

Globalization and Neoliberalism

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For some two decades neoliberalism has dominated economic policymaking in the US and the UK. Neoliberalism has strong advocates in continental Western Europe and Japan, but substantial popular resistance there has limited its influence so far, despite continuing US efforts to impose neoliberal policies on them. In much of the Third World, and in the transition countries (except for China), the US has been successful in dictating neoliberal policies, acting partly through the IMF and World Bank and partly through direct pressure.

Neoliberalism is an updated version of the classical liberal economic thought that was dominant in the US and UK prior to the Great Depression of the 1930s. From roughly the mid 1930s to the mid 1970s a new “interventionist” approach replaced classical liberalism, and it became the accepted belief that capitalism requires significant state regulation in order to be viable. In the 1970s the Old Religion of classical liberalism made a rapid comeback, first in academic economics and then in the realm of public policy.

Neoliberalism is both a body of economic theory and a policy stance. Neoliberal theory claims that a largely unregulated capitalist system (a “free market economy”) not only embodies the ideal of free individual choice but also achieves optimum economic performance with respect to efficiency, economic growth, technical progress, and distributional justice. The state is assigned a very limited economic role: defining property rights, enforcing contracts, and regulating the money supply.¹ State intervention to correct market failures is viewed with suspicion, on the ground that such intervention is likely to create more problems than it solves.

The policy recommendations of neoliberalism are concerned mainly with dismantling what remains of the regulationist welfare state. These recommendations include deregulation of business; privatization of public activities and assets; elimination of, or cutbacks in, social welfare programs; and reduction of taxes on businesses and the investing class. In the international sphere, neoliberalism calls for free movement of goods, services, capital, and money (but not people) across

national boundaries. That is, corporations, banks, and individual investors should be free to move their property across national boundaries, and free to acquire property across national boundaries, although free cross-border movement by individuals is not part of the neoliberal program.

How can the re-emergence of a seemingly outdated and outmoded economic theory be explained? At first many progressive economists viewed the 1970s lurch toward liberalism as a temporary response to the economic instability of that decade. As corporate interests decided that the Keynesian regulationist approach no longer worked to their advantage, they looked for an alternative and found only the old liberal ideas, which could at least serve as an ideological basis for cutting those state programs viewed as obstacles to profit-making. However, neoliberalism has proved to be more than just a temporary response. It has outlasted the late 1970s/early 1980s right-wing political victories in the UK (Thatcher) and US (Reagan). Under a Democratic Party administration in the US and a Labor Party government in the UK in the 1990s, neoliberalism solidified its position of dominance.

This paper argues that the resurgence and tenacity of neoliberalism during the past two decades cannot be explained, in an instrumental fashion, by any favorable effects of neoliberal policies on capitalist economic performance. On the contrary, we will present a case that neoliberalism has been harmful for long-run capitalist economic performance, even judging economic performance from the perspective of the interests of capital. It will be argued that the resurgence and continuing dominance of neoliberalism can be explained, at least in part, by changes in the competitive structure of world capitalism, which have resulted in turn from the particular form of global economic integration that has developed in recent decades. The changed competitive structure of capitalism has altered the political posture of big business with regard to economic policy and the role of the state, turning big business from a supporter of state-regulated capitalism into an opponent of it.

The Problematic Character of Neoliberalism

Neoliberalism appears to be problematic as a dominant theory for contemporary capitalism. The stability and survival of the capitalist system depends on its ability to bring vigorous capital accumulation, where the latter process is understood to include not just economic expansion but also technological progress. Vigorous capital accumulation permits rising profits to coexist with rising living standards for a substantial part of the population over the long-run.² However, it does not appear that neoliberalism promotes vigorous capital accumulation in contemporary capitalism.

There are a number of reasons why one would not expect the neoliberal model to promote rapid accumulation. First, it gives rise to a problem of insufficient aggregate demand over the long run, stemming from the powerful tendency of the neoliberal regime to lower both real wages and public spending. Second, the neoliberal model creates instability on the macroeconomic level by renouncing state counter-cyclical spending and taxation policies, by reducing the effectiveness of “automatic stabilizers” through shrinking social welfare programs,³ and by loosening public regulation of the financial sector. This renders the system more vulnerable to major financial crises and depressions. Third, the neoliberal model tends to intensify class conflict, which can potentially discourage capitalist investment.⁴

The historical evidence confirms doubts about the ability of the neoliberal model to promote rapid capital accumulation. We will look at growth rates of gross domestic product (GDP) and of labor productivity. The GDP growth rate provides at least a rough approximation of the rate of capital accumulation, while the labor productivity growth rate tells us something about the extent to which capitalism is developing the forces of production via rising ratios of means of production to direct labor, technological advance, and improved labor skills.⁵

Table 1 shows average annual real GDP growth rates for six leading developed capitalist countries over two periods, 1950-73 and 1973-99. The first period was the heyday of state-regulated

capitalism, both within those six countries and in the capitalist world-system as a whole. The second period covers the era of growing neoliberal dominance. All six countries had significantly faster GDP growth in the earlier period than in the later one.

While Japan and the major Western European economies have been relatively depressed in the 1990s, the US is often portrayed as rebounding to great prosperity over the past decade. Neoliberals often claim that US adherence to neoliberal policies finally paid off in the 1990s, while the more timid moves away from state-interventionist policies in Europe and Japan kept them mired in stagnation. Table 2 shows GDP and labor productivity growth rates for the US economy for three subperiods during 1948-99.⁶ Column 1 of Table 2 shows that GDP growth was significantly slower in 1973-90 – a period of transition from state-regulated capitalism to the neoliberal model in the US – than in 1948-73. While GDP growth improved slightly in 1990-99, it remained well below that of the era of state-regulated capitalism. Some analysts cite the fact that GDP growth accelerated after 1995, averaging 4.1% per year during 1995-99 (US Bureau of Economic Analysis, 2000). However, it is not meaningful to compare a short fragment of the 1990s business cycle expansion to the long-run performance of the economy during 1948-73.⁷

Column 2 of Table 1 shows that the high rate of labor productivity growth recorded in 1948-73 fell by more than half in 1973-90. While there was significant improvement in productivity growth in the 1990s, it remained well below the 1948-73 rate, despite the rapid spread of what should be productivity-enhancing communication and information-management technologies during the past decade.

The evidence from GDP and labor productivity growth rates supports the claim that the neoliberal model is inferior to the state regulationist model for key dimensions of capitalist economic performance. There is ample evidence that the neoliberal model has shifted income and wealth in the direction of the already wealthy. However, the ability to shift income upward has limits

in an economy that is not growing rapidly. Neoliberalism does not appear to be delivering the goods in the ways that matter the most for capitalism's long-run stability and survival.

The Structure of Competition and Economic Policy

The processes through which the dominant economic ideology and policies are selected in a capitalist system are complex and many-sided. No general rule operates to assure that those economic policies which would be most favorable for capitalism are automatically adopted. History suggests that one important determinant of the dominant economic ideology and policy stance is the competitive structure of capitalism in a given era. Specifically, this paper argues that periods of relatively unconstrained competition tend to produce the intellectual and public policy dominance of liberalism, while periods of relatively constrained, oligopolistic market relations tend to promote interventionist ideas and policies.

A relation in the opposite direction also exists, one which is often commented upon. That is, one can argue that interventionist policies promote monopoly power in markets, while liberal policies promote greater competition. This latter relation is not being denied here. Rather, it will be argued that there is a normally-overlooked direction of influence, having significant historical explanatory power, which runs from competitive structure to public policy.

In the period when capitalism first became well established in the US, during 1800-1860, the government played a relatively interventionist role. The federal government placed high tariffs on competing manufactured goods from Europe, and federal, state, and local levels of government all actively financed, and in some cases built and operated, the new canal and rail system that created a large internal market. There was no serious debate over the propriety of public financing of transportation improvements in that era -- the only debate was over which regions would get the key subsidized routes.

Once capitalism had become well established in the US after the Civil War, it entered a

period of cutthroat competition and wild accumulation known as the Robber Baron era. In this period a coherent anti-interventionist liberal position emerged and became politically dominant. Despite the enormous inequalities, the severe business cycle, and the outrageous and often unlawful behavior of the Goulds and Rockefellers, the idea that government should not intervene in the economy held sway through the end of the 19th century.

From roughly 1890 to 1903 a huge merger wave transformed the competitive structure of US capitalism. Out of that merger wave emerged giant corporations possessing significant monopoly power in the manufacturing, mining, transportation, and communication sectors. US industry settled down to a more restrained form of oligopolistic rivalry. At the same time, many of the new monopoly capitalists began to criticize the old Laissez Faire ideas and support a more interventionist role for the state.⁸ The combination of big business support for state regulation of business, together with similar demands arising from a popular anti-monopoly movement based among small farmers and middle class professionals, ushered in what is called the Progressive Era, from 1900-16. The building of a regulationist state that was begun in the Progressive Era was completed during the New Deal era a few decades later, when once again both big business leaders and a vigorous popular movement (this time based among industrial workers) supported an interventionist state.

Both in the Progressive Era and the New Deal, big business and the popular movement differed about what types of state intervention were needed. Big business favored measures to increase the stability of the system and to improve conditions for profit-making, while the popular movement sought to use the state to restrain the power and privileges of big business and provide greater security for ordinary people. The outcome in both cases was a political compromise, one weighted toward the interests of big business, reflecting the relative power of the latter in American capitalism.

Small business has remained adamantly opposed to the big, interventionist state, from the

Progressive Era through the New Deal down to the present. This division between big and small business is chronicled for the Progressive Era in Weinstein (1968). In the decades immediately following World War II one can observe this division in the divergent views of the Business Roundtable, a big business organization which often supported interventionist programs, and the US Chambers of Commerce, the premier small business organization, which hewed to an anti-government stance.

What explains this political difference between large and small business? When large corporations achieve significant market power and become freed from fear concerning their immediate survival, they tend to develop a long time horizon and pay attention to the requirements for assuring growing profits over time.⁹ They come to see the state as a potential ally. Having high and stable monopoly profits, they tend to view the cost of government programs as something they can afford, given their potential benefits. By contrast, the typical small business faces a daily battle for survival, which prevents attention to long-run considerations and which places a premium on avoiding the short-run costs of taxation and state regulation. This explains the radically different positions that big business and small business held regarding the proper state role in the economy for the first two-thirds of the twentieth century.

This long-standing division between big business and small business appeared to vanish in the US starting in the 1970s. Large corporations and banks which had formerly supported foundations that advocated an active government role in the economy, such as the Brookings Institution, became big donors to neoliberal foundations such as the American Enterprise Institute and the Heritage Foundation. As a result, such right-wing foundations, which previously had to rely mainly on contributions from small business, became very wealthy and influential.¹⁰

It was big business's desertion of the political coalition supporting state intervention and its shift to neoliberalism that rebuilt support for neoliberal theories and policies in the US, starting in

the 1970s. With business now unified on economic policy, the shift was dramatic. Big grants became available for economics research having a neoliberal slant. The major media shifted their spin on political developments, and the phrase “government programs” now could not be printed except with the word “bloated” before it.

This switch in the dominant economic model first showed up in the mid 1970s in academic economics, as the previously marginalized Chicago School spread its influence far beyond the University of Chicago. This was soon followed by a radical shift in the public policy arena. In 1978-79 the previously interventionist Carter Administration began sounding the very neoliberal themes – deregulation of business, cutbacks in social programs, and general fiscal and monetary austerity – that were to become the centerpiece of Reagan Administration policies in 1981.

What caused the radical change in the political posture of big business regarding state intervention in the economy? This paper argues that a major part of the explanation lies in the effects of the globalization of the world capitalist economy in the post-World War II period.

Globalization and Competition

Globalization is usually defined as an increase in the volume of cross-border economic interactions and resource flows, producing a qualitative shift in the relations between national economies and between nation-states (Baker et. al., 1998, p. 5; Kozul-Wright and Rowthorn, 1998, p. 1). Three kinds of economic interactions have increased substantially in past decades: merchandise trade flows, foreign direct investment, and cross-border financial investments. We will briefly examine each, with an eye on their effects on the competitive structure of contemporary capitalism.

Table 3 shows the ratio of merchandise exports to gross domestic product for selected years from 1820 to 1992, for the world and also for Western Europe, the US, and Japan. Capitalism brought a five-fold rise in world exports relative to output from 1820-70, followed by another

increase of nearly three-fourths by 1913. After declining in the interwar period, world exports reached a new peak of 11.2% of world output in 1973, rising further to 13.5% in 1992. The 1992 figure was over fifty per cent higher than the pre-World War I peak.

Merchandise exports include physical goods only, while GDP includes services, many of which are not tradable, as well as goods. In the twentieth century the proportion of services in GDP has risen significantly. Table 4 shows an estimate of the ratio of world merchandise exports to the good-only portion of world GDP. This ratio nearly tripled during 1950-92, with merchandise exports rising to nearly one-third of total goods output in the latter year. The 1992 figure was 2.6 times as high as that of 1913.

Western Europe, the US, and Japan all experienced significant increases in exports relative to GDP during 1950-92, as Table 3 shows. All of them achieved ratios of exports to GDP far in excess of the 1913 level. While exports were only 8.2% of the total GDP of the US in 1992, exports amounted to 22.0% of the non-service portion of GDP that year (*Economic Report of the President*, 1999, pp. 338, 444).

Many analysts view foreign direct investment as the most important form of cross-border economic interchange. It is associated with the movement of technology and organizational methods, not just goods. Table 5 shows two measures of foreign direct investment. Column 1 gives the outstanding stock of foreign direct investment in the world as a percentage of world output. This measure has more than doubled since 1975, although it is not much greater today than it was in 1913. Column 2 shows the annual inflow of direct foreign investment as a percentage of gross fixed capital formation. This measure increased rapidly during 1975-95. However, it is still relatively low in absolute terms, with foreign direct investment accounting for only 5.2 per cent of gross fixed capital formation in 1995.

Not all, or even most, international capital flows take the form of direct investment. Financial

flows (such as cross-border purchases of securities and deposits in foreign bank accounts) are normally larger. One measure that takes account of financial as well as direct investment is the total net movement of capital into or out of a country. That measure indicates the extent to which capital from one country finances development in other countries. Table 6 shows the absolute value of current account surpluses or deficits as a percentage of GDP for 12 major capitalist countries. Since net capital inflow or outflow is approximately equal to the current account deficit or surplus (differing only due to errors and omissions), this indicates the size of net cross-border capital flows. The ratio nearly doubled from 1970-74 to 1990-96, although it remained well below the figure for 1910-14.

Cross-border *gross* capital movements have grown much more rapidly than cross-border *net* capital movements.¹¹ In recent times a very large and rapidly growing volume of capital has moved back and forth across national boundaries. Much of this capital flow is speculative in nature, reflecting growing amounts of short-term capital that are moved around the world in search of the best temporary return. No data on such flows are available for the early part of this century, but the data for recent decades are impressive. During 1980-95 cross-border transactions in bonds and equities as a percentage of GDP rose from 9% to 136% for the US, from 8% to 168% for Germany, and from 8% to 66% for Japan (Baker et. al., 1998, p. 10). The total volume of foreign exchange transactions in the world rose from about \$15 billion per day in 1973 to \$80 billion per day in 1980 and \$1260 billion per day in 1995. Trade in goods and services accounted for 15% of foreign exchange transactions in 1973 but for less than 2% of foreign exchange transactions in 1995 (Bhaduri, 1998, p. 152).

While cross-border flows of goods and capital are usually considered to be the best indicators of possible globalization of capitalism, changes that have occurred over time within capitalist enterprises are also relevant. That is, the much-discussed rise of the transnational

corporation (TNC) is relevant here, where a TNC is a corporation which has a substantial proportion of its sales, assets, and employees outside its home country.¹² TNCs existed in the pre-World War I era, primarily in the extractive sector. In the post-World War II period many large manufacturing corporations in the US, Western Europe, and Japan became TNCs.

The largest TNCs are very international measured by the location of their activities. One study found that the 100 largest TNCs in the world (ranked by assets) had 40.4% of their assets abroad, 50.0% of output abroad, and 47.9% of employment abroad in 1996 (Sutcliffe and Glyn, 1999, p. 125). While this shows that the largest TNCs are significantly international in their activities, all but a handful have retained a single national base for top officials and major stockholders.¹³ The top 200 TNCs ranked by output were estimated to produce only about 10 per cent of world GDP in 1995 (Sutcliffe and Glyn, 1999, p. 122).

By the close of the twentieth century, capitalism had become significantly more globalized than it had been fifty years ago, and by some measures it is much more globalized than it had been at the previous peak of this process in 1913. The most important features of globalization today are greatly increased international trade, increased flows of capital across national boundaries (particularly speculative short-term capital), and a major role for large TNCs in manufacturing, extractive activities, and finance, operating worldwide yet retaining in nearly all cases a clear base in a single nation-state.

While the earlier wave of globalization before World War I did produce a capitalism that was significantly international, two features of that earlier international system differed from the current global capitalism in ways that are relevant here. First, the pre-world War I globalization took place within a world carved up into a few great colonial empires, which meant that much of the so-called “cross-border” trade and investment of that earlier era actually occurred within a space controlled by a single state. Second, the high level of world trade reached before World War I occurred within a

system based much more on specialization and division of labor. That is, manufactured goods were exported by the advanced capitalist countries in exchange for primary products, unlike today when most trade is in manufactured goods. In 1913 62.5% of world trade was in primary products (Bairoch and Kozul-Wright, 1998, p. 45). By contrast, in 1970 60.9% of world exports were manufactured goods, rising to 74.7% in 1994 (Baker et. al., 1998, p. 7).

Some analysts argue that globalization has produced a world of such economic interdependence that individual nation-states no longer have the power to regulate capital. However, while global interdependence does create difficulties for state regulation, this effect has been greatly exaggerated. Nation-states still retain a good deal of potential power vis-a-vis capitalist firms, provided that the political will is present to exercise such power. For example, even such a small country as Malaysia proved able to successfully impose capital controls following the Asian financial crisis of 1997, despite the opposition of the IMF and the US government. A state that has the political will to exercise some control over movements of goods and capital across its borders still retains significant power to regulate business. The more important effect of globalization has been on the political will to undertake state regulation, rather than on the technical feasibility of doing so. Globalization has had this effect by changing the competitive structure of capitalism.

It appears that globalization in this period has made capitalism significantly more competitive, in several ways. First, the rapid growth of trade has changed the situation faced by large corporations. Large corporations that had previously operated in relatively controlled oligopolistic domestic markets now face competition from other large corporations based abroad, both in domestic and foreign markets. In the US the rate of import penetration of domestic manufacturing markets was only 2 per cent in 1950; it rose to 8% in 1971 and 16% by 1993, an 8-fold increase since 1950 (Sutcliffe and Glyn, 1999, p. 116).

Second, the rapid increase in foreign direct investment has in many cases placed TNCs'

production facilities in the home markets of their foreign rivals. General Motors not only faces import competition from Toyota and Honda but has to compete with US-produced Toyota and Honda vehicles. Third, the increasingly integrated and open world financial system has thrown the major banks and other financial institutions of the leading capitalist nations increasingly into competition with one another.

Globalization appears to be one factor that has transformed big business from a supporter to an opponent of the interventionist state. It has done so partly by producing TNCs whose tie to the domestic markets for goods and labor is limited. More importantly, globalization tends to turn big business into small business. The process of globalization has increased the competitive pressure faced by large corporations and banks, as competition has become a world-wide relationship.¹⁷ Even if those who run large corporations and financial institutions recognize the need for a strong nation-state in their home base, the new competitive pressure they face shortens their time horizon. It pushes them toward support for any means to reduce their tax burden and lift their regulatory constraints, to free them to compete more effectively with their global rivals. While a regulationist state may seem to be in the interests of big business, in that it can more effectively promote capital accumulation in the long run, in a highly competitive environment big business is drawn away from supporting a regulationist state.

Globalization has produced a world capitalism that bears some resemblance to the Robber Baron Era in the US. Giant corporations battle one another in a system lacking well defined rules. Mergers and acquisitions abound, including some that cross national boundaries, but so far few world industries have evolved the kind of tight oligopolistic structure that would lay the basis for a more controlled form of market relations. Like the late 19th century US Robber Barons, today's large corporations and banks above all want freedom from political burdens and restraints as they confront one another in world markets.¹⁸

The above interpretation of the rise and persistence of neoliberalism attributes it, at least in part, to the changed competitive structure of world capitalism resulting from the process of globalization. As neoliberalism gained influence starting in the 1970s, it became a force propelling the globalization process further. One reason for stressing the line of causation running from globalization to neoliberalism is the time sequence of the developments. The process of globalization, which had been reversed to some extent by political and economic events in the interwar period, resumed right after World War II, producing a significantly more globalized world economy and eroding the monopoly power of large corporations well before neoliberalism began its second coming in the mid 1970s. The rapid rise in merchandise exports began during the Bretton Woods period, as Table 3 showed. So too did the growing role for TNC's. These two aspects of the current globalization had their roots in the postwar era of state-regulated capitalism. This suggests that, to some extent, globalization reflects a long-run tendency in the capital accumulation process rather than just being a result of the rising influence of neoliberal policies. On the other hand, once neoliberalism became dominant, it accelerated the process of globalization. This can be seen most clearly in the data on cross-border flows of both real and financial capital, which began to grow rapidly only after the 1960s.

Other Factors Promoting Neoliberalism

The changed competitive structure of capitalism provides part of the explanation for the rise from the ashes of classical liberalism and its persistence in the face of widespread evidence of its failure to deliver the goods. However, three additional factors have played a role in promoting neoliberal dominance. These are the weakening of socialist movements in the industrialized capitalist countries, the demise of state socialism, and the long period that has elapsed since the last major capitalist economic crisis. There is space here for only some brief comments about these additional factors.

The socialist movements in the industrialized capitalist countries have declined in strength significantly over the past few decades. While Social Democratic parties have come to office in several European countries recently, they no longer represent a threat of even significant modification of capitalism, much less the specter of replacing capitalism with an alternative socialist system. The regulationist state was always partly a response to the fear of socialism, a point illustrated by the emergence of the first major regulationist state of the era of mature capitalism in Germany in the late 19th century, in response to the world's first major socialist movement. As the threat coming from socialist movements in the industrialized capitalist countries has receded, so too has the incentive to retain the regulationist state.

The existence of a powerful bloc of Communist-run states with an alternative “state socialist” socioeconomic system tended to push capitalism toward a state regulationist form. It reinforced the fear among capitalists that their own working classes might turn against capitalism. It also had an impact on relations among the leading capitalist states, promoting inter-state unity behind US leadership, which facilitated the creation and operation of a world-system of state-regulated capitalism.¹⁹ The demise of state socialism during 1989-91 removed one more factor that had reinforced the regulationist state.

The occurrence of a major economic crisis tends to promote an interventionist state, since active state intervention is required to overcome a major crisis. The memory of a recent major crisis tends to keep up support for a regulationist state, which is correctly seen as a stabilizing force tending to head off major crises. As the Great Depression of the 1930s has receded into the distant past, the belief has taken hold that major economic crises have been banished forever. This reduces the perceived need to retain the regulationist state.

Concluding Comments

If neoliberalism continues to reign as the dominant ideology and policy stance, it can be

argued that world capitalism faces a future of stagnation, instability, and even eventual social breakdown.²⁰ However, from the factors that have promoted neoliberalism one can see possible sources of a move back toward state-regulated capitalism at some point.

One possibility would be the development of tight oligopoly and regulated competition on a world scale. Perhaps the current merger wave might continue until, as happened at the beginning of the 20th century within the US and in other industrialized capitalist economies, oligopoly replaced cutthroat competition, but this time on a world scale. Such a development might revive big business support for an interventionist state. However, this does not seem to be likely in the foreseeable future. The world is a big place, with differing cultures, laws, and business practices in different countries, which serve as obstacles to overcoming the competitive tendency in market relations. Transforming an industry's structure so that two to four companies produce the bulk of the output is not sufficient in itself to achieve stable monopoly power, if the rivals are unable to communicate effectively with one another and find common ground for cooperation. Also, it would be difficult for international monopolies to exercise effective regulation via national governments, and a genuine world capitalist state is not a possibility for the foreseeable future.

If state socialism re-emerged in one or more major countries, perhaps this might push the capitalist world back toward the regulationist state. However, such a development does not seem likely. Even if Russia or Ukraine at some point does head in that direction, it would be unlikely to produce a serious rival socioeconomic system to that of world capitalism.

A more likely source of a new era of state interventionism might come from one of the remaining two factors considered above. The macro-instability of neoliberal global capitalism might produce a major economic crisis at some point, one which spins out of the control of the weakened regulatory authorities. This would almost certainly revive the politics of the regulationist state.

Finally, the increasing exploitation and other social problems generated by neoliberal global

capitalism might prod the socialist movement back to life at some point. Should socialist movements revive and begin to seriously challenge capitalism in one or more major capitalist countries, state regulationism might return in response to it. Such a development would also revive the possibility of finally superceding capitalism and replacing it with a system based on human need rather than private profit.

Table 1. Growth Rates of Real Gross Domestic Product for Selected Countries

(Annual average percentage rate of growth)

Country	1950-73	1973-99
France	5.0	2.2
Germany	6.0	2.1
Italy	5.6	2.3
Japan	9.2	2.9
UK	3.0	2.0
USA	4.0	3.0

Sources: OECD, 2000; US Bureau of Economic Analysis, 2000; Maddison, 1995, p. 83.

Table 2. Growth Rates of GDP and Labor Productivity for the USA

(annual average percentage rate of growth)

Period	(1) GDP¹	(2) Output per Hour²
1948-73	3.96	2.88
1973-90	2.87	1.33
1990-99	3.12	1.96

1. GDP is in chained 1996 dollars.

2. Output per hour of all persons in the nonfarm business sector.

Sources: US Bureau of Economic Analysis, 2000; US Bureau of Labor Statistics, 2000.

Table 3. Merchandise Exports as a Percentage of GDP

Year	World*	Western Europe	USA	Japan
1820	1.0	N.A.	2.0	N.A.
1870	5.0	10.0	2.5	0.2
1913	8.7	16.3	3.7	2.4
1950	7.0	9.4	3.0	2.3
1973	11.2	20.9	5.0	7.9
1992	13.5	29.7	8.2	12.4

Note: GDP and exports are in 1990 prices.

* The “world” data cover 56 countries, which accounted for 93 per cent of world output and 87 per cent of world population and exports in 1992.

Source: Maddison, 1995, p. 38.

Table 4. World Merchandise Exports as a Percentage of World Non-Service GDP

Year	World Merchandise Exports as a Percentage of World Non-Service GDP
1820	1.2
1870	6.2
1913	12.2
1950	11.0
1992	31.3

Source: Menshikov, 1997.

Table 5. Foreign Direct Investment

Year	(1) World Stock of Foreign Direct Investment as a Percentage of World Output	(2) World Foreign Direct Investment Inflows as a Percentage of World Gross Fixed Capital Formation
1913	9.0	N.A.
1960	4.4	1.1
1975	4.5	1.4
1995	10.1	5.2

Source: Baker et. al., 1998, p. 9.

Table 6. Current Account Surplus or Deficit as a Percentage of GDP

(Weighted average for 12 countries)

1910-14	3.8
1950-54	1.8
1970-74	1.4
1990-96	2.7

Note: The absolute values of surpluses and deficits are averaged. The twelve countries are major participants in international investment from Western Europe, North America, the Far East, and Latin America.

Source: Baker et. al., 1998, p. 11.

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Notes

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1. Some neoliberals would even remove from the state the power to regulate the supply of money, by linking it to gold reserves.
 2. Two qualifications are important. Capital accumulation permits, but does not guarantee, rising living standards. Also, the meaning of “rising living standards” under capitalism is an increase over time in the consumption of commodities, which does not necessarily entail an improvement in individual or social welfare, particularly once a certain level of commodity consumption has been attained.
 3. The term “automatic stabilizers” refers to government programs which pump increasing funds into the economy when economic growth slows or stops, thus limiting the severity of economic downturns. Examples include unemployment compensation and welfare payments.
 4. A careful analysis would be required to make a convincing case for each of the above claims, including consideration of critiques of those claims and of the theoretical arguments in favor of neoliberalism. Such an analysis is beyond the scope of this paper.
 5. Rising labor productivity can also reflect an increasing intensity of labor, although there are limits to that process in the long run.
 6. The time periods in Table 2 were selected to eliminate the distorting effects of the business cycle. The years 1948, 1973, and 1990 were all business cycle peak years. The year 1999 is the most recent year for which data were available.
 7. One can find four year subperiods during 1948-73 in which growth far exceeded the rate during 1995-99. For example, GDP grew at 5.8% per year during 1962-66 (US Bureau of Economic Analysis, 2000).
 8. See Weinstein (1968) for a detailed analysis of this development.
 9. Baran and Sweezy (1966) and Galbraith (1967) provide classical statements of this interpretation of the large corporation.
 10. Ironically, the American Enterprise Institute originated as an arm of the US Chambers of Commerce, the traditional main organization of small businesses in the US. In the 1970s its former status as a relatively poor and struggling foundation changed dramatically when giant US banks and corporations began to pump funds into it.
 11. A country that experienced large inflows and outflows of capital of equal magnitude during a year would register zero net capital flow.
 12. Some definitions require significant dispersion of activities over some minimum number of different countries.
 13. Sutcliffe and Glyn assert that “we are not convinced that there [is] yet any” TNC that is “so international in ownership, production, and management that it no longer has a basic nation

state” (Sutcliffe and Glyn, 1999, p. 126).

17. Jeffrey Garten, the dean of the Yale School of Management, remarked that American corporate CEOs today “feel they are in a brutally competitive world, and they think they are in a race for their lives” (*The New York Times*, 18 July 1999, Sec. 4, p. 4). No serious analyst would have described the mindset of US big business in such terms in the 1950s or 1960s, when large corporations made large profits almost every year, avoided price competition, and rarely suffered an annual loss.

18. This does not exclude the use of state power to gain easy profits when the opportunity arises, through sale of goods and services to public entities or by obtaining, cheaply or for free, public assets such as land, mineral rights, loans, and subsidies – as was common in the Robber Baron Era.

19. For a more in-depth analysis of the impact of the demise of state socialism on the rise of neoliberalism, see Kotz (2000).

20. See Kotz (1998) for development of this point.