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SYMPOSIUM: CRISIS IN CONFIDENCE: CORPORATE GOVERNANCE AND PROFESSIONAL ETHICS
POST-ENRON SPONSORED BY WIGGIN & DANA: Democracy Against the Free Market: The Enron Crisis and the
Politics of Global Deregulation

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LEXISNEXIS SUMMARY:

... Since the Reagan era, conscious state deregulation of financial and equity markets, as well as corporate "incentivizing" of management behavior through "stock options," has constructed a "turbo capitalism" in which rising stock market prices has driven out all consideration of long-term institutional health. ... Thus, building the transnational social movements and political institutions capable of implementing such a "global Keynesian" "social structure of accumulation"--that raises productivity and living standards across the globe--will be a project of an epoch for the left n21. ... A further indication that all is not well with the United States "job generation engine," is that over twenty-five percent of United States imports come from nations with higher wages and living standards than our own (Japan represents thirteen percent of U.S. imports, Germany another five). ... Both the real and alleged competitive pressures of corporate globalization, which could be better resisted by multinational controls upon speculative finance capital, are used to oppose public investment and defense of high-wage industrial jobs in the core capitalist nations. ... Nevertheless, in reality, capital is infinitely more mobile than labor and can seek cheaper labor; individual workers often cannot bare the cost of emigrating and nation-states still raise barriers to immigration; exceptions are often made for those seeking low-wage service jobs that domestic labor will not take or in favor of a limited, regulated flow of higher-wage workers when and if skilled domestic labor is short. ... Living standards of workers in advanced industrial nations are interdependent with those in newly industrializing nations that have the skills and education to utilize the manufacturing processes formerly used in core capitalist nations. ... Advocates of a global Keynesian leveling-up of living standards and trade union and human rights should be short-run pessimists. ... Democratic internationalists are not against investment of capital in the Third World, provided it does not prevent those nations from developing an integrated, domestically-oriented economy that serves their people's needs. 3. ... The collapse of Enron and the slew of corporate governance scandals in the United States illustrates the seamy side of deregulated capitalism.

TEXT:

[*1097] I. ENRON AS A SYMPTOM OF GLOBAL "CASINO CAPITALISM"

The mainstream media frames the Enron and subsequent corporate scandals as a story of political insider trading:

Bush's Texas buddies using political connections to garner deregulatory breaks and manipulate energy prices. ⁿ¹ Political corruption is part of the story, but beneath the ideological cover of "corruption and influence buying" lies a starker, systemic reality: The Enron scandal as an exemplar of an Anglo-American model of "casino capitalism" which emphasizes short-term profit and stock-market values at the expense of long-term economic growth and social equity.
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The corporate media have trumpeted deregulation and social welfare cutbacks as creating a mean and lean twenty-first-century capitalism. Mean and lean in regards to staffing levels, perhaps; but efficient, no. Since the Reagan era, conscious state deregulation of financial and equity markets, as well as corporate "incentivizing" of management behavior through "stock options," has constructed a "turbo capitalism" in which rising stock market prices has driven out all consideration of long-term institutional health. The age of "the organizational man" and of labor-management cooperation has long ago given way to the lean-and-mean era of "labor flexibility" and corporate down-sizing. The Enron scandal is best understood as a case-study of the costs of the global neo-liberal model of [*1098] deregulation. To truly comprehend the crisis of American corporate governance one must pierce the veil of "free market ideology" to comprehend the workings of a new, state-constructed form of capital accumulation that prioritizes the "health" of equity markets over the workings of "productive" capital. ⁿ³

Deregulation is not simply the absence of state regulation of corporate behavior; it is a comprehensive ideology advocating the down-sizing of the public sector, the privatization of social services and benefits, and the implementation of balance-budget austerity in the name of securing the health of financial and equity markets. Only the dollar remaining the world's currency allows the United States to talk balanced-budgets, while once again running massive budget deficits via tax-giveaways to the rich. In a post-New Deal world turned upside down, the Democrats have become the party of balanced-budget austerity, whereas, the Republicans are the party of "military Keynesianism," with extra purchasing power going to the rich-in exactly the opposite direction than Keynes originally envisioned.

The dirty secret is that financial deregulation inevitably leads to speculative bubbles and bursts. As Keynes first pointed out seventy years ago, financial markets can never be self-regulating because they are based on uncertain information about future economic performance. To prevent speculative booms and busts, the democratic state needs to regulate the wild price swings of financial markets caused by, as Keynes put it, speculators devoting their "intelligence to anticipating what average opinion expects the average opinion to be." ⁿ⁴

In September 2001, the Enron Corporation ranked as the seventh largest U.S. transnational firm in terms of total balance-sheet revenues. We now know how cooked its books really were. But in the seven years preceding the scandal, *Fortune* magazine had ranked Enron as our most innovative firm. ⁿ⁵ What did Enron do? It traded almost anything on its futures and derivatives markets and produced almost nothing. Enron's rise from a sleepy Southwest gas pipeline owner to a privatized corporate gaming casino in which speculators could literally bet on the future of the weather epitomizes the irrationality of unregulated capitalism.

Beginning with the Carter administration's deregulation of the savings and loans ("S&L"), transportation, and telecommunications industries, advocates of deregulation promised what John Maynard Keynes argued could never exist (and in fact doesn't): A self-adjusting free market economy [*1099] that would be efficient in both the short and long runs. ⁿ⁶ Thus, throughout the history of market economies, "speculative bubbles" have formed and burst because investors in financial markets focus on one another's likely behavior rather than on economic fundamentals. This understanding underpinned the New Deal's creation of the Securities and Exchange Commission and the passage of the Glass-Steagall act that separated equity financing from commercial capital markets.

The roots of the Enron scandal go back two decades to the deregulatory policies of the Carter and Reagan administration. Prior to 1980, federal law limited savings and loans banks to lending for home mortgages, which were further regulated by federal ceilings on interest rates. For years, commercial banks campaigned to deregulate interest rates and to enter the home mortgage arena. In return, they proposed that S&Ls be given more liberal accounting rules and allowed to enter the commercial real estate market. In early 1980, Congress passed a financial deregulation bill that

did everything the banks wanted. ⁿ⁷

By 1985, with the collapse of oil prices in the Southwest, thirty to forty billion dollars in S&L commercial real estate loans had already gone bad. Even though regulatory economists at the Federal Home Loan Bank Board and maverick Democratic Representative Henry Gonzalez of Texas warned of the dangers ahead, the S&L industry lobbied successfully to prevent an increase in its federal deposit insurance premium to pay off the losses. The first signs of crisis were ignored. By the 1990 recession, S&Ls across the country could not meet their deposit obligations because of massive defaults on speculative real estate loans. The federal deposit insurance funds couldn't cover them. The result: A two hundred billion dollar bailout of the S&L industry by U.S. taxpayers. ⁿ⁸ This lemon socialism, in which the victims of the risks pick up the tab for the failed risk takers, prefigured the solution to the Enron collapse. ⁿ⁹ This time, the victims were not the taxpayers as a whole, but those employees whose pensions depended upon their forced holdings of Enron stock.

In response to the Enron scandal, the mainstream media have called for common-sense reforms such as banning financial auditors from selling management services to the very firms whose accounting practices they vet. Yet the editorialists at CNBC and the *Wall Street Journal* have yet to criticize deregulation. Nor will CNBC analysts tell you that privatization and public sector cuts are part of a deregulatory strategy that aims ultimately [*1100] to eliminate all government regulation of labor markets. According to free market ideologues, a democratic state should not enforce health and safety rules or defend the right of labor to organize--since "cost-cutting" benefits all by making industry globally competitive.

Enron employees learned a painful lesson from the decimation of their private pensions, which were largely invested in Enron stock. Free market ideology claims that risk-takers should receive great rewards if their risks pay off. What gets lost in this argument is the other side of the coin: Risk-takers should also pay the costs if their risks fail. Instead, the employees bear the risks, and will continue to do so in the absence of strong social insurance--high-value, defined-benefit pensions and universal health care. But there is indeed a kind of social insurance in the alleged world of laissez-faire. As the managers at Long Term Capital Investment ("LTC") learned in spring 1997, when a major financial firm fails, the federal government will come to the rescue. In LTC's case, the Federal Reserve arranged for eight billion dollars of emergency bank financing. ⁿ¹⁰

Enron's unregulated private derivatives markets were made possible by the Clinton administration. (Derivatives are complex financial instruments that allow economic actors to hedge against extreme movements in prices and interest rates; if unregulated, however, they encourage further speculative behavior.) In 1993, Enron persuaded the Securities and Exchange Commission to grant it an exemption from the Public Utility Holding Company Act, a depression-era law that forbids utilities from investing in unrelated risky businesses. ⁿ¹¹ In 1997, the SEC granted Enron a further exemption from the Investment Company Act of 1940, which prevented U.S.-based firms from leaving debt from foreign power plants off their books. ⁿ¹²

This second deregulatory move by the Clinton administration's SEC allowed Enron to create what turned out to be its Achilles' heel--the famous offshore "Star Wars" companies (named Chewco, Jedi, Raptor, Braveheart, and so on). These extremely leveraged offshore companies financed risky foreign energy purchases (including the famous Indian power plant for which Dick Cheney lobbied) by huge investor loans, with Enron stock as collateral. When these foreign investments went bad, Enron's stock became increasingly diluted and its price plunged.

In the private derivative markets administered by Enron, speculators could bet on future price trends in telecommunications, bandwidth, and [*1101] energy. Absent SEC regulation, investors could increase their risk by buying on margin (where an investor only has to put down a small percent of his or her potential total liability, but is liable for the full value of any final losses). On Enron's Internet markets, one could hedge against the weather; Enron even set up a private fund for hedging against possible bankruptcy. ⁿ¹³ We may yet discover that Enron executives made a killing by betting that their own company would go under.

When Enron's bubble burst, large pension funds, including those of state employees in California and New York, lost billions of dollars. Such a massive loss occurred in part because of the repeal of the Glass-Steagall Act in 1999. Glass-Steagall had prevented finance banks (which raise capital for corporations) from owning brokerage firms and commercial banks (which lend money to corporate firms). The ending of Glass-Steagall meant that J.P. Morgan, Citicorp, and Bank of America not only underwrote bonds for Enron, but also traded derivative contracts with the company and bought stock in the firm. These massive conglomerate banks also used their financial analysts and brokerage firms to peddle Enron's stock to the public and private pension funds they advise. The interest these banks had in propping up Enron's stock not only cost their clients dearly; lured by massive investment banking fees, J.P. Morgan, for example, was left holding the bag on \$ 2.6 billion in Enron debt. ⁿ¹⁴ This behavior is exactly what Glass-Steagall's ban on the "one-stop shopping" of joint commercial-finance banks aimed to prevent. ⁿ¹⁵

The Enron debacle is not only a story of the calamities that befall a political system that is sold to the highest corporate bidder. Getting private money out of politics is only one piece of the reform puzzle. The deeper, radical truth is that Enron epitomizes the dangers of the speculative "free market" mania that has resulted in deregulation and the gutting of the public sector in favor of the fool's quest for short-term profit. The other side of speculative profit is speculative bust, the costs of which fall on small investors and workers rather than on corporate executives routinely rescued by government bailouts and "golden parachutes."

The American public was fooled once by Reaganomics (and its neoliberal Democratic partners). Can it be fooled again by a Bush administration [*1102] that trumpets the Enron collapse as the healthy "creative destruction" that characterizes capitalist competition? While Bush fiddles with regulatory reform, the administration's budget replays Reaganomics' perverse military Keynesianism--deficit financing of a massive military buildup and upwardly redistributive tax giveaways. The budget battles of the 108th Congress will witness another round in the fight against the gutting of the democratic public sector and basic income support. A corporate-dominated mass media that worships at the altar of laissez-faire ideology will not help the public understand that the Bush administration is trying to replay supply-side economics without the now disgraced title. Progressive social movements will have to work hard to make sure the American public does not get fooled again.

The Enron collapse is not a footnote to an otherwise healthy global capitalism. Rather, it is another calamitous product of a deregulated financial system that places all the costs of corporate risk-taking on ordinary citizens and allows the speculative risk-takers to get away with--for them--costless failure. The regulatory economic regime established by the New Deal saved American capitalism from the short-sightedness of American capitalists. A global corporate order that puts short-term profits ahead of long-term economic prudence necessitates a resurgent global labor movement and a social democratic left to redress the pain inflicted by the system's speculative excesses. Until the appearance of these two, there are likely to be more victims of Enron-type failures. And it is further likely that those who rely on the mainstream media to explain the subsequent debacles will not fathom their true cause--neo-liberal deregulation. ⁿ¹⁶

Thus, if we are to learn anything beyond media and administration platitudes about reforms in the accounting industry we must study the "genealogy" of a new form of global capitalism: The neo-liberal model of deregulation promulgated by the "Washington consensus" of the U.S. Treasury department, the IMF, and World Bank. For only re-learning the lessons taught by Lord Keynes in the 1930s can stem the incentivizing of short-term greed caused by "turbo-capitalism's" emphasis on stock market's response to quarterly profit reports.

II. THE GENEALOGY OF 'CASINO CAPITALISM': UNDERSTANDING GLOBAL NEO-LIBERALISM'S "SOCIAL STRUCTURE OF ACCUMULATION"

A considered contribution to comprehending late capitalism has been made by the "regulatory school" of political economy. The "regulatory school" argues that every stage of capitalist development is characterized [*1103] by a hegemonic "social structure of accumulation"--the economic, moral, and political principles of a viable socio-economic order. This "social structure of accumulation" consists of a "regime of accumulation," a particular strategy of economic

development; and a "mode of regulation," the particular set of public policies and moral and ideological norms which enable the "regime of accumulation" to function smoothly. ⁿ¹⁷

In the regulatory school's analysis, the political impasse facing both the traditional left and right in advanced industrial democracies results from the breakdown of the old "Keynesian/Fordist," "social structure of accumulation" which rested upon a high-value added, standardized (assembly-line) industrial "regime of accumulation" centered in the core Western countries. This Keynesian or "Fordist" productive "social structure of accumulation" ⁿ¹⁸ engendered the economic growth, and resulting tax revenues, necessary to support the normative "mode of regulation" of the welfare state. The welfare state's gradual expansion of public provision and steady increases in working class living standards facilitated the mass consumption of industrial-produced consumer durables. And regulated, oligopolistic manufacturing production produced the economic growth that sustained this labor-capital compromise.

This post-war Keynesian "social structure of accumulation" has been supplanted, since around 1973, by a "post-Fordist" global "regime of accumulation," in which the core capitalist economies now compete in core manufacturing production both against one another and with the newly industrializing societies. While much of basic industrial manufacturer has moved to "newly industrializing countries," the advanced capitalist societies have witnessed massive rapid growth in financial services, information technologies, and the "infotainment" sector (the production of images and mass recreational consumption). As part of this new regime of accumulation, stock market equity values play a central role in determining the value of both management incentives and defined-contribution pension schemes. Conservative government policies of economic deregulation and weakening of union power fostered this transformation to an economy bifurcated between the top twenty percent, possessing "symbolic manipulative skills" (and significant stock market portfolios), and the majority remaining either in the declining industrial sectors or employed in the rapidly expanding, low-wage personal services sector (restaurants, hotels, security, janitorial-services, [*1104] etc).

But there has yet to develop a stable "mode of regulation," comparable to the Keynesian welfare state of 1945-73, which can stably govern democratic polities. We live in a period of left-right political stalemate in which right-wing government's often fall because of massive budget deficits and popular unease with growing inequality and unemployment. But the parties of the left in advanced industrial democracies have yet to construct a governing programmatic alternative of non-inflationary growth and high-wage full employment that would incorporate the growing marginalized population in the advanced industrial democracies (most extensive in the United States, where child poverty and rates of incarceration are strikingly higher than those of other advanced industrial democracies). At best, recent center-left governments have only moderated the excess of conservative social welfare cuts and deficit financing, without altering the basic terms of the "lean and mean," short-term profit-oriented, post-Fordist "social structure of accumulation."

The Thatcher-Reagan "conservative modernization" ⁿ¹⁹ project of deregulation and social welfare cuts, accompanied by deficit-driven, "military Keynesianism," represented the first effort at a "post-Fordist" political "mode of regulation." But the Thatcher-Reagan conservative "revolution" ran up against its fiscal irresponsibility and its failure to deter downward global pressures on living standards. Thus, it was exhausted as a governing, majoritarian political project by the early 1990s, after more than a decade's dominance of Western politics. Huge deficits prevented further tax-giveaways to the conservative core upper-middle class base. The return to traditional balanced-budget conservative austerity in the late 1980s and early 1990s, under George Bush Sr. in the United States and John Major in the United Kingdom, no longer mobilized a populist majority of the upper-and-middle third economic strata. The majority of both initially embraced "supply-side" tax cutting in the 1980s out of a desire to forestall the decline in living standards of 1970s stagflation. But once the Reagan-Thatcher inegalitarian boomlet ran up against severe fiscal constraints the right no longer had the economic tools to generate strong, if inegalitarian, growth.

Nevertheless, continued pandering to popular suspicion of progressive taxation and expanding public provision during the "third way" regimes of Bill Clinton and Tony Blair demonstrated that the right maintained ideological dominance, if not policy coherence. The right's seemingly discredited, hegemonic governing project of "supply-side" military Keynesianism [*1105] is only now being refloated under George Bush Jr.; whether it will even be enacted, yet

alone succeed, remains to be seen. But the right in the 1990s maintained sufficient strength to preclude any major left policy initiatives in regards to industrial policy, job retraining, or infrastructure renewal. Thus, witness the "divided government" of the Clinton/Gingrich era and the moderate-centrism of Labor Party Prime Minister Tony Blair. The democratic left, which inherited government responsibility from the tiresome austerity of Bush Sr., John Major, and Alain Juppe in France, is in an even weaker ideological position than this semi-exhausted "conservative modernizing" project. The right's nostrums of "free market incentives" and the alleged costliness and inefficiencies of public provision continue to hamper the development of a revised form of social democratic governance. One could argue that the high social wage of social democracy could be sustained on a European-wide-scale or in an American economy that still consumes over eighty-five percent of what it produces. But, across Western Europe, robust social democratic levels of public provision--even in Scandinavia and Germany--have been (modestly) trimmed and the left has had little success in lowering unemployment rates. This failure allowed the right to mobilize anti-immigrant and law-and-order sentiment to defeat Lionel Jospin in the spring 2002 French presidential elections. Similar high unemployment rates almost cost the German SPD the fall 2002 federal elections. Reviving a high-wage, growing economy that could sustain Northern European levels of public provision (particularly in regard to equitable public pensions) awaits a regional, and increasingly international, Keynesian strategy of strengthening unions, productivity, and living standards in both the First and Third Worlds. ⁿ²⁰ Due to the hyper-mobility of financial capital, if there exist lower-wage, relatively stable industrial economies, capital will flee from higher-wage, higher-taxed political economies. Thus, building the transnational social movements and political institutions capable of implementing such a "global Keynesian" "social structure of accumulation"--that raises productivity and living standards across the globe--will be a project of an epoch for the left ⁿ²¹.

Contrary to those who argue that there is nothing "new" about capitalism on the verge of the twenty-first century, the social and political structure of late capitalism is distinct from that of the post-World War II Fordist [*1106] boom. ⁿ²² The growth of "flexible production" has privileged "knowledge workers," while simultaneously deskilling and downsizing basic industrial workers. Late capitalism is inexorably producing a "three speed society": The top twenty percent consists of a privileged professional-managerial strata; the middle third-to-half consist of insecure, but modestly well-off (remaining) unionized blue collar industrial workers and white-collar public sector workers (social workers, teachers, mid-level civil servants, etc.); and the bottom third "precarious" consists of low-skilled, casualized, and part-time service sector workers. ⁿ²³ In addition, particularly in the United States, a bottom ten percent of the adult population, disproportionately resident in urban ghettos (but also the rural poor), is policed (and imprisoned) out of the labor force itself. ⁿ²⁴ Thus, the class map of late capitalism is more complex and less open to predominantly class-based political organization than that of industrial "Fordism." ⁿ²⁵

III. WHAT DE-REGULATION WROUGHT: THE NEAR-COLLAPSE OF GLOBAL FINANCIAL INSTITUTIONS IN THE LATE 1990S

The conscious state deregulation of the "conservative modernization" of Thatcher-Reagan favored the "sunrise industries" of high technology and promoted the accelerated integration of global financial institutions. This activist-state contribution to the restructuring of global capitalism is ignored by those who sing the song of "farewell to the state." The United States government, through its influence within the International Monetary Fund and World Bank, consciously pushed this "Washington consensus" in favor of government policy initiatives around the globe in favor of privatization, deregulation and public provision cuts. The resulting hyper-mobility of global finance and "race-to-the-bottom" expansion of transnational industrial production in newly industrializing nations underpinned the 1997 financial crisis in East Asia. Such tendencies towards financial speculation and overproduction and under-consumption have not been fully [*1107] eliminated from the global economy, as witnessed by the long-term major recession in Japan and the recent crises in Argentina, Uruguay, and soon, Brazil. The world economy wrote off most of the LDC debt of the 1970s through the decline in mass living standards for the bottom two-thirds of the Third World. In part this resulted from the expulsion of most of Africa and much of the South American peasantry from global capitalist integration. Further "disaccumulation" has already wiped out much of the middle-class in Brazil, Thailand, Indonesia, South Korea, and Russia. ⁿ²⁶

A "correction" in the stock markets of the advanced industrial democracies threatens to yield the rapid deflation that historically has followed the booms of overly leveraged, debt-driven expansions. Japan is already experiencing such deflation. A downturn in a heavily-indebted United States economy could have a downward global multiplier effect of large proportions, as over one-third of United States Treasury obligations are held by foreigners. This vulnerability to a crisis of confidence in United States financial markets explains the willingness of the Federal Reserve and Bank of England to put up record financial reserves during the stock market crash of 1987 and the Long Term Capital Investment crisis in the fall of 1998, when the Feds arranged a bailout of \$ 7 billion dollars by major money-market transnational banks. For the United States, indebted consumption is the engine driving global economic growth. The United States trade deficit now equals 4.5% of our GNP, as compared to less than one percent during the 1970 balance of trade crisis that led to the first devaluation of the United States dollar. ⁿ²⁷ A further indication that all is not well with the United States "job generation engine," is that over twenty-five percent of United States imports come from nations with higher wages and living standards than our own (Japan represents thirteen percent of U.S. imports, Germany another five). ⁿ²⁸ And such imports are not in basic manufacturing, but in high-wage, high-skilled sectors such as laser diodes, aerospace parts, robotics, and machine tools. Our massive trade deficit is offset both by foreign purchasing of United States corporate assets (over half of our book publishing industry is now owned by German firms) and, more importantly, significant foreign holdings in our stock and money markets. ⁿ²⁹ The vulnerability of the United States currency (and thus overall purchasing power) to devaluation is the reality that the yen has risen against the dollar by over thirty percent since 1989. But as long as Europe and Japan are willing to treat the dollar as the hegemonic global currency [*1108] we will, so to speak, be able to live beyond our means. But a major "correction" in the record price-earnings ratios in our equity markets--which may be occurring--could alter this situation, resulting in the destabilization of the global economy and American living standards. ⁿ³⁰

Advocates of the "new" economy contend that the flexibility of small-batch and niche production facilitated by computerization will erode the tendency of capital to centralize and concentrate. But such decentralization and "outsourcing" of production has more often than not been accomplished by the expansion of centralized, globally-integrated transnational firms whose intra-firm trade now constitutes close to forty percent of global commerce. ⁿ³¹ Even President Clinton acknowledged in the midst of the "Asian" crisis that new forms of global regulation of finance capital must be established. Yet the hostility of corporate finance to regulation of even just financial capital, such as a Tobin-tax on foreign withdrawal of investments in national stock or money markets, has rendered such comments simply rhetorical asides.

IV. CONTINUITIES AND TRANSFORMATIONS IN GLOBAL CAPITALISM: THE ROLE OF STATE POLICY

After the death of communism, there still remains a dirty, unspoken word in American political discourse--capitalism. Has "globalization" ushered in a new, hegemonic, era of global capitalist prosperity that transcends the capitalist business cycle and the concomitant need for state regulatory, fiscal, and monetary policy? No one can deny the changes wrought by globalization; the mobility of global finance capital and its ability to flee national economies whose policies do not accord with its model of development threatens to deny democratic policy makers the policy tools to protect their populations from the cyclical nature of capitalist market economies.

In regards to the percentage of production-as-international-trade, capitalism witnessed an even more rapid growth in "global integration" in the thirty-year period prior to World War I. In that same period, foreign direct investment represented as large a portion of investment by the advanced capitalist countries as it does today. ⁿ³² And, as today, the vast majority of such investments were within the advanced industrial nations and not in the colonial world, despite Lenin's argument. ⁿ³³ But one crucial contemporary difference, underplayed by those, such as Doug Henwood, who would argue "*plus ca change, plus c'est la meme global capitalism*," is that the twenty percent [*1109] of foreign direct investment that goes to the developing world is no longer predominantly in extractive industries, but in basic manufacturing. ⁿ³⁴ Now this manufacturing investment is heavily concentrated: Eighty percent of manufacturing production in the developing world occurs in only ten nations (the East Asian Tigers, Brazil, Mexico, Malaysia, Thailand, India, and China). Most of the "Third World" is not participating in the industrial development of global

capitalism. But unlike the beginning of the twentieth century, when competition in industrial goods was limited to the core capitalist nations (Western Europe, Japan, the United States), in today's global economy industrial production in the newly industrializing countries of the Third World often outcompetes (and displaces) industrial production in the core capitalist economies (e.g., Brazilian or South Korean basic steel or electronics manufactures displacing Japanese and American production). Japan has consciously invested in the ASEAN countries so that Japanese transnationals could export electronics and computer goods to the United States without raising the spectre of an even-larger trade imbalance between Japan and the United States. ⁿ³⁵ Ironically, this movement of basic Japanese manufacturing offshore has contributed to the decade-long severe recession in Japan.

State power, unevenly distributed among nations and contested both within and among polities, played a major causal role in the rise of "deregulated" global capitalism. As Karl Polanyi should have taught us long-ago, "the market"--global or national--does not fall from the sky as an inexorable, natural development. ⁿ³⁶ Rather, it is "embedded" in a nexus of coercive power relations underpinned by private economic and state power. United States foreign economic policy since the Reagan administration consciously advocated a deregulated world financial system, through our leadership in the IMF and World Bank. The United States also worked through GATT and the subsequent WTO to provide greater international access for its information and technology industries, and agricultural products. ⁿ³⁷ Mimicking the United Kingdom's late nineteenth century advocacy of "free trade," the United States played to its own economic strengths, while continuing to use anti-dumping legislation and agricultural subsidies to protect its own producers. Simply ask any political leader in Malaysia, France, or even much of the European Union, whether "the global free market" has not been constructed [*1110] by the acts of nation-states and they will inform you that "McWorld" is a creation of United States foreign policy. ⁿ³⁸ Witness the militant United States advocacy against the European Community giving preference to union-picked Caribbean bananas and Central American bananas over U.S.-based TNC-picked Chiquita bananas in the United States' WTO dispute-resolution case against Europe--again, United Fruit screams out from foreign shores. ⁿ³⁹

At the same time, United States efforts to enhance private proprietary rights for bio-technologies and cultural goods have met with considerable resistance (or lax enforcement) by regimes such as China, South Africa and France. ⁿ⁴⁰ Not all nation-states believe that transnational corporations should abolish domestic traditions that limit foreign access within retail, financial, and insurance markets. Nor is there a global consensus that financial capital, invested in money and stock markets, should be able to flee national borders at a nano-second's notice. ⁿ⁴¹ Numerous governments have been laggard, nay resistant, to carrying out IMF and World Bank structural readjustment plans (even the success stories of Ghana and Zimbabwe frequently stalled their supposed implementation of IMF structural adjustment provisions). ⁿ⁴² Malaysia and China succeeded in avoiding the massive currency devaluations (and consequent drops in standards of livings) of the East Asian fiscal crises through strict currency control regimes. ⁿ⁴³ And unions in both France, and less successfully, in Germany, forced center-left governments to trim welfare state benefits less aggressively than the world financial community desired. Recent failures to institutionalize the Multilateral Agreement on Investments and extend the WTO's rule to biotechnology, insurance, information and technology industries in part arose from transnationally-coordinated social movement protest. But the failure to extend the WTO also occurred because such protests shored up resistance by populist governments in both the developing world and Europe to the more laissez-faire Anglo-American conception of the international economic order. But as the United States, and its junior partner, the United Kingdom, have greater control of that scarcest of economic goods--financial and investment capital--the most powerful OECD nations--but not all and not always--have endorsed most of the Anglo-American drive for deregulation.

[*1111] During the Clinton years the United States often was described as a job-creation engine compared to more stagnant Western Europe and a recession-bound Japan. But much of this literature ignores the disproportionate growth in low-wage employment in the US and the maintenance in the EU--and to a lesser extent Japan, where social benefits are tied to a weakening private labor market--of more egalitarian and higher living standards. The extraordinary run up in the 1990s of US equity markets enhanced consumption by underpinning a massive increase in personal debt, fueled by the temporary "wealth effect" of a record bull market. The growth in academic's TIAA-CREF pension accounts were in paper assets whose values could be significantly 'readjusted' downwards by a modest 25-30% "correction" in record

price-earnings ratios . . . and this has just occurred! Hence 401K plans are now ironically referred to as 201K plans. Imagine what a bear market down to a Dow Jones of 6000 would do to the celebration of 'widespread' shareholder capitalism. These observations should conclude with the caveat that though fifty percent of American adults own some stock equity, the other fifty percent of American adults own no stocks or bonds and the majority of salaried workers have virtually no pension assets! Among the fifty percent who have some form of investment portfolio, the top one percent owns close to fifty percent of total financial assets! During the past two decades, the inegalitarian nature of wealth distribution under capitalism has grown, despite the talk of "stockholder democracy."

Those who romanticize the globalization process, such as Thomas Friedman of *The New York Times*, contend that no one should care if core manufacturing jobs decline in the United States, as high-wage symbolic manipulation, design, and engineering jobs remain here. ⁿ⁴⁴ However, such celebratory comments ignore the reality that there are insufficient "symbolic manipulative" professional jobs to supply all college graduates with one. Furthermore, not everyone can afford college or possess the academic skills necessary for college work. In fact, in the next decades, sixty-five percent of 18-30 year olds will not graduate from college! Should we consign the bottom sixty-five percent of our citizenry to constant economic insecurity? Even engineering and computer software-design jobs can be exported to India or even China (both highly educated societies with a surplus of Ph.Ds). Ironically, in spring 2001 Congress loosened immigration restrictions for white-collar employees in these fields. The right-wing and even neo-liberal denigration of public goods means the federal and state governments are unwilling to fund higher education so as to supply sufficient numbers of homegrown engineers and computer programmers!

Thus, in a stark manifestation of the "creative destruction" of global [*1112] capitalism, record increases in industrial productivity in the United States have been accompanied by continued corporate "downsizing" accelerated by the recession that began in the summer of 2001. Transnational corporations assert that competitive pressures demand annual productivity increases of fifteen percent. Hence, the United States auto industry during the 1990s closed thirty-two plants with a 5.4 million annual car production capacity, yet the American auto industry maintains the 10 million-car level of annual production first achieved in 1990. ⁿ⁴⁵ In the 1990s, Boeing set records in commercial aircraft sales, while simultaneously laying off ten percent (50,000) of its manufacturing workers in the Puget Sound area. ⁿ⁴⁶ Boeing's establishment of co-production facilities in both China and India accompanied record commercial and military aircraft sales to those nations. ⁿ⁴⁷ Fordist industrial production can be moved, as is, from the core industrial nations to Mexico, China, or Brazil. ⁿ⁴⁸ Yet this is not because American or West European workers are "unproductive." For example, American men's shirt makers are the most productive in the world, producing, on average, one shirt every fourteen minutes versus one shirt every twenty-five minutes in Bangladesh. ⁿ⁴⁹ The "problem" for transnational corporate profits is that the American shirt maker makes an allegedly lavish \$ 7.53 per hour plus minimal benefits, while the Bangladeshi shirt-maker makes \$.25 per hour, plus no benefits! ⁿ⁵⁰

Blithe optimists contend that the stark increase in wage inequality can be redressed by increasing the number of high-value-added jobs in the information, knowledge, and high-tech manufacturing areas. ⁿ⁵¹ Hence, the Robert Reich mantra of "train them and the good jobs will follow." ⁿ⁵² The reality, however, is that the jobs may not come. If subsequent Democratic administrations abandon the Democratic Leadership Counsel's conservative commitment to balanced-budget fiscal orthodoxy, we might witness productive public investment in mass transit, environmental waste management, health care, (rebuilding out-of-date) infrastructure, and housing development, [*1113] which would create a substantial number of such jobs. Yet the power of conservative ideological hegemony cannot be underestimated. Al Gore signaled an end to mainstream Democratic leadership faith in public investment and deficit spending as an anti-recessionary fiscal tool when he committed himself during the 2000 Presidential campaign to raising taxes in order to balance the budget--in a recession! Lord Keynes must be spinning in his grave! ⁿ⁵³

Both the real and alleged competitive pressures of corporate globalization, which could be better resisted by multinational controls upon speculative finance capital, are used to oppose public investment and defense of high-wage industrial jobs in the core capitalist nations. ⁿ⁵⁴ Such deregulatory policies have engendered a growth in inequality in core advanced industrial countries between the top twenty percent who organize and deploy information and those remaining in the service, public, and manufacturing sectors. ⁿ⁵⁵ Orthodox free trade economists counsel that working

people of the advanced industrial world have nothing to fear, for labor is just as mobile as capital, and thus, in the long run, global wage rates will have to equalize. Nevertheless, in reality, capital is infinitely more mobile than labor and can seek cheaper labor; individual workers often cannot bare the cost of emigrating and nation-states still raise barriers to immigration; exceptions are often made for those seeking low-wage service jobs that domestic labor will not take or in favor of a limited, regulated flow of higher-wage workers when and if skilled domestic labor is short. ⁿ⁵⁶

Contemporary American "exceptionalism" consists of our being the nation with the strongest ideological opposition to progressive taxation and provision of public goods. ⁿ⁵⁷ Yet such hostility threatens to erode the other pillar of free-market Americanism: The United States as the land of equality of opportunity. ⁿ⁵⁸ Demographic trends may force a reexamination of our nation's hostility to high-quality, universal public goods. The aging baby boom generation and the recent "echo boom" confront middle and working-class Americans with the financial and time-bind of simultaneously locating decent, affordable child care, elder care for their parents, health care for their families, and higher education for their older children. The fastest growing employment sector in the economy is care-giving; however, workers in these fields continue to be notoriously underpaid and undertrained. Faced with [*1114] this crisis in care-giving--as compared to Northern Europe's array of publicly-financed child care and affordable higher education--the American mass media persists in praising the "American model" and criticizing the advanced welfare states of Northern Europe as "sclerotic."

Yes, Western Europe sustains higher unemployment rates than the United States and still sends fewer high school graduates onto university (though that is gradually changing). These are not unconscious, irrational choices, as endlessly portrayed in American news sources of record. Northern European nations have superior programs of vocational schooling, apprenticeships, and job training, thereby not consigning non-college graduates to low-skilled dead-end jobs. European unions and social democratic parties are not willing to support a proliferation of low-paid, non-union jobs. Instead, Europe subsidizes the unemployed through substantial transfer payments from the employed to the unemployed. Europe sustains higher living standards for both the employed and unemployed than does the United States. Undoubtedly, such policies can socially marginalize (if not economically) the unemployed, though public policy places the burden disproportionately on young, first-time job seekers--thus creating a generational queuing to enter lifetime employment. The return benefit for this cost is the maintenance of higher overall living standards (though the discontent of marginalized immigrant youth is the Achilles heel of this 'queueing' strategy of unemployment). Obviously, this juggling act cannot continue much longer. Consequently, European policy-makers increasingly discuss redistributing available work by shortening the work-week and the length of the working life. Over the past three years, the implementation of the thirty-five hour week has reduced France's unemployment from twelve percent to nine percent, despite a mild recession. The only nation in the world where higher productivity yields talk of delaying retirement and maintaining an antiquated forty hour work week is, of course, the United States! ⁿ⁵⁹

Will United States policy-makers peer beneath the myth of the free market to discern that while the market plays a necessary role in signaling supply and demand it should not govern the final distribution of life opportunities? The size and internal integration of the United States' domestic market and the role of the dollar as global currency grants American policy-makers greater latitude in fiscal and monetary policy than those of nation's with economies that are more subject to global financial pressures. (How long we can run a huge trade deficit and have lower rates of labor productivity than do Germany and Japan remains to be seen.) In a globalized economy, Keynes' warnings of capitalism's tendencies toward overproduction and [*1115] under-consumption, and of the threat financial speculation poses to the stability of democratic capitalism, are more relevant than ever. The United States is governed by an anachronistic and utopian Smithian ideology of the ("never existing") free market. ⁿ⁶⁰

Feasible, humane labor market reforms could significantly and quickly redress inequality in the United States--raising the minimum wage and reforming labor laws to restore the right to organize. (Ronald Reagan militantly supported the right of workers to organize unions in Poland, while restoring the right of corporations in America to replace striking workers permanently!) Absent a public provision of basic human needs, there is little hope for restoring equality of citizenship. Without such reforms, the middle-third will provide for health care, child-care, and education through inadequate, ad-hoc, private arrangements that involve considerable sacrifice of time and quality of life. The top

twenty percent will continue to purchase their way out of public provision privately and rely on exploiting the low-wage care-giving and service work of the bottom-third of American society. This bottom one third is separated by race, gender, and class apartheid and deprived the opportunities afforded the rest of the citizenry. The bottom third of American society will remain dependent upon low-quality meanstested public provision (e.g., Medicaid and TANF) or go without basic human needs such as quality health care. The economic segregation of American federalism--local funding of public education--allows affluent Americans to isolate themselves in affluent suburbs with social democratic levels of taxation (i.e., a strong property tax base) and excellent public schools and amenities (compare the number of suburban public swimming pools to their near absence in major urban centers). Legal apartheid may have been abolished over thirty years ago, but social and economic apartheid is resurgent. Our public schools are more segregated than ever. Few white Americans know that over eight percent of African-American men, aged 18-30, reside in prison or that one-third of this age cohort are either incarcerated, living on parole or sentenced to probation! Over three percent of adult African-Americans are disenfranchised because of their prior felony status.

V. FAREWELL TO THE NATION-STATE OR TOWARDS REGIONAL ECONOMIC COORDINATION BY STATES? THE IMPERATIVE OF A POLITICS OF GLOBAL KEYNESIANISM

Keynesianism-in-one-nation, even the United States, may no longer be feasible. Living standards of workers in advanced industrial nations are interdependent with those in newly industrializing nations that have the skills and education to utilize the manufacturing processes formerly used in core capitalist nations. The movement of industrial jobs overseas places the costs [*1116] of adjustment, disproportionately, upon the displaced and less-skilled in the industrial world. The political project of leveling-up international living standards depends upon the emergence of effective forms of transnational economic regulation. Heretofore, international forms of economic regulation have depended upon the efforts of leading economic hegemonies: Witness the crucial founding and sustaining role of the United States in the Bretton Woods accords and the accompanying regulatory institutions of the IMF and the World Bank. ⁿ⁶¹ With greater competition among the major poles of the advanced capitalist world (Europe, the United States, and Japan/East Asia), the United States can no longer assume its role as the hegemon that bears costs in order to ensure the collective interest of the system. The system no longer benefits a weaker economic hegemon. Any long-term transformation of international labor, trade, investment, and monetary regimes will depend upon progressive coalitions in civil society attaining state power in several major advanced industrial and newly industrializing regimes and negotiating new international norms and governing institutions.

In the short-run, the health of the international political economy may depend upon a recovery in influence of a weakened "enlightened" wing of capital. Such figures as George Soros and Felix Rohatyn realize the dangers competitive deflation pose for sustaining world demand, living standards, and, ultimately, the global corporate system. ⁿ⁶² Global Keynesian corporate figures, who understand the fragility of unregulated global finance capital, such as Rohatyn, Soros and former World Bank senior economist, Joseph Stiglitz, are viewed as marginal eccentrics by much of the media. This indicates how transnational capital has dangerously bought into its near-sighted free-market propaganda. Thomas Friedman's polemical writings on the wonders of the deregulated global high-tech economy is touted by mainstream pundits as discerning the long-term dynamics of (an ever-expanding) global capitalism. ⁿ⁶³ Meanwhile, the reasoned critique of Robert Kuttner is unknown to mainstream editorial page writers. ⁿ⁶⁴ *Business Week's* maintaining of Kuttner as one of its rotating economic analysts is a sign that a minority tendency within the corporate establishment is aware of Keynes' teachings [*1117] about the danger of global deflation if, and when, finance capital embraces an ethos of pessimism, particularly after a period of irrational, speculative exuberance. Such a shift in expectations in Japan has led to near zero interest rates and yet stagnation in real investment in production. ⁿ⁶⁵ Keynes' "liquidity trap" has come to fruition in Japan. With stagnant growth and 1.5 percent Federal funds rates could the United States be next? ⁿ⁶⁶

The crisis of oversupply and inadequate demand in East Asia led to a near-depression in the late 1990s. That crisis illustrated what unregulated markets promote: Speculative over-investment (often in unproductive real estate and golf courses) followed by panic deflations and corrupt efforts of patrimonial oligarchs to corner markets. Unregulated markets in post-communist regimes have yielded not smooth, widespread capitalist prosperity (as promised by capitalist

ideologues East and West), but rather the wild, cowboy capitalism of the Russian mafia and the crony capitalism of the Chinese Communist party functionaries. The United States Treasury Department may not yet realize it, but George Soros does: The international community desperately needs orderly international regulation of finance capital to shield national governments from speculative capital's veto power over domestic policy. ⁿ⁶⁷ Even the originator of the "shock therapy" ⁿ⁶⁸ of rapid privatization and marketization in Poland, Jeffrey Sachs, defends the successful Malaysian use of capital controls to insulate itself from the East Asian meltdown. ⁿ⁶⁹ Sachs now condemns the IMF's standard formula for "structural readjustment" (rapid privatization and slash-and-burn cuts in public provision) as a one-size-fits-none recipe for mass deprivation, unaccompanied by any improvement in macroeconomic performance. ⁿ⁷⁰

Advocates of a global Keynesian leveling-up of living standards and trade union and human rights should be short-run pessimists. Nominally progressive global institutions and conventions are rarely enforced, such as the ILO's bans on child labor. The realpolitik interests of the advanced industrial democracies and transnational corporations are not consonant with global democratization. The major functioning international institutions (the IMF, the World Bank, GATT) are dominated by the core capitalist nations and serve corporate rather than democratic interests. Yet these institutions are somewhat sensitive to popular pressures from below; they possess a limited degree of autonomy. ⁿ⁷¹ Witness the World Bank's emphasis on sustainable [*1118] development and the conflicts among and between the OECD nations and developing countries over liberalizing trade in biotechnology, information and financial services, and cultural forms of production. Regional social and economic institutions demonstrate some promise of countering the logic of transnational capital. European Community regional policy has consciously raised living standards in Greece, Spain, Portugal, Ireland, and southern Italy. The EU's social compact, while not legally enforced, at least ideologically endorses a developing strategy that levels the living standards of participating nations. ⁿ⁷² One need be less sanguine in regards to efforts to promote labor and human rights standards within NAFTA and emerging Latin American free trade zones. However such regional projects will undoubtedly be the road that left parties, trade unions, and human rights groups will embark upon. ⁿ⁷³

Undoubtedly, nation-state policy in favor of greater economic democracy has been eviscerated, but by no means eliminated, by the interests of corporate capital. Within the boundaries of advanced industrial democracies--and somewhat in newly industrializing democracies--sovereign power still plays a crucial role in advancing labor rights, health and safety regulations, and social insurance. Such advances were once deemed impossible by both traditional Marxists and doctrinaire advocates of laissez-faire. With regards to issues of the global commons--nuclear war, ozone depletion, law of the sea--international "regimes" produced policy reforms that benefit the world's citizenry. ⁿ⁷⁴ Just as the policies of nation-states were transformed by popular pressure from below, so, too, will political mobilization be necessary to transform nation-states' policies with regard to interstate regulation of capital. International trade union and human rights cooperation among social movements is only in its nascent stage. Almost every trade union movement around the globe recognizes the practical imperative of international solidarity (of course, more in rhetoric than in difficult practice). A global consciousness around basic human rights has (unevenly) transformed the politics of many authoritarian states--East and West, North and South.

The development of minimal international standards, with regard to working conditions and human rights, will be halting, and less than uniform. [*1119] Not every reformist regime in the developing world will have the internal resources necessary to achieve living standards comparable to those of Northern European social democracy. Economies that have not yet developed a significant industrial sector and a politicized industrial working class and liberal middle strata may not possess the social forces necessary for redistributive politics. ⁿ⁷⁵ Democratic movements of students, workers, and progressive members of the middle class produced in newly industrializing nations, such as Brazil, Mexico, Indonesia, South Africa, and South Korea, recent versions of the 1930s French Popular Front and American New Deal. *The Communist Manifesto's* classic description of the movement of the industrial working class to political consciousness rings true when examining the social unionism of newly industrializing countries, as does its prediction that capitalism would batter down Chinese walls. ⁿ⁷⁶ The trade union movements in those countries comprehend that the interests of their members are intricately tied to broader social democratization at home and abroad.

The international movement for global justice is somewhat divided as to where to go in the short-term: Most international labor federations and mainstream environmental groups favor reforming the WTO so it could enforce international labor and human rights guarantees.ⁿ⁷⁷ But many NGO activists in the developing world believe the WTO must be abolished and completely new democratic international institutions be built from the ground up.ⁿ⁷⁸ While there is disagreement as to what institutions would best democratize the global economy, there is fairly broad consensus as to immediate, constructive reforms an international democratic movement should demand. They include:

1. Debt forgiveness for developing nations by both private banks and national and international lending institutions. These developing economies have been distorted into export-platforms that do not serve the needs of their own population. Rather, such an economic strategy permanently indebts them to the very global finance banks and the IMF which encouraged this disastrous economic strategy in the first place.ⁿ⁷⁹

[*1120] 2. Institutionalize as a floor--rather than ceiling--basic human and labor rights and environmental standards in all international trade and investment agreements. Such agreements have to recognize that for some time to come "living wages" and environmental standards in the developing world will not be as "high" as those in the First World. Democratic internationalists are not against investment of capital in the Third World, provided it does not prevent those nations from developing an integrated, domestically-oriented economy that serves their people's needs.ⁿ⁸⁰

3. To facilitate equitable development, new international regulatory institutions should be governed jointly by developing and developed nations. They should insure equitable terms of trade and interest rates so that Third World nations can overcome the disadvantageous terms-of-trade that their surplus rural labor and shortage of capital imposes upon them in a global "free market." Exporting to pay off onerous capital loans not only denies domestic populations of needed resources, but also attracts surplus rural labor to urban areas without supplying adequate gainful employment.ⁿ⁸¹

4. Abolish transnational corporation's ability to "patent" indigenous medical practices and the medicinal benefits of developing nations' biospecies. A just international economic order would allow indigenous peoples and developing nations the ability to benefit from the contributions their own medical practices and local biospecies can make to the world's peoples (including their own).ⁿ⁸²

5. Create equitable international regulation of global finance capital. Currently, the ability of global finance capital to transfer billions of dollars into and out of national financial markets allows global finance to veto a nation's democratically-determined economic strategy. Imposing a global "Tobin tax" on all transfers of liquid capital (stock and bond market investments and short-term bank deposits) would decrease the incentive for short-term capital flight aimed at disrupting sovereign **[*1121]** nation-state policy.ⁿ⁸³

The above reforms could all be instituted without a revolutionary abolition of global capitalism. It remains to be seen whether global corporate powers are enlightened enough to accede to the demands of an emerging international movement for social justice. Absent a "Global New Deal," the severe inequality and economic instability that governs the lives of the global majority may soon visit itself upon the privileged sectors of the advanced industrial nations.

Just as the internationalism of neo-liberal monetarists transformed world corporate behavior, so could social democratic governments' cooperation lead to leveling-up policies, particularly if significant sectors of corporate capital (particularly productive, investment capital) come to realize the deflationary threats posed by the ideology of race-to-the-bottom. The simultaneous governance of social democratic regimes in France, Germany, Britain, and Italy in the late 1990s gave rise to a fight for the soul of a once-thought-dead social democracy. During this period, the left lost intra-party disputes in Germany, and Italy, and achieved, at best, a stalemate in France. This stalemate between the

right and left of the French socialist government eviscerated efforts to offer a clear alternative strategy of increasing employment by shortening the work week and increasing incentives for corporations to hire added labor. Jospin's presidential aspirations fell victim to right-wing populist, anti-immigrant and law-and-order appeals. The dominant governing tendency of the mainstream left remains the "global corporatization with a human face" of Clinton/Blair. Yet, in contrast, the French cautiously experimented with shortening the work-week, partially because the working class militancy of 1995 defeated austerity measures. While much of Scandinavia has trimmed its high levels of public provision to those of Germany (remaining far more generous than those of the United States or Southern Europe), there remains a strong internationalist strand within Scandinavian social democracy. While Gerhard Schroder consciously emulates Blair and Clinton in his advocacy of American-style financial market deregulation, the German trade union movement has limited the extent to which Schroder can accomplish these aims. Not only is the ideology of the "third way" extremely vague--deregulated capitalism with a minimal social welfare floor--but it has yet to triumph definitively throughout European social democracy. It is far from clear whether the "third way" will remain triumphant after the defeat by the right of moderate left governments in France and Italy, which to one extent or another, followed "third way" policy.

No doubt the terrain of political conflict remains favorable to corporate capital, as it controls the relatively scarce resource--investment capital. Yet globalization has not transformed a hard-learned truism of capitalist development: [*1122] Capital and financial markets cannot avoid speculative crises and deflation of the real economy absent effective state regulation. The collapse of Enron and the slew of corporate governance scandals in the United States illustrates the seamy side of deregulated capitalism. Continued dominance of the Anglo-American model of "casino capitalism" that prioritizes short-term profit and stock market performance makes citizens servants of the free market. Yet, in democratic societies, the market must be a servant of the democratic polity.

Whose interest economic regulation serves--and what social forces influence the nation-states constructing transnational economic regimes--will determine whether economic globalization thwarts or promotes human aspirations. Without the reinvigoration of autonomous movements in civil society, individuals will not develop the social bonds necessary for democratic public life. Even if we bowl together, to change life-opportunities our metaphorical "bowling leagues" need to become political and contest for state power. ⁿ⁸⁴ Absent changes in state policy that promote living wages and greater public support for care-giving, there is little time left for bowling alone or together. ⁿ⁸⁵ Nor can these allegedly "autonomous" social movements primarily focus their demands on international agencies, such as non-governmental organizations ("NGOs"), which have little effective authority. For generations to come, international regulations will result from cooperation--and contestation--among nation-states with regard to the norms and practices of global regulatory institutions. We will not be governed by either the black helicopters of an independent, bureaucratic world government nor by enlightened NGO officials or benevolent corporate moguls.

Increased coordination across borders by social movements and nation-states will be difficult, given the need for nation-states to garner transnational capital whose behavior states may influence, but not totally control. Yet greater political and economic integration that will benefit popular majorities is not impossible. In the twentieth century, the United States moved from a state-based federalism to national federalism and increased labor rights and improved social welfare. While the development of the European Union has not been of unalloyed benefit to the region's population, few would deny that the European project has contributed to democratic social and economic reforms. Regional integration and international cooperation among nation-states whose governments are responsive to democratic social movements [*1123] may prove less utopian than those that allege that an emerging international civil society that abjures party politics and state power will democratize the planet.

In light of the increasing interdependence of economic and cultural life, democratic social movements cannot afford to be internationalist solely for moral reasons. Of necessity, social movements must coordinate their efforts across borders and influence their respective nation-state's policies in consonant directions. Thus, the particular interests of any one subordinate group remains tied to the fate of the broader demos, but this time on an international scale. While "post-modern" fragmentation may be a partially accurate description of cultural resistance to corporate globalization, postmodernism's hostility to universal (nare we say, "global") forms of identity and solidarity render it politically unable

to respond to the gross inequalities of late, global capitalism. "Particularist" resistance cannot democratize the power of a system that transforms the globe in its own image. Without a social force capable of using the state (and state-constructed transnational institutions) to impose its will upon its powerful transnational corporate adversary, the powerful will concede nothing.

Legal Topics:

For related research and practice materials, see the following legal topics:

Banking Law Federal Acts Glass-Steagall Act Energy & Utilities Law Financing General Overview Securities Law U.S. Securities & Exchange Commission General Overview

FOOTNOTES:

n1 Portions of Part I are drawn from the author's essay, Joseph M. Schwartz, *The Enron Debacle: Casino Capitalism and Lemon Socialism*, DISSENT, Summer 2002, at 5 (discussing the roots of the Enron scandal and describing why financial deregulation leads to speculative bubbles and bursts).

n2 See Felix Rohatyn, *The Betrayal of Capitalism*, N.Y. REV. BOOKS, Feb. 28, 2002, at 6-8 (analyzing Enron's collapse as a result of the Anglo-American deregulatory version of capitalism).

n3 See Robert Kuttner, *The Road to Enron*, AM. PROSPECT, March 25, 2002, at 2 (providing a brief and rather rare analysis of the Enron debacle); William Greider, *Enron's Rise and Fall*, THE NATION, Dec. 24, 2001, at 5 (same).

n4 JOHN MAYNARD KEYNES, THE GENERAL THEORY OF EMPLOYMENT, INTEREST AND MONEY 154 (1936) (establishing Keynes' classic argument about the inherently speculative nature of financial markets and the need for state regulation thereof).

n5 See Schwartz, *supra* note 1, at 5.

n6 *Id.*

n7 *Id.*

n8 *Id.*

n9 See WILLIAM GREIDER, WHO WILL TELL THE PEOPLE: THE BETRAYAL OF AMERICAN DEMOCRACY 60-78 (1992) (analyzing the S&L debacle in manner that prefigures the Enron scandal in uncanny ways).

n10 See Robin Blackburn, *The Enron Debacle and the Pension Crisis*, NEW LEFT REV., Mar.-Apr. 2002, at 26, 30-33 (discussing the relationship between the Long Term Capital Investment bail-out and the Enron crisis).

n11 See Schwartz, *supra* note 1, at 6.

n12 See *id.*

n13 See Jeff Madrick, *Enron: Seduction and Betrayal*, N.Y. REV. BOOKS, Mar. 14, 2002, at 21 (discussing the workings of Enron's derivatives markets and their off-shore companies). *Business Week* also ran a series of stories on the workings of Enron throughout the fall of 2001. See, e.g., Stephanie Anderson et al., *The Enron Debacle*, BUS. WK., Nov. 12, 2001, at 106 (explaining how byzantine deals shattered Enron's credibility); John Protos, *At Enron, That Run-Down Feeling*, BUS. WK., Oct. 29, 2001, at 40 (discussing Enron's downturn).

n14 Robert Gearty, *J.P. Morgan Chase Battling Insurers*, DAILY NEWS (N.Y.), Dec. 3, 2002, at 56.

n15 See Emily Thornton, *Grill Wall Street's Kingpins Next*, BUS. WK., Mar. 25, 2002, at 82 (criticizing the abolition of Glass-Steagall's separation of finance and commercial banks); William Greider, *Crime in the Suites*, THE NATION, Feb. 4, 2002, at 11 (same).

n16 See *Enron Capitalism and How to Fix It*, AM. PROSPECT, Mar. 25, 2002, at 18 (discussing feasible alternatives of regulatory capitalism to neo-liberal deregulation throughout this special issue); Blackburn, *supra* note 10.

n17 See generally MICHAEL AGLIETTA, A THEORY OF CAPITALIST REGULATION: THE U.S. EXPERIENCE (David Fernbank, trans., 1978) (representative work of "the regulatory school"); ALAIN LIPIETZ, MIRAGES AND MIRACLES: THE CRISIS OF GLOBAL FORDISM (David Macey trans., 1987) (same); SAMUEL BOWLES ET AL., BEYOND THE WASTELAND: A DEMOCRATIC ALTERNATIVE TO ECONOMIC DECLINE (1983) (attempting to apply the concept of a "social structure of accumulation" to American "post-Fordism").

n18 Named for Henry Ford's recognition in 1920 that paying his workers' higher wages (at that time, \$ 5 a day!) would allow his workers to purchase the very Model T which they produced.

n19 Stuart Hall introduced the term "conservative modernization" in his writings in the "new times" debate of the 1980s analyzing the rise of post-Fordist, Thatcherite politics in the British journal *Marxism Today*. See STUART HALL, *THE HARD ROAD TO RENEWAL: THATCHERISM AND THE CRISIS OF THE LEFT 17-92* (1988) (providing a summary version of Hall's analysis of the hegemonic project of the right).

n20 See PAUL PIERSON, *THE NEW POLITICS OF THE WELFARE STATE* (2001) (providing a balanced analysis of the persistence of stronger welfare states in Europe, but the constraints placed upon them by the hyper-mobility of financial capital).

n21 For the manner in which mobile finance capital hampers the social democratic project, see Evelyne Huber & John D. Stephens, *Internationalization and the Social Democratic Model: Crisis and Future Prospects*, 31(3) *COMP. POL. STUD.* 353-397 (June 1998) (examining the crisis of the social democratic model in Austria, Norway, Finland, and Sweden); Evelyne Huber & John D. Stephens, *Globalisation, Competitiveness, and the Social Democratic Model*, 1(1) *SOC. POL'Y & SOC'Y* 47-57 (2002) (focusing on social democracy in Sweden, Norway, Finland, and Denmark).

n22 See ALEX CALLINICOS, *AGAINST POSTMODERNISM: A MARXIST CRITIQUE* 121-171 (1990) (arguing that "globalization" and "post-Fordism" is not so new or significant); DOUG HENWOOD, *A NEW ECONOMY?* (New York: Verso 2003) (forthcoming).

n23 The third sector is no longer solely the purview of people of color and women, as older, down-wardly mobile former industrial white male workers are forced to take jobs in casual construction or as "Walmart" customer service employees.

n24 In the state of Florida, for example, over ten percent of African-American men are disenfranchised because they have served time as adult felons. Wyatt Olson, *Barred for Life*, *MIAMI NEW TIMES*, Jan. 16, 2003, LEXIS, News Library, Miami File.

n25 See Joseph M. Schwartz, *Coalition Politics in a "Three-Speed" Society*, 90 *SOCIALIST REV.* 67 (1990) (analyzing the politics of the post-Fordist economy in the United States).

n26 WILLIAM GREIDER, *ONE WORLD READY OR NOT: THE MANIC LOGIC OF GLOBAL CAPITALISM* 335-59 (1997) (describing the nexus between downward pressures on labor costs and rising inequality within the global economy).

n27 Eamonn Fingleton, *Unsustainable*, *AM. PROSPECT*, Aug. 14, 2000, at 18, 19.

n28 *Id.* at 21.

n29 *Id.*

n30 *See id.* at 18-21 (discussing the vulnerability of U.S. economic prosperity posed by the massive trade deficit).

n31 The Chevy, formerly Geo, Metro is an example of a globally-integrated product--its engine is from Brazil, its transmission is from Korea, and it is assembled in Mexico.

n32 *See* HENWOOD, *supra* note 22.

n33 V.I. LENIN, *IMPERIALISM: THE HIGHEST STAGE OF CAPITALISM* (Int'l Publishers 1939) (1916).

n34 *See* HENWOOD, *supra* note 22.

n35 *See* LINDA WEISS, *THE MYTH OF THE POWERLESS STATE* (1998) (discussing Japanese investment in ASEAN nations).

n36 *See* KARL POLANYI, *THE GREAT TRANSFORMATION: THE POLITICAL AND ECONOMIC ORIGINS OF OUR TIME* (2000). This classic study of the role of the state (and brutal state force) in the development of "free labor markets" in nineteenth century England should be required reading for anyone who believes that laissez-faire capitalism has ever existed. Polanyi also illustrates how working class resistance to unregulated markets is central to the development of democracy.

n37 For the best popular description of this conscious United States foreign economic policy, see JOSEPH STIGLITZ, *GLOBALIZATION AND ITS DISCONTENTS* (2002).

n38 The global market is not solely a creation of United States foreign policy, but the United States certainly favors more global financial deregulation than do other major capitalist nations.

n39 See Dana Frank, *Our Fruit, Their Labor, and Global Reality*, WASH. POST, June 2, 2002, at B5.

n40 For a brief introduction to global intellectual property fights see David S. Evans, *Who Owns Ideas? The War Over Global Intellectual Property*, FOREIGN AFF., Nov.-Dec. 2002, at 160.

n41 Robert Wade & Frank Veneroso, *The Gathering World Slump and the Battle Over Capital Controls*, NEW LEFT REV., Sep.-Oct. 1998, at 18, 29-31.

n42 *Id.*

n43 China, Malaysia, and India all weathered the East Asian crisis of 1997 because they maintained capital controls, contrary to the policy advice of the IMF. *Id.* at 19-22.

n44 See THOMAS FRIEDMAN, *THE LEXUS AND THE OLIVE TREE* 305 (1999) (discussing how sophisticated jobs are conducted in the United States because of the lack of opportunity in other countries and the American model of efficiency). Friedman provides a most influential paean to the glories of globalization.

n45 WILLIAM GREIDER, *ONE WORLD, READY OR NOT: THE MANIC LOGIC OF GLOBAL CAPITALISM* 113 (1997). Greider provides a detailed description of the continued rise in core industrial nations' manufacturing productivity amidst continued downward pressure on wages due to international competition. *Id.*

n46 *Id.* at 124.

n47 See *id.* at 124-25, 135 (discussing Boeing's decision to move manufacturing from the United States to foreign countries).

n48 See *id.* at 74-75 (discussing Ford works in Mexico).

n49 *Id.* at 75.

n50 *Id.*

n51 *See* ROBERT B. REICH, *THE WORK OF NATIONS: PREPARING OURSELVES FOR 21ST CENTURY CAPITALISM* 301, 311 (1991) (discussing the shift from being a corporate based economy to a global economy).

n52 *See id.* at 77 (discussing the notion that the skills and training are an individuals greatest economic asset).

n53 *See* ANDREW B. ABEL & BEN S. BERNANKE, *MACROECONOMICS* 18-19 (3d ed. 1998) (summarizing Keynesian economics).

n54 Francis Fox Piven, *Is It Global Economics or Neo-Laissez-Faire?*, *NEW LEFT REV.*, Sep.-Oct. 1995, at 107, 108. Piven provides a discussion of the use of the ideology of "globalization" as a battering ram against public sector expenditure and union strength.

n55 *Id.* at 107-08.

n56 *Id.* at 109-10.

n57 *Id.* at 112.

n58 *Id.*

n59 For an example of how ideologically blind and blithely arrogant even supposedly educated public relations experts are, see the completely un-ironic ad run by Delta Airlines the past three summers: "In Germany, the average worker receives six weeks vacation; in France, five weeks; in the United States only two. So use it well, fly Delta!" Could there be a social democratic mole acting as a copywriter

for Satchi and Satchi?

n60 See ABEL, *supra* note 53, at 18 (summarizing Adam Smith's economic ideology).

n61 GEORGE SOROS, GEORGE SOROS ON GLOBALIZATION 3, 60 (2002).

n62 See George Soros, *The Capitalist Threat*, ATLANTIC MONTHLY, Feb. 1997, at 45 (discussing the ideal notion of the open society); see also Rohatyn, *supra* note 2, at 6 (discussing the need for sophisticated regulation in order to protect American capitalism). Rohatyn contributed pieces on the global economy to *The New York Review of Books* in the 1990s; however, when he was appointed ambassador to France in 1996, he could no longer maintain as critical a stance toward the new-liberal Clinton administration. His contributions resumed after the election of George W. Bush. Corporate financiers, Rohatyn and Soros are among the most "radical" voices in mainstream social policy.

n63 See generally FRIEDMAN, *supra* note 44, at 297-302 (explaining that the architect of the ideal society would exploit technology).

n64 See generally Robert Kuttner, *Enron: A Powerful Blow to Market Fundamentalists*, BUS. WK., Feb. 4, 2002, at 20 (discussing Enron and the need for regulation in a capitalist system); see also Robert Kuttner, *Where Have All the Keynesians Gone?* BUS. WK., Feb. 3, 2003, at 30 (discussing interest rates).

n65 See ABEL, *supra* note 53, at 19 (defining stagnation).

n66 See *id.* at 225 (discussing the concept of liquidity).

n67 SOROS, *supra* note 61, at 11, 130-31.

n68 See Jeffrey Sachs, *The IMF and the Asian Flu*, AM. PROSPECT, Mar.-Apr. 1998, at 16, 20 (describing the IMF treatment of a situation in Mexico).

n69 See *id.* at 19 (describing the IMF initiative in Poland).

n70 *See id.* at 17-18 (discussing some of the problems with the IMF).

n71 *See SOROS, supra* note 61, at 22 (discussing the reaction of the organizations to the need to make the recipients of aid more independent).

n72 Of course, even the strongest regional economic institution in the world cannot "afford" to raise the living standards of all nation-states. Hence, the EU's exclusion of Turkey and the poorer nations of Eastern Europe from future EU expansion and the increasing likelihood of restrictive immigration policies against non-EU nationals.

n73 *See Lance Compa, A Fast Track for Labor, AM. PROSPECT, Sept.-Oct. 1998, at 60* (arguing that labor advocates need to support the inclusion of stronger labor rights provisions in present and future international trade and investment accords).

n74 International relations theorists of global "interdependence" often exaggerate the effectiveness of such regimes and fail to see how their enforcement depends upon a consonance of interests among powerful nation-states. The need for threats of sanction to enforce such agreements renders a "realist" twist on "interdependence." This is a necessary intellectual amendment.

n75 It is quite apparent that nation-states, not yet integrated into global capitalism, suffer even greater economic immiseration (witness the Bangladeshs and Tanzanias of the world). It is the industrial working class, more so than a timid middle strata, that has played the central role in struggles for democratization in Korea, Brazil, South Africa, and elsewhere.

n76 *See GAY SEIDMAN, MANUFACTURING MILITANCE: WORKERS' MOVEMENTS IN BRAZIL AND SOUTH AFRICA, 1970-1985 2-3 (1994)* (discussing social unionism in Brazil and South Africa).

n77 *SOROS, supra* note 61, at 11, 130-31.

n78 *Id.* at 32-33.

n79 *See Sachs, supra* note 68, at 16, 20 (discussing the IMF and debt-forgiveness with Third World nations).

n80 SOROS, *supra* note 61, at 42-45; *see* REICH, *supra* note 51, at 314 (discussing development of Third World capacities and relief of debt).

n81 *See* REICH, *supra* note 51, at 314 (discussing development of Third World capacities and relief of debt).

n82 *See* SOROS, *supra* note 61, at 46-48 (discussing intellectual property rights).

n83 *See id.* at 70-72 (explaining the "Tobin tax").

n84 ROBERT D. PUTNAM, BOWLING ALONE: THE COLLAPSE AND REVIVAL OF AMERICAN COMMUNITY 113 (2000) (downplaying the crucial role political parties and unions play in public political life--of course, today, in less vigorous, somewhat more Americanized forms--in most other advanced industrial democracies).

n85 *Id.* at 203; *see also* CIVIC ENGAGEMENT IN AMERICAN DEMOCRACY 474, 490 (Theda Skocpol & Morris P. Fiorina, eds., 1999).