GLOBALIZATION AND CANADIAN SOCIETY: RHETORIC OR REALITY

by

PETER ROBERT URMETZER

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Department of ANTHROPOLOGY AND SOCIOLOGY

The University of British Columbia
Vancouver, Canada

Date August 27, 99
Abstract

Over the past decade, the topic of globalization has infiltrated both public and academic debates. The aim of this dissertation is to investigate whether the growth in the discussion of globalization is justified by an equivalent increase in the interaction of economies. The focus of this dissertation is on economic globalization and specifically how it affects Canada. Evidence of cross-border 'flows' is presented in three parts. One, the trade of goods is traced from Confederation (1867) to the present, showing that contemporary levels of trade are not unprecedented. Furthermore, the data reveal that the bulk of the increase in Canada's trade since the Second World War has been with the United States. There are also strong indications that as the economy is becoming more service oriented, it will also become less trade dependent. Two, statistics on foreign direct investment (FDI) reveal that foreign ownership in Canada is at an all-time historical low. Three, the stock of portfolio investments (stocks and bonds) owned across borders is also not, historically speaking, at particularly high levels. Overall, when foreign direct and portfolio investment are combined, the data show that only a small percentage of Canada's wealth is owned by foreign investors and, likewise, only a small portion of Canada's wealth is located outside of its borders.

Another claim found in the globalization literature is that the nation state is weakening or disappearing altogether. However, once subjected to scrutiny, this claim, too, is difficult to sustain. Government expenditures have increased dramatically since the Second World War and show few signs of abating. For the fiscal year 1996/97, government expenditures amounted to approximately half of the Gross Domestic Product (GDP), indicating a general levelling of expenditures since the mid-1970s. More importantly, the globalization literature has unfailingly ignored the welfare-state side of government spending, arguably the most significant development in the political economy of the nation state in the 20th century. To bridge this gap, three sectors of the welfare state -- education, health, and social services -- are examined in detail. Lastly, an alternate explanation for globalization is put forward. Capital, it is argued, has made a concerted attack on the welfare state, utilizing high interest rates and high unemployment to discipline labour. Although having suffered a few scratches and dents as a consequence, the welfare-state has resolutely endured.
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INTRODUCTION

The concept of globalization has been the subject of considerable commentary and speculation among academics, politicians, and the general public. It has successfully been used as a 'catch-all' term to explain everything from rapidly changing communications technology to increased unemployment. Globalization has also been perceived as an overwhelmingly powerful force, so powerful not even governments are able to escape its grip. In this new global era the nation-state is, we are told, fast becoming an antiquated institution. Often considered only a minor player in the global economy, its actions are thought to be reactive rather than proactive. Yet despite its purportedly pervasive and unrestrained power, the empirical foundations of how globalization has affected Canada remain weak and largely unexamined. Through a detailed examination of Canada's foreign trade and investment patterns, as well as an assessment of government involvement in the economy, this thesis challenges claims made about both the power and novelty of globalization, especially as it affects the nation state.

Globalization has proven attractive precisely because it provides a plausible explanation for many of the changes that Canadians are able to observe: the onslaught of consumer products manufactured abroad, persistent and high unemployment, expanding computer technology and global communication, and a seemingly interminable string of trade agreements including NAFTA, APEC, GATT and the WTO, and the MAI. As a whole, these developments appear as irrefutable evidence of the "coming down of borders" and end-of-nation-state arguments made by both globalization advocates and opponents alike. On the other hand, after ten years of globalization newspeak (according to Orwell, language
designed to diminish the range of thought"), Canada seems to be pretty much intact and, if anything, with the close outcome of the last Quebec referendum, the more pressing issue this country is facing is more borders, not fewer.

Nevertheless, terms like 'global economy' and 'globalization' remain not only an incessant feature of the news but are also widely discussed among a broad range of disciplines in academia. In this respect, contrasted to recent academic debates on post-Fordism, post-modernism, and post-industrialism, globalization is unique. Despite ample exposure, the concept has come under little scrutiny. For the most part, and this is true for both academic and public debates, globalization is widely accepted by both the left and right, leaving the validity of its premises often unchallenged. Consequently, people are generally accepting when changes such as welfare-state cutbacks and high unemployment are blamed on globalization.

One has to go no further than the local paper to find evidence of this uncritical attitude towards globalization. In a recent news story in the Vancouver Sun (February 21, 1998: B1), a poverty activist in New Westminster B.C. linked an increase in income inequality and

There are a number of prominent sociologists, Beck (1992) and Giddens (1994) among them, who are of the opinion that many of the problems we are facing today are 'beyond left and right'. In some sense this is similar to the 'end of ideology' thesis popular in the seventies and it is equally difficult to uphold. While some issues are beyond class factions, in particular environmental ones, this position is more difficult to sustain for matters economic. Rather, what has occurred is that the political centre has veered to the right, from a Keynesian to a Friedmanian consensus. The Canadian case serves as a good example. When first established, the C.D. Howe Institute espoused Keynesian economics, but was forced to take a "shift to the right" when the Fraser Institute appeared on the scene and started to compete for business funding (Ernst 1992). This neoconservative hegemony has forced the left to adopt policies of the right (see Rosenbluth 1992 on NDP B.C. budget). The fact that the left has recently embraced this platform does not mean that the issues of left and right has been transcended, only that the left have been overwhelmed by recent political and economic events.
A strong sense of inevitability permeates these reports. More often than not, globalization is presented not as a choice but a dictate. Reminiscent of Margaret Thatcher's famous decree "There is no alternative," globalization is offered as the only choice. In an article in the *New York Times* (February 7 1996:A15), Friedman compares globalization to a run-away train, an analogy which well encapsulates both its power and intractability. On a recent visit to Vancouver, Prime Minister Chretien echoed that sentiment when he surmised that "We cannot stop globalization. We need to...adjust to it" (*The Georgia Straight*, March 26-April 2, 1998:22). Taken at face value, these comments make globalization out to be a formidable force indeed. But to what extent are these observations valid? This is the central question driving this enquiry, to better understand the process of globalization and assess whether the theoretical ideas packaged within globalization are reflective of real life events or simply rhetoric used toward achieving certain ends.

Globalization escapes easy definition and I will spend some time looking at this problem, but for the moment I will define it as simply "society without borders" which captures both the physical and political aspect of the term (Waters 1995: 164). Related to the theme of a borderless society is the common perception of corporations becoming increasingly mobile and searching for profits outside of the industrial world, resulting in jobs moving from the first world to the third (e.g., Teeple 1995). This newly found power of capital is said to occur at the expense of the state, prompting many observers to predict the latter's eventual demise.

To what degree such a scenario is accurate is seldom documented, and when so, only partially; 'partially' meaning that figures are presented only for the post Second World War
period (e.g., Norcliff 1996). This is often the case for trade, arguably one of the most important strands of the globalization argument. Based on the logic that as trade goes up economic independence goes down, international competition is often used as a justification to cut social programs, lower labour standards, or roll back the state (e.g., Francis 1993). Escalating imports are provided as evidence that products from abroad, most often the third world, are rendering the Canadian economy uncompetitive. Labour and market conditions in these locations are much more favourable to investment, and in order to compete we have to match these standards. One very effective way of dismantling the globalization argument, then, is to focus on this most politicized aspect of globalization, namely production and trade. Extensive data will be used to provide a historical context for the Canadian economy in order to appraise whether it is indeed becoming more globalized.

Globalization as Ideology

Globalization is the natural end-point of a free market ideology that celebrates self-initiative and places the burden of responsibility on the individual. It pits everyone in competition not only with everyone else, but the world. Kafka could have well been talking about globalization when he warily commented that “when its you against the world I bet on the world”. In this sense globalization is the great equalizer as it treats everyone the same whether that person is the CEO of a large corporation or a migrant worker in India. In its most extreme and pessimistic version, a globalized society is one without borders, states, or regulation, the final realization of Hobbes’s state of nature where there exists a perpetual “war of one against all.”
But we are still a long way from this extreme manifestation of a globalized world, and here lies the crux of the argument of this thesis. Globalization is not a uni-directional force that mows down all borders and causes havoc around the world. For every trend that can be isolated supporting globalization, an equally powerful counter-trend can be found casting doubt on the globalization thesis. In the final analysis, globalization is not something that can easily be isolated or quantified (globalization 150; anti-globalization 148?). It is a force that is neither uncontested nor uni-directional. The weakest feature of the globalization literature is that it is marred by a hasty tendency to generalize from selective examples by focussing the light on developments that support the thesis while completely ignoring trends that counter it. Furthermore, it makes the assumption that the flows of goods, ideas, etc. only serve to undermine national borders not strengthen them. But the flows that globalize and break down borders can at the same time reinforce them. CNN is often used as an example of technology transcending national borders, but television is never mentioned as a tool that can be used by government to foster nationalism, thereby strengthening borders. The question whether international flows are matched by or even superseded by national flows is seldom considered. Yet national flows are the natural counterforce to the threat that globalization is supposed to present. Once this question is posed -- whether it concerns the flows of goods, people, information, culture, money, or capital -- the threat of trans-national flows that constitute globalization becomes immediately less intimidating.

One of the primary tasks of this thesis will be to present the other side of the story and bring to light some less explored counter-trends. This will consist of a history of Canadian trade, an analysis of the continuing and immense role of the state, and the changing role of
foreign direct and international investments. The other focus of this thesis will be on dismantling the political rhetoric that underlies it, a point which I will briefly discuss next.

**Globalization and Language**

Globalization is not merely an unbiased description about where the world is headed but brings with it many assumptions about where the world should go and what must be done in order to get there. These assumptions -- sometimes explicit, most often not -- are mostly about the free market and the efficient allocation of resources. Based on the expectation that government interference only serves to distort market mechanisms, social programs are shunned. It is this type of message that is meant to be conveyed by most business accounts of globalization, revealing the considerable social power that can hide behind a word like globalization.

Raymond Williams (1983) has convincingly argued that words play a key role in constructing our social lives. These words are not only reflective of the world, but can also play a role in shaping it; rather than describing reality, they take part in actively structuring social relations (Dehli 1993: 87). Such “key words” are often full of assumptions, often left unsaid because they appear too commonsensical to require further explanation (Fraser and Gordon 1997). Precisely because they are not questioned, these words become all the more powerful in their impact. Thus they are adopted into common discourse, leaving underlying social relations invisible (Smith 1990:93). This makes social agency invisible -- it just happens, it is immutable, nothing can be done about it, no one is to blame. Globalization easily qualifies as a key word, and one of my primary tasks will be, besides challenging the
concept itself, to examine the assumptions and social relations that underlie it, as well as to expose who will benefit if the concept is left uncontested, and as importantly, who is likely to lose.

Globalization can even more accurately be described as a ‘code word’ -- the use of “family values” is often recognized as such and can serve as an instructive analogy. This pithy and seemingly innocent phrase, promulgated foremost by the political right in the United States, lies at the bottom of a political agenda that makes all kinds of assumptions about the gender composition of parents, the correct roles for male and females, and probably most important, the relationship between the family and the state. While the political rhetoric of family values has successfully put a positive spin on this, it is essentially about severing state responsibility. This translates into cuts to government funding for single mothers, the mentally ill, the sick, the unable, the unemployed (but not the military). Even a seemingly unrelated problem like drug addiction is left to the family, meaning ‘family values’ can serve as justification to cut government initiated programs such as job creation or drug rehabilitation. In short, a code word like ‘family values’ is rife with assumptions about social relations and has as its target anyone who depends on government assistance. This, of course does not affect everyone equally and can be interpreted as an indirect attack on women (who are forced to take up the slack when the government no longer funds programs that care for the sick and elderly) and Afro-Americans (in whose communities unemployment and single motherhood is high).

In a similar fashion, globalization makes all kinds of assumptions about the role of workers, the market, and the political process in general. As a code word ‘globalization’ has
been used successfully to convince people that market forces are not only powerful but also the best way to manage social and political problems. In short, the state, in both normative and practical terms, can no longer be counted on to intervene. Globalization thus provides a justification for economic setbacks such as high unemployment, social program and wage cuts. Similar to family-values, globalization also has specific targets: workers, who are forced to contend with lower wages and fewer benefits, the state, and social programs.

In a recent Starbucks strike in Vancouver, unionization was resisted by the coffee giant because there was no place for the inflexible ways of a union in "the new global economy" (The Vancouver Sun May 17, 1997). Of course, there is nothing new about this as business has always opposed union involvement; however, the justification for this opposition is new. The Starbucks ad clearly illustrates the larger point made in this thesis: that the balance of power between capital and labour and the state has not fundamentally changed over the past few decades. Business has always been powerful, the state continues to be so, too, and both are more powerful than labour, especially when they join forces. What has changed is that many people have become convinced that the global economy has rendered national politics ineffective and, furthermore, that any demands for fair treatment on behalf of workers or minorities must remain unanswered.

There is, however, one notable difference between family values and globalization that requires elucidation. Most politically astute observers become immediately suspicious when they hear the word "family-values" and rightfully question the political agenda that hides behind its use. And this is so for good reason. Of course, family values in themselves are not a bad thing -- nobody rallies against family values _per se_, only against its political agenda. In a
similar way, it is not so much my intent to deny that globalization exists, only to strip it of its false political authority. In some instances, globalization, as in communications or travel, may be a perfectly useful term. Neither am I arguing that large corporations or the attack on the welfare state are not a threat. What I am arguing is that behind the word ‘globalization’ hides a political agenda that, like ‘family-values’, is loaded with a myriad of political and social assumptions many of which are highly questionable. The purpose of this thesis is to examine these claims and assumptions.

Organization of the Thesis and Research Question

Before presenting an outline of what this dissertation is about, it is worthwhile to note what it is not about. This thesis does not examine in any detail the movement and migration of people, the monopolization of capital, the impact of technology and mass communications, or the convergences of cultures. These are all, no doubt, important and interesting arguments but space just does not permit a discussion of the ‘globalization of everything.’ I will briefly discuss some of these topics throughout the thesis wherever relevant, but they are not the focus. This thesis also does not go into detail about how the ideology of globalization is promulgated. The reader should also be reminded that this is a study primarily, as the title makes explicit, about how globalization – and in particular the globalization of the economy – has affected Canadian society. An always protean world economy has various effects on different countries and each country’s experience is in some regard unique. If anything, these

\footnote{For work that deals with issues on the economy and ideology see the work of Marchak (1988 and 1991).}
differences point towards continued divergence within the global economy. Lastly, I realize that in some instances the globalization argument does hold true: the manufacturing of textiles and clothing, assemblage of computer hardware, tele-learning, and free trade-zones such as the Maquiladoras in Mexico. But these examples are, as will become evident throughout this thesis, the exceptions. As we shall find out, most of what Canadians consume is made within Canada's borders and this will likely continue for some time. The reason for this is simple. An economy is the combined commercial activity that takes place within a politically defined area, usually a country, and not some abstract entity that can be separated from the people who live in that country. Without people there is no economy.

Now some details about what this thesis is about. In Chapter I we will examine some of the problems associated with defining globalization. Globalization is often ill-defined, if at all, and I will attempt to untangle the various strands and interpretations of what the concept means to different authors; whether it is a good thing or a bad thing, cause or effect, whether it should be embraced or shunned. Is globalization a new wine in old bottles, a process previously understood within the rhetoric of imperialism, colony and empire, world systems, or capitalism? The chapter will first summarize some of the more popular definitions and then explore the differences and commonalities between popular and academic definitions. The argument that globalization has strong political overtones will provide the theme for this chapter.

In Chapter II we will further examine the historical roots of 'globalization'. Although the word 'globalization' is of relatively recent vintage, the idea that capitalism uses the globe as its stage has a long and illustrious pedigree. The fact is that present-day conservatives are
making observations that are remarkably similar to those made by communists a century and a half ago, a point not without its irony. Marx and Engels wrote about the globalizing tendencies of capitalism extensively in the middle of the past century and it will be shown that the general tone of the contemporary literature on globalization is very similar to that of the Manifesto, leading one to ask “What’s new?”

In Chapter III, building on the historical precedent of the world economy, I examine literature, primarily from economics but also from sociology, that traces the origins of the ‘global economy’. In one important sense ‘global’ is a matter of degree, and from that perspective the world economy has never and will probably not be wholly global until the political dynamics change. Large portions of the world, such as Africa and most of Latin America, continue to lie outside of it. But in as far as the world economy can be said to be global, it has been this way for at least 170 years, its patterns of trade forged centuries before that (Maddisson 1995; Wallerstein 1974).

Canada, particularly when compared to the United States, has always been an open international trading power with a relatively open economy, first as a key colony to Britain and, then, an economic satellite to the United States (Clement 1988: 76; Williams 1988). This suggests that globalization is not new for Canada. Globaphobes are concerned primarily about imports from the low wage countries, prompting us to ask who this trade is increasing with. Sorting out these international flows will be the primary task of Chapter IV. There is convincing evidence presented by the American economist David M. Gordon (1988) indicating that the world economy, at least in terms of production and trade, has not changed that dramatically in the past few decades. Similar to the approach taken by Gordon, I will
examine trading (export, import) for Canada from Confederation (1867) onward. This will entail tracing Canada’s trade over the past 130 years, identifying both the origin and destination of these products.

The increasing amount of foreign direct investment (FDI) flowing around the world is also often presented as evidence that borders are coming down and that the world is becoming globalized. The logic behind this argument is that corporations in the first world are moving to the third world and taking advantage of lower, primarily labour, costs. Foreign direct investment is also considered an appropriate indicator of globalization because it usually involves a long term commitment, especially in contrast to stocks and bonds which may only stay in a country for days or even hours. Canada occupies an interesting place in the world of foreign capital in that it has traditionally been the number one recipient of FDI in the world. Where does this FDI originate and how much does Canada invest in other parts of the world? In other words is Canada a destination as well as an origin of FDI? In Chapter V, I will also examine patterns and changes of FDI on the world basis, where it is going, and where it is concentrating (in manufacturing, real estate etc.).

Many writers (e.g., Daly and Cobb 1994) have commented on the distinction between the financial and productive economy. The argument is that the financial economy (stock and bond prices, currencies, credit) is no longer reflective of the productive or industrial economy. In Chapter VI, I will examine how these two economies diverge, and what is at the basis of this convergence. Currency speculation is one of the more obvious threats associated with globalization and this topic will be discussed in detail. As an alternative, it will be argued, that debt has increased to the degree that it has put a drag on the whole economy.
The overall emphasis of economic globalization is on political fallout that is going to follow in its wake, primarily its effect on the state. This conclusion is reached by commentators from various vantage points: left, right, business, political, and academic. Much of the globalization argument is based on the observation that as corporations are no longer constrained by borders, national borders will fall. But has government indeed become that powerless over the years? Chapter VII will take a sober look at the role of the state and examine expenditures dating back to 1933. Governments around the world started to intervene in the market in a dramatic fashion following the Second World War in order to stabilize the economy and avoid another depression. The argument in this section will be that the state continues to fulfill this role, and while this role is always changing and may sometime be threatened, these threats originate primarily from within the country.

It is difficult to sustain an argument that the world economy has not undergone any changes since the Second World War. If not globalization then what? Chapter VIII will provide an overview of the political economy over the past half century and examine various trends such as the profit squeeze, the lack of aggregate demand, and the switch from Keynesianism to monetarism. The argument will be that the economy is going through the very mundane processions of a contraction, and the chapter will assess how this one differs and compares with recessions in the past.

In the conclusion, I tie the evidence together and see what consistencies, or contradictions, emerge. We will revisit a typical definition of globalization and examine this in light of what has been learned in the preceding chapters.
"When I use a word," Humpty Dumpty said in rather a scornful tone, "it means just what I choose it to mean—neither more nor less."
"The question is," said Alice, "whether you can make words mean so many different things."
"The question is," said Humpty Dumpty, "which is to be master—that's all."

Lewis Carroll, Through the Looking-Glass

CHAPTER I
DEFINITIONS

Overview

In this quote, Alice in a conversation with the most famous egg in history could well be discussing globalization. The question we shall concern ourselves with in this section is whether the word globalization can indeed "mean so many different things" and which definition of globalization, if any, emerges as master. Globalization theories have become popular in both academia as well as among the general public, and I will argue that sociological theories have contributed to the political rhetoric in the public realm. The fact that 'globalization' has gained currency in both academia and politics is likely more than just coincidence, a point requiring elaboration. Scott (1997) has accurately distinguished between these two arenas as the political project and diagnostic analysis. The latter, based on the German Zeitdiagnose, refers to social science debates that focus on culture rather than economics (I will refer to this school as the cultural strand from hereon in). Furthermore, Scott raises the very important question about the connection between the two and whether the cultural debate has inadvertently bought into the political rhetoric of globalization, thereby bolstering the legitimation of 'global talk'. I will argue that there has been enough bleeding between the two that a 'pure' theory of globalization is now untenable. Over its relatively short history, the term has become so ideologically sticky that it is no longer possible to use
the word without invoking its political imperatives of increased competitiveness and lean
states. To put it bluntly, the amount of confusion and ideology surrounding the term
'globalization' has rendered it useless as an analytical tool. It has been killed by its own
success.

To set the stage for this argument, I will first delineate contemporary definitions of
globalization and highlight their similarities and differences. Following, I will show how the
cultural and the political debates diverge as well as converge, and illustrate how the cultural
arguments contribute to the political project of globalization as a whole. Throughout, the
idea of globalization being something novel should be kept in mind. Scott's observation that
in cultural theory globalization serves as a Zeitdiagnose, an analysis of our times, remains
important because it cuts to the heart of whether globalization distinguishes our times from
the past.

Introduction

The word 'globalization' is of relative recent vintage, a situation which has led to a constant
redrawing of the semantic map. The introduction of new definitions, qualifications, and
details has made the task of containing what globalization means, and just as important what it
does not mean, an arduous one. While some authors are very specific as to what globalization
means, others have used it in a very generalized way. Still others may be critical of the
concept (e.g. Giddens), yet use it anyway. The most dissuading element by far is that
examples from various strands are fused together in a overwhelming flood of evidence. Like a
spilled bag of marbles, this onslaught is difficult to contain. As soon as one reaches for an
errant marble, others roll away. It does not appear enough to cast doubt on a particular strand of globalization, say production, because then questions about others forms of globalization are raised, say communication. In order to effectively defuse the globalization argument a counter-argument is needed that refutes all its strands, a futile endeavour indeed.

The fact is that the concept of globalization is more appropriate to some processes (e.g., communication) than others (e.g., movement of labour). Nevertheless, the premises and conclusions of the different strands of globalization are often conflated, leading to the conclusion that globalization is indeed a fact. Given these factors the globalization argument often appears unstoppable, for as soon as one concedes to one aspect of globalization, the flood of others follow.

This thesis is specifically concerned about the globalization of production and financial services and the ramifications this has on the nation-state, Canada in particular. One cannot, however, ignore the theories of globalization of culture which have currently gained popularity in sociology and cultural studies. Cultural theories of globalization are of course related in some ways of those of economics, but they diverge in many very important ways. First, we will examine popular definitions and then compare these to the cultural definitions.

Definitions

Nederveen Pieterse (1995: 45) writes that in the social sciences there are as many definitions of globalization as there are disciplines. I would take this as even a bit too optimistic and contend there are as many definitions as authors, indicating that even in a global world, there
is little consensus. Since the word is relatively new it has provided theorists, journalists, writers, and commentators with the opportunity to forge their own definitions. However, while the reasons for globalization vary widely -- they commonly encompass technology, communications, trade, production, financial services, and popular culture -- the conclusion is always the same, and that is the dismantling of borders and the decline of the nation state.

The vast majority of definitions of globalization are about economic globalization, and it is these I will discuss first. It is also here that the political imperative of globalization is most explicit. This literature includes contributions from many sources: governments, supranational organizations such as the World Bank and IMF, think tanks (both left and right), magazines, journals, and newspapers. Other aspects of globalization are sometimes discussed in the public sphere, the Internet being a particularly popular one, but the overall emphasis is on the economic aspect of globalization and the associated political fallout that follows, primarily the impotence of the state.

Often, these analyses are quite pessimistic. A common perception of globalization is that corporations are becoming increasingly mobile and searching for profits outside of the industrial world, resulting in jobs moving from the first world to the third (see, for example, Teeple 1995). The following account by Macdonald (1997: 174) is representative:

Globalization [is] the expansion of multinational corporations seeking larger markets and cheaper production sites; the increased mobility of financial capital resulting from deregulation of financial markets; and the reduction in states' barriers to the mobility of capital.

This newly found power of capital is said to occur at the expense of the state, prompting many
observers to predict the latter's demise, particularly with respect to welfare state services (a topic discussed in more detail in chapter VII below). Most criticisms from the left are primarily concerned about the increased and unchecked power of global corporations, which is purported to lead to the demise of the nation-state and a threat to democracy:

The process of globalization is reducing the power of governments to provide what their populations require all over the world. Transnational corporations and international capital have become de facto the new world government, and their increasing control over the global economy is underpinned by the free trade orthodoxy (Hines and Lang, 1996: 193).

More recent debates have meant to distinguish between a globalized and internationally integrated economy. The IMF defines globalization as “The post-World War II phenomenon of globalization --of increasingly close international integration of markets both for goods and services, and for capital” (Bordo et al 1997:112). However, Weiss (1997: 6) attempts to distinguish between the globalization and internationalization of the economy, writing that a truly globalized economy would weaken the state while an international one would merely change its role. Hirst and Thompson (1996) make a similar argument. They provide two models or ideal types, one of increased inter-nationalization which results in a changing role of the state and increased globalization which would indeed endanger the autonomy of the state.

The important point to note here is that the definition provided by IMF for what globalization is (increased integration) is identical to the one used by political economists to show what globalization is not. This distinction, between increased interdependence
orchestrated by nation states and globalization where supranational organizations (trans-national corporations, money) have usurped the nation state, has become crucial in academia. Unfortunately, this same distinction is glossed over in more popular accounts, which leaves globalization a much stronger force.

It should come as no surprise that business oriented observers see the weakening of the state as a positive development, one in which the market and consumer are kings. Here again the nation state is being squeezed out by local and global powers, and in this literature its demise is predicted in unequivocal terms. The best known proponent of this school is Kenichi Ohmae. The title of one of Ohmae’s books, *The End of the Nation State*, displays the confidence of this argument. Sociologists often dismiss these accounts as being too sensationalistic and lacking subtlety, especially that of an exaggerated version provided by Ohmae (see Robertson and Khondker 1998). Be that as it may, Ohmae is also by far the most widely read commentator on globalization, frequently published in the *New York Times* and the *Globe and Mail*, as well as being the author of a number of bestselling books. His version, which understands the power of the market overtaking that of the nation state is, inaccurate as it may be, also the version most people are familiar with. To downplay this account of globalization as inaccurate ignores what globalization means to the average person, to business people, and to politicians. Unlike Humpty-Dumpty’s interpretation of language, the meaning of a word is not something that is negotiated or decided among academics, but is derived at by popular usage, a measure of what most people take it to mean. By this criterion, based on the sheer amount and exposure of his literature, Ohmae’s argument easily wins out.
The Death of the Nation State

The end-of-the-nation-state conclusion is critical here. While the left and right evaluate these developments differently, both delineate the same sequence of events and reach similar conclusions. The left laments the state’s demise as the “end of social reform”, the right celebrates the superiority of the market, only too happy to bid adieu to regulation.

Regulation, it should be pointed out, concerns mostly progressive institutions such as social programs and minimum wage law, and not law and order kinds of regulation. As an example, Diane Francis, editor of the Financial Post, urges that Canada must dismantle its “cumbersome welfare state and political system” in order to become more competitive (1993: 86). The growing legislation that attempts to regulate trade and protect intellectual property rights and investors rights is willfully ignored in these scenarios.

What becomes apparent when reading various versions of globalization is that its popularity among both the left and right can be explained by the fact that it aligns perfectly with their already existing ideologies. For the right, free markets are seen as the saviour from loathsome government meddling, particularly in the form of the welfare state. For the left, on the other hand, free market solutions and a perceived growth of multinational corporations are identified as the enemy. Both are positions that have long been held by their respective parties. The very moment that free markets emerged, socialists and anarchists of all stripes began exposing its negative side. Fear of large corporations also has a long history. Writing in 1776, Adam Smith never believed that large corporations would be a threat because self-interest would become too diluted, an observation that was soon proven to be wrong.

Starting in the mid-1800s, Marx and Engels admonished of the power of multinational
corporations. Lenin (1939) identified monopoly capitalism as a final stage of capitalism. Writing in the 1930s, Berle and Means predicted a relapse into feudalism where large corporations would rule instead of kings. In *The Modern Corporation and Private Property* the two authors estimated this would occur sometime in the next half century. Writing almost four decades later, Baran and Sweezy's *Monopoly Capitalism*, popular among the left in the 60s, was an equally pessimistic analysis of the future of capitalism. Current arguments adhere to a similar line of argumentation, the only difference being the that they are now conducted in the context of globalization.

What is true for the left is also true for the right. The contemporary position taken by the right has been indistinguishable for centuries: free markets and no government interference. Starting over 200 years ago with Adam’s Smith very eloquent *Wealth of Nations* and his powerful metaphor of the invisible hand, any type of state interference or regulation has been seen as anathema by the right. This baton was later carried by von Mises, Hayek, and Popper and continues to find expression in the literature published by think-tanks such as the Fraser Institute in Canada and Kiel Institute in Germany. Interestingly, in *Road to Serfdom*, Popper holds out the same threat of a feudalism as do Berle and Means, the crucial difference being that it is not monopoly capitalism but socialism that is responsible for a regression to the feudal order.

For the left especially, 'globalization' can be thought of as a euphemism for 'capitalism'. With the collapse of the Soviet empire, political ideas associated with socialism have become less popular. As a consequence of this failure, the left could less feasibly present socialism as an alternative to contemporary capitalist society. Critiques of capitalism have
traditionally rested on the assumption that socialism would not exhibit any of capitalism's shortcomings such as huge wealth inequalities and resulting poverty. Socialism, as such, always existed as an alternative, if not explicitly then implicitly. But with the implosion of the Soviet Empire, socialism as an option has become less viable. Globalization has provided a way out: corporations and unfettered capitalism are still identified as the enemy, but socialism is no longer the automatic alternative. This lack of choice has also played an important, if not central, role in globalization. Teeple's (1995) work is a case in point. In his analysis of globalization, the alternative of a socialist or even social democratic regime is dismissed outright and the only choices he offers the left are, in the words of Woody Allen, between utter despair and hopelessness.

The story is diametrically different for the right in that globalization is not something to be dreaded but welcomed. In many ways it comprises a wish list for business: No government regulations, no welfare programs to protect workers, no borders to impede the movements of products and capital. The threat of mobility has come to serve as the perfect weapon against regulation and taxes in particular. Corporations and capital, it is said, based on market signals, naturally go to where return of profits is best. High wages and taxes are considered obvious disincentives to capital because they cut into profits, while low wages and taxes with little government interference are considered the only alternative. While such nostrums are as old as the market itself, globalization has provided legitimation for these concessions and thus further shifted the bargaining power of capital. Whether the threat of mobility is real or imagined is another question and will be discussed in some detail in the following chapter; the point is that it is used as a threat.
But even the role of business is considered at best reactive, its actions understood as the best it can do to survive in the global economy. On a national basis, globalization rhetoric has supplanted responsibility away from business and government to this mysterious outside force. When Chretien commented that we “can’t stop globalization we can only adapt to it” he expressed a pervasive fatalism that has allowed for the abdication of responsibility by business as well as government. In short, struggles between capital and labour can no longer be taken seriously as they are usurped by globalization.

One should not fail to notice the irony of the position taken by both business and government. Commentators on the right have long criticized Marxists for being rigid and deterministic, yet the tenor of their arguments are now remarkably similar. In this sense, business arguments have very much taken on a Marxist cast. Diane Francis (1992) has likened free trade to gravity, as both are equally inevitable. This is not to say that leftists have abandoned their fatalistic stance, as Teeple’s work well illustrates. The theme that emerges from these more extreme versions is that globalization is presented as a structure that unfolds and has a logic of its own with very little room left for agency.

To summarize, in its political guise globalization is a mere adjunct to the larger debates about the appropriateness of government interference, the threat of unfettered markets, and hostility towards large corporations. Next we will examine theories which are currently popular in academia and look for linkages to the more popular accounts just discussed.

**Multifaceted Approach: The Globalization of Everything**

Globalization is, of course, not only about the economy but many other developments. As a
matter of fact, economic approaches are considered reductionist by many, Robertson in particular (Robertson 1992). Albrow (1996: 4) outlines five ways in which the world is becoming more globalized: in addition to the economy he enumerates the environment (the destruction of which is a global threat); the military (ditto on the destruction); communications; and the phenomenology of globalization (see also Waters 1995), the idea that we are living on a globe. Albrow (1996: 130) defines economic globalization as “the growth of economic activity which functions beyond national economies and is organized with reference to the world as a whole”. His work is a good example of the ties between the academic and popular accounts, as he perpetuates some of the more popular myths about globalization. He is of the opinion that the world economy presents many obstacles to the nation state, some insurmountable (128), and urges that “transnational corporations cannot ignore any potential source of advantage or threat anywhere in the globe” (130). All these themes echo predictions in the more popular economic and political literature.

In addition to Albrow’s five points two other strands of globalization have been highlighted: the globalization of culture, as outlined by Robertson (1992), and the globalization of travel in the form of tourism, migrations, and labour markets (Waters 1995). This multifaceted approach has become quite popular. Lash and Urry (1994: 280) sum this position up well when they write that globalization is the “immense flows of capital, money, goods, services, people, information, technologies, policies, ideas, images, and regulations”. This sentiment is echoed almost exactly in a Globe and Mail editorial, further revealing the similarities between popular and academic accounts: “Globalization...is a dizzying increase in cross-border exchanges of all kinds -- information, travel and culture as well as good, services
and capital" (Oct. 9, 1998:A22). In other words, the harsh winds of globalization are more like a hurricane that moves everything that isn’t nailed down. And like a hurricane, this force does not respect national borders.

As we shall soon see, generalizations about even one of these strands are difficult to sustain. The appropriateness of this criticism increases as other strands of globalization are added. This problem is further exacerbated by the conflation of premises of the various strands of globalization which are then used to reach the same conclusion: the coming down of borders. Thus premises about tele-communications are used to justify the coming down of borders with respect to the economy, although the two are different processes. Giddens writes that “globalization is not a single process but a complex mixture of processes, which often act in contradictory ways,” (1990: 15), which makes one wonder whether general observations can be made about this mixture of processes at all, the aim of globalization. The obvious point here is that borders do not present themselves as equally permeable to the different aspects of globalization. While the telephone has effectively made distance meaningless, it has become increasingly difficult for people to cross borders over the centuries. With increasing surveillance, it could easily be argued that it is now more difficult to cross a border than ever. As Massey has argued, movement across borders also greatly depends on one’s class, gender, and ethnicity (Massey 1994).

The reason that globalization is about the eradication of borders no doubt lies in its connection to McLuhan’s work (see Albrow 1990). The powerful metaphor of McLuhan’s ‘global village’, originally conceived for television, is grafted onto other aspects of globalization, for example, production or people. Arguments are usually structured in a way
that the powerful imagery of the global village comes first, and the facts are then selectively presented to support that conclusion. As we shall see, products, services, or corporations are a lot less mobile than is often believed. These differences are mostly glossed over, which allows the overall conclusion to stand (the coming down of borders). In other words, the evidence for globalization is typically treated as though there was no difference between its various strands:

The term ‘globalization’ has been coined to describe this new level of international integration. It accurately captures the phenomena which have led to the rapid and pervasive diffusion around the globe of goods, services, technology and capital. Development in communications technology, production processes and transportation facilities have erased borders and shrunk distances leading to fundamental changes in business organization and techniques and to differing perceptions of the role and influence of government (Hart 1995).

Here we find goods, services, technology and capital all lumped together, treating them as though they were identical in their ability to leap borders. But as we shall soon see, how well goods and services trade is vastly different. Furthermore, the connection between these various strands and the changing “role and influence of government” is presented as natural and is not argued for. This approach, best described as a theoretical leap, is common in the literature. As mentioned above, perceptions of the role of government has changed little over time; the only difference is that now arguments tend to be more descriptive than normative. In the past, the question has traditionally been whether government interference was morally justifiable (see for example Nozick 1974). This has changed and now accounts have tended to become more descriptive, in that they purport to report the functionings of the world. But
governments in capitalist societies have always left the business of trade in primarily private hands and this has never posed a threat to nation-states. The question then arises, Why so now? And to what degree has the ability of states to govern really changed? As will be argued in a chapter on the nation state, claims with respect to this have been greatly exaggerated.

The central point argued in this thesis is that while one process may be highly globalized (e.g.; communications and television in particular), others may not necessarily be so (say, the movement of people). And where one process could potentially be harmful to governments (e.g., movement of people) others are likely to be minor in their impact (e.g., the internet). Although important, the globalization argument does not allow for these distinctions. We should also note that with the elision of this distinction any increase in cross-national activity, such as the trade of goods, is taken to be a measure of the decline of national sovereignty. This is despite the fact that trade agreements are directed and implemented by governments and are likely to have little effect on their power.

The essence of the problem is that the imagery of globalization is powerful and sober analysis stands in poor competition to highly impressionistic examples such as e-mail, Coca Cola, and CNN. On its own, globalization is an exceedingly vague term. Speaking about globalization devoid of content, that is without some elaboration about what is being globalized, lies at the root of this problem. In order to avoid this confusion, it is important to

3Social rights are usually tied to one’s country of citizenship and are premised on the practice that people pay into a national system at some points in their lives (when they work) and collect at others (education early in life, pensions late in life). Unrestrained mobility would make such practice unfeasible as large movements of people would make it difficult to contain a tax base.
always be very specific about what aspect of globalization is being discussed, be it production, financial services, culture, entertainment, or whatever.

**Grand Theory: Sociological and Cultural Debates**

The globalization debate is atypical among contemporary intellectual debates in that it is also widely discussed in the public sphere, something which cannot be said for either modernism, post-Fordism, or post-modernism. The central question we shall consider in this section is whether the academic and public debates are parallel but separate or, as Scott (1997:2) asks, whether the social science debate actually contributes to the interpretation that globalization is “historically inevitable and unstoppable?”

The postmodernism debate of the eighties was built on the very shaky foundation of modernity, both concepts about which there continues to be little agreement (see Berman 1982; Therborn 1995). As if this weren’t enough, the concept of globalization, equally vague and cumbersome, was plunked clumsily atop the already teetering structure of the other two. That the result is often confusion should not be surprising. In theoretical terms globalization can be seen as a reaction to the one-sidedness of modernization theories and attempts to bring other cultures back to the debate (Mandalios 1996: 290; Robertson 1992: 15).4 In another sense, the globalization thesis can also be seen as a continuation of the post-modern debate popular in the eighties, and, like this debate, addresses all sorts of issues such as the end of

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4Ironically, theories of globalization that emphasize time-space compression have been criticized for being a “western, colonizer’s view” (Massey 1994: 147). Massey goes on to write that the importation of cultures from afar has long been experienced by inhabitants of countries that were colonized.
modernism (of which the nation state is deemed to be a primary feature), the ushering in of a new era, and the role of identity. As in the political debate, in the cultural debate we also find huge disagreements about what globalization means and when it first began.

Roland Robertson and Anthony Giddens are the two main theorists of globalization in sociology. Robertson self-admittedly so, Giddens probably less so. Both Albrow (1998; 1994) and Waters (1995) identify Giddens as a key theorist in the globalization debate, a designation Giddens may not be all that comfortable with. Giddens’ approach to globalization is one of cautious skepticism. As Giddens himself has noted, the topic of globalization has been “much bandied about but... only poorly understood” (1994: 4). Despite such prudence, he continues to use the concept extensively throughout his work. Giddens writes that “modernism is inherently globalizing” and traces its origins back to the beginning of the modern age. In that sense, globalization is not new and can merely be thought of as an adjunct to his already established views on modernity. Giddens’s Zeitdiagnose is generally contained within the larger rubric of modernity and more specifically referred to as high modernity, in which case globalization is given a back seat. Since he fails to identify anything novel about globalization or place it centre stage, its details do not need to concern us here.5

Robertson is primarily concerned with the increase of global consciousness, the idea that the world is becoming one place. Overall he asserts this process to be unstoppable. He

5Albrow (1998) has interpreted Giddens’s comment that “modernity is inherently globalizing” to mean that modernity causes globalization which illustrates the confused thinking surrounding this topic. Albrow essentially takes a characteristic of modernity (it is inherently globalizing) and posits it as a cause and effect relationship (modernity causes globalization), a line of thinking which does not hold up under scrutiny. By way of analogy, the observation that Nirmaljeet is inherently funny cannot be interpreted to mean that Nirmaljeet is the cause of fun.
writes that "trends towards the unicity of the world are...inexorable" (1992:26), which answers the question of whether cultural theories contribute to the idea of inevitability of globalization. Scott has criticized the cultural school for lacking a definition for globalization and merely relying on definitions about what it is not. This charge could well be directed at Robertson, who vehemently tries to disassociate himself from "economic-historical perspectives on the world as a whole" (1992: 135), primarily meant in reference to Wallerstein's work, yet he offers no alternative. How successful he is at dissociating himself from the economic perspective is another question. Robertson's argument is relevant for our purposes in that he draws conclusions about the end-of-the-nation-state argument similar to more popular political arguments, and it is here that he does raise issues about the economy:

With the rapid growth of various supra-national and transnational organizations, movements and institutions (such as global capitalism and the global media system) the boundaries between societies have become more porous because they are much more subject to 'interference and constraint' from the outside (Robertson 1992: 5).

In this passage Robertson uses a similar logic and line of argumentation found in the more popular debates. Although he does qualify his observation by maintaining that the nation-state continues to be a powerful institution, the difference here is one of emphasis. The conflation of various strands, in this case global capitalism and media, and how combined they are responsible for the weakening of the state is akin to more popular accounts. That these are vastly different activities with different political consequences is glossed over.

In an interesting twist, Robertson contends that globalization preceded modernity and
therefore provided the conditions necessary for the nation-state, thus laying responsibility for both the introduction and decline of the nation-state at the foot of globalization. This line of argumentation has subsequently been adopted by other theorists. Rather than questioning the assumptions that underlie this logic, other authors have taken Robertson’s lead and elaborated on it. Nederveen Pieterse writes (1995: 49):

It is by now a familiar argument that nation-state formation is an expression and function of globalization and not a process contrary to it [he sources Robertson 1992]. At the same time it is apparent that the present phase of globalization involves the relative weakening of nation-states -- as in the weakening of the ‘national economy’ in the context of economic globalism and, culturally, the decline of patriotism.

It is worthwhile noting the casual introduction of the ‘now familiar argument’ as (the only) evidence of how globalization is deemed responsible for both the introduction and demise of the nation-state. Typical of much sociological writing, the language here is more tentative than popular accounts (for a criticism of this type of writing see Becker 1986). Rather than predicting the outright demise of the nation-state, these theorists allude to the “relative weakening of the nation-state”. But the message is essentially the same. Those who still attribute some power to the nation-state are dismissed in a somewhat patronizing fashion, or worse, are called names such as xenophobes.

By seeing their security and prosperity as the results of national policies, national interests or national decision-makers, contemporary consumers and producers often mistake thoroughly transnational or largely local forces as the working of their nation-state. Similarly, xenophobic political appeals, stressing exclusively nationalistic benefits or costs, occlude how closely coupled most
present-day core economies and societies have become. Borders today are highly porous, and the pressure of global flows of goods and services are continuously eroding them even more every day (Luke 1995: 101).

Here again the emphasis is on structure. Agency, even on the level of national government, is dismissed outright. Luke attributes the grinding down of borders to "global flows of goods and services" as though these events happened outside the control of national governments. As well, he assumes that this will only continue to increase, something that we shall question in the section on trade.

The two preceding passages are both taken from separate readings in a collection entitled *Global Modernities*. In the introduction, Featherstone and Urry (1995:1-2) write that one of the two organizing themes of globalization revolves around the "sociocultural processes [that] are emerging as the global begins to replace the nation-state as the decisive framework for social life." The similarities between these cultural and more popular accounts on the issue of the nation state are undeniable. This is not an isolated example, as the following definition of globalization by Turner illustrates:

Globalization refers to a set of processes, from the growth of global media to the emergence of global ecological problems/strategies, which have transformed the "sovereignty" of the nation state and as a result raised questions about the viability of existing social theories which equate society with the nation state.

In response to Scott's question, then, we must answer that here the diagnostic debate does feed into some of the same assumptions of the popular accounts.

In a recent article in a special issue on globalization published by *International*
Sociology, Robertson and Khondker (1998) address some of the problems associated with the term globalization. The authors are particularly dismayed with the type of economistic accounts of globalization that have become popular in the public and in political economy discussed above. Theirs is an attempt to resurrect a more holistic and comprehensive definition of globalization. Interestingly, in two other articles in the same issue we find the same economistic accounts of which Robertson and Khondker are so critical. Written from the political economy perspective, these authors fail to even allude to the sociological aspect of the term that Robertson and Khondker champion. This is indicative of the larger trend where the cultural and political economic accounts are for the most part talking past one another. While some works have attempted to marry the political economy and cultural aspects (e.g. Waters 1995; Albrow 1996), these are the exception, and the bulk of the literature, particularly that emanating from political economy, is written as though the cultural version of globalization did not exist. No matter how loudly Robertson et al insist that we should consider the convenience of a concept like globalization, they are being ignored. In many ways, then, this it is a one-sided debate. Robertson's approach can be criticized in that it signally ignores the power of language. As we saw in the Introduction, Williams points out that some words come loaded with all kinds of assumptions about social relations. In this sense, the word 'globalization' is so tainted with ideological assumptions about the relationship between capital and labour, the role of the nation state, and the power of the market, that to resurrect a purified sociological version is unlikely.  

There are many examples of words that have been contaminated by political events. Dictator, for example, is derived from the Latin *dicare* to say, and up until the rise of fascism merely meant spokesperson or leader (for example, the pope was the dictator of the church).
political economy completely ignore the cultural definition of globalization, and so for good reason. In political economy, globalization is seen as a recent phenomenon and evidence is marshalled to show historical precedent. In cultural accounts, globalization is considered to go back centuries. The two debates are separate, yet what they have in common, especially about the coming down of borders and the dwindling of the nation state cannot be ignored.

As we have seen, the cultural and popular debates are not completely dissimilar, particularly in their view on role of the state. In answer to Scott's question, then, we must answer that cultural theories contribute to the rhetoric of globalization as their conclusions are strikingly similar. Theorists like Robertson provide much of the groundwork for the current debate about globalization in sociology whether it is about culture, communications, or religion and their contribution is key to the understanding of the current era. In this way Robertson's take on globalization as a "Zeitdiagnose" cannot be seen as separate from globalization as political project. Conclusions about the nation-state are shared with the political project and this brings to the fore all kinds of imperatives about markets, the welfare state, and the ability to do manage these processes.

What has not become clear in this discussion is the time line of globalization. If Robertson's account is a "Zeitdiagnose", it raises the very important issue about a break with a past, an issue that represents an especially vague component of the already vague topic of globalization.

This antiquated meaning explains Marx's use of dictatorship of the proletariat. Fascism, which originally meant any political group, is another instance of a word that acquired a very strong political hue separate from it original meaning (Merriam-Webster 1991: 171-73).
A New Age?

In the public debate, as in some of the academic ones, the crux of the globalization argument ultimately turns on whether there has been a fundamental change in world organization in the past few years or decades. As with definitions, we find that the date for which globalization is said to begin varies from author to author. Teeple traces its beginning to only the 1980s (Teeple 1995). Hobsbawm (1994) claims it originated alongside the industrial revolution in Great Britain in the 18th century, only to be interrupted by the two world wars. This is similar to Giddens' assessment, who sees globalization as accompanying modernism (Giddens 1990). Robertson identifies globalization as a process that has been going on for two millennia; at the same time that he distinguishes a rise of global consciousness that dates to only this century (1992). Similarly, Waters traces globalization back centuries, but identifies an acceleration in since the 1960s (1995).

In general one can say that in popular and political economy debates, the date is usually confined to somewhere between the eighties and the Second World War. In these accounts, globalization serves as a contrast term, similar to post-Fordism and post-modernism without the prefix, which aims to distinguish the contemporary age apart from the past. In cultural debates, it is sometimes difficult to say whether globalization is meant to be a contrast term, as the date often spans centuries. This raises the issue of how far a *Zeitdiagnose* can be stretched and still be appropriate as a characterization of our times. The further one goes back, the more doubts are raised, and at 2000 years there are indeed few similarities between then and now. The question then becomes whether globalization is a disjuncture from the past (i.e., a new age) or not. As important, in cultural debates the question arises whether and
how the process is separate from modernity.

Here is a crucial distinction then: those that see globalization as something that developed at some point following the Second World War and those who see it as having deeper historical roots. The post-World War Two view is usually taken by the political project and political economy accounts, while the long term historical perspective is taken by the cultural theorists. As a matter of fact, most political economy accounts do not even provide a date. Globalization is just one of many explanations for the world slump that began in the early seventies with the closing of the gold window and the first oil shock. In political economy debates, proponents of globalization argue that there is something fundamentally different about the world economy and detractors say there is not. Much the same is true for popular and business accounts.

Things are somewhat more complicated in cultural theory. Both Robertson and Giddens identify globalization as a process that harks back centuries. Robertson dates globalization to before the birth of Christ, 2000 years ago. Giddens understands modernity (and therefore globalization) emerging in the 1500s. Giddens, however, maintains throughout his work that we are not entering a new age, be it postmodernism or globalization (1990). In short, he denies a recent disjuncture with the past. The only break Giddens identifies is one from traditional societies, that is, modernity is the contrast term. He distinguishes the present age as simply ‘high modernity’. Giddens is much more sceptical of globalization and to him globalization is primarily about time-space distanciation and tele-communications. He tends to downplay arguments about the power of corporations (1994: 89), and draws attention to the fact, based on Weber, that states continue to be the only organizations that have legitimate
use over violence. Giddens ties contemporary society solidly to the past, and exposes much of what we consider new today as a faithful companion of modernity. In short, Giddens’ observations reveal that contemporary changes are part and parcel of the juggernaut of modernity. This raises the question “what’s new” about globalization which will be investigated further in the following chapter.

While I have some sympathy for Giddens’ view, and relatedly Hobsbawm’s (who sees it as a result of the industrial revolution), these conceptualizations of globalization are not about what is new but merely resurrect old arguments about modernity and industrialism respectively. In some sense, these theories are just tacked onto a position already taken, often as a way of incorporating globalization. As is well known among sociological and economic circles, the globalizing tendencies of industrialism and modernism were central tenets of theories by Comte, St. Simon, Adam Smith, and Marx. As an adjunct to one of these theories, globalization fails to illuminate anything new about the world. Worse, it tends to only further complicate already complicated theoretical issues.

Robertson on the other hand, who himself takes credit for the naming of the concept (1992:3), does identify a break, although where this break occurs is difficult to pinpoint. Robertson tries to have it both ways by acknowledging the past as well as isolating the new. His argument becomes most vulnerable when he simultaneously delineates globalization as a process going back millennia and one that has the markings of a new age, one in which we think more globally (the phenomenological aspect). By proclaiming that globalization is both new and old, Robertson’s theory fits well with accounts of globalization that emphasize its novelty and those that see it as a continuation of an ongoing historical process. Reduced to its
core, he essentially declares that globalization is both old and new, a vagueness that may well border on contradiction.

This tendency to accentuate both the new and the old is echoed by other globalists. Waters (1995: 46-47) explains the current interest in globalization on the basis that it "is a predominant pattern in contemporary social change [and it should therefore] not come as a surprise that several sociologists should hit on the concept at the same time." But this contradicts statements about globalization going back "at least...to the sixteenth century" (Waters 1995:62). This raises the very important question of why a process that has been going on for centuries has only been identified in the past decade or so, and then by politicians, sociologists, businesspeople, and the public alike. More than anything this reveals that cultural and political theories of globalization have similar roots. The fact that the-end-of-nation-state is predicted in both the political project and cultural theories hints at their common origins thereby ruling out coincidence.

In summary, Giddens, in addition to being much more critical of the concept of globalization, is also more consistent in that he discerns modernity (and therefore globalization) as a disjuncture from traditional society. By focusing on the continuation of modernity he does not need to explain this confusing old/new contradiction that Robertson and Waters are forced to grapple with.

Albrow (1996; 1998) is much more daring than most theorists and unequivocally affirms that the modern age has been replaced by a global one. Albrow sees the global age as a rejection of the institutions of modernity: rationality, growth, control of nature, and so forth. This has been brought on by the realization of the finitude of the planet (106). For him, three
events frame the global age, starting with the dropping of the bomb on Hiroshima and Nagasaki in 1945, followed by the falling of the wall in Berlin in 1989, and consummated by the recognition of the potential consequences of global warming (Albrow 1996; 1998). To him modernity, its ideology of expansion, and the end of the nation state are intimately tied (1996: 4). Once expansion is curtailed, so is modernism. The glass is full, so to speak, the rules change and signal the ushering in of a new age. Albrow’s thesis has much in common with Beck’s theory in that the recognition of the environmental deterioration plays a central role, but he breaks with Beck, a proponent of reflexive modernity, with his insistence on the inauguration of a new age.

The debate about the starting date is crucial. If one takes the position that globalization is new (as for example Teeple, Albrow, or the IMF), then one could reasonably argue that these changes, such as the decline of the nation state, are occurring. However, if one argues that globalization is part of a longer historical process (as some political economists do), then one must really wonder why the process that gave birth to the nation-state now serves to undermine it. More importantly, given that the ‘new’ and ‘long historical process’ positions appear to exist comfortably side by side, it is very difficult to argue against globalization. Globalists have successfully used this tactic as a defence. Attempts to undermine the globalization argument which show this to be part of a long historical process are quickly dismissed by merely invoking someone like Wallerstein whose world-systems theory dates back to the 15th century (although Wallerstein himself does not use the term).

By acknowledging this past globalists have attempted to appropriate the economic-historical debate and include it as their own (by this debate I mean to include economic
historians such as Wallerstein, Rostow, Gordon, and Maddison about which there will more below). The important point here is that the economic school is anti-globalization in the sense that it fails to acknowledge the political imperatives that go along with this concept in the present debate. As a matter of fact, as we shall soon see, economic historians see nothing unusual about the present phase of the economy. Globalists, however, use the economic debate as an evidence that globalization has been an ongoing historical process and thereby, intentionally or not, recognize these authors as globalists. Wallerstein is lauded by many as the first sociologist to have written about the world economy. Nederveen Pieterse (1995: 47) misrepresents Wallerstein’s position by imposing a beginning date of ‘globalization’ for Wallerstein’s history of world capitalism. By labelling these theorists as globalist, they are automatically pushed into the debate, whether the authors want to participate or not. This is somewhat disingenuous as economic historians themselves see little value in this concept and try to distance themselves from it. It also shifts the crux of the debate from whether globalization exists to when it started.

The point is that globalization reveals itself to be a rather useless term if the issue of the date is not settled. Even more to the point, if it is a contrast term, what is in contrast to? If globalization does go back centuries, one must wonder about the connections between CNN and the rise of world religions 2000 years ago. Without a specific date, the beginning of globalization can be moved arbitrarily to suit one’s objectives. A lack of consensus surrounding the date means no effective counter-position can be taken. For example, to argue that Canada’s economy has long been globalized can easily be accommodated by Robertson’s theory as can the syndication of TV show like Bay Watch. Robertson casts his net widely and
his definitional boundaries for globalization include nothing less than the globe going back two millennia. As long as it happened within that time period and on this planet, his theory can comfortably accommodate it. Obviously, this is too far-reaching to qualify as a *Zeitdiagnose*. Such definitional messiness would not be possible with a theory that identifies a break, as is the case with popular accounts and political economy accounts.

The pinpointing of a break raises further issues with respect to Robertson's work. As we saw, dates range from two millennia ago to the 1980s. Interestingly, Robertson first set the date for globalization as originating 100 years ago (1991). But as evidence critical of globalization mounted showing that the process was not new to either industrial, modern, or capitalistic society, Robertson was forced to move the date. This he did, to 2000 years ago (Robertson 1992) (Friedman 1995: 70). As the organization of our daily lives (wage labour, urban living,) has very little resemblance to that of 2000 years ago, this could be considered something of an overreaction. If one uses the criterion of extra-national developments as Robertson does one may just as well move the date back to the very beginning of human history. The human race “globalized” from its very beginning, the presence of humans on every continent (with the exception of Antarctica) being irrefutable evidence of this. The subsequent “discovery” of these continents shows how much we rely on written history as history and tend to dismiss events for which we lack evidence (Garraty and Gay 1972: 49). The dearth of knowledge about how our ancestors were able to vault across continents does not take away from the fact that political and geographical constraints meant little back then. We should also remember that the English are not native to Great Britain, neither are the Turks to Turkey, or the Malay to Malaysia (Sowell 1996). If a global community is one
Robertson arguably has the most invested in globalization and has been one of its most staunch proponents. In a recent article co-written with Khondker, the authors attempt to rescue the term ‘globalization’ from ambiguity, arguing that its omission would still leave us with issues of global reach such as the environment, human rights, and the economy (1998: 33). The authors lament the popular adoption of the term globalization as it “endangers [the] analytic and interpretive viability and usefulness” of the term (1998: 26) and want to bring it back to sociology where the term, they claim, originated and was subsequently appropriated by the more popular press. But the evidence shows that the term first originated in the private sphere, confirming Harvey’s suspicion that globalization is a plot by the banking sector (Harvey 1995:8). Robertson (1985) maintains that he was the first to use the word ‘globalization’ in print in 1985. But *The American Banker* already used the term back in 1978. In 1983, two years before Robertson’s article first appeared, a book about globalization written by management guru Theodore Levitt (1983) caused a lot of discussion in newspapers across North America. In other words, by the time that Robertson “introduced” the concept to the academic world, it was already in wide use in the popular press.\(^7\)

It is most curious why Robertson so tenaciously grips onto this term, especially since Robertson is in cultural studies, a discipline notorious for its neologisms. Despite Robertson’s

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\(^7\)The data for popular print sources comes from the data base Lexis Nexis. There are isolated uses of the term globalization going back to the 1960s (Waters 1985), but its use did not become systematic until at least the early 1980s. *The American Banker* is of note because it did use the word in a consistent manner.
protestations, at this point it is no longer possible to use the word without invoking all the political overtones that come with it. The crucial point here is that the globalization thesis in cultural studies is not able to free itself of the ideological baggage that spills over from the political realm. The overwhelming predominance of ideas that are associated with economic globalization, as well allusions to global economics in cultural theory, strongly indicate that the course of the meaning of globalization is fixed similar to words like fascism and dictator discussed above. The fact that sociologists, journalists, politicians, and the public hit on the term at the same time strongly indicates similar beginnings. In other words, this is more than coincidence. Whether cultural theories arose independently of political theories is really a mute point here, as the two are so inextricably tied now that it is impossible to separate one from the other.

Self-fulfilling Prophecy

One argument that is a bit tangential to the debate of definition but central to that of globalization is the issue of self-fulfilling prophecy. To be precise, this argument posits that the idea of globalization is so powerful that it will eventually shape the world in that fashion. This argument has strong echoes of the social constructionist school. Here the starting point for analysis is a political philosophy (Scott 1997: 10). As people believe that globalization is a reality they will construct the world that, or in Robertson's world structurate the world as one place, and thus it will become so. Writing about globalization, Fox writes that the "explanation itself has become a political force, helping to create the institutional realities it purportedly merely describes" (1995:108). Waters (1995) projects that the nation state will
crumble once we act as though the nation state is powerless. To some degree, this is exactly what the political right has been practising; pretend the state does not exist and hope that it will eventually go away. While there is some merit to this argument, it has definite limitations. Thinking, wishing, or theorizing the state away only works to a point. As we shall see in the chapter on the nation state, governments have taken on enormous responsibilities over the years and to shed these obligations requires much more than just wishing. In the real world, the state's responsibilities are complex and involve bureaucrats, voters, and real needs. For example, business often acts in contradictory fashions: it both rejects government intervention but cannot live without it. While business very much tows the free market/globalization line, it also depends on government to enforce rules about trade and to act as an insurance system of last resort.

No matter how much one opposes government intervention, sooner or later conditions arise where that intervention is needed. As individuals and institutions we often fail to notice how much we depend on government (free education and use of infrastructure). In this sense, governments often act like an invisible support, a fact often overlooked by pro-globalists (who, as academics, are often paid by governments). As Heilbroner so astutely notes, history does not take sharp corners, and the disappearance of the state would be a sharp corner indeed, self-fulfilling prophecy notwithstanding. Seen through the lens of a political project, we can see that this is mostly a normative debate, that is, a debate about whether we should have state intervention, and not about whether the nation state will endure.
Conclusion

There is no doubt that ‘global talk’ is a recent development, while the time line for the process of globalization itself is much more nebulous. In popular and political economy accounts globalization is about something new and meant to contrast the present recession prone period from the Golden Age of capitalism. Most historical accounts see nothing unusual about the present phase of capitalism and refrain from using the term ‘globalization’. In cultural studies, attempts have been made to move back the date in order to save the theory by acknowledging a historical context. This has created problems of definition as globalization is now considered a process that is new by some and old by others.

The admission by cultural theorists that globalization is an historical process makes the theory unfalsifiable. The question of the date switches the terrain of the debate from whether globalization exists to whether it is old or new. The argument then becomes imprisoned in the sense that the conclusion is predetermined, that conclusion being that globalization is a fact. It is similar to the question that asks whether you have stopped stealing. Whatever the answer, the respondent is implicated in some fashion. Whether one identifies the process as old or new, the process of globalization is a given. The only ways out of this is to be very specific about a date or avoid using the term altogether.

Overall, then, globalization shows to be an exceedingly troublesome term. First, and this is particularly true for cultural studies, the time line of globalization is vague, making it difficult to ascertain whether this process is an old or new one. Lack of any kind of commitment regarding whether it is a contrast term is at the basis for some of this ambiguity. Second, globalization can apply to almost everything -- religion, capital, communication,
people, democracy -- at which point it becomes almost meaningless. As Eagleton writes, “Any word which covers everything loses its cutting edge and dwindles to an empty sound” (1991: 7). Robertson (1995) -- similar to Humpty Dumpty’s assertion that a word can mean anything he wants -- contends that people are at liberty to define globalization as they please. Humpty Dumpty and Robertson’s tolerance is admirable, and they are right insofar as there are no laws governing what a word means. Language is after all quite fluid and meaning does change. But on a more practical level this attitude makes little sense for it effectively subverts meaningful communication.

Common understandings of words allow us to communicate and for this reason it may be useful to, rather than focusing on its differences, to close this chapter by examining the similarities that the various definitions of globalization share. This is not to say that these are an accurate reflection of events, only to help us arrive at a working definition. As we have seen, people’s interpretation of what globalization means may diverge, but there is usually a common core that holds these meaning together. When someone utters the word globalization he or she does not mean a play by Shakespeare or a new type of dance, but the unification of the world. It is these common elements of globalization that I wish to highlight. These can be summarized, as follows, in three points:

- One pertains to the frequently made observation about increased cross-border movement. Lash and Urry and the Globe and Mail’s comments are remarkably similar in this respect. Both comment on the ‘dizzying’ flows of goods, services, capital,
money, people, and information.

- While there is much dispute about when globalization first started, there is at least agreement that even if it did start centuries ago, this process accelerated sometime following the Second World War (be it in the sixties or eighties).

- The conclusion is always that globalization has undermined the nation-state's ability to effectively govern affairs within its borders. This ranges from a tentative 'weakening' to predictions of outright disappearance, but the gist is always that the nation-state is becoming an antiquated institution.

In the more popular versions the globalization argument is impregnated with the political rhetoric of powerful corporations and powerless states. As I have argued, some of this rhetoric has leaked into and contaminated the academic debate. Hence the academic debate cannot be thought as entirely separate from the more popular ones.

In short, globalization can be defined as the rapid acceleration of the flows of goods, services, and capital in the past half century which, in turn, has led to the weakening of the state. This definition should stand whether one is sceptical of the process or believes it to be a fact. From this it follows that one can either argue for it or against it. As should be obvious by this point, I will argue against it.

Whether changes in recent years amount to a realization of the fears or hopes
prompted by globalists is an empirical question and will be answered in the following chapters. But first, much has been written about an apparent unease that we have been experiencing in recent years, an unease often traced to globalization. By closely examining Marx and Engels' *Manifesto of the Communist Party* I will attempt to show that globalization is merely a new word for an old process and that the only thing novel is that the political agenda has shifted from left to right.
CHAPTER II

MARX, GLOBALIZATION, AND MODERNITY:

WHAT IS OLD BECOMES NEW AGAIN

What's New?

Is it true that, as Hegel and then Marx observed, that everything happens twice? With respect to globalization, then, are we living amidst tragedy or farce? Or as Goethe would suggest, has the idea of globalization been thought of before? In this section I will argue that globalization has been thought of before and that it was identified in everything but by the name by Marx and Engels 150 years ago in The Manifesto of the Communist Party. At the time of writing, the Manifesto was used by communists to warn of the drastic consequences of capitalism, which they predicted would eventually collapse under its own weight and open the way for socialism. A century and a half later socialism has come and gone while capitalism reigns.8 In an ironic twist, in what could be described as farce, the political right has now appropriated many ideas from the Manifesto and used the very same logic not to predict the collapse of

8This is not to say that socialism is dead as Albrow (1996) would have us believe. Socialism continues to survive in Cuba and North Korea, as well as China, the most populous country in the world. Furthermore, socialist ideals continue to be a driving force behind many political movements throughout the world.
capitalism, but its final triumph.\textsuperscript{9}

First, we will take a close look at the language of the \textit{Manifesto} to show the similarities between it and current accounts of globalization. The section following will again use the \textit{Manifesto} for comparative purposes, this time with a \textit{Zeitdiagnose} in cultural studies that attempts to capture the mood of the current age. Here it will be argued that we’ve had this feeling before.

\textbf{Globalization, der Weltmarkt, le Monde}

Many authors have tried to link the novelty of the process of ‘globalization’ to the newness of the word itself. Albrow (1990) has traced the genealogy of ‘globalization’ to the post-War period. In this respect, we can be reasonably sure that the word ‘globalization’ is new. \textit{Merriam Webster’s Dictionary} lists the first usage of ‘globalize’ in 1944, and the \textit{Oxford English Dictionary} dates the first use of ‘globalization’ to only 1962. The etymology of the word, however, should be of less significance, as this equates the progress with the word, and even staunch advocates of globalization insist that this process has been unfolding for centuries. Since the globalization perspective is proudly anti-Western-centric it should pay heed to the fact that other languages or cultures may have incorporated this concept, a fact automatically precluded by an approach focusing on its short lived etymology.

In other words, tracing the history of the word provides too literal an interpretation, as it ignores how the concept of global markets has existed long before that. Using selected

\textsuperscript{9}These themes are prevalent in other writings of Marx. I use the \textit{Manifesto} because it is representative of Marxist thought on these issues. This chapter also draws on ideas specifically related to the \textit{Manifesto} as delineated by Berman (1982) and Therborn (1995).
passages from the *Manifesto*, I am going to argue that Marx and Engels painted a picture of society that is very similar to that presented by globalists today, albeit minus the word. It is essential to keep in mind that Marx and Engels primarily wrote in German, and the word ‘globalization’ is, after all, English. In other words, a good case can be made that had the word ‘globalization’ existed in the mid-eighteen hundreds, Marx and Engels would most certainly have used it. The *Manifesto* provides many examples of how the idea of capitalism using the globe as its stage comes with a pedigree going back at least a century and a half. The following passage could very well serve as a substitute for contemporary accounts of globalization.

> The need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle everywhere, establish connexion everywhere (Marx and Engels 1986: 37).

Compare this to a definition of globalization offered by *The Fortune Encyclopaedia of Economics*: “The owners of these mobile production factors...are increasingly ‘shopping around’ the world for the labor and the style of government administration that promise them a high rate of return (and low risks).... Internationally, this has led to the phenomenon of globalization....” (Kasper 1993: 84). The general thrust of the two arguments is strikingly similar, although use of specific words or phrases differ. In today’s version of globalization ‘bourgeoisie’ is replaced by ‘capital’ or ‘multi-national corporations’. Reference in the *Manifesto* to an ‘expanding market’ leaves little doubt that unfettered capitalism has long invited criticism. Frequent use of the word ‘globe’ itself brings into sharp focus the long-
term historical awareness (the phenomenological aspect) of the process of globalization that Robertson (1992) and Waters (1995) contend differentiates our age from past epochs.

The use of the word 'globe' is not the only reference to this worldly consciousness. Allusions to the 'world as one place' set the tone for much of the *Manifesto:*

The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country (37).

The emphasis here is on a process larger than any individual country. The word 'cosmopolitan' (kosmopolitisch in German), derived from the Greek 'cosmo' meaning world, could easily serve as a synonym for 'global'. The word 'world' is used nine times throughout the *Manifesto* and is indicative of the very expansive view adopted by the authors. In German the word for 'world' is 'welt', where it can mean many things, not only the world, but also the universe or the globe. Recognition of a 'world market' (Marx and Engels 36, 37) serves as strong evidence that the consciousness of the 'globe' as a one society has been with us for some time.

Even some of the geographical regions highlighted in the *Manifesto,* such as China, are identical in those identified as major players in today's global economy. Enumeration of distant places around the globe, their connection to technology, and the rise of the bourgeoisie are also features strikingly similar to what is now called 'globalization'.

The discovery of America, the rounding of the Cape, opened up fresh ground for the rising bourgeoisie. The East-Indian and Chinese markets, the
colonisation of America, trade with the colonies, the increase in the means of exchange and in commodities generally, gave to commerce, to navigation, to industry, an impulse never before known, and thereby, to the revolutionary element in the tottering feudal society, a rapid development (33).

The fact that Marx and Engels attributed this to the forces of capitalism is less critical than the ‘consciousness’ of this process, and the general climate of instability and insecurity it created.

Not only does Marx and Engels’s diagnoses of their time include the diminishing role of the nation-state and the exploitation of remote regions, but also the recognition of the establishment of a world culture.

To the great chagrin of Reactionists, it has drawn from under the feet of industry the national ground on which it stood. All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilised nations, by industries that no longer work up indigenous raw material, but raw material drawn from the remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe. In place of the old wants, satisfied by the productions of the country, we find new wants requiring for their satisfaction the products of distant lands and climes. In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal inter-dependence of nations. And as in material, so also in intellectual production. The intellectual creations of individual nations become common property. National one-sidedness and narrow-mindedness become more and more impossible, and from the numerous national and local literatures, there arises a world literature.

Berman (1982: 123) has interpreted the rise of “world literature” to mean that “bourgeois society was bringing a world culture into being,” remarkably similar to claims about a global culture made by the likes of Robertson.

Another significant factor of the Manifesto that pertains to globalization and that may
well have lost meaning in translation is the use of the word *Geist*, meaning spirit. This seemingly insignificant topic has been the subject of a recent book by Lyotard, in which he argues that Marx was obsessed with all kinds of issues surrounding the spiritual. Relevant to our discussion is the multiple meanings that this word carries. "Und wie in der materiellen, so auch in der geistigen Produktion" has been translated as "And as in material, so also in intellectual production." Although this is an accurate translation, "geistige Produktion" can mean much more than mere 'intellectual production,' but also the production of ideas as such. In light of Marx's theory of history, which sees ideas epiphenomenal to material production (see for example the *German Ideology* [Marx and Engels 1968]), this can be interpreted to mean that the rise of the bourgeoisie and the 'new industries' are responsible for an ideology of globalization. Then, as now, the ideology of globalization can be thought of in the sense that "The ruling ideas of each age have ever been the ideas of its ruling class" (52). It should also be kept in mind that from a Marxist perspective use of the word ideology is meant to be pejorative and signifies that ideas associated with it are false. In the current frenzy over globalization the ideas that corporations can roam the world with impunity could therefore be considered to not only benefit the ruling class but also be false.

The above shows that the *Manifesto* could well have been subtitled "Globalization I: Tragedy". One does not necessarily have to read the German edition to arrive at this conclusion, but knowing about its original language can throw some different light on the topic. The German language has long had a much more expansive and inclusive perspective of our planet, as anglicized words such as *Weltanschauung* and *Weltschmerz* indicate. The use of the French word *mondial*, essentially meaning global, is another example of how other
languages have long incorporated the idea of the global into their language and therefore consciousness. The fact that English adopted these words from other languages shows a deficiency of this language to express such thoughts. In is well known among linguists that language constrains our world. In the words of Wittgenstein (1973), “The limits of my language mean the limits of my world”. Recent usage of the word globalization and newly discovered realization of the globe as a whole (or consciousness) could thus be considered no more than the overdue recognition of a process that has long been identified by people of non-English speaking countries. The Manifesto stands as a historical testament to this.

Marx, Modernity, and the New

The Manifesto, however, is not only interesting in its parallel with contemporary accounts of globalization, but also as a snapshot of modernity. Here I will argue that globalization is neither new nor distinct from modernism, but merely modernism by another name. The Manifesto has been identified as “the first major sociopolitical affirmation of modernity” (Therborn 1995:125), and in this sense it has proved to be an enduring document. The general tenor of contemporary accounts of globalization are strangely similar to the Zeitdiagnose identified by Marx and Engels 150 years ago, changes which the two German expatriates attributed to “Modern Industry” and the “Modern State”. The use of the word modern is key here, which is used 32 times throughout the approximately 30 page document. The argument will be that observations about globalization in contemporary society are not

10I down-loaded the Manifesto off the net which greatly facilitated such a count. Thirty pages refers to double space pages.
distinct enough from modernism to deserve the status of a new theory.

The critical question we shall ask in this section is whether globalization is a useful concept or theory. In order for a concept to meet such criteria, a new concept should correspondingly explain something new about the world. Most importantly, to be valuable, the concept of globalization should distinguish itself from the theory to which it often stands in contrast, modernity. The impact of technology, the increased interconnection of different peoples, the phenomenon of time-space compression, have all been commented on by a multitude of observers and are often recognized as hallmarks of modernity. The emphasis of modernity has long been to differentiate our society from those of a preceding age, to identify the new (Kumar 1994: 392). At best, a useful theory of globalization should identify new institutions and processes that separate it from modernity without relying on the modernist conceptual tools (e.g., time-space compression, technology). At a minimum, a theory of globalization should make a convincing case for why an acceleration in this process should amount to a qualitative transformation. In short, a new theory should be more than simply anti-modern in sentiment but provide evidence of how the rejection of modernism is manifested in the social world.

Further analysis of the Manifesto will show that the globalization theory fails on both counts; 1) it fails to isolate new institutions and 2) it shows no convincing evidence of how this process has qualitatively accelerated. Similarities between contemporary accounts of globalization and modernism are not confined to the political project but spill over and incorporate the Zeitdiagnose. One resemblance that early modernist and current literature on globalization share is an ambivalent attitude towards technology. Throughout the
globalization literature there exists an awe, even reverence, for technology. Much in the same way that Marx and Engels saw the spread of capitalism and technology beyond the reach of “national one-sidedness and narrow-mindedness”, technology is equally implicated in today’s events.

[The] flows of ideas, commodities, symbols, people, images and money on a global scale...are disjunctive and fragmenting, anarchical and disordered...unbounded by spatial borders....Many institutions of existing nation-states are now a fetter upon the emerging glocal modes of productions....Borders today are highly porous, and the pressure of glocal flows of goods and services are continuously eroding them even more every day (Luke 1995: 99; italics in original).

Compare this to the following passage from the Manifesto.

The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together. Subjection of Nature’s forces to man, machinery, application of chemistry to industry and agriculture, steam-navigation, railways, electric telegraphs, clearing of whole continents for cultivation, canalisation of rivers, whole populations conjured out of the ground - what earlier century had even a presentiment that such productive forces slumbered in the lap of social labour? (38, 39)

The global consequences of this process are also noted by Marx and Engels.

The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draw all, even the most barbarian, nations into civilisation....It compels all nations, on pain of extinction, to adopt the bourgeois mode of production....In one word, it creates a world after its own image (38).
This passage is now one and a half centuries old, and as we have seen in the preceding chapter, this past has been incorporated into contemporary theories of globalization, but qualified as being qualitatively different.

Plainly, a 'transnational' flow of goods, capital, people and ideas has existed for centuries; it antedates even the rise of nation-states. However, this historical flow, at least until the 1950s and 1960s, tended to move more slowly, move less and more narrowly than the rush of products, ideas, persons and money that develops with jet transportation, electronic telecommunications, massive decolonization and extensive computerization after 1960. It is these greater intensities, rates, densities, levels and velocities the post-historical flows, which have transmuted it quantitatively into something qualitatively new, complex and different (Luke 1995: 99.)

Here again we encounter an emphasis on technology as a primary impetus for globalization. Most interesting is how adamant the author is about the novelty of this process. Jet engines, computerization, and electronic telecommunications, all of which are relatively recent inventions, are introduced to stress just how advanced this process is now, further allowing it to be demarcated from past technology. But as Harvey (1995: 9) points out, “the newness of the railroad and the telegraph, the automobile, the radio, and the telephone in their day impressed equally.” To put it in everyday language, if its not one thing, it's another.

Two further comments can be made about contemporary observations about technology and globalization. First, in light of Marx and Engels's observations, the emphasis on how technology is implicated as a catalyst of globalization borders on the hackneyed. Only a fool would argue that technology is not more advanced now than it was around Marx's time, but this misses the bigger point. The more important observation is that this relentless
accumulation of technology, commonly called progress, is a constant byproduct of modernity. It is far from new and it differs merely in degree.

Second, as is common in the majority of cultural accounts, there is no evidence presented of these increased flows. The overall thrust of the passage is a combination of enthusiasm and unease about contemporary changes, and there is no evidence introduced to what degree these flows have increased, despite the claim of the transformation from the quantitative to the qualitative (which, by the way, is one of the three laws of dialectics as enumerated by Marx and Engels). Furthermore, as mentioned in the introduction, a focus on international flows completely ignores national flows which counteract the de-nationalizing effects of international flows. And finally, these flows are far from unrestricted. The movement of goods, services, ideas, and people are all very much tightly controlled by regulations, corporations, and nations. Massey has astutely noted that globalization is primarily written about by people who are able to enjoy intercontinental travel: academics and journalists. Such an approach ignores how “differential mobility can weaken the leverage of the already weak” (1994: 150).  

A theory that attempts to distinguish itself from modernity, such as globalization does, would have to spell out how the world is moving away from its reverence for technology. In other words, in order to eclipse modernism this theory would have to successfully escape the  

\[\text{\textsuperscript{11}}\text{There is much evidence that it is much more difficult to cross borders now than it was at any other time in history as passports were not used extensively until after the First World War (Zweig n.d.). Torpey (1998) writes that the state has a monopoly over the “means of movement” much the same way that it has a monopoly over the legitimate use of violence. This power may not be absolute, but it is dominant, particularly when it comes to keeping people out.}\]
straight-jacket of technology and reject the allure of the new. Post-modernism spelled out what some of these conditions might be -- a rejection of the institutions of modernism (see Giddens 1990) -- but post-modernism remains primarily a vision about how a society ought to be not about how contemporary society is. Similar charges can be made against visions of globalization. And when it comes to how contemporary society is, it continues to be very much modernist.

Similarities between the Manifesto and contemporary writings indicate that globalists continue the old modernist thread of admiration for the new. Often this new world is revered and feared at the same time. Moreover, this new technology is perceived to be out of our hands. Flows of money, people, goods, etc. are so chaotic and uncontrollable that they cause us to experience a general sense of unease or "ontological insecurity" as Giddens (1990) puts it. This admiration for the new, and at the same time anxiety it causes, is a hallmark of the juggernaut of modernity. In very powerful language, Marx and Engels write about the turbulent times that accompany modernism, ringing strangely similar to observations that are presented as novel characteristics of globalization.

Constant revolutionising of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from earlier ones. All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face, with sober senses, his real conditions of life, and his relations with his kind (37).

In his very incisive account of modernism, Berman puts contemporary observations that echo these sentiments into perspective:
People who find themselves in the midst of this maelstrom are apt to feel that they are the first ones, and maybe the only ones, that are going through it. In fact, however, great and ever-increasing numbers of people have been going through it for close to five hundred years (Berman 1982: 16).

This suggests that the subjective component of globalization, the increased consciousness of the new, may not be all that good of an indicator of a new age. This feeling of meeting the new is a faithful, often silent, companion of modernism. According to Therborn (1995) modernism is, more than anything, an experience, and this experience is remarkably similar to that described by globalists. For that reason, we cannot rely on these general observations as evidence of globalization. In the end, evidence of globalization amounts to no more than impressions, impressions which are, at that, not even original. To perceive of these observations as new is no more than a globalist’s conceit as these characteristics are already emblematic of another age: modernism.

Optimally we want similar features from a theory of globalization that we find in modernity. That is, a theory that identifies, and preferably explains, a break similarly to how modernity explains the break with traditional society. A theory of globalization should also set itself apart from modernity not only in that it is anti-modern, that is, by rejecting ideas of modernism (as did the Club of Rome and many environmental movements, for example) but it must show evidence of how the world has made concrete changes in that direction. The fact is that people and governments are still very much bounded by the principles and beliefs of modernity. The continual attention paid to growth, the persistence of a consumer culture, the unwillingness to change in face of potential environmental disasters, indicate that this anti-modernism occurs only in spirit but not in behaviour.
It is easy to see why the Manifesto continues to inspire so many people. Its language is uncompromising, concise, forceful -- its observations, timeless. Marking its 150th anniversary in 1998, the Manifesto has been re-released by several publishing firms. Copies of these editions have apparently become a status symbol on Wall Street, where they adorn the bookshelves of many a broker and where they sit, no doubt, rarely to be read. This is a shame, for reading the Manifesto would reveal to the broker that the ideas associated with globalization -- its power, inevitability, and intractability -- are ideas that are over a century-and-a-half old, ideas that have long been associating with capitalism. It is no small irony that those of the broker's ilk have in the past described Marx as deterministic and rigid, yet adopt exactly this stance when they portray contemporary markets. Marx related what he identified as the tumultuous circumstances surrounding capitalism as tragedy. One-hundred-and-fifty years hence, these same ideas are used to celebrate the victory of capitalism. That these ideas, embodied in the book and the broker, should share an office is indeed, in the words of Marx, a farce.
CHAPTER III
THE WORLD ECONOMY

As the previous chapters have shown recognition of a world economy is not new, although use of word ‘globalization’ itself is. In the social sciences the debate about the beginnings of the world economy has been going on for some time, long preceding any discussions about globalization. Debate on the origins of the world economy has been on-going in economics, political economy, and sociology for decades with various attempts to identify the point when national economies first started to grow, trade, and interact on a substantial basis. The underlying question driving these enquiries is When did a world economy first begin? This starting point is often phrased as the “take-off” period. This approach usually identifies inchoate stirrings of a world economy beginning in the 15th century but does not acknowledge a full fledged world economy developing until somewhere in the early 1800s. This development is commonly measured by way of trade and output (GNP).

From this perspective, the economic and sociological accounts are very similar. They both identify a ‘protocapitalist’ period which lasted from the middle of this millennia to somewhere in the early 19th century, which was followed by the full blown world economy. The economic and sociological accounts complement each other well as the numbers from the more empirical economic substantiate claims made by sociologists. What distinguishes the two disciplines is that in economics the accounts are primarily descriptive and seldom go beyond simple theorizing (for example, economies going through a series of stages from traditional to high consumption; see Rostow 1990). In sociology, accounts focus more on social relations between societies. Marxist accounts, it should come as no surprise, stress the
unequal power relations characteristic of the capitalist mode of production.

By far the best known account in sociology is Immanuel Wallerstein's (1974) conception of the world system. In this model the economic world is divided into three regions: The core comprising the wealthy countries that dominate the world economy (Western Europe and North America); the periphery (most of Asia and Africa), and the semi-periphery (South America and some countries in Asia). The central point to Wallerstein's argument is that an unequal relationship exists between the core and its periphery which works to the advantage of the former. For the most part, core countries remain in the core and periphery countries remain trapped in the periphery, with only a few countries experiencing either much upward or downward mobility. History substantiates this model, as only a few countries have experienced downward mobility from the core to the periphery. Portugal and Spain were two of the first countries to colonize in the 15th century and were able to accumulate much wealth. However, they squandered much of it and experienced rapid downward mobility as a consequence. Portugal is now the poorest country in Europe and Spain is not far behind. In the 17th century, the United States and Canada were both part of the exploited periphery but soon catapulted to the core based on the very same resources that initially made them attractive to exploitation. Japan is another country that went from periphery to semi-periphery and finally core, although the timing for the last stage did not occur until after the Second World War compared to the last century for the U.S. and Canada. Most of the mobility, however, involves countries drifting in and out of the semi-periphery, and even here movement takes decades and is quite rare. Contemporary developments in East Asia are good examples of countries (Taiwan, South Korea, Singapore) moving into the semi-
periphery (Shannon 1996: 147).

One characteristic that distinguishes the world capitalist system from past empires is that once a core state collapses the system itself continues to thrive elsewhere. Hence the collapse of the Spanish/Portuguese core allowed Holland and the United Kingdom to take up the position as core. The power vacuum left by decline of pax-Britannica was filled by pax United States (although a much weakened UK remains part of the core). The much lauded success of the Asian economies appeared to pave the way for the next core, but this development has clearly been put into question by the “Asian flu”, affecting all countries in this region.

The essential point to take note of here is that the core, periphery, and semi-periphery may change while the integrity of the system remains. This detail differentiates world-systems theory from modernization theory, the latter which assumes that all countries will eventually evolve into fully modern and industrial economies (Shannon 1996: 146-47). The world-systems perspective recognizes that there is always some mobility among countries and regions, but alerts our attention to the fact that the soundness of the system itself -- that of core, periphery, and semi-periphery -- remains. Evidence indicates that the positions of power have remained firmly cemented in place. The only entrant to the core in this past half century has been Japan, and some countries in South East Asia have experienced considerably upward mobility into the semi-periphery (see Shannon 1992: maps 3.4 and 4.1 and table 5.3). Much has been made of this by supporters of globalization, but one country and region does not globalization make. Africa, South America, and most of Asia (including the ex-Soviet Empire), continue to remain shut out of the world economy.
The World Economy: A Short History

Now that we have sketched the outlines of the world-systems theory we will examine how the empirical evidence provided by economists fits this theory. Trade has been with us for thousands of years but people did not start trading on a substantial basis until after the neolithic revolution; that is, when people abandoned their nomadic lifestyles in order to practise horticulture. Staying in one location made trade much more feasible, and certainly made it much more practical to accumulate and store wealth. Trade, however, was geographically contained as technology had not yet developed to the point that it could cover large distances, especially on land. It also depended on face-to-face interaction as there needed to be a coincidence of what one person wanted and another person had and vice versa.

All this changed with the European expansion that began in the 15th century. According to Wallerstein, in a world economy states are interdependent economically; that is, individual economies are not self-sufficient but depend on products from other countries for economic well-being. Of course, trade was not foreign to pre-capitalist society. Merchant and capitalist activity had long existed comfortably alongside the monarchy, aristocracy, or other forms of ruling elites. But the ruling elite were always able to contain the power of these groups. As Wallerstein so aptly puts it, hitherto the expansion of Western European societies had sufficient antidote to keep in check the free market virus (Wallerstein 1996). Why and when this merchant class was first able to overpower this ruling elite is a question that has been the basis of vigorous academic debate, the details of which need not concern us here. What is important is that the skeleton for a world economy was put in place throughout
the proto-capitalist stage beginning no later than in the 15th century with the discoveries and colonization of the Americas, first led by Spain and Portugal, and then later by Holland, France, and Great Britain.

i) The Proto-capitalist Period

Although the roots of the world economy can be traced to the early proto-capitalist stage beginning in the 15th century, growth did not increase substantially until the early 1800s, at which point Europe and its off-shoots (Americas and Oceania) took a substantial lead which, for the most part, they never relinquished. Recent evidence shows that throughout the proto-capitalist period growth was much slower than previously suspected (Maddison 1995). Between 1500 and 1820 economic growth around the world was sporadic and typically stagnant. By the 1820s, Western Europe was already well developed along market and industrial lines, but as a region it could not boast of being much wealthier than other regions.

Why the economy took off in Western Europe and not somewhere else is a difficult question to answer, but there are some very plausible theories. Several vital and strong economic regions existed throughout the world in the proto-capitalist period. China was one. Its technological know-how and material wealth rivalled that of the West. According to these criteria, China seemed as likely a candidate to become a world power as Western Europe (Wallerstein 1974: 63). As late as 1820, China’s economy continued to be the largest economy in the world (Maddison 1995). This brings to fore the important observation that more than technological power and material wealth are needed for overseas expansion.

What made Europe different, and what particularly affected the United Kingdom, was
the Crisis of Feudalism in the 16th century. Improvements in agriculture led to a population explosion, eventually creating food shortages. This prompted a search for food in other regions which in turn laid the groundwork for trade routes with Eastern Europe and Asia. The search for a sea route to Asia led to discovery and colonization of the Americas, which was then exploited for its riches of mineral wealth of gold, silver, and copper. In the 16th century there were already many trade centres spotted around the world, primarily in Europe and South and Central America. The increase in trade served to strengthen the emerging merchant class sufficiently to break with the ruling elite. Up to that time, for thousands of years economic power always rested in the hands of an authoritarian elite where wealth and money naturally followed power. In this new commercial era, the roles were reversed for the first time in history and power followed those who had money (Heilbroner 1980). This was not a natural or quick progression but took centuries to take root and cultivate.

By the time that the world economy entered the take off phase, trading patterns and the establishment of the core, periphery, and semi-periphery were already firmly in place. Throughout the protocapital period, the core was able to enforce trade relationships that worked to its own benefit, something that took many forms. In the 16th century, for example, Spain and Portugal exploited South America, using its indigenous population as slave labour to mine metals. The landed aristocracy of Eastern Europe exploited its own serfs to supply grain to Western Europe, and in turn buy manufactured products made in the United Kingdom. In both cases, the craft manufacturing sector remained comparatively undeveloped in the exploited regions. This further reinforced the division of labour among regions. As trade increased, so did demand for manufactured goods. The exception to this was Asia
which was militarily strong enough to keep Europeans out and trade on its own terms.

This raises two important points. One, international commerce was already well in place by the time the industrial revolution took hold so it was not so much technological superiority that allowed Europe to dominate in later years but previously established, and unequal, trade relations. At the time of the industrial revolution, trading relations were already well forged and controlled by the British, French, and Dutch merchants. In many ways these were unequal relationships exploited by the Europeans (Stearns 1995: 35). Once the industrial revolution took hold in Europe, primarily in Great Britain, a world market in trade was already well-established. Being in the dominant position of this power relationship (in addition to having the requisite labour force resulting from the enclosures) provided Britain with the demand for its products in other regions, which in turn further spurred technological progress. In contrast, countries that were still primarily engaged in agriculture lacked both the surplus labour and technology to set the terms of trade. Dependence on income from agricultural products meant resources, especially in terms of labour, had to be directed toward that activity in order to survive. The end result was that these countries came to depend on manufactured products from outside, further securing their relationship of dependence.

This brings us to the second point. It was not so much industrial acumen that led to economic prosperity but rather the ability to dictate the terms of trade. That is to say, power relationships determine, first, how much a country is able to industrialize, and, second, how much it can profit from this industrialization. There is strong evidence that countries like Taiwan and South Korea were 'allowed' to industrialize in an effort by the United States to
contain communism in Asia. U.S. involvement in this region, the Korean and Vietnam wars in particular, made it necessary for the U.S. to establish allies in that region (Stubbs 1994). The transfer of technology and capital, amounting to billions of dollars in the form of subsidies by the United States in pursuit of military dominance, paved the way for industrialization in this region. Had these wars not occurred the Asian miracle may have never happened. Such assistance was not the case in Thailand, Indonesia, or China and there is no guarantee that these latter countries will continue to prosper and reach levels of wealth attained in the West without the help of the West. Judging from the continued inequality between the core and periphery over the past 200 years, industrialization of the third world is highly unlikely.

ii) The Take off Phase

Despite European expansion in the 17th and 18th centuries, the world economy continued to grow slowly and encompass only isolated parts of the world. The precise dating of when the economy made the qualitative leap to the world economy is a point of contention among economists, although the range of these dates is not that large. Kuznet (1966) puts that date at 1750, although more recent evidence suggests a date closer to 1820 (Maddison 1995; Rostow 1990). (Wallerstein puts the date at 1815). In the most current work, Maddison (1995) calculates that the average gross world product (GWP) per capita growth between 1820 to 1992 was thirty times that found between 1500 to 1820. As said, some economies were already thriving before that time, but in general world growth was relatively slow, sporadic, and contained to specific areas. Between 1500 and 1820 world output did not even triple, and what growth did occur was basically a function of population growth. Gross
World Product (GWP)/capita increased only slightly. In marked contrast, world output grew forty-fold between 1820 and 1992, resulting in an eight-fold increase in GWP/capita (Maddison 1995). The reasons Maddison gives for this explosion of growth in the early to mid 1800s are rapid developments in transportation and communication technology, an increase in capital stock (essentially machinery) and education, which in combination resulted in an increase in productivity.

However, the unprecedented explosion of growth that began in the 1820s was and continues to be undertaken in the context of unequal power relations. As I noted at the outset, the world economy found its origin in Western Europe and it is also there where the majority of its benefits have been reaped (in addition to its off-shoots of North America, Australia and New Zealand). From this vantage point, the gulf between the rich and poor has consistently widened. This divergence of living standards has been relentless and without break. In 1820, the ratio of economic output between the richest and poorest region was 3:1 (Western Europe and Off-Shoots, Eastern Europe, Southern Europe, Latin America, Asia, and Africa). The monumental growth of the world economy affected each region differently and in 1992 this ratio had grown to 16:1. In terms of countries rather than regions, this ratio is even more dramatic, from 3:1 in 1820 to 72:1 in 1992 (Maddison 1995). Nowhere throughout this process did this process of polarization let up, let alone reverse. The World Bank (1992) has published similar data, despite its claim that globalization will provide opportunities for less developed countries to join the world economy (Wade 1995). In terms of wealth, then, the world was a much more homogenous place in the 1820s than in the 1990s casting much doubt on theories of convergence and modernization that continue to be popular.
iii) World Trade

Although, as we have just seen, economic expansion accelerated after 1820, world trade continued to be negligible in the early part of the 19th century. The “international trade” that did exist was principally between Europe and its colonies. As a portion of Gross World Product (GWP), trade only comprised 1 percent of the world economy in 1820 (Maddison 1995). From the perspective of trade, then, economies were still very much self-sufficient in that era. But trade quickly increased to 5 percent of GWP in 1870, 8.7 percent in 1913, and 13.2 percent in 1992. It should be noted that then, as now, trade varied drastically among regions and not surprisingly, trade volume followed the colonization routes of Netherlands, Spain, and United Kingdom.

These figures support Wallerstein’s conception of the world economy. It is clear that those who entered, or more accurately started, the race, have not only been able to hold their position of dominance but have been able to entrench it. In many ways one could say the race was fixed from the beginning and the rules set by those who started it, always carefully structured as to work only in their benefit. Economic life may be a footrace, but not everyone starts at the same place. The West strategically did so over the three centuries of the proto-capitalist period. The rise of South East Asia notwithstanding, Europe and the United States...
continue to exert formidable economic power. If anything the core has become more powerful at the expense of the periphery. The numbers above corroborate this concentration of power. Rather than the world envisioned by convergence theorists where all countries are destined to go through a similar economic evolution, wealthy countries remain wealthy, and the gap between the rich and poor continues to be a persistent feature of the world economy. Even throughout the period of purported globalization this has not changed.

In summary, the world economy has been global for close to two centuries, and in preparation to this, the protocapitalist state can be traced back another three. Given the power imbalance proposed by Wallerstein’s world-system, Canada’s economy, for example, is unlikely to be threatened by economies from the periphery. The degree to which economic competition from the periphery is a threat to a core economy will be examined in detail in the chapter on trade. For now, suffice it to say that from a theoretical perspective the privileged position that Canada has enjoyed is not under siege. Being part of the core brings with it a certain amount of economic momentum which if anything, appears to be responsible for putting ever more distance between the core and periphery. In short, living standards are diverging, not converging.

Economic Cycles

The growth of the world economy has not been smooth and linear, but rather cyclical in nature, strewn with booms and busts. An observation made by a number of prominent economic historians who study the world economy is one of continuous cycles. One of the first to identify these cycles was the Russian economist Nikolai Kondratieff who wrote a series
of papers on this between 1922 and 1928. Kondratieff (1984: 25), who was careful to point out that these cycles only applied to capitalist economies, identified cycles of bust and boom in the world economy that lasted approximately between 50 to 55 years from start to finish. At the basis of these cycles are changes in technology, such as water power, coal, internal combustion, and microelectronics.

Simon Kuznet also identified a series of cycles, appropriately named Kuznet cycle, which worked on a much shorter time span of 22 to 30 years. These cycles are comprised of approximately 11 to 15 years of acceleration and an equivalent period of slump. More important for our purposes here is the observation that each one of these cycles can be attributed to the dynamic of a capitalist economy. At the trough of a cycle demand increases and suppliers compete in order to meet that demand. Eventually that demand is not only met but exceeded, resulting in collapse of the cycle, manifested in idle factories, high unemployment, and low investment. Wallerstein has emphasized the cyclical nature of the capitalist world economy (see for example 1984) as has Arrighi (1994). From the Kondratieff perspective, we are now in a period of contraction that started in the late 1960s, and followed the boom that lasted from 1945-1967 (Shannon 1996: 132). These cycles represent a persistent problem for capitalism, which by its very nature is growth oriented and fails to perform well in its absence. It is important to keep in mind that we are presently in a period of slowed growth, and that there is little that can be done to make it better and much to make it worse. Of course, all contractions are different, including the current one. The details of this will be discussed in Chapter VII where we will examine the world economy from the Second World War to the present. More importantly, we will search for an alternate
explanation to that of ‘globalization’.

Conclusion

To economic historians a world economy is nothing new. There is much evidence that shows that economies have been well integrated for well over a century. Canada and other colonies were indeed the product of a European expansion that laid the foundations for this world economy. During this expansion, Europe’s outlook was indeed outward. At other times, as in the period between the beginning of the First World War and the end of the Second, countries became relatively inward looking.

One of the persisting themes of the history of the modern world is the seesaw between “nationalism” and “internationalism.” I do not refer to the ideological seesaw, though it of course exists, but to the organizational one. At some points in time the major economic and political institutions are geared to operating in the international arena and feel that local interests are tied in some immediate way to developments elsewhere in the world. At other points of time, the social actors tend to engage their efforts locally, tend to see the reinforcement of state boundaries as primary, and move toward a relative indifference about events beyond them. (Wallerstein 1974: 225)

Since the Second World War, and particularly since the mid-eighties, the outlook has again become internationalized. Many commentators have understood this latest phase as novel and described as globalization. But this process in neither new, nor, if history is any indication, unidirectional.

In some of the following chapters we will see whether Canada’s economy has been catapulted outside of the bounds of the seesaw or whether it still works within its confines. In
other words, we will examine this last phase of internationalism to see whether it is unusual in degree. In the next chapter we will first look at Canada's trading patterns.
CHAPTER IV

TRADE

Introduction

The most frequently used method to illustrate the impact of globalization is to marshal trade statistics. This "dizzying increase in cross-border exchanges", as The Globe and Mail puts it, shows an impressive increase in international trade over the past few decades. For the most part, the figures presented only go back to the 1950s or 60s. One reason for this may well be that most organizations that track this sort of activity did not come into existence until after the Second World War. The United Nations (UN) and associated organizations such as the World Bank, International Monetary Fund (IMF), United Nation Conference on Trade and Development (UNCTAD) were not formed until 1945\(^1\), and the Organization of Economic Corporation and Development (OECD) not until 1960. Figures for individual countries do exist, of course, but bringing them together is often time consuming and riddled with methodological obstacles. There are statistical compendia in existence, such as Rostow's excellent The World Economy: History and Prospect (1978), that do investigate this extensively, but they are esoteric in the sense that they are not widely available, and insufficient in that they are often incomplete. But, as we saw in Chapter III, a lack of statistics does not mean that the countries of the world only started to trade extensively following the

\(^1\)While it is true that the first United Nations declaration was first signed in 1942, its role was vastly different during the war than after. Its forerunner, the League of Nations was formed in 1920, but the U.S., despite President Wilson's efforts, never was able to join and therefore the organization remained weak. Some organizations, such as the International Labour Organization (ILO) later absorbed by the UN, was first established in 1919. The point, though, that there is a dearth of statistics for the pre-war year remains.
Second World War. This paucity of data makes one wonder whether we are turning a deaf ear to history. It is this longer history that we will focus on in this chapter. But first a few methodological details.

**GDP and GNP in Canada**

To track trade statistics in current dollars as they are published by Statistics Canada would be essentially meaningless. A constantly changing dollar and generally growing population combine to constantly change the context in which trade occurs. The best and most common way to present these data is as a proportion of the economy (trade as a percentage of GDP).

Given the ongoing and current obsession with the Gross Domestic Product (GDP), it is somewhat surprising that this statistic did not come into common use until after the Second World War (Block and Burns 1986). Canada, along with the Soviet Union, was one of the first countries to track this figure starting in 1926, with other nations following suit throughout the Second World War (Hobsbawm 1994). Hence, for the years 1867-1925, I had to rely on estimates, either my own or those published by others. Firestone’s provides estimates for the years 1867 to 1925, but only in constant (1935-39) dollars. Since trade figures are published in current dollars only, this presented problems of comparability and I was forced to calculate current dollar figures for gross domestic product. This was done by constructing a multiplier that incorporates yearly growth, the wholesale price index (1868-1912), or the consumer price index (1913-1925). Figures not available were interpolated and weighted depending on the distance from estimates published by Statistics Canada (1870, 1880, 1890, 1900, 1910, 1920).
For the year 1905, for example, I used GNP figures for 1900 and 1910 provided by Statistics Canada and added or subtracted yearly growth figures (which I derived from the constant dollar figures provided by Firestone 1958). I then adjusted those figures using the appropriate price index (consumer price index or wholesale price index; see Statistics Canada bibliography). Growth rates where then weighted according to distance from the known figures. Thus for the growth and price index for 1911, the 1910 figure was weighted 90 percent and from 1920 only 10 percent. My estimates, which I carried forward to years which they were published, proved to very accurate (over 99 percent) when compared to Statistics Canada’s figures, and more accurate than those of Firestone.

Throughout, I will use GNP and GDP interchangeably and based on the format which they were published. Figures up to and including 1925 are GNP, and from 1926 on, are GDP. In order to make things less cumbersome I will refer to the figures as GDP only rather than the more awkward GNP/GDP. GDP refers to the output produced within a country only whereas GNP includes investment income from abroad but deducts investment income leaving the country. All in all the distinction is not that important as the two are “virtually identical” according to Norrie and Owren (1996: 8 fn 5). GNP, on average, amounts to 97 percent of GDP. With respect to the following figures on trade, this would mean a difference of less than 1 percent if GNP were used instead of GDP for the years where the discrepancy is largest (i.e., exports would be 32 percent of GNP instead of 33 percent of GDP). On the graphs that are to follow these differences are indistinguishable.
Canada in Comparative Perspective

It is no coincidence that the bulk of globalization literature originates in the United States, a country that has historically been able to rely on a self-contained economy and that has only recently adopted a more open approach. Having emerged as the undisputed economic power following the Second World War, the economic dominance of the United States has since been challenged by Japan and Europe. These developments have prompted many economists to look for an explanation. Globalization is one theory that seems to fit the facts and is capable of explaining the relative decline of the American economy.

Canada, on the other hand, particularly when compared to the United States, has always been an international trading power with a relatively open economy (Clement 1988: 76). First as a key colony to Britain and, then, an economic satellite of the United States (Williams 1988). Thus, voluminous international trade is not a new development for Canada, suggesting that theories of globalization may be a more appropriate theory for some economies than others; that is, economies that have in the past been relatively closed.

Table 4.1 Exports as a percentage of GDP, selected OECD countries, OECD total, and as a percentage of Gross World Product

<table>
<thead>
<tr>
<th>Year</th>
<th>Canada</th>
<th>U.S.</th>
<th>UK</th>
<th>Australia</th>
<th>Sweden</th>
<th>OECD</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>18.4</td>
<td>4.4</td>
<td>22.3</td>
<td>20.1</td>
<td>20.1</td>
<td>10.9</td>
<td>9.6</td>
</tr>
<tr>
<td>1970</td>
<td>20.1</td>
<td>5.5</td>
<td>22.2</td>
<td>24.3</td>
<td>24.3</td>
<td>12.7</td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>26.6</td>
<td>10.9</td>
<td>25.0</td>
<td>17.6</td>
<td>31.4</td>
<td>20.1</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>25.8</td>
<td>11.4</td>
<td>27.1</td>
<td>17.7</td>
<td>29.5</td>
<td>18.7</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>35.3</td>
<td>13.0</td>
<td>29.5</td>
<td>21.0</td>
<td>34.6</td>
<td>18.8</td>
<td>19.4</td>
</tr>
</tbody>
</table>

Table 4.2 Imports as a percentage of GDP, selected OECD countries, and OECD total

<table>
<thead>
<tr>
<th>Year</th>
<th>Canada</th>
<th>U.S.</th>
<th>UK</th>
<th>Australia</th>
<th>Sweden</th>
<th>OECD</th>
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<tbody>
<tr>
<td>1960</td>
<td>17.2</td>
<td>5.2</td>
<td>20.9</td>
<td>13.6</td>
<td>22.7</td>
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<td>22.7</td>
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<td>23.1</td>
<td>14.9</td>
<td>23.8</td>
<td>13.1</td>
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<tr>
<td>1980</td>
<td>28.5</td>
<td>10.2</td>
<td>27.3</td>
<td>17</td>
<td>29.5</td>
<td>19.3</td>
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<tr>
<td>1990</td>
<td>25.5</td>
<td>9.9</td>
<td>24.4</td>
<td>16.9</td>
<td>29.9</td>
<td>18.5</td>
</tr>
<tr>
<td>1996</td>
<td>37.8</td>
<td>11.4</td>
<td>28.4</td>
<td>19.6</td>
<td>40.9</td>
<td>19.5</td>
</tr>
</tbody>
</table>

Source: OECD National Accounts, Main Aggregates 1997

Canada, like many smaller first world economies, has long been dependent on trade. Table 4.1 shows that Canada’s exports are close to triple that of the United States and approximately double the OECD average. They are also considerably higher than those of Australia, which like Canada, depends largely on resource extraction and exports. The only country that matches Canada’s exports is Sweden, which has a much smaller economy and population (about 8 million people) than Canada, but is also more industrialized. In the OECD as a whole, exports have doubled between 1960 and 1995, meaning Canada is typical of this larger trend. As a percentage of GDP, the United States ships fewer exports now than Canada did in 1960. This does not, however, mean that the America’s trade is insignificant. Given that their economy is so large, the relatively small percentage devoted to trade still constitutes the largest in the world in terms of dollar value.

Table 4.2, which tracks imports for the same period, pretty well tells the same story as for exports -- a doubling of imports for the majority of countries as well as increased trade dependence for the smaller countries. Notice that in 1960s the OECD countries exported less to the rest of the world than they imported, a relationship which had since become much more
equitable. In other words, OECD countries are importing less relatively speaking from the poor countries than in the past. This suggests that the threat of third world imports is often exaggerated.

The Canadian Data

The following data trace Canada’s trading patterns back to Confederation, first with all countries, and then broken up by continent. It should be kept in mind that these figures are for goods only (merchandise trade) and therefore somewhat lower than the OECD figures presented above which are for both goods and services. This distinction is important to uphold because, as we shall learn later, services do not trade as well as goods.

Figure 4.1 graphs foreign trade from 1960 through 1996 (all figures are in back). As said, this is usually the kind of graph presented when the globalization argument is invoked. The graph does indeed show a considerable rise in trade, both in terms of exports and imports (which are almost always identical and more indicative of a barter system than a truly internationalized trade system). That rise in trade is especially apparent from 1990 onwards. In this six year period trade rose from 20 percent of GDP to 30 percent, a 50 percent increase. But the graph is biased in that it only includes a short segment of Canada’s history and only shows one third of Canada’s economy (that is, if the scale on the left were to include 100 percent of the economy the lines would obviously be much less impressive).

Figure 4.2 presents international trade in terms of exports and imports from 1868-1996. The first observation that can be made is that the sharp increase in trade between 1960 and 1996 becomes much less impressive when put into the historical context of the last 130
years. Exports reached the 30 percent of GDP mark during both world wars, and import figures in the 1870s up to and including the early part of this century were not matched again until the 1990s. Trade figures, especially for exports, were in a trough in the early 1960s and considerably lower than before WWI. This is true for the rest of the world, as world trade figures did not match the pre-World War One figures until well into the seventies (Gordon 1988). One of the assumptions that globalists make is that the increase in trade we have experienced since the 1960s will continue (Weiss 1997), but as the past shows, trade patterns are cyclical and there is no guarantee this trend will continue. Also, it is not unusual for countries to turn inward once a major recession looms, a fear presently expressed by many economists.

Figure 4.2 also shows that trade has always been an important aspect of Canada’s economy. But who is this trade with? This is an important question because a central tenet of the globalization argument is that competition, and hence imports, from the third world are the threat to the Canadian economy because of lower wages and labour standards. The most exact way to answer this question is to examine exports and imports according to continent or region: Europe, Asia, Africa, Oceania (which includes primarily Australia and New Zealand), the United States, and other Americas (including South America, Central America, and the Caribbean), and starting in 1954, the Middle East (which were included in Asia and Africa previous to that). We will first examine exports because world trade figures are given

14Export figures used are domestic exports only (i.e., it does not include foreign exports) and imports include imports for consumption only. Foreign exports are those that go through Canada but originate somewhere else. For example, lumber from Washington state is shipped from Vancouver B.C. to Japan.
in export only and this will allow us to make global comparisons.

Exports

If we examine the three most important trading regions for Canada, the growing importance of the U.S. market for Canadian exports becomes abundantly clear (see Figure 4.3). Exports with the United States were relatively even at around 5 percent in the past century and only started to increase shortly before the First World War. They sank back to 5 percent in the depth of the Depression but from that time on followed an upward trend that had only a few setbacks. This upward rally started to accelerate in the mid-sixties and again in 1990 with the signing of the Free Trade Agreement (USFTA; officially signed in 1988 and implemented 1989). In all, U.S. exports now dominate 80 percent of Canada's total exports compared to an average of just below 60 percent in the 1960s.

Also notable is the doubling of exports to Asia. At just over 3 percent of GDP, however, this importance appears to be exaggerated in globalization accounts. Asia is less important to Canada's economy now than Europe was in the past century or the majority of this one. As can clearly be seen, exports to Europe shot up during the First World War and again during the Second World War. Overall it may be said that the importance of the European market has declined since Confederation while the Asian market has increased. The magnitude of these fluctuations, however, cannot compare to the overwhelming importance of the United States to Canada's exports. Another way of looking at this is to see this as a battle between the United States and Europe for economic dominance for the first 80 years after Confederation, a battle that was clearly won by the United States following the Second World
War. After that point, Canadian trade ties with Europe weakened, perhaps due to increased trade among the European Union.

What about the other regions of the world: Africa, Australia, the Middle East, and other regions of the Americas? The largest export market for Canada among these regions is the ‘other Americas’ (North and South America and Caribbean but excluding the United States). Current export figures to the ‘other Americas’ are relatively low by historical standards. In the past century and the early part of this one, Canada’s trade with this region was high primarily because of the West Indies.

International data show that during the Second World War it looked as though South America was going to successfully join the world economy although this did not come to pass (Gordon 1988: 34, 35). Canada’s drop in exports to the other Americas following the war, and again in 1950, mirrors that trend. Exports did slowly pick up during the 1970s but fell again with the beginning of the debt crisis in the 1980s. Trade with the ‘other Americas’ increased somewhat since the introduction of NAFTA which also includes Mexico. But exports to this region as a whole are historically speaking still quite low. As a matter of fact, exports as a percentage of GDP to the other Americas in the 1870s are unprecedented with the exception of the Second World War. Africa is essentially shut out of Canada’s economy which is true for the world economy as a whole (Gordon 1988), which reveals that globalization is always a relative term. Oceania and the Middle East are also only marginal to

15 It should be noted the scale used for Figure 4.4 is one-tenth (0-3 percent) of the previous figure (0-30 percent). This should give some indication of just how relatively peripheral these areas are to the Canadian economy (with a few exceptions such as Africa during the Second World War and, as we shall soon see in the import section, the Middle East during oil-shocks in the mid-70s).
Canada's economy although for different reasons. While Africa is shut out for political reasons, Oceania and the Middle East have relatively small populations and therefore markets. Combined exports to Africa, Oceania, and the Middle East have been below than 1½ percent of Canada's GDP since the end of the Second World War. Given their distance from Canada, this paucity of trade is understandable, although globalization theory with its emphasis on the collapse of time and space would have a tendency to diminish this.

With the exception of the United States, world trade is pretty much consistent with Canada's trade patterns. Asia's share has risen, but in world terms it is far from phenomenal. The four Asian newly industrial economies (NIC) share of world trade more than doubled from 2.2 percent in 1970 to 5.5 percent in 1990. During the same period, that of the Latin American NICs (Mexico, Brazil, and Argentina) shrunk from 2.6 percent to 2.1 percent. Another way to look at these figures is in terms of industrial output. While the share of industrial output of Asian and Latin American NICs (minus Argentina) has increased considerably, from 2.7 percent in 1970 to 5.8 in 1989, this share remains only a small portion of the world economy (Wade 1996: 69). Interestingly, it is these regions that the light is focused on. Given the experiences of Latin America, South East Asia is really the only region in the world that has experienced a protracted boom since the mid-seventies. Everywhere else economies stagnated or slumped. But one region does not globalization make.

16 These are Wade's figures and he provides no reason why Argentina is omitted from these figures.
Imports

Imports tell a story very similar to that of exports. Figure 4.5 shows a secular decrease of European imports and the increasing importance of those originating south of the border. Here the divergence between Europe and U.S. is more apparent than with exports as it also begins much earlier, in 1900 compared to 1945 for exports. The only time that European imports were higher than those from the U.S. was in the first decade of Confederation. From then on European imports became increasingly less important to the Canadian economy.

American imports follow precisely the opposite trend. Throughout this century U.S. imports have dominated Canada’s economy, a dominance that has been buttressed by the two free trade agreements signed within the past decade. Asia’s imports have also increased, but again, pale to those from Canada’s southern neighbour. Current imports from Asia are also lower than imports from Europe anytime in the past century. As with exports, imports from Asia presently comprise only about 3 percent of Canada’s GDP, a trend which has been slow but steady in the making.

Noting again the difference in scale (2 percent vs. 25 percent), Figure 4.6 shows that imports from the ‘other Americas’ have waxed and waned considerably since Confederation and are presently only slightly above average. With the exception of Middle Eastern imports around the time of the oil-shocks, the value of goods shipped from Oceania, Africa, and the Middle East amount to approximately 1/4 percent each, totalling less than 1 percent of Canada’s GDP. Again, these regions are almost shut out of Canada’s economy. Imports from ‘other Americas’ are slightly higher, although they at no point reached even 2 percent of Canada’s GDP. In the past century sugar cane played an important role and in this century
the Second World War provided economic opportunities for that region. These opportunities seem to be on the decline now.

The previous graphs have illustrated the overwhelming importance of the American economy to the Canadian economy both in terms of exports and imports, and, with the exception of Asia, the increasing insignificance of other regions. Let us now take a closer look at this by aggregating some of the above findings.

A Review

The preceding trade figures show an ever-increasing reliance on the American economy, a reliance that has escalated consistently and with few breaks since Confederation. This is well-illustrated in Figure 4.7 where Canada’s global trade (exports plus imports) is presented both with and without the United States. Viewed from this angle, Canada’s trade with the rest of the world has stayed relatively flat since 1950. In fact, world trade has generally been lower in the past fifty years than in the first fifty years following Confederation.

In other words, Canada’s economy is less globalized now than at any time preceding the 1920s. The reason global trade was high in the eighteen hundreds was primarily because of vigorous trade with Great Britain, a reliance that has waned considerably over the years. This vacuum was taken over by the United States and has increasingly come to dominate as time went on, despite the decreasing costs of transportation so much celebrated by globalists. As a share of its economy, Canada’s overseas trade (or trans-oceanic trade, to be more precise) was more plentiful in the 1800s than it is now. This despite the relatively unsophisticated transportation technologies available then. These events demonstrate that
politics mattered immensely in the last century, more so than did geographical constraints. The same can be said for today with respect to politics and technological advantage.

Another way of examining the aggregate trade data is to compare it to Canada’s domestic economy. This shows that once exports and imports of goods are accounted for Canada’s economy is still close to 70 percent domestic. Figure 4.8 shows that once the whole economy is taken into consideration (that is, the scale is raised to 100 percent) then trade plays a much less significant role. Furthermore, the vast majority of these imports come from Canada’s only contiguous neighbour, the United States. When only newly industrializing and non-industrial countries are considered (that is, Japan, U.S., and Europe are excluded), as Figure 4.9 shows, this amounted 4.5 percent of Canada’s economy in terms of imports in 1996. At 36 billion dollars this is considerable, but not enough to endanger Canada’s economy. The hard winds of globalization show to be a mere draft.

The preceding data demonstrate that seven-tenths of Canada’s economy remains within its own borders and many of the problems occurring there are not likely to be caused by outside events like competition from low wage countries. Nor are political events in Canada likely to be solved no matter how much we trade. Trade has acted as a kind of diversion and calls for increased competitiveness have only served as an excuse to cut social programs or keep wages low. Such debates are, of course, important but they should be more comprehensive and explore how social programs can help make Canada more competitive and how reasonable wages can benefit economy.
Goods and Services

The above data consist only of goods and is vulnerable to criticism on the grounds that modern economies are becoming increasingly service-oriented or post-industrial. Furthermore, it is often believed that products associated with a service economy can be produced anywhere and are not subject to the same constraints as those of material products (Lash and Urry 1994; Waters 1995). Others, however, have taken the exact opposite position and argued that as economies become more service-oriented they also become less trade intensive (Wade 1996). Figure 4.10 clearly shows that a service economy is not likely to result in more trade. In Canada, as a percentage of GDP, services have consistently hovered around the 5 to 6 percent mark since 1926 (with the exception of the Second World War where imports of services briefly rose to 14 percent).

A service oriented economy means less trade for a number of reasons. One, in a service society the emphasis is on education and education itself is not easily traded. In Canada, education expenditures amount to between 7 and 8 percent of Canada’s GDP. Two, as we grow older we consume more health services, services that with few exceptions are likely to be provided within any given country. In Canada, this currently amounts to just under 9.5 percent of the economy. Real estate, financial services, food services, are also products not amenable to trade. Add to that private and public consumption that is also unlikely to move (for example, construction) and the result is an economy that is firmly planted within Canada’s borders. Services like tourism and entertainment may indeed be globalizing, but they only consume a small amount of the budget of the average consumer.

Exactly how much the Canadian economy is becoming service oriented can be best
illustrated by labour force trends in various sectors of the economy. In 1996, 73.4 percent of Canadians worked in the service industries. Once construction is included, this rises to 80 percent (The Daily, March 17, 1998). This is not to dismiss the importance of the manufacturing and resource sectors to Canada’s economy, only to point out that the threat of footloose corporations is an idle one to most Canadian workers. The bulk of Canadian workers (e.g., teachers, nurses, sales clerks, knowledge workers) are employed in the service industry and do not compete with workers outside of the country.

A common argument is that manufacturing provides the backbone for the economy, the absence of which would lead to an economic collapse. This line of reasoning is implicit in the globalization thesis that laments the de-industrialization of the first world and sees industry growth in the third world. The best response to this position is to compare debates that took place during the transition from an agrarian to an industrial society. This view is mostly associated with a group of French economists known as the physiocrats, who believed that agriculture was the only source of real prosperity and manufacturing or industry was nothing more than parasitic (Heilbroner 1980). In short, then as now, people believe there to be a ‘noble sector’ of the economy the reasons for which, then as now, are completely unfounded (Maddison 1995: 39).

Discussion

One of the claims made in this dissertation is that the globalization thesis is biased in that it focuses on selected parts of the economy while leaving out others. The attention on consumer goods produced outside of the country is a case in point. While a TV or VCR may be a
sizeable investment, purchases of this type consume only a small portion of our yearly income. The same goes for clothes. Compared to rent, food, transportation, education and health (the latter which we pay through taxes), we spend relatively little on electronic products or clothes. And even once a product is in Canada, much of the profit stays within the country (in terms of sales and handling profits). Only a minority of goods and services consumed in Canada are made outside the country, and those that are come primarily from the industrial world. The small number of goods coming from low-wage countries may be unduly exploited by globalists. The fact that a shirt comes with a label identifying its country of origin ('made in China'), and education or a building does not, only serves to strengthen the globalization argument. But as we have seen, this rather selective approach is also superficial.

Of course, this may change, and imports from Asia, South America, or Africa may increase while American imports will decrease. But such a scenario is unlikely for a number of reasons. Although many third world countries do pay lower wages and have lower labour standards than we have in Canada we do not necessarily have to view them as a threat. For one, productivity and wages are highly correlated (The Economist, Sep, 20-26th, 1997: 38), meaning that corporations that do relocate to low wage areas are stuck with low productivity in return. Moreover, labour costs are not the only variable that companies consider. The European Commission has concluded that unit wage costs mean little without factors such as existing skills of the workforce and the ability of that workforce to adapt to the technology (European Industrial Relations Review 241 February 1994: 15). In other words, one of the major components firms look for is a well-educated workforce (as well as political stability). In the United States, for example, trade with low wage countries (defined as countries with
less than 50 percent of U.S. wages) is only about 3 percent of its GDP and has not increased significantly since 1960 (Wade 1996:67).

Politics

Trade agreements like the FTA and NAFTA underscore the ongoing importance of politics. In the 1990s, around 4/5 of Canada’s trade takes place within this continent, and 9/10 within the OECD world; that is, the industrial and wealthy world. This flies directly in the face of globalization theory that identifies politics and geography as becoming less significant.

Canada’s situation is not unique and is indicative of a larger trend towards the geographic concentration of trade. In single-unit Europe, Japan and the United States trade amounts to less than 12 percent of GDP, a percentage which is even lower for Asia and South America. This high concentration of trade has led Wade to conclude “90 percent or more of these economies consists of production for the domestic market and...90 percent of consumption is produced at home” (italics his; 1996: 66). From that perspective, the North American economies are becoming increasingly integrated and Canada’s economy is not so much becoming internationalized as it is continentalized. Canada’s economy continues to be 85 percent North American (see Figure 4.7). Or to put it slightly differently, trade among the three NAFTA countries increased from 68 percent of total trade in 1980 to 79 percent in 1992, meaning the rest of the world is shut out (Weiss 1997: 11). This is indicative of a larger trend of a world economy that is becoming more concentrated in the North. Between 1970 and 1989 the North’s share of world trade increased from 81 to 84 percent (Weiss 1997).

Canadian trade has long been high with the United States and with the introduction of
FTA and NAFTA it has only increased, meaning other countries (i.e., the rest of the globe) are shut out. This increase in trade with the United States is no accident but planned and is anything but global in vision. In 1976, duty-free imports from the United States and the rest of the world were identical and amounted to 61 percent for each. By 1987 (one year before the signing of the FTA) the proportion of American duty-free imports increased to 73 percent while those from the rest of the world decreased to 47 percent (Norcliffe 1996:41). Such developments have forced Wade (1996: 79) to conclude that "national borders continue to be control points where governments can affect the quantity and price of cross-border merchandise transaction, nowadays less through tariffs than through a whole panoply of nontariff barriers" [italics in original]. In this sense, regional trade agreements such a NAFTA and the EU are a direct contradiction of a globalization trend and, legally speaking, these agreements are contrary to international trade agreements such as GATT (now WTO) (Greenspun and Kreklewich 1994: 47; Deblock and Rioux 1993 : 10).

The increased dominance of the American economy has made Canada’s economy much more dependent on external shocks from the United States, and may even magnify them; that is, an economic recession will be felt worse here in Canada than in the United States (Barnes 1996: 48). As several commentators have observed, Canada is hitching its fortunes to one star, one that may fall soon. Despite all the rhetoric of globalization, Canada’s economy is not becoming more global but more insular and confined to this continent. Essentially all of the increase in Canada’s trade in the past four decades can be attributed to trade with the United States. It would, no doubt, be in the best interests of the Canadian economy to diversify and hitch itself onto several stars so as to spread economic risk.
The left in Canada has long criticized the government for relying on its resources and exporting them without adding value. This has resulted in a lack of an industrial base in Canada. In recent decades this resource dependence has continued to play an important role. So rather than experiencing the transformation of Canada's economy, that is globalization, we are witnessing the further strengthening of economic dependence on one country, which was first with France, then Great Britain, and now the United States. As Norcliffe writes,

Since the 1960s several Pacific states have become important trading partners, and Japan and Hong Kong major sources of investment. But in its bare essentials, the mechanism of Canadian development has not changed in 500 years. (Norcliffe 1996: 25)

It is interesting to note the persistence of this development and how it is completely contrary to the globalization thesis.

Conclusion

The figures indicate that from a historical perspective Canada’s economy is not becoming more globalized. There are some changes, such as an increase in imports in Asia. But even when Japan is included, imports from Asia are far from flooding Canada’s markets. Japan is a high wage country and imports from the third world are considerably less. The exception to this is China. As figures above have illustrated, other regions of the world are virtually excluded.

From a historical perspective this allows us to make a few conclusions. These observations are true both for global trade as well as Canadian trade. The only region in the world that has been able to join the world economy is South East Asia. And even in that
region growth has been uneven. Japan is the only country that has successfully joined the core this century. The four tigers (Singapore, Taiwan, South Korea, and Hong Kong) have done quite well, too, but even there growth is slowing, and figures still put them firmly in the semi-periphery. Other economies such as Indonesia and Thailand looked promising for a while, but these promises collapsed with the Asian crisis. Even then, at no time did they look like they would be able to escape the periphery. No doubt, the lure of joining the world economy and becoming rich is always there but it takes more than austerity measures, deregulating the economy, or raising interest rates to do this. Entry into the world economy is precarious at best and promises made by international organizations such as the World Bank and IMF are often hollow. Argentina and Brazil, the economic child-prodigies of the past, can attest to the emptiness of these promises. Now so can Thailand, Indonesia, Malaysia and the Phillippines.

In the end, only one region of the world that has made substantial gains in the world economy over the past forty years, but this is hardly worthy of the declaration of a new trend like globalization. These same patterns are also easily gleaned from Canada's international trade data. Overall, at between 3 and 4 percent, the influx of third world products into the Canadian economy is rather small.

Against this background of international trade, we will now take a closer look at a related argument and that is of the declining role of the power of the state.
CHAPTER V

FOREIGN DIRECT INVESTMENT

Besides trade, the increase in Foreign Direct Investment (FDI) is often trumpeted as incontrovertible evidence of globalization. FDI is often considered a better indicator of foreign control than portfolio investments (stocks and bonds) the latter of which may stay in the host country for only days, even hours. The rapidity of these transactions has earned it the nickname of 'hot money'. In contrast, FDI often remains in the host country for years and sometimes decades. Nationalists often fear FDI because of the loss of national control, a concern that long precedes any globalization arguments.

The basis for the FDI argument with respect to globalization is not always as consistent or straightforward as it is for trade. On the one hand, large volumes of FDI are said to serve as evidence for what is often referred to as 'revolving door' production. As the name implies, this involves the temporary use of foreign plants (preferably low wage ones) to produce goods which are then re-imported to the wealthy countries (which would then be reflected in high imports from that country or region). In other words, high FDI and high imports are part of the same equation. On the other hand, a convincing argument has been made that FDI is, in fact, indicative of a de-globalization trend as FDI often entails the construction of branch plants to avoid restrictions such as non-tariff trade barriers on imports. In a perfectly globalized world, a firm could service the whole world from one location. Thus Japanese car manufacturers are forced to build branch plants in Canada and the United States because of import quotas (voluntary restraint agreements or VRA). According to the first version we should expect to find FDI increasing in the third world and decreasing in the first,
especially in manufacturing FDI. In the latter version, FDI would fall to a minimum in a truly
globalized world. Firms could simply concentrate production in one place (say Japan) and
service the rest of the world from that one location. Both these arguments have some merit
but looking solely at aggregate data does not reveal which of these two scenarios fits best.
That is, aggregate figures in isolation obscure whether FDI is the result of non-tariff barriers
(anti-globalization trend) or low wage sites (which would indicate a globalizing trend). In
other words, in order for FDI data to be meaningful it has to be broken down by region for
both origins and destinations.

FDI can be measured in one of two ways, flows and stocks. Flows, the more
commonly used figure, refers to the amount of money that crosses a border within a given
time period, usually a year. The second, less common, way is to measure FDI stock. This is
the amount of FDI accumulated including re-investments made by foreign firms. For example,
if GM makes a 1 billion dollar profit and reinvests half this in the Canadian operation, its stock
will have risen by half a billion dollars, a figure that is ignored by flow figures. For that
reason, stock data can be considered to a more accurate number (see McPherson 1996).

FDI data is not as extensively available as trade data and goes back no further than
1920. This is rather unfortunate as Canada has long depended on FDI, especially in its
beginning, and it would be illuminating to see how figures from the last century compare to
this one. The dominance of French and then British foreign investment in the Canadian
economy in its formative years laid the groundwork for what some have characterized as a
relationship of dependency (Naylor 1972; Laxer 1973). This position of domination was then
overtaken by the United States near the middle of this century. Of course, a theory of
dependency is at odds with one that would situate Canada solidly in the core, as has been argued above. The following data should throw some light on this issue. The fact that to the rest of world, such as the U.S., increasing amounts of incoming FDI is a relatively new process has led Laxer to conclude we are now experiencing the "Canadianization of the world" (1995).

For the FDI figures I will continue to use current dollar GDP as a point of reference. One obvious shortcoming with this method is that FDI stock is an accumulated figure while GDP is a flow (this is similar to debt and deficit relationship) which has the tendency to overemphasize the impact of FDI stock. However, a benchmark is needed that incorporates both growth and inflation, a function the GDP figure performs well. The equivalent required, an accumulated wealth figure, unfortunately is not available on a consistent basis in Canada (with the exception of the three wealth surveys after the War).

**Flows**

Much of the discussion about FDI has concentrated on flows. The figures paraded usually show a considerable increase, especially in outgoing investment; for example from just under $50 million in 1970 to over $15 billion dollars in 1995. On first sight, this 300 fold increase does seem truly fantastic. But it also ignores both the growth and size of the economy as well as inflation. Once these factors are taken into account the magnitude of change is much less dramatic: from .13 percent of GDP to just over 2 percent of GDP between the years 1970 and 1990. Compared to trade figures that hover around the 30 percent mark, these figures are minuscule. What is interesting to note is that while Canada was largely on the receiving end
of FDI throughout the 50s, 60s, and 70s, this relationship gradually become more equitable in the 1980, with outgoing investment surpassing incoming flows in the early 1990s (see Figure 5.1). Flow figures, however, may not be all that good of an indicator of FDI as these ignore how reinvested capital accumulates. In this sense, FDI stock paints a much more accurate picture of foreign ownership in Canada and for that reason will provide the bulk of the analysis.

Portfolio and FDI

Before examining FDI stock let us quickly take a look at combined investment figures (FDI plus stocks and bonds) as these figures go back another twenty years to 1900. These numbers, seen in Figure 5.2 clearly emphasize two important trends. One, the amount of foreign funds invested in Canada today pales in comparison to that anytime preceding the Second World War. From 1900 until about 1940 this figure consistently surpassed 100 percent of GDP, reaching almost 200 percent in the depression. This is somewhat surprising given the recent hysteria around the debt and deficit, where foreigners were purported to have an ever-increasing grip on Canada's economy. In historical terms, as the figure shows, this is much of an overreaction. Canada's economy had much less foreign control after the war than anytime before it. This continues to be true even into the eighties and nineties when the debt ballooned and globalization is said to have taken place.

The second trend, not shown in the graph, is one of UK dominance that was eventually replaced by that of the U.S.. In 1900, 85 percent of all foreign investment originated in the UK. By 1922, this decreased to less than half (47 percent) with the other
half coming from the United States (and 3 percent other countries). Following the war the United States came to dominate foreign investment which it continues to do to this day (between 70 and 80 percent). The graph also shows that investment leaving Canada today (data which go back only to 1920) is also not historically unprecedented and was matched in the early 1930s. These aggregates, then, put the globalization thesis in question.

**FDI Stock**

In this section we will examine FDI stock in detail. In addition to looking at aggregate figures, we will trace where FDI stock in Canada originates and where FDI owned outside of this country is destined. To quickly review, the logic behind the globalization argument goes something like this: Capital is no longer constrained by geographic boundaries and it will go where returns are best. Often this means investing in third world countries where labour is cheap. Investment from abroad also means that national governments are less able to dictate policies within their borders as capital once dissatisfied simply moves elsewhere. An increase of FDI stock within one's country means less autonomy while a decrease in FDI moving abroad can be interpreted to mean that conditions for investing are no longer favourable in the home country. The globalization argument is thus unfalsifiable in that both an increase and decrease in FDI can be used as evidence. This is indicative of the loose kind of talk that surrounds FDI. It is often vague and subject to sweeping generalizations that ignore distinctions. Once we see the sources and reasons behind this investment we can better determine whether FDI undermines or corroborates the globalization thesis. We will thus take a closer look at incoming and outgoing FDI in turn.
Incoming

As a quick overview, Figure 5.3 shows that incoming FDI as a percentage of GDP is, by historical standards, relatively low. It was highest in the thirties, dropped following WWII, rose again throughout the sixties and then dropped steadily from about 1975 on. Outgoing FDI, on the other hand, is now at an historical high, although it still relatively low at only one fifth of GDP. As a whole, this is the first time in the history of Canada that there is a balance between outgoing and incoming FDI, meaning that relative control of Canada’s economy is at an all time high.

A closer look at incoming FDI shows that the pattern of is very much the result of American investment which, although gradually decreasing, continues to dominate to this day (see Figure 5.4). Next in order of magnitude, and this should come as no surprise, is European investment. This second place position has remained relatively consistent since 1926. Before the Second World War, FDI from countries other than the U.S. and Europe was pretty much non-existent. Even now it is less then 1.5 percent. The line for Europe in Figure 5.4 would virtually remain unchanged if FDI from the rest of the world were added. Another way of looking at this would be to subtract U.S. from the total, in which case we would find that the European line is essentially the same as the rest of the world. As we saw with trade, Americans dominate that aspect of Canada’s economy. Once we subtract the U.S. from total FDI figures, investment from the rest of the world has remained virtually unchanged since records have been kept. That is, the evidence does not point towards a globalizing tendency. But unlike trade, where Canada’s dependency with the U.S. has been increasing, in terms of investments this dependence has been diminishing.
Once Europe and Japan are added to the U.S. figures, we find that an overwhelming amount of FDI stock in Canada is owned within the first world. In order to isolate changes in FDI coming from the rest of the world we need to put the figures under a magnifying glass and adjust the scale accordingly (from 70 percent of GDP to 1.6). Incoming FDI from outside of Europe and the U.S. was essentially non-existent before the Second World War, but started to pick up steam afterwards. It did, however, not amount to much until the early eighties, staying well below half a percent up to that point. As can be seen in Figure 5.5, the source of this non-Western investments is primarily Asia. Within this region the bulk of funds originate in Japan followed, by a considerable distance, by Hong Kong. Other areas of the world are represented only in minute forms (less than one-fifth of one percent).

The reason behind the increase in investment from Asia does not fit well with the globalization thesis. In order to circumvent the ‘voluntary’ trade barriers discussed above, Japan has been forced to establish a presence in this country by building branch plants within Canada’s borders. In 1986, Honda invested $400 million in a car plant in Ontario; in 1988, Toyota did likewise (same dollar amount, same province). In 1989, Hyundai of South Korea invested $450 million in a plant, this time in Quebec (Holmes 1996: 232). Rather than supporting a globalization thesis and a coming down of borders, these figures suggest precisely the opposite.

**Outgoing**

While Canada has long been a recipient of FDI, it has only recently taken a predominant role in the export of FDI. This trend started to take off in the mid-seventies, with the major
destination being the United States, followed by Europe (see Figure 5.6). European investment started to take off in the mid-eighties, but is it still less than half of American FDI. The reasons for changes in outgoing FDI differs in some respects from that of incoming FDI and is the same in others. It differs in that some outgoing FDI, especially that going to the United States, has primarily consisted of mergers and takeovers, that is, it has not gone to productive investment. Rapid changes in FDI in the late eighties and early nineties can be traced directly to large scale corporate mergers. This again is not unique to Canada but represents a world wide trend which sees FDI going to existing rather than new activities (Weiss 1997). In Canada, well known examples of this are the Campeau takeover of Federated Department Stores (i.e., Bloomingdales) and People’s Jewellers takeover of the Zale Corporation. The trials and tribulations of the Reichman’s and the Bronfman’s are other examples of Canadian companies (or in this case families) engaging in foreign take overs and real estate acquisitions (McPherson 1996: 70).

The reason for the increase of Canadian FDI going to Europe is similar to the increase in FDI from Japan: an attempt to avoid voluntary import restrictions. The large upsurge beginning in the 1980s can be directly explained by Canadian companies such as Northern Telecom, Bombardier, and Fleet Aerospace building branch plants inside the European market. The motivation behind this is a stable access to the European market which can be restricted due to EU technical standards and discriminatory procurements (McPherson 1996: 78).

We are then left with a relatively small portion of FDI going to the rest of the world, a figure which has been a pretty consistent one-fifth since statistics have first been collected
beginning in 1920. As a percentage of GDP, FDI going to the third world has increased in recent years, the major portion finding its way to the Bahamas, Bermuda, and other West Indies countries. However, even these figures are not unprecedented as they were also very high during the Depression in the thirties. The favoured destinations outside of the West Indies is Singapore although it only contributes a small portion to the rise in Asian investment which is dominated by Japan. Figures for other areas such as Central and South America, Africa, the remaining tigers, other NICs, even Mexico, remain low. Looked at from another angle, of all the outgoing FDI between 1985 and 1995, over 83 percent has gone to the West, compared to an average of 79 percent for the years 1920 to 1995. This means that outgoing investment is more concentrated in the West now than anytime in the past, that is, it is less global and less inclusive of the third world. Furthermore, outgoing investment in the third world is not going into productive enterprises but real estate speculation. Figure 5.8 shows that ‘other Americas’ makes up almost all of the non-Western investment. This can be explained by the fact that of all the FDI that was invested in the third world in 1995, almost two-thirds has gone to the West Indies.

Canada is not unusual in its dominance of first world investment. Eighty-one percent of the world stock of FDI is concentrated in the West, principally in the U.S., UK, and Germany (Weiss 1997). Furthermore, the share of the third world’s FDI has been shrinking, falling a third between the late 60s and early 80s (Wade 1996). In terms of flows, the third world was able to attract 25 percent of the world total, which dropped to 20 percent during the 80s (The Economist March 27th 1993: 7). Even Asia is unable to attract large shares of either European or American FDI (about one tenth), and is only able to attract slightly more
than that from Japan (around 13 percent; Wade 1996). The majority of world FDI is destined for the U.S.. Given their size and strength of economy this is not all that surprising, but it does counter the globalization thesis which would see large portions of this increase going to third world low-wage sites. It also shows the continuing weakness of third world economies. From the perspective of investments, the third world cannot be said to be participating in the global economy. Furthermore, the construction of branch plants in Canada from Japan and South Korea further puts the globalization thesis into question. The only aspect that would corroborate the globalization thesis is the decreased investment in Canada from south of the border, something which we will look at in some detail later.

Manufacturing

The globalization argument strongly rests on the premise that manufacturing is moving from the first to the third world and it is therefore worthwhile to examine this sector of the economy further. Figure 5.9 shows that outgoing and incoming manufacturing FDI, as a percentage of GDP, has undergone a gradual convergence, although Canada remains a net winner in that it is able to attract more manufacturing FDI than it exports. Since the sixties manufacturing FDI has averaged between 40 and 50 percent of all FDI, both outgoing and incoming, comprising 6 percent of GDP for outgoing and 10 percent for incoming. While the manufacturing portion of FDI has been shrinking, this cannot be blamed on globalization as this merely reflects a trend that is occurring worldwide (Hackman 1997; Weiss 1997).

In Canada, outgoing manufacturing FDI (as a percentage of GDP) has shown to be very stable between 1920 and the present, although there has been a slow and steady increase
since the early eighties. This FDI, however, is not going to the third but the first world. As Figure 5.10 illustrates, only about ½ percent of GDP goes to manufacturing outside of the OECD world, a figure that has been lower in the past decade than in the 1960s. As a share of all manufacturing FDI, the portion going to non-OECD countries has also been shrinking since the 1960s. This peaked at just over 15 percent in 1965, averaged around 9 percent in the 1970s, and dropped to an average of 6 percent in the 1980s. In short, any increase in manufacturing FDI invested outside of Canada has followed a diverging trend between the OECD and non-OECD world in favour of the already wealthy industrial world. This is the exact opposite of what one would expect given the globalization thesis. Why would this be so? The reason is that rates of return on foreign manufacturing has been falling. For American corporations, profits from third world investments were only two thirds that of the first world in the 1980s, a steady decline from the previous decade when third world profits exceeded those from the first (Gordon 1988: 42).

No matter how one looks at it, there is no identifiable trend supporting the globalization thesis. While there is a downward trend of manufacturing FDI coming into Canada (which would support the globalization thesis), this is also matched by a decrease of FDI going to the third world or non-OECD world (which refutes the same theory). Combined, the general trend towards less manufacturing investment both within Canada and the rest of the world would point towards a post-industrializing trend rather than a globalizing one. The anti-globalization trend is further reinforced by the increase of manufacturing FDI going to Europe and coming from Japan. These trends are not indicative of borders coming down but borders going up as manufacturers try to establish safe havens within the areas that
they hope to service.

The USA

The United States is a different story, of course, and given their size and historical relationship to Canada's economy deserves special attention. To paraphrase Oscar Wilde, the only thing worse than having American FDI is to not have it. The decrease of American investment is part of a general decline of America's economic dominance and a concomitant increase of American FDI around the world (Bellon and Niosi 1988:31-33). It first began in the late sixties and early seventies, long before the Canada/U.S. Free Trade Agreement was put in place and primarily affected resource industries such oil and gas, coal, and metals (Brym and Fox 1989:53). While this may be explained by the shift of production from the rust-belt to the Sunbelt, it does not explain the continuing dominance of Canadian manufacturing in the auto sector. Of the total number of cars built in North America, Canada's share rose consistently between 1961 and 1991 (from 5.8 percent to 17.5 percent) so any decline in FDI cannot be tied to the auto industry (Holmes 1996).

One could make the argument that the decrease of FDI from the United States supports the globalization trend, as these funds are then invested in more profitable third world locations. But, as we saw, investment in third world countries amounts to a trickle rather than a flood, making such a scenario unlikely. In addition, the decrease in U.S. owned FDI in Canada is reflective of a larger trend of the U.S. going from a major exporter of FDI to becoming an importer. In the early sixties, under 3 percent of FDI flows in OECD countries went to the U.S., a figure which increased to 52 percent in the early eighties. Throughout the
same time period, U.S. outward flows dropped from over 61 to 20 percent of the OECD total (Gorecki 1990, Table 2).

In light of these trends, Canada has emerged relatively unscathed, but it has not done as well as other Western nations. In 1950, Canada was the number one destination of U.S. outgoing FDI, accounting for 30.4 percent of the total. This decreased to 16.1 percent in 1990, at which point it had slipped to second place (behind the UK). This is indicative of the larger trend which sees American investment concentrating in Europe (some of which is probably due to voluntary trade restrictions). Furthermore, the decrease in investment in Canada has not been matched by an increase to the third world. In 1950, 48 percent of U.S. FDI stock was located in the first world which increased to 75 percent by 1990 (Hackman 1997). Within the first world 50 percent of total investment was located in Europe, 16.5 percent in Canada, 12.2 in Japan and 3.4 in Oceania. In the third world, Latin America captured the largest share with 16.5 percent (a huge drop since the fifties), with Asia in second place (10.8 percent), and Africa a distant third (0.8 percent).

Even when manufacturing FDI on its own is considered there seem to be little evidence of a globalizing trend. American data show that while American outgoing FDI has been decreasing, the portion going to manufacturing FDI has held relatively steady. For Canada, manufacturing FDI reached a high of 11 percent of GDP in 1960 and declined to 6.3 percent in 1991 a drop of 42 percent. For the United States this translates to a drop from fifty percent of all outgoing manufacturing FDI in 1960 to one-fifth in 1990. But rather than going to the third world, the majority of manufacturing FDI now goes to Europe (50 percent), followed by Canada (20 percent) and then Asia (12 percent). Other areas of the world such as
Latin America and Africa have lost share since the 1950s (Hackman 1997). Overall, figures show that the decreasing stock of U.S. FDI is heavily concentrated, around 80 percent, in the West (Wade 1996). Furthermore, the ratio of foreign to domestic employment has declined in the U.S. (Wade 1996). So while American FDI in Canada has declined, it has mostly gone back to the U.S. and stayed there, or moved to Europe.

Conclusion

The stock of FDI in Canada has decreased considerably over the years and on first sight this could be interpreted to mean that companies are taking their investments and relocating to the third world. But figures for the USA, the major source of foreign owned investment for the better part of this century, show that outgoing FDI is locating elsewhere in the first world. There is no evidence that FDI is moving to the third world, further corroborated by trade figures which do not indicate large increases in imports from the third world. The increase of imports of merchandise from the U.S. in combination with a decrease in FDI suggest that North America is becoming more of a single market, as U.S. branch plants are shut down and Canada is being increasingly serviced from the American market. However, it should be kept in mind that in comparison to the drop to all FDI the manufacturing portion has held relatively steady, and that some sectors, such as car manufacturing, have continued to be quite competitive in this country.

Again, as we saw in the trading figures, most of what one could call globalization occurs within the first world and to a smaller extent, Asia. But unlike the export and import figures, Canada is becoming much less dependent on the United States in terms of capital
(FDI). At the same time, the relationship between outgoing and incoming investment is more equal now than ever and any concerns about foreign, and especially American domination, if not evaporated, have diminished drastically.
CHAPTER VI

FINANCIAL ECONOMY

Introduction

When discussion drifts toward financial markets the mix of awe and dread associated with globalization becomes most pronounced. This is inspired by massive figures such as a trillion dollars a day currency market and the 10 trillion dollar bond market in the United States.

Since 1980 the total value of financial assets has increased two and a half times faster than aggregate GDP of all rich industrial economies. And the volume of trading in currencies, bonds and equities has increased five times faster. The foreign exchange market is the only true global market. Foreign exchange transactions were ten times larger than world trade in 1983; only ten years later, in 1992, they were sixty times larger (Sassen, 1996: 40).

These figures are truly impressive but they also fall into the common trap of assuming that states can do nothing about it, that this will continue forever, and that the globalness of the system is novel. The above account is also somewhat superficial because it lumps everything together as ‘financial assets’ and does not differentiate between currencies, bonds, and stocks, which are quite different in their ability to travel the globe. Also, in the case of finance, there is little room left for agency, with the exception of the odd suspender wearing currency trader. The underlying cause given for the globalization of finance is computer technology, which is said to be so advanced that it can easily circumvent any type of
regulation that states are able to muster. In many ways finance is the globalization argument
writ large: Technology has made borders porous to the point that governments can no longer
control financial transactions; it is even futile for them to try. It seems that with finance, the
anti-globalists have finally met their match.

But the technology argument is too simplistic and glosses over the class dynamics
inherent in the financial economy not only on a global but also domestic level. It suffers from
the same fatalism of the globalization argument in general and dispenses any solutions before
even considering them. Not that solutions are easy. Countering the globalization of finance
argument is probably the most difficult as finance is probably the most complex of the topics
we have discussed so far. Bienefeld (1992) argues that this disorganized financial system is
one of the most overlooked aspects of the economy which, in his words, “is a grave
mistake...since [it] has been a central driving force behind the severe social and economic
problems currently emerging in Canada.” Unfortunately, this system is not only overlooked
but also misunderstood (see Henwood 1997). Few people can make sense of all the talk of
puts, futures, swaps, and derivatives; fewer still are able to understand its social impact.17
These criticisms do not only emanate from the left but also the right. Joel Kurtzman (1993),
past executive editor of the Harvard Business Review, writes that if the system is not brought
under control it is likely to result in mayhem.

From the perspective of how-to-get-rich-books, the financial economy has turned into
what Henwood (1997) has called ‘a perpetual money machine’. But this perspective totally

17This is not to say that these instruments are new. Futures go back more than a
century, options three, and foreign exchange speculation more than seven (Henwood 1996a: 4)
ignores the larger social context of investing. According to the business literature, the economy is doing just fine but could always be doing better. As for prescriptions, this literature does not go beyond the usual homilies of market deregulation. From the perspective of the left, the topic of finance is poorly researched, that is, an understanding of how the stock and bond market works and figures on how it is changing are signally missing. This is particularly so in the political economy literature, and furthermore, in the Canadian literature. One article written by a geographer in an otherwise critical reader on the Canadian economy, laments that Canada did not deregulate its banking system quick enough in order for it to be able to compete globally (Dobilas 1996: 86). But this approach is not markedly different from the literature published by capitalist apologists and is essentially useless as it provides no substantial argument or historical understanding of the issue. Furthermore, rapid deregulation may not be such good advice given experiences in Asia in the past year and banking failures in the U.S., Sweden, and Spain in the past few decades. Rather than resort to the mantra of deregulation, we need to look at some of the possible reasons for why the financial system has come to dominate so much over the past few years and its social context.

**Wall Street and Technology**

Much has been made of how powerful financiers have used technology to escape the clutches of government and their regulation. As is often the case, these observations are partially true.

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18 There is of course the work by Helleiner and Bienefeld which I use extensively in this chapter. This work, however, lacks the empirical basis required for a more solid understanding.
Technology itself is often held responsible for the separation of the financial (stocks, bonds, and currencies) and productive or “real” economy (the production of goods and services). An example of the uncoupling between the two economies is Black Monday, October 19, 1987. On that day the Dow Jones plunged 508 points, falling proportionally twice as far as during the crash of 1929. The fact that there was little change in the rest of the “real” economy and that a depression never followed is indicative of the fact that the two economies no longer parallel each other. Unfortunately, the real economy is starving for investment, while the financial is not.

The growth of the financial economy involves the trading of huge sums of cash consisting of government bonds, stocks, mutual funds, and currencies, a process which has been greatly aided by technology. It is believed by some that the financial economy has now grown to be more important than the productive economy and is able to dictate to governments that they must enforce low inflation rates, fewer state services, and a steady money supply.

How did we get to this point? With the closing of the gold window, currencies started to fluctuate wildly and investors began to speculate on these fluctuations. Legally, this first took place in 1972 in Chicago, when a licence was granted for trading futures on money. Today this activity, taking place worldwide, amounts to well over $1 trillion dollars a day. Add to this speculation on stocks, bonds, and treasury bills and the result is an economy worth 25 to 40 times worth that of goods traded. Such speculation is less predicated on the underlying performance of a particular stock or currency but on its probability of going up or down. To perform this task, the industry is heavily dependent on computers to make
decisions. It employs PhDs in physics, mathematics, and computer science to write formulae to ascertain such odds and profit from them. This has led to investment bankers being replaced by scientists on Wall Street. In 1991, Wall Street invested $7.5 billion in technology, 20 percent of its total outlay, four times the proportion spent by the car industry (and second only to the pharmaceutical industry). This has prompted Bill Gates to observe that Wall Street firms are among the most technologically sophisticated in the world (Kurtzman 1993).

But this economy only works to the benefit of a few. The myth is that through the internet and computers everyone is able to take advantage of the stock market and the global economy. The reality is that to play the market requires huge resources in terms of both knowledge and money. This is particularly true when it comes to bonds, a much larger, more restricted, and more profitable market than that of stocks. It costs US$5,400 dollars a month to rent a terminal that provides access to the bond market, access which is needed in order to turn big profits (Kurtzman 1993: 48). In general, individual stockholders seldom beat the market. People in the business tend to scoff at people who go in on their own. It is estimated that 80 to 90 percent of ordinary people who play the market lose (Henwood 1997). So much for the democratizing effect of globalization or the internet.

Technology obviously plays a very important role in the development of the financial economy but I will argue that it has been a mere catalyst, or epiphenomenal, in a process that is the result of a deeper underlying problem of a capitalist economy. In order to understand

19 In 1990, Jefferies & Company, an international investment house headquartered in Los Angeles, 48 out of 50 working on its automated trading systems were scientists (Kurtzman 1993: 23)
this some historical background will be provided.

**Historical Perspective**

First, let us examine the events of the past few decades in historical perspective. Arrighi argues that the dominance of finance is a consistent feature that accompanies the downswing of the capitalist cycle. Coming from the world-systems and economic cycles perspective, he observes that financial speculation consistently occurs in the ‘autumn’ of an empire and documents similar developments near the end of the Genoese, Dutch, and British empires. His thesis is based on Marx’s theory of profits. Marx observed that capitalists invested money (M) in commodities (C) in order to make a profit (M’), resulting in a cycle of M→C→M’.

Capitalists, of course, have little interest in the commodity itself, only the profit. Optimally, the capitalist wishes to eliminate the commodity from the formulation resulting M→M’, a purely financial transaction reminiscent of financial speculation that is occurring in the contemporary world. In the words of one Wall Street banker, the objective is to find a way to “wring all [one] could out of the deal with a minimum amount of risk” (quoted in Henwood 1997: 52).

Arrighi further makes the argument that capitalism consists of an up-cycle, the material expansion, when commodities are used for profits, and a down-cycle, when fewer profits in the productive economy lure many capitalists to opt for speculation in the financial market instead. Keynes, following Marx, noted that in times of shrinking profits investors aim to keep their money liquid, thereby avoiding long term productive investments in favour of more speculative financial investments. This usually results in a very speculative and volatile
economy where short-term "take-what-you-can-while-you-can-get-it" behaviour is more rational than investing in long term projects (Kurtzman 1993: 230). This has aptly been referred to as 'casino capitalism' by Keynes (later the title of a book by Susan Strange). This type of speculation often leads to a bubble economy, one that burst in Asia including Japan, and one that may be in danger of doing so elsewhere.

The important point to glean from Arrighi's analysis is that current events in the financial economy are simply a manifestation of a deeper and recurring problem of capitalism. In other words, this is not an anomaly. As well, technology may make this type of speculation more intense, but it is not the cause. Arrighi explains such developments as the natural reaction of capitalists searching for profits in an economy where the productive economy has been depleted. Focusing on events of the post-war period, Gordon's explanation fits well into this historical and theoretical framework.

When economic conditions are prosperous and stable, financial capital flows help support and even foster productive investment. But when the economy has become stagnant and unstable, investors tend to move their capital out of productive investments—because of increasingly cloudy longer-term prospects—and into short-term financial investments. The investment climate becomes increasingly speculative. The past fifteen years appear to have illustrated the latter dynamic. As the rate of return on fixed investment in plant and equipment has declined as global economic conditions have become increasingly volatile, firms and banks have moved toward paper investments....Far from stimulating productive investment, however, these financial flows are best understood as a symptom of the diminishing attractiveness and increasing uncertainty about prospects for fixed investments (Gordon 1988: 59).

This scenario has seen funds steered toward the financial sector, where the only motive is profit. Cox asks "What drives the decision-making of the financial manipulators?" His
answer: "the short-range thinking of immediate financial gain, not the long-range thinking of industrial development." Rather than globalization, he writes that "The result of financial power's dominance over the real economy was as often as not the destruction of jobs and productive capital" (Cox 1994:48). A slower growing economy is testament to the fact that the problem of the profit squeeze has not been solved. Financial speculation has only served to make things worse by providing an attractive alternative to productive investments, further weakening the latter.

A deeper understanding of the cycles of capitalism indicates that current events are not new and cannot simply be blamed on technology. With this understanding we can now focus on the political event often pointed to as the water-shed of the post war economy, the abandonment of the Bretton Woods agreement.

The Global System: Bretton Woods

The Bretton Woods system was put in place after the Second World War in order to facilitate trade. Its chief architect, John Maynard Keynes, rightly felt that exchange rate volatility would thwart trade in goods. Rather than have every country's currency pegged to gold in this new system currencies were pegged to the American dollar, which in turn was pegged to gold.

Technology is widely believed to be the reason for the downfall of Bretton Woods, but Helleiner (1994) claims this to be a rather shallow explanation. Helleiner puts forward the argument that the collapse of Bretton Woods can be understood as a desperate attempt by the United States to reassert its hegemonic grip on the world economy. By the early 1970s the
U.S. had borrowed so much money abroad in order to finance endeavours such as the Vietnam war that the dollar was no longer worth its pegged value (this was literally like printing more money which causes inflation). Since the dollar was pegged to gold but increasingly worth less than its advertised amount (a dollar was worth, say, 80 cents but could still buy a dollar’s worth of gold), countries started to trade in their inflated dollars for American gold en masse. In order to prevent a run on gold, the U.S. was forced to close the gold window and float its currency value. By abandoning the gold standard it undermined the whole system since all other currencies were pegged to the U.S. dollar.

Kurtzman claims this could have all been prevented had the United States been willing to raise taxes in order to fund the Vietnam war, although he writes elsewhere that the result was inevitable since the Bretton Woods system demanded too much from its leader, the United States, to begin with (1993:55). Be that as it may, the point is that the events leading to the collapse of Bretton Woods were very political in nature and had less to do with either technology or globalization. The abandonment of Bretton Woods did lead to a floating exchange rate system which has become increasingly volatile. Advocates of this system often argue that this new system can be controlled by no government and no one.

Currency Speculation

Currency speculation is often touted as prima facie evidence of globalization: first, it is global, and second, technology has rendered it intractable. But as Harvey (1995) points out, the transition to the floating exchange system has little to do with globalization as the system previous to that, the Bretton Woods System itself, was already global to begin with.
Furthermore, currency speculation requires national economies in order to survive as they take advantage of changes in currencies and interest rate differentials. Thus the end of the nation state and currency speculation arguments pose a direct contradiction to the overall thesis. The second charge, that technology makes these developments unstoppable, is a little more difficult to counter and requires some elaboration.

There is no doubt that currency speculation has had grave consequences for individual economies. A manufacturer producing for the export market working on a profit margin of 10 percent can have her profits wiped out overnight by a rise in currency. This instability has further channelled investment to the financial economy where one can actually profit from these fluctuations. This has given an inordinate amount of power to currency speculators. As is to be expected, currency speculators, like the financial community in general, have a particular view of the way the world should work. They gauge government performance and credibility by government deficits, wage pressures, strikes, profitability, and inflation. Unemployment, speculators wrongly believe, is the simplest way to keep these figures, particularly inflation, in check (Glyn 1995).

The case for the status quo is usually based on the alleged superiority of the free market. This argument is usually based on two assumptions: one, currency speculation provides the market with the discipline that Glyn so much laments, based on the underlying belief that the market itself is best at determining where money or investments should flow. The second reason given is that technology is so far advanced that it could not be stopped anyway. Since it is unlikely that all countries would agree on such regulation, currency speculators would merely move to a country that did allow this activity. We will examine
both of these assumptions in turn.

I) The Market

There is a considerable amount of conceit underlying the claim that the market always knows what is best. As we shall see in the next chapter, social programs are an integral component of any competitive economy and countries with few social programs such as Brazil and Chile are far from stellar examples of a well-functioning economy. The persistent demands for fewer social programs and more deregulation have little to do with market efficiency and are better explained as the suspect interests of financial elites. Currency speculators have an incredible amount of power not because they play the market but, as Henwood (1997) so astutely puts it, because they are the market. By claiming that low taxes and fewer social programs are optimum for an efficient economy, currency speculators are making somewhat arbitrary decisions. In other words, if speculators deemed that a low birth rate should be shunned instead of high taxes this would inevitably become a factor to where money flows.

A related reason, as often explicit as it is implicit, is the claim that once all the information is known that the market is the best mechanism for allocating resources. Here again, there is an incredible amount of hubris is involved. Free marketeers should listen to the advice of the Greek philosopher Horace, who stated that to know everything is not permitted. This is particularly true of the financial world. There is very little consensus about the reasons for inflation, or the effects of unemployment, wages, and social programs, on an economy. Every one of these topics is the basis for much debate and to claim that currency speculators, bank presidents, or the market knows the optimum level of any of these items brims with
arrogance. Furthermore, in the real world, the market does not work on information alone but also “misinformation, leaked information, guarded information, misplaced information, and noisy information....” and has very little success differentiating among them (Kurtzman 1993: 194). As the recent drop of the Canadian dollar has shown, currency speculators make decisions on partial information. The drop of the dollar closely followed the drop in commodity prices, based on the ‘knowledge’ that our economy is primarily a resource economy. Yet only about one-third of Canadian exports are raw materials and as a percentage of GDP, the resource industry comprises below 5 percent of the Canadian economy. Either the market is poor at conveying these signals or the speculators are not reading them correctly. Either way, the market system is not working.

This arrogance of knowing what is right pervades financial institutions such as Wall Street and Bay Street and international institutions such as the IMF and World Bank, which have caused much damage in the Third World. Austerity packages imposed by the IMF have not exactly added stability as the Indonesian or Malaysian economies show. But hopefully this will change. Joseph Stiglitz, chief economist and senior vice-president of the World Bank, has admitted that their confidence about the right thing to do may not always be justified. He urges for a “greater degree of humility, the frank acknowledgment that we do not have all the answers” (The CCPA Monitor October 1998: 16).

The claim that currency speculators use any kind of real world information may be giving them more credit than they deserve. Currency speculators thrive on volatility and

\[20\text{Although the World Bank has been quite profitable for itself (US$1.35 billion in 1995) and its bondholders (US$6.84 billion in 1995) (Henwood 1997:50).}\]
exploit it -- it is their life blood. It is only through fluctuation in currencies and interest rates that profits can be made. As Kurtzman (1993:66) puts it, “Without volatile markets there would be no speculation.” A Chicago currency trader commenting on Canada’s low dollar attributed the fall to Canada’s stable interest rates. Another speculator revealed that they “don’t care whether [a currency] goes up or down” as long as there is movement (*The Vancouver Sun*, August 10, 1998:A1). Stability is shunned. A lack of volatility translates into less demand which in turn leads to a lower dollar. Of course, in the real economy, stability is precisely what one wants, another instance of how the financial and productive economies are in tension.

This starkly illustrates that traders are less interested in fundamentals like inflation or taxes than the potential for a currency for going up or down. New Zealand found this out the hard way. No Western country pursued the free market doctrine with more rigour than New Zealand. Purportedly based on a currency crises, the government felt it necessary to dismantle social programs and privatize public corporations in order to appease the market and speculators, with drastic consequences on both the economy and social inequality (New Zealand’s economy actually contracted between 1985 and 1992). Yet the only Western countries that suffered more than Canada in the past currency storm were Australia and New Zealand, based on the false belief that they were also resource economies. No doubt this must have devastated the people of New Zealand who have sacrificed so much for so long in order to please the currency speculators. The moral of the story is that in capitalism, as in knife fights, there are no rules.

The fact that currency speculation is condoned is difficult to understand in light of the
intolerance toward inflation. The most common reason given for the fight on inflation is investor confidence. Investors, it is said, who make long term decisions are better able to make them in an atmosphere of stability where they can be reasonably assured their investments will not be eroded by inflation. If this is true, one must wonder why the financial community has at the same time turned a blind eye to volatility in almost every other sphere of the economy: currency speculation, stock, and bond prices, and the labour market. We again are confronted with the contradiction that the market can decide everything but inflation. This contradiction can, of course, be explained by the fact that the financial community benefits from both currency speculation and high interest rates (the medium of inflation fighting).

ii) Technology

What can be done? The fact that the Bretton Woods system did successfully work for close to three decades is evidence that an international system can work. The fact that its abandonment was political in nature and not technological, as Helleiner argues, suggests that a return to regulation is also possible. The most frequent solution offered is the Tobin tax, as proposed by Nobel laureate James Tobin. This legislation would dissuade speculation by taxing 1/4 of one percent on each currency transaction, making most speculation unprofitable. Plans were underway to discuss the Tobin Tax at the Halifax G7 summit, plans which were thwarted on the recommendation of the finance department (McQuaig 1998). After the turmoil in Asia, however, currency controls are starting to look quite appealing and the topic was given serious consideration at the recent APEC conference in Kuala Lumpur (The Globe and Mail November 19, 1999: A17).
Such a tax is often opposed on the grounds that its implementation is impossible. Detractors of the tax argue that it could easily be circumvented by moving the whole operation to a country that refused to charge the tax, easily done with the far-reaching hand of technology. But this argument glosses over who gains and loses from the present arrangement. Helleiner (1995) is of the opinion that currency speculation is permitted because two very powerful economies, namely the United States and Great Britain, continue to benefit from it. Furthermore, the technology argument makes the assumption that all countries are equally powerful when it comes to currency trading, which is not the case. By far the most frequently traded currency in the world is the U.S. dollar based on its role as a vehicle currency. Say for example, a currency trader wanted to exchange German marks for Swedish krone, she would first have to trade German marks for U.S. dollars which would then be converted to Swedish krone. The participation of the United States is crucial then in the establishment of any kind of regulation.

Once the U.S. agreed to charge a tax, it would be difficult to set up shop somewhere else. The United States is certainly powerful enough to stop billions of its dollars from leaving the country. Also, once the United States opted out, another currency would have to act as a vehicle currency. It is highly unlikely that a European country would allow this activity as currency stability has been the main impetus behind the EU. Once these economies are eliminated there probably is not an economy left in the world that would have enough money to use as a vehicle currency with the possible exception of Japan.

Additional reasons for why the market could not easily relocate to a third world country is that currency traders are very dependent on the technology and skill available in the
West. It would be unfeasible for this technology to be transferred to a third world country for the same reason that corporations do not move there: inadequate power and communication infrastructure and a less educated work force. In short, once the United States, Japan, and Europe are on side, the chances that currency speculation would continue would be low. At this point, it is only the United States that “remains cool” to any kind of regulation (The Globe and Mail January 22, 1999: B9)

Money and Trust

How can this go on? For one, most people probably believe that technology and globalization are responsible for these developments and cannot be stopped. Two, the majority of people do have faith in the market, a fact constantly exploited by currency speculators and the financial community in general. Third, people do have a considerable amount of trust in the money system and are probably not aware of how easily it can be exploited. Giddens uses money as an example of a symbolic form of disembedding mechanism (1995). A primary feature of a disembedding mechanism is that people continue to have faith in such expert systems, despite the fact that they know little about it. But as we have seen, control over this system has dramatically diminished and, furthermore, without adequate regulation, such systems can easily be abused. The fact that people tend to trust the money system, despite the fact they know little about it, makes it all the easier to exploit. Pontifications about market mechanisms and the power of technology have merely been used as a cover for what amounts to little more than exploitation of the money system.

Such parasitical behaviour is not new, only more difficult to recognize as such. When
money was primarily made of gold and silver, dishonest traders would shave the edges off coins and sell the remainders for a tidy profit. In order to combat this thievery, mints placed ridges or embossed print around the perimeter of the coins (this ridge is still apparent on Canadian quarters and dimes, but not nickels or pennies because of the low value of their metals). I would argue currency speculation is the modern day equivalent of coin shaving and this activity, arguments about their usefulness notwithstanding, are about equally beneficial for society. Galbraith writes that “If anything is evident from [the history of money], it is that the task attracts a very low level of talent....” (1995: 310). Shaving coins and currency speculation are both obvious examples of this.

Globalization of Stocks and Bonds

While currency speculation is a concern of international regulation, stocks and bonds continue to be primarily national. National governments are the biggest issuers of bonds and they continue to legislate and regulate how bonds and shares are issued. These instruments are not vital to international trade the way currencies are and therefore national control is much easier to attain. The degree to which these financial markets are globalized is another question. We have already examined FDI, and will now take a closer look at stocks and bonds. In overview, the evidence shows that domestic investment (stocks, bonds, and direct) continues to be highly correlated to domestic savings. Within the OECD 60 percent of variation in investments can be explained by domestic savings rates. In contrast, within the U.S., where the capital market is fully integrated, this relationship is essentially zero (Wade 1996: 74). Furthermore, interest rate differentials among countries remain significant and there is little
evidence of a decline from a hundred years ago (Wade 1996: 74-75). In other words, market integration is far from being achieved.

Stocks

Canada's stock market is relatively small compared to the bond market. In 1994, it comprised approximately 58 percent of GDP or around $430 billion. In comparison to the trading of currencies and government bonds, the trading of stocks remains local as few companies are able to boast a global reputation (Wade 1996: 73). Figure 6.1 shows that as a percentage of GDP, investment in Canadian stocks is relatively low and has been since since figures are available. Investment in stocks outside of Canada has increased in the past few years probably because some American corporations, such as Microsoft and IBM, do have a global reputation. The reverse is not true. It is probably fair to say that given disasters such as BreX and Livent Inc., that foreign ownership of Canadian stocks will continue to be low for some time.

While the international status of stocks has not changed much, there have been changes in its institutional structure. One of the classic problems of corporate ownership has been the separation of owners (stockholder) and managers. Traditionally, managers have paid little attention to the welfare of stockholders, who were often scattered geographically and incapable of acting as an organized group. This changed significantly over the past few decades as owners have concentrated in collective funds (in the U.S., 60 percent of funds are owned by pension and insurance funds). In this way, stock holders have been able to band together and direct the actions of the managers, resulting in a wave of mergers and takeovers.
The reasoning behind such actions is that bigger corporations are considered to be more efficient. Companies whose stocks are undervalued are the most vulnerable to takeovers. Fear of takeover has motivated many corporations to buy their own stock and retire them. In the United States companies like IBM, Ford, and GM have bought billions of dollars of their own stocks (Kurtzman 1993: 163). This has worked, as it has kept stock prices high. Interestingly, the retirement of stocks has outgrown the issuing of new shares in the past years, meaning that in the U.S. there were fewer stocks in 1996 than in 1980 (Henwood 1997: 72).

Often blamed on globalization, downsizing can be traced to this change in stock ownership:

Public justifications for these downsizings have almost always pointed to technological change and global competition, which takes human interest and agency out of the picture, but in fact the proximate cause has more often been pressure for higher stock prices coming from Wall Street portfolio managers. (Henwood 1997:290).

Or as he writes elsewhere, rather than a product of globalization, an LBO (leveraged buy out) can be better described as a “form of class struggle” (Henwood 1997: 274).

Well-known management professor Peter Drucker claims this change in ownership, from individual to institutional, in the means of production constitutes a fundamental change in the capitalist economy, the most meaningful in the post-war economy (Drucker 1996). He also points to the consequence of mergers and takeovers. Ownership, he writes, has now become “socialized” without being “nationalized”. What is of note here is that many of these pension funds are owned by workers (e.g., teachers unions, Ontario Hydro in Canada) making
for an odd kind of "class struggle" as Henwood would have it.

Statscan does not calculate the distribution of wealth according to income groups (quintiles or deciles) which makes it difficult to guess what percentage of the population owns the majority of stock (Little 1996). The United States does keep these records and given the similarities between our economies, things are probably not that different in Canada. In 1992, the top 5 percent of individuals who held stock owned 94.5 percent of all stock held by individuals. Once the whole population is included (that is; not only people who own stock) then only 1 percent of the population can be said to own stock in any meaningful way (these figures do not include pension funds) (Henwood 1997: 67, 10). An alternative to looking at the stock of wealth is to look at flows, that is, dividend income from stocks. In Canada, in 1995, 71 percent of all dividend income went to the top 11.5 percent of tax-filers and 45 percent to the top 1.5 percent. The Thompson family alone claimed more dividend income in 1995 than the bottom 52 percent of income earners combined (since these figures are from tax returns they do not include pension funds either) (Stanford 1998b).

Bonds

In Canada the bond market is worth almost a trillion dollars -- approximately 980 billion dollars including corporate, federal, provincial, and municipal bonds. Figure 6.2 shows that bonds exhibit a reversed picture from that of stocks: more foreign investment in Canada and very little investment abroad by Canadians. The reason for this is again quite simple: higher interest rates in Canada over the past decade are good reason for foreigners to invest here and at the same provide little reason for Canadians to invest elsewhere. In Canada, about 45
percent of GDP or 36 percent of the total Canadian bond market is foreign owned. This is relatively high but historically speaking not unusual. As the graph shows, foreign ownership of bonds was much higher during the Second World War. As said, the recent rise in foreign ownership can be explained by the relative high interest rates in Canada, which recently has actually dropped below that of the U.S. rate, and will likely result in foreigners selling Canadians bonds.

In the United States the trading of bonds continues to be a more local affair than in Canada. The United States bond market is the largest financial market in the world, worth about $9.9 trillion. The treasury market alone is worth $3.8 trillion and the world’s most active with half a trillion dollars a day in trading. But only about 5 percent of treasury bonds are traded outside of the U.S. (4 percent in London and 1 percent in Tokyo) (Henwood 1997: 24-27). Since corporate bonds suffer from the same reputational problems as stocks, it is unlikely that trade in these bonds is any higher.

Another, and probably the most accurate way to assess foreign investment in Canada is to add all foreign-owned assets in Canada including foreign direct investment, stocks, bonds, loans, bank deposits, and international reserves. In 1997, this amounted to 889 billion dollars, a hefty amount and more than our yearly GDP. As a proportion of all assets, however, which was $8.2 trillion in that same year, this amounted to only 10.8 percent. This means that almost 9/10 of our economy, including liabilities (debts) is owned within this country. At the same time, Canadians owned assets worth $549 billion abroad, for a net deficit of about $340 billion. Overall, then, the amount of outside ownership in this country is minimal. To put this into some perspective, a family worth $800,000 on paper would not
worry much about an $80,000 mortgage, especially if they had $55,000 in another bank.

In summary, the Canadian bond and stock market are far from global, but this is not where the real story lies. It must be remembered that for every dollar of liability there exists an equivalent dollar amount in assets. In other words, the flip side of large bond markets is huge debts. The next section will examine how the dynamics behind debts can be better used to explain contemporary politics than what has usually been blamed on globalization.

Debt & Class Struggle

Most capitalists marvel about the market without much reflection of its larger social context. The magic of compound interest is a good example. Compound interest often draws awe to the point that rational thought is abandoned. In a book entitled *Investing for Income: A Guide to Earning Top Interest On Your Savings* (Anderson 1998) the author calculates that had the natives who sold Manhattan to the Dutch invested that money (roughly $US35) at an interest of only 3 percent per annum, their little nest-egg would have grown to be worth $8.4 trillion dollars today. This is worth more than all the wealth in Canada combined ($8.2 trillion including financial assets; $3 trillion without). It is hard to imagine that millions of Canadian toiling away for a few centuries would actually produce less wealth than $35 in the bank for a little over three centuries. If this were truly the case, compound interest would truly be a marvellous thing.

But this rather sanguine view glosses over such 'anomalies' as bank failures that have had the habit of occurring every once in a while. This is another instance where the market proves to be disappointingly inept at communicating potential disaster. Had the amount in
question been invested in one of the 5,500 banks that went bust in the U.S. during the depression, the descendants of our native friends would be left with literally nothing. Even with the introduction of deposit insurance, the balance would essentially be wiped out (leaving only $65,000). More importantly, blind faith in compound interest completely ignores the other side of compound interest, the compound debt. The wealth associated with compound interest has to be produced by someone. Unfortunately, if the burden of interest payments becomes too high, debt renunciation may result. The possibility of such an unpleasant event has kept many a banker awake at night. When failures do happen on a large scale, the domino effect can result in the collapse of the banking system, even putting whole economies in jeopardy. Large infusions of cash are then needed in order to bring stability back to the system. In other words, every so often events put a sudden halt to the magic of compound interest.

In order to fully understand the social consequences of debt two points require elaboration. First, interest derived from the investment of money is not something that naturally occurs to money but is based on convention, a convention that has for much of history been illegal. Second, the rate of interest itself is not something established by supply and demand but is dependent on the larger political and economic context. In the late eighties and early nineties, interest rates were relatively high due to the fight on inflation waged by the central banks. Although rates appeared low compared to rates in the mid-seventies, they were in fact much higher once inflation is taken into account. High inflation eroded much, if not all, of the gains made because of high interest rates in the seventies. Real interest rates actually wandered into the negative a one point in the seventies, but were close to 5 percent in the
In some sense, the money accrued from interest rates can be considered fictitious or imaginary. Whereas there are physical boundaries on how much real wealth can grow, this is not the case for this imaginary wealth. Once the commodity is taken out of the equation, as Marx's equation above illustrates, profits can be retained from money itself and here the only limitation is imagination. To use an example from the German economist Frederick Soddy, to invest in a pig (or any commodity for that matter) takes a considerable amount of effort in terms of money and work: feeding the pig, providing a place for the pig to live, tending to it when it becomes ill, etc. (Daly and Cobb 1994: 423). None of this effort is necessary when it comes to imaginary wealth, as is the case with financial markets. All one needs to do is invest money, wait, and in a few years the money will have multiplied. No need to rent or buy land, build buildings or maintain them; no chance of fire, strikes, or labour unrest destroying your investment, as is the case with productive resources. To return to our compound interest example, it is just as easy to imagine $8.4 trillion as it is to imagine $35.

But this imaginary money does have ramifications for the real world. As Marx noted, money and capital bring with them enormous social power. As debt increases so does the power of the rentier. The growth of debt has had dramatic repercussions on the distribution of resources, not only for individual countries but the world in general. Another way to expose the downside of investing is to ask where does money for compound interest come from? The answer is from huge debts incurred by governments, corporations, and even individuals (banks sell cumulative credit card and mortgage debt on the bond market). These debts, in turn, are owned by pension funds, banks, financial institutions, and mutual funds, which essentially are
owned by individual households. This reveals debt payments involve huge transfers of wealth. The potential for profits in financial economy has also meant little capital funding has gone to productive investment.

The growth of debts and assets indicates that increased profits in the financial sectors over the past two decades has not come without a price. "It is only the stagnation of wages that has made possible the continued making of profits in a private business economy..." (Brenner 1998: 251). This can be directly tied to the high interest that financial institutions have been so successful in implementing. Stagnating wages has meant that the lower and middle classes have had to borrow money in order to maintain their standard of living, the interest on which has flowed upward to the wealthier classes. This has resulted in a "massive upward redistribution of income" (Henwood 1997: 65). Credit has also been used by the upper classes, but in their case it is to invest, speculate, and increase their wealth. Thus credit has played an important role for both the rich and the poor since the 1980s: "for one to reduce their poverty; the other to increase their prosperity" (Berthoud and Kempson 1992: 64 quoted in Henwood 1997: 65). Equally important, credit has helped "to nourish both the appearance and reality of a middle-class standard of living in a time of polarization" (Henwood 1997: 66).

The increase in household debt can be explained by slow wage growth. In the business sector, the reason for the increase in debt can also partly be traced to deregulation. When deregulation was first implemented, it did result in some economic growth in the business sector, but it also increased debt loads. With the increase of credit, deregulation has led to the debt crisis, starting with the Developing World, to real estate, government debt, and finally, consumer and corporate debt. This has resulted in the very real possibility of debt
repudiation over the past few years. First on this list is the third world debt crisis. While this crisis may have been solved from the perspective of the first world by way of “debt-restructuring,” from the perspective of the third world the result has often been a full-blown depression. The rapid increase of corporate debt in the U.S. also reached critical proportions and was only averted by the lowering of interest rates by the Federal Reserve (Henwood 1997). The only place where debt continues to rise unabated is in the household sector in both the U.S. and Canada (consumer credit and mortgages). Between 1990 and 1995 alone, household debt in Canada increased $1900 per person (while after tax income fell by $800; Little 1996). Debt is so high now that even with interests rates being relatively low, little borrowing goes on (what Keynes called the liquidity trap).

In many ways, debts can stave off a recession. When people first borrow, demand continues to be high, but sustaining an economy on credit is quite artificial as interest payments eventually begin to crowd out spending on consumer products. Students who graduate from university with mortgage-like student loans, for example, are not able to buy homes or even cars. In this way, credit puts a drag on the economy and restrains a capitalist economy from all that it can be. This observation was made long ago by Marx and many economists afterwards (Henwood 1997: 234). Yet this shortcoming is seldom acknowledged. 21

One of Canada’s most incisive economists, Jim Stanford of CAW, has written that the

21 There are exceptions, though. The United States realized that the Second World War was partly a consequence of the reparation debts imposed on Germany by the Treaty of Versailles. Rather than duplicating this catastrophe the allied forces opted to give, not lend, Germany the money to rebuild via the Marshall plan.
deficit and debt hysteria of the eighties and nineties pushed the left into a position of defending the status quo and "waxing nostalgic of better days gone by" (Stanford 1995: 48). But the left was incapable of offering an alternative model, and Stanford suggests that the left go on the offensive and use the public debt to criticize the whole economic system. The data above indicate that this may not be a bad idea.

**Winners and Losers**

In all this there are obvious winners and losers. Who are the losers? Workers, organizations with high debt loads, and businesses vulnerable to takeovers. Debt may be high in Canada, but such a large share of this debt is owned within Canada that foreign investors cannot be considered a threat. High debts do make governments more dependent on the financial community, but in the case of Canada, this financial community is primarily Canadian.

Who are the winners? There are primarily two groups. One group is the firms and the traders who buy and sell stocks, bonds, and currencies, as well the firms that design the computers, software, and telecommunications that make the system work (Kurtzman 1993: 204). In that sense, Stehr (1994) is right, and knowledge workers are becoming more powerful. But this is not enough to elide class distinctions, as he would have, as there is a second set of winners, the owners of the instruments of debt. Even bigger winners are the owners of bonds and other debts who have been able to multiply their holdings based on the magic of compound interest (Stewart 1997). The benefits of high interest rates may not always be that clear, as they also hurt stock holders who primarily buy on credit (this is why the stock market rebounds every time the Federal Reserve lowers interest rates). But this is
merely a problem of distribution, which is primarily between the big players and the small ones, or in other words "redistribution...within the capitalist class" (Pollin 1996: 115). Here again, it is the wealthiest that benefit the most.

All this is no accident. One should not forget that it is the same business interests pushing for high interest rates that also benefit from them. By putting pressure on governments to cut taxes and keep interest rates high, business wins every time (Stewart 1997).

Conclusion

When global talk first found its way into popular parlance it was primarily about the productive economy: corporations shopping around the world for cheap labour, de-industrialization in the West, etc. As time went on, the focus shifted to state autonomy and finally to the financial realm. But while the terrain of the debate has shifted, assumptions about the state’s ineffectiveness in the productive realm were carried into the financial realm despite obvious differences between the globalization of production and that of finance. First, in the financial realm the actors involved are primarily in the first world and comprise a small financial elite situated in New York, London, and Tokyo and lesser centres such as Hong Kong, Frankfurt, and Toronto. While money can easily move around the world, these financial centres are solidly anchored to their locations, dependent on technology and knowledge workers. Moreover, wealth follows even bigger wealth, which is already well concentrated in the West, effectively crushing any global dreams that capital may have. In other words, the threat of moving to the third world because of more compliant governments
or cheaper labour plays little role here. Unlike the globalization of production where the working class is placed in competition from workers in the third world, in financial globalization the victims are those who have no investments or are in debt, which is most everyone in the world: most of the first and virtually all the third. In this sense globalization of financial services is a misnomer in that it offers opportunity to only a very concentrated group of individuals living primarily within the first world.

The globalizing scenario often paints a picture of all-powerful capital standing outside of national economies and dictating to government what they must do. This scenario serves the double purpose of making capital seem untouchable as well as obscuring the relational nature of capital, the state, and workers. But, as we saw, the globalizing scenario is an unlikely one, for historically speaking, investments in this country are quite low.

The solution for the sagging economy offered by the right has and continues to be deregulation. But even the World Bank warns that financial liberalization can end in disaster (Bienefeld 1992: 39). As examples such as South Korea, Thailand, and Japan show, the aftereffect of the marginal growth associated with deregulation far outweighs its benefits. While the Saving and Loan scandal in the United States was not as devastating to the American economy as equivalent developments in South East Asia, it did require considerable underwriting from government to prevent a collapse of the American banking system. It has been estimated that this sum ranges anywhere from half a trillion to a trillion dollars and paid by the American government. It should be remembered that in this atmosphere of financial mayhem some people benefit, making millions and even billions of dollars throughout periods of liberalization, while the tax payer is left to pick up the tab afterwards. This effectively
socializes the risk of investing which only encourages reckless speculation. Furthermore, people who benefit from the upswing are allowed to keep their profits once the system fails.

All this is to say that financial regulation is an inherently political task as its consequence determines how goods are shared between capital and labour (Bienefeld 1992: 51). Bienefeld claims that neo-classical theory would actually oppose deregulation as it impedes information flows, favours short-term over long-term investments, and makes sentiment a variable resulting in market volatility. This claim is reminiscent of the argument made by conservatives who call for the suppression of inflation, i.e., that it discourages long term investments. But opposition to the orthodoxy is difficult to mobilize, as we are constantly told that financial deregulation is irreversible or technologically determined and that a return to regulation would only drive away capital and exclude us from international capital markets (Bienefeld 1992). Yet some of the most successful economies in recent years, and there are few, continue to have heavily regulated financial sectors.

Helleiner (1995) makes the argument, based on Polyani’s *The Great Transformation*, that ‘laissez faire is planned’ and that liberal markets will be reigned in once governments decide they cause too much social unrest. Helleiner adds that the Bretton Woods agreement attempted to make finance the ‘servant’ and not the ‘master’ of society, a relationship that was reversed once the agreement died. As said, the U.S. and U.K. were instrumental in bringing about market liberalization in the 1970s and 80s, mostly because they had the most to gain. Once they are at the losing end of this equation, Helleiner speculates, support for re-regulation will mount.

The above paints a picture of financial markets that are volatile and disorganised, with
only a few firms and individuals profiteering from this mayhem. But how can governments let this go on? No doubt, no matter how fragile, this activity keeps the economy humming, and to shut it down would be to slow down the whole economy. Why does the public put up with this? Probably because most people believe that these changes are due to technology and globalization and not, as argued above, an adherence to the free market model.

Let us now end with a quote by Kurtzman, which shows that the left is not alone in being critical of the current approach.

Among our policymakers, faith, unfortunately, lies in one simpleminded idea: unfettering the market....They believe in leaving the economy to its own devices...and [that it] can only be fixed by even more deregulation, privatization, and competition....On its own, the market is the great leveler [sic]. An unfettered and largely open market has kept America's standard of living at 1970s levels. It has led to the buildup of debt and the destruction of the savings and loan industry, much of the banking industry, and much of the insurance industry....The unfettered market has also let other countries overtake us. Much of Europe is now wealthier than America, and so is much of Japan. And though wages have been stagnant in the United States, wealth has been transformed from the poor and the middle classes to the rich. The top 10 percent of Americans now own more assets than the other 90 percent of America. (Kurtzman 1993: 230-231)
CHAPTER VII
THE RETREAT OF THE NATION STATE

Introduction

The onslaught of globalization has, or at least so the story goes, made national borders porous to the point where governments are no longer able to properly manage their internal affairs. So either by choice or by force, state meddling in the economy will eventually cease, a development that has been observed with some glee by the right. Although less enthusiastic of such measures, commentators from the left have by and large reached similar conclusions. Built on the assumption that capital has become too mobile for nation states to control, the left has now declared social policy to be dead. The title of Teeple's book (1995), *Globalization and the End of Social Reform* well illustrates this position. Similarly, Ohmae (1995: 4) sees governments as mere middlemen whose rule is now "largely unnecessary" in the global economy. Daniel Bell (1987: 116) has famously identified the problem as the nation-state being too small for the big problems in life and too big for the small problems. Overall, the pessimism surrounding the power of the state near the end of the 20th century is best summarized by Robert Wade (1996: 61) who declares that state action is about as useful "as pushing on a piece of string."

The claim that we are witnessing the end of the nation-state is a bold one and I aim to show through detailed examination of individual government programs that it is also a claim that is untenable. In short, my argument will be that the end-of-the-nation-state thesis is no more than an idea, a product of wishful thinking actively promulgated by the right. And like many ideas, this one too fails to coincide with an always intransigent reality. Government
continues to loom large as we near the end of the 20th century and once we bring to light the politics that lie behind state programs we will see why this overwhelming presence is likely to endure.

This chapter is divided into two sections. The first section examines the premises and conclusions of the end-of-nation-state argument made in the globalization literature. It begins with a quick overview of how the state has been theorized and will focus on the Marxist perspective. As discussed in the chapter on definitions, some globalists have held globalization responsible for both the birth and the end of the nation-state, a position that will be subjected to some scrutiny. With the growth of supranational organizations such as the UN come assumptions about the state's autonomy, the theoretical basis of which will be questioned. The role of NAFTA for Canada will close this section. The second section looks directly at state expenditures and how these have changed in recent years. The growth and importance of government spending in the past 50 years is a topic conveniently overlooked by globalists. Once raised, however, this issue raises serious obstacles for the end-of-the-nation-state thesis. The data will trace government expenditures going back to 1933, first divided along non-welfare-state and welfare-state lines, and then according to individual programs. Programs of the welfare-state will be featured.

Contemporary Discussion of the State

The nation-state did not become a universal phenomenon until after the Second World War (Wallerstein 1991: 92) and already globalists are busy writing its eulogy. While the date or causes of globalization vary, the observation that we are now living in an age, or the cusp of
an age, that marks the end of the nation-state is one detail the myriad theories of globalization have in common. Whether it is academic theories or more popular versions, the conclusion consistently points toward this end. The reasons behind this conclusion may vary slightly from one theory to the next. In some accounts this conclusion is predicated on the spread of markets, in others the flow of information is highlighted, in yet others, it is the spread of democracy. But the undermining of state power is an observation that is consistent among all theories.

Even Lash and Urry, who otherwise make incisive observations about national differences elsewhere in *Economies of Signs and Space*, write that “national governments are increasingly unable to control cross-border flows generated by these transnational practices” (1994: 280). In preceding chapters they compare and contrast trajectories of post-industrial societies, social rights, and ethnic conflicts in liberal democracies, giving ample evidence of how the nation-state still matters. Yet these authors fall into the common trap of believing that “nation-states can no longer govern their borders and prevent the extraordinary flows of ideas, images, capital, technologies, environmental hazards and people that is the contemporary experience” (Lash and Urry: 1994: 312). Finally they ask the all-important question central to the globalization thesis: “Is there such a thing as a national economy left?”

This raises a host of issues, some of which we have already discussed in previous chapters. First, it is misleading to lump “ideas, images, capital” etc. in one homogenous mass as the consequences of each differs in its impact. Second, an increase in transnational flows is usually matched by a concomitant increase in national flows which often serves as a force that binds. Third, how exactly do these flows undermine the autonomy of the state? Borders have
always been open with respect to economic activity and, as we saw in previous chapters, this is not a new development. Yet many accounts of globalization assert a connection between the two. There is a tendency to list an array of flows and from this conclude that the national economy is dying. And while it may be true that borders are becoming more porous, the conclusion, that this necessarily affects the state’s ability to govern, does not logically follow. The state manages many other aspects of daily life besides the flows of goods and services. Foremost among these responsibilities is the well-being of its citizens by providing education, health and other welfare services. It is this aspect of the state that is conveniently ignored in the end-of-the-nation-state arguments, which will be highlighted in the next half of this chapter. Put slightly differently, rather than focusing on the apparent weakening of the state by enumerating what passes through its borders the spotlight will be redirected on developments occurring within those borders, thereby highlighting what makes the state strong.

State Theory

The perceived inefficacy of the state is built on the assumption that the state was at one time capable of managing its internal affairs without undue outside influence (Panitch 1994). Yet

22 One aspect of the globalization debate worth noting here is the nuclear threat (e.g. Albrow 1996). The fact that these threats are globalized has really little consequence on the affairs of the state until such a time that they happen. But even then, its consequences may be exaggerated. Chernobyl is often adduced as an example of global environmental threat (Beck 1992). But if anything, Chernobyl has shown that a nuclear disaster can be survived. The disaster caused a great deal of concern in Beck’s home country of Germany but failed to arouse much attention in Great Britain let alone North America (Urmetzer, Blake, and Guppy 1999). In other words, its implications were far from global.
events this century, such as two world wars and a depression, reveal states never had that level of autonomy to begin with. History reveals that economic interdependence goes back well into the past century. The *1870 Canada Yearbook*, for example, reads that trade was down because of a “world-wide depression of demand for products” (p193).

Not only have economies been interdependent for a long time, the state continues to be one of the key players in organizing both international and domestic affairs. A development that globalists are hard pressed to explain is the increased role of the state, particularly this past half century. As we shall see later on in this chapter, the state continues to manage a considerable portion of the national output in advanced capitalist economies. Moreover, intervention on a grand scale is a relatively recent development, one that began during the depression and did not come into full force until after the Second World War. Before that time, the state’s role was relatively laissez faire, especially with respect to the redistribution (although the state, Canada’s among them, has long played an important role in establishing markets through programs such as the National Policy first introduced in 1879 [see for example Brodie 1990; Saul 1997]).

The depression brought to fore the impact a major economic downturn can have on an industrial economy, in contrast to the past, when mostly rural populations were able to better depend on their own devices. Labour uprisings and social unrest in general, coupled with the threat of socialism, made state intervention during the depression an attractive alternative (Hobsbawm 1994). In short, the depression made evident that the hands-off approach was no longer feasible, a point most famously made by Keynes. From that point on, governments took a more active role in shaping their economies, a role which continues to this day. This
capacity is strangely ignored by globalists. Interestingly, the rise of government intervention parallels the date which many globalists peg as the acceleration of globalization (Waters 1995; Albrow 1998; also see Gough on the expansion of the welfare state throughout the 1960s).

A related shortcoming with end-of-nation-state theories is that the state is poorly theorized, other than its role of keeping capital within its borders. Although this is a very public and important role the state engages in, it is also relatively minor. In many accounts of globalization, trade is presented as evidence of the continual weakening of the state. Logically, from this it follows that states should oppose trade. But if anything, governments have only been too eager to secure trade deals and open up their borders. Why would they do so if it truly undermined their power to govern? Furthermore, there is little logic presented why there should be a relationship between an increase in trade and a decrease in the power of the state. In fact, there is nothing inconsistent about the behaviour of states. As Wallerstein observes, a division of labour of production, labour, and commodities requires that state borders be permeable (1991: 98). The simple fact is that states have actively pursued a trade policy in the hope of reviving their domestic economies. As domestic demand declined in the 1970s, governments sought to keep their economies growing by focusing on exports (Brenner 1998).

Also, and this is especially true for academia, commentators seem to have forgotten about the rich history of state-theory that precedes us. At least from the perspective of the left, the state has never been evaluated as a neutral arbiter of political affairs but one biased in favour of capital. Marx and Engels were probably unaware that they were to spawn a veritable industry in state theory when they wrote that “The executive of the modern State is
but a committee for managing the common affairs of the whole bourgeoisie” (1986: 36). This observation served as a point of departure for Miliband, Poulantzas, and Jessop, to name only a few of the better-known state theorists. In general this literature is very critical of the state and, particularly the work of Miliband, perceives the state to be subservient to capital. Whether or not one chooses to believe the more extreme instrumentalist versions of the state is not the point here. More important is that the proposition of a weak state is a theory is not new, but one that has a long and illustrious history in Marxist literature. It long anticipates globalization theory with its emphasis on the domineering power of capital. Globalization accounts of the state are akin to instrumentalist versions in that both have a tendency to ascribe monolithic power to capital. Contemporary writers of globalization would be well served to read criticisms of the instrumentalist accounts, which stress how state officials deliberately try to distance themselves from capital, making them relatively ‘autonomous’ from the capital class; how the state serves many diverse interests and not just capital; and how the state often acts against the short term interest of capital in order to better ensure long term ones (I am particularly referring to the Miliband/Poulantzas debate here). These diverse interests are the theme of this chapter.

Contemporary accounts of the state contrast the present period to a past where the state was only too willing to fund welfare programs. This is true to some degree, for the

23 Comments about the weakening of the state remind one of Marx’s prediction of the withering away of the state. Is this yet another instance of tragedy and farce?

24 One can interpret the colossal defeat of the Progressive Conservatives in 1993 as what happens to a governing party that does appear to align itself too much with the interests of business.
threat of another depression provided much of the impetus for these programs. But as the political economy literature on the welfare-state demonstrates, the state did not mete out these programs voluntarily (see for example Myles 1989). Social programs are the result of class based politics and rarely, if ever, the largesse of the state.

Last, one should also not confuse the pessimism directed toward state action in North America and Great Britain as a universal development. In western European (Germany, Sweden) and Asian countries (Japan, Taiwan) industrial policy continues to play an important role in structuring the economy. In Germany, for example, the state continues to take an active part in labour market policy, supplying a steady supply of skilled workers to capital. Things are similarly coordinated in Japan, where business and government work hand-in-hand to reduce their huge trade surplus with the United States, with state subsidies available to help companies relocate overseas (Weiss 1997: 15). Speculations about the state’s demise may therefore be unduly influenced by Anglo-American thinking.

The Creation and Demise of the Nation State

Many authors recognize the immense power of the state and appreciate that claims about its demise may be somewhat farfetched. These authors have therefore adopted a softer and more tentative language. Instead of predicting outright the end-of-the-nation-state, they prefer adjectives like ‘weakening’, ‘powerless’, and ‘impotent,’ a vague approach, which according to Becker (1986), is typical of much academic writing. However, while this language is less emphatic, the message is essentially the same: a reversal of fortunes is in store for the nation-state.
This hesitation has led to some confusion, even contradictions. Waters writes that “it is not absolutely necessary to demonstrate that the nation-state is in decline in order to support a case for political globalization” (Waters 1995: 98). Yet he writes elsewhere: “If states survive globalization then it cannot be counted the force that it currently appears to be” (Waters 1995: 122). While these two positions may not be a complete contradiction, the second position appears much less self-assured and leaves room for doubt about the globalization thesis. In any case, Water’s point that the state could survive globalization is incompatible with his definition of globalization as the “reduction in the geographical constraints on social arrangements” (Waters 1995:164). This is not to single out and attack Waters, but to illustrate the inconsistencies that a comprehensive and historical theory of globalization must overcome.

The difficulty lies not in providing details about how the world has changed, but in making a coherent argument why present state structures cannot survive these changes. Nowhere are these inconsistencies more apparent than in accounts which implicate globalization as not only responsible for the demise of the nation-state but also its creation. The most obvious example of this is Robertson, who sees no need to address this contradiction (see Chapter I above). Waters, however, does attempt to do just that. Waters acknowledges Giddens’s observation that the nation-state is itself a product of globalization (1995: 98), but then goes on to add that it is also responsible for its expiry. In the hope of reconciling this contradiction he suggests that globalization found its seed in the nation-state but eventually outgrew its borders. This is predicated on the logic that increased interaction among states necessitates the growth of international organizations which will, in turn,
ultimately render the nation-state ineffectual.

Nation-states are bounded social systems; they will compete for resources and markets and they will not necessarily be materially self-sufficient; they will therefore engage in economic, military, political (diplomatic) and cultural exchanges across the boundaries that are both co-operative and conflictual; differential outcomes and therefore cross-national mimesis will ensue; states will seek to systematize international relations in order to secure the conditions of their own existence. (Waters 1995: 45)

The allusion to the "systematization of international relations" refers to institutions such as the UN, World Bank, and the IMF which Waters discusses in some detail in the pages preceding the above passage.

But this approach both misunderstands and exaggerates the role and power of supranational institutions. First, similar to pluralist theories of the state, the assumption here is that these organizations are neutral and act in the interests of the globe rather than individual states, thereby overriding national interests. In this sense, these institutions are far from supranational as they entrench the already exploitive relationship between the first and third world. Neither is power shared equally among countries in the first world. Many of these institutions are headquartered in the United States, a country which plays a significantly more important role than most, if not all. The IMF (originally established to help countries work out their balance of payments) very much aims to impose a neo-liberal model on third world countries, recent interventions in Indonesia, South Korea, and Thailand being timely examples. The third world plays only a negligible role in the running of these institutions. Certainly, the IMF is indicative of how power flows from the first world to the third, not vice
versa. When was the last time that Indonesia, or any other country for that matter, was able to force its will onto the United States via one of these institutions? The IMF and the World Bank are not the only institutions that reinforce first world dominance. The WTO and Security Council are others. Interestingly, the one so-called special organization under the aegis of the UN which has proven to be progressive, the International Labour Organization (ILO), has had its funding withdrawn by the U.S.

Another misunderstanding is theoretical in nature and assumes that as states hand over authority to supranational organizations they undermine their own authority. But this is simply not the case, as power is not a zero-sum game. As Giddens observes, international organizations such as the UN should not be seen as threatening to sovereignty but rather as confirming the securitisation and institutionalization of sovereignty (Giddens 1985: 255-7). The analogy of the state and individual serves to illustrate the point. When individuals surrender their rights to the state they do not give up their autonomy but enhance it. This conceptualization of rights is the organizing principle behind Hobbes' *Leviathan*, in which he argued that a powerful state was a prerequisite for a peaceful society. While the individual may lose some freedoms by conferring certain rights to the state, she simultaneously increases other freedoms. The fact that I cannot use another person's property at will, means others cannot use mine likewise. In the end, the state works to everyone's benefit by enforcing these rights. Individuals are better able to conduct their day-to-day activity without constant worry about being cheated or having their safety jeopardized. Much the same way, at least in theory, international treaties ensure that countries do not arbitrarily invade the borders of others, pollute each other's air, or engage in unfair trade practises. From a theoretical standpoint,
then, there is no logical reason to think that supranational institutions will work to undermine state power.

Another of Waters’ points worth addressing is the claim that supranational institutions are the product of increasing global interaction (see also Albrow 1998). This is only partially true, as most of these institutions were initially put in place during and after WWII primarily to prevent the recurrence of another depression and world war. They are less the result of globalization than an attempt by countries to manage a highly complex, and sometimes volatile, capitalist economy.25

Deregulation

We must now ask to what degree increased trade and attacks on social programs can be traced to globalization and to what degree are they a necessary consequence of the adherence to a neoliberal model? In the next chapter, I will argue in some detail that the globalization argument is just another variant of free market proselytisation. In this scenario, the state willingly relinquishes control and invests its faith in the market. In theory, a free market applies to the free movement of goods and services based on supply and demand, but in the real world it means that powerful actors such as corporations are better able to exert their will, especially vis-a-vis labour. (A case in point is that NAFTA is about the free movement of goods and services and not labour).

25 Of course, one has to keep in mind that the mandate of these institutions has changed over the years and currently acts in a completely contradictory fashion. Rather than bringing stability to an economy, the imposition of IMF edicts paves the way to social unrest such as the riots in Indonesia.
Exactly how effective the free market approach has been is another question. As we recently saw in Asia, countries with a highly regulated investment climate (Japan, China, and Taiwan) were in a much better position to weather the currency crisis than countries that adopted a more free market approach (Thailand and Indonesia). Ironically, the failed economies have now been bailed out (to the tune of hundreds of billions of dollars) by the World Bank, an organization that preached the liberal model to begin with. Also witness the bailing out of the Savings and Loan scandal (again, billions of dollars) by the United States government and a similar intervention by the Canadian government when both the Canadian Commercial Bank and Northland Bank failed in 1985. Thus, we are forced to conclude the ‘free’ in free-market remains a very relative term. Intervention is condoned the very moment that the stability of the capitalist system itself is jeopardized. (Then again, it is difficult to blame governments or international organization for attempting to avert the panic associated with a run on a bank or a country. Ultimately, these events are rarely a surprise.)

Examples like Japan or Germany illustrate that the neo-liberal approach favoured by the Anglo-American nations is neither universal, nor is it very successful (Weiss 1997: 15, 26). The point to keep in mind is that events like the currency crisis that affected Asia, Russia, and Brazil are problems long associated with capitalist economies. There is nothing new about such predicaments and blaming them on globalization sheds no new light on working toward a solution or a better understanding of the issue.

Globalization and Free Trade Zones

Related to the argument which recognizes globalization as both cause and death of the nation-
state, is the belief that free trade zones or the birth of new states is a reaction or manifestation of globalization. This demonstrates that a theory of globalization wants it all. The fall of the Soviet Union is adduced as an example of globalization bringing borders down, while a development such as NAFTA, which effectively raises borders, is explained as a natural reaction by the countries to shield themselves from globalization. In other words, whether borders go up or down, globalization is implicated. At worst, this is intellectually dishonest; at best, it makes the theory unfalsifiable.

Giddens (1990) acknowledges the contradictory ways of globalization, and explains the revival of local nationalisms as a reaction to it. But if globalization is about time-space distanciation and communications, as Giddens claims, and not about economics, how does one explain these new arising nationalisms? And what distinguishes these new nationalisms from older versions? Scots, for example, have long aspired to be independent, for reasons which have probably been consistent for centuries: culture, economics, autonomy. Nationalism has a long history and globalization theory adds nothing new to our understanding of it. As usual, we find that the process of globalization is left vague and we are called upon to fill in the blanks. What is needed is something more specific, a theory that explains in detail how a process that mows down borders can also be implicated in their erection.26

As said, NAFTA is often put forward as evidence of globalization, yet the two

26Giddens’ account is also biased as it focuses only on how technology has made it possible to bypass borders and not the other way around. Technology is a double edged sword, and it has not only meant freedom but also constraint. The enduring and ubiquitous presence of the state in the form of expenditures, surveillance, and as sole source of legitimate violence (Giddens based on Weber) is conveniently ignored by most globalists.
scenarios offer vastly different challenges for a country like Canada. One, in an ‘ideal type’ of globalization, Canada is in competition with many other, some of them low wage, countries. With NAFTA, however, Canada becomes the low wage site. This is particularly true for the auto industry. Canada can put five auto-workers to work for the same amount it costs to employ four in the United States (and this was at a 79 cent dollar in 1993; Clement and Williams 1997: 57-58). Two, with NAFTA Canada stands in the shadow of an economic giant, whereas in a globalized economy Canada’s economic prowess would be more strategically dispersed. Canada is the world’s seventh largest economy, and its economic and technological superiority are an obvious asset in a pool of approximately 190 countries, in contrast to NAFTA, where Canada is in competition with only two other countries, one being the most powerful economy in the world. This, in effect, very much weakens Canada’s competitive advantage. Three, in a truly global economy there exists a diversity of economic cultures including that of workplace organization, capital/labour relations, and workers’ rights. With NAFTA, Canada is deluged by an extreme version of neoliberalism. And lastly, four, as we saw in Chapter IV, NAFTA speaks more to the power of the Canadian elite’s strategy for further continentalization than the power of multinational capital to create a globalized economy (see Clement 1975; Williams 1986).

THE DATA

The question underlying this chapter is whether there is any empirical evidence that points toward the retreat of the state. One way to accomplish this is to examine state expenditures. If the state is indeed being forced out of the economy, we should see this reflected in a decline
in expenditures. Furthermore, a detailed examination of programs should provide us with a sense of the state's changing priorities -- if the state is distancing itself from funding social programs and focusing its attention on further abetting capital accumulation this should be apparent. To this end, both welfare-state and non-welfare state expenditures will be scrutinized. The focus, however, will be on social programs as these are the intended targets whenever anti-state rhetoric is invoked. To measure state strength by correlating it with state expenditures may be criticized as an overly positivistic approach (see Esping-Andersen 1990), as one could argue that no matter how much governments spend, their efforts continue to be futile. In other words, government expenditures can be seen as a desperate measure to stem the inexorable flow of globalization. This criticism is difficult to counter in the abstract but becomes considerably less damaging once individual programs are examined. For now, let us say that without government services there would not be much of an economy left to invest in. Certainly, government intervention may prove futile in some instances, but just as often it is indispensable. This section will focus on these indispensable areas.

Throughout this chapter, I make the argument that the state continues to answer to many diverse interests which include labour, voters, the elderly, bureaucrats, NGOs, on top of practical considerations like the possibility of social-unrest and fiscal constraints. In this context, capital is only one of many considerations the state has to consider, which, furthermore, often has contradictory interests. Globalization, as it were, has not dramatically altered this mix.

In order to properly assess various programs, the reader should keep in mind a series of questions throughout the analysis. These questions will again be highlighted at the end of
the chapter:

- Will state abdication in this area be supported by the public?
- Will state abdication be supported by business (i.e., all sectors of capital)?
- Is this program a likely candidate for privatization?
- Will elimination of public funding make the economy more competitive?

State Expenditures

After 20 years of what seems like interminable cuts, one could easily get the impression that public spending is way down. But this is not the case. Even in Great Britain, a country that pursued the neo-conservative route much earlier and with much more vigour than Canada, government spending remains virtually unchanged. In 1980, shortly after Thatcherism arrived in the UK, government expenditures amounted to 43 percent of GDP. After two decades of cutting, this figure decreased to 42 percent, a mere one percentage point drop (The Economist World Economic Survey, September 20, 1997: 7)

A similar scenario has occurred in Canada. In 1960, the date given by Waters for the beginning of globalization, government expenditures amounted to approximately 27 percent of GDP. Two and a half decades later, around the time that Mulroney’s Conservatives first started to chip away at government spending, it had increased to 48 percent of GDP (see Figure 7.1). Nine years of Conservative downsizing only succeeded in increasing this figure to over 51 percent. Throughout the same period (1960-1995), as we saw in Chapter IV, trade doubled from 15 percent to 30 percent of GDP. Obviously, an increase in trade has had little
effect on government spending. Neither have interminable cuts made much of a difference.

At just under half of Canada's GDP (48 percent in 1996/97), the state continues to hold considerable sway over the affairs within its borders. Around 50 percent of these expenditures goes toward the three pillars of welfare state services: education, health, and social services. The other half is spent on more mundane programs like infrastructure and resource management. It is this second, more silent half of government expenditures we shall examine first.

The following figures represent consolidated government spending and include federal, provincial or territorial, and municipal spending. To further break these figures down by government levels would be misleading because of overlap. For example, funds are transferred by the federal government, through the Canadian Health and Social Transfer (CHST), to the provinces which in turn pass them to municipal governments where they will be spent on social assistance. In effect, this one expenditure is counted three times, an overlap that consolidated expenditures successfully averts.

The data in this section is, as was the trade and FDI data, presented as a percentage of GDP. The advantage to this method is that it takes into account the growth of the economy, including inflation and population growth. A disadvantage is that it tends to downplay where the government is setting its spending priorities, decisions which are, no doubt, very political. For example, as a percentage of GDP, infrastructure declined from 3.3 percent to 2 percent between 1995/66 and 1994/95. But as a percentage of total spending it decreased from 12.5 percent to 4.4 percent, a much more impressive figure. An alternate method of presenting the data is on a per capita basis, a style adopted by The Globe and Mail for a series of articles it
presented around the February 1999 budget. Overall these data essentially paint the same picture: government services have increased unabated since 1960 with a downturn in the 1990s and a levelling off in 1998.

A systematic breakdown for most government expenditures is not available until 1965/66. For the years between 1933 and 1994/1995 only the total, welfare state services (health, education, and social services), and debt payments are available. Beginning in 1965/66, Statistics Canada listed 17 different services, four of which comprise welfare-state services and 13 devoted to other services. These different services, and the percentage of the GDP they consume, are listed in Table 7.1. Starting in 1995/96, Statistics Canada began to categorize these figures differently. It eliminated the 'other expenditures' category and included expenditures in a more appropriate category. For example, in the old accounting procedure pension outlays made by foreign affairs would have been included in 'other expenditures' but moved to 'foreign affairs' beginning in 1995/1996. Expenditures on education and health made by departments such as the military are now included in 'education' and 'health' categories rather than in 'protection of persons and property' as they were in the past.
Table 7.1 Categorization of Expenditures as used by Statistics Canada from 1965/66 to 1994/95; and Consolidated Federal, Provincial, Territorial, and Local Government Expenditure, Fiscal Year 1994/95 (March to March) as percentage of GDP.

<table>
<thead>
<tr>
<th>Function</th>
<th>Where spent</th>
<th>Percentage of GDP 1994/95</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Services</td>
<td>Executive and legislature, general administrative</td>
<td>2.39</td>
</tr>
<tr>
<td>Protection of Persons and Property</td>
<td>National defence, courts of law, corrections, policing</td>
<td>3.21</td>
</tr>
<tr>
<td>Transportation and Communications</td>
<td>Air transport, road transport, rail, water transport, telecommunications</td>
<td>2.06</td>
</tr>
<tr>
<td>Resource Conservation and Industrial Development</td>
<td>Agriculture, fish and game, oil and gas, forestry, mining, water power, tourism promotion, trade and industry</td>
<td>1.85</td>
</tr>
<tr>
<td>Environment</td>
<td>Water purification and supply, pollution control</td>
<td>1.05</td>
</tr>
<tr>
<td>Recreation and Culture</td>
<td>Libraries, art galleries and museums, broadcasting</td>
<td>.95</td>
</tr>
<tr>
<td>Labour, Employment and Immigration</td>
<td></td>
<td>.43</td>
</tr>
<tr>
<td>Foreign Affairs and International Assistance</td>
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<td>Regional Planning and Development</td>
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<tr>
<td>Research Establishments</td>
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<td>.27</td>
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<tr>
<td>Transfers to own Enterprises</td>
<td></td>
<td>.67</td>
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<tr>
<td>Other Expenditures</td>
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<td>.10</td>
</tr>
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<tr>
<td>Education</td>
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<tr>
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<tr>
<td>Housing</td>
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<tr>
<td>Debt charges</td>
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<tr>
<td><strong>Grand Total</strong></td>
<td></td>
<td><strong>49.51</strong></td>
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</tbody>
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As can be seen, the graphs use figures up to and including fiscal year 1996/97.

Because the last few years have been some of the most dramatic in terms of deficit cutting, I felt it was important to include them. Although the change in accounting procedure made simple adoption of numbers impossible, a bit of arithmetic allows for some reliable estimates. This was calculated by projecting the growth rates of the new categories (which starts in 1988/89 providing seven years of overlap) onto the old categories for the years 1995/96 and 1996/1997. Since these projections account for only two years they can be considered quite accurate. These projections were calculated only for welfare-state services (health, education, social services, and housing), debt charges, and total expenditures. The figures in Table 7.1 and Table 7.3 only include figures up to 1994/95 so as to include the ‘other expenditures’ category.

An Overview

Figure 7.2 shows that following the war, government expenditure on non-welfare state services was considerably higher than welfare state services. As more and more welfare-state programs were introduced throughout the 1950s and 60s these figures gradually converged, with both growing in lockstep in the seventies and eighties. Beginning in the nineties, welfare state spending briefly outpaced non-welfare spending, but just as quickly the two again converged. We will now look at both of these two major spending categories in more detail.

Non-Welfare-State Spending

Figure 7.3 shows that currently, including debt payments, about half of government spending
or one-quarter of GDP is directed toward non-welfare-state spending. As we saw in the preceding graph, this is the result of slow but steady growth in spending across all sectors. However, once interest payments are deducted from non-welfare expenses the picture changes dramatically. Now, rather than experiencing a steady incline, expenditures peaked in 1980 and then underwent a steady decline right until the present. In fact, non-welfare expenses are now lower than they were anytime in the fifties or sixties, and only marginally higher than before the war. Also worth noting is how the two lines are slowly forced apart, coinciding with the advent of high interest rates in the mid-seventies. From that point on the lines continue to diverge until the present day. In other words, the increase in interest rates is crowding out the spending on other programs. Whereas politicians have made some cuts to this and that program, they cannot arbitrarily cut interest payments. In an era of high interest rates, politicians were no longer able to ignore debt payments as they did in the past. Refusal to pay only meant bigger payments further down the road. Yet politicians, with rare exceptions, failed to question the politics behind high interest rates, and appeared to be content to blame it on the market.

Government services that comprise non-welfare spending are, on the whole, much less politicized than social programs. This is not to say these programs are impervious to attacks, as cuts to Via Rail and the public service suggest, but these are the exception rather than the rule. Rarely have we heard anti-government rhetoric targeted against spending on police services, management of resources, or foreign affairs. In many ways, these are mundane activities that the government engages in that make for uninteresting news. A topic like 'resource conservation and industrial development' is not a topic that arouses strong public
opinions. Other areas, such as policing, are avoided because they are incongruent with a right-wing platform. These programs are also glossed over because expenditures in each amount to relatively little -- even if completely eliminated, the change in total expenditures would be insignificant. Yet despite this silence, or maybe because of it, this is where some of the biggest cuts have occurred in the past two decades. Or to put it another way, increases have failed to keep pace with the rise in government spending in general.

Services like culture, research, foreign services, labour, the environment, 'own services,' and 'other services' take up less than 1 percent of GDP each (see Table 7.1), figures that have not encountered significant change in the past 30 years. While expenditures on the environment did increase considerably over the past decades, it continues to comprise only a relatively small portion of GDP. Non-welfare state programs that demand larger portions of the pie are the debt, 'resource conservation and industrial management,' 'transportation and infrastructure,' 'protection of persons and property', and 'general services'.

Not surprisingly, as a consequence of monetarist policies pursued by the Bank of Canada starting in the mid-seventies, the biggest increase in expenditures has been in debt servicing, which tripled from around 3 percent in 1965/66 to more than 9 percent of GDP in 1994/95. Spending on 'labour, employment and immigration' and 'foreign affairs' are the only two other areas where spending grew significantly. All other areas experienced cuts. Cuts to 'resource and industrial management' were most dramatic in the early eighties, reflecting the hands-off approach practised by the then reigning Progressives Conservatives. Resource management and industrial development is an important area because it reflects the
government's commitment to shaping industrial policy. As one would expect from the Conservatives, who have long advocated market-based exploration of resources, cuts in this area were deep during their tenure. In the early 1980s, the various levels of government invested 3.3 percent of GDP in 1984/85, a figure which was almost halved by 1994/95 to 1.8 percent of GDP.

Another sector hit hard is infrastructure, experiencing a steady decline in expenditure since 1965/66, from 3.1 percent of GDP to just under 2 percent in 1994/95. One would expect expenses to have risen somewhat in this area based on the promise of infrastructure investments made by the Liberals in the 1993 election, but this is not the case. Continual cuts in this area are somewhat surprising as infrastructure is also important to business. Much publicized cuts to the civil service are not reflected by equally deep cuts in expenditures. In 1965/66 expenditures in this sector stood at 1.5 percent of GDP which more than doubled to 2.4 percent by 1995, down only marginally from a high of 2.7 percent in 1991.

In summary, we can see that cuts to non-welfare services have been relatively effective. Even programs that are traditionally supported by the right, programs that fall under the aegis of the "nightwatchman state," such as policing and military, have endured their share of cuts. In addition, programs that benefit capital such as infrastructure have not been able to evade cuts, suggesting the government's mission to cut spending knows few friends.

Welfare State Services

One of the biggest oversights in the globalization literature is the welfare state. Accounts by Robertson (1992) and Waters (1995) fail to allude to it, while the political economy literature
for the most part ignores it too. The exception is Teeple (1995), but even he provides no empirical evidence -- his work is primarily a lament for the end of social reform. Albrow views the attack on the welfare state as evidence of the declining faith in the nation-state, rather than a resurgence of neo-liberalism, the position taken in this thesis. Even accounts critical of globalization that are specifically about the state, fail to mention the welfare component (e.g. Weiss 1997). Given that the development of the welfare state is one of the most significant developments in politics in the past half-century, this oversight is more than a bit surprising.

In order to make up for this shortcoming, this section we will examine welfare state spending with an emphasis on the post-war period. The figures are further subdivided into what may be called the three pillars of welfare state services: education, health, and social services (which includes contributory and non-contributory pensions, family allowance, social assistance, and veterans' benefits).

Figure 7.4 illustrates the continuous and gradual rise of social program expenditures from 1955 onwards. Whereas figures were below the 10 percent mark before the mid-fifties (with only one exception), they have not approached anywhere near single digits since. This is in stark contrast to the figures for non-welfare state spending, which, as we saw above, are lower now than in the 1950s. Welfare-state expenditures grew rapidly from the late fifties onwards until well into the mid-seventies, but even after that date, despite well-publicized cuts, expenditures continued to mount. The first cuts came in 1977/78, but expenditures rose again with the recession in the early 1980s, after which they declined slightly. In the early 1990s, there appeared a sudden upsurge in spending, with figures rising to 28 percent of GDP,
but this has subsequently declined back to one-quarter of GDP. In general, then, the right’s
attack on the welfare state cannot be considered all that successful given that expenditures
rose from 20 to 25 percent of GDP between the time the offensive first began in earnest in the
mid-seventies and now.

Viewed from a slightly different angle, welfare-state programs comprised less than 40
percent of all government spending before 1960 and increased to about one-half by 1970.
Surprisingly, this share fell somewhat throughout the late seventies and early eighties only to
regain its former 50 percent share in the early 1990s. Both Figure 7.1 and Figure 7.4 suggest
that social reform is a long way from being dead. In order to assess why this may be so, we
will take a closer at the three components or pillars of the welfare-state individually.

i) Education

The first area of spending we will examine in detail is education, primarily because it
introduces some obvious contradictions to the globalization thesis. Education has, for a
variety of reasons, been publicly funded for over a century and continues to be so to this day.
In Canada, a very high proportion of education is funded by the government: 90.5 percent
compared to the OECD average of 81.3 percent (OECD 1994). As a matter of fact, Canada,
at 7.4 percent (including public and private expenditures) spends more on education as a
proportion of GDP than any other country in the world. Even a country like the United
States, a welfare state laggard in so many other ways, spends 7 percent of its GDP, putting it
in second place. The country with the lowest spending in the OECD world is Japan, which
spends 5 percent of its GDP educating its citizens. The average for the OECD world is 6.1
percent, indicating there is little variation found in the industrial world, a little more than 1 percentage point variation from the mean (OECD 1994: 66).

The numbers in the following graphs are from Statistics Canada and vary slightly from those given by the OECD. In 1991, OECD figures for publicly funded education stood at 6.7 percent while Statistics Canada figures stood at 6.2 percent.\textsuperscript{27} It should also be kept in mind that the following graphs include only public expenditures, which is about 90 percent of total expenditures on education in Canada.

Figure 7.5 shows that public funding for education has long been a major item of the welfare state. In 1945, funding was down slightly from the levels found before the war but then began a steady incline. Expenditures peaked in 1960 and then levelled off somewhat, only to rise again toward the middle of that decade. Nearing the end of the sixties, it reached almost 7 percent and then settled in at around 6 percent. As a matter of fact, there has been little change in education expenditures in Canada over the past 25 years, hovering consistently around that 6 percent mark. This amounted to around $44 billion in 1994/95. The consistency of these figures may appear somewhat surprising, particularly for people who either work or attend universities where cutbacks have been felt to be relatively deep. Students are faced with increased tuition fees (with B.C. being the lucky exception at this point) and the workloads of faculties have also increased. Everyone -- students, teaching assistants, and professors -- has had to contend with larger classes. One reason cutbacks are

\textsuperscript{27}This is due the different accounting measures used. The OECD figures appear to use the new accounting procedures introduced in 1988/89 by Statistics Canada which calculate to 6.8 percent, 1/10 of a percentage off (this is likely due to revisions of both GDP and expenditures).
perceived to be worse than they actually are is that the number of students enrolled in universities has increased while the expenditures have not. Apart from that, universities present somewhat of a skewed picture of education in general. Approximately only one-third of education expenditures (32.8 percent) is directed toward tertiary education, with the other two-thirds going to primary and secondary education. Cuts at the tertiary level have been easier to implement because they present the path of least resistance. Universities are able, at least to some degree, to compensate for these cuts by raising tuition fees, an option not available to primary and secondary institutions. University funding has been the victim of neoliberal rhetoric which claims university education to be a commodity primarily benefitting the individual. Consequently, public opinion has countenanced a shifting of expenditures to the individual.

An equivalent shifting of expenses to primary and secondary students has not been the case (the other 2/3 of public expenditures) and is unlikely to occur in the future. For a politician to even suggest that students or parents pay tuition fees for twelve years of primary and secondary education would be political suicide. As we are constantly reminded by the ongoing teachers' disputes across Canada, education is a highly sensitive and emotional issue. Cuts, compared to cutting funding altogether, have been relatively trivial and have translated into less preparation time for teachers or larger classes (as was the case in Ontario recently). Yet even at these levels, cuts have provoked vigorous opposition from teachers, parents, and students.

Furthermore, education is unlikely to undergo major cuts or elimination because public, private, and business support for education is high. Seldom do we hear about the need
to take the responsibility of education away from government. Even among the charter school
movement, which aims to bring control of schools to a local level, the assumption remains that
these schools will continue to be funded by the various levels of government. What we do
find is that control of education is simultaneously becoming more centralized and
de centralized to the school level. In other words, power is being squeezed from the middle
(Davies and Guppy 1998: 459). That is, government continues to play a central role in
education.

These developments are a direct refutation of the globalization thesis that predicts the
end of the state. Education is not only conveniently neglected by advocates of globalization
but its opponents alike. Why is this so? One can only speculate. One possible reason is that
primary and secondary education have been publicly funded for so long that it is taken for
granted, and the counterfactual -- no publicly funded education -- is not even considered. In
the minds of most Canadians, public education is so integral a part of modern industrial
society that few even consider how it is funded, and even fewer are able to imagine a world
without it.

Besides funding, education raises other important issues for the globalization thesis.
Globalists trace many of the changes they observe to advances in technology, in particular
computers and telecommunications. Two criticisms can be made of this thesis, besides the
charge that it is technologically deterministic. First, the 'constant revolutionizing of the forces
of production,' as Marx and Engels observed, is an integral part of capitalism and can hardly
be considered a new development. Furthermore, changing technologies cannot be properly
exploited without a well-educated work force, and education is, as we saw, primarily publicly
funded. Judging by regular complaints about a lack of skilled workers in Canada (which are, no doubt, highly exaggerated), business is fully aware that a quality education system is essential to the smooth functioning of the economy and for this reason, business is unlikely to support major cuts in this area.

Both in terms of funding and technological challenges, education presents a major obstacle to the globalization thesis. Education guarantees that the state will continue to play a central role in the management of the economy for some time. Technology may make borders more porous, but at the same time calls forth the state in order to intervene and insure that these technologies can be successfully harvested. In short, all levels of education -- primary, secondary, and tertiary -- are not likely to be abandoned by the state precisely because education remains a lynchpin in the competitive stature of our technologically driven economy. The onus should be on globalists to clarify who will fund education once the government has packed and left the country (a question that will also allow many theorists, most of whom are academics, to reflect about who signs their paycheck).

ii) Health

Health is an area in which governments only began to take an active role following the Second World War, a notable exception being the United States. Living so close to this country sometimes obscures just how exceptional a largely privately funded health care system is. While the U.S. system has provided the best health for some, in many ways it has also proven to be a dismal failure. The U.S. spends more on health care, by some margin, than any other country in the OECD (11.2 for 1987 compared to 7.3 mean; 41 percent of which is publicly
funded) yet this superlative does not mean all Americans have access to health care.

Canada’s health care system, on the other hand, is more comprehensive and does cover everyone.\textsuperscript{28} When both public and private spending are considered, Canada spends somewhat more on health care than the OECD mean: 8.6 percent compared to 7.3 percent. When only government expenditures are taken into account, this number amounted to 6.5 percent of Canada’s GDP in 1987, approximately 1 percentage point above the OECD average. A bit of math reveals that about three-quarters of health care dollars come from public funds, almost exactly the OECD mean (76.7 percent). This mix pales in comparison to countries like Norway where public coverage virtually has a monopoly (98.6 percent). In Canada, areas that are primarily privately financed include dental care, some prescription drugs, some eye-care, and some visits to chiropractors, physiotherapists, etc. The public/private mix in Canada has remained relatively steady over the years. In 1985, total health expenditure in Canada was approximately 3/4 publicly funded which was only a slight decrease from the 76.7 percent in 1975 (OECD 1990) and continued at that same level well into the nineties (Armstrong 1997).

As a single program, health consumes the highest portion of all government expenditures only to be surpassed by deficit payments. Health care spending has long been a responsibility of various levels of government in what could best be described as a stop-and-go approach (see Myles 1988). In contrast to education, the private sector’s role in health

\textsuperscript{28}Although residents pay fees in B.C. and Alberta, under the Canada Health Act they cannot be refused health care when needed. However, here in B.C., the government has refused to pay for services provided to non-insured patients which has resulted in some doctors taking the provincial government to court.
care is already more involved and it probably also in a better position to expand it. According to the OECD, 25 percent of health care is paid for by the private sector, compared to only 10 percent of education, but this does not make privatization of medical services indicative of a trend nor an inevitability. As politicians have found, Canadians value the health care system above all else and those in favour of privatization or major cuts are confronted with firm public opposition at every turn. Privatization has considerable political public support from the right, usually in the form of a two-tier health system, but this support is insignificant when compared to that for publicly funded health care. The lack of support for privatization may in part be linked to the inefficient and inequitable example system found south of the border.

Due to collection methods the figures presented here differ slightly from the OECD figures. As a reference point, in 1987, Statistics Canada figures calculate to be just 5.9 percent of GDP going to publicly funded health care, compared to the 6.5 percent OECD figure. The likely reason for this is, as with education, different accounting methods.

**Figure 7.6** shows health expenditures rose slowly but steadily in the 1940s (average for decade 1 percent) and 50s (average 1.3 percent). Expenditure growth did not start to accelerate until the late 60s, about the time that the Canada Health Act (1966) was introduced by the federal government (average for 60s, 3 percent). In the 1970s, expenditures rose another 2 percentage points to 5 percent and yet almost another point in the 80s (average 5.8 percent). In the beginning of the 1990s numbers continued their rise, averaging 6.3 percent for the years 1990/91 to 1996/97, although this masks the sharp downturn that occurred after 1992/93.

As with education, we find that health expenditures have not taken a dramatic drop. If
anything, the rise of health expenditures has been more persistent than that of education. Closer examination shows that funding has not kept pace with rising expenditures. One reason is the aging population. Another is the increased cost of pharmaceuticals due to Bill C-22 (Health Canada quoted in Colombo 1998). On the other hand, funding to hospitals has stagnated. Subsequent hospital closures have been well publicized, making it appear as though cuts have been deep throughout, but aggregate figures reveal that funds have merely been diverted elsewhere. And if what nurses across the country have been claiming is true, they have been taking the brunt of the cuts. In other words, it is not so much that health has experienced deep cuts across the board, but that funds within health care have been reallocated, from hospitals to pharmaceuticals.

For most of this century, health costs have lagged behind those of education. This was true right through to the mid-1980s, at which point the two converged (5.5 for education and 5.8 for health). One reason for the continued growth in health care is the public support already mentioned. Another is that privatization of health services is a contentious matter eliciting debate among different sectors of business. Certainly, there are actors who would gain if the system were privatized (e.g., insurance companies), and there is little doubt that support for privatization there is highest. But this support is not uniform across the business community. Opposition to privatization is strong from firms who would have to pay health insurance for workers if government abdicated its role. To these firms, publicly funded health care constitutes a considerable subsidy. It is precisely this subsidy that can be used to explain the large numbers of car plants that continue to thrive in southern Ontario, a list that continues to grow (see chapter on Foreign Direct Investment above). Lee Iacocca (1988), past CEO of
Chrysler has estimated that it costs an additional US$600 to produce a car in the U.S. because of health insurance costs.

So here again, we have observations that are not congruent with the weakening state theory. Governments show few signs of getting out of health care, partly because of popular support, partly because its good for business, and partly because it is efficient. In the last federal budget, the Liberals committed another $11 billion to health care, suggesting the steep decline in funding that started in 1992 will stabilize and may even be reversed. As with education, we find that a publicly administered health system makes a country more, not less competitive. It also ensures that the investment made in education stays around for some time. In short, the abstract claim that the state is becoming obsolete is refuted once a concrete responsibility like health care is considered.

iii) Social Services

Social services is the component most commonly associated with the welfare state. Mention welfare and most people think of social assistance, although many other programs are included in this group. Strongly held ideological beliefs about individual initiative make social services the most vulnerable to cuts. Of course, social assistance makes up only a small portion of social services expenditure which also include social security (i.e, pensions), veterans’ benefits, UI (or EI), and family allowance. All programs that fall under the rubric of social services, with the exception of family allowance, entail transfers to individuals (or families) who do not work, whether they are too young, too old, infirm, sick, or simply unable to find employment. In short, these programs de-commodify the worker from the labour
market (Esping-Andersen 1990). It is worthwhile noting how the attitude differs toward various programs that comprise social services. The distinction between deserving and undeserving often made with respect to the poor can serve as a guiding example. While all social services programs de-commodify the worker to some degree, some recipients are considered more deserving (e.g., the elderly) of these transfers than others (e.g., able bodied males between 18 and 65). This plays an obvious role in what programs can be exploited for political gain, or alternately, which are best left alone.

EI and social assistance continue to be most vulnerable to cuts, not because of their excessive cost, but because they are an intimately linked to the labour market. Most often these programs fall victim to ideological opposition, frequently belittled as ‘labour market disincentives.’ Expenditure for these programs is minimal, as they are relatively affordable in the case of social assistance, or self-funded, as is EI. In other words, ideology and opportunism have more to do with attacks on these programs than fiscal probity or globalization. The constellation of support for these programs is also weaker than for education and health and even other social service programs such as pensions. Social assistance and EI have several things working against them: they are not universal, their recipients are geographically dispersed and not well-organized (if at all), and they have little support from either the general public or business, an animosity that goes back 500 years. In point of fact, business enthusiastically endorses cuts to these programs on the grounds that cuts discipline the labour force.

Figure 7.7 shows that social service expenditures grew slowly between the fifties and mid-sixties, a period of rapid economic expansion. Disbursements started to grow more
rapidly in the mid-sixties with the introduction of the CPP/QPP and GIS. Expenditures grew even more rapidly when UI benefits were expanded generously in 1971, particularly when unemployment rose later that same decade. As the economy contracted in the early eighties, social services expenditures rose in concert. Between 1970 and the present, we can identify a pattern that is the mirror image of the economy: expenditures increase during recessions and abate during booms. After each recession, however, the level of expenditures stabilizes above its pre-recession level due to factors such as an aging population and ever-increasing rates of unemployment. It is also important to note that expenditure in this sector have not plateaued as they have for education and health, but have taken a seemingly inexorable climb up (see Figure 7.8). To get a better understanding of why this may be so, we will examine two major categories of social services spending separately: 1) pensions and 2) and labour market programs (social assistance and EI).

a) Pensions

Despite the doom and gloom surrounding most discussions on pensions, the reality is that these programs continue to be well funded and their growth has been less hindered than that of any other government program. In 1996, pension expenditures including CPP, QPP, OAS, GIS, and SPA amounted to $41.8 billion, only $5 billion less than for health and $3 billion

29 The following abbreviations will be used in this section: Canadian Pension Plan (CPP); Quebec Pension Plan (QPP); Old Age Security (OAS); Guaranteed Income Supplement (GIS); Spouse’s Allowance (SPA). All but the CPP and QPP are financed by general revenues.

30 There are also various means-tested provincial and territorial programs that supplement income for the elderly amounting to a total of 285 million in 1997 (Clark 1998:
less than education. Currently, pensions comprise just over 50 percent all total social services expenditure, a dramatic increase from the situation 20 years ago. In 1976, only $860 million, or less than 5 percent of social services expenditures, went to pensions. At less than $1 billion, this figure was only a fraction of the $10 and $12 billion that went to health and education respectively that same year. Part of this impressive rise in expenditures is, of course, due to the aging of the population, but some can also be explained by the large number of workers that are forced into early retirement because of limited opportunities in the labour market. Pensions are also indexed, and to change this has proven to be difficult. The grey public keeps a sharp eye on the government to ensure it does not even consider such a move. Pensions are also directly funded by the federal government and dispensed to individuals, rather than through the more usual block funding (e.g., CAP and the CHST), making it much harder for the federal government to unilaterally cut funding or off-load expenses to the provinces the way it has done with education, health, and social assistance.

When deindexation or cuts are attempted the political backlash is immediate as Mulroney found out in 1985 when he tried to de-index the OAS. This is not to say that pensions have been completely immune to cuts as Mulroney did successfully implement claw-backs to the OAS in 1989. But in general, as the rise in expenditure clearly indicates, politicians are quite hesitant to meddle with pension programs and are content to hunt for weaker prey.

Of all the different pension programs, the government would have the least to gain by cutting the CPP/QPP. These programs are funded directly through contributions (as opposed 77).
to the other pensions which are funded out of general revenues). When pensions were first introduced in Germany by Bismarck in 1889, some commentators cynically referred to the system as a forced savings plan, which the CPP/QPP essentially continues to be to this day. If the government were to distance itself from contributory pensions it would have to make up for this shortfall in other areas anyway, (which it already does with the GIS and social assistance), which would then show up in an increase in expenditures elsewhere. The way the CPP/QPP is presently structured works well for the government. It is well funded as well as popular. No politician with a modicum of intelligence would even attempt to tinker with this program in any major way for there is little to gain and a lot to lose. Interestingly, the CPP/QPP and EI are alike in that they are both self-funded through contributions, and both decommodify the worker. The crucial difference between the two is public support.

This does not mean that the business community is happy with the status quo: privatization threats are more real with respect to pensions than other social services programs--at least in theory. Overall, Canada's public pensions are less generous when compared to those of other industrialized countries, particularly Western European ones (Myles 1989). The relative inadequacy of public funding has meant that the Canadian pension system is already partially privatized. Private pensions are either directly tied to employment or purchased on an individual basis (RRSPs). In this individualistically minded society, there have been further pressures to privatize with the end-goal of shifting the burden completely away from government. But in the long run complete privatization would prove unfeasible. While there is always a portion of the population fortunate enough to be able to invest for its own retirement, others are not so lucky. This means that in the end, the more penurious
elements of society would end up collecting some form of social assistance anyway. In other words, elimination of public pensions would mean government responsibility would merely be shifted to another sector. Furthermore, the government would lose valuable tax revenue with RRSPs, resulting in little change to their overall budget. And last, the majority of private pensions are invested in the stock market and if there were to be a bear market, millions of people would be left without adequate pensions, meaning that once again the government would be forced to provide assistance. Why not have the government take care of pensions in the first place (Henwood 1997)?

b) Social Welfare and Unemployment Insurance

Social welfare has historically proven to be the most disdained of welfare-state programs, a prejudice that persists to this day. Recently, the attack on the poor has been most viciously rehearsed by Harris in Ontario and Klein in Alberta. Cutbacks to the social assistance were also implemented by the NDP government in B.C. (in the form of a three months residency requirement). While motivations behind these cuts are primarily ideological, these programs have also proven themselves vulnerable because of the poor organization of its recipients and the stigma attached to being ‘dependent’. Poor people, compared to the elderly, doctors, or even students, are not well organized, making them easy targets. Paradoxically, attacks on the

31The three month residency requirement by B.C., however, was much more a tactic to persuade the federal government to reinstate funding than an attack on the poor. The Canada Assistance Program (CAP) guaranteed matching funds to the provinces for social assistance if the provinces abided to a few simple rules, the mobility rule being one of them. When the federal government unilaterally capped CAP in 1990, the B.C. government took the federal government to the Supreme Court (Sossin 1998: 153). Imposing a residency requirement was a tactic to challenge the federal government’s mobility rule.
poor mount as the economy worsens, that is, when social assistance is most needed. These assaults continue despite the relative low cost of social welfare, especially in comparison to big ticket items such as health, education, and pensions. Even if all social assistance programs were abolished, it would barely put a dent in government spending. Throughout the various levels of government, social assistance comprised just under 2 percent of GDP in 1993 (Social Security Backgrounder #1 National Council of Welfare) and at $13.7 billion, 1.7 percent in 1995 (Clark 1998: 26).

Unlike pensions, social assistance payments vary among provinces, as individual provinces and territories (and sometimes municipalities) set their own standards. This has frequently meant that the attack on social assistance has depended on the ideological position of the provincial government in power. How successful these cuts have been is not that easy a question to answer. Much has been made of the cuts forced by the Conservatives in Ontario. In 1995, the Harris government successfully pared social assistance payments by 21.6 percent (Sossin 1998). However, this merely served to wipe out the 23.6 percent gain made between 1986 and 1991 (Courchene 1994: Table 23) with remaining benefits still being more generous than most other provinces (see Clark 1998: Table 1). The Harris cuts may have somewhat eased the financial burden of the Ontario government but they could not compensate for the increase in expenditures due to the rise in caseloads. The number of social assistance recipients in Ontario, reflecting a bigger trend throughout Canada, doubled between 1988 and 1993 (Courchene 1994). In the early 1980s, 6 percent of Canadians were on social assistance, a figure that rose to 10 percent by the early 1990s. That level remained unchanged in 1996 (Clark 1998: 25-26). Based on this increase, despite various cuts, overall expenditures for
social assistance doubled between the early 1980s and 1990s (Clarke 1998: 25).

Various provincial governments have successfully tightened eligibility requirements, but if anything this has increased the role of the state in terms of surveillance and in the end probably ends up costing more. As difficult as cuts have been to individuals and families, they have done little to alleviate the overall fiscal situation of various levels of governments. They have also failed to lower unemployment, as unemployment is seldom the result of individual choice. Social assistance expenditures have also increased as fewer unemployed have become eligible for EI (see below).

Another way to measure the effects of social assistance cuts is to inspect poverty rates and income distribution. Ken Battle (1994) shows that poverty rates have not increased dramatically in the past few decades -- if anything rates have stabilized for most groups and even decreased dramatically for some, such as the elderly. Figures released by the National Council of Welfare (1996) show essentially the same thing: a negligible rising and waning of poverty rates reflecting the larger ebbs and flows of a market economy. And finally, income statistics reveal a remarkable stability in the distribution of income among the quintiles over the past 40 years (Urmetzer and Guppy 1999). Contrary to some of the more pessimistic accounts on the left, things are not as dismal as they seem.

We must now ask how likely it is that social assistance will be reduced drastically in the future and how susceptible it is to privatization. If the past is any indication, these programs will be around for some time. Social welfare provisions have a long and tenacious history in the industrializing world going back to before the Elizabethan Poor Laws of 1572. These programs have always suffered from some degree of ideological opposition yet, at the
same time, have endured. According to Piven and Fox (1995), their persistence can be explained by the potential of social unrest once eliminated. Other reasons, such as the high cost of incarcerating people who turn to crime, cannot be overlooked. In short, the danger of social turmoil and the political and financial expense that accompanies it, makes it unlikely that these programs will ever completely disappear.

Since few profits are to be made by giving away money, there is little chance that social services will be replaced by the private sector. Charity does take up some of this slack (e.g., food banks) but historically this type of service has been wanting. Moreover, our predominately urban and secular society is much different from the society of past centuries and the parish, the institution historically responsible for doling out alms, has very little meaning in today’s world. Even then a considerable amount of funding to the parishes came from taxes. If the state did abandon its responsibility in this area, conditions would indeed be grave for the poor, resulting in a situation similar to that in many third world countries.

Meanwhile, cuts to EI have been much more successful. Part of the rise in expenditures in social assistance can be directly linked to cuts in EI, serving to illustrate the interconnection between many government services. EI is similar to social assistance in that both are explicitly about the labour market. Interestingly, pensions are just as much a labour market disincentive as EI, but people have generally accepted of the fact that the elderly should not work. Since the beginning of the decade, EI has experienced deep cuts, both in terms of eligibility and expenditures. Expenditures decreased by 43 percent between 1992 and

\[32\] California now spends more on the prison system than on higher education (Hacker 1997: 235).
1997 (from 2.8 to 1.6 percent of GDP). As a percentage of GDP, however, figures for EI are less meaningful than for other social services as the number of clients can fluctuate dramatically with the health of the economy. For example, both in 1990 and 1996, EI expenditures amounted to $13 billion, or a moderate decrease from 1.9 to 1.7 percent of GDP. However, in 1990, 87 percent of the unemployed were covered by EI, which was almost halved by 1996 (46 percent of unemployed) (Pulkingham 1998: 20) and further declined to just 36 percent in 1997 according to a study done by the CLC (The Globe and Mail, Jan 27, 1999:A1). The success of these cuts can be measured in other ways. In 1997, the number of claims made was not much higher than in 1980. Moreover, combined payouts began an unmistakable downturn in 1992; in 1997, payouts were 37 percent less than in 1992, despite unemployment being down only 18.5 percent, from 11.3 percent to 9.2 percent.

Many other programs are included in the social services sector such as family allowance, veterans' benefits, and workers' compensation, have successfully avoided major cuts. The bulk of these programs, especially family allowance or veterans' benefits, are generally immune because they are politically sensitive. The Mulroney administration de-universalized family allowances and attempted to channel funds toward those who needed it most, a process which in the end provided no increased savings or benefit to anyone, with expenditures remaining relatively unchanged (Battle 1993).

The overarching conclusion to be drawn from these data is that most social services are difficult to cut and impossible to eliminate. Despite the ideological posturing that is such a familiar ingredient of neoliberalism, cuts to these programs are strikingly more difficult to implement than would appear on first sight. 'Ideology' is after all etymologically and
semantically related to ‘idea,’ and in the political arena, ideas are poor competition to considerations such as social unrest, voter backlash, and even public sympathies. Five centuries’ worth of opposition to social services, often passionate and acrimonious, is testament to the fact that ideology alone does not suffice to secure their elimination.

There is always the slight possibility that governments will get out of social services altogether resulting in what has been aptly referred to as the Brazilianization of the economy (Therborn 1986). More pessimistic accounts of globalization overtly take this position, but the likelihood of such a scenario is highly doubtful. It is, of course, very difficult to predict the future, but one can make some reasonable observations about what may happen in the future by looking backwards and if the past half of this millennium is any indication -- essentially the entirety of capitalist history -- the probability of even the most unpopular of social programs staying around for some time is extremely high.

Summary and Discussion

As we saw, the possibility of elimination or even extreme cuts to social programs is remote. We can now summarize the information above in matrix form. Table 7.2 shows the three major components of the welfare state in the rows and different measures of support in the columns. Each cell is scored from -1 to +1 depending on the program’s support, likelihood to remain publicly funded (that is, not to be privatized), and importance to economic competitiveness. The discussion above tells us that support is strongest for education and weakest for social services. But even for social services, a score of 0 in the ‘total’ column indicates the status quo rather than elimination, for while social assistance may not be popular,
pensions are.

Elimination of any one of the three pillars of the welfare state would certainly mean the loss of the competitiveness of the Canadian economy; the elimination of all three would be disastrous. Globalization theory notwithstanding, most people would quickly realize the threat to their well-being once these services were no longer available.

<table>
<thead>
<tr>
<th>Table 7.2 Support for Various Welfare State Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Support</td>
</tr>
<tr>
<td>Education</td>
</tr>
<tr>
<td>Health</td>
</tr>
<tr>
<td>Social Services</td>
</tr>
</tbody>
</table>

As we saw in the beginning of this chapter, globalization is often envisioned as having turned the state into a veritable eunuch. The main actors responsible for this scenario are purported to be multinational corporations, although technology, currency traders, and consumers have also been implicated. For now let us focus on corporations, who are often deemed the most powerful actors in the global economy, power they are supposed to have garnered at the expense of labour and the state. The intentions of business are difficult to deny as it has orchestrated a concerted attack on the welfare state. In Canada -- whether under the guise of deficit-cutting, globalization, productivity enhancement or just plain market ideology -- welfare programs are the consistent targets of the C.D. Howe Institute, the
Business Council on Canadian Issues (BCNI), the Fraser Institute, and other business funded organizations such as the Reform Party. The success of these attacks, however, is another matter.

Rather than being down, spending is up, most noticeably welfare-state services. Once the three pillars of the welfare state -- education, health, and social services -- are plotted side by side we are faced with the somewhat surprising result that while spending for education and health has levelled, spending for social services is up. Figure 7.8 shows that expenditures in all three sectors grew gradually from the close of the Second World War until the beginning of the seventies. From the 1970s onwards expenditure growth slowed in some areas, such in health, or failed to increase all together, as in education. Social services, however, continued to grow unabated. More importantly, none of the three pillars experienced a major downturn at any point. Once we consider all government programs (debt not being a program), the sector that experienced the biggest growth between 1965/66 and 1994/95 was social services. Given how relentless the attack on the welfare state has been, particularly on social services, this finding is certainly counterintuitive.

Another way of showing the resilience of social programs is to separate welfare-state from non-welfare-state spending. Going back to Figure 7.2 we can see that welfare services matched that of non-welfare expenditures from the late 1960s onwards. Once debt charges are deducted, we see welfare expenditures have risen considerably faster while non-welfare state expenditures have shrunk. This is the direct opposite of what one would expect given the increased power of capital in an age of globalization (see Figure 7.3 and Figure 7.4). Both neo-Marxist theories of the state and contemporary accounts of globalization, such as
Teeple's, attribute undue influence to capital, a power which does not appear to translate into the realization of its projected goals. We could reasonably assume that business would agree to support education and health since in the long-run capital does benefit from these, but this same argument does not hold true for social services. It is precisely these programs, being labour market disincentives and all that entails, that supply side economists implicate as a major drag on the economy (Brenner 1998). Yet it is the very same programs that have experienced the most vigorous growth in the past decades. Obviously business interests, at least in this instance, are not powerful enough to overcome the momentum of the public opinion, bureaucrats, and the diverse interests of the state.

Another way to approach the data is to consider each of the 17 government programs individually and determine how much change each has undergone since the welfare state entered its period of 'crisis'. Expenditures grew almost without interruption from WWII onwards and it was not until 1977/78 when the first set of cutbacks became apparent, making this an appropriate year for comparison. Percentage changes, whether positive or negative, are shown for each spending category in Table 7.3. The table is further divided according to welfare-state and non-welfare state programs. Immediately apparent is the increase in welfare-state services and the decrease in non-welfare services. Nine out of the 12 non-welfare-state services have undergone negative growth while only one of the welfare services has (education). Once aggregated, non-welfare services suffered a 15 percent hit while welfare services grew 23 percent. When debt charges are deducted, we find that total expenditures have barely changed -- an increase of only 1.3 percent. During this time the biggest change, in constant 1992 dollars, occurred in the social services sector, a gain that is
double (57 billion) of the combined losses incurred by all non-welfare services (25 billion).

Table 7.3 Consolidated Federal, Provincial, Territorial, and Local Government Expenditure, Fiscal Year 1994/95 (March to March), in millions of dollars, percentage of GDP, and percentage change since 1977/78.

<table>
<thead>
<tr>
<th>Function</th>
<th>Expenditure 1994/95 (millions of dollars)</th>
<th>Expense as Percentage of GDP</th>
<th>Percentage Change from 1977/78</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Services</td>
<td>18,236.70</td>
<td>2.39</td>
<td>-20.0</td>
</tr>
<tr>
<td>Protection of Persons and Property</td>
<td>24,476.50</td>
<td>3.21</td>
<td>-7.5</td>
</tr>
<tr>
<td>Transportation and Communications</td>
<td>15,689.30</td>
<td>2.06</td>
<td>-31.8</td>
</tr>
<tr>
<td>Resource Conservation and Industrial Development</td>
<td>51,619.00</td>
<td>1.85</td>
<td>-26.0</td>
</tr>
<tr>
<td>Environment</td>
<td>14,119.30</td>
<td>1.05</td>
<td>-8.0</td>
</tr>
<tr>
<td>Recreation and Culture</td>
<td>7,214.90</td>
<td>.95</td>
<td>-9.5</td>
</tr>
<tr>
<td>Labour, Employment and Immigration</td>
<td>3,310.80</td>
<td>.43</td>
<td>+65.4</td>
</tr>
<tr>
<td>Foreign Affairs and International Assistance</td>
<td>4,933.60</td>
<td>.65</td>
<td>+27.4</td>
</tr>
<tr>
<td>Regional Planning and Development</td>
<td>1,614.80</td>
<td>.21</td>
<td>-25.0</td>
</tr>
<tr>
<td>Research Establishments</td>
<td>2,072.80</td>
<td>.27</td>
<td>-23.0</td>
</tr>
<tr>
<td>Transfers to own Enterprises</td>
<td>5,112.70</td>
<td>.67</td>
<td>-15.0</td>
</tr>
<tr>
<td>Other Expenditures</td>
<td>791.20</td>
<td>.10</td>
<td>+1000.0</td>
</tr>
<tr>
<td><strong>Total Non-Welfare-State Expenditures</strong></td>
<td><strong>105,612.70</strong></td>
<td><strong>13.86</strong></td>
<td><strong>-15.2</strong></td>
</tr>
<tr>
<td>Health</td>
<td>47,100.00</td>
<td>6.18</td>
<td>+21.7</td>
</tr>
<tr>
<td>Education</td>
<td>43,919.60</td>
<td>5.76</td>
<td>-9.4</td>
</tr>
<tr>
<td>Social Services (inc. CPP and QPP)</td>
<td>105,544.10</td>
<td>13.85</td>
<td>+44.7</td>
</tr>
<tr>
<td>Housing</td>
<td>3,827.60</td>
<td>.50</td>
<td>+38.9</td>
</tr>
<tr>
<td><strong>Total Welfare-State Expenditures</strong></td>
<td><strong>200,391.80</strong></td>
<td><strong>26.29</strong></td>
<td><strong>+23.1</strong></td>
</tr>
<tr>
<td>Debt charges</td>
<td>71,325.00</td>
<td>9.36</td>
<td>+112.0</td>
</tr>
<tr>
<td>Grand Total minus debt charges</td>
<td>306,004.50</td>
<td>37.55</td>
<td>+1.3</td>
</tr>
<tr>
<td><strong>Grand Total (Non-Welfare, Welfare, and Debt Charges)</strong></td>
<td><strong>377,329.50</strong></td>
<td><strong>49.51</strong></td>
<td><strong>+17.5</strong></td>
</tr>
</tbody>
</table>
The biggest percentage increase occurred in debt maintenance (excluding 'other expenditures' category which still only consumes 1/10 of a percent of GDP even after growing tenfold). Debt payments more than doubled in terms of GDP since 1977/78, and presently consume almost one tenth of GDP. Figure 7.9 shows that total spending including and excluding debt started to significantly diverge first in the mid-seventies, a trend that became more pronounced throughout the 1980s. Once debt payments are subtracted, we see state expenditures stabilizing in the mid-1970s, with only slight fluctuations since, probably explained by economic recessions.

As a percentage of GDP, the areas in which spending was lower in 1994/1995 than in 1977/78 were primarily in the non-welfare services and education. Even 'protection of persons and property,' probably the area most favoured by the right, has experienced cuts. According to O'Connor (1973), infrastructure would be another area where one would expect to rise given the benefits that accrue to capital. Yet even there, we see substantial cuts. It is somewhat ironic that with all the anti-state bashing the right has engaged in, it has been more successful in cutting programs it endorses than those it denounces (those being social services and debt). Clearly, this is precisely the opposite of what one would expect from a theory that emphasizes the burgeoning power of corporations and capital.

I do not mean to diminish the attack on the welfare state, but at the same time, the evidence indicates the power of capital is often overstated. Even from the mid-1980s onwards when deficit bashing first began in earnest, the welfare side grew while the non-welfare side shrank. This is certainly not what the right wished for when it first mobilized its attack on the welfare state, but it is what they got. So even if business has shown to be very powerful (it
did get government to fight inflation and lower corporate taxes) it was only partially successful in achieving its objectives (the cuts to the welfare state and state spending in general have not been significant).

Canada is certainly not an isolated case as the state remains firmly entrenched in national economies throughout the industrial world. What does this say about the right, business, or politics in general? Why has business failed to rid the world of the welfare state? In Canada, one conclusion that can be drawn is that the right does not adhere to a well-coordinated plan of attack. Business has been most successful in its fights against inflation, but this success has been far from unqualified given some unpleasant and unintended side-effects. High interest rates, the primary tool used to wrestle inflation to the ground, has pushed unemployment up and, subsequently, demand on social services. As well, interest payments on the debt spiralled. These two programs are also the fastest growing areas of government expenditures. By no standard can this be said to qualify as a success. Let us not forget that the neo-conservative revolution began in Great Britain, with Thatcher promising to get rid of the 'nanny-state'.

The failure of the right's agenda should not come as all that much of a surprise to sociologists. Except under totalitarianism, it is very difficult to create a monolithic society. Yet some of the more pessimistic analyses of globalization have done exactly that by painting a picture that features an all-powerful multinational capital. But, as we saw, there is opposition to such an agenda at every turn. Second, there are structural limits to what capital

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33This is in terms of actual expenditures, that is constant dollars. 'Labour, employment, and immigration' and 'other expenditures' have increased more on a percentage of GDP basis, but both still only amount to less than half a percent of GDP.
can do, and third, once implemented, social actions are likely to bring with them unintended consequences (Giddens 1984). The failing of the right’s biggest success, the fight against inflation, was that it was won in a theoretical vacuum. This approach, called deontological in philosophy, judges if an action is right on its own merits no matter what the consequences. But the suppression of inflation did come with some unpleasant, albeit unintended, consequences, foremost among them an increase in social program expenditures as well as debt payments (see Mimoto and Cross 1991; also McQuaig 1995). The fact that low inflation (via high interest rates) and low social expenditures are difficult to attain simultaneously is a possibility seldom entertained by policy makers. Paul Hellyer, a high profile MP in both the Pearson and Trudeau governments, writes that “If central bankers had any understanding of how the real world works, they would know that there is no practical way for governments to cut expenditures precipitously every time central banks bring economic growth to a grinding halt” (The Globe and Mail, April 6, 1995: A19). The lack of coordination between different government departments, in this case finance and human resources, also seems to be at fault here. There is little doubt that these policies are very much driven by a free-market ideology: Inflation is bad for investment and social programs undermine the efficacy of the labour market. Both these points may be true in isolation, but within a larger social and political context policies, as Giddens suggests, are likely to clash in unintended ways. And they did.

Prospects have somewhat improved with the Liberals; interest rates are lower and Finance Minister Paul Martin has stood up to the business community the way Michael Wilson never even dreamed of. But to a large extent, the damage inflicted by the high interest rate policies cannot be reversed. Meanwhile, the government is forced to pump ever more money
into interest payments and social services. The high cost of debt maintenance has crowded out program-spending in other areas at the same time that demand has risen. Education and EI are the most glaring examples of this, but cuts have also affected other departments such as policing, transportation and communications, research, and resource conservation and industrial development. Each category of government spending comes with its own story, and each comes with its own set of winners and losers.

Conclusion

Imagine the counterfactual to what exists today, a world without a state, and then try to imagine what measures would have to be taken in order to arrive at that destination. At every turn there would be insurmountable obstacles. Take education, for example. Support would be split among ideologues, politicians, media, and business interests. But opposition would be both firm and uniform from teachers and professors, parents, and students. And this is true for each and every service the government provides: a different constellation of support and opposition would make elimination exceedingly difficult. The turmoil resulting from the elimination of a major program would also make re-election of a political party responsible for such havoc unlikely.\(^{34}\) (Of course, logically, complete elimination of the state would obviate any concerns for re-election.)

\(^{34}\)Premier Mike Harris is finding this out the hard way. He encouraged thousands of teachers and nurses to leave their profession and has now been forced to lure them back at added expense. The Ontario government is presently spending $375 million to hire 12,000 nurses, a dollar amount that is slightly less than he spent to fire them a few years earlier (The Globe and Mail April 24 1999: A10). Furthermore, his new platform promises increase in spending on education and health.
The data serve as strong evidence that the role of the state in the economy has not experienced a significant decline no matter where one puts the date for the beginning of globalization: the sixties, the seventies, even the eighties. Government involvement is so firmly entrenched in so many facets of political and social life that it is often taken for granted, which may explain why globalists have successfully been able to ignore it. Nevertheless, whether one chooses to acknowledge it or not, government intervention continues to play an indispensable role in education, law, public transportation, roads, the regulation of food, trade, construction, transportation, communication, and the list goes on.

Services that do make a country more competitive are precisely the same services that require state participation, for the private sector is not likely to provide them on its own. Infrastructure such as roads, bridges, and airports, to say nothing of services such as health, education, and welfare, are often too costly or unprofitable for the private sector to provide, at least initially. In this respect, the role of the state is guaranteed for some time to come. Moreover, the Canadian economy remains national in that most government services are provided by Canadians for Canadians, with little foreign involvement. The vast majority of people consume their education, health services, culture, police protection, culture, housing, and other services in Canada. Globalization, if there is such a thing, has not changed this.

And it is not only the individual citizen who benefits from state services but also business. As O'Connor (1973) sets forth, in a mixed economy like ours, costs are socialized while profits remain privatized. Free-market ideology notwithstanding, business has little interest in drastically altering this relationship for it knows it would suffer. Furthermore, many businesses rely on government contracts for their very survival. Telephone companies,
computer firms, the media (governments are profligate advertisers), construction companies, airlines, law firms, hotels, restaurants, pharmaceutical companies, manufacturers of medical equipment, polling firms etc. -- almost any business of significant size has had a lucrative contract with the government. If Ohmae is right and the consumer is king, then government still has some ruling left to do.

Globalists rarely look at these state services in detail and focus solely on the state's responsibility of attracting capital. They treat the state in very abstract terms and ignore the interests of bureaucrats, the public, labour, the unemployed and the unemployable -- people and groups that form the very foundation of what makes politics. On this very abstract level, contradictory claims made by capital or voters can easily be ignored. But these contradictions emerge forcefully in the real world. The state has many responsibilities and answers to a variety of interests which constrain it to act in sometimes contradictory ways. No matter how powerful capital appears to be among these other interests, the objectives of capital are rarely accomplished easily, and often not at all. This holds true even for multinational capital in an age of globalization.

Globalization theory is obviously not up to the task of explaining the changes the nation-state has undergone since the Second World War. Its observations and predictions do not correspond well with contemporary political and economic events. A theory of globalization must explain how a process that at one time provided the conditions for the nation-state to flourish has now suddenly turned against it. It must then provide some convincing evidence of exactly how the state has been weakened and why this trend is not likely to be reversed. And probably most important, it must explain the increased presence of
the state in the economy over the past 30 years, the beginning of a period that is often given as the date for the inauguration or acceleration of globalization.

The data just presented are completely incongruent with a theory that predicts the weakening of the state. The fact that social programs, as well as political and civil rights, continue to thrive in Canada speaks to the continuing strength of the state and the relative weakness of multinational corporations. There is very little evidence that capital has made any real inroads in reversing the trend of state intervention that began after the Second World War. This is particularly true with respect to the welfare state. The more logical conclusion to be drawn from the data is that, rather than the end of social reform, we are witnessing the continuing impasse of the welfare-state (see Myles 1988; Mishra 1984). Both the left and right have ultimate objectives, be it socialism or a free market nirvana at their extremes, which are impossible to translate into reality. One could argue, that a downward trajectory has been set for the welfare state and that it will only be a matter of time before the visions of the right are realized. But the evidence just presented indicates that the balance of power among capital, labour, and the state has not shifted to the point that the impasse of the welfare-state has successfully been broken by any of these parties. Globalization has not dramatically, if at all, altered the tug-of-war between those groups. In other words, the impasse continues.
CHAPTER VIII

THE POST-WAR ECONOMY

What on Earth is Happening: Alternate Explanations

When testing hypotheses in sociology, researchers are advised to keep in mind the possibility that an alternate, better explanation may exist. An alternate explanation could well render the present hypothesis invalid. The task of this chapter is to search for such an alternative, one that better explains current political and economic developments than globalization. There is little doubt that things are different now than in the fifties or sixties. Canada, like many economies around the world, has suffered from slowed growth, higher unemployment, and declining business profits for at least the past two decades. This has resulted in a change of attitude which can best be summarized as a shift from confidence to uncertainty. Many people claim this uncertainty can be attributed to globalization but, as previous chapters have shown, this is not the position taken and it will be argued that while there has been a long-term contraction there has been no fundamental change in the economy. We will first take a closer look at this contraction, examining its structural features, and then see how this contraction has played out in the political arena. Against this backdrop, alternative explanations to that of globalization will be developed.

I will argue that the current contraction can be better understood as a structural downturn which, at the same time, has also significantly altered the dynamic between capital
and labour. One of the major objectives of this chapter is to reintroduce agency back into the debate. The globalization argument has been successful in stealing away agency from contemporary politics: many people, including, as we saw in the Introduction, Prime Minister Chretien, may disapprove of globalization yet believe there is little that can be done about it. This fatalistic attitude merely allows the government to distance itself from making certain decisions.

Once the actions of business, government, and labour are examined, I argue, we will have a better explanation for the current uncertainty than ‘globalization’. First, we will examine some of the contradictions of capitalism and how their emergence has changed capital/labour relations. The next section will explore how the right has interpreted the present downturn and track its attempts to revitalize the economy: less market intervention, and, in particular, less inflation. The chapter will conclude by assessing the success of these policies.

Assessing the Problem: Structure and Agency

Immediately following the Second World War up until the early 1970s the world economy experienced its most robust growth ever, commonly referred to as the “Golden Age.” According to Maddison’s (1995) historical analysis of the world economy, the period between 1945-1972 qualifies as the most prosperous ever. This growth came to a gradual halt in the 1970s, as Western economies entered a contraction sometimes contrasted as the “Leaden Age.” How have the problems of slow growth manifested themselves? One, unemployment has increased dramatically. According to the ILO, there are close to 800 million people in the
world that are now unemployed or underemployed (Rifkin 1995: 15). Canada has had double digit unemployment with few exceptions since the early 1980s. Two, wages have failed to grow significantly since the mid-seventies. In Canada, family income has stagnated, despite increasing numbers of women joining the workforce (Urmetzer and Guppy 1999). In the United States, between 1973 and 1990 the real hourly wage (that is, adjusted for inflation) in private business fell by 12 percent, back to mid sixties levels, and productivity growth fell to its lowest level in American history (Brenner 1998). Third, profits have slumped, particularly in the manufacturing sector, decreasing an average of 40 percent for the years 1970-1990 compared to the two preceding decades (1950-1970) (Brenner 1998), a development commonly referred as the profit squeeze. These problems – high unemployment, stagnating wages, and falling profits – are often blamed on globalization.

The political economy school in general, and current Marxist writers such as O’Connor and Harvey in particular, have attempted to illuminate contemporary developments in light of the structural features of capitalism, features they believe to be self-defeating. These contradictions are said to result in crisis if not properly managed. Harvey (1990: 180) enumerates the following three contradictions: 1) capitalism is growth oriented, and lack of growth equals crisis; 2) capitalism is technologically dynamic and progress is seen as both inevitable and good; and 3) growth is predicated on profit and, based as it is on the exploitation of labour, contributes toward tension between capital and labour. Thus we can understand contemporary events as the emergence of a series of contradictions. We will discuss each in turn.
i) The Limits of Growth

The history of capitalist economies is littered with depressions and recessions. Extensive research on the cyclical nature of capitalist growth -- from Kondratieff and Kuznets to Wallerstein -- shows that current events can well be explained as just another contraction in a perpetual cycle of bust and booms. Marxist economists perceive this problem as endemic to capitalism, at the root of which lies overproduction. Economies cannot grow forever, and as growth slows — the “essential cornerstone of capitalism” according to Harvey — fiscal pressures mount. People can only purchase a finite amount of consumer products and eventually must stop: a household can only own so many cars, fridges, and VCRs. Economists refer to this as the lack of aggregate demand. Marx and Engels (1986) characterized this as the “absurdity...of over-production” (1986: 39).

Over-production also lay at the root of the depression in the 1930s. It took an economist of Keynes’ eminence to convince politicians that neoclassical explanations of supply and demand were grossly misguided. He argued that the market was ill-equipped to deal with the problem of overproduction, this being true for both goods and employment. Keynes demonstrated that as wages were driven down workers had less money to spend on products, pulling profits down with them, which led to more lay-offs and even lower wages, and so on. In other words, without some kind of intervention, it would take some time before the market would work through the crisis of unemployment on its own. Instead, Keynes argued, funds would have to be redirected toward workers so they could once again buy products, thereby increasing demand. To various degrees, the Keynesian orthodoxy was adopted by most industrial nations following the war and economies grew briskly (although
the fact that economies had entered an upswing also played a major role).

Today the situation is not so different from when Keynes first wrote his treatise in the Depression: we are experiencing a contraction. But not all busts and booms are alike. What distinguishes this economic contraction from those preceding is its lack of severity. This can be directly attributed to two factors: increased wealth and more equitable distribution. Canada's experience throughout this period is typical and serves as an illuminating example. Wealth surveys by Statistics Canada show that wealth in this country exploded in the immediate post-war years. This gradual accretion of wealth makes Canada a much different place from the last major contraction of the 1930s. While it is true that the wealthy are accumulating disproportionally more wealth, in terms of income, distribution continues to be quite stable, primarily due to the various programs of the welfare state (Urmetzer and Guppy 1999). Problems associated with absolute poverty are now virtually non-existent in Canada which was not the case in the thirties. For example, food shortages in the Depression were pervasive, to the point that scurvy broke out in the Prairies. Also, unemployment in the Depression was more than double the rate now. It has been estimated to have reached a high of 25 percent in the Depression in contrast to the 11.8 percent high of the present contraction (Norri and Owram 1996).

The growth of the welfare-state can be seen as a direct attempt to address the problem of capitalism's tendency to destabilize in the absence of growth. More to the point, it was prompted by the experiences of the Depression. Labour uprisings during the Depression and the threat of communism following the Second World War also provided an atmosphere receptive to social and economic tinkering (Hobsbawm 1994). The result was an
unprecedented number of social programs being instituted throughout the Second World War, the 1950s and well into the 1960s. In short, the welfare state was put in place to cushion business cycles and render them less extreme. It is somewhat ironic, then, that the business community is so bent on dismantling social programs, the very ingredient that may have saved the system from itself.

ii) Technology

At one level the problems of technology are obvious. The ‘constant revolutionizing of the means of production’ invariably leads to unemployment. The Luddites realized this over two centuries ago when they smashed machinery in hope of saving their jobs; so did governments that chose to tax more efficient looms in the 17th century (Heilbroner 1980). The current approach toward technology is exactly the opposite. It is now heralded as a saviour and economies around the world are in stiff competition with one another to attract whatever high-tech industry may be out there.

Technology is primarily regarded, as Harvey points out, in a positive light and its negative consequences are wilfully ignored. This view is even shared by commentators on the left, some of whom have hoped to solve the current crisis by stressing the role of technology. Mishra (1984) urges social democrats to become more active on the productive side of the economy rather than just focusing on distribution. He suggests unions start cooperating with firms when new technology is introduced rather than opposing it, as they traditionally have done. On first sight, opposition to technology does indeed appear counterproductive. Unions in Germany, for example, have successfully forced car manufacturers into paying wages to
workers displaced by machines, but in the end everybody -- the firm, the workers, the country -- loses (Turner 1991). Jessop (1993) draws much the same conclusion as Mishra and contends that as economies become more technologically sophisticated, labour needs to embrace technology, not fight it. But this attitude feeds directly into Harvey’s second contradiction, the reverence for progress. At the core of this contradiction is the notion that the more efficient we become at producing things the sooner we reach the threshold of surplus of production and lack of aggregate demand.

This technological fetishism can also be criticized on the grounds that once implemented, resources would automatically be directed toward activities where productivity increases can be realized, diverting them away from activities that are technologically neutral such as health and child care, education, and urban renewal. Last, the conflicting attitudes of capital and labour toward technology underscore just how different the interests of these two groups are. To suggest that workers cooperate with business on this issue is tantamount to counselling unions to be more cooperative with respect to wage cuts. In capitalism, technology is one of the major weapons used by capital against labour. From this perspective, technology is also all about distribution. To give into technology means all the spoils go to those who own it. This brings us to the last of Harvey’s three contradictions, the tension between capital and labour.

iii) Agency: Capital and Labour

Globalization pays little heed to the power of agency, and Harvey’s third contradiction, that capital/labour relations become intensified once profits shrink, present us with the opportunity
to document how the dynamic between the two has changed. A growing economy is inherently different from a contracting one and while struggle over resources is ongoing, it is heightened when resources shrink. In this way, the conditions were markedly different in the first quarter century following the Second World War than the second quarter century. Furthermore, while the structural characteristics of capitalism bring with them certain prerogatives (for example, that it cannot grow forever), actors offer different interpretations of how resulting problems are to be solved. The central question is whether we need more or less capitalism in order to ease the current contraction; or phrased slightly differently, is capitalism the cause or the cure? When profits shrink, the state is forced to make difficult decisions about whether to favour capital or labour. In this struggle, based on their interpretation that the market is over-regulated, capital has made a powerful case for making capital accumulation a priority. This has resulted in a concerted attack on the working class and the welfare-state.

While robust economic growth and industrialization were necessary ingredients to generate the wealth in the immediate post-war era, it is important to recognize that this wealth was not shared voluntarily by the elite or the state. Key to understanding these distributional issues is the strength and political organization of the working class movements (see for example Myles 1989; Esping-Andersen 1990). Institutional arrangements such as the tripartism in Sweden and corporatism in (West) Germany, where business and labour made a long term commitment to labour peace, were also important. But whatever arrangements were in place, these started to corrode atop the industrial economies that they were built on. Even in Sweden, the exemplar of social democracy and the welfare state, business mounted a
successful effort to break labour (Glyn 1995).

In Canada, as in other industrial countries, capital has been more successful at mobilizing its resources than the working class and effectively broken the post-war social contract (Mullaly 1994). A number of campaigns have been waged to cut social programs, ingeniously dressed up under the guise of the national interest. First, Canadians were told that social programs had to be cut in order to reduce the deficit and save the country from financial ruin. This effort was mounted principally by business groups such as the Business Council of National Issues and the C.D. Howe Institute (Langille 1987; Ernst 1992). Globalization has also been used as a justification in this ongoing battle, based on the assertion that Canada’s economy must become more internationally competitive. Judging from a recent series of articles in *The Globe and Mail*, productivity will be next. While the left in Canada has been reasonably astute in piercing the veil of the deficit argument, it has been less incisive with respect to the globalization argument, and we have yet to see how it will react to the productivity debate. The overarching point to be made is that politics continue to be a crucial variable in the ongoing battle over resources. No matter what the ‘national crisis’ -- inflation, the deficit, globalization, productivity -- the solution consistently and without fail entails channelling more money toward capital, be it through high interest rates, tax cuts, social program cuts, deregulation, or privatization. So while the solution is always the same, it is the problem that varies.

Harvey’s three contradictions of capitalism are illuminating and offer a different interpretation of the contemporary political economy. However, to recognize these contradictions is one thing -- finding a solution is quite another. The most obvious way to rid
the economy of the contradictions of capitalism is to get rid of capitalism itself, hardly a feasible solution. Given experiences in socialist countries and the fall of the Soviet Union, it is an understatement to claim that support for such an undertaking would be weak. Moreover, there is no guarantee that the system that would replace capitalism would not be rife with its own contradictions (Mishra 1984). Yet Harvey's observations should not go unheeded. The next section will argue that the way these contradictions have been handled, based primarily on prescriptions from the right, has only served to make them worse.

Solutions by the Right

The interpretation presented above does not, of course, stand alone. Not everyone agrees that capitalism is rife with contradictions or that an economy cannot grow forever. Market advocates offer a much different picture of the downturn. Given their long-held opposition to government intervention, the right welcomed the economic downturn as an opportunity to further attack the Keynesian orthodoxy. Rather than seeing fault within capitalism itself, as neo-Marxists or social democrats would have, the right pointed to an excess of state interference as the root of the problem. The focus became the market. Left to its own devices, neoliberals have long judged the market to be flawless and they consider interference of any kind, especially that of government, to be corrosive.

Equipped with... inferior intellectual baggage and toolbox containing nothing more than four large hammers (deregulation, privatisation, tax reductions and free trade), the international economic organisation set about transforming the world according to the American model. In this endeavour, no account needed to be taken of the history and geography of that world, with its various tensions and conflicts. The cult of the “new” allowed ignorance of all
precedents. The rule of the market and openness to the market, would guarantee prosperity and democracy everywhere. (Halimi 1998: 10)

Just as long as liberals have put forward their interpretation of the market, opponents have criticized this view as far too abstract in the sense that it ignores differences in social power no matter how blatant (Macpherson 1977). Similar to the globalization argument, the market argument reduces everyone to an equal player. Moreover, the solution for every economic problem, even macro-economic problems such as recessions, is said to lie within the irreproachable workings of the market. The constant incantation of 'the market' reduces this solution to no more than a mantra.

Despite obvious intellectual and practical shortcomings, the neoliberal market philosophy continues to provide a powerful ideological backdrop for contemporary politics. Overpowered by Keynesianism in the 1950s and 60s, neoliberalism made a resurgence beginning in the 1970s and arrived with full force in the 1980s. This time around the perennial ideas of the free market appeared under the guise of neoconservatism. The belief that the market automatically coordinates supply and demand was carried over into the labour market. Based on their faith in the market, social assistance and unemployment insurance -- widely disparaged as labour market disincentives -- came under intensified attack. Unemployment insurance and social assistance actually came to be identified as a cause of unemployment (McBride and Shields 1993). This justified attacks on these programs, a consequence of which, intended or not, was to put downward pressure on wages. A further, and this time unintended, consequence was that workers had less money to spend on consumer goods.
From this angle, the proposed cure (cutting programs) only served to exacerbate the problem of a stagnating economy by taking even more money out of circulation, further undermining demand.

What is often understood to be the result of globalization is, in fact, the result of an adherence to free market doctrines. A theme that links contemporary events with the past is that of the neoliberal ideology. The business community has long been dissatisfied with the welfare state, and the recession that signalled the end of the Golden Age presented business with the opportunity to augment its revolt. From this perspective, the neoconservative movement can best seen as the most recent expression of the neoliberal ideology, a line of thought which goes back centuries. The only thing new about 'neo'conservatism was its emphasis on the strong state, and this only to promote private enterprise (McBride and Shields 1993: 37). But the 'conservative' components of neoconservatism is classic laissez faire: supremacy of the market, hostility toward organized labour, and glorification of the individual (Marchak 1988). On this point, neoconservatism and neoliberalism have more in common than what sets them apart.

The ideology of the market has served as a guiding thread throughout the history of capitalism (Macpherson 1977). With the failure of the Depression, the market ideology was temporarily subdued, to some degree, under the weight of the Keynesian orthodoxy. The qualification 'to some degree' is necessary on the basis of two reasons. First, there were always deep rumblings of dissatisfaction with the welfare state heard from free market advocates. Hayek, for example, wrote his famous *Road to Serfdom* in 1944, well before the introduction of most welfare state programs. Furthermore, opposition to the welfare state
emanated not only from fringe elements but was found also among the very same parties that introduced many of these programs. In Canada, for example, conservative elements in the Liberal Party opposed the introduction of Family Allowance (Guest 1985: 123). And second, much of the policy introduced during the Golden Age of the welfare state was written with an eye on the market. Legislation was written with the explicit intent to work with the market not against. In other words, neoliberalism, especially in the United States and Canada, has always been an integral part of the economic culture and its relative abatement throughout years of welfare state growth was only a matter of degree. It was through neoconservatism that this ideology was re-introduced, but essentially, there was nothing ‘neo’ about it, for it was as old as capitalism itself. From Locke and Smith, to Hayek, Rand and Nozick, this ideology is a consistent and inextricable constituent of capitalist cultures. So are reactions against it.

Whereas in the immediate post war years Keynesianism dominated, neoliberalism began an upward ascent in the mid-seventies. In Canada, the attack on the welfare state began under Trudeau’s Liberals, long before the Conservatives came to power (Myles 1988: 140). This offensive was very well organized, not only in Canada but around the world. From the very beginning, these ideas were “skilfully managed by the government with the help from the corporate sector and the corporate-controlled media” (Cohen 1997: 35). And international capitalists made sure the ideas of the right were “assiduously propagated and well funded” (Marchak 1990:11).

The perceived weakening of the state is not due to forces from outside of the country but from attacks originating within it. Neoconservative forces mobilized a four pronged
attack in an attempt to revive the ailing economy: cut taxes, cut social programs, privatize government programs, and fight inflation. The first three of these are consonant with a free market ideology, while the last, the fight on inflation, is not. We will now look at the market solutions and inflation separately.

i) The Free Market: Tax Cuts, Social Program Cuts, and Privatization

Tax cuts, the assault on the welfare state, and privatization are a well coordinated plan of attack that aims to force government out of the economy. Of these policies, the most popular has been, and continues to be, tax-cuts. The reasons for this are manifold: tax cuts are purported to free money for private investment and consumer spending, or in the case of Canada, make the economy more competitive with other jurisdictions.\(^{35}\) As a policy, cutting taxes was most vigorously pursued by Thatcher in the UK and Reagan in the United States. In Canada, the combination of strong public support for social programs and a growing deficit made tax cuts less feasible, although governments did succeed in lowering corporate taxes and shifting the burden onto individual tax payers.\(^{36}\) Tax cuts, when implemented, did little to resuscitate long term economic growth given that this strategy tends to favour high income

\(^{35}\) Tax cuts have become very popular again of late in British Columbia. These arguments are of note because they are so inaccurate. Don Mattrick, a high tech business guru, was recently quoted as saying that B.C. is the most highly taxed jurisdiction in North America (\textit{The Georgia Straight}, December 3-10, 1998:13-17), which is demonstrably false. The Atlantic provinces all have higher income taxes, and once all taxes are combined, Ontario pays more than B.C. (see Colombo 1997). The Reform Party is also fond of saying that Canadians are more heavily taxed than anybody else in the world, which is only true if the world stops at the Atlantic ocean.

\(^{36}\) In 1992, corporate taxes only comprised 7.6 percent of total income tax revenues, down from 22.8 percent in 1980, and 46.4 percent in 1950 (Statistics Canada).
earners who merely plow their money into the financial markets.

The attack on the welfare state constituted another attempt to recapture economic growth. In what has disparagingly been labelled as the 'nanny-state' by Margaret Thatcher, social programs were identified as a fetter on the economy. This is so for a variety of reasons. One, government is perceived as rigidly bureaucratic in contrast to the more efficient alternative of private enterprise. Thatcher's success at the polls can, in part, be linked to exploiting this platform (Mishra 1984). Two, welfare state services, in particular unemployment insurance and welfare programs are considered labour market disincentives. Poor relief has always been about regulating the labour market, and the singling out of these programs should not come as a surprise (Piven and Cloward 1993). While the success of these attacks has varied, they have been widespread, especially throughout the Anglo-Saxon countries.

Yet another alternative invoked in the ongoing quest to revive the economy has been the call to privatize government services, a tactic that works hand-in-hand with tax and program cuts. In the U.S., the combination of tax cuts and military spending, and in Canada high interest rates and unemployment, ran up deficits leaving government budgets vulnerable to censure. And not surprisingly, business stepped in and offered a solution: privatization. Traditionally, expenses in capitalist economies are socialized and profits privatized, but when profits started shrinking, business increasingly felt crowded out by government (O'Connor 1973). By the end of the 1970s, it was not unusual for economies to route upwards of one-third of their GDP through state channels. As a consequence, business came to see the public sector as an area of lost opportunity and profit. This has resulted in a wave of privatization
that has swept the world that shows few signs of abating. In the West this occurred through
government edict, and in the third world under the aegis of the IMF and the World Bank.

The first step towards privatization is quite obvious and involves the selling-off of
government corporations including public utilities, public airlines, and oil companies. Other
paths toward privatization are less obvious. Business pressures government to cut spending
which eventually results in a shortage of services which business is then only too eager to fill.
Cuts to tertiary education result in increased debt loads for individuals; threats of pension
reform frighten individuals into buying RRSPs; health care cuts opens space for private
services. In all these instances, corporations are destined to make a profit. Program cuts also
provide corporations with more opportunities to fund public institutions. The Pepsi
scoreboard at a high school in Burnaby is one example. Corporate donations to the new UBC
library and the Vancouver Public Library are others. On first look, such activities may seem
innocent enough. However, as business increasingly decides who gets funding, this form of
privatization slowly gnaws away at the democratic decision making process. Business has
much narrower interests and answers to fewer constituents than does government leaving
unpopular programs, so designated by business, more susceptible to neglect. Thus we find
well funded computer science departments and under-funded English departments. Because
of positive exposure, a public library is more likely to receive funding than a women’s shelter,
a sports complex more so than low income housing.\textsuperscript{37} Private funding has the added benefit
of portraying business in a charitable light \textit{and} it is good advertising.

\textsuperscript{37}Developments on this campus are a perfect example of this. Philanthropists are
happy to donate money to buildings that bear their name (e.g., the Chan Centre, Green
College) while already existing buildings and infrastructures are left in disrepair.
In summary, tax-cuts, program cuts, and privatization are a well coordinated set of policies that follow a consistent free market logic. In combination, they work to squeeze government out of the economy by choking off its funding (tax-cuts), attacking its output (social programs), and providing an alternative (privatization). There was one very important policy, however, inconsistent with a free market logic, the fight waged against inflation.

ii) Inflation

The right's fight against inflation reveals a faith in the market that is selective and far from unyielding. When Margaret Thatcher urged that unemployment should be left to find its natural rate (the non-accelerating rate of unemployment or NAIRU) she was obscuring how much effort she was willing to invest in fighting inflation. The willingness to manipulate interest rates to regulate the money supply is indicative of how quickly free market doctrines are abandoned once the interests of investors come into play. It is surprising how this obvious contravention of free market principles remained unchallenged throughout the Thatcher era in Great Britain as well as here in North America.

Efforts to control inflation, at times, bordered on the obsessive with little or no concern for consequences. In Canada, this policy has been enforced with more zeal than almost anywhere else, particularly when John Crow headed the Bank of Canada. The Bank abandoned its original mandate of regulating employment levels and inflation and jettisoned its responsibility of the former in order to concentrate on the latter. This major policy shift, primarily instituted by the governor, was undemocratic in that the Canadian public had no say in the matter (Babad and Mulroney 1998) The switch from a commitment to full employment
to a zero inflation policy, more accurately described as a planned unemployment policy, has been, in my opinion, the most dramatic policy change in the past 30 years. Detailed reasons for this conclusion follow.

The high interest rate, low inflation policy has affected the economy in four related ways. One, high interest rates put an immediate brake on the economy as people and firms were discouraged from borrowing because of the high cost of money. This led to, two, higher unemployment, the effects of which have been particularly hard on the Canadian economy (see McQuaig 1993; Keil and Pantuosco 1998). Three, as we saw above, high interest rates diverted money away from productive and toward paper investments (Stanford 1998b). And, four, high interest rates precipitated the ballooning of the deficit and debt (Mimoto and Cross 1991).

a) Inflation: Its Causes

This is not the place to enter into a detailed discussion of the causes for inflation; suffice it to say that, as with most debates in economics, there is little consensus. Heilbroner (1980) claims that if unemployment was the big economic problem of the first half of this century, inflation fills those shoes in the second and that it will take an economist of Keynes’s stature to successfully solve this problem for it is far from being solved now. Historically economies experienced inflation during war and deflation during peacetime, which has hitherto happened without exception. Deflation, however, did not occur in the peace that followed the Second World War as inflation persisted even once demand fell in the 1970s, a phenomenon frequently referred to as stagflation. This inflation has often been blamed on the oil shocks
that hit in the seventies, but as Galbraith (1995) points out inflation was already well under way by the time that the first shock hit in 1972. Galbraith puts forward the widely accepted explanation that when growth first slowed in the late sixties, neither corporations nor unions were willing to take a cut in their share of the economic pie, a stalemate that resulted in inflationary pressures. In other words, the fault for inflation cannot solely be pinned on labour, for capital did its part by continually raising prices.

The political right feared inflation, or so they said, because it undermined investment confidence, and blamed it on something as simple as an overabundance of money in the economy. Front and centre in this attack was a style of economics variously referred to as supply side economics, neoclassical economics, or simply monetarism. Chicago school economist Milton Friedman came to be known as the most fervent defender of monetarism, and his writings were instrumental in convincing governments around the world that all that was needed to revive their sagging economies was to focus on the money supply. Central banks were to become key players in the fight against inflation, and they were handed the responsibility of revitalising both investor confidence and economic growth. The foremost tactic used in the fight against inflation was the manipulation of interest rates. When inflation grew (too much demand for money), higher interest rates would be applied as necessary to sabotage that demand. It should be kept in mind that the monetarists offered only another explanation for inflation, and that neither their interpretation, nor their prescribed solution, is either widely accepted or uncontroversial.38 But it is the version that ruled the day.

38This is, admittedly, a simplified version of what happened. Supply side economists saw labour encroaching on profits, and blamed the economic downturn on the inflexible demands of unions. At the root of the problem they saw wage demands outpacing
b) The Consequences of Zero Inflation Policy

There is equally little consensus about the exact point at which inflation becomes detrimental. While few people would countenance runaway inflation the likes of what occurred in Germany during the inter-war years, there is less agreement on what level of moderate inflation is to be tolerated. The crux of the matter is whether lower is always better, with zero being the ultimate goal, or whether there may be some advantages to a more moderate inflation policy with targets pegged somewhere between 3 and 8 percent.

Glyn (1995) highlights some of the implications of a zero percent inflation policy for Sweden, points which can be generalized to other economies. One, very low inflation undermines the viability of the class compromise. As he puts it, moderate inflation serves as a 'lubricant' for an economy. For example, it is reasonable to assume that during a period of 4 percent inflation a labour union will settle for a 2 percent pay raise, but in an environment of only 1 percent inflation a union is considerably less likely to take a 1 percent cut in pay. Of course, the two amount to the exact same thing -- a 2 percent cut in real wages. From this perspective, moderate inflation is actually quite beneficial to an economy. Economic historian Robert Brenner (1998: 249) is equally critical of the low inflation policy and points to its class consequences:

...productivity gains, which they saw as fuelling inflation (Brenner 1998). The fight on inflation was partially used as a front by capital to discipline labour.

39This is referred to as the money illusion by economists.
In should be noted first that even contemporary economic orthodoxy has failed to establish that inflation rates up to 8 per cent have any negative impact on the economy's vitality. As even the International Monetary Fund has been obliged to admit, there is no evidence that reducing inflation below 8 percent yields any gains whatsoever in terms of growth or living standards. For this reason, there are strong grounds for believing that the grand crusade to control inflation, while very costly to most people, has little positive effect, except, of course, the owners of capital.

As an aside, it is interesting to note that most Western economies, at least until recently, looked at Asia’s rapidly growing economies with envy. It is rarely pointed out, though, that this growth was, and continues to be in some cases, accompanied by what is generally considered medium to high rates of inflation. In 1995, when Canada had an inflation rate of 2.2 percent, Taiwan had 3.7 percent, South Korea 4.5 percent, Hong Kong 9.2 percent, Indonesia 9.4, and the fastest growing economy of all, China had an inflation rate of 17 percent. It is doubtful that a restrictive central bank would even have permitted the brisk growth experienced by some of these countries.

Zero tolerance toward inflation has also undermined the ability of the welfare state to work effectively. As originally conceived, the welfare state consisted of two inter-supportive principles, the social program component (or Beveridgian side) and the full employment aspect (or Keynesian side) (Mishra 1984). The abandonment of the full employment commitment has put increasing stress on the social safety net. As expenditures rose, attacks on social programs increased in tandem. Rather than implicating high interest rates, neoliberals laid blame at the foot of workers and social programs.

40 Also of note is that the economy boasting the most vigorous growth in the past 10 years, China, is not a free market economy but a centrally planned one (Hobsbawm 1994).
High interest rates, as argued above, also serve as an incentive for paper investments which attract billions of dollars, which, in turn, steals money away from productive investments. Between 1960 and the late 1970s, both paper and real investments comprised between 350 and 400 percent of GDP. From that point on, paper investments almost doubled to over 600 percent of GDP while real investments remained stable at 350 percent (Stanford 1998b).

Furthermore, high interest rates on massive public and private debts contributed to mushrooming deficits (which Brenner describes as ‘manna from heaven’ for leading capitalist interests [1998: 251]). The increased debt and deficit were then unfairly blamed on profligate social programs, further fuelling anti-welfare state sentiment. Workers were put into a double-bind. They could not find jobs because of a planned unemployment policy and when they applied for income assistance they found they were often denied that too.

In effect, social programs were attacked on two fronts. Not only were they held responsible for the deficit but also for breeding indolence. The big irony is that these developments had little to do with the ‘invisible hand’ of the market, but were the direct consequence of government intervention. Moreover, planned unemployment and social program cuts took money out of the hands of the very segment of the population most likely to spend it, further dwindling demand. Thus a downward spiral was created: higher interest rates led to higher unemployment which in turn led to higher social expenditures which led to social program cuts which led to less demand and so on.

Galbraith writes in a detailed history of money, banks, and monetary policy that the clearest lesson of the recent past is the “unusefulness of monetary policy” and that its
consequences this century have been “patently disastrous” (1995: 313). As evidence, he contrasts periods of strict monetary policy (the inter-war years including the depression) to periods of more lenient use (during the Second World War until the late sixties, a time of boom). With the power of governments, business, and unions, the effect of prices is no longer solely controlled by money, thus making monetary policy futile. But, he concludes, monetary policy bears “strongly on the question of who controls economic rewards” (1995: 311).

Brenner (1988: 251) draws similar conclusions, arguing that continued profits have only been possible because of the “repression of wages” brought about by the “fight on inflation”. The above serves as strong evidence that the struggle over the allocation of resources continues to be a salient feature of late 20th century politics, and that class politics plays a central role.

The health of the economy in the past quarter century bears testament to the failure of monetary policies. Not only has monetary policy failed to manage the contradictions of capitalism, it has aggravated them, in particular capitalism’s tendency to concentrate wealth. The unfortunate fact is that while wealth accumulates, poverty doesn’t, guaranteeing that, if unchecked, the gulf between the two inexorably widens. From this perspective, far from mitigating social inequality, suffocating inflation with high interest rates had accentuated it.

Conclusion: To Regulate Or Not to Regulate

The economic uncertainty of the past twenty years is often traced to the phenomenon of globalization. According to this theory, firms are moving away from the industrial to the third world, taking jobs with them. Fear of being left behind by footloose corporations have prompted governments to lower taxes and provide lavish subsidies. In sum, globalization is
said to have resulted in an increase in unemployment, social program cuts, and privatization. Yet, ironically, corporations are doing the exact opposite of fleeing. Tax cuts and privatization have led to an increased presence of corporations right among our midsts. A lower tax base and spending cuts have provided business with the opportunity to encroach on terrain traditionally occupied by government. Business is infiltrating our lives like never before. Public places are now adorned with the names of corporate sponsors, from exhibits in museums to bookshelves in libraries. These developments, however, have little to do with globalization and everything with corporations entrenching their power base right within Canada's borders, particularly vis-à-vis labour.

Of course, this trend toward deregulation is not a new development. Polyani (1944) was concerned about the impact of de-regulation at another time, the inter-war years. A completely free market, he wrote, is unattainable, and no more than another utopia. Without regulation, a society is doomed to fail; once trust fails, business and social relations are soon to follow. Eventually people lose faith in the system and social unrest inevitably ensues, which, in turn, brings about pressures to regulate (Piven and Cloward 1993). A breakdown of regulation ushered in the Depression, and it took a considerable amount of state intervention to restore confidence in the system. On the other hand, overregulation, as was the case in the erstwhile Soviet Union, can put a choke-hold on the economy. These developments led Polyani to observe that there is constant tension between regulation and deregulation.

Blind devotion to a low inflation policy clearly illustrates that the right is not so much against regulation per se but regulation that constrains capital. Deregulation can more
accurately be described as re-regulation. In the world of politics we find that the fight is not so much between regulation and no regulation but about regulation for whom. As the example of monetary policy markedly illustrates, business is quick to reject the hands-off approach when it fails to benefit. Business is indubitably and unabashedly hypocritical about this. It openly encourages international regulation on intellectual property law and investors’ rights, yet starts screaming about the virtues of the free market when workers’ rights or environmental protection is in question. One is forced to conclude from this that it may not yet be time to commit class analysis to the dustbin of history. Business’ attitude toward regulation also underscores the fact that everyone sees some form of regulation as necessary. A completely free market is a fiction that in reality would not be supported by even the most radical free market capitalist.

Another way to understand current events, then, is as a swing of the pendulum toward deregulation. Even if the pendulum may not quite be swinging the other way, at least it seems to be exhausting its swing to the right. There are strong stirrings around the world for a return to some kind of currency regulation. These include support from Canada, Japan, and the European Central Bank (The Globe and Mail January 22, 1999:B9). The only country that has yet to come out in favour of such an initiative is the United States. The collapse of

41 It is most interesting to note that the right is all for labour market deregulation but also the first to scream when people participate in the unregulated labour market: drug pushers, prostitutes, panhandlers, ‘squeegee kids’.

42 This statement applies even to libertarians and anarchists. Whether one believes in the rights of free property or not, as do libertarians and anarchists respectively, one requires some sort of regulation to enforce these beliefs. The role of the “nightwatchman state” is a good example.
the Asian economies, the sorry state of the Russian economy, and collapsing currency of the Brazilian economy has made politicians around the world question the soundness of the free market model. Even *The Economist* (September 12, 1988: 18) has come out in favour of increased regulation and stated: "Restrictions on capital flows: the idea makes sense."

In Canada, the market ideology reached its apex throughout the Conservative rule from 1984-93, but suffered a decisive defeat in the 1993 election. Mulroney, as did R.B. Bennett in the Depression election of 1935, experienced the voter backlash that is often the result of being too closely associated with "big business" (Guest 1985: 87). The Liberals have been accused, in my opinion unfairly, of merely continuing the neoconservative agenda, but this charge overlooks the policy shift that took place since 1993. The Liberals have lowered interest rates substantially. For the first time in a long time, Canadian interest rates are lower than those in the United States. This alone has contributed greatly toward decelerating the growth of the debt issue. It has also been a major factor in reducing the deficit (Stanford 1998a). This is a strong indication that the government has adopted a more sane monetary policy and is moving away from the neoconservative obsession with inflation. The Liberals have also shown to be less business friendly than Mulroney's Conservatives. Finance Minister Paul Martin has publicly criticized the proposition that lower taxes will lead to improved productivity as a "form of escapism" (*The Globe and Mail* April 1, 1999: B11); Martin successfully opposed the bank mergers and it looks like he will also forbid them to expand into car leasing and insurance business; Martin has in recent years become a strong proponent of the Tobin Tax on currency speculation and third world debt relief (*The Globe and Mail* February 20, 1999: B5; March 25, 1999: B5); Martin has publicly disagreed with the Bank of
Canada's estimate that an 8 percent unemployment rate will cause inflation and said it was probably closer to 5 percent (*The Globe and Mail*, February 21, 1997:B2); and lastly, the Liberals have expanded the CPP.\(^4^3\) This may not be enough for some people, but it should kept in mind that the Liberals have historically been a centrist party in a country that has always had an ambivalent attitude towards the welfare state. In contrast to Western European and Scandinavian countries, the Anglo-Saxon countries have traditionally adopted a residual welfare state that works as an adjunct to the labour market (Myles 1996).

The above illustrates that the political events over the past two decades are better understood by examining the struggle over resources within Canada than as a consequence of the larger context of globalization. The right has successfully mobilized against labour and convinced the general public that an excess of state interference, with social programs in particular, is responsible for the economic downturn. Capital and state combined forces to fight labour. And again, this was not the first time. Myles observes that there was nothing new about the Canadian state using high unemployment as a tactic to discipline labour (1988: 140). He further writes that in this disciplining process the “most important and successful strategy was the tight money policy adopted by the Bank of Canada in 1975” (139). Neither is there anything new about the Bank’s obsession with the tight money policy. Ever since its inception, the Bank has felt its sole purpose was to enforce price stability, though some governments resisted that urge (Stewart 1982). In 1961, James Coyne was forced to resign as

\(^{43}\)It is interesting to watch how Martin’s grip on the finance department has firmed over his six years as head of this portfolio. Near the beginning of tenure the bureaucrats of Department of Finance seemed to be telling Martin what to do, a situation which is now reversed.
the governor of the Bank of Canada based on a strong difference of opinion he had with
Diefenbaker about strict monetary policies (Stewart 1997: 92-94). But differences of opinion
on monetary policy between government and the Bank are by no means an enduring feature.
If there was any doubt about this throughout Gerald Bouey’s tenure as governor (1973-87),
they quickly evaporated when the Conservatives came to power in 1984. Michael Wilson’s
recent candid admission that the Conservatives worked side by side with the Bank of Canada
and John Crow to quash inflation raises serious doubts about the autonomy of the Bank (The
Globe and Mail March 22, 1999:B4). Add to this that Rowland Freeze, CEO of the Royal
Bank and author of the delusional quote at the beginning of the chapter, was at one time chair
of the Business Council of National Issues, and that John Crow was appointed to a research
post with the C.D. Howe Institute after his reign, and there is very little doubt about the social
networks that connect the interests of the Bank of Canada, the chartered banks, and the ‘think
tanks’ that represent them.

The need to compete, based on the threat of globalization, is often used to justify
cutting social programs and wages. The above presents a somewhat different picture of
events of the past quarter century by examining the interests of different classes and
identifying who is likely to gain and who is likely to lose. How effective the neoliberal
approach has been at turning around the stagnating economy is another question entirely. The
fact is that the economy has failed to return to its pre-recession splendour. Yet the worse the
economy gets, the more vehement the right becomes about its policies. Of course, there is
very little the right, or anyone for that matter, can do to rescue the economy from a
downswing in a business cycle. That is the nature of capitalism. The best one can hope to do
is cushion the fall.
CONCLUSION

Now that we have examined an array of data, let us tie it together to see how this evidence fits with the theory of globalization. In order to do so, let us reassess a typical statement made about the topic:

Commentators...link the decline of the nation-state to the process of globalization, often deploring the loss of national control (Albrow 1998: 420).

In the broader context of globalization and all its complexities, exactly what does this proposition mean. How does this process of globalization lead to the “loss of national control”? First we must ask the globalization of what? The globalization of everything is just too vague and incorporates many, often contradictory, developments. The impact of globalization differs from one activity to the next and we need details about what particular sphere is being discussed in order to assess whether it actually hinders the state’s role to govern. Coca Cola, e-mail, and CNN are global developments but they hardly limit a state’s ability to rule. The unfettered movement of people across borders could feasibly undermine the power of the state, but we are probably further away from that point than any time in history.

Neither is there a reason to believe that trade has an impact on national control. Canada has long had voluminous trade and not only has it survived, it has thrived. Canada’s trade with the rest of the world has increased considerably since the Second World War, but this rise looks much less impressive when the time span is lengthened to include the past 130 years. Neither is Canada’s trade at an all time high, having been equally as high before the
First World War and during the Second. Current trade is high only in comparison to the low amounts found in the fifties and sixties. Once disaggregated, we find that almost all of the increase in trade that occurred in the past half century can be explained by trade with Canada’s nearest neighbour, the United States. ‘World trade’, as such, has stayed mundanely stable since Confederation in 1867.

In comparison, imports from the third world are negligible and there is little reason to believe they are detrimental to the Canadian economy -- besides, imports are off-set by a concomitant increase in exports to those same areas. Trade with the first world continues to dominate and here fears about low wage competition expressed by the globalists just do not apply. Moreover, governments have engaged in trade agreements only too willingly, gambling that neo-classical prescriptions about comparative advantage will prove to be right and save the day. Free trade agreements notwithstanding, voluntary trade barriers indicate that powerful states such as the U.S. can still impose their will on other countries. Additionally, as the Canadian economy becomes increasingly service oriented, the importance of trade is likely to diminish.

Global talk has meant that international trade has become increasingly politicized, having been identified as a threat to Canadian workers and national sovereignty. This emphasis on free trade is, in my opinion, somewhat unwarranted. This is not to dismiss the importance of trade, only to say that there are many other issues besides. Furthermore, the increase in trade has done little to improve Canada’s economy. Compared to the sixties, when trade was low, Canada’s economy is performing less well now, casting doubt on the
relationship between trade and economic growth.\textsuperscript{44}

Also noteworthy is the increased role of the state in the economy. The lockstep rise of trade and government expenditures makes the proposition that the flow of goods undermines the power of the state highly implausible. Here the facts just do not fit the theory. Not only has government presence remained dominant, there exists no logical argument for why nation states ought to feel threatened by the flow of goods, ideas, or services. This becomes especially apparent once individual state programs are examined, and the competing interests of capital and the country as a whole are taken into consideration. We must then ask precisely what aspects of national control are undermined. States may have less control over the goods that enter their country, but they continue to govern many other important activities, many of which are vital to a competitive economy. Education, health, infrastructure, and regulation are just a few examples.

Another reason often given for the loss of national control is the rise of supranational institutions such as the IMF. These can certainly inhibit national control by strictly enforced austerity programs. But this type of enforcement applies only to poor countries, which compels us to ask whether this is due to globalization or whether this is just another form of imperialism.

We often find the loss of autonomy linked to the imperatives of having to please foreign investors, but once the figures are taken into consideration, it turns out to be primarily domestic investors’ interests that are at stake. Blaming foreign investors is no more than a

\textsuperscript{44}I ran a regression using the percentage of trade as the independent variable and economic growth as the dependent and found no relationship.
sleight-of-hand used by domestic capital to hide its own self-interest. Foreign investors do
play some role, but this role is minuscule, and it is unlikely that this dispersed group is capable
of banding together to make demands about social program or tax cuts. The threat of fleeing
capital also has to be looked upon with great suspicion. It treats all investors as a
homogenous group with consistent interests, which, as we have seen, is far from the situation
that exists in the real world where interests vary widely. Foreign corporations that invest in
production are interested in a well maintained infrastructure, educated work force, welfare
state services, and low interest rates. Bondholders, on the other hand, and not all too
surprisingly, prefer higher interest rates. Stockholders seldom venture past their own borders,
and if they do, they are more interested in the performance of the individual firm than that of
the country.

Still another way that national control is said to be subverted is by currency
speculation. It should first be said that the governance of the world’s financial system has
always proven to be a difficult issue and in this sense is not new. And while there is not much
a single government, with the notable exception of the U.S., can do about this problem on its
own, countries can band together and reimpose order. The only thing missing is the political
will. In order for this political will to gain momentum, it must be understood that speculators
are more interested in volatility, that is, in currencies or interest rates going up or down, than
any fundamentals. The fact is that decisions about when to buy and when to sell are often
made by machines that have no knowledge of any fundamentals. For this reason, currency
speculators should not be given that important a role for, as New Zealand found out, they
never can and never will be pleased.
This brings us to our next point, and another major weakness of the globalization argument, and that is the ambiguity of whether globalization is a new process or the continuation of an old one. Not knowing what globalization stands in contrast to leaves the term on shaky ground, as it is difficult to know on what basis to judge whatever claims are made. This is true with respect to time (i.e. when exactly did globalization begin), and in contrast to other theories such as modernism and world-systems theory. Loosely defined, as it so often is, globalization packs much political punch but lacks the rigour required to explain contemporary political and economic events.

Much of what globalists write about has been going on for some time, which is to say that globalization is not a new process but one that has been known as either modernity, capitalism, industrialization, or simply progress. The following passage is of note because it is written by Lawrence Summers, chief economist of the World Bank, an organization well known for its faith in globalization. (The outline Summers refers to is a proposal about globalization originating from within the organization).

What’s new? Throughout the outline I struggle with the evidence showing what exactly the proclaimed revolution [in production] has revolutionized. FDI has always existed and many of the world’s largest firms have been transnational from birth. The “globalization” of production has happened sure, but has the telecommunications revolution really had a major impact? I would guess the invention of relatively simple things, like steamship transport, did more for world trade than digitalized data transmission through fiber optic cables. How exactly has the nature of manufacturing been “fundamentally altered”? Aren’t people just incrementally better at doing things they’ve always done, like locate production in the lowest cost location for delivery to markets (now “globalization of production”), like manage inventories in a least cost way (now “just-in -time inventory management”), like choose the appropriate level of vertical integration depending on the production process
(now "critical buyer-seller links"), like match production to demand (now "short product cycles"). Is a "revolution" really the appropriate metaphor for these changes? I think the detailed evidence from the US about the very small impact of productivity from the large investment in information technology should convince us to hold off on the breathless tone about technology. (quoted in Henwood 1996: 2)

The Politics of Globalization

As has become evident throughout this dissertation, there exists both evidence that points towards globalization and evidence that contests it. But the rhythm of the seesaw between nationalism and internationalism, as Wallerstein puts it, has not, in any discernable way, been broken. There is no definitive way in which one trend can be said to overwhelmingly dominate the other. However, what is overwhelming is how the idea and rhetoric of globalization, which started only in the late eighties, has taken hold and pervaded almost every aspect of society, and infected virtually all political and academic discourse. Whether the discussion is about the stock market, the Asian economy, the MAI, the welfare state, religion, poverty, or communications, the topic is somehow informed by globalization. Views about globalization have become common-sense to the point that to question the very idea is to open oneself to ridicule (see Raymond Williams 1983).

In the end, the focus should not be so much on what globalization means, but its intended use. The well-known British philosopher of language, H.P. Grice, more or less equates meaning with intention, highlighting the difference between connotation and denotation. To complain of a headache, for example, means something completely different in a doctor's office than a bedroom. In this way the battle over the meaning of globalization has
become too preoccupied with its literal interpretation, whereas the better question to ask is about intention. More often than not, globalization is intended to deflate opposition or shirk responsibility. From this angle, ambiguity actually works to heighten the threat of globalization.

**Political Fatalism**

Globalization is often presented as something mysterious, vague, and all-powerful. These qualities not only add to its mystery, but its potency as well; it is difficult to oppose something so indeterminate. This is deliberate, I argue. Ambiguity makes globalization appear to be something beyond our control; to be revered and obeyed. According to this scenario the choices we are given are painfully constrained: we either fall in line with the demands of globalization and become more competitive (less wages and fewer benefits) or we perish (*no* wages and no benefits). The danger with this type of account is that it buys into the common misconception that while globalization may have unpleasant consequences, there is little we can do about it. It is this “spreading political fatalism” (Gordon 1988: 64) that is the most distressing aspect about globalization. More accurately, this attitude has been characterized as “the social construction of helplessness” by Linda Weiss (1997: 15) which succinctly captures how the idea of globalization and the associated fatalism has been deliberately manufactured and disseminated.

Furthermore, by ignoring agency, globalization is made out to appear immutable. Yet despite all this pessimism, neither government, business, nor labour has ceased to act in any meaningful way and, for the most part, it continues to be politics as usual. In the ongoing tug-
of-war over the economic pie, globalization has been used as just another diversionary tactic to distract the other side with the hope of gaining some economic ground. At times this has worked, but just as often people are quick to recognize the diversion for what it is, only making them pull harder.

Corporations and the State

In the ongoing narrative of globalization, two institutional actors are usually identified: the corporation and the state. More precisely, hypermobile corporations are said to have increased their power at the expense of the state. But this approach is profoundly asociological as it understands both corporations and the state as standing outside of society, rather than an integral part of it. In order to effectively diffuse the “political fatalism” associated with globalization, it is crucial to recognize that both these institutions are firmly woven into the fabric of the modern society. They can not just simply leave the country, as is often believed to be the case with corporations, or disappear from the political landscape altogether, as is believed with respect to the state.

Corporations are not the omnipotent entities they are often made out to be and they can only benefit from the common perception that they can dodge borders and ignore regulation. Corporations are cumbersome, bureaucratic beasts, as addicted to modern technology and infrastructure of the West as we citizens are. Corporations rely on citizens not only as workers but also as consumers (Gordon 1988). They cannot act with impunity, as
is often thought, although they may find it convenient to pretend they can.\textsuperscript{45}

The state is equally as important to the smooth functioning of modern industrial
society as are corporations, and is as unlikely to vanish. The state regulates much of everyday
life and it does this so effectively that most of time its presence goes unacknowledged. Most
interactions in modern life unfold smoothly only because they are backed by the invisible hand
of the state. Every time we sign a contract, eat a meal, fly on a plane, or visit a doctor, we
can be confident that this activity will unfold without incident because behind each of these
transactions lies the forceful presence of the state. At times we may even forget its existence,
only to be reminded when things go wrong. When drugs designed to cure, kill instead, when
planes fall out of the sky, or someone steals our ideas, we immediately turn to the state to
seek justice. It is somewhat ironic that the state becomes most invisible when it performs its
tasks best. It is also then, it seems, that it becomes most vulnerable to attacks by free
marketeers and globalists.

This is not to say that government interference is inherently good or that corporations
are inherently bad. What is important to understand is that both the state and corporations are
bureaucracies that, while they may not always act in everyone’s best interest, provide useful
and essential tasks to society. It is highly unlikely that if our society continues as it does --
being capitalist and liberal democratic and all that entails -- that neither the state or the
corporation will wither away or change in any fundamental way. The primary shortcoming of
globalization theory is that it predicts, or purports to describe, a fundamental change in

\textsuperscript{45}Nike, for example, on the basis of some negative publicity about its labour policies
has encountered a drop in stock prices as high as 50 percent and profits were down 49 percent
this fiscal year from the previous one (The Georgia Straight, October 15-22, 1998:13).
modern industrial society that just does not square up with the facts. Society is changing
costantly in many different ways, but as we saw, this is precisely what defines modernity.
And, for better or worse, we continue along that path.

Capital and Labour and the Distribution of Resources

As the industrial economy is corroding and economic growth is slowing, the fight over
resources has become all that much more intensified. Rhetoric about globalization has
successfully diverted attention away from this domestic struggle and attempted to blame lower
living standards and high unemployment on factors outside of this country. While it is not
untrue that Canada’s economy is well integrated into the world economy, it glosses over the
fact that this has been so from the day that Europeans set foot here, modern Canada itself
being a product of globalization.

The economy’s lacklustre performance over the past few years lies at the heart of the
increased struggle over resources, manifested in the fight over the welfare state, trends
towards privatization, and market deregulation. Prescriptions by the right are based on the
belief that the elimination of social programs, labour laws, and government interference will
bring the economy closer to the free market nirvana it strives to create. The target of this
rhetoric, often workers and the welfare state, reveals such attacks to be little more than the
usual free-market propaganda. It is remarkable how deeply ingrained this ideology is in the
conscience of capitalist society and how firmly it has persisted over the centuries. Despite the
considerable changes that societies have undergone, the unreceptive attitude towards welfare
programs is no different today than it was over 400 years ago when the Elizabethan Poor
Laws were first introduced in Great Britain. At least the views of the right have remained consistent in this regard, making it all the easier to expose it for the rhetoric it is.

The right has always deemed social assistance and unemployment insurance as labour market disincentives. These disincentives must be removed, we are told, in order to better compete in the global economy. But the behaviour of capital itself is rarely examined. As Myles (1988) has noted, the economic success of Sweden can be linked to high wages. In a high wage environment, employers are constantly pressured to use labour in the most efficient way possible or develop technology to replace it. In other words, low wages and a large reserve army of unemployed workers has made capitalists lazy and held them back from innovating. High interest rates have made them lazier still, as there is little incentive for them to invest in more risky and productive ventures. To turn the right's argument against them, we need lower interest rates and higher wages in order to discipline lazy capitalists.

Despite their professed faith in the market, free marketeers continue to act in a very much interventionist fashion. The prominent role of the central bank, think-tanks, business lobby groups, and support for international agreements like the MAI, illustrate a faith that is far from inviolable. Taking their cue from Christians who have long realized that god helps those who help themselves, free enterprisers may insist they believe in the market but their behaviour demonstrates that they are just as happy as anyone else to intervene.

The focus on globalization has taken attention away from how indebtedness, and its mirror image, the stock of financial wealth, has increased in tandem. This redistribution of wealth cannot be blamed on foreign investors, but high interest rates spurred on by an almost neurotic fear of inflation, which has only succeeded in keeping unemployment high and debt
servicing more expensive. This, in turn, has taken money out of the hands of workers and effectively broken the production/consumption circle that worked so well in the Golden Age. The only solution offered by the right has been to deregulate even further. But given the already skewed distribution of wealth in this country, deregulating markets would only move us further away from the balance needed to once again close the virtuous circle of production and consumption. Friedman’s famous analogy of globalization as a runaway freight train could well be a metaphor for this type of unchecked capitalism. This said, it is highly unlikely that mounting debts will result in an economic catastrophe as the mechanisms in place to prevent such a calamity are well entrenched and far from being dismantled. More likely, we will continue to experience slowed growth.

Contemporary economic policy can be faulted for bringing out the worst in capitalism. If capitalism excels at anything, it does so at concentrating capital. High interest rates, low taxes and threadbare social programs only serve to further concentrate this wealth and widen the gulf between the haves and have nots. Policy should reflect this and actively counter the proclivity toward concentration, not abet it. As we have seen, there is scant evidence that the market is capable of working through these problems on its own. As a matter of fact, the market is egregiously inept at maintaining a fair distribution and, if anything, tends to lean towards self-destruction as Marx so famously observed. The market also appears to be very shy about communicating impending disaster, as the string of depressions that litters the history of capitalism well illustrates.

The free marketeers may have won some battles but they are a long ways from winning the war. The rhetoric of globalization has been used as a tactic to fight this ongoing
war, sometimes with great success. But as we have seen, globalization has little to do with
the increase in unemployment in this country, poverty in the Downtown East Side, or big
profits made by the banks. They are all the result of very deliberate decisions that are the
outcome of the political process made in Canada. Canada is a wealthy country. The wages of
workers in Indonesia or the amount we trade with Taiwan have little to do with how that
wealth is divided. Globalization rhetoric has been successful in making us believe that it does,
but the sooner we debunk this myth and focus on issues within Canada’s borders the sooner
we will be able to make progress toward solving them.
Figure 4.2 Canadian Exports and Imports as Percentage of GDP, 1868-1996

Source: Statistics Canada
Figure 4.3 Canadian Exports as Percentage of GDP, Various Continents, 1868-1996

Source: Statistics Canada
Figure 4.4 Canadian Exports as Percentage of GDP, Various Continents, 1868-1996

Source: Statistics Canada
Figure 4.5 Canadian Imports as Percentage of GDP, Various Continents, 1868-1996

Source: Statistics Canada
Figure 4.6 Canadian Imports as Percentage of GDP, Various Continents, 1868-1996

Source: Statistics Canada
Figure 4.7 Canadian Trade as Percentage of GDP: Total and excluding US, 1868-1996

Source: Statistics Canada
Figure 4.9 Canadian Exports and Imports from non-industrial world as Percentage of GDP, 1868-1996

Source: Statistics Canada
Figure 4.10 Imports and Exports of Goods and Services as a Percentage of GDP, 1926-1996

Source: Statistics Canada CANSIM
Figure 5.1 Foreign Direct Investment Flows, Canada, as Percentage of GDP, 1927-1996
Figure 5.2 Total Investment (Foreign Direct and Portfolio) Canada as Percentage of GDP, 1900-1996

Source: Statistics Canada
Figure 5.3 FDI Stocks, Out and In, Canada, as Percentage of GDP, 1920-1996

Source: Statistics Canada
Figure 5.4 FDI Stocks, In, Various Continents, Canada, as Percentage of GDP, 1926-1996

Source: Statistics Canada
Figure 5.5 FDI Stocks, In, Various Continents, Canada, as Percentage of GDP, 1926-1996

Source: Statistics Canada
Figure 5.6 FDI Stocks, Out, Various Continents, Canada, as Percentage of GDP, 1920-1996

Source: Statistics Canada
Figure 5.7 FDI Stocks, Out, Various Continents, Canada, as Percentage of GDP, 1920-1996

Source: Statistics Canada
Figure 5.9 Manufacturing Foreign Direct Investment, Canada, as Percentage of GDP, 1920-1991

Source: Statistics Canada
Figure 5.10 Manufacturing Foreign Direct Investment, Canada, as Percentage of GDP, Total and to non-OECD World, 1958-1991

Source: Statistics Canada
Figure 6.1 Stocks Owned Abroad and Foreign Owned Stocks by Canadians as Percentage of GDP, 1926-1996

Source: Statistics Canada
Figure 6.2 Bonds Owned Abroad and Foreign Owned Bonds by Canadians as Percentage of GDP, 1926-1996

Source: Statistics Canada
Figure 7.1 Total Government Expenditures as Percentage of GDP, Canada, 1933-1996/97

Source: Statistics Canada
Figure 7.3 Total non-Welfare State Expenditures (plus and minus debt) as Percentage of GDP, Canada, 1933-1996/97

Source: Statistics Canada
Figure 7.5 Public Education Expenditures as Percentage of GDP, Canada, 1933-1996/97

Source: Statistics Canada
Figure 7.7 Social Service Expenditures as Percentage of GDP, Canada, 1933-1996/97

Source: Statistics Canada
Figure 7.8 Public Health, Education, and Social Services Expenditures as Percentage of GDP, Canada, 1933-1996/97

Source: Statistics Canada
Figure 7.9 Total Government Expenditures (including and minus debt) as Percentage of GDP, Canada, 1933-1996/97

Source: Statistics Canada
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