GLOBALIZATION AND STAGNATION

by ARTHUR MacEWAN

It is relatively clear that globalization, the international spread of capitalist exchange and production relationships, is a very destructive and painful process. The implementation of the North American Free Trade Agreement (NAFTA) will provide some very stark examples over the next several years. In Mexico, peasants are likely to suffer final extinction as a class, as they are driven off the land by competition from large-scale U.S. grain producers. In the United States, many workers with relatively low-level and task-specific skills—such as broom makers in Alabama, glass makers in West Virginia, and workers connected to auto production throughout the country—will lose their jobs or see their wages dramatically reduced.

Moreover, there is good reason to believe that NAFTA, like other steps in globalization, will generate greater income inequality both between and within countries. During the last few decades, as we have witnessed a surge in the spread of capitalism, we have also seen a widening of the income gap between the underdeveloped and developed economies. Within the United States, as the country’s economic integration with the rest of the world accelerated after 1970, so too

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was there a marked rise in income inequality that became particularly evident in the 1980s. One widely quoted figure captures the sad spirit of the era: between 1977 and 1989, the richest 1 percent of families in the United States obtained 60 percent of the after-tax income gain. Within Mexico, recent years have also seen rising inequality, especially since the middle of the 1980s when the government began to move strongly with its program of neoliberal "reforms." Indeed, a worsening distribution of income was the general rule in Latin American countries during the 1980s, a decade in which the debt crisis brought the full burden of globalization to bear upon the region.

Greater income inequality is not the only social failure generated by the success of globalization generally and by NAFTA particularly. Environmental destruction is surely exacerbated with the success of globalization. The greater mobility of capital makes it more and more difficult for citizens of any one political unit to organize and use their government to impose regulations on polluting firms.

Perhaps the most damaging social contradiction of globalization is its impact on democracy. NAFTA provides the illustration of the general process because this agreement enshrines "the market" as the principle by which economic activity shall be organized in North America. It does so by direct statement of principles; it does so by prohibiting governments from developing new public sector productive activities; and it does so by effectively limiting the power of governments to regulate private business (directly excluding some forms of regulation and restricting others by giving business greater mobility to escape onerous rules). NAFTA, then, is quite explicitly an agreement that pushes out the boundaries of unfettered capitalist production, and in so doing it limits democracy by limiting people's power to exercise political control over their economic lives.

These social contradictions of globalization—these social failures associated with the successful spread of capitalism—should come as no surprise. Even at its best, capitalist
development is a process of "creative destruction," to use Joseph Schumpeter's famous phrase. As accumulation takes place, competition forces firms to be creative in order to survive, and those firms that are not creative are destroyed. In a world of markets and competition, winners are matched by losers, and creation and destruction become one and the same. Losers, however, are not simply impersonal firms or abstract inefficient technologies. In the real world, losers are people, sometimes capitalists, but always workers, individually and as communities. Creative destruction means the unemployment of real workers, the destitution of real communities, devastation of the environment, and disempowerment of the populace.

Of course people do not sit idly by while all this takes place, and globalization's social contradictions continually give rise to popular protest movements. Those of us who have opposed NAFTA can take some satisfaction from the fact that, as the historian and activist Jeremy Brecher pointed out in *The Nation* (December 6, 1993):

... elements of the struggle against NAFTA prefigure a movement that could radically reshape the New World Economy ... For the first time in many years [in the United States], substantial numbers of people mobilized to act on broad class interests.

Such movements are always desirable. Even if all they do is effect marginal improvements of the current order, marginal improvements are better than no improvements at all.

**Growth or Stagnation?**

However, there is the more substantial question of whether or not these popular movements are likely to bring about larger changes, structural alternatives, something really different. The likelihood of larger changes depends to a great extent on whether or not globalization will generate a renewal of economic growth. Globalization has always produced social contradictions and protest movements, but economic growth has generally contained these movements and limited the
emergence of alternatives. As we approach the end of the century, however, the world economy is mired in stagnation, and any appraisal of alternatives must involve a prognosis of that stagnation and of its relation to globalization.

At first blush, it would seem folly to argue that globalization is likely to be associated with continuing stagnation. After all, in the history of capitalism, globalization and growth appear to have been tightly connected, mutually reinforcing processes at the foundation of the system. Observing this apparent historical relationship, proponents of a more open international economy have promised great gains—all the benefits of more economic growth—as we accept the neoliberal order of globalization embodied in NAFTA and other agreements. But there are problems. Let me cite four:

First: The current neoliberal globalization is not the same as the general historical spread of capitalism. It is one thing to say that globalization and growth have gone hand-in-hand in the history of capitalism, but quite another to claim that neoliberal policies of unregulated international commerce and reduction of state services have been a foundation of capitalist expansion. Virtually every country that has achieved some successful economic development—from the United States, Germany, and Great Britain in an earlier era to Japan and Korea in more recent decades—has done so with active state intervention in economic affairs, particularly with extensive state regulation of foreign commerce. (As is hardly necessary to point out, the converse is not true. There are many cases where state intervention in foreign commerce has not led to any growth success. The historical record seems to indicate that such state intervention is a necessary but certainly not a sufficient element in achieving economic growth.)

One of the ways that state intervention has played a major role is through the promotion of industries with substantial technological externalities (positive impacts on technological development elsewhere in the economy). During the industrial revolution of the late eighteenth century, British industry flourished behind tariff barriers averaging 50 percent in man-
ufacturing sectors. After the Second World War, while Japanese tariffs were not high, the government maintained tight direct controls over both imports and direct foreign investment, encouraging the development of Japanese-owned firms in such key industries as automobiles and computers. In addition, developmental states have used a variety of fiscal and monetary mechanisms, specific subsidies, and at times state-sponsored firms to pursue national development. In some cases, states have pushed their country’s firms toward an external orientation and achieved success through export-led growth; South Korea provides the most important recent example. In no case, however, has successful export-led growth been directed through the sort of deregulation that might be called “free trade,” the sort of deregulation that is called for in the neoliberal project.

Of course, the United States today has passed through its period of initial development, and, however large a role state control of external commerce played in that initial development, a regime of free trade might yield substantial growth gains in the current era. There is no doubt that many large U.S. firms will garner major benefits from the imposition of NAFTA and other parallel agreements. They will gain access to markets and resources and they will be less constrained by local regulation. Yet gain for large U.S. corporations is not the same thing as growth of the U.S. economy. Over recent decades, for example, the foreign operations of U.S.-based firms have maintained their share of world exports while their U.S. operations have dwindled in relative importance. Certainly British experience at the end of the last century suggests that there is no necessary equation between the international success of national capital and the growth success of the national economy.

Second: When globalization has been associated with rapid growth, that growth has had historically specific causes and cannot be attributed to globalization per se. This argument has been most fully developed by Harry Magdoff and Paul Sweezy, and it rests on a distinction between the current era (really the last
hundred years) of monopoly capitalism and an earlier era of smaller scale, more competitive capitalism. The very large firms that emerged at the end of the nineteenth century in the United States and other advanced capitalist countries have a tremendous capacity to expand production. Moreover, as they have centralized wealth to a very great degree, they have greatly increased their capacity for savings. Growth will then take place if this massive capacity to save can find sufficient outlets through equally massive investment opportunities. The problem is that there is nothing within the system—within the normal spread of capitalism and the everyday technological innovation, opening of new markets, and exploitation of new resources—to assure that sufficient investment opportunities will in fact be available. When rapid growth does come, it is the result of particular causes—epoch making innovations such as steam power and the railways or a set of events that provide an extremely favorable business environment.

The quarter century following the Second World War was one of these extremely favorable periods. Following the war, rapid economic growth in the United States and elsewhere was generated by postwar reconstruction, technological spin-offs from war production, pent-up demand for consumer durables, the stability within international capitalism provided by the hegemony of the United States, and the large demand provided by a growing economic role of the government, most notably in its military spending. These particular factors—and one might name others—were by their nature either ephemeral (postwar reconstruction) or self-limiting (the growing economic role of the government). They could generate a period of rapid growth, but they could not provide a foundation for indefinite rapid growth. By the 1970s, these factors had run their course, and we entered the current era of stagnation. The mid-1980s saw a limited renewal of growth in the United States, based largely on a new military build-up and massive government fiscal deficits, but it did not and could not last.
The question then arises whether or not further globalization—NAFTA, further development of GATT, greater access for U.S. firms to Asian markets—could again provide the circumstances necessary for a new round of rapid expansion. The answer seems clearly negative, unless it can be shown how this new globalization creates conditions of the sort that have led to rapid growth in the past. There is no reason to think that the expansion of the system’s realm of operation in and of itself will do the trick.

Third: When globalization generates inequality, it tends to undermine growth. The problem of secular stagnation due to limited investment opportunities might be reduced were globalization to yield a sufficient expansion of consumption demand or to provide the foundation for a renewal of government spending. Yet the growing inequality that is likely to be associated with the sort of neoliberal globalization embodied in NAFTA will tend to move things in the opposite direction. By providing U.S. firms with access to production sites in Mexico and through direct provisions in the agreement, NAFTA is part of a broad strategy by U.S. firms that gives emphasis to deregulation and cost cutting. This strategy, however, also tends to force down wages and curtail social spending, so any gains from lower costs tend to be offset by losses from weakened demand. Moreover, the neoliberal ideology that helps drive NAFTA also tends to limit the extent to which governments can stimulate demand by classical

*In the case of NAFTA, greater inequality in the United States is not likely to be balanced by rising wages and greater equality in Mexico. Wages in the United States will be suppressed not so much by the actual movement of production to Mexico (from which Mexican workers might gain) but by the threat of such movement. Furthermore, while the Mexican government continues its unequalitarian policies—suppressing and controlling unions, tax policies that favor the wealthy, programs supporting a reconcentration of land holding—any movement toward greater equality will be greatly hampered. Finally, NAFTA will lead to the inundation of Mexico by imports of goods which are produced more cheaply in the United States. Grains are the most dramatic example. Also, U.S. service industries are likely to force many small-scale Mexican operations out of business. The result will be a huge displacement of Mexican peasants and workers, swelling the ranks of the Mexican reserve army of labor and keeping wages at a minimum. In the real world of unemployment, less regulation of trade is more likely to lead to a waste of resources than to a more efficient allocation of resources.
Keynesian policy. (Supporters of NAFTA in the United States argue that by opening Mexican markets the agreement will strengthen demand for U.S. goods. While there will likely be some such short run gains, as a longer run prognosis this analysis repeats the classic error of mercantilist ideology—that exports can grow without a counterbalancing growth of imports or foreign investment.)

Furthermore, both within the realm of government demand and in the private sector, there is a sense in which stagnation and inequality are circularly reinforcing processes. Slow growth and inequality have contributed to the huge build up of debt, in the United States and in the Third World. The debt burden then becomes a restraint on private and public spending, and slow growth and inequality are thus perpetuated.

The restraints which inequality places on growth are not only on the demand side. Low wages may reduce the rate of technological progress as well. It is widely recognized that during the nineteenth century, technological advances in the United States were especially rapid due at least in part to the shortage of labor and the relatively high wages as compared to Europe. High wages led U.S. firms to innovate more rapidly. Today, as U.S. firms gain greater access to low-wage labor in Mexico and elsewhere, the pressures tend to run in the opposite direction. Moreover, low-wage levels tend to contribute directly to slower rates of labor productivity growth. The globalization strategy of U.S. business appears to be based on the perception of wages only as a cost of production. But quite clearly wages are an incentive as well. Strategies which suppress wage costs also suppress that incentive.

Fourth: When globalization has been most effective as a foundation for economic growth, a firm institutional basis for international stability has existed. As I have pointed out already, successful globalization has not meant a simple expansion of the realm of unregulated markets. When it has been most effective in generating rapid growth, globalization has taken place under the aegis of a powerful state—a super imperial power—that
has been able to regulate international affairs and provide a stability that has encouraged business expansion. This argument has been usefully articulated in the context of the social structure of accumulation theory, which asserts that, in any epoch of successful capitalist development, expansion has been based on and organized by a set of social institutions. This set of institutions, which regulates the otherwise self-destructive operation of markets, includes institutions of labor relations, state operations, and international affairs. Here it is only necessary to point out that the regulating institutions of international affairs are absent in the current surge of globalization.

The problem is apparent when this era is compared with earlier eras when globalization has been relatively successful—for example, the middle of the nineteenth century when British hegemony provided stability and the post-Second World War quarter century when U.S. hegemony played a similar role. In each of these eras there existed an industrial leader, a relatively unchallenged political-military authority, and a set of financial relations that established a matrix for the operation of markets. Globalization could proceed apace, enhance the imperial power's realm, and strengthen the entire system (though, in the contradictory nature of things, overextension ultimately contributed to the end of hegemony).

In the current era, in spite of the fact that the United States stands alone as a super power, it is not able to provide imperial stability. It is no longer a clear industrial leader. International financial arrangements are in flux and unstable. The great military power of the United States seems ineffective in maintaining the sort of stability that would be needed for a new era of expansion. In this context, the implications of globalization are very different. Neoliberal globalization—the spread of a system without sufficient means of regulation—contributes to the instability of the system and therefore undermines instead of enhancing it.
Alternatives to Globalization

I think that these various points at least give us some reason to anticipate that the era of slow economic growth is not likely to be brought to a quick termination by the current surge of globalization. In the “creative destruction” of capitalist development, then, we appear to be at a point where the destructive aspects are relatively large compared to the creative. This means that in North America, and elsewhere as well, the popular movements that are energized by the social contradictions of globalization are likely to have some impact, and it becomes especially meaningful to speak of alternatives.

But what kind of alternatives? Is there any reason to believe that the current forces being generated by globalization and stagnation might connect to the widely shared goal of establishing a more egalitarian and democratic society? What is different about the current situation that might provide a basis for optimism? What lessons might we draw from the analysis of globalization and stagnation that could help move things along?

While answers to these sorts of questions require a considerable amount of speculation, there are certain observations that seem reasonable. To begin with, it is useful to recognize that globalization has made some dramatic changes in the economic relationships among working people in different parts of the world, particularly in the relationship between workers in the United States and workers in Mexico and other relatively poor countries. With the reduction in barriers to trade and with the spread of capitalist production relationships, workers in the different parts of the world economy are producing the same things in the same ways for the same markets. Ironically, by thus being in competition with one another, they have a common interest which creates a material basis for solidarity.

This material basis for solidarity becomes clear if we compare the currently emerging situation with the stereotypical situation of an earlier era in which Third World workers
were producing raw materials for export to the advanced countries, and workers in the advanced countries were transforming these raw materials into manufactured goods. In those circumstances, lower wages in the Third World could directly benefit workers in the advanced countries. Lower wages for copper miners, sugar cane cutters, or banana plantation workers in the Third World could mean lower prices in the United States. Workers in the advanced countries would then tend to lose as wages rose in the Third World.

Now consider the implications of lower wages at the Ford plant in Hermosillo. One implication may be cheaper cars in the United States, but the much more profound, immediate, and obvious impact is lower wages for auto workers in the United States. As globalization has succeeded in making different economies more and more alike in transferring technology across national boundaries and placing workers in competition with one another, it has succeeded in creating a basis for international labor solidarity. Workers in Michigan and Morelos now have a relationship like that between workers in Illinois and Indiana.

Of course a common material relationship does not translate directly into concerted political action. Moreover, competition among workers in different nations can often contribute to reactionary nationalism, xenophobia, and conflict. Yet a common material interest does create a strong potential, perhaps even a necessary condition, for common action.* In this sense, globalization increases the basis for international working class politics.

Globalization, furthermore, is changing the structure of the work force in the United States, Mexico, and everywhere else in ways that create new possibilities for political action,

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*Unfortunately, at the same time and as a result of associated forces, there appear to be greater divisions among different strata of workers within nations. Along with globalization, the gap between highly educated, well-paid workers and poorly-educated, poorly-paid workers in the United States has significantly broadened. Major cities have a striking duality, and New York and Los Angeles, for example, bridge the entire gap from the pinnacles of wealth and power to the depths of Third-World poverty all within a few city blocks.
both locally and across international boundaries. One of the most profound changes is the feminization of the paid labor force. The spread of capitalist production relations has meant the elimination of home production, the traditional realm of women. As women have entered the paid labor force, they have often been the ones most subjected to international competition. The high rate of employment of women in the maquiladoras and in assembly production in the United States illustrates the special position of women in the emerging globalized economy.

The special position of women is significant in any discussion of alternatives. Certainly in the United States, and in many other countries as well, the political struggles of women are one of the most dynamic aspects of popular protest movements. Moreover, struggles in which women play a major role have a good chance of being more broadly oriented struggles. Because of their experiences as women, women workers are particularly likely to build connections between workplace and community.

The issue of "community" has an important role in the development of alternatives to the current dynamic of globalization. One of the reasons for the widespread, negative visceral opposition to globalization—whether in the form of opposition to NAFTA or as opposition to corporate takeovers in the United States by foreign-based multinationals—is that people see this phenomenon as undermining whatever control they retain over their own economic lives and, along with this, threatening the security of their communities. Sometimes this opposition appears as irrational and, as such, is derided by the proponents of globalization. Why oppose NAFTA when U.S. firms have been investing in low-wage countries for years? Why oppose a corporate takeover by a multinational based in Frankfurt of a multinational based in Manhattan when all multinationals make decisions on the same basis? Popular protest movements, however, are quite rational in directing their actions at these highly visible symbols of the marketization of our lives.
Struggles for the maintenance of community against marketization—against the subjugation of other social values to consideration of private profit—provide clues on how to structure alternatives in the current period. People's desire to maintain community is closely connected to their desire for meaningful democracy, real control over the affairs that affect their everyday lives. It is impossible to destroy local and national communities, the realms in which people most strongly identify with one another, and at the same time build a democratic society.

In addition, the value that people place on community—tangible, intelligible relations to other people with whom they feel a historical bond—tells us something about the way to shape economic programs. For example, it suggests that economic programs based on export expansion cannot meet people's needs. Export-led growth can be a basis for rapidly rising national income, though where it has been most successful, we should note, it has not been associated with the neoliberal "free trade" dogma. But if we define economic programs in terms of our ability to penetrate foreign markets, then at every step of the way we will be confronted by conflicts between the maintenance of community and economic success.

In the same way that export-led growth comes into recurring conflict with the maintenance of community, it is always a threat to establishing a more equal distribution of income. If we say that the primary criterion on which to base an economic program is our success in international markets, then we must take the steps that are necessary to succeed in international markets. Often, those steps will mean limits on wage increases or movement of firms to lower wage regions, restrictions on social programs, tax incentives for corporations, and other policies which favor the wealthy over the poor.

Most important, perhaps, an economic program that is defined by an external orientation rules out the kinds of controls that are necessary if any nation is going to pursue
policies of full employment. Full employment is important because it is probably the single most powerful program leading to a more equitable distribution of income. Also, people cannot live fulfilling lives without meaningful work, and full employment improves the likelihood that meaningful work will be available. Yet full employment fiscal and monetary policies, in the United States or in any other country, cannot be implemented without constraints on external commercial relations, including controls on trade and capital movements. Foreign commerce of all sorts surely has a role in any reasonable economic program, but the problem is to subordinate economic exigencies to social goals and social values, that cannot be done in an export-led program.

Alternative economic programs that call for greater income equality, full employment, and an inward economic orientation have a connection to our current condition of stagnation. Policies in pursuit of equality, full employment, and community are not merely desirable in themselves, but they also address the conundrum of stagnation. As I have suggested above, one of the roots of stagnation is the great inequality that exists in the world and within many countries, including the United States and Mexico. Demands for equality, then, are demands for a reform that is consistent with both the needs of those at the bottom of the economic hierarchy and the system's needs for stability and survival. Full employment and greater income equality would do far more to extend the market than would any program of opening new markets for exports.

Similarly, if stagnation is perpetuated by the instability of international affairs, then less, not more, reliance on international economic connections seems appropriate. Without a strong imperial power to enforce stability, placing greater and greater emphasis on international economic ties would exacerbate a downward spiral of stagnation and instability. In some quarters a similar definition of the problem leads to policies for recreating a strong imperial power, but I doubt that it is possible to do so and it is certainly not desirable. The
proper responses to stagnation, then, are reforms which lead in the direction of strengthening community and building an inward-oriented economic alternative.

As I have indicated, these statements about alternatives are necessarily in the realm of speculation. As such, they are not only vague but also potentially self-contradictory. On the one hand, for example, I have given emphasis to the possibility of international solidarity among workers as a basis for building stronger social movements. On the other hand, I have said that one response to globalization should be a focus on community as the basis for our economic alternatives. It is not clear how these two arguments fit together.

Moreover, there are many other problems. A focus on community can be an apologia for reaction, xenophobia, and traditional forms of exploitation and oppression. Control of foreign commerce easily becomes a rationalization for a conservative nationalism, and in the United States this means racism as well. Programs to overcome stagnation and restore growth to the world economy only exacerbate problems of environmental destruction. And the list of problems goes on.

All I can say in defense of my ambiguities is that the current course of affairs has many more problems. At least the alternatives I have discussed have the merit of being grounded in the economic realities of globalization and stagnation as they confront us today. These realities are wreaking havoc on the peoples of North America, and on the peoples of the rest of the world as well. We had better find some alternatives.

Nobody said it would be easy!

NOTES

Capitalist Overkill

To the Editor:

The attacks against Ray Jenkins's praise of socialism (Letters, Feb. 6) demonstrate that capitalism produces a great fund of pious cant along with profits. One needn't look to the robber barons for the vicious face of capitalism. It is everywhere: plundered savings and loans, leveraged takeovers by hit-and-run artists, the daily exploitation of a labor movement gutted by the Reaganauts, unfinanced and looted pension funds, corporate downsizing, the endless pursuit of cheaper labor.

Perhaps worst is the studied corruption of the terms of discourse that has demonized alternatives and left them unimaginable. "The only moral social system ever devised?" What nonsense! The robber barons were candid at least: "The public be damned."

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Irvine, Calif., Feb. 7

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