knowledge that have given rise to a relatively coherent, interrelated pattern. In this pattern there has been a cumulative if uneven rise in the structural power of internationally mobile capital (Gill & Law 1988, 1989), a rise that has brought with it certain limitations and contradictions. This emerging world order, then, can be contrasted with the one that prevailed in the metropolitan nations in the 1950s and 1960s. From the vantage point of the early 1990s, it appears to be characterised by deepening social inequalities, economic depression for most parts of the world, and a reconfiguration of global security structures. These changes are strengthening the strong, often at the expense of the weak. The principle of distributive justice that is increasingly associated with this order is, to paraphrase the Book of Matthew, 'to him that hath shall be given, to him that hath not shall be taken away'. This is what I mean by 'patterned disorder'.

(Gill 1994, pp. 170-1)

The implementation of structural adjustment programs in Third World countries seems to have resulted in just such a process of patterned disorder. People have lost access to subsistence resource bases, communities have been disrupted, poverty has become endemic in many areas of the Third World, and the disparity between the rich and the poor has grown more

pronounced in both Third World and industrialised countries. But, at the same time, internationalised business activity has become globalised and increasingly profitable. For many people in Third World countries, globalisation seems like a conspiracy of the rich against the poor and defenceless. As Marjorie Mbilinyi, author of *Big Slavery: The Crisis of Women's Employment and Incomes in Tanzania* (1991), said in an interview at the University of Guelph:

We could have a lot of despair in Africa right now. Many of us see this as a moment of mass genocide. And it's a very conscious one, we think, on the side of at least some big government actors as well as some of the actors in agencies like the World Bank and the IMF. The peoples of Africa are being steadily impoverished. They are also being dispossessed of their lands. Governments like Tanzania, partly in response to popular demand, had begun to nationalise assets and try to guide the economy in the direction that would meet the basic needs of the people and increase national control and make it more inward orientated. Now we have complete reversal so that it is almost worse than in the colonial period.

(Mbilinyi 1994)

Fantu Cheru claims of African experience:

The overwhelming consensus among the poor in Africa today is that development, over the past 25 years, has been an instrument of social control. For these people, development has always meant the progressive modernisation of their poverty. The absence of freedom, the sacrifice of culture, the loss of solidarity and self reliance which I personally observed and experienced in many African countries, including my own, explains why a growing number of poor Africans beg: please do not develop us!

(Cheru 1989, p. 20)

There are strong international pressures for the deregulation of economic activity within national borders and for the lowering of tariff barriers and other forms of restrictive import and export regulations. International business is becoming truly independent of national governments and increasingly able to play countries and regions off against each other in negotiating investment terms. And, in the process, is increasingly able to escape responsibility for funding social welfare needs of the communities within which it operates. In attempts to limit the effects of this internationalisation, there have been a number of regional trade organisations established, trying to gain the advantages of internationalisation while maintaining some control over regional economic activity. In large measure, however, they provide further support to transnational economic activity and provide little regulation.

Nation-states, once firmly in control of economic activity within their borders are, in a new deregulated, privatised world, decreasingly able to shield their populations from the exploitative consequences of unregulated and

internationalised market exchange. Those countries with few bargaining counters become those most vulnerable to demands by transnational business for even more favourable conditions of trade and access to their resources. For many people in Third World countries, the new economic order is one in which they have lost what power they once had to control their own destinies. They do not even have the recourse of the colonial past to appeal to the colonising power to limit exploitation within their regions. Now, there is no international forum capable of limiting and directing the bargaining advantages of businesses whose holdings and turnover eclipse those of the countries with which they do business. No longer is the economy the means by which communities meet their needs and wants. Now communities service an internationalised economy which need accept no reciprocal responsibilities for their welfare.

### End Notes

1 See [Why 'Third World'?](#) for an explanation of the use of this term

2 Janet Yellen (2007), President and CEO, Federal Reserve Bank of San Francisco, described [the Asian experience](#):

At the time of the crisis, I was the Chair of President Clinton's Council of Economic Advisers, and, as you may imagine, it was definitely a "front-burner" issue for us. As the crisis spread from country to country, there was deep concern about how big the impact would be on the U.S. economy, and the markets certainly were jittery: that October, the Dow Jones Industrial Average plunged over 500 points. For the five Asian nations most associated with the crisis—Thailand, Korea, Indonesia, the Philippines, and Malaysia—the toll in both human and economic terms was enormous: in 1998, these countries saw their economies shrink by an average of 7.7 percent and many millions of their people lost their jobs. More broadly, there was concern that the crisis had revealed new sources of risk in the international financial architecture.

[Accessed 5th January 2010]

- 3 There has been a great deal of discussion about and criticism of 'structural adjustment programs' devised by the International Monetary Fund and World Bank to ensure that the economies of countries requiring financial assistance are 'structurally adjusted' to minimise future problems. Type the term into any search engine and you will have access to thousands of these. Personally I consider that the major problems of these programs relate to the presumption by World Bank officials that countries can readily be refashioned to Western neo-liberal economic understandings and forms of organisation and practice. See [Ideology and Reality](#) for more on this.
- 4 How much richer our lives would be if we could divest ourselves of the drive to self-promotional productivity and consumption but retain our will to cooperate in a quest for understanding and knowledge. The

Writer of The Proverbs put it well:

Wisdom is supreme; therefore get wisdom. Though it cost all you have, get understanding... How much better to get wisdom than gold, to choose understanding rather than silver!

(Proverbs 4:7; 16:16 [New International Version of the Bible])

As it is, our creativity becomes harnessed to the capitalist drive to accumulation and consumption and directed not by the creative and the inquiring, but by the self-promoting accumulators in Western communities.

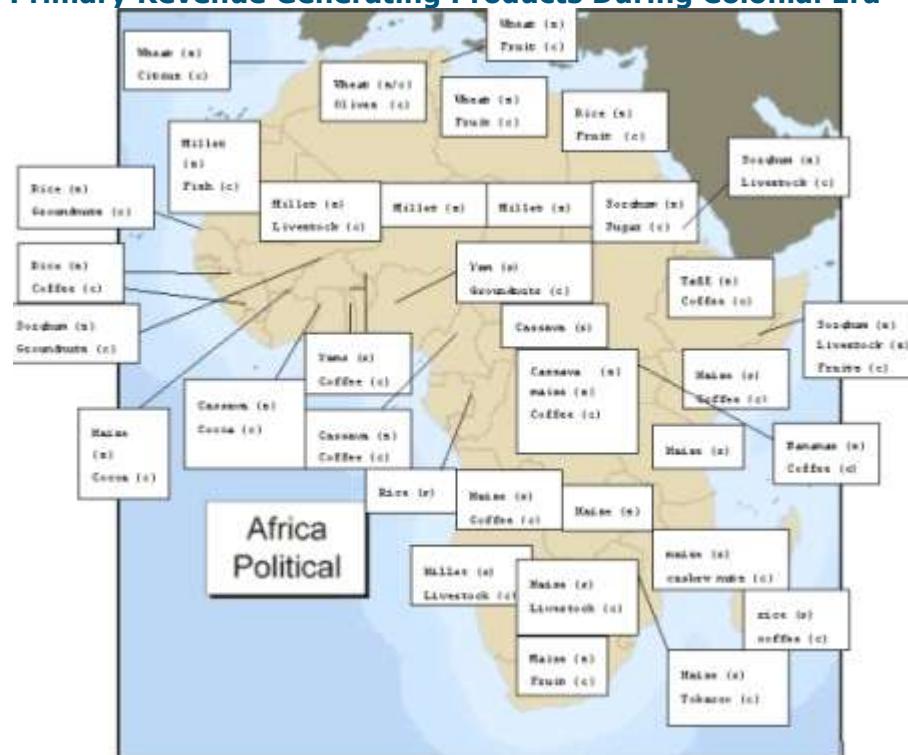
5 See [Thomas More \(1516\); The Nature of Work](#)

6 See [Emergence of Capitalism](#)

7 Letter to Colonel Edward Carrington, Paris, January 16, 1787

8 For an excellent, illustrated summary of the experience on the African continent see [Colonialism and Africa's Integration into the Global Economy](#)

### Primary Revenue Generating Products During Colonial Era



[accessed 16 January 2010];

also [Victoria Tauli-Corpuz and Parshuram Tamang \(2007\)](#) for 'the impact of commercial tree plantations and monocropping on indigenous peoples' lands and communities'.

9 These constantly escalating demands have not lessened in the late twentieth century. As long as Western social templates are centred on competitive material accumulation and consumption, attempts at 'sustainable development' must, by definition, fail. Sustainability requires a stable demand for material goods. This can only happen when the social templates of communities are focused on something

other than competitive, individual material accumulation and consumption. Of course, to hold consumption and accumulation at present levels is already an unsustainable proposition. Unless the social templates of Western countries and their accumulative and consumptive demands are reduced to genuinely sustainable levels, and the status systems of other communities are not warped through competition with the West and through the stimulation of material needs and wants by promotional agencies, 'sustainable development' is an oxymoron.

- 10 This, of course, is a contentious assertion. The populations of Third World communities are, indeed, out of control. However, we need to ask when they began this uncontrolled growth. It seems that in almost all Third World countries the take-off into uncontrolled population growth coincided with the commencement of the 'development' drive of the post-Second World War period. It is contended that the rapid increase in population growth is largely a consequence of the disruption of communities, through attempting to reorganise them to Western requirements. Communal controls on population have been disrupted, and people are socially disorientated and confused. Population growth is no longer driven by the needs and requirements of communities, and individuals have not been reorientated to Western forms of individualised population control based on material cost calculations. As I have argued elsewhere ([Ideology and reality](#)), Western belief that people can easily be reorientated to Western assumptions and Western drives is naive. The more vigorously such attempts are pursued, the more disrupted communities become and therefore the less effective population control measures become.
- 11 We must, of course, remember what this term refers to in economic parlance. It refers, as Marx observed, to the removal of social restrictions on the exploitation of labour and of competitive exchange.
- 12 This is not competition within 'classes', since class, as a means of evaluating comparative social status is becoming less important as capitalism becomes the ideological lodestone of increasing numbers of people in Western communities. Class designation is the last of the feudal designations, warped by changes from co-operative to competitive hierarchical relationships, to succumb to the individualising forces of Western capitalism.
- 13 Discretionary income is income which is surplus to the provision of 'necessities'. The growth in perceived 'necessities' in Western communities tends to absorb discretionary income. When individuals find that there is a regular surplus income, they tend to commit that surplus to expenditure which becomes a part of future 'need provision'. If, at a later time, a person is no longer able to fund such a commitment, that person feels a genuine sense of deprivation, of impoverishment.
- 14 It needs to be remembered that any business, in order to ensure competitiveness, will, by definition, challenge any costs, attempting to reduce or eliminate them in the drive to competitive pricing and

increased profit. Challenges to 'social costs' are not, in fact, based on attempts to lower standards of living for community members, but on attempts to lower product prices and increase profits. One need not assume some kind of conspiracy between 'owners of the means of production' to profit at the expense of less fortunate community members. That might be a consequence of the drive to lower costs, but it is not the purpose of that drive. Rather, attempts to lower or remove social costs of production are a consequence of the nature of 'free markets'. They are effects of the system, not evidence of class conspiracy.

- 15 In Marxist terms, pre-capitalist 'modes of production' supported the new capitalist mode of production, allowing businesses to exclude the social requirements of the communities within which they existed in their calculation of production costs. As those pre-capitalist modes were displaced, businesses rejected community demands for inclusion of those costs as part of the costs of production. They saw themselves not as intrinsic to the community within which they existed, as its means of supplying its needs and wants, but as external to it, living alongside it, and in competition with it as a supplier of labour. Yet prominent community leaders were, almost inevitably, also prominent capitalists. In their felt need to keep costs from rising, they accepted this separation of the economic environment from the community in which it was placed, leading to a constantly diminishing community capacity to ensure the social welfare of its members.

(See [International Review of Social History Vol. 53 Supp. 16 \(2008\)](#) for a re-appraisal of the classic distinction between the "capitalist" and "pre-capitalist" modes of production.)

- 16 This has often been called a 'developmentalist' approach to economic activity. The government sets in place legislation to channel economic activity in directions thought to be appropriate to the needs of the community and to furthering the viability of business in order to ensure long-term social welfare.

- 17 Unfortunately, costs related to maintaining the integrity of the environment from which raw materials are extracted are usually excluded from consideration. The environmental deterioration is accepted as 'collateral damage' of capitalist enterprise. Costs related to maintaining the integrity of the community from which labour is drawn and within which capitalist enterprise is conducted are similarly ignored in the interests of 'profitability' and 'competitive advantage'. It is only possible to do this if 'the economy' and 'economic activity' are considered entirely separate from other 'environments', an independently existing, self-regulating domain (see [Emergence of Capitalism](#)).

- 18 British Prime Minister Margaret Thatcher, talking to *Women's Own* magazine, October 31 1987:

I think we've been through a period where too many people have been given to understand that if they have a problem, it's the

government's job to cope with it. 'I have a problem, I'll get a grant.' 'I'm homeless, the government must house me.' They're casting their problem on society. And, you know, there is no such thing as society. There are individual men and women, and there are families. And no government can do anything except through people, and people must look to themselves first. It's our duty to look after ourselves and then, also to look after our neighbour. People have got the entitlements too much in mind, without the obligations. There's no such thing as entitlement, unless someone has first met an obligation.

<sup>19</sup> See [Russell](#) (1916 page 81) for a short history of the first run on a bank in England in 1667 and the subsequent establishment of the Bank of England in 1694.

<sup>20</sup> See [The History of the FDIC](#) for more on this.

<sup>21</sup> See [Reserve Requirement: History, Current Practice, and Potential Reform](#) for a description of U.S. FDIC monetary policy; Meltzer (2003) for a history of U.S. monetary policy to 1951

<sup>22</sup> However, recent shifts to 'flexible automation' in many industries have made this advantage less important and have resulted in declining international investment in many Third World countries in recent years (see Schoenberger 1994).

<sup>23</sup> The principles underlying moves to 'free' international trade from the disadvantages of 'protectionism' are well spelt out in the World Trade Organisation (WTO) statement of purpose:

The economic case for an open trading system based upon multilaterally agreed rules is simple enough and rests largely on commercial common sense. All countries, including the poorest, have assets-human, industrial, natural, financial-which they can employ to produce goods and services for their domestic markets or to compete overseas. 'Comparative advantage' means that countries prosper by taking advantage of their assets in order to concentrate on what they can produce best. This happens naturally for firms in the domestic market, but that is only half the story. The other half involves the world market. Most firms recognise that the bigger the market the greater their potential-in terms of achieving efficient scales of operation and having access to large numbers of customers. In other words, liberal trade policies which allow the unrestricted flow of goods, services and productive inputs multiply the rewards that come with producing the best products, with the best design, at the best price ... The alternative of import protection and perpetual government subsidies leads to bloated, inefficient companies supplying consumers with outdated, unattractive products. Ultimately, factories close and jobs are lost despite protection and subsidies. If other governments pursue such policies overseas, markets contract and world economic activity is reduced. One of the objectives of the WTO is to prevent such a

self-defeating and destructive drift into protectionism.

(WTO Home Page; [http://www.unicc.org/wto/2\\_1\\_0\\_wpf.html](http://www.unicc.org/wto/2_1_0_wpf.html))

<sup>24</sup> This has been clearly demonstrated in the shift in taxation towards income and away from business through the last twenty-five years in Western countries. The top rate of income taxation in Australia twenty-five years ago was applied to those incomes which were more than ten times the size of average incomes. In 1996, the rate cuts in for incomes which are one-and-a-half times the average wage. That is, the social welfare requirements of the community are increasingly being borne by wage earners, rather than by economic enterprises.

<sup>25</sup> In fact, they do not appear to have seriously hampered economic development in the East Asian 'tiger' nations.

<sup>26</sup> See Boston (1991) for a discussion of the emergence of these theoretical arguments.

<sup>27</sup> See Geddes, Hughes and Remenyi (1994, pp. 90ff.) for a discussion of the nature of and relationship between 'private' and 'public' environments in Western communities.

<sup>28</sup> See Geddes, Hughes and Remenyi (1994, pp. 64ff.) for a discussion of status systems or 'social templates' in Western and non-Western communities.

<sup>29</sup> See Geddes, Hughes & Remenyi (1994, pp. 108ff.) for a discussion of the nature of 'achievement' in Western communities and some contrasting orientations in other communities.

<sup>30</sup> See Geddes (1993 pp. 105ff.) for a discussion of forms of production and consumption in various communities, also Geddes, Hughes & Remenyi (1994, pp.110ff.).

<sup>31</sup> See Geddes (1993, pp. 117ff.) and Geddes, Hughes & Remenyi (1994, pp. 130ff.) for discussion on the nature of reciprocity and exchange. The presumption that there is only one definition of human exchange, from which actual behaviour deviates as a result of constraints and incentives imposed by society, seems to be based on a rather naive understanding of processes of categorisation and classification and therefore of processes of human interaction.

<sup>32</sup> See Geddes (1993, pp.117ff.) and Geddes, Hughes and Remenyi (1994, pp. 130ff.) for a discussion on the nature of social exchange.

<sup>33</sup> See Biersteker (1987) and Robison (1990) for descriptions of the relationship between government and private enterprise in Nigeria and Indonesia.

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