14. Post-Fordisms in a more globalised capitalism

**Benjamin Coriat, Pascal Petit
and Geneviève Schméder**

In this final chapter, we shall provide an overview of the various issues raised in the four earlier parts of the book and try to assess the overall viability of the different modes of development, when they spread internationally. The chapters in Parts 1 and 2 of the book have detailed these various modes of developments with their shortcomings at national level. Part 3 has focused on the limits of regionalisation processes and Part 4 on the global dimension. This chapter will try to link all the issues raised, and question the overall consistency of the international diffusion of the various modes of development. We shall stress that such international diffusion gives rise to a series of contradictions which are far from being resolved, both at regional and global levels, and thus which require a thorough overhaul of the institutions of global governance. We shall start in section 14.1 and 14.2 by questioning the conditions under which finance-led growth regimes can be compatible at international level. A finance-led growth regime is the most obvious candidate to be the dominant growth regime to spread all over the world in economies which have become much more open to international transactions in the 1980s and 1990s. Section 14.1 will assess the contradictions it creates among developed economies. Section 14.2 will stress how these contradictions are exacerbated when one considers the diffusion to less developed countries. It gives way to huge imbalances in trade and financial transfers which clearly fed the regular outbursts of financial crisis in the 1990s. These sections also underline that the existence of regional processes of integration did not much help to reduce these imbalances, at least in East Asia and in South America which include countries with very different levels of development.

Section 14.3 will follow, questioning whether “demand-led” growth regimes, in the sense that we gave to such a dynamics in Part 2 of the book, can act as alternatives which could help to overcome the shortcomings of a generalised finance-led regime. Demand-led models are by nature more country-specific from the start. Their diffusion internationally raises issues that again stem from the absence of institutions coordinating the process of internationalisation that would take into account the institutional diversity of the countries considered. The regional integration processes again show limited scope for dealing with such variety, at least given what we learned from the European integration process, the most relevant in this case as it claims to constitute a European social model. Clearly the international diffusion of such a model also requires major changes in the North–South relationships to deal with issues such as the requirement of social clauses in trade or fair monitoring of environmental issues.

Many of the contradictions we stressed are linked to the diversity of capitalism, both among developed economies and between developed and developing economies. But in order to show the many biases, drawbacks and incompatibilities that such diversity implies for the diffusion of new growth regimes, one needs to explain in what way diversity matters. Recent developments of the Regulation Theory are helpful in that respect in stressing the institutional complementarities that condition the adjustments of varieties of capitalism. Shifting to new modes of development is effectively easier for countries with certain institutional configurations. Basically, changing from one type of capitalism to another cannot be done on a piecemeal basis. Complementarities between institutions within each type of capitalism limit the possibilities of step-by-step adjustment (Hall and Soskice, 2001). This is not easily perceived by the policy makers in each country, and may thus lead to a succession of trials and errors. Conversely, institutional changes cannot be reduced to mere imitations; they always encompass some forms of hybridisation. Finally, our balance sheet of the world orders that would stem from the diffusion of the new growth regimes under review underlines both the hardship of nations in such contexts and the likely disorders at the world level. But it does not tell us the kind of institutions needed for a more sustainable global governance.

Section 14.4 will approach the issue by taking from the start a global view of world governance. It will first recall some of the limitations of the various processes of regional integration, which either do not shield their members from financial instability (when they don’t increase it) or do provide some financial protection but at the cost of destroying the social model they share (at least as a common objective). In other words, it does not seem possible to build a sustainable global order on the basis of a set of unrelated regional processes of integration. If by “sustainable world order” we mean some grossly legitimised set of rules and institutions presiding over the solutions to the many conflicting issues in production and distribution that may arise among nations, then one needs to look directly at institutions working at the world level. International bodies could

effectively contribute one way or another to the mediations that are required to contain antagonisms and contradictions stemming from the great variety of nations under consideration. The international organisations built on the international agreements since 1945, because they were created decades ago in the specific situation of the end of the Second World War and at the beginning of the Cold War, are likely to be inappropriate to deal with the new stage of internationalisation and cannot be considered as relevant coordinators. These global actors have evolved and diversified, including not only new international institutions but also non-governmental organisations (NGOs) and social movements, as well as multinational firms that have firmly established their international grid.

Part 4 of the book has also shown that such mediations did not take place in a world of serendipity. They have to be read in a context marked in the first place by the opposition between East and West that structured international relations during the whole Cold War period and has left a strong legacy in international relations until today. This does not imply, however, that nothing has changed. New phenomena have emerged following the end of the demise of the socialist bloc such as the international spread of terrorism and of organised criminal activities. It follows that the world order in the making cannot be seen as one of *doux commerce*, mediated by the stabilising actions of international players. It is marked by power relations as well as by zones of indeterminacy and challenges. Our conclusion will only attempt to give some of the traits of this new configuration.

14.1 Issues raised by the extension of "finance-led regimes" to all developed economies

The move towards finance led-regimes can be dated back to the early 1980s. It constituted a major part in the shift towards neo-liberalism that Thatcher and Reagan promoted in the early 1980s. Beyond these prominent political figures lies a broad political consensus to fight inflation by all means, as manifested in the OECD McCracken report of 1977, in order to restore profits. The main objective was to get out of the profits squeeze, induced by wage increases and price rises of raw materials. Volker's strong monetary policy at the head of the Fed was the real spearhead of this anti-inflationary policy, largely followed by other OECD Governments and bound to have rapidly drastic consequences on developing countries. The rise in interest rates decided in the US by Volker was rapidly adopted in all OECD countries, increasing very significantly the income share of capital. But the new political consensus in the core countries did not stop at these strong monetary policies, it embarked on the wholesale revision of the mode of governance of Western economies. Very revealing of this "global" change in the approach to economic issues is the impact of the publication in 1979 of *Free to Choose* by Milton and Rose Friedman. It immediately constituted a reference of neo-liberalism for the vast majority of decision makers in modern developed economies. In the same spirit, authors like Hayek claimed that the world had become too complex to be run on such crude principles as the Keynesian ones. Lucas, in assuming rational expectations on the part of the agents, demonstrated the inefficiency of the old Keynesian policies when agents are informed and rational. Crozier et al. (1975), criticising bureaucracy, gave a broader multidisciplinary base to the attack. Foundations and think-tanks such as the Heritage Foundation in the US were created at the turn of the 1980s to develop this rhetoric against State intervention. Markets in the mid 1980s came to be seen as the only relevant modes of organisation in complex modern societies. The stagnation and increasing difficulties of the socialist world in the1980s strengthened this idea.

The chapters in the first part of the book argued forcibly how this new setting led in various countries to the implementation of finance-led growth regimes, which provided the developed economies with similar institutional changes concerning deregulation of financing systems, development of privatised pension funds, and supports to venture capital schemes. Investigating some of the conditions under which these concomitant changes may coexist internationally is an important step towards assessing the overall viability of such finance-led regimes and recalling the strains put on the trajectories of some countries trying to catch up with the new model.

What the diffusion of the finance-led model requires

The diffusion of finance-led models is tightly linked with the trend of liberalisation. It implies a new balance between financial capital and industrial capital, giving pre-eminence to financial criteria in the governance of firms. To facilitate such trends, financial systems had to evolve, and three types of reform had to be implemented, according to the examples presented in Part 1.

The liberalisation process was particularly observed in:

i) Banking rules, which were tightly regulated after the Second World War, following the financial crisis of the 1930s, segmenting banking activities, in most countries and especially in the US, where branch banking was not allowed.

ii) Stock markets rules, to enable such markets to become major ways to channel regular financial flows, stemming either from wages (such as pension funds, supposed to play a key role in such intermediation, see Aglietta in Chapter 1) or from profits (with the big issue raised by Chesnais in Chapter 2 of whether or not stock markets can help to reallocate funds for investment).
iii) venture capital, mixing technological and financial competences in order to finance innovative projects at an early stage (with the difficulty, encountered in countries with a less developed financial sector and described by Coriat in Chapter 3, of organising this intermediation).

Needless to say, all these institutional changes aimed to put local and foreign competitors on the same footing. But this international diffusion *per se* generates some contradictions that threaten the very stability of the system under consideration. The bulk of these contradictions can basically be reduced to two factors: 1) the diversity of modern capitalism in the developed world, which conditions strongly the processes of institutional changes and therefore biases the tight competitive process between developed trade partners 2) the magnitude of the shock for developing countries, forcing them away from development modes so far largely based on cheap borrowing and large indebtedness, and forcing them to adopt the so-called Washington Consensus which imposed a restrictive and highly politically problematic financial discipline.
These contradictions are the source of conflicts and crises which hamper steady growth at world level and call for more effective global governance.

The contradiction raised by the diversity of developed capitalisms

The reforms designed and enforced to facilitate the diffusion of the model of finance-led growth were implemented in the 1980s and 1990s in developed economies that function very differently. As rich economies, they were potential candidates to adopt more finance-led modes of development, but they were embedded in broadly different institutional systems of coordination. It is valid to question the ability of "coordinated economies" to adapting to the new model of governance as successfully as market economies (Hall and Soskice, 2001; Panitch and Gindin, 2004). A bias seems obvious, leading to the conclusion that market-based economies possess an advantage in a process of international liberalisation accompanied by a strengthening of financial criteria in the exercise of management. There are good reasons for this. A major one is that market forms of organisation look *a priori* more reactive to external changes than forms of coordination which are either informal (and therefore slow to change, being rooted in history) or formal, and then often linked with public interventions, which are presently *non grata* and cannot therefore easily rejuvenate themselves.
If institutional patterns matter, then it is certainly too simplistic to think in terms of a dichotomy. In effect the diversity of capitalism is more wide- ranging. The dual characterisation put forward by Hall and Soskice leaves a category of non-market economy largely undefined. On the basis of data analysis of institutional patterns from a sample of some 20 countries, recent Regulationist works identified at least five types of capitalism (see Amable et al., 1997; Amable and Petit, 2001). They are presented in table 14.1 and distinguish: a market-based model (mostly English-speaking countries), a Nordic model (Scandinavian countries), a model for continental Europe (including France and Germany), a Mediterranean model and an Asian-meso corporatist model (Japan and Korea in the sample of OECD countries under review). One may expect therefore that the adjustment to the neo-liberalist trend will differ for each type of capitalism.
Not only can we expect the trajectories to differ, but the timing of these liberalisation trends, although universal and featuring in most policy agendas, may well be more "advanced" in some countries than in others. The diversity of capitalism thus conditions both the nature and timing of the adjustment towards greater liberalisation. Countries in adjusting their financial systems to the new canon are running various risks, all the greater in that they start from a more bank-based system. Changes may affect the consistency of the institutional context, either because they are radical and at odds with the existing institutional complementarities, or because they give way to developments that end up with similar radical outcomes. Changes may also be too limited and mild, failing to adapt the systems to the new requirements. The notion of institutional complementarities, which has recently been developed by a number of authors such as Aoki (2001), and forcefully by the Regulation School, plays a central role in the understanding of the plasticity of institutional changes. Two institutions are said to be complementary when their coexistence improves their respective outcomes. It accounts for the resilience of some settings where institutions support the working of each other and also for the difficulty of innovating successfully within a short time horizon.
All these distinctions could be of minor importance if these financial systems had not been subjected to severe competition in a more open world of transactions. Table 14.1 (column 1) stresses in effect that during the 1990s

the developed economies have consistently reduced all restrictions on external transactions, ending up with few differences between countries with regard to the degree of liberalisation of external transactions.

Such a context of open competition both forces and favours reallocations of capital for which financial systems are in competition. To be competitive in this process requires some adjustments for these systems to become more reactive and risk-taking. The fact that some of them cannot adjust rapidly because of both the magnitude of the change required and the stickiness of national institutional fabrics, exacerbates the tensions and biases the processes of institutional changes, all of which dampens the growth process of the trade zone.

Table 14.1 Institutional indicators

Type of capitalism	1	2	3	4	5
Market-based					
Australia	0.4	1.2	93.9	106	-
Canada	2.2	1.0	77.4	126	0.27
United States	0.9	1.1	51.6	182	0.63
United Kingdom	0.4	0.5	133.7	203	0.65
Norway	2.2	2.2	-	42	0.15
Nordic					
Sweden	0.8	1.7	79.9	156	0.55
Finland	0.6	2.3	60.6	270	0.3
Denmark	0.5	1.9	55.1	60	0.3
Mesocorporatist					
Japan	1.0	1.8	135.8	105	-
Korea	1.7	2.7	-	76	-
European Integrated					
Germany	0.5	2.7	159.9	68	0.17
France	1.0	2.7	114.9	103	0.2
Belgium	0.6	2.7	156.9	75	0.27
Ireland	0.4	1.1	160.8	46	0.5
Netherlands	0.5	1.8	170.6	177	0.45
Mediterranean					
Spain	0.7	2.2	125.5	72	0.16
Portugal	1.1	2.1	155.5	59	0.15
Italy	0.5	3.3	97.6	62	0.18
Greece	1.3	2.7	88.7	163	0.03

Column 1: degree of regulation of international business transactions, barriers to trade and investment
Column 2: degree of regulation of domestic business transactions; 1998
Source of Columns 1 and 2: Nicoletti et al. (2000), constructed using experts' scores from 0 (extremely liberal) to 6 (extremely strict regulation) for the various fields
Column 3: Domestic credit by deposit banks as % of GDP, *IMF International Financial Statistics Yearbook,* 2001
Column 4: stock market capitalisation in % of GDP1999, *Unesco World Development Indicators,* 2001, Table 5.3.
Column 5: Venture capital in % of GDP1999 (OECD, 2001, p. 47)

In a more open world, the first pressure to reallocate capital stems from the competition of countries with much lower unit costs. It forces them to move upwards in trade specialisation and to restructure their production processes, which implies among other things delocalisation of activities to take advantage of lower unit costs. This trend manifests itself in rapid de-industrialisation, understood as a reduction in the share of manufacturing employment. Rowthorn and Coutts (2004) have shown the steady and universal magnitude of this decline of the share of manufacturing industries in employment in the developed world, down on average from 30 per cent in the 1960s to 15 per cent in 2000. The trade effect is not the only factor in this shift: changes in the pattern of consumption in favour of services, as developed economies become richer, also contribute to the trend (see Table 14.2). The spread of the information and communication technologies is indirectly responsible for a large

part in that shift in patterns of consumption. This classic definition of de-industrialisation linked to the decline in manufacturing employment shares should not be misinterpreted. It may well be accompanied by a rise in the share of manufacturing in GDP if the restructuring of activities has led to a large shake-out of unskilled jobs (following the skill bias hypothesis on the contemporary structural changes). We shall see in section 14.2 that shares of manufacturing in GDP have evolved differently from country to country.

Table 14.2 Explaining de-industrialisation 1992–2002

	Change in % share of manufacturing employment	Due to internal changes	Due to external trade	Due to other factors
United States	-4,0	-3,4	-1,8	1,5
European Union	-3,7	-2,8	-1,0	0,0
Japan	-5,1	-2,9	-1,3	-0,9

Source: Extracted from Rowthorn and Coutts (2004), Table 14.2.

Under this double pressure of external trade and internal structural changes, developed economies are forced to reallocate capital on a large scale at sectoral and international level. The wave of mergers and acquisitions that took place in the late 1990s at international level shows the magnitude of this trend.

To adjust to this challenge, countries with a more market-based financial system are able to react more rapidly. But they also do so on a basis that could lead to more substantial restructuring of production processes and delocalisation. Conversely, countries with more bank-based financial systems are not at ease to move capital rapidly to new fields inside or outside the country. Yet the competition leads them to take new risks that are not well controlled in their own system (engaging in bad loans, accepting high levels of indebtedness and paying extra interest rates to compensate a relative deficit in financing liquidity).

Both types of national system thus seem to run different types of risks. Both may deteriorate in the process, with market-based economies becoming even more footloose, with a more rapidly increasing de-industrialisation, and bank-based systems becoming more and more locked into positions of insolvency.

The changes in the manufacturing trade balances of developed economies reflect how pressing these new risks are. The increasing competition from countries with low unit costs in standardised productions together with an increased mobility of capital exacerbates the competition between developed economies in the trade segment of high-tech products and specialised services in which they are led to specialize. Overall the trade balance of the developed world declined from the 1980s onwards, but while this trade balance did not show any big decline over this period for most of continental Europe, it presented a huge decline in the UK and in the US (with deficits down 3 per cent of GDP in 2002). Such deficits cannot be sustained unless the countries attract foreign capital to reduce the deficits in terms of their balance of payments. In the 1990s the US did not succeed in stabilising its balance of payments (-5 per cent of GDP in 2003), while in the UK the deficit was half. This is not sustainable. Countries in that position, if they want to avoid being pushed into some economic crisis with sharp devaluation and recession, either have to restore their trade balance or make sure that capital flows will come and support their balance of payments. Therefore competition also increases between developed economies to attract foreign capital and support current account of balance of payments. But the attractiveness in that respect at a worldwide level is a more complex combination of "competitiveness" of financial places and of global trust linked to larger geopolitical considerations. This is a complex issue that involves all countries and the order prevailing at world level, to which we shall return in the next section.

So far, our first point is to underline that the spread of finance-led regimes among developed economies by increasing the mobility of capital in a more open world exacerbates the competition between them in high-tech product markets (goods and services) and in capital markets. More intense conflict over intellectual property rights is one aspect of these tensions on high-tech markets, where the rents of innovation have to be defined.[1] Environmental issues are other causes of tensions. In section 14.3, considering the diffusion of alternative demand-led growth regimes (with limitations of their own) helps to show, by contrast, to what extent the development of new fields is made difficult by finance-led regimes, and more especially by the asymmetry between financial systems.

As a matter of fact, the asymmetry between market-based and bank-based financial systems seems to be getting even worse. On one side, deregulation and the computerisation of operations in stock exchange markets in the 1990s led to strengthening the hierarchy between places and therefore the competitive advantage of market-based systems. The creation of new markets in high-tech stocks further pressed in the same direction. On

[1] Negotiations in the WTO on the TRIPS (that started in Marrakech in 1995).

the other side, the response of "less liquid" bank-based systems, which were put under strong pressure, tended to increase some of their defaults (more bad loans, more uncontrolled indebtedness, as was illustrated by the cases of Germany and Japan). Finally, the systems tended to diverge, with "market-based" systems improving their strong hold on capital markets while "bank-based" systems were becoming more trapped in bad positions, and all the shortcomings in terms of dampening of growth dynamics that such divergence brings. Was such evolution unavoidable?

Poorly performing adjustments

In mentioning what seems to be a growing divergence of systems, one is struck by the inefficiency of all the adjustment measures taken in order to come closer to the new reactive and liquid finance model. It is easier for all bank-based systems to turn into predominantly market-based systems (where a hierarchy of financial places has proved to be highly resistant) than to adapt to the new environment.

Bank based financing systems could have become more reactive and liquid and developed the new financial instruments expected by the agents. But such moves seemed to require both time and coordination, while the modernisation of marketplaces took place in a decentralised manner, reproducing and strengthening spontaneously the old hierarchy of financial places.

The shift in international banking regulations, from Cooke ratios to Basel II rules, could be seen as a precondition for the adjustments that bank-based systems could achieve, but it took place only in 2004 and its impact at the time of writing remains uncertain. One could mention in the same perspective the setting of new international accounting norms for IAS (International Accounting Standards) listed firms. These accounting norms play an important strategic role because they give instructions on such crucial matters as the consolidation of industrial groups (leaving out or keeping in activities in deficit), the valuation of intangibles (such as trade marks and goodwill) or the provisions for identified risks.[2]

Countries with bank-based systems could have attempted more radical adjustments towards creating more reactive and liquid financing systems. These may have resulted from a strong liberalisation policy or from unexpected evolutions on the path of incremental reforms. France is one such country. It ended up with a major reform of its financial system, starting with a liberalisation meant to retain, through cross-sharing schemes, some of the traditional ties between large public firms. The original scheme of cross-shareholding was supposed to maintain some sort of public tutelage, an important characteristic of the French coordinated economy. Coriat, in Chapter 2, assesses both this bold change and its failure, as the cross- privatisation of major public enterprises (the noyaux durs strategy launched by Balladur, Prime Minister at the time) rapidly broke into pieces and opened the Paris stock market to foreign investors more than anywhere else, London excepted.

One should acknowledge that the adjustment of market-based systems also displayed weaknesses and shortcomings, with severe adverse consequences for the overall dynamics of economic growth. The premium given to liquidity and reactivity increasingly led to rather adventurous transactions, ranging from what was called euphemistically innovative finance to outright frauds. The financial scandals that burst in 2002 after the collapse of the stock markets deeply affected confidence and reduced significantly the advantage attributed to market mechanisms. Strong reactions to restore confidence and prevent fraudulent behaviour are vital in that respect. It is the main point of the strict measures of control (Sarbanes-Oxley law) taken in the US in late spring 2002, even if one can doubt their efficiency when they increase the personal liabilities of managers rather than strictly regulating to encourage more risk-averse behaviour.

A cyclical change of model?

So far we have stressed the biases and tensions induced by the international diffusion of a finance-led growth regime in a world composed of diverse types of capitalism. But the whole impact could simply imply a reversal of the ranking between the most and the least successful countries. It may look as if the overall slow growth of the developed world was just mirroring a change of hierarchy, with the praised models of yesterday (Japan and Germany) becoming the laggards of today, and conversely the US and the UK, the lame ducks of the previous periods, changed into the new role-models of today.

We have also claimed, on the other hand, that the lack of a catching-up mechanism dampened the overall growth of the subset of countries under review. In the new unbalanced growth pattern, some types of capitalism find it difficult to adjust to the international standards of modern finance. Their own system was centred on some specific embeddedness of bank relations, maintaining structural differences, which exacerbated the conflict of interests these countries had in organising the new markets in which they compete.

---

[2] These IAS norms, adopted by the EU, will remain in competition with the FAS accounting norms of the US. Moreover their interpretation and use will differ in a context of common law and in a context of Roman law, all the more so that IAS are based on principles while FAS were based on strict rules.

Looking at the institutional structures of these developed economies confirms that even if some general trends mark the development of a new financial sphere, countries remain distinctively different in terms of their own combination of bank based or more market based characteristics. Table 14.1 (columns 3, 4 and 5) shows that by the end of the 1990s degrees of liberalisation of banks as well as levels of development of stock markets or of venture capital remained quite different among countries.

National policies of liberalisation of the financing systems as well as collective actions to level the playing field (such as the definition of international accounting rules or the concentration of stock market operators, as exemplified by the creation of Euronext) did not help much to bridge the gap which, as we just stressed above, is a major cause hampering a growth dynamics in the more open world in which all the countries under review are partners.

However persistent, the above contradiction raised by the diffusion of finance-led regimes among the developed world would have remained secondary, if major imbalances had not occurred at the same time between developed and developing countries, clearly stemming from the spread of this financial logic. This diffusion led to large shocks and to financial crises, which severely undermined adjustments of the institutional contexts in developed economies that could have coped with the shortcomings of an international diffusion of finance-led growth regimes.

14.2. Finance-led growth at the core imposes a new unsteady growth pattern at the periphery

The rise of neo-liberalism in the early 1980s and the increase in real interest rates that went with it (the Volcker shock) had immediate repercussions on the trajectories of developing countries. The situations of the various developing countries at the time determined how they fared. For heavily indebted countries it meant a large increase of their debt burden, which unbalanced their growth pattern and forced them to comply with the recommendations of international bodies to liberalise their economy and to open their markets.

Liberalisation was not so much a choice of internal politics for these countries as a policy externally imposed by the creditors and above all by the IMF. The neo-liberal perspective that inspired all the packages of policy recommendations came to be known as the Washington Consensus. It was applied across the board to all debtor countries regardless of the local political feasibility of the packages, therefore too often leading to social unrest and financial vulnerability to external shocks. Latin American countries are good examples of this trend.[3] The debt burden first trapped them in high inflation and very slow growth (the lost decade),[4] then in highly unstable growth paths due to an extreme sensitivity to external "shocks" of their financial market.[5] The search for a remedy led them sometimes to extreme measures, such as fixing parities with the US dollar, as did Brazil and chiefly Argentina with its experience of a currency board, which collapsed in 2002. Chapter 9 by Miotti and Quenan recalls the tragic trajectory of Argentina during this whole period.

But the impact of the neo-liberal turn in the developed world was not limited to countries which were heavily indebted at the beginning of the period. For the other developing countries, the neo-liberal wave led in the medium term to reducing their choice of a development model to an export- led growth pattern with no borrowing facilities, therefore forcing them to attract foreign direct investment in order to accumulate the capital required to build up a manufacturing base. Liberalisation policies appeared then as necessary conditions to attract foreign capital. But it was by no means a sufficient condition to become a successful exporter on the world market.

Finally, most developing countries were in the process put under the whip of liberalisation policies and financial discipline. Only countries that had by the early 1980s already constituted an industrial basis for a sustainable model of development have been able to avoid this pressure. Indeed East Asian countries (the four tigers) offered at the time an example of such autonomy. They became successful exporters of manufactured goods and benefited from the liberalisation of trade at a worldwide level. It has been widely recognized since then that this East Asian miracle was not at all a product of liberalisation, but on the contrary the result of various models of public intervention, whether around large firms as in Korea or small firms as in Taiwan. It

[3] Not to mention countries or regions (such as sub-Saharan Africa) which are too weak and of too little weight to have an impact on the global economy.

[4] The Latin American debt crisis was initiated by the Mexican debt moratorium of August 1982, the first international debt crisis in 50 years.

[5] See (Kozul-Wright and Rayment, 2004) for relative comparisons of growth rates and coefficients of variation over the periods 1960–80 and 1980–2000 by regions. Latin America shows for instance between 1980 and 2000 an average growth rate of 1,5 per cent with a larger coefficient of variation neighbouring 2 per cent while the same figures for Asia are respectively of 4.5 per cent and 0.3 per cent !

does not mean that these countries escaped the negative impact of the global neo-liberalist trend. The blow became obvious with the East Asian financial crisis of the late 1990s.

BOX 14.1
International debt crisis: Lessons from Latin America and East Asia

1) Latin American debt crisis
- Myopia of lenders: after the rise in oil prices of the 1970s
- Mexico moratorium in August 1982 stopped competition between megabanks to lend money (especially to Latin American countries.
- Rise in interest rates in the 1980s led to a series of debt moratoria, renegotiations and adjustments programmes to competition.
- Lessons drawn by the World Bank (1997): financial opening and cross border financial flows entail macroeconomic and financial risks but these are manageable and alternatives would be worse.

Meanwhile Minsky stressed that the volatility and reversibility of capital flows make economies receiving systematic capital inflows increasingly vulnerable to bad news, downturns or shifts in investor opinions.

2) The East Asian crisis
- The economic successes of East and South East Asia attracted a large amount of cross-border financial flows.
- Speculative runs begun in July 1997 against local currencies in Thailand and in Indonesia.
- The pressure of speculation moved to South Korea, the Philippines and Indonesia, with enormous impacts on currencies and local stock market prices: in 7 months currencies lost 87 per cent of their value in Thailand, 83 per cent in Korea, 231 per cent in Indonesia; stock market prices reduced respectively by 48 per cent, 63 per cent and 82 per cent.
- Longer-run effects followed affecting Taiwan's equity market and then spreading speculative attacks to Brazil, Russia and Turkey.

Lessons drawn by the World Bank (1998) were more cautious than a year before. The causes are not uniquely linked to the weaknesses of domestic financial systems but also to imperfections of the international capital market open to contagions, liquidity crisis and panics. The IMF was still at the time blaming improper supervision of banking, lack of a fully developed set of financial instruments and institutions while UNCTAD was pointing at slow global macroeconomic growth and unstable "hot money".

3) Which future?
- The shocks have been spreading huge trauma in previously successful parts of the world. After the debt crisis of the 1990s and the burst of the bubble on stock markets in the 2000s views are more open to alternatives to the neo-liberal adjustments. Even market apologists are becoming more sceptical about the liberalisation of financial flows and restrictions on cross border capital flows (see review in Dymski, 2003).

Source: adapted from Dymski (2003)

Finally, one can see the impact of the neo-liberalist wave at three levels, corresponding to various phases of both development and different terms. At the first level, we find the developing countries already mentioned, which were engaged in the early 1980s in a development model based on external borrowing. They suffered at once from a massive increase in their debt burden. At the second level, we find countries not yet engaged in development, which have no other option in the neo-liberal world but to follow an export-led growth model, either self-financed (a lengthy and uncertain process) or financed by attracting foreign capital. This last development path is hazardous as it forces countries to undertake thorough programs of liberalisation in order to remain attractive to FDI. The third level comes at a later stage of development, when countries are sufficiently developed to generate their own capital and investment. This implies the development of a financial sector, which in the present context is bound to have some links with the world of international finance, e.g. with the most successful financial sectors that operate worldwide. But then being a weak part of the global financial system makes them vulnerable if there are external shocks. East Asian countries provide a good example of this.

A high investment effort has been a distinctive feature for a long time. They experienced very strong export-led growth, mainly time, on the basis of their own resources, plus in new NICs after the mid 1980s some FDIs of industrial firms of the region (chiefly Japanese and Chinese firms). Their financial sector was all along more of a bank-based type. Still, as a counterpart to their massive exports of manufactured goods, they have been urged by the WTO and by large debtor countries, such as the US, to open up their financial system and to develop their financial market. Although this internationalisation remained of limited scope, they became sensitive to speculative attack (especially the less developed East Asian countries).[6] The speculative run that followed the attacks on the Thai currency in the summer of 1997 turned within six months into a general East Asian financial crisis. This crisis, spreading rapidly in the whole regime, illustrated the potential dangers of a globalised, yet strongly hierarchised financial sector.

What we learned from this crisis of the late 1990s, as well as from the successive annual financial crises that occurred in the 1990s (Box 14.1), is how shocks at one point in the global financial system unevenly affect its various parts. The overall resilience of the international system has been praised many times, but this is more true of the centre than of the periphery, which often paid a high price in cushioning the blow. Moreover, the East Asian crisis reacted on the financial systems of more developed countries of the region, which were put under pressure and suffered all the more from this challenge that they were less market-based and therefore less able to react quickly to such emergencies. Good examples of such difficulties are the impacts that the East Asian crisis, originating in Thailand, had on the bank- based financial systems of Japan and Korea. Chapter 8 by Coriat and Geoffron accounts for these damaging impacts on the Japanese and Korean financial systems and for the policy of further liberalisation that follow. Reactions have been even more chaotic in the transition countries, where brutal liberalisation of the economies led to instability and high exposure to external shocks, as argued in Chapter 10 by Chavance and Magnin. There the crude approaches to market economy gave a basic role to criminal networks in the primitive accumulation of private capital, as Sapir stresses in Chapter 12.

All of these give a good illustration of built-in instability conveyed by a neo-liberal globalisation of finance, in which less developed countries and less market-based financial systems are bearing more risks than developed economies with market-based financial systems. In that sense, financial crises have been chronic in the new context, with localised effects that contributed to a highly praised overall resilience benefiting economies of the core with market-based financial systems, at least until the fall in stock market prices in core countries that started in spring 2000 – and which was completed in autumn 2001 by the dampening effect of September 11.

The regionalisation processes

The development of regional integration processes is part of the previous history. In the aftermath of the Second World War many regional agreements had been sketched with various political contents. These accords were mainly motivated by geopolitical reasons; their aim was to maintain peace and alliances in a world that was organising itself around an East–West split and where the Cold War was taking shape. Most of these regional agreements had little content beyond this demarcation line between East and West. Only in Western Europe did this union, intended to keep the peace in a Europe which had just been devastated by war for the third time in one century, turn into an economic union – first a common market from 1957 onwards, which became an economic union after the Single Act in 1992. The general trend towards regionalisation that we want to stress in this book is of a different kind, even if most naturally it began on the premises of these early political alliances.

The new turn in international relations brought about in the 1980s by increased trade liberalisation in a context of overall financial liberalisation left countries, as we mentioned above, with a unique pattern of export-led growth development, which no longer relied for its financing on borrowing from lenders (who had ceased to be myopic) but on FDI. Such financial support, which complements what the economies can finance from their own savings, is vital for economies with relatively low savings rates to be competitive in the new environment[7] and depends on the attractiveness of the economies under consideration. All the regional integration processes that developed were a means of adjusting to the new challenge of internationalisation and can be termed defensive integration (see Higgott, 1999). FDI flows organised themselves on a such regional basis (see Hirst and Thompson, 1996) due to the existence of traditional commercial links and to geographical and institutional proximities, though in most cases the regions in question include countries with various levels of development and unit costs. Therefore the development of regional FDI can be seen as a way for developed countries to adjust to the challenge of competing with low unit-cost countries.[8]

---

[6] See the role of the Chinese networks investing from the old NICs to the new NICs in the 1990s as well as rerouting part of these FDIs to China after the financial crisis of 1997.

[7] This reliance on FDI is crucial for many countries which do not have the high savings rates of East Asian countries, despite the fact that relative to domestic investments, the flow of FDI remains modest, as stressed by Sutcliffe (2003), with the ratio of FDI to domestic investment in developing countries rising from 5.7 per cent in 1990–95 to 13.4 per cent in 2000.

[8] Such is not the case of Europe, which till the 2004 enlargement, represented a region where countries had rather similar levels of development (Petit, 2002).

The forms taken by these various regional integration processes are, however, quite different. Though they are more or less formal common markets or economic unions, their political support and perspective may vary greatly. In the case of East Asia, for instance, much of the regional process was started by industrial firms, which delocalised the more standard phases of production to less developed neighbouring countries. The feature of "flying geese" is quite revealing of the hierarchy existing between countries, both as to the kind of division of labour that took place in the region and to the instability of these arrangements, with some countries lagging behind while others were overtaking or attracting competing FDI from other zones (such as the US in the electronics industry in East Asia). FDI flows, even in productive investments, are still rather volatile and turn to any new opportunity to reorganise the production processes at a world level. In that respect China at the turn of this century did capture an unusually large share of these flows to the detriment of other countries; this was one contributing factor to some of the debt crisis that occurred in countries where the inflow had been reduced.

Thus, although FDI flows do form a regional mapping for a time, they remain quite unstable. The financial crises of the late 1990s clearly showed this fragility. Countries in East Asia, for instance, have been willing afterwards to give more formal and political support to these integration processes in order to protect themselves against financial speculation. Japan was not in a position to offer such financial protection, being itself trapped in liberalising its own system. The question of more committed and targeted regional processes thus remains on the agenda. But the experience of a more advanced regional integration process such as the European Union (although started in a different context) leads to some scepticism about the capacity of a regional union to solve the question of adjustment to the new international context. In Chapter 7 Boyer shows the difficulty of proceeding on financial issues with a group of nations that differ both in terms of institutional background and in terms of level of development. To be successful, regional processes have to be well adapted to the global environment. If any initiative requires some rigid formal agreement of all partners, the responsiveness of the union to external challenges will be low and will severely limit its growth potential. This seems to be the situation created by the Maastricht Treaty in Europe, which clearly, from the experience of the early 2000s, has to be made more flexible to bring back some growth momentum.

However, in a world where financial criteria have become so overwhelming in the conduct of firms and nations, such flexibilities are not well received and may be taken as a sign of weakness. Regions are therefore poor players on the global scene and it is difficult to expect that their concerted actions could lead the world economy to some proper global governance. Somehow a global change is required for regional processes to become more responsive and innovative.

14.3 Changing international relations and the construction of a new world order

Growing disorder

All in all, the balance sheet of the spread of neo-liberalism and finance-led growth over the last two decades of the twentieth century is rather grim. It increased the tensions at all levels, among developed economies by turning their diversity into a disadvantage, in developing economies by putting them on a narrow growth path, very vulnerable to external shocks. The overall slow growth of the world economy fuelled financial crises. Few people are now pretending that these crises are linked to too little liberalisation of some national financial systems. The tensions are feeding both actual and future conflicts. The period under review has seen the fall of the Berlin Wall and the demise of the socialist bloc in which some authors, like Fukuyama, saw the end of history. It was soon clear, however, that it has not brought a long era of peace. The conflicts in former Yugoslavia were a swift reminder. In the Middle East the conflicts that flared up in the early years of the twenty first century already appear as routine, as a part of a world (dis)order that is not only regulated by the *doux commerce* but where imperialisms also have their say.

When compared with the tensions of the Cold War period, however, many conflicts are bound to be of very different nature, as many forms of violence in the contemporary world are the direct consequences of the fragmentation of some states stemming from the new neo-liberal global context. A comprehensive view of the transformations of international relations must look at them in a longer-term perspective, recalling the structure of power during the Cold War and how the hierarchy of the time is maintained and rearranged in the present period. It would remind us that the defence industry remains a key player in the worldwide division of labour and power. Developed economies are not only competing in the new fields that we mentioned (such as intellectual property rights, environmental rights, etc.) but also in the field of armaments. The institutions of warfare, in other words, still feed off industrial societies, as can be seen with the continued mass production of weaponry in various state-protected military-industrial sectors.

Chapter 11 by Schméder recalls this often neglected dimension and the obvious contradiction which leads the US – the paragon of neo-liberalism praising reductions in budget spending and tax cuts – to follow at the end of

the day a rather Keynesian model of public military expenditures.[9] As a matter of fact, the Congressional Budget Office projected a federal budget surplus of $172 billion for fiscal year 2003, which was transformed by the military expenditures in Afghanistan and Iraq into a deficit of over $400 billion. It is not a pure coincidence, but looks more like the cost of keeping order in the global governance that stems from the worldwide spread of the neo-liberal finance-led regimes. On top of the growing trade deficit of the US in manufactured products (which is one aspect of the de-industrialisation process that we mentioned earlier), its public budget deficit together with the low savings rate of its households in real terms,[10] all contribute to a rising deficit of the current balance of payments down to 5 per cent of GDP in 2003. Keeping order has its counterpart, which may explain the paradox that no developing country would be allowed the deficits that the US is running. One would have expected the revenue from investment abroad and in particular the repatriation of profits by multinationals, to make a positive contribution to the current balance, limiting strongly the impact of the trade deficit. Yet (Dumenil and Levy 2004) clearly show how from 1980 onwards the income received by the US has been growing less rapidly than the income sent abroad, bringing this net source of revenue down to zero by the end of the 1990s with both income paid and received close to 4 per cent of net domestic product. It is difficult then to see how the present deficit in the current balance of payments of the US can be sustained (see Rowthorn and Coutts, 2004; Godley, 1999) unless one thinks that part of the inflows of capital are directly linked to its order-keeping role. In that respect this imperial type of world governance appears to be dangerously disorderly.

For how long will such a huge deficit in the current balance of payments, which corresponds to massive inflows of foreign capital and massive increases of foreign ownership in the US, be considered to be tolerable? In the effective present mode of governance at a world-wide level, there have been various attempts to share the burden and the financial costs of military expenditures, whether by central pressures on Governments, such as during the Gulf War of 1991, or whenever the missions are under the responsibility of the United Nations. But it is clear that the US view of its role as enjoying some autonomy to intervene militarily when and where it wants to is not universally shared. Moreover, the Iraq War is an illustration of how dangerous the American hegemony can be.

If one looks at what made such a situation financially possible, we see three sources of capital inflows into the US. First, the attractiveness of its financial places, which remain at the top of the hierarchy, notwithstanding the globalisation of financial markets, which was supposed to suppress borders and geography. The second is linked to the internationalisation of a large part of national elites, which not only tend to support actively the neo-liberal trend but also invest their own wealth in the US, not just in equities but also in real estate and in various economic activities.[11] This modern internationalised bourgeoisie not only acts like well-informed investors but also in many cases sees the US as a kind of safe for their possessions, less speculative than fiscal havens and the like but more reliable in the long run (Chavagneux, 2004; Van der Pijl, 2003). The third source of inflows is linked to the international role of the dollar and to the habit of some central institutions to invest in some of the US financial instruments, backed by the trust in the dollar in the long run. Japan has been famous for such recycling, while China is building up enormous reserves in dollars. Nor should we forget the role of the petro-dollars, with wealthy people of the ruling class in the Middle East being certainly some of the largest foreign owners in the US,[12] nor the investments by the new mafias of the transition countries.

Obviously none of these sources is steady, legitimate and can sustain the type of current balance deficit that the US is running.[13] This hazardous dependence is a central question that weakens the present system of global governance and may facilitate the development of alternatives.

The challenges of worldwide developments of demand-led growth regimes.

---

[9] In 2001, e.g. before the Iraq War, the military spending of the US was already of some $281 billion, as against $109 billion for the UK, France and Germany together.

[10] The savings rate of households in the US declined from 10.6 per cent in 1984 to 1.6 per cent in 2001, a widespread phenomenon, although less marked than was observed in the English-speaking countries (UK, Australia, Canada, New Zealand), but also in Japan, Korea, as well as in Mediterranean countries (Italy, Portugal, and Spain), even Finland, and Belgium, according to a recent OECD study.

[11] In that respect the speculation of real estate prices and the expected burst of the speculative bubble should also be part of this account of the global disorder.

[12] Among which the importance of the Saudis has attracted much attention as the annual meeting of the Carlucci fund, specialised in arms production and where Saudis hold key positions, happened to occur on 11 September 2001.

[13] One has to notice, though, that the role of superpower has always been rewarded with an extra premium on returns: investment of the US abroad, which it did more extensively than others (50 per cent of investment abroad compared with other financial investments, as against 20 per cent for other developed countries between 1952 and 2001) earned steadily from 1952 till 2001 an extra 4.7 per cent over the return that foreigners got in the US. This figure surprisingly has not changed with the new wave of neo-liberalism! (Dumenil and Levy 2004).

We now turn to another question: who does benefit from the prevalent financial regime and which alternatives can be considered? We have to consider once more the country where the model is the most developed: the US.

First we have to recall that the predominant role played by the US does not simply rely on the relative weight of its economy or on the power of its financial sector. Neither does it stem centrally from its military power, though it remains a major factor of the US hegemony, even after its role was reduced after the end of the Cold War. In contemporary conflicts, armed forces are difficult to use for peace-keeping on the ground, and in Iraq the US has largely demonstrated its limits and the need to adopt more cooperative and politically sound schemes than the ones it adopted in the first place. More crucial in confirming *de facto* the US as a superpower and in enlarging the range of its active propagandists have been the actions of US multinational firms, which have developed an impressive network around the world.[14] Their supremacy in the list of the most important actors in terms of both revenues and key high-tech sectors is impressive.[15] They have organised a major shift for the US economy, transforming it from an industrial economy into a tertiary economy. The challenge faced by all developed nations has in the case of the US been met at a larger geographical level and on a larger sectoral basis.

Overall the transformations during the period are clearly revealed in the new nature and composition of the trade flows:

i) Integration of the developing countries in the trade in final or intermediate goods; in 1973 the breakdown of merchandise exports from developing countries was close to 20 per cent manufactured goods, 20 per cent agricultural products and 60 per cent minerals and fuel. By 1999 these figures had become 65 per cent, 10 per cent and 25 per cent, respectively.

ii) Rise in the share of goods re-exported by multinationals in trade (from 34 per cent to 44 per cent in the last two decades of the twentieth century).

iii) Rise in the share of trade between developed economies.

Not only do the US multinational corporations organise these new trade patterns that accompany the modern "de-industrialisation" of developed economies, where nearly 80 per cent of employment is in services, but they also clearly influence the rules of trade and the setting of norms through all kinds of lobbying (see for instance Hall and Biersteker, 2002).

But this power of US multinationals benefits the US to the extent that these companies have not become footloose in the process. Clearly, headquarters, research centres and lobbying activities have remained predominantly based in the US. They also earn revenues that are close to 4 per cent of GDP even if the revenues paid reach a similar amount.

In the way they handle the process of de-industrialisation, helping to keep down the prices of final consumer goods for all consumers as well as the price of energy and to maintain the return on equity investment for rentiers and pensioners (forcing up the prices of stocks in general and high-tech stocks in particular), they form an essential part of the system.

Aglietta in the first chapter insists on the consistency of a finance-led regime when the financial capital supports a broad-based system of pension. Added values on stocks also boost consumption (a wealth effect that is reversible).

Here we want to add that the support brought to the US pattern of consumption by a finance-led regime is broader than just the wealth effect linked to an increase in the income of rentiers. This may explain why a financial regime that *a priori* is of little concern for any but a minority of wealthy citizens has not been radically discarded in a democratic country. Many people appreciate the low prices of most final goods, the low price of energy and the new financial instruments including stock market appreciation.

But the advantages offered by the shift to a tertiary economy, heavily promoted by big business, also has many drawbacks. The volatility of the financial benefits is certainly one of them, as is the pressure put on the prices of products of developing countries (even if the movements in favour of fair trade are confined to minorities). One of the major drawbacks has to do with the rise in inequalities that accompanies the above pattern. It stems partly from changes in the distribution of incomes, as the growth of service jobs has increased both the quality range of jobs and the number of jobs with few or no prospects that are relatively less well paid than before. This phenomenon is particularly marked in the US (where the rise in inequality is the greatest of all the OECD countries, see OECD, 1997).

This trend towards a wider range in quality of jobs and in wages (see the rise in the earnings of CEOs on one side and the rise in the number of working poor on the other) has also had an enormous impact on the structure

[14] Their total revenue amounted in 2001 to some $21000 billion, employing 7 million persons, see Hanson et al. NBER 8433, August 2001.

[15] Out of ten high-tech multinational companies (software companies excluded) seven are American: Intel, IBM, Cisco Systems, Dell computer, Texas Instruments, Applied Materials and Hewlett-Packard. The three non-American are respectively Nokia, Taiwan Semiconductor and Ericsson.

of the services developed in this tertiary economy. While the number of menial jobs has led to a quality of personal services that is often praised, it has also led to systems which function neither efficiently nor equitably in important domains such as health and education. Reforms are difficult to undertake in these fields. It is not only a matter of financial resources but also of knowledge, personal willingness and goodwill. The notion of public good has lost ground in the process of liberalisation and needs to be revived. Our societies are divided in that respect and express a strong desire to redefine their well-being and to control the evolution of undetermined market forces.

Among the private agents in the making of a new global governance, one finds a lot of NGOs with specific goals to protect or upgrade our environment and consumption patterns. While there is a growing need for accountability, economic agents are required to take into account an extended circle of externalities tied to their decisions. This goes beyond the ecological claims and the actions of consumers' associations, which remain marginal precisely because their claims are more or less covered by the common law. It passes into the current debates, litigations and decision-making processes concerning daily life, the quality of goods and the responsibilities over time and space. New rights are emerging concerning health hazards, information requirements, and citizens's rights (regarding for instance cases of discrimination). All these trends, underlined in Chapter 4 by Petit, are important, as they are part of the same matrix of transformations, leading to tertiary economies in an age where treatment and diffusion of information are developing to an unprecedented level. The drive for greater accountability towards stakeholders is at the root of many rules, in the financial sphere as in all domains of daily life.

While the transformations in the realm of finance have been pushed forward by a set of agents with an international reach, in the domains of consumption and ways of life, the objectives have been much more fragmented and uncertain. These objectives – being employed, having access to some minimal and qualitative norms of consumption, having an occupation and a quality of life that allows self-fulfilment – are not likely to come out as some big programme or grandiose ideology, but as results of lengthy learning processes involving trial and error, through which a new conception of citizenship will emerge. This shift from "to have" towards "to be", which is the central issue dealt with in Chapter 6 by Théret, reflects a move towards more hedonistic demands. This trend is likely to conflict with the neo-liberal approach that is underlying the finance-led regime, since each corresponds to a different understanding of welfare. While the notion of welfare is purely conservative and Paretian in the finance-led regime, in the other it encompasses capabilities *à la* Sen, taking into consideration not only what people have or have access to, but also how they can use what they have, together with growing concerns for justice in income and knowledge distributions.

Another difference is the notion of public goods. Neo-liberalism has severely reduced the scope of the issue, by considering only problems of monitoring old public services, when the debates must also address new fields and new objectives. Such *aggiornamento* is crucial in societies where the use of services – including in health, education and leisure – will be continuous in daily life, and where the great bulk of employment will be in services. The future of any demand-led regime depends on how the political debates, at both national and international levels, will seize these issues and develop arguments and propositions so as to gain full support for its completion. The debates in Europe around the so-called "third way" (Blair's approach) have touched upon some of these issues, but have in most cases focused only on labour markets (Petit, 2002). These debates helped at least to make clear a major factor that hampers the formation and international diffusion of any demand-led regime: the (lack of) compatibility of the national priorities in the EU members.

As for the finance-led regime, the difficulty for any demand-led regime to spread internationally stems from two sources: (1) the diversity of capitalisms among the developed economies; (2) the absence in developing economies of some of the main themes of the demand-led growth regime.

The diversity of developed economies is clearly a factor hampering the development of common objectives to foster demand-led regimes that are compatible at international level. The debate over public services in the EU illustrates this shortcoming: with so many different approaches to the issue, it has been difficult to come to any agreement in the White Paper on public services, other than reaffirming some principle of subsidiarity (e.g. leaving member countries to specify requirements in accordance with their traditional approach to the issue, provided that there is no contradiction with the recommendations already made in some fields to open them up to foreign competition). The European Constitution project has presented a similar position. Certainly regarding the scope of public services, there is a wide gap between the traditions of, let us say, the Scandinavian countries and the UK (not to mention the US or Japan). But even between countries like France, which has a comprehensive but very centralised approach to the issue, and the Scandinavian countries, which have much more decentralised systems, the gap is difficult to bridge so as to agree on common objectives. The difficulty of giving some precise content to the social model that the EU wants to put forward is revealing of these divergences.

The complementarity between institutions in each national setting further complicates the issue of finding common objectives. There is still less chance of finding common denominators that would help to set up at world level a leading coalition of general interest. Some issues can however be shared, such as rules on environmental issues. Some new specific principles can also be shared in crucial domains, such as intellectual

property rights, in which a fair balance could be established between the early inventors, their competitors and followers, and the users. But it is quite difficult, even when looking only at developed economies. To agree on the rules of open competition while leaving room for manoeuvre to public interventions is certainly where progress is most difficult, as the processes of regional integration have shown. Whether the international institutions such as WTO can help remains an open question (at least for some actors, see below).

When it comes to developing countries, the possibilities to move forward internationally in the direction of a more demand-led growth regime are even more doubtful. The main reason is that "demand-led" tends to be thought of in terms set by developed economies. This appeared clearly, for instance, in the negotiations on environmental issues. In the Kyoto agreement the specific needs of developing countries were taken into account by instituting selling rights. Another field of disagreement concerns the content of social clauses that ban trade in goods produced with slave or child labour. The extensions to restrict "unfair" wages and the lack of industrial democracy are obviously dividing lines. The failure of the WTO round of negotiations in Cancun showed not only a classic opposition of interests on agricultural trade between developed and developing countries but it also stressed the division among the developing countries – between the big producers of the Cairns group and the poor least advanced countries.

The only significant move to take into account the needs of developing countries in this demand-led direction would be attempts by NGOs to promote fair trade, but these remain the concern of small minorities. This disregard for the interests of developing countries is all the more striking when one considers the structure of the costs of any of the consumer goods sold worldwide in the developed world. The example much quoted[16] of the price structure of Nike sports shoes is emblematic for its worldwide relevance. In most developed economies a pair of Nike Air Pegasus is sold for around $70, of which $2.75 goes to the worker who makes it. If one adds the other production costs (raw materials, equipment, warehousing, transport) the cost of production of a pair of Pegasus shoes for Nike rises to a total of $16. Once the proper costs of Nike (promotion, management, storage) are included, the pair of shoes is sold to the distributors for $35.50. The retail price is then advised by Nike to avoid competition at the distribution end that would be detrimental for such an expensive logo! No wonder that this example can be repeated many times with the large flows of consumer goods whose production in the 1980s and 1990s have been relocated to developing countries in various waves in the search to keep down the equivalent of the $16 of basic production costs. Even in pure market-based terms of action, there is room for more positive adjustments in the terms of trade. But if countries, whether developed or developing, are trapped in local contradictions as they seem to be, can one expect changes to come from the international organisations, direct actors of global governance?

International institutions and global governance

The construction of global governance seems to be at a turning point. The many shortcomings of the international spread of finance-led growth regimes, in the aftermath of the neo-liberalist wave that has been propagating since the early 1980s, have been widely recognized by such leading figures as J. Stiglitz. We have underlined in the various contributions in this book how these shortcomings developed at various levels.

First within the tensions between developed economies, where the new model not only altered old hierarchies of successful national models but also meant that the diverse capitalisms had difficulties in adjusting to the new deal: market-based systems risking more and more footloose moves in manufacturing without developing at home a sound basis for the development of a fully tertiary economy; coordinated economies putting in danger their old system in order to keep up rapidly with the new requirements for a responsive risk-taking financial system. The forced involvement in this shift of developing economies increased the overall instability, exacerbated the tensions, even between developed economies, in leading to the use of old imperialist power relations when *doux commerce* relations were supposed to govern international relations. Even so, the system seemed unsustainable, with problems in current balance of payments leading to a major contradiction between the growing importance of foreign ownership in the US and the more and more authoritarian imperialist way the US administration is ruling the world. The diffusion of more demand-led growth regimes as an alternative to this dangerous trend also has its own inherent limitations. The diversity of capitalisms is here a problem when no strong centripetal political forces can help with the definition of new common goals. This applies to the relations among developed economies as well as between them and developing economies.

The hardship of nations in the present phase of internationalisation comes precisely from this difficulty in developing alternatives, which would take world governance beyond the very short and dangerous path given to the world economy by the diffusion of finance-led growth regimes. At the national level, alternatives are somehow disqualified by their strictly national range, while at the international level they are limited by the difficulty to define and programme their objectives. The NGOs as well as the international institutions give this impression of being unable to work out global schemes in which a cumulative process could take place which

[16] This famous example is here taken from (Cohen 2003, p. 93).

would help to set common targets on the basis of feedbacks at national levels. The contributions to this book have shown that regional processes can help in that direction but cannot fully do the job, for the same reasons as national organisations. Solutions thus have to be found at a global level, even if it has to be in close interaction with the Nation-States which still constitute so far the basis for the legitimacy of any international arrangement. The NGOs have understood this dimension, with comparatively few of them operating at regional level. The question of the role of the existing international bodies in a post-Washington consensus period is raised.

The lessons from past errors have more or less clearly been learned (see Box 14.1 for an illustration of the well-known difference between the reactions of the World Bank and of the IMF). But unsustainable deficits in some balance of payments of large partners, as well as the development of criminal practices as recalled by Sapir in Chapter 12 in the case of transition economies but which plague the whole world, whether via laundering drug money or funds to support terrorist activities, will certainly impose thorough reforms of the most "rigorous" financial institutions. The change from GATT to WTO is also important. The new logic for settling disputes, although very much in line with what is practised in countries using common law (which are mainly market-based economies), is grounded on rights while the overall finance-led system has evolved towards arbitrary rules and power relations. All these constitute opportunities for a change away from the liberal ideology that underpinned the construction of world governance so far (see van der Pijl, 2003). But we are by no means in the situation prevailing in the aftermath of the Second World War, when a common legitimacy of public intervention developed around similar premises (leading to the various Keynesian conventions).

The various contributions to this book have detailed the intricacy of the present stage. At the national level political debates are still very narrowly and unrealistically centred on local issues, which contribute to discrediting politics and politicians. It will take time before political issues debated at national levels can really interact with the stakes debated at international levels. The experience of the regional integration processes is very telling in that respect: national issues are overwhelming and bias the debates, strengthening the democratic deficit that plagues the regional constructions. NGOs, which are mostly globally oriented, tend to bring back some of these international issues, but lack comprehensive and precise visions. We are in a transition phase of definition and legitimation of these common values and goals, which are required to facilitate democratic international coordination in the construction of a new world governance. It is an evolutionary process: it means that we are not going to reach some kind of golden age but to head towards some less short-termist, unilateral and authoritarian world governance. The more we develop relevant analyses of the process, the easier it will be to have relevant political debates on a global governance more respectful of the needs and capabilities of countries and people.

References

Aglietta M. (1998), "Capitalism at the Turn of the Century: Regulation Theory and the Challenge", *New Left Review*, n°232, November-December.

Amable B. (2003), *The Diversity of Modern Capitalism*, Oxford University, Press.

Amable B., Barré R. and Boyer R. (1997), *Les systèmes d'innovation à l'ère de la globalisation*, Paris, Economica.

Amable B. and Petit P. (2001), "The diversity of social systems of innovation and production", Working Paper Cepremap, no. 0115, Paris.

Aoki M. (2001), *Towards a Comparative Institutional Analysis*, Cambridge, MA, MIT Press.

Arestis P. and Sawyer M. (eds) (2001), *The Economics of the Third Way*, Cheltenham, UK and Northampton, MA, USA, Edward Elgar.

Boyer R. (1986), *La théorie de la regulation: une analyse critique*, Paris, La Découverte.

Boyer R. (2000a), "Deux défis pour le XXI siècle: discipliner la finance et organiser l'internationalisation", CEPREMAP *Couverture orange*, no. 2000/08 (in Spanish in *Revista de la CEPAL*, no. 69, December, 1999.

Boyer R. and Drache D. (eds) (1996), *States against Markets: The Limits of Globalisation*, London, Routledge.

Boyer R. and Saillard Y. (eds) (1995), *Théorie de la régulation : l'état des savoirs*, Collection Recherches, Editions, Paris, La Découverte.

Bustelo P. (2003), "Enfoque de la regulacion y Economia Politica Internacional: paradigmas convergentes"? *Revista de Economia Mundial*, no. 8.

Chavagneux C. (2004), *Economie Politique Internationale*, Paris, La Découverte, Repères.

Cohen D. (2003), *La mondialisation et ses ennemis,* Paris, Grasset.

Crozier M., Huntington S. and Watanuki J. (1975), *The Crisis of Democracy*, New York, New York University Press.

Duménil G. and Lévy D. (2004), "The economics of US imperialism at the turn of the 21st century", roneo.

Dymski G.A. (2003), "The international debt crisis", in J. Michie (ed.) *The Handbook of Globalisation*, Cheltenham, Edward Elgar.

Friedman M. and Friedman R. (1979), *Free to choose*, New York, Avon Books.

Godley W. (1999), Seven Unsustainable Processes: Medium Terms Prospects and Policies for the United States and the World. Strategic Analysis. Annandale-on Hudson, N.Y., The Levy Economics Institute.

Hall P.A. and Soskice D. (eds) (2001), *Varieties of Capitalism*, Oxford, New York, Oxford University Press.

Hall R.B and T.J. Biersteker (2002), *The Emergence of Private Authority in Global Governance*, Cambridge UK, New York, Cambridge University Press.

Higgott R. (1999), “Economics, politics and (international) political economy: the need for a balanced diet in an era of globalisation”, *New Political Economy*, 4 (1).
Hirst P. and Thompson G. (1996), *Globalisation in Question: the International Economy and the Possibilities of Governance*, Cambridge, Polity Press.
Jessop B. (1990), “Regulation Theories in Retrospect and Prospect”, *Economy and Society*, 19 (2) 153–216.
Jessop B. (1997), “Twenty years of the (Parisian) regulation approach: the paradox of success at home and abroad”, *New Political Economy*, 2 (3): 503–26.
Jessop R. (2002), *The Future of the Capitalist State*, Cambridge: Polity Press.
Kébabdjian G. (1998), “La théorie de la regulation face à la problématique des régimes internationaux”, *L'Année de la Régulation*, 2: 101–27.
Kébabdjian G. (1999), *Les théories de l'économie politique internationale*, Paris, Seuil.
Kozul-Wright R. and Rayment P. (2004), “Globalization reloaded: an Unctad perspective” *UNCTAD Discussion Papers*, no. 167, January.
Lash S. and Urry J. (1987), *The End of Organised Capitalism*, Cambridge, Polity Press.
Lipietz A. (2001), “The Fortunes and Misfortunes of Post-Fordism”, in Albritton R., Itoh M., Westra R. and Zuege A. (eds), *Phases of Capitalist Development: Booms, Crises and Globalizations*, London, Palgrave.
Marglin S. and Schor J. (1990), *The Golden Age of Capitalism: Reinterpreting the Postwar Experience*, Oxford, Clarendon Press.
Maurice M., Sellier F. and Silvestre J.J. (1982), *Politique d'éducation et organisation industrielle en France et en Allemagne*, Paris, PUF.
Michie J. (ed.) (2003), *The Handbook of Globalisation*, Cheltenham, Edward Elgar.
Nicolletti G., Scarpetta S. and Boylaud O. (2000), “Summary indicators of product market regulation with an extension to employment protection legislation”, Economics Department, Working Paper no. 226, Paris, April.
OECD (1997), *Income distribution and poverty in selected countries*, Paris.
OECD (2001), Science and Technology Scoreboard, Paris.
Palan R. (1998), “Les fantômes du capitalisme mondial: l'économie politique internationale et l'école française de la régulation”, *L'Année de la Régulation*, 2: 63–86.
Palan R. (2000) (ed.), *Global Political Economy, Contemporary Theories*, London, Routledge.
Panitch L. and Gindin S. (2004), “American imperialism and Eurocapitalism: the making of neoliberal globalization”, *Studies in Political Economy 71/72*, Ontario, Canada, Autumn 2003–Winter 2004.
Petit P. (2002), “Distribution and growth: can the new left deal with the neo-schumpeterian Accord?”, in Arestis P. and Sawyer M. (eds), *The Economics of the Third Way*, Cheltenham, UK and Northampton, MA, USA. Edward Elgar.
Rowthorn R. and Coutts K. (2004), “De-industrialization and the balance of payments in advanced economies”, *UNCTAD Discussion Papers,* no. 170, May.
Ruccio D.F. (1990), “Fordism on a world scale: international dimensions of Regulation”, *Review of Radical Political Economics*, (21) no.4: 33–53.
Sutcliffe R. (2003), “A more or less unequal world? World income distribution in the 20th century”, Working Paper Series, 54, Amherst, MA, University of Massachussetts, Political Economy Research Institute.
Van der Pijl K. (2003), “Structures and determination in contemporary global change: modes of production and modes of foreign relations”, Paper for the Conference on Regulation, Paris, 9th October.
Vidal J.F. (2002), “International regimes”, in Boyer and Saillard (eds), *Regulation Theory: the State of the Art*, London, Routledge.
Vidal J.F. (1998), “La régulation et l'international : remarques sur l'article de R. Palan”, *L'Année de la Régulation,* 2: 87–100.