CRISIS TENDENCIES OF THE 1990S: CONSTRAINTS ON THE IDEOLOGY OF GLOBALIZATION?

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INTRODUCTION

Globalization is both a tendency and an ideology. As an objective tendency, globalization implies a deepening and strengthening of trade, financial markets and production systems across national boundaries. Propelling this tendency we find broad institutional changes occurring, strengthening the integration of the circuits of trade, finance and production. Globalization implies a greater degree of convergence in markets and institutions, and a greater degree of homogenization of dysfunctional movements such as economic crises which quickly shift across national borders. As an ideology, globalization implies both the inevitability and desirability of the above described tendency toward integration and the denial of the existence of dysfunctional movements arising from this tendency. Denial of the manifest poses a challenge which is normally met through the assertion that crises and other structural features, such as the asymmetries of power, arise as mere and momentary "errors" or "exceptions" which can be quickly remediated.

This paper examines the current state of the world economy with particular attention to the effort to maintain the ideology of globalization in a period where the dysfunctional and pathological aspects of globalization have become exceedingly difficult either to manage or deny.

I.. THERE IS NO CRISIS? A SYNOPSIS OF THE U.S. ECONOMY

America is in love with the market and happy to see rising stock prices as an endorsement of its supremacy in the world economy. New York Times, Editorial entitled "10,000" 3/30/99 [the day the Dow Jones average rose above 10,000 points]

Globalization as a tendency would imply that the US economy could not stand out as the great exception to the economic downturn which swept the world economy from 1997 onward, but which has its manifest origins in the prolonged slump which overcame the Japanese economy in the early 1990s. It is therefore important to examine closely the asserted "exceptionalism" demonstrated by the US economy:

Within the US, in early 1999, an air of smug triumphalism--best represented by the phrase "The New Economy"--pervaded orthodox analyses of economic tendencies. Inflation was virtually non-existent, unemployment was at a near record low, the specter of an endless and unpayable public sector debt had evaporated, productivity growth was strong, the GDP had exploded at an annual rate of nearly 6 percent in the last quarter of 1998 and the expansion which began in 1991 was the second longest of the post WWII period. Profit levels and rates had been strong for years--surging at an annual rate of growth of more than 10 percent in 1996 and 1997. The New York stock exchange registered record levels of growth, and wages for the working class had risen since 1993.

A deeper probing of the US economy, however, indicated that the long expansion was also a weak expansion leaving average wages in 1998 at a level 17 percent below that achieved in 1973. "Downsizing" layoffs reached a record level in 1998--although the fact was scarcely noted. Inflation was no longer an issue partly because of the weak growth in wages--a total of 2.4 percent real growth from 1993-97. And, partly because of the collapse in basic commodity prices. The collapse in basic commodity prices, in turn, arose from a variety of factors, including overproduction and the crisis of the E. Asian economy. New patterns of internationalized production, such as those stimulated and anchored in NAFTA had brought a flood of cheaply-produced manufactured products into the US economy at an accelerating pace in the course of the 1990s. While credited to the "New Economy", the restraints on inflation arose from the depressed economic conditions spread throughout much of the world economy. Rather than the benign working of the "law" of comparative advantage, which orthodox economist perceived to be the basis of such modest increases in prices, the price of imported manufactured products reflected pervasive overproduction on a global scale, Overproduction and price competition on a global scale caused total US profits to fall in 1998 by 2.2 percent (Naysar, 1999, p. C1) Perhaps the best example of this tendency could be found in the global auto sector where capacity had reached 75 million units per year with demand held to below 50 million units--and new plants opening nearly every month (Brasher, 1999, p. C3). Far from any imagined "New Economy" or a benign new system of "globalization", in numerous product lines and sectors cheap manufactured imports in the US were the counterpart of systemic violations of fundamental labor standards and "flexible" labor processes (which amounted to an old-fashioned speedup) at the point of production.

Looming over the US expansion was the chronic trade deficit, scheduled to reach a record level of 3.5 percent of GDP, prior to the run up in global oil prices in late March 1999. With OPEC and other oil exporting nations reaching agreement on production limits in March (with the implicit approval of the transnational oil companies) the US trade deficit will rapidly widen, and the profit rate will fall further (Sanger, 1999 p. A1; Magnusson 1999, p. 40; Ibrahim, 1999, C1). As the deficit widens by an estimated $83 billion in 1999, econometric simulations suggest that 581,000 jobs will be lost in the US manufacturing sector. These same simulations suggest that the 100 percent plus increase in the current account deficit in 1998 cost the US as many as 819,000 potential manufacturing jobs (Scott, 1998, p. 14).

At what point will the widening deficit trigger a "run for the exits" as hot short-term money circulating in the mercurial global financial markets seeks a more hospitable parking area? Business Week maintains that currency traders view a 3 percent current account deficit as a crucial threshold--beyond this level the major participants in the global financial markets will move funds out of US dollar denominated assets (Cooper and Madigan, 1998, 21). Pressure on the US exchange rate will come both from the current account deficit and the accumulated foreign debt: The net international credit position of the US was minus $2.3 trillion in 1998, up from minus $1.3 trillion in 1995—a staggering 92 percent increase. The now "classical" method of holding onto and re-attracting these explosive flows is to raise interest rates. Such is the standard prescription of the IMF and the US Treasury when they proffer policy advice to nations in distress around the globe. As US foreign liabilities continue to climb in 1999 the pressure on US interest rates and exchange rates will have to increase, and not in a smooth or equilibrating fashion.

Any serious increase in the US interest rate will reveal the fragility of the US expansion and the ideological content of the "New Economy" perspective. Low interest rates and a massive increase in credit--the US money supply grew at an annualized rate of 16.4 percent in late 1998--permitted the US to circumvent a stock market decline in late 1998 (Morgenson, 1999, p. C12). The massive injections of credit created the basis for a run up of the market of 30 percent from the time of the Russian debt default in August 1998 through March 1999. This market explosion created roughly $3 trillion in new household wealth in 1998--leaving the 45 percent of US households with financial assets in the stock market a mass of stock equity wealth equal to $10.77 trillion (Morgenson, 1999, C12). The capitalized value of all US stocks (held by US households and corporations and foreigners) presently stands at roughly 150 percent of GDP--this ratio reached 82 percent prior to the crash of 1929. And, it is this increase in wealth, and the possibilities created by this wealth to increase household borrowing, which is causing the increase in consumption, investment and GDP growth.

Ironically, high-income households in the US have experienced a massive increase in their wealth partially because much of the rest of the world economy is languishing: Thus, in 1997-98 Europeans poured $135 billion into U.S. stock market purchases, even as the total number of shares outstanding on the market declined (Koretz, 1999, p. 30).

It now seems all but inevitable that the bubble economy created by the financial sector and centering on Wall Street will burst as credit-driven deals become more costly (less profitable) and the availability of credit is limited both by the Central Bank (the Fed) and by the largest lenders. With the onset of a credit crunch the vast array of spurious deals created by the new financial alchemists and "rocket scientists" in the financial markets will be revealed--just as such strange and unsustainable financial manipulations were revealed in the context of the collapse of Long Term Capital, once believed to be the "best" of the Wall Street hedge funds. As Hyman Minsky argued, any substantial change in either the interest rate (+), the value of equities (-), or the growth of sales (-), in the context of a credit-driven expansion will reveal widespread financial fragility (Cypher, 1998). Analysts in the Minsky-Keynes tradition emphasize the disproportionate rise in corporate debt during expansions: In the 1991-98 period US corporate debt

growth has generally accelerated on a year by year basis, exceeding an annual growth rate of 9 percent in 1997 and reaching an 11 percent in 1998--the fastest growth of such debt since the mid-1980s (Mandel, 1999, p. 31).

The Minsky-Keynes effect in the interactive area of finance and capital investment will be amplified by a sudden drop in consumption as paper assets crumble in value. A negative wealth effect of unprecedented magnitude is anticipated by several economists. Utilizing their assumption that each $100 billion decline in household wealth would translate into a $7 billion decline in consumption, if the US market falls back to its level of August 1998--7,500 approximately--consumption would fall by roughly $210 billion (Pennar, 1999, p. 32). Utilizing a basic macroeconomic multiplier analysis, a drop in aggregate consumption of 3.5 to 4.0 percent could send GDP down by as much as 5 percent. And this rough estimate would deal only with the negative wealth effect. Other macroeconomic shocks (unrelated to wealth or to induced--multiplier--effects) would also be felt in this context, including a rapid decline in investment and employment in both the capital goods industries and the consumer goods industries. Such effects are to be anticipated because a very large portion of the "New Economy" is actually tied to investments for the infrastructure which supports the new level of trading within the financial markets--including computers, software and complex telecommunications systems.

In accordance with orthodox analysis, particularly as presented by both the IMF and the US Treasury, "adjustment" to a balance-of-payments constraint will entail a depreciation of the exchange rate leading to a further round of inflationary pressures in the import sector. It is difficult (but possible) to imagine that the Fed would ignore inflationary pressures brought on by a depreciation of the US currency--it would be consistent with the Fed's stance to nudge interest rates higher and restrict credit further. In doing so, more layers of financial fragility would be revealed, particularly in commercial real estate.
With the US economy currently playing the role of "consumer of last resort" for much of the world economy, any tightening of the US trade deficit promises grim consequences for many vulnerable nations. At this point in time no nation is more vulnerable and dependent on the imbalance in US trade than Mexico. Ironically, a international pullback from the US dollar would reveal the mythical nature of both the "New" US economy and the "remade" Mexican economy in one brutal stroke. Mexico, frequently touted as the nation which successfully overcame the gripping crisis of 1995 while reattaining its status as a prominent "emerging" market, could fare relatively worse than the US when the current expansion comes to its inevitable end.

II. CRISIS TENDENCIES: JAPAN, S.E. ASIA, RUSSIA, BRAZIL AND?

Throughout the 1990s the Japanese economy has languished. Each new initiative and palliative has failed. Accounting for 16 percent of the world economy, the Japanese albatross set the stage for the economic debacle of the 1990s. In 1998 an "impossible" negative interest rate has confirmed the ineffectiveness of monetary policy. Fiscal policy, repeatedly deployed has been to no avail. Given the centrality of Japan in the Asian component of the "Triad" economy (clustering : 1. Europe with the Middle East

and North Africa; 2. The US with Latin America and Canada; 3. Japan with S.E. Asia, Korea and Taiwan) it is hardly surprising that S.E. Asia and Korea were pulled into the vortex created by a sinking Japan. Japan is both a market for Asian exports and a crucial and often relatively benign lender of long term and sort term capital, as well as direct investor, a participant in technology transfers and a source of portfolio equity investments.
Had the US not partially displaced Japan, in an effort to assert hegemonic dominance in S.E. Asia, and had the US not been able to fund its chronic trade deficit (which created a vent for surplus for Asian manufactures) the crisis which emerged first in Thailand in 1997 would have surely appeared earlier. Yet, in spite of the staying power of the US economy, the Asian economies tumbled one after the other. Signaling the magnitude of the Asian financial crisis, in late 1997 the stalwart Korean economy sank. In 1995, the US/IMF loan to Mexico of nearly $50 billion had been unprecedented. By the time Korea's economy collapsed in late 1997, $40 billion plus "rescue packages" had become alarmingly "routine".

The climate of guarded alarm and the anticipation that the "Asian Crisis" would be quickly reversed through adjustments in prices, exchange rates and interest rates did not last through the summer of 1998. With the Russian default on foreign loans in August 1998 a new level of doubt, even panic, began to spread through the vast financial markets: Fear reached the innermost centers of modern globalized finance--the secretive and largely discounted hedge funds and the largest banks which were deeply involved in derivative trading. The US credit system began to seize-up, revealing the folly of several US hedge funds, and placing the "science" of "rational markets"--then a favored element of neoclassical economic theory--in a new perspective. Even two widely revered, Noble Prize winning, economists were, however briefly, humbled as their collapsed house of cards, aptly named Long Term Capital, threatened to drag down some of the major US banks. Theoretical affinity to neoclassical dogma proved no obstacle to government intervention which guided the blind hand of the free (financial) markets to safer ground through the Fed engineered bailout of the hedge fund. Active intervention through monetary policy renewed lending and papered-over the emerging cracks in the financial system. Still, the Russian economy went further into collapse late in 1998, and Brazil became the first large disaster of early 1999. Could Brazil be the last? Tiny Ecuador was next, and during the course of 1999 it appeared conceivable that Chile, long the favorite example of the "exception" in Latin America--would become a candidate for a IMF "rescue" program.

Before (1) the OPEC nations, (2) the major exporters outside this group (including Mexico) and (3) the top oil companies orchestrated a cutback in global oil production in March 1999, Business Week argued that Saudi Arabia--owner of 1/4th of the world's oil reserves could be next. GDP sank 12 percent in 1998, and prospects appeared bleak (Rossant, 1999 p. 35). Currently, speculation as to which nations belong on the 'whose next' list include Britain, Germany and Mexico.

As the world economy entered 1999 it seemed exceedingly unlikely that the wave of crises and collapse, which began in earnest in 1997, had abated. And, it also appeared

equally unlikely that the US and the other major economic powers were willing to embrace even moderate structural changes regarding standard IMF policies which recommended devaluations and exports, along with greater foreign ownership of national capital. Nor was there interest in limiting financial flows, or virtually any other "reform" of substance.

What were the "lessons" to be learned from Japanese decade of collapse, Mexico's 1994 crisis, the Asian crises of 1997, the Russian default of 1998 and the implosion of Brazil in 1998/99? Responses ranged far and wide. Many analysts blamed the victims of the downturn emphasizing a new term--"crony capitalism"--which purported to be an all-purpose explanation. Others found blame in the IMF's emphasis on financial stringency in the face of exchange-rate collapses. Fewer pointed to an obvious factor, which many seemed to ignore--excess capacity and overproduction. The all-important "Treasury view" as propagated by US Treasury Secretary Robert Rubin and his omnipresent assistant Lawrence Summers seemed to be, on the one hand, critical of the internal policies of the nations gripped by crisis. And, on the other hand, pervasively defensive of the prerogatives of financial capital to roam the globe at will, alternatively flooding and draining national financial systems as traders/speculators calculated and recalculated their anticipated returns and risks. Secretary Rubin stated his opposition both to capital controls, and to a global central bank with lender of last resort capabilities on numerous occasions. At best the "Treasury view" was that changes should be (1) incremental and (2) largely limited to a substantial enhancement of IMF quotas by nearly one-third--a step achieved by January 1999 (Rubin, 1998, pp 126-127; IMF, 1999, p. 34).
Others, far from the corridors of power have made more sweeping recommendations: The ubiquitous Paul Krugman has coyly tilted toward capital controls, while Barry Eichengreen, with the endorsement of the influential Institute for International Economics, has advocated a substantial set of changes including short-term capital controls (Krugman, 1999; Eichengreen, 1999). None address more fundamental issues such as the pervasive assumptions of the "Washington Consensus" in favor of an export-led model of development with wide-open global capital markets, nor the issue of pervasive global excess capacity and the destabilizing impacts of Direct Foreign Investment within the framework of the "Washington Consensus" model.

A SIGN OF HOPE, A SUGGESTION OF RESOLUTION?

Three Hypotheses Regarding Globalization

There are essentially three visions of a "resolution" to the conundrums which have surfaced with a vengeance in the past three years. Each leaves the "emerging nations" out.
The first is the "New Economy" hypothesis which would argue that the US economy could continue with its 8 year expansion: According to this hypothesis Information Technology (IT) industries such as computers, info-tech manufacturers (such as internet technologies), communications firms, financial services and consulting, are generating a new industrial base for the US economy. These industries provide the locus for

substantial increases in productivity and they are generating employment at a rate nearly twice as great as all other industries and sectors. Furthermore, these industries have underwritten a boom in capital spending--a inflation adjusted 60 percent increase in capital spending from 1995 through 1998 (Mandel, 1999, pp. 30-32). Yet, whatever the merits of the IT/New Economy argument, at best this hypothesis leaves the US as an island of prosperity in a sea of despair. It does not address globalization in any substantive way except indirectly: It suggests, by default, that globalization has no content, because it posits "go it alone" prosperity for the US. It also suggests that Canada and Mexico, as junior partners in the NAFTA bloc, could, however unequally, enjoy some of the growth benefits of the IT/New Economy. Still, how this North American perpetual motion machine would operate fluidly while most of the rest of the world sinks has not been explained.

The second hypothesis, know as the "Atlantic Century", argues that the US and Europe are the dual agents of propulsion in the world economy. Globalization has no meaning or role in this hypothesis, either. Rather, it is maintained, the future of Europe is to be found in the present US economy--the IT/New Economy. Europe, proponents argue, is slowly gravitating toward the US model; traditional manufacturing industries are suffering while IT industries in software and telecommunications are major sources of new jobs. According to the "Atlantic Century" hypothesis, European managers share US business-school-type values and methods of organizing production and sales units. Cross border (US-Europe) mergers are on the rise--worth $265 billion in 1998--solidifying a transnational business elite. Policy convergence is also envisioned with the new European Central Bank viewed as a institution carrying the Federal Reserve's policy framework into Europe. Trade, finance, technology and Direct Foreign Investment, particularly promoted by cross-border mergers and joint ventures, will provide sufficient incentive to bind these two equal-sized blocs together in an essentially harmonious and complementary union (Warner, 1999, pp. 64-67). If true--and the propositions behind this hypothesis are even more unproven than those behind the New Economy/IT hypothesis--the concept of globalization once again falls out.

Finally, some attention is now devoted to the possibility of a Japanese recovery. Deficit spending equal to 10 percent of the GDP in 1998, coupled with interest rates which were virtually zero should, in Keynesian theory, revive the Japanese economy (WuDunn, 1999, C1). If recovery begins, Korea and much of S.E. Asia would likely shift into an expansionary phase, albeit slowly. Economist William Tabb, however, emphasized overinvestment and excess capacity as the basis for Japan's crisis. Unprofitable industrial capacity accounts for a major portion of the $2 trillion in bad debt carried by the Japanese banks. Unless or until the issue of excess capacity on a global scale is addressed, particularly in manufacturing industries such as autos, Japan will continue to stagnate (Tabb, 1999).

Thus, it seems that wherever one might turn in early 1999, nearly all commentators--including the most optimistic--now seek to distance themselves from the term globalization, or recast it into a totally new and unrelated form.

III. WHAT EVER HAPPENED TO EMERGING MARKETS?

"There is no confidence whatsoever [in emerging markets]".
Peter Woike, President, International Finance Corporation
World Bank Group, February, 1999
To the degree that the term "globalization" ever had any objective meaning in the world of finance and policy making it pertained to interacting economic forces linking the "emerging markets" with the more interdependent advance industrial nations. "Emerging markets" were a loosely defined group of nations, ever changing at the margin, which generally included Mexico and Brazil and Argentina in Latin America, Indonesia and Malaysia in S.E. Asia, and China. The term never included all "developing nations" and was thus divorced from a truly "global" concept.

Interestingly, the very term "emerging markets" is an ideological construct conjured up by executives of the World Bank's International Finance Corporation when they were trying to work with mutual fund managers (in the mid-1980s) to create a third world investment fund. Fund mangers wanted nothing to do with "third world markets" which suggested poverty and stagnation. "Emerging" markets, however, suggested dynamism and more important, profits (Kristof and Wyatt, 1999, A10). Subsequently, in support of these initiatives, the Clinton Administration's cabinet-- particularly under the guidance of then Commerce Secretary Ronald Brown, and Robert Rubin-- "...approved a 'big emerging markets' plan to identify 10 rising economic powers and push relentlessly to win business for American companies there" (Kristof and Sanger, 1999, p.A10). This new focus on these nations generated results: The top 10 recipients of Direct Foreign Investment, a changing group of nations, acquired $21 billion in FDI in 1991, $66 billion in 1994, and $86 billion in 1997. Private sector flows (including portfolio equity investment, bank loans, bonds, etc., as well as DFI)--the vast bulk of which went to 10-20 "emerging" nations soared--from $54 b. in 1991 to $256 b. in 1997. These trends are recorded in Tables I and II, below:

{Tables I and II here}
After rising spectacularly in the 1990s, "emerging market" credit flows peaked in 1996 at $196 B. and then collapsed. In 1997 private credit flows to these markets fell to approximately $120 B. and subsequently to $39 B. in 1998. Commercial banks lent $121 B. to developing nations in 1997, and a mere $10 B. in 1998 (Warner, 1999, p. 66; Engardio, 1999, p. 72). These data seriously challenge the idea that the private capital markets would provide the liquidity and equity investments and the capital formation which 10-20 "emerging nations" would require to shift their productive apparatus onto a new, competitive, plane. In the early 1990s, globalization proponents readily acknowledged that the World Bank and other multilateral institutions as well as other sources of bilateral capital flows were insufficient for the capital needs of the "emerging markets". However, as one integral element of the "globalization" theory, advocates argued--with a certain degree of credibility--that more open markets in finance and greater security in the governing of Direct Foreign Investment, plus new financial instruments, would combine to offer the "emerging nations" a greatly expanded private sector fund of finance. This no longer seems credible in the wake of the 1997-1999 crises wave. Whatever "globalization" now means, the idea that a core concept entailed

the efficient transference of capital from capital abundant nations to capital poor--but promising and willing-- nations lacks current operational content. As such, the "open international finance markets leads to both development and efficient allocation of financial flows" fails to achieve its ideological legitimation function.

IV. GLOBALIZATION: THE EMPIRICAL DIMENSION

Empirically, it is possible to identify a tendency toward a heightened degree of internationalization. This tendency has been manifest since the early 1960s and it has steadily gained significance. This tendency could be understood as a gradual movement in the direction of "globalization"--a term which requires clarification. IMF publications refer to "globalization" in rather laconic terms:

Globalization--the international integration of goods, technology, labor and capital.... The share of imports and exports in overall output provides a ready measure of the extent of the globalization of goods and markets (Slaughter and Swagel, 1997, pp. 1-2)
Globalization has linked labor, product, and capital markets of economies around the world. Increased trade, capital and labor movements, and technological progress have lead to a greater specialization in production and the dispersion of specialized production processes to geographically distant locations (IMF Fiscal Affairs Department, 1998, p. 4).
Globalization refers to the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and in international capital flows, and also through the more rapid and widespread diffusion of technology (IMF, 1997,p. 45).
These broad and vague descriptions can, at best, constitute mere starting points. Trade, as one dimension of the "globalization" tendency, has been integral to the history of capitalism since the early 1500s. Cross-border financial flows have long been fundamental to the functioning of the world economy, particularly for England in the late 19th century. What is relatively new is the rise of the transnational corporation and the 'integrated production system' which embeds the production process within an international context. Thus, it is the intertwining of the production process with both trade and finance; that is, the integration of the circuits of money (financial) capital, trade capital and production capital which constitutes the essence of the "newness" of the deepening, intensifying and articulating process known as "globalization". As Table III shows, the sales of the foreign affiliates of the 54,000 transnational corporations recorded by UNCTAD now exceeds, by a ratio of roughly 1.5 to 1.0 the value of all exports. And, the gross product of these transnational affiliates is now equal to approximately 7 percent of annual global output. The rate of growth of the gross product of the TNCs has exceeded that of world GDP by a substantial margin since, at least, 1986--as Table III demonstrates. As the TNCs have increased their weight in the world economy the investment pattern of the TNCs has shifted toward developing nations: In 1980 26 percent of DFI went to such nations, rising to 37 percent in 1997.
{Table III here}
Since the publication of David Gordon's article "The Global Economy: New Edifice or Crumbling Foundations" in 1988, many heterodox analysts have expressed deep

skepticism regarding the "newness" of the internationalization process and have frequently marshaled an array of quantitative data to enforce their doubts (Gordon 1988). Drawing on a widely circulated study by Paul Bairoch and Richard Kozul-Wright, entitled "Globalization Myths", co-authors Dean Baker, Gerald Epstein and Robert Pollin have guardedly accepted the view that there are presently more trans-border financial flows, and that manufacturing output from developing nations has risen as a percentage of total global manufacturing (Baker, Epstein and Pollin 1998). But, by using as a reference point the late 19th century, a methodology earlier employed by Gordon, these authors find that "no dramatic changes have occurred in...the overall level of trade relative to GDP...": They take this position in spite of the fact that the highest World Export/World GDP ratio which they find, just prior to WWI, was 8.7 percent. Yet they show a ratio for 1992 of 13.5 percent--a change of 55 percent (Baker, Epstein and Pollin, 1998, p. 5).

These authors also find that there has been no substantial increase in foreign investment in relation to world output--based on an estimate of World DFI/World Output in 1913. It is beyond the scope of this research to attempt to revise the 1913 figure. When the 1913 ratio is compared to 1995 Baker et. al. show only a 10 percent increase, which allows them to argue that there is no strong evidence of internationalization of production. Yet, this approach makes no allowance for the new and vast range of "strategic alliances/subcontracting agreements" which extent the range and control of the TNCs (Baker, Epstein, Pollin 1998, p. 9). The DFI/World Output measure only calibrates significant equity investments, while "strategic alliances" and "subcontracting" arrangements vastly expand the scope, leverage and importance of the TNCs--perhaps by as much as 40-50 percent (Dicken, 1998, pp. 201-240). Regardless of the inadequacy of the data available to truly capture the extent of the DFI + strategic alliances + subcontracting + collaborative networks as a share of World Output (a true measure of the modern TNCs scope), the question of framework is of greater importance. Using as a benchmark for comparison 1960 or 1970--as detailed in Peter Dicken's Global Shift--the world DFI/World Output ratio has more than doubled; from approximately 4.5 percent to over 10 percent in 1995 (Dicken 1998; Baker, Epstein and Pollin, 1998 p. 9).

Table IV, below, summarizes a number of variables which suggest a quantitative and qualitative shift toward an much more internationalized era in the late 20th century. Nonetheless, in addition to failure to record strategic alliances, subcontracting and other collaborative activities, what these data do not capture is the prevalence of manufacturing TNCs which have displaced resource extracting TNCs since WWII. The US, for example had only 27 percent of its DFI in the primary sector in 1985, 12 percent in 1994 (Dicken 1998, 52). In the current era manufacturing provides the locus of technology transfers and changes in work culture--a transfer which was virtually non-existent in the late 19th century.

This qualitative shift toward global manufacturing is twofold: First, this process involves the incorporation of new technologies and management strategies which allow for a globally integrated system of production. Second, the imperatives and possibilities

opened-up through the greater integration of the spheres of money, trade and productive capital on a global scale have lead to the dramatic enhancement of existing institutional structures such as the GATT/WTO and to the creation of new institutional structures, such as NAFTA, which are designed to make shifts toward greater internationalization irreversible through embedded institutionalization.
{Table IV here}

V. THE IDEOLOGY OF GLOBALIZATION

Orthodox economic theory attempts to advance a number of propositions regarding the growing tendency toward greater internationalization. Prominent among these propositions in support of greater internationalization it is common to encounter the hypothesis that greater integration, through the adoption of export-led development models, is the fastest and perhaps the only path to economic development for low-income nations. Static efficiency arguments with a Ricardian foundation suggest that all shifts toward greater openness and specialization will enhance employment, income and growth. But, such formulations can easily be challenged by moving beyond the simple comparative statics of the idealized constructs into a dynamic analysis employing reasonable assumptions regarding such indicators as the terms of trade (Cypher and Dietz, 1998).

Above all, pervasive arguments in support of greater internationalization are designed to incorporate and institutionally embed the ideology of neoliberalism into trade, investment, labor, fiscal and monetary policies and to destroy industrial--which is to say development--policy. These various arguments and propositions tend to face their most immediate challenge in moments of crisis. Thus the propositions of neoliberalism which guided the Salinas Administration in Mexico (1988-1994) --particularly the idea that the rapid destruction of all forms of regulations and oversight would allow "free" markets to allocate resources efficiently--was called into question with the Peso Crisis in late 1994. It is precisely at this point that the ideological struggle intensifies. Thus the great effort to sell the idea that Mexico's crisis of 1994 was only the result of the "errors of December", rather than a structural crisis eminating from the financial sector (Cypher, 1996).
The same has been true in S.E. Asia: Thus the great effort to diminish the developmental record of S. Korea and to portray Korea's accomplishments (and much of the rest of Asia) as insignificant. Yet, as numerous studies reveal, Korea's experience has great import for developing nations: For example, UNCTAD's well-researched summary of the E. Asian economies highlights the versatility and depth of the Korean industrialization project, which was engineered through state-led programs (UNCTAD 1996, pp. 73-138). Above all, UNCTAD focused on the antithesis of neoliberal analysis--the constructive role of the state in Taiwan, Korea, Singapore and Hong Kong. In a related fashion, the UNCTAD study put inordinate emphasis on the creation--through government policy--of an "export-investment nexus". UNCTAD demonstrated that an export promotion policy could only form one portion of a successful development project. Export growth had to be organically linked to (1) ongoing investment in wholly new areas, (2) capital deepening and (3) technological dynamism:

...what distinguishes the role of government policies in the export-investment nexus in East Asia, particularly in the first-tier NIEs, [newly industrialized economies] is not so much the concern to fully exploit gains from labor-intensive manufactures, but rather an anticipation of the future difficulties that these industries face, including rising wages, limits to productivity growth, and constraints on demand expansion in export markets. Overcoming these difficulties required gradually and purposefully nurturing a new generation of industries, with greater potential for dynamism. East Asian governments had encouraged investment in a number of such industries at each stage of development, whenever they were deemed suitable for promotion, given existing technological capabilities (UNCTAD, 1996, p. 130).
Government policies were many and varied, including the successful promotion of a capital goods industry--always the weakest point in Latin America's development experience. In addition, the state alternatively used and abandoned protectionist measures including export subsidies, in order to sequentially nurture new industries.
The very success of the E. Asian nations (which was built, in part, on limited access by foreigners to both the domestic banking and financial system, and direct foreign equity investments) led the Clinton Administration, the IMF and the World Bank to aggressively pursue a neoliberal policy of "financial liberalization" in the aftermath the Asian Crisis beginning in 1997. Korea, the strongest example of a successful alternative to neoliberal globalization strategies, received special attention. Pressing for a lever, the US made its support for Korea's entry into the OECD conditional on opening up Korea's financial system and Korean corporations to US ownership and control:
The pressure on [Korea] is reflected in a [US] Treasury Department memorandum ... [It listed]...'priority areas where Treasury is seeking further liberalization".
These included letting foreigners buy domestic Korea bonds; letting Korean companies borrow abroad both short term and long term, and letting foreigners buy Korean stock more easily. Such steps...would make Korea more vulnerable to precisely the kind of panicky outflow of capital that unfolded at the end of 1997.
...nowhere in the memo...is there a hint that South Korea should improve its bank regulation or legal institutions... (Kristof and Sanger, 1999, p. A10).
As Korea specialist Alice Amsden has emphasized, it was precisely in the areas where regulations were dropped (at the specific urging of the US, the IMF and the World Bank), and where short-term foreign funds concentrated ,that the worst (unregulated, "free market") financial practices concentrated, giving rise to Korea's financial meltdown (Amsden and Hikino 1998; Amsden and Yoon-Dae Euh, 1997). In the midst of the Korean crisis--brought on, in part, by a shift toward a neoliberal strategy of indiscriminate and unregulated opening of aspects of the financial system--large TNCs (particularly from the US) have had the opportunity to buy Korean assets at or well below their replacement cost. This included the government owned steel mill POSCO, rated as one of the world's most efficient. Foreign Investment in Korea reached a record level of $8.8 billion in 1998 and $15 billion is anticipated this year. The financial arm of the giant US corporation General Electric, know as GE Capital, is scheduled to buy Korea First Bank thereby gaining financial leverage over the $27 billion in Korean assets which the bank has on its books (Veale, 1999, p. 55).
The Korean crisis and the IMF stabilization program have been the means to consolidate US and TNC influence over Korea and undercut and reverse the

development model (Cumings 1998). Based on a strengthening exchange rate, a massive trade surplus, new foreign investment, a jump in the Korea stock market and the anticipation that GDP will decline by "only" 2 percent in 1999, the IMF currently views Korea as a "success" story. But much of this "success' arises from Keynesian style increases in debt levels which the chaebols have accumulated. Moreover, unemployment has risen to 8 percent of the labor force, while the dramatic drop in wages has pushed 12 percent of the population below the poverty line. These are all issues which the IMF finds beyond the scope of the "fundamentals", which the Fund uses as a gauge of success.

The Korean experience holds some important lessons on "globalization", particularly for nations in Latin America. Korea's (and Asia's) emphasis on the export-investment nexus points to the greatest fallacy in the neoliberal model as adopted by Mexico. For, while Mexico has had the advantage of a ready market for manufacturing exports, the basis for such a strategy has not been technological dynamism, stimulated by the export-investment nexus. Rather, it has been falling unit wage costs.
The crisis which swept Asia in 1997, and which remained unresolved in any fundamental sense in early 1999, arose primarily from dynamic forces which play no role in neoclassical theory. First and foremost, it remains true and well demonstrated that production capabilities can and often do outrun consumption capabilities--particularly when a 'race for the bottom' and 'low road' strategy of wage growth remains pivotal to the neoliberal model. Attempts to (1) shift the aggregate distribution of income to the top 10 percent, (2) destroy or at least greatly reduce the power of states and unions to regulate the labor process, and (3) ignore the necessity of a strategy of shared-growth between capital and labor have all been crucial elements defining the present fundamental imbalance in the global system. Advocating development strategies which focus on the external market as a 'vent for surplus' in nation after nation will eventually result in a cumulative process of excess capacity and overproduction--the global auto industry being but the best example.
Attempting to release all constraints on the flow of short-term funds while creating and facilitating the institutional linkages and financial instruments to support global trading in foreign exchange markets moving an average of $1.5 trillion per day opened the way for massive surges in currency speculation. And, these surges also resulted in massive outflows which led to destabilizing depreciations in currencies. These wild fluctuations all too frequently led to severe balance of payments crises--followed normally by massive stabilization programs financed and orchestrated by the IMF. And the IMF, of course, essentially sought to embed even deeper into the fractured social and economic fabric further elements of the neoliberal paradigm. Perhaps the best extant example of this vicious circle of openness, greater instability, collapse and IMF rescue which facilitates deeper entrenchment of neoliberal change is to be presently found in Indonesia.

VI. THE CURRENT CRISIS: MUCH DIALOGUE, NO ACTION

Presently the development institutions, the think tanks and the practitioners and representatives of the 'Washington Consensus' have made numerous attempts to

introduce institutional safeguards which will, they claim, eliminate the possibility that the current crisis will deepen and broaden beyond the 36 nations which are currently in recession. What does the 'Washington Consensus' recommend? There is growing, but carefully qualified, support for some sort of capital controls. Even the IMF concedes the need. But this does not extend to the US Treasury where Secretary Rubin and his chief advisor Lawrence Summers hope to face-down the current crises with more IMF funding for austerity programs (Eichengreen, 1999; Krugman 1999; Guitián 1999; Soros 1999).
Still, the list of taboo subjects, unexamined by those who urge reform is depressingly long: Capital flight has clearly played a crucial role in destabilizing the global economy since 1997, and earlier. Yet on this crucial issue nothing is discussed. Unregulated banks, often banks created and supported through IMF/WB projects of structural adjustment and austerity, have brought widespread financial chaos to many developing nations. The crisis in Mexico's banking sector is but one of many spread throughout the globe. There has been little effort to seriously address the underlying causes of these banking crises and their close links to imposed neoliberal projects of 'free market development'. Rather, the greatest effort has been to hide from the nation's citizens (who are taxed to clear the billions of bad loans from the books of these banks), the circumstances which gave rise to these fraudulent loans and inept (but profitable) banking practices. Nor has their been any serious effort to analyze the extent of the overproduction and excess capacity created through the 'fallacy of composition' which pervaded many export-led strategies.

The yawning gap between the crisis tendencies which have engulfed great portions of the global economy and the anemic policy responses entertained by the policy elite in Washington at the US Treasury, the IMF and the World Bank is yet another manifestation of the intellectual decadence of neoliberalism. Vague promises of an New International Financial Architecture which amount to the exceedingly small incremental changes exemplify the policy crisis of neoliberalism. The best that may be said, regarding the current tendencies of globalization, is that neoliberalism may become one of the many victims of the current crisis. Should this turn out to be the case the current dead end could also be a new beginning in the construction of economic policies which consciously take into account the human costs of economic issues and policies and consciously address issues of economic justice and equity.

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