Corporate Power and Globalization in US Foreign Policy

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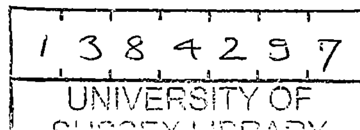

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Preface

Rethinking the State and "free markets" in neoliberalism

Thomas Ferguson

Corporate Power and Globalization in US Foreign Policy is an important study. Explaining why is easy. Just consider two exhibits. The first is a figure that plots the commencement of US uses of force abroad and covert interventions between 1788 and 2001 (Figure 1).[1] Set aside the obvious fact that such events can reasonably be represented in more than one way (the figure counts each case equally; it does not attempt any weighting by size of the forces, for example), what it shows is still very striking.

For all the brave talk about "democratic peace" and the priority of markets, the track record of American foreign policy in the era of high globalization was radically different. Because scatter makes the main trends difficult to see, the figure uses Friedman Supersmoothing (a technique sensitive to small shifts in trend) to reveal pattern changes. The graph reproduces conventional wisdom about the period between the end of World War II and the late 1970s: Uses of armed force abroad and covert action rose sharply during the Cold War, before declining suddenly as a result of the Church Committee hearings and the "Vietnam Syndrome" despised by Republican policymakers then and now.[2]

The drop in interventions did not persist; instead it dramatically reversed with the proclamation of the "Reagan Doctrine." The late 1980s, however, and especially the Clinton years, bring a surprise: Despite the Congressional investigation of the Iran–Contra scandal, the end of the Cold War and the advent of full scale "globalization" brought an acceleration of the pace of intervention abroad. No one needs an ARIMA model to see that party differences after 1980 are microscopic; it is the "regime" that matters. If anything, intervention quickened slightly under Bill Clinton.[3]

Close study of the data reveals another fact that is not reflected in the figure. After Iran–Contra, and the end of the Cold War, truly covert actions diminish. Instead actions that in previous years would have qualified as covert (such as financial support of opposition movements or foreign election financing) go "above ground." They are openly pursued by US sponsored groups like the National Endowment for Democracy. This makes for some coding difficulties in the 1990s; out of a desire to err on the conservative side, such interventions were not counted at all unless they were aimed at regime change, as in Albania in 1991. While the US had many other ways of exerting influence, such as simply

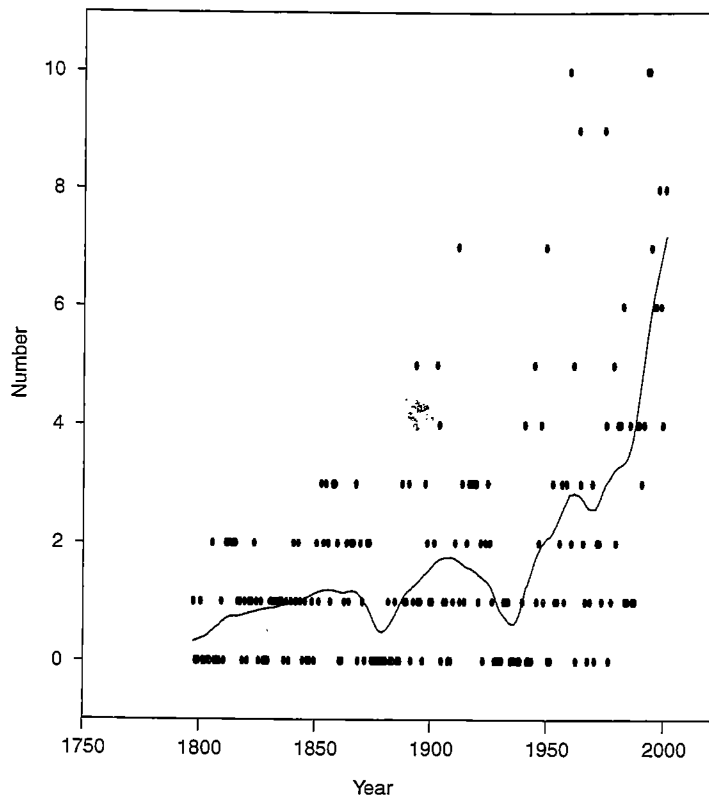

Figure 1 Commencement of US uses of force or covert intervention abroad (Friedman Supersmoothing) (sources: see note 1).

selling states weapons they could use to attack others or their own population, these data are nonetheless very striking.[4] They indicate that in the age of globalization, overt intervention across borders by the US became far more common, indeed, almost routine.

Developments after 2001, of course, render such tabulations increasingly meaningless as a new international regime takes shape, mostly unnoticed, save for dramatic events such as the invasion of Iraq. Since 9/11, the Defense Department has dispatched all sorts of scouting teams and military groups authorized to use force, either covertly or overtly, to many countries. Since many of these lands probably qualify as "democracies" in the extended sense of the theory of the democratic peace, the judgment is inevitable that the 1990s hoopla about how democracies never go to war against each other largely missed the point. Democracies, even those with McDonalds, may or may not go to war, but they

assuredly try to overthrow or subvert each other, as anyone familiar with the notorious case of Chile would have recognized all along.[5]

The point can be extended. The pressure that built up during the late 1990s to invade Iraq, which eventually culminated in a Congressional Resolution, was not an isolated event. While an invasion promised to be a substantially larger undertaking than all but one or two of the recent interventions, the plain fact is that by the end of the 1990s, the American government was routinely choosing from sets of possible interventions. Legislative intervention, lobbying, press campaigns, and all the paraphernalia of money-driven political systems in which legislatures play a role were only to be expected.[6] This, not the peaceful image of global economic competition popularized in the "globalization" literature, actually defined the political climate as the George W. Bush administration assumed power. It was simply the domestic political complement of a process that has more to do with market creation than integration; and that is about as far from the conditions of equilibrium market adjustment celebrated in Neoclassical economics as anything imaginable.

A simple table is the other exhibit that points up this book's timeliness (Table 1). Taken from a paper on Congressional polarization, it attempts to provide a rough estimate of the percentage of US political campaign funds that

Table 1 Campaign spending growth through time – various categories (millions of current dollars)

Year	*Total federal*	*Total presidential*	*Total congressional*	*Other*	*Union PAC spend*
1970					
1972	236	138	77		
1974					
1976	300	160	88		
1978					19
1980	698	275	239	184	25
1982					35
1984	1,245	325	374	546	48
1986					58
1988	1,598	500	458	640	74
1990					85
1992	2,188	550	678	960	95
1994					88
1996	2,877	700	765	1,339	100
1998	1,619		646	970	98
2000	3,849	645	900	2,304	129
2002	2,182		807	1,375	158
2004	4,575	958	949	2,668	183
2006	2,853		1,265	1,588	197
2008	5,980	1,829	1,197	2,954	265

Source: Ferguson, "Incumbents Never Bowl Alone..." (see note 6).

Note
PAC, political action committee.

have come from "big money" since 1972, where this is defined as contributors donating more than $200.[7] Because American election laws are a labyrinth where only lawyers can be happy, exact estimates are not possible. About three-quarters of the money donated to narrowly defined presidential campaign committees normally comes from big donors.[8] Small donors also are relatively scarce in congressional campaign committees. Both have relatively low ceilings, however. By contrast, so-called "soft money" raised by political parties, "527" spending, superpacs, and other dodges have much higher ceilings (or none at all) and thus raise nearly all of their money from wealthy donors. A good rough and ready minimum estimate of big money's role in elections can thus be generated by subtracting out narrow presidential and campaign spending from total spending on federal elections. That generates the "Other" column in the table. Adding, say, two-thirds of the presidential and congressional totals to the "Other" category then yields a reasonable estimate of Big Money's role in American elections.

Campaign contributions, of course, are far from the only way money influences public policy. Anyone who cares to look will rapidly realize, indeed, that a whole "spectrum of political money" exists that vastly exceeds reported totals of campaign contributions.[9] But the central point is clear. The US political system is money-driven to its core.

Corporate Power and Globalization in US Foreign Policy understands both of these cardinal facts about the US state. That is why its various essays add up to more than the sum of their parts. Its discussions throw valuable light on events and processes in American foreign policy that most scholarship has yet to come to grips with or, in many cases, even acknowledge. The book merits careful attention not only from scholars, but from anyone concerned about American foreign policy.

Notes

1 An earlier version of this figure appeared in my presentation for the Argentine Central Bank's Annual Money and Banking Conference in July, 2011. The figure pools data from several sources. The Congressional Research Service has published and in recent years updated regularly a list of "Instances of U.S. Armed Forces Abroad From 1798." The latest is to 2010; my tabulation comes from an earlier report issued after 2001. The other major source is William Blum, *Killing Hope: US Military and CIA Interventions Since World War II*, updated edition (Monroe, Maine: Common Courage Press, 2004).

2 On the Republican reaction to Vietnam, see, e.g., James Mann, *Rise of the Vulcans* (New York: Viking, 2004).

3 Richard D. Mahoney, *Getting Away With Murder* (New York: Arcade, 2004) has an extremely sharp-eyed discussion of how the structure of the military changed as a consequence of this development.

4 Noam Chomsky, Edward Herman, and other analysts have extensively discussed many cases in which US military aid has been used against populations by regimes in what used to be called the Third World.

5 Most academic studies of globalization tend to stress the multitude and density of ties that define globalization, and sometimes downplay the role of economic considerations. More popular treatments, such as those by Thomas Friedman, devote more attention to the economy. But virtually all agreed that globalization's "complex interdependence" set limits on the potential role that military force could play in international relations. Many looked forward to a new era of peace brought about by the triumph of civil society.

6 On Congress and the money-driven character of the system in the 1990s, see especially Thomas Ferguson, *Golden Rule* (Chicago: University of Chicago Press, 1995) and Ferguson, "Legislators Never Bowl Alone: Big Money, Mass Media, and the Polarization of Congress," Paper Presented at the Institute for New Economic Theory Conference in Bretton Woods, April, 2011; on the web at http://ineteconomics.org/sites/inet.civic-actions.net/files/BWpaper_Ferguson_040811.pdf.

7 It goes without saying that prices vary over time; for this paper, there is no point in sorting through details, instead refer to Ferguson, "Incumbents," for more details.

8 See the discussion in Ferguson, "Incumbents" and notes to work by the Campaign Finance Institute and others.

9 See the discussion, with estimates of the different types, in Ferguson, "Incumbents."

Introduction

Corporate power and the threat to democracy

Ronald W. Cox

Introduction

A decade into the new millennium, the fusion of corporate and state power is the essential defining feature of US foreign policy. For over 30 years, the political and economic ascendancy of sectors of transnational capital has pushed political discourse in the US steadily to the right of the political spectrum. While political scientists write about the increasing polarization between US political parties, the extent to which both parties operate within a corporate framework often gets lost in the stridency of contemporary partisanship. Both Democratic and Republican Presidents have endorsed escalating military budgets, deregulation of global financial markets, and massive federal bailouts of US-based financial institutions deemed "too big to fail." Shouting matches occur with some frequency within the corporate boundaries of permissible dissent, but only in a manner that never challenges the policies of military expansionism and unsurpassed corporate welfare. Corporate largesse has been focused overwhelmingly on Wall Street, which is a starting point for understanding the outlines of a corporatist US state that has taken shape after three decades of a right turn. The defining features of US corporatism are a commitment to transnational capital accumulation, global financial deregulation, and a steady expansion of US Empire. A Wall Street–Treasury complex rests side-by-side with a military–industrial complex in a structure of plutocracy that fundamentally threatens the stability of US democratic institutions.[1]

This book will examine the manifestations of corporate power in US foreign policy and the global economy over the past 30 years, culminating in an assessment of the implications of greater concentrations of wealth and power for democracy, both in the US and abroad. At present, the US government can accurately be characterized as "Democracy, Incorporated," (Wolin 2008) symbolized by the recent Supreme Court decision declaring unlimited corporate spending on political advertising campaigns to be a first amendment right protected by the US constitution. The fact that US-based transnational firms in investment and commercial banking, insurance, pharmaceuticals, oil and gas, and military contracting already dominate the political process may make the Supreme Court decision less relevant than it otherwise would be. Just one of these sectors of

global capitalism, the pharmaceutical industry, devotes enough money to political lobbying in the US Capitol to hire thousands of influence peddlers each year, whose numbers quadruple the membership of the House of Representatives and the US Senate combined. Within the executive branch, whether staffed by Democrats or Republicans, the revolving door between the leading corporate interests and the White House ensures an institutional power for corporate America that cannot completely be understood by the statistics of campaign finance. Instead, the growth in corporate lobbying networks is more important in tracing corporate influence over US state policy. Corporations that are most powerful can be measured by their degree of lobbying strength on Capitol Hill, which has been reduced to a plutocracy where legislation is developed, refined, and tailored to the profit-making needs of corporations that dominate entire sectors of the global economy. Both the political and economic power of these corporations will be the subject of this volume, starting with an analysis of the role of corporate interest blocs in weakening and ultimately eviscerating the earlier regulatory structures of capitalism in favor of the promotion of a much more global production system.

Even after the most recent global capitalist crisis, which is the greatest meltdown since the Great Depression of the 1930s, the financial corporations left standing have used their institutional power in order to fight against attempts to reintroduce regulatory frameworks associated with the New Deal era. No single corporation comes close to Goldman Sachs in having its former CEOs and executive personnel so well-represented in the ranks of Treasury Department officials, spanning the administrations of Clinton, George W. Bush, and the Obama White House. As Dan Skidmore-Hess explains in his chapter on "Obama's corporate centrism," Goldman Sachs and other powerful financial firms such as Citigroup contributed disproportionately to the 2008 campaign of Barack Obama. These firms more recently waged a successful political battle to defeat any effort to break up banking institutions whose sheer size and clout has helped make them more powerful within the US state and within the global capitalist system – even in the aftermath of a crisis that continues to threaten the stability of a system that Goldman Sachs helped to deregulate. One consequence of the current capitalist crisis is the increasing reliance by investment and commercial banks on business associations to advance their policy preferences, including the American Bankers Association, which saw a 47 percent increase in lobbying between 2007 and 2008 (Open Secrets 2009). But the long-term trend of the ascendancy of financial interests in US domestic and foreign policy can be traced to structural changes occurring within global capitalism which date to the mid-1970s. Since that time, the financial sector has expanded its political and economic power within the US and global marketplace.

This book includes contributions from critical theorists in political science and international relations whose work is associated with an examination of the relationship between corporate interests, the US state, and US foreign policy within the current global political economy. The chapters provide a historical and contemporary examination of the expansion of corporate power and the

"right turn" in public policy in the US and abroad.[2] We focus our attention on the growth of the political power of corporations that some theorists associate with a global or transnational capitalist class. In particular, we examine the increasing structural and institutional power of transnational corporations on US state policies that have promoted corporate globalization, neoliberalism, and military intervention. Our goal is to address some of the problems we see in current scholarship, namely the lack of sustained focus on corporate–state relations at the very time that such relations constitute the most important power dynamic of contemporary global capitalism.

Transnational capital after Bretton Woods: the historical context for the right turn

In the first chapter of this book, I examine the political economy of the rise of the new structure of global production and accumulation which developed in the wake of the collapse of the Bretton Woods system after 1971. This system, in place from 1945 to 1971, placed restrictions on short-term, speculative flows of financial capital across borders by establishing a supportive regulatory framework for states to control capital movements. The regulatory apparatus complemented and encouraged a system of capitalist production that was much more integrated within national borders, and less dispersed and divided across countries and regions than would be the case in the current global political economy. Member states within the Bretton Woods system commonly relied on capital controls to maintain currency values that were pegged within a range to the dollar, which in turn was fixed to gold at $35 per ounce. By the late 1960s, US-based financial firms joined with the most competitive sectors of transnational capital, in such business associations as the Committee on Economic Development, to lobby for an end to what they saw as the overly restrictive financial architecture of the Bretton Woods era (Helleiner 1996: 81–122; Cox and Skidmore-Hess 1999: 123–124).

From the 1970s to the present, the most global and competitive of US-based commercial and investment banks promoted a deregulation of US financial markets and efforts by the US state to promote the elimination of capital controls in foreign markets. The political power of the financial sector was enhanced by a high-tech revolution that enabled a greater flow of financial investments across national borders. Greater global competition pressed US-based commercial and investment banks to develop strategies of corporate consolidation and innovation of new financial products in an effort to avoid greater loss of market shares to newly emerging financial institutions. Developed states, increasingly subject to the pressures of the global marketplace and the policy preferences of financial capital, steadily removed capital controls from the late 1970s through the 1980s, a process that was most aggressive in the United States and Western Europe, culminating in the financial integration of European markets in the 1990s. Meanwhile, the US state used the debt crises in the developing world to implement austerity measures that opened portfolio markets in a number of emerging

market economies. The Clinton Administration elevated financial liberalization to new heights in its foreign economic policies, which reflected the deepening institutional and structural power of transnational corporations within the US state, which has steadily been transformed into a transnational state whose dominant bureaucracies and political institutions are structured to promote the liberalization of global financial markets and favorable conditions for the accumulation of global capital on behalf of transnational corporations (Robinson 2004).

The US state is especially important in advancing the interests of a transnational class through global institutions such as the International Monetary Fund and the World Bank, and through collaboration with other transnational states in global forums such as the G20 (the subject of Susanne Soederberg's chapter of this volume). In the US, transnational finance capital has relied on neoliberal theory, strong institutional connections to the executive branch agencies, including the White House, State Department, Treasury Department, and Federal Reserve, and a growing army of lobbyists on Capitol Hill, to chip away at New Deal regulations. Over the past three decades, there has been a deepening consolidation of the financial sector, resulting in an increasing integration of the functions of commercial and investment banks starting as early as the 1980s, but intensifying with a wave of mergers and consolidations legitimized by the repeal of Glass-Steagall in 1999. At the same time, the productive sectors of the US economy were becoming "financialized" to a much greater degree, as shareholders of US-based Fortune 500 firms were increasingly dominated by large-scale institutional investors with strong ties to global finance (Epstein 2005: 3–16). One indicator of the growing market power of the financial sector is the fact that 40 percent of all US profits by 2007 were concentrated within that sector. Much of these profits were based on the recycling of debt. A significant portion of this debt, equivalent to 30 percent of US consumption from 2000–2007, was tied to the refinancing of the US housing market, itself a product of policies promoted by the US transnational state and the deregulation of domestic and global financial markets.

Since 1985, US corporations in particular have benefitted from changes in US economic policies and tax laws that enabled the shift from corporate divisions to a multilayered corporate subsidiary structure (see Cox, Chapter 1, in this volume). Within this new structure of global production, US-based transnational corporations in the high-tech and manufacturing sectors have moved away from ownership and control of production in favor of ownership and control of the highest value-added aspects of the production process: product design, patents, marketing, and distribution. Transnational firms have used their corporate brands and their control over key marketing and distribution networks to dominate entire sectors of the global economy, namely by linking with global production networks that include corporate subsidiaries, subcontractors, and independent producers throughout the world which are connected by this new global production system. Within this system, non-financial corporations at the top of the global supply chain have become more dependent on financial assets as a percentage of capital investments and as a percentage of profits than was the case in

the previous Bretton Woods system. I coin the term "financialization of production" in Chapter 1 as a short-hand phrase to help us understand the extent to which non-financial transnational corporations have become more dependent on an accumulation of financial assets, and on relationships to institutional financial investors, to maintain their dominant position within the contemporary global production system.

In Chapter 2, Sylvain Lee and I analyze the centrality of the China market in understanding the shift to a global production system dominated by transnational corporations and powerful state actors. We explore the political economy of the rise of China as a nexus market in the global production of computers and computer-related products that connects global transnational firms to East Asian production networks. This production system, emblematic of the new globalized production structures that have been especially advanced in the high-tech sectors of the world economy, has involved a wide range of economic and political actors. These include US-based transnational corporations, the US state, the Chinese state and Chinese corporations who have partnered with US firms, and an East Asian production network working on Original Equipment Manufacturing contracts with transnational corporations. These relationships have helped to forge a high-tech revolution in the global production of computers and computer-related products. Lee and I argue that the political economy of the US–China relationship can best be understood as part of a political process in which the market power of transnational corporations is fused with the political power of US and Chinese state actors. The result is an integrated production network dependent on labor repression, environmental degradation, and a dramatic fracturing of the Chinese economy (and indeed much of the global economy) between those who benefit from the new system of accumulation and those who are systematically exploited or excluded.

In Chapter 3, Nelson Bass and I examine the role of the largest labor federation in the US, the AFL-CIO, within this new structure of globalized production. For decades during the Cold War, the AFL-CIO worked closely with US state and corporate interests in promoting an anti-communist foreign policy agenda. For the AFL-CIO, these efforts took precedence over building alliances with foreign trade unions working against corporate exploitation and government repression. The arm of the AFL-CIO foreign policy, the American Institute for Free Labor Development (AIFLD), sided with dictatorial regimes and conservative unions in an effort to improve the investment climate for US corporations. This tacit bargain between the US state and union officialdom reached the tragedy of the absurd with the US escalation of the Vietnam War during the mid-to-late 1960s, when AFL-CIO leaders took a pro-war stance at the very time that working class opposition to the war was growing.

The key question that Bass and I examine in Chapter 3 is: how much has changed in the foreign policy strategies of the US labor movement? Specifically, has the creation of the International Labor Solidarity Center in 1997 heralded a move away from collaboration with the US state and US corporations embodied by AIFLD? According to the rhetoric of union officials, the creation of the Labor

Solidarity Center was to be the start of more aggressive solidarity campaigns with foreign trade unions, designed to improve the aggregate position of workers within a global economy where production was increasingly divided across the borders of states. By comparing and contrasting the historical patterns of US labor's foreign policy agenda with the contemporary patterns of activity undertaken by the Labor Solidarity Center, we reach the conclusion that not much has changed. The AFL-CIO has replaced the anti-communism practiced during the Cold War with a foreign policy agenda that follows the lead of the US state in prosecuting the "war on terror" rather than working to build new solidarity structures with foreign trade unions.

In Chapter 4, Dan Skidmore-Hess analyzes the political implications of the "corporate-centrist" orientation of the Obama Administration, whose biggest campaign donors are transnational corporations concentrated in the banking and high-tech sectors of the US economy. Following the "investment theory of political parties," developed by Thomas Ferguson, Skidmore-Hess illustrates how many of Obama's most controversial policies from health care to taxation have emerged directly from previous "moderate Republican" proposals, and have been crafted to win the support of corporate interests that financed his campaign in 2008. The fact that such policies are now labeled "socialistic" or even outright "socialism" by Obama's critics is simply a reflection of how far the spectrum of permissible debate has shifted to the right in US political discourse. Ultimately, the largest contributors to Obama's 2008 Presidential campaign, finance and high-tech industry, mirror the centers of power within the new global economy. Therefore it is no surprise that Obama is following a globalization and militarization agenda that is consistent with previous administrations. The positions of the Republican Party and the Obama Administration are well to the right of the preferences of US public opinion. But of course, public opinion does not shape the corporate agenda that dominates US politics. The only opinion that matters these days in crafting agendas for US domestic and foreign policies is the opinion of the upper 10 percent of the US income bracket (Hacker and Pierson 2010).

In Chapter 5, David Gibbs explores another crucial component of the corporate agenda in US foreign policymaking: the military–industrial complex. Despite the fact that the Cold War with the Soviet Union ended long ago, weapons systems originally justified by the Soviet threat have steadily been expanded. New threats have been identified to justify an annual military budget that is now higher than any Cold War budget in real dollars. Gibbs provides several reasons for this in his chapter, including the institutional power of the military–industrial complex, which exerts a bureaucratic influence on policymaking simply because of its significant size and reach. The military as a powerful bureaucracy seeks to perpetually expand its revenues, and is closely linked to corporate actors through a revolving door of procurement contracts and lobbying networks. Corporations that enrich themselves through domestic military procurement have used their political clout to gain Congressional support for weapons systems that have no clear relevance to national defense or security. Furthermore, as Gibbs notes, US foreign policy elites have always been committed to linking military capability to the imperatives of the "open door" or the promotion of globalization, which is very relevant in an age of transnational capital accumulation. Militarization is justified to maintain security commitments, such as NATO, that are considered necessary to help ensure access to foreign markets. Thus military engagements such as the US intervention in Kosovo should be seen in the context of efforts to expand the purpose and rationale for military alliances and military spending that otherwise might be called into question.

In Chapter 6, Patrick Bond examines the history and consequences of the financialization of production in the developing world, with a particular focus on the role that US foreign policies have played in creating the conditions for the emergence of neoliberalism on a global scale. Bond points out that the US state intervened forcefully on numerous occasions in debt crises during the 1980s and the 1990s to construct US-backed IMF/World Bank structural adjustment packages that amounted to socialization of losses for investment and commercial banks. The working class and the poor in developing countries paid for the bad investments of global bankers through austerity measures and through the financialization of productive assets which led to a transfer of wealth on a global scale from poor to rich. So the current financial crisis is hardly the first time that the US government has used taxpayer dollars to bail out the top investment and commercial banks. A number of precedents were established during the 1980s and 1990s that set the stage for more aggressive financial accumulation on a global scale, including a demonstrable willingness of the US state to bail out investment bankers who were "exposed in various regions and countries – Eastern Europe (1996), Thailand (1997), Indonesia (1997), Malaysia (1997), Korea (1998), Russia (1998), South Africa (1998, 2001), Brazil (1999), Turkey (2001), and Argentina (2001) – whose hard currency reserves were suddenly emptied by runs." The politics of this emerging financial architecture are evident in Bond's case study of South Africa, where the growth of a transnational class tied to the profits of neoliberalism and global accumulation have managed to impose their agenda on the working class coalition that had been most responsible for the demise of apartheid. The ripple effects of these politics of class collaboration are exemplified by the transfer of one leading South African neoliberal, former Finance Minister Trevor Manuel, to prominent positions within the World Bank and IMF, where he has emerged as a voice for cap and trade legislation as the solution to the global climate crisis.

In Chapter 7, William Avilés further explores the intersection between the US state and US-based transnational corporations that have benefitted from the US promotion of "low-intensity democracy" in the developing world. Avilés defines "low-intensity democracies" as "procedural democracies that allow political opposition, greater individual freedoms, a reduced institutional role for the armed forces, and a more permeable environment for the investments of transnational capital." Avilés notes that US support for such democracies emerged "haltingly" under Presidents Carter and Reagan and then became a central component of President Clinton's foreign policy agenda. US officials considered the

transfer of power from military governments to low-intensity democracies favorable to a wide range of US security and economic interests in the developing world, given that such regimes were associated with less instability than the military dictatorships that the US had previously supported. Avilés uses examples of Colombia and Honduras to illustrate the process leading to the establishment of "low-intensity democracies" in these countries. The features associated with each case include: a rise to power of neoliberal technocrats within the dominant political party structures of each country; pressure from global institutions such as the IMF/World Bank that ties future loans to the liberalization of the economy; a reduction of the role of the military in political governance; and an expanded use of internal security forces, including the military itself, to counter threats to the neoliberal project. As Avilés notes, the contradictions of low-intensity democracy are apparent in the rising gap between rich and poor, which has generated internal political conflicts over the terms of neoliberalism. In the case of Venezuela, Avilés argues that the failure of low-intensity democracy has helped lead to the consolidation of power of Hugo Chavez as an alternative to neoliberalism.

Just as Avilés documents the contradictions of low-intensity democracy as a process for implementation of a neoliberal policy agenda in developing countries, Susanne Soederberg in Chapter 8 examines the contradictions of global capitalism embedded within the decisions of the leaders of the G20 summits in 2009 to authorize a continuity of the very same neoliberal policies that have led to the current capitalist crisis. Soederberg analyzes the policies associated with the financialization of the global economy over the past thirty years as a consequence of a long-term crisis in global capitalism. She exposes the extent to which both financial and non-financial corporations have relied on the US state and elites within the developing world to promote and implement policies that have made the global economy more vulnerable to systemic meltdowns. This includes what Soederberg calls a "financial fetishism" that treats the establishment of a market-based monetary and credit system as the most rational way to allocate credit, with the central problem being to ensure that market participants have access to all necessary information in which to maximize their "rational" allocation of resources and investments. In such a formulation, all considerations of the class basis of political power vanish from the equation, thereby obfuscating the central role of political and economic actors in using their power in the global economy, and through the US state, to secure the adoption of government policies that direct a greater pool of investment resources toward short-term financial investments.

Soederberg notes that the process of subjecting more of the world's pension funds to market-based mechanisms has been a central feature of the various financial architectures that have been established prior to the current crisis. Most importantly, she concludes that "the global South continues to pay a higher price [than the North] for risks associated with US-led strategies of expanded capital reproduction." As a manifestation of what is required by the class-based politics of corporate globalization, "governments of emerging markets must continually

signal creditworthiness in the form of low labor standards, balanced budgets, low taxation, environmental and financial regulation, and trade deregulation – all of which have had harmful effects on the social fabric and environmental sustainability in the developing world."

Each of these authors contribute to our knowledge of how the fusion of market power with political power has worked to create a particular set of structures favorable to transnational capital investment and accumulation, often through mechanisms of class-based rule, exploitation, and transfer of wealth from poor to rich. The relationship between the US state and transnational corporations is a crucial part of this process. This includes the tax breaks and regulatory deregulation of the late 1970s to the present, the dramatic expansion of corporate lobbying networks that have often been more important than elections in framing US economic and foreign policies, and the crucial role of the US state in using both its military and its economic power to expand neoliberalism to the Global South. The result has been frequent crises in the Global South and throughout the system, often followed by direct financial intervention by the US on behalf of the very interests whose reckless and unregulated investments contributed to each recurring crisis.

In the Conclusion, Daniel and Cathy Skidmore-Hess and I examine the extent to which the term "transnational capitalist class" is useful for understanding US foreign policies in promoting corporate globalization. We break down some of the benefits and problems associated with this term, and advance a case for the term "transnational interest bloc" which argues that the ability of sectors of transnational capital to secure political hegemony is contingent on the context of domestic and international political alliances that have been built up over time. In other words, there is an emerging transnational capitalist class, but its ability to exert its political power as a class has often been contested, and affected, either positively or negatively, by the particular environments in which it operates. We then examine why the US state has been such fertile ground for a deepening of transnational capitalist class power over the past three decades. In particular, we explore the class and racial aspects of US domestic politics associated with the "long right-turn" that has enabled an expansion of corporate power. We end by suggesting some of the contradictions, weaknesses, and limitations of transnational class power within the current configurations of the US state which might give opponents political space to challenge the corporate agenda.

Notes

1 This book is dedicated to the late Peter Gown, whose seminal work on global finance and numerous articles in *New Left Review* introduced readers to the term, "Wall Street–Treasury Complex." See Gowan's book, *The Global Gamble: Washington's Faustian Bid for World Dominance*, London: Verso Press, 1999.

2 See many of the works by Thomas Ferguson, including *Right Turn*, co-authored with Joel Rogers, New York: St. Martin's Press, 1984, and *Golden Rule*, University of Chicago Press, 1995.

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1 Corporate finance and US foreign policy

Ronald W. Cox

Introduction

The current global economic crisis has led to a prodigious body of scholarship examining the growing power of the financial sector within the US economy. Typically, this literature focuses on traditional measures of "financialization," such as the rising share of profits accrued by financial firms as a percentage of US GDP (Dore 2008; Phillips 2008). Related approaches explore the role of the biggest investment and commercial banks in promoting deregulation of US financial markets, facilitated by the close political relationships between financial firms and policymakers (Ferguson and Johnson 2009; Kuttner 2007). Some scholars emphasize the shifting orientation of US-based financial corporations from traditional investment and commercial banking operations to a greater reliance on a "shadow banking system" and proprietary trading that has increased the propensity for the creation of new and risky investment assets (Blackburn 2008). While all of these approaches to the growing financialization of the US economy offer important insights about the growing power of the financial sector, there remains a need to conceptualize the depth of the financialization of the US economy. In particular, what is often under-theorized is the extent to which the US-based non-financial corporate sector has grown increasingly dependent on financial assets for a growing percentage of corporate profits (Epstein 2005).

With that task in mind, I use this chapter to locate the process of financialization within the long-term structural shifts in US and global capitalism that have taken place from the 1970s to the present. The aim is to integrate an explanation of financialization to shifts in global production strategies and to shifts in US foreign policymaking. Using this approach, financialization is located both within structural changes in the global economy and within specific transition points in US foreign policy that have facilitated the "financialization of production." This term, which is central to my overall approach, is defined by several co-existing and mutually dependent trends. The first is that non-financial corporations in the US have grown increasingly reliant, since the 1980s in particular, on financial assets as a percentage of corporate profits. Non-financial firms, in an effort to reverse the declining rates of profit that began in the mid-1960s and

continued through the mid-1980s, became increasingly reliant on stocks, bonds, dividend and interest income for new revenue streams (Orhangazi 2008). The second trend is a greater reliance by non-financial firms on large-scale institutional financial investors for purchases of corporate stock (Zey and Camp 1996: 337). Institutional financial investors holding disproportionate shares of corporate stock became more important players in corporate decision-making strategies, including the massive sell-off of corporate assets during the 1980s. The third trend involves non-financial firms restructuring their global operations around supply networks through the creation of subsidiaries, subcontracting, and outright purchasing of needed goods from independent producers located in foreign markets (Milberg 2010). The intermediaries within this restructuring process are institutional financial investors who are often involved in financing the various links of these global supply chains.

The US state, often working with particular business groups and associations, has played an important role in making the financialization of production possible. In order to grasp the relationship between the US state and the financialization of production, the first place to start is with a recognition that US foreign policymaking from the 1970s to the present did not exist in isolation from structural economic changes, but has to be seen in relation to particular shifts in the US and global economies. Specifically, transnational corporations, both financial and non-financial, have relied increasingly on the financialization of profits, and on policies pursued by the US state in promoting financialization, to reverse the falling rates of profit experienced by the most globally competitive transnational corporations from the mid-1960s to the mid-1980s (Fligstein 2001; Arrighi 1994). Non-financial transnational corporations, facing declining profit rates, sought to tie future profitability to a reorientation of production on a global scale that was closely linked to an increased financialization of corporate assets (Milberg and Winkler 2010). At the same time, the largest transnational commercial and investment banks, faced with rising global competition alongside competition from newly emerging institutional investors in the US market, started to look for ways to reverse declining rates of profit in the financial sector. This involved increased consolidation through mergers and acquisitions and restructuring of financial activities toward risky proprietary trading, which was pursued to varying degrees by both investment and commercial banks beginning in the mid-1980s (Gowan 2009: 8–13).

Both non-financial and financial firms were increasingly interlinked economically and politically as they attempted to respond to the exigencies of the crisis of profitability. Non-financial firms, aided by weakened antitrust laws in the 1980s, used mergers and acquisitions financed with borrowed money and underwritten by investment banks to restructure their operations. The most prevalent form of consolidation involved horizontal mergers and acquisitions in which corporations acquired or merged with competitors in the same industry. This was typically followed by a downsizing strategy that involved a massive selling off of non-core business assets in favor of a focus on core business activities (Nolan *et al.* 2007: 18). The restructuring strategy was accompanied by a much greater

reliance on institutional financial investors for purchases of corporate shares, which were increasingly used to raise capital for firms engaged in a global race toward the top of the supply chain. The so-called "shareholder revolution" of the 1980s coincides with a disproportionate rise of stock investments by institutional financial corporations in the shares of non-financial corporations. This gave institutional financial investors holding pension and mutual funds a much greater say in the internal affairs of corporate governance (Soederberg 2009).

At the same time, non-financial corporations, beginning in the 1970s but especially during the late 1980s and 1990s to the present, expanded their dependence on foreign production networks to compensate for a decline in profitability in the US market. This included a greater reliance on foreign intermediaries as a percentage of intrafirm trade, meaning that more US-based non-financial firms were importing goods produced in foreign locations in lieu of producing those goods at home. These relationships included each of the following strategies: (1) traditional subcontracting relationships; (2) foreign direct investment in which the parent firm owned the foreign supply firm; and (3) outright purchases of finished products from independent firms based in a handful of emerging market economies in the developing world that were starting to increase their production of manufacturing goods. In order to make this transition to a greater reliance on global production networks, non-financial corporations turned to the stock market in an effort to appeal to institutional financial investors who would help finance the restructuring of corporate operations that has led to more complex and diffuse global production networks. They also turned to the US state to enact trade and investment agreements that provided legal, institutional, and political support for the expansion of global supply networks.

US corporations, alongside their transnational competitors based in foreign markets, have used all of these strategies of increased global integration to help reverse a falling rate of profit trend that the largest and most competitive global capitalist firms experienced from the mid-1960s to the mid-1980s. The intensification of cross-border mergers and acquisitions, accelerating greatly from 1999 to the present, has further increased concentration of corporate ownership at the top of the global supply chain, while at the same time creating a much more dispersed and diffuse network of global suppliers who produce a range of products that end up being integrated and branded by large-scale global corporations. The largest global corporations, both financial and non-financial, have increased their global market share across a range of industries from the 1980s to the present, a trend which is closely linked to the growing importance of global value chains (Catteneo *et al.* 2010). Such chains link a highly competitive world of small and medium-sized business entrepreneurs at the bottom of the chain with corporations at the top who are increasingly able to act as "systems integrators" that set the terms for increasingly complex global production networks. The term "systems integrators" derives from its origins in military planning during the Cold War, when "the US military learned and helped its contractors to learn systems integration skills – the art of conceiving, designing and managing the development of large complex systems involving multiple disciplines and many

participating organizations" (Nolan *et al.* 2007: 28). In the contemporary global supply chains, most large-scale global corporations no longer produce a product from start to finish, but instead use their position at the top of the global supply chain to set the terms for doing business with thousands of potential suppliers, who are engaged in fierce competition to be included in these global production networks (Cowling and Tomlinson 2005).

The linkage between the emergence of global supply chains and the financialization of production will be the central focus of this chapter. The next section establishes the historical background necessary to link the falling rate of profit to shifting accumulation strategies pursued by financial and non-financial corporations alike. There I argue that non-financial firms, faced with a long-term decline in profit rates, turned to financial markets in pursuing a mergers and acquisitions strategy of restructuring and downsizing, which was aided and facilitated by a US government that relaxed antitrust laws during the 1980s. As part of this political and economic process, transnational corporations based in the US established new business organizations that sought to enlist US state policy to promote deregulation at home and greater trade and investment opportunities in foreign markets. The embedded relationship between transnational capital and the US state resulted in a range of trade and investment agreements that helped make possible the expansion and financing of global supply chains that characterized a newly emerging production system.

The linkage between a transnational political bloc of capitalist firms and the US state is evident within the US-led structural adjustment programs implemented in Latin America during the 1980s and 1990s, which were connected to the opening of financial markets and an expansion of opportunities for foreign investors. During the 1990s, the Clinton Administration aggressively pursued a foreign economic policy that prioritized the opening of financial markets in several newly emerging markets to foreign investors. At the same time, US-backed trade and investment agreements, including the Caribbean Basin Initiative in 1983 and NAFTA in 1994, as well as CAFTA-DR in 2005, emphasized a range of investment provisions that facilitated the expansion of outsourcing and the consolidation of regional supply networks for US-based transnational capital (Cox 2008). Financial firms, including US-based investment and commercial banks as well as institutional investors holding pension and mutual funds, looked to the US state to promote the opening of foreign financial markets.

Most recently, the contemporary crisis of financialization has led to the greatest bailout of "too-big-to-fail" financial firms in US history. Rather than heralding an end of financial ascendancy and a period of more robust regulation, this only signals a more deep-seated and institutionalized relationship between financial capital and the US state that is the product of a long-term transformation in global capitalism. That transformation, as other chapters in this volume will document, has been responsible for a widening gap between rich and poor – in the US and globally. The shifting market strategies of global capitalist firms toward greater reliance on financial asset accumulation has provided the most important structural circumstance responsible for rising profits accruing to US-based corporations while workers receive lower wages despite higher productivity. The failure of US-based financial institutions and non-financial corporations to reinvest their profits in job creation in the US is not just a product of the most recent economic crisis. It is also symptomatic of structural shifts in global capitalism that have disconnected the profit margins of transnational corporations from the improved health and welfare of their domestic working class. This is reflected in statistics related to the current crisis, in which US-based Fortune 500 firms have seen a growth in profits of $572 billion from the last quarter of 2008 to the first quarter of 2010, while US workers have lost $122 billion in salaries and wages (Herbert, *NYT*, July 30 2010). After more than two years of this current global capitalist crisis, US-based Fortune 500 corporations are reporting profit rates of 8.9 percent, and cash reserves that are "unprecedented," according to recent reports in the *Wall Street Journal*, the *New York Times*, and *The Economist* (Murray, WSJ, March 27, 2010; Rampell, *NYT*, Nov. 23, 2010; Economist, February 3, 2011). For transnational capital, working class immiseration is just another way to reduce cost margins as firms expand their cross-border investments.

The historical context of financialization

There is an expansive body of scholarly literature examining the falling rates of profit faced by US-based corporations during the late 1960s and early 1970s. This chapter will not seek to revisit those debates, or to examine which theory most accurately explains the reasons that so many firms, across diverse sectors of the US economy, were experiencing lower profit margins at this time. Instead, I am focused on an examination of the measures taken by US corporations in response to lower profit rates. These measures include both market-based restructuring aimed at lowering input costs, combined with political organization aimed at shifting US state policy in a neoliberal direction (Cox and Skidmore-Hess 1999: 148–149). In short, US corporations were reacting to a systemic crisis of profitability that can be measured by falling rates of profit from the mid-1960s to the mid-1980s. By the mid-1960s, corporate profits as a percentage of overall corporate revenue began falling. Another set of measurements, revealing the same trend, indicates that corporate profits were falling in relation to gross domestic income of the US (Milberg and Winkler 2010: 8). These trends had significant effects on both the economic and political activities of corporations in the US.

For US corporations, the traditional approach to maintaining profit rates has been to use oligopolistic market power and position to raise prices. This strategy could only be used by firms whose market share in a given industry was at a level of concentration that made it cost prohibitive for new firms to effectively enter the market and to compete at lower prices. The most globally competitive US-based corporations in automobiles, steel, chemicals, and machine tools enjoyed such an advantage over their competitors through the immediate post-World War II period. This enabled these firms to effectively capture the most

dynamic high value-added segments of the US market against domestic and foreign competitors for the first two decades after World War II. However, by the mid-1960s, there were visible cracks in the oligopolistic structures that allowed these firms to dominate the US market.

Rising competition from Japanese and German exporters, followed by market penetration from the newly industrializing countries of Asia, weakened the hold that US-based oligopolies had on the US domestic market. The ability of US oligopolistic firms in key industries to raise prices to maintain profitability was undercut by the influx of greater foreign competition. Furthermore, foreign firms that retooled after World War II had a built-in advantage over their US counterparts: they adopted newer technologies that made them more competitive and had a lower time horizon of "sunken" costs compared with their US competitors. US firms, having developed their productive assets during the 1930s, had higher pension and medical care obligations than their foreign counterparts – a reflection of both the high levels of privatization of these costs in the US compared with Europe and the lengthier time horizon for US firms in being obligated to these costs. During the first two decades of the post-World War II period, the most globally competitive US firms could use their status as "early industrializers" to establish oligopolies that dominated the US market in all of the leading sectors of manufacturing. That strategy was becoming untenable with the rise of increased global competition.

US corporations had to look to other strategies in an attempt to overcome the declining rate of profit. A convergence of events in the late 1970s and early 1980s led corporations to restructure their operations through merger and acquisition strategies that involved buying out, or merging with, competitor firms and subsequently shedding assets in a restructuring process designed to focus business operations around a core set of activities. This involved a reorganization of the corporation around global supply chains in which the highest value-added profits accrued to corporations at the top of the chain. From the mid-1980s to the present, there has been a greater concentration of market share controlled by corporations at the top of the value-added chain of production, especially in "the high-technology and/or strongly branded segments of the global markets" (Nolan *et al.* 2007: 23). This process has coexisted with an increasingly complex global production system of small and medium-sized producers and suppliers that competes with each other to satisfy the terms of production that are increasingly being established by the "system integrators" at the top of the supply chain. The restructuring process that began in the 1980s has accelerated to the present, increasingly financed by institutional investors through the purchase of corporate shares. This financialization of production has accelerated the pace and scope of global value chains made possible by tremendous technological advances and by the liberalization of financial markets throughout the world.

The US state has played an important role in the establishment of global supply chains through a number of mechanisms that will be the focus of the rest of this chapter. First, the Reagan Administration during the 1980s was very ideologically supportive and accommodating to the lobbying efforts of transnational

business organizations in weakening antitrust law. This helped provide the preconditions for the dramatic expansion of corporate mergers and acquisitions that led to a reorganization of production. Second, corporations established lobbying networks coordinated by groups such as the Business Roundtable to lobby for the weakening of antitrust law. The corporate leaders of the Business Roundtable viewed merger and acquisition strategies as one important tool to reverse the declining rate of corporate profits. By taking advantage of state policies that facilitated mergers and acquisitions, corporations could potentially restructure their operations in a manner to make them more attractive to the financial sector. Third, institutional investors provided financing for firms that were willing to shed costly assets, including domestic infrastructure and jobs, in favor of concentrating on core activities that would then be complemented by a greater reliance on global supply chains to lower the costs of needed inputs.

The next section of this chapter examines the relationship between US state policies and the financialization of production. The following section examines changes in US domestic laws that helped facilitate the growing use of global supply chains by US-based non-financial corporations during the 1980s. The last section examines the political implications of the financialization of production for the growth of transnational corporate political networks that have helped to shape US-backed trade agreements and structural adjustment programs in promoting the growth of global supply chains. During the 1980s, the debt crisis in the developing world occurred simultaneously alongside US corporate strategies of domestic and global reorganization of production. The US state and global institutions such as the IMF addressed the crisis in a manner that gave new opportunities to US-based corporations looking to finance newly emerging supply networks in the developing world. Beginning with Mexico during the 1980s, the US state led the effort to open financial markets to foreign investors. These policy changes provided new opportunities to US-based corporations, both financial and non-financial, to engage in portfolio investments that linked US investors to foreign supply networks. In other words, the US state, backed by the most mobile sectors of US capital, promoted policies that extended the financialization of production from the US domestic market to the global market.

Business mobilization and US policy

The structural economic crises facing the top 500 industrial corporations intensified during the 1970s and early 1980s. Increased global competition sliced into the market share of once privileged firms, whose debt levels steadily increased during this period, especially from 1980 to 1984 when debt soared from 68.3 percent of equity to 81.4 percent (Prechel 1997: 414). The problems were exacerbated by the previous strategies of US-based firms during the 1960s to solve the long-term accumulation crises by acquiring unrelated businesses in an attempt to counter the beginning stages of declining rates of profit. The so-called third merger and acquisitions wave of the 1960s created large-scale conglomerates that were extremely top heavy, which over the long term added to the cost

burdens of firms faced with greater global competition for markets in the 1970s and 1980s. By 1969, the share prices of US conglomerates dropped almost 50 percent from their previous high, including firms such as Litton, Gulf and Western, and Textron. In response to these trends, merger activity slowed dramatically during the 1970s, as corporations sought to concentrate on stabilizing a management structure that had to juggle complex product divisions which were all competing for resources. The efforts toward more effective management strategies failed, as reflected in a dramatic fall in the rate of profit during this period for the top 500 industrial firms from 7.7 percent from 1973 to 1981 to 4.8 percent from 1982 to 1986 (Prechel 1997: 414).

In this context, US-based corporations increased their levels of political mobilization in an effort to shift US state policy in a more conservative direction. As numerous authors have documented, corporate political mobilization was achieved through an expansion of corporate think tanks and foundations, greater cooperation among business lobbying groups that had previously been more competitive, a dramatic infusion of lobbying dollars that proved pivotal in affecting legislation, and agenda-setting strategies that were reinforced by the rise of neoliberal ideology (Ferguson and Rogers 1984; Cox and Skidmore-Hess 1999; Jenkins and Eckert 2000). While the myth of the median voter persists in political science literature, the real politics of the right turn could be found in the intersection between the corporate boardroom and the political establishment. Business policy organizations such as the moderately conservative Business Roundtable and the American Enterprise Institute, and the ultraconservatives associated with the US Chambers of Commerce, the National Association of Manufacturers, the Hoover Institution, and the Heritage Foundation were influential in establishing the parameters of legislative options during the late 1970s and early 1980s (Akard 1992; Davis and Greve 1997; Jenkins and Eckert 2000).

The Business Roundtable, established in 1972, represented the most internationally competitive sectors of US business, and served as a kind of all-purpose political consulting organization to develop long-term strategic thinking for corporations faced with declining rates of profit (Burris 2008; Dreiling 2000; Carroll and Carson 2003). Resting uneasily amidst a loose-knit membership of top financial and manufacturing firms alongside emerging top retail corporations, the Roundtable could not always move forward with positions that would be acceptable to the entirety of its membership base. Nevertheless, the organization sought to develop a political strategy that would begin to counter the falling rate of profit that was faced by a wide cross-section of its corporate membership. This included weakening US labor laws, relaxing federal regulations, weakening antitrust provisions, and enabling corporate restructuring through favourable shifts in US tax laws.

One of the first shots across the bow of effective business mobilization occurred in 1978, when the Business Roundtable, the US Chambers of Commerce, and the National Association of Manufacturers (NAM) put their muscle behind the Revenue Act of 1978, which reduced the capital gains tax to 28% and locked in a 10% investment tax credit (Jenkins and Eckert 2000: 316–317). With

the election of Ronald Reagan, conservative economic policies continued and expanded, including the Economic Recovery Tax Act (ERTA), which in 1981 provided an increased depreciation allowance for fixed capital investments alongside a reduction in the progressivity of personal income taxes, amounting to the largest tax cut in history (Jenkins and Eckert 2000: 317). Initially supported by both the Business Roundtable and the Chambers of Commerce and NAM, within two years the affects of this legislation divided the corporate lobbies. Wall Street interests were concerned about the inflationary impact of lower taxes, and the leading corporate foundations differed over the priorities that should drive legislation, with the conservative American Enterprise Institute favoring balanced budgets over supply side tax cuts, while the Heritage Foundation and the Hoover Institute favored a supply side strategy of tax cutting as the long-term solution to all other problems.

In this context of corporate political divisions, the Business Roundtable played a crucial role in advancing the interests of the most internationally competitive US corporations. First the Roundtable supported increased taxes as a strategy to help check inflation (and thereby a partial reversal of the ERTA), followed by lobbying efforts by the organization on behalf of Congressional legislation that would facilitate a more thoroughgoing corporate restructuring. The passage of the Tax Reform Act of 1986 was a Congressional response to the ongoing crises of business profitability, reflected in rising debt to equity ratios and an inability of firms to use lower capital gains taxes and greater depreciation allowances to reverse declining rates of profit. The 1986 Act "provided tax free mechanisms to transfer capital among parts of the corporate family" (Prechel 1997: 420). Concretely, this provision allowed corporations to more easily shift their corporate structure from multidivisional forms (MDF) to multilayered subsidiary forms (MLSF). Corporations could replace divisions that were previously owned by the firm and managed by the central office with subsidiaries that would be legally independent of the corporation while still being financially controlled by the corporate parent. This allowed corporations much greater flexibility in financing their operations due to the fact that divisions which were previously wholly owned by the firm were shifted to the status of subsidiary corporations that could raise money on their own through stock sales.

Thus the financialization of corporate profits was facilitated by changes in US tax law in 1986, with the Business Roundtable leading the way in lobbying for the legislation. The shift in corporate structure from the MDF to the MLSF allowed corporations, at tax free rates, to restructure their operations by shedding legal responsibility for corporate divisions that were previously managed by the central office. This multilayered structure allowed for a greater reliance on stocks, as opposed to external financing from banks, to generate revenue for subsidiaries and greater options for the parent firm, who could then use stock revenue from their subsidiaries to retire corporate debt. The shift in corporate structure facilitated the global restructuring of the corporation, with the central office of the parent company establishing a far-flung network of subsidiary firms that would produce a range of products at arms-length from the legal obligations

of the parent corporation. With control over subsidiaries requiring just over 50 percent of financing, corporations could easily shift ties from subsidiaries to independent suppliers and contractors in an effort to further restructure the corporate form. This downsizing of corporate assets allowed firms to establish greater control over the high value-added parts of the production process, increasingly centered around branding, marketing, and distribution, while shifting the higher costs and riskier activities further down the supply chain.

Such a restructuring strategy would not have been possible without the fourth wave of mergers in US history during the 1980s. This merger wave, unlike the conglomerate trend of the 1960s, was characterized by firms purchasing firms in the same industry and downsizing activities that were deemed peripheral to future profit streams. The Tax Reform Act of 1986 included a provision that allowed corporations to use their acquisitions of other firms to qualify for tax free status, as long as the acquisition "was in the same or a related product line as the existing business" (Prechel 2000: 257). This law followed an extended period of reduced enforcement of antitrust policy during the Reagan Administration. Reagan's Treasury Secretary, Attorney General, and Commerce Secretary supported an antitrust policy that would relax provisions of the Clayton Act which specified that mergers and acquisitions should be prohibited when "the effect of such acquisition may be to substantially lesson competition or tend to create monopoly" (ibid.: 257). Within this context, the Reagan Administration's first antitrust chief in the Justice Department, William Baxter, "rewrote the antitrust guidelines to raise the level of market concentration that triggered a Justice Department challenge to conglomerate mergers, vertical combinations between suppliers and customers, and horizontal mergers between competitors" (ibid.: 257).

The mergers and acquisitions wave of the 1980s began a process of restructuring by US-based transnational firms that intensified during the 1990s and 2000s. With each passing decade, corporations have used favourable changes in US antitrust and tax laws to facilitate the establishment of global production networks which have been essential in efforts to attempt to stabilize profit rates after two decades of steady decline. Since 1986, US-based corporations have relied on imports from global supply chains for a steadily higher percentage of inputs in production. In the manufacturing sector alone, "offshoring intensity of material inputs reached 14.5% in 2006, up from 11.6% in 1998, 6.2% in 1984 and 4.1% in 1974" (Milberg 2010: 6). However, not all firms are created equal in their linkage to global value chains. Corporations involved in the production of electrical equipment, telecommunications, computer and electronic products, motor vehicles, transportation equipment, and apparel were disproportionately involved in offshoring of material inputs. Firms in these sectors, by 2006, were relying on the offshoring of material inputs for as much as 20 to 25 percent of non-energy inputs used in their final product (Milberg and Winkler 2010: 281).

Aggregate numbers reveal a similar picture of a US economy that is much more firmly tied to offshoring and global supply chains than has been the case historically. By 2004, "52% of US imports were intra-firm" and "intermediaries accounted for 38% of US imports" (Milberg 2010: 6). A simulation model of US

trade found that "vertical specialization – the sequential vertical trading chain stretching across many countries, with each country specializing in particular stages of a good's production sequence – accounted for over 50% of the growth of US trade in the period 1962–1997" (Yi 2003). One indication of the growth of "vertical specialization" is the increasing reliance, from 1986 to the present, by US transnational firms on imports of products from developing countries, whose imports to the US as a percentage of overall imports have steadily risen from 1986 to the present. In 1986, US imports from developing countries constituted about 36 percent of total US imports, while by 2006 this figure had reached 56 percent, reflecting a steady increase that reached 40 percent in 1990, and 45 percent in 1996 (Milberg 2010: 425).

US-based transnational firms have used a process of restructuring to expand reliance on subsidiaries, subcontractors, and foreign production networks to reduce costs and enhance profit margins. The US state shaped the initial stages of this strategy through favourable tax laws and easing of antitrust enforcement. Transnational corporations were able to shed costly corporate divisions at home in favour of a greater reliance on subsidiaries. The mergers and acquisitions wave of the 1980s was financed by leveraged buyouts, which facilitated a restructuring process that has been accelerating during the past two decades. During the 1990s, firms used stocks to finance further mergers and acquisitions, a process which further concentrated corporate ownership at the top of the global value chain. For example, measurements of corporate consolidation by industry reveal a steady increase in concentration of ownership in telecommunications, information technology, electrical equipment, agribusiness, automobiles, retail and clothing, airlines, hotels, fast food, and computer and electronics production.

But the oligopoly structure does not mean corporate control of production from top to bottom. Instead, there is greater corporate consolidation at the top of the value chain, as corporations consolidate control in the US market over the most lucrative and value added aspects of production, especially design, branding, marketing, and distribution of a finished product. The control of the top of the production structure gives corporations the ability to exert greater leverage over a widely dispersed supply network, which has increasingly shifted to parts of the developing world. The ability of US-based transnational firms to restructure their operations has been at least partially dependent on the actions of the US state in opening foreign markets to greater foreign trade and investment. Just as the US state has provided transnational firms with favourable changes in domestic tax and antitrust legislation, the US state has also been very important in negotiating reductions in trade and investment barriers with developing countries to facilitate the emergence of a global supply network. US corporate investment in foreign supply networks has been facilitated by greater access to foreign stock and bond markets, which has given US transnational firms the ability to link directly with foreign producers through the creation of subsidiaries or through minority shares in production networks dispersed across a range of locations and countries. A greater percentage of US corporate profits from the

early 1990s to 2006 have been directed to financial investments in stock and bond markets, including a rising percentage of these investments in the emerging markets of the developing world (Krippner 2005: 284–286). At the same time, corporations are paying out more revenues as dividend payments to shareholders, while reducing wages paid to US workers and while investing less in productive plant and equipment in the US (Serfati 2008: 40–42). As I will document in the remainder of this chapter, US state policy has provided an important nexus between US firms and the global supply networks that have been established in the developing markets of the global economy.

Transnational corporate political networks and global supply chains

During the 1980s to the present, US state policy has worked toward the liberalization of capital investment opportunities for US financial and non-financial firms in the developing world. The extent to which the US state has succeeded in advancing capital liberalization has largely depended on a wide range of factors, including the degree of political and economic ties between transnational political and economic elites in the US and the developing country, macroeconomic circumstances such as debt crises, and institutional factors particular to individual states that either facilitate or hinder the advancement and implementation of neoliberal projects favored by the US. The remainder of this chapter will examine the emergence of transnational corporate political networks or "transnational interest blocs" as vehicles for the restructuring of capital markets in developing countries. The pivot points for the establishment of these networks were domestic changes within the US corporation that have been discussed in the previous section, especially the shift from a corporate structure based on a multidivisional form to a multilayered subsidiary structure. This shift provided the basis for a political alliance between institutional financial investors that were becoming much more important within corporate boardrooms and non-financial firms that were committed to expanding production networks into the markets of developing countries. The hegemonic restructuring of developing markets, led by the US state and supported by US-based corporate interests, received additional political and economic support from an emerging transnational class within the developing world that was increasingly linked to global finance. In circumstances where these alliances were particularly strong, the greater the chances for the advancement and implementation of neoliberal policies favoring the establishment of global supply networks, by way of relaxation of laws governing foreign direct investment and through expanded access to portfolio markets.

The dramatic expansion of foreign access to capital markets in the developing world represented a significant structural feature of the shift to new methods of capital accumulation. William Robinson has captured the shift as one from Fordist production relationships based on national markets to globalized production networks dispersed across state borders (Robinson 2004). This conception of the new

globalization accentuates the characteristics associated with the most mobile sectors of capital, whose reorganization of the corporate form, described in the previous section, allowed for the most highly profitable production activities, centered around research and development, marketing, distribution, and branding, to be disassembled from the other stages of production, increasingly dispersed across states and global markets and no longer owned or controlled directly by the parent firm. This delinking of different stages of the production process is not entirely novel, but the degree to which the dispersal of component parts of the production process is scattered across a multiplicity of states has created both economic and political linkages that are unprecedented in scope and scale.

The leading transnational firms that epitomize Robinson's conception of a "Transnational Capitalist Class" are most significantly correlated with particular sectors of global production, especially computers and electronics, telecommunications, pharmaceuticals, electrical equipment, motor vehicles, media and entertainment, agribusiness, and apparel. The growth and concentration of assets within global investment and commercial banking, as well as the emergence of a new category of institutional financial investors managing large-scale assets such as pensions and mutual funds have developed in tandem with this emerging global production system. At the same time, the emergence of powerful retail corporations has helped to consolidate this new global production system, illustrated by Wal-Mart's ability to use its tremendous market power to affect prices, wages, and costs of production throughout key locations in the global supply chain. The reorganization of corporate structures in the US during the 1980s created deepening ties between institutional financial investors and non-financial corporations, who relied much more on stocks and the ownership of financial assets to consolidate their position in global markets during the merger and acquisition waves of the 1990s.

In the US, transnational corporations who were most aligned with these newly emerging production structures lobbied the US state to change tax laws in ways that facilitated corporate restructuring. This was also true in US foreign economic policy, where political organizations led by the Business Roundtable became vehicles for promoting the liberalization of capital markets, policies which benefitted globally competitive US-based financial interests as well as non-financial corporations who sought to increase reliance on foreign markets for the production of intermediate goods and component inputs that would be designed, branded, and distributed by the parent firm. The liberalization of foreign stock and bond markets helped to connect producers of intermediate goods in the developing world to supply chains that extended back to the US and other developed country markets. Transnational firms would link with foreign producers, either in the form of joint ventures, subsidiaries, or independent contractors, to produce products incorporating the technological specifications and packaging required by the parent firm. Foreign producers at the higher end of the production chain could raise money for their costs of doing business by tapping newly emerging domestic stock markets, which could be financed in part by global institutional investors as well as domestic financiers who wanted to

realize profits from the newly emerging transnational production networks. Other foreign producers, at the lower end of the production chain and not capital-intensive enough to enter domestic stock exchanges, would produce component parts at cheap costs at the bottom of the supply chain, with an overwhelming dependence on cheap labor to realize the slimmest of profit margins.

A political model of corporate influence in US foreign policy can be linked to the position of corporations along the global supply chain. US-based transnational firms at the top of the supply chain have the strongest representation within the Business Roundtable, arguably the most influential corporate political organization in US foreign policymaking – especially US foreign economic policy and trade policy. In the negotiations that provided the legal framework for NAFTA, the membership of the Roundtable overlapped with the trade advisory committees established by the US Special Trade Representative to negotiate the details of the agreement. Corporate sectors that were disproportionately represented in the negotiation were those sectors most involved in a global restructuring of production, including industrial and consumer electronics, telecommunications, pharmaceuticals, computers, agribusiness, auto manufacturers, and the most globally competitive textile and apparel manufacturers (Chase 2005). US retail corporations and the leading commercial and investment banks also supported the agreement. The opening of the Mexican financial markets allowed US-based institutional investors holding mutual, pension, and insurance funds to tap into the Mexican market as a condition for the restructuring of Mexican debt. At the same time, the privatization of Mexican state-owned industry provided opportunities for the expansion of supply networks linking US transnational corporations to subcontractors in the Mexican market. This was especially true in auto parts and electronics produced in the maquiladora sector. This sector has expanded rapidly after the passage of NAFTA, alongside other manufacturing sectors that are closely linked to intermediary trade in US global value chains (Yang 1998).

The US state played a significant role in establishing the political conditions necessary for a greater consolidation of supply networks in Mexico. A 1982 change in US banking regulations, The Export Trading Company Act, allowed commercial banks to invest directly in import–export firms as part of their foreign operations. In addition, there were further changes in US banking regulations due to a relaxation of Federal Reserve requirements that allowed commercial banks to gradually expand the percentage of their capital investments in stock and bond markets (Bhargava and Fraser 1998). Finally, the Brady Plan of 1989 allowed Mexico to finance some of its debt by a "debt for equity" swap in which commercial banks could purchase equity stakes in shares of Mexico's newly privatized firms as a substitute for outright repayment of debt obligations. The privatization of Mexican firms during the 1980s helped create a transnational political coalition that linked US-based financial corporations – in commercial and investment banking as well as institutional investors – to a newly emerging Mexican supply network that was increasingly owned by a relatively small number of Mexico's wealthiest financial investors. Represented politically by the Mexican Businessman's Council, the largest 37 Mexican firms dominated the privatization of state assets, accounting for 80 percent of the value of all privatizations between 1982 and 1991 (Moody 1995: 101). The Business Roundtable and the US Chambers of Commerce worked closely with Mexican investors to support privatization initiatives during the 1980s that became institutionalized with the passage of NAFTA.

In the case of Mexico, a transnational political coalition could emerge more easily than was possible in other contexts due to the historical ties between US capital and Mexican capital, especially in the maquiladora sector, which had been established as a legal arrangement in the 1960s, and in agribusiness, where large-scale Mexican firms and financial interests were already deeply connected to US agribusiness firms in the purchase of machinery, fertilizer, and other production inputs. This process was connected to the ongoing transformation of global agriculture toward more elaborate supply chains that linked to food processing, marketing, and distribution networks dominated by large-scale US agribusiness corporations, and structured in important ways by the rising power of corporate supermarket retail chains (Spieldoch 2010).

Corporate governance and the financialization of production

The US state was an especially important conduit in providing the political, legal, and organizational opportunities for US-based transnational firms to restructure their operations during the 1980s. The shift in corporate governance in the US was disproportionately skewed to a "shareholder model" that promoted an increasing reliance by US non-financial firms on financial investments designed to maximize short-terms returns to shareholders. As previously noted, institutional investors that increasingly dominated stock ownership in non-financial firms were influential in directing corporate profits to portfolio investments in the US and in emerging markets, as indicated by a very aggressive set of policies pursued by the Clinton Administration to open foreign financial markets to outside investors.

The financial sector had seen the largest growth in profit margins since the shift toward a "shareholder governance model" during the 1980s. Non-financial firms have become steadily more dependent on investments in the financial sector, including stock buybacks and dividend payments, which have displaced long-term capital investment in plants and equipment. This process has created, at times, a surge of wealth from financial speculation, but at the expense of long-term (and more stable) investments in capital equipment that can produce jobs. The short-term imperatives of keeping institutional investors satisfied has meant a greater reliance on financial investments that have high short-term rewards but greater long-term risks. Furthermore, an emphasis on short-term growth has served to crowd out investment in real capital, as a detailed econometric study of investment patterns by non-financial firms has demonstrated (Yi 2003).

Non-financial corporations, driven by pressures from institutional investors for high stock valuations, and having shed productive capital assets in favor of a

greater reliance on branding, marketing, and distribution of a product at the top end of the value chain, have steadily expanded their reliance on portfolio investments in global markets, a further indication of the financialization of production. This trend is indicated by statistics on foreign direct investment from the late 1980s through the late 1990s, when the composition of foreign direct investment shifted disproportionately to portfolio financing (Haley 2001: 18). In other words, transnational corporations involved in global supply networks are increasingly relying on institutional investors to finance those supply networks through portfolio funds and bond issues. Normally, when foreign direct investment increases, as it has during the 1980s and 1990s, there is a decrease in bond financing. This is because foreign direct investors have traditionally funded large infrastructure projects as part of their foreign investment expenditures. Therefore, those projects have typically been less reliant on financing through bond or portfolio markets. However, the trends of the 1980s and 1990s defied this historical pattern: FDI financing has depended much more on bond and portfolio financing than it has in the past. This has meant a much more central role for institutional investors, whose financing of FDI has been important in establishing the linkage between transnational corporations at the top of the global supply chain and the supply networks based in emerging markets in the developing world (Haley 2001: 24–43).

The increased importance of institutional investors as a nexus between transnational corporations and global supply chains is a crucial component of the new financialization of production. By the middle of the 1990s, there was good evidence that emerging market fund managers controlled as much as 55 percent of portfolio flows to emerging markets in the developing world (Haley 2001: 33). This category of fund managers is dominated by institutional investors that manage mutual funds, pension funds, investments of insurance companies, banks, brokerage firms, and large multinational corporations. The Reuters database that tracks these funds indicated "only 56 funds that fall into the category of emerging market funds in the US and Europe" (ibid.: 34). Furthermore, "within this fund universe, five institutional investors hold 72 percent of these assets" (ibid.: 35). The concentration of these funds among just five institutional investors provides a starting point for understanding the political and economic power of institutional investors in the new global production system.

Institutional investors exist because of the increased importance of global portfolio investments to the bottom line of financial and non-financial corporations alike. The increasingly competitive world of global capitalism has led the most global and competitive transnational corporations to restructure their operations around financial investment allocations that are tied to assessments of foreign portfolio markets. Institutional investors that manage large-scale financial assets are important political and market mediators for transnational corporations looking to expand supply networks into emerging markets. The Clinton Administration tied much of its foreign economic strategy during the 1990s to prying open portfolio markets to access by US-based institutional investors. This has been elaborated most fully by the work of Peter Gowan, who has noted the

geopolitics associated with US efforts to offer both "carrots and sticks" to developing countries in exchange for liberalization of capital markets, a process that contributed to the Asian financial crisis of 1997.

The rush to liberalize capital markets as a US–IMF "solution" to economic crises in the developing world is the essence of the turn to neoliberalism from the 1980s through the early 2000s. That political turn has been over-determined by a constellation of actors at the top of the corporate pyramid whose profit margins have been much more firmly tied to an accumulation of financial assets than was the case prior to the mid-1980s. This is true for non-financial firms increasingly tied to investment strategies that are at least partly the product of an ascendancy of institutional investors as powerful shareholders within the corporate boardroom. In addition, non-financial corporations at the top of increasingly elaborate global supply chains look to institutional investors to manage the monetary investments of the firm, which are increasingly diversified in an array of global portfolio products. Non-financial corporations use a variety of mechanisms, including currency speculation and hedge funds, to help manage risks associated with rising portfolio investors. And they also utilize external signals from a relatively small number of top institutional investors to decide whether or not to invest in particular emerging markets, or to pull out investments if political and market signals are problematic.

The ability of commercial and investment banks to merge operations and to engage in a higher percentage of risky proprietary investments has been politically possible due to a steady increase of political influence by the financial sector on US economic policy – both domestic and foreign. The easing of restrictions placed on the ability of commercial banks to use depositors' money to engage in stock and bond investments did not materialize with the elimination of the Glass–Steagall Act in 1999. Instead, as early as the 1980s, changes in US trade law allowed US commercial banks to invest in export–import companies in foreign markets, a policy that helped contribute to the establishment of supply linkages between US parent corporations and their emerging foreign subsidiaries and subcontractors. By the late 1980s, the US Federal Reserve began a process of easing the regulations that limited commercial banks' investment in capital assets. The debt crisis faced by developing countries during the 1980s further embedded financial institutions, including commercial banks, investment banks, and institutional investors, in the purchase of newly privatized assets in countries such as Mexico, where newly emerging Mexican financial groups worked closely with US money managers to take advantage of the profits of privatization.

Conclusion

As a former member of the board of the directors of the IMF has recently commented, the US political system, and much of its foreign policy apparatus, suffers from the same ailment that the IMF has identified in developing countries: state capture by a financial oligarchy that has such a hold on state policy that its most powerful members have been the recipients of the largest financial

bailout in US history – on terms highly favourable to the profit margins of the biggest financial holding corporations left standing (Johnson 2009). The politics of these financial relationships have been well-documented elsewhere. What is most striking is how deeply embedded the rest of the US economy has become on the financialization of assets in lieu of productive investments in capital necessary to create jobs for the US working class. In the midst of this current capitalist crisis, the profit margins of non-financial and financial corporations have risen over the past two years, in direct contrast with the wages of US workers – which have fallen. These statistics are directly related to a playing field that has been politically stacked against the working class for some time, both here and abroad. That there appears to be no political appetite for redressing this balance is a testament to the enduring political strength of the transnational corporate network in US and global politics, and the lack of an effective counterweight to their agenda.

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2 Transnational capital and the US–China nexus

Ronald W. Cox and Sylvain Lee

Introduction

As the previous chapter documented, transnational corporations based in the US advanced a globalization agenda that included political support for the expansion of global supply chains. Corporate restructuring during the 1980s was facilitated by favorable changes in US tax laws that encouraged and promoted corporate downsizing. This included the shedding of entire corporate divisions in favor of a greater reliance on subcontracting and independent production networks in foreign markets. Transnational corporations at the top of the global supply chains focused on branding and marketing the finished product, while delegating the production of the product across an increasingly complex web of global producers. This shift toward global supply chains is most pronounced in advanced technology sectors, most prominently computers, electronics, and telecommunications. In the computer and information technology sectors there has been a notable shift to production networks in East Asia, with China quickly constituting itself as a leading global producer of a range of electronic and computer products, and the center of a burgeoning Asian network of regional producers. This chapter builds on the analytic framework established in Chapter 1 by examining the politics of the transnational production network that links US-based corporations to the China market. The first section examines how transnational capital, in collusion with the US Executive Branch, has sought to create legal and economic conditions for greater transnational accumulation through access to the China Market. The second examines the emergence of the new China market within the context of neoliberal globalization and the increasing centrality of global supply chains as a means of transnational accumulation. The third section takes a closer look at the role of US-based high-tech firms in the political economy of the US–China supply chains. We conclude by examining the effects of these policies on China's political development with particular attention to the situation of the Chinese working class.

US domestic politics and the new China lobby

Transnational firms have relied on political ties with US foreign policy elites and bureaucracies to facilitate the development of East Asian global supply networks. US presidents from George H.W. Bush to William Clinton to George W. Bush and Barack Obama have worked to promote greater interdependence in the US–China relationship from the late 1980s to the present, most importantly supporting the establishment and regular renewals of China's most-favored-nation (MFN) status, as well as China's entry to the World Trade Organization in 2001 (Garrison 2007). The liberal ideology underpinning presidential commitments to interdependence have long-established roots in US foreign policy history, which equates greater interdependence with greater co-prosperity and increased chances for peaceful co-existence (Layne 2007). The fusion of corporate interests with the ideology of interdependence pre-dates the US–China relationship, but the features of this corporate–US state connection are particularly apparent in contemporary US policy toward China. There has been a close working relationship between US high-tech firms and policy delegations led by the State, Commerce, and Treasury Departments to China, as transnational firms have aggressively lobbied for Congressional votes to ensure passage of MFN legislation. These efforts became particularly salient in the wake of Tiananmen crackdown, when for the first time China's MFN status became an issue of serious contention in Congress. The support of major US transnational firms and business groups were integral to maintaining China's MFN status and accession to the WTO.

The latter of these accomplishments was vital to the interests of transnational capital both as a means and an end. In coordination with the major US transnational firms and business lobbies, the White House used WTO accession as a carrot to further integrate transnational firms into a production network linked to Chinese economic reforms (Devereaux *et al.* 2006). Although China had expressed an interest in restoring its GATT membership back in 1986, this was not a high priority in the White House at the time. However, as China's economic juggernaut began to rise in the 1990s, business elites and US policymakers cued into the strategic value of WTO membership in their negotiations with China. At the same time China's accession became a significant aim in and of itself. WTO membership would lock in and deepen existing reforms, providing US transnational firms with a stronger foothold in the Chinese market for selling their products, and also increasingly allowing them greater access to China's cheap but highly educated workforce to fill in "links" within their global supply chains.

As noted, for some time now, trade policy initiatives of US presidents have consistently expressed a commitment to economic liberalism. Among other things, this commitment is anchored in a borderline religious faith in the "the free market" and the dubious notion that economic and political liberalization work hand and hand. Following this logic, US presidents, from George H.W. Bush to Barack Obama, have pursued a policy of constructive engagement with

the Chinese state. In the wake of the Tiananmen crackdown, despite publicly denouncing the actions of the Chinese state, President George H.W. Bush displayed a firm commitment to this notion. At the annual meeting of the Business Roundtable, literally the day after Tiananmen, President Bush stressed the importance of maintaining economic ties with China, both for strategic reasons and also to further the cause of democracy in China. The President's conciliatory approach to China garnered much criticism in Congress, among the public, and in the media.

The thawing of the Cold War led to a significant conflict around the direction of US foreign policy, and the US–China relationship was only one axis along which this policy debate took place. In this context, President Bush was intent on safeguarding his prerogative in foreign policy and was by most accounts successful in this respect (Skidmore and Gates 1997). In fact, he managed to go almost two years without facing a serious congressional challenge to his China policy, as the tumult of the First Gulf War provided him with a certain degree of immunity to congressional criticism during this period. However, with the winding down of this conflict in February of 1991, the President faced increasing criticism in Congress regarding his policy toward China. The majority of critics charged that the President was letting the Chinese off the hook too easily, maintaining instead that renewal of China's MFN status be made conditional on certain improvements. These proposed conditions hinged not only on the improvement in China's abysmal human rights record, but also on China's trade practices (the issue of property rights in particular) as well as compliance with international non-proliferation and arms sale norms (Wang 1993; Xia 1997).

Opposition to Bush's China policy was strongest in the House of Representatives, which passed a joint resolution in 1990 disapproving of the President's renewal of MFN status. In fact, the House introduced similar resolutions yearly up until 2000, when China was granted permanent normal trade relations. Congress members from both parties opposed the renewal measure. This oppositional coalition included anti-communists and pro-Taiwan hawks (many of whom had close ties to the defense sector), as well as members from textile states. The democratic opposition was particularly strong in west coast districts with large Asian-American constituencies, as well as among representatives in union-strong districts, primarily in the rustbelt (Dumbaugh 1997, 2001; Myers *et al.* 2001; Shoch 2001; Xie 2006, 2008). At the same time, there were many Democrats happy to scapegoat the foreign policy directives of a Republican President for partisan gain (Seo and Trubowitz 2009).

Bush charged the opposition with obstructionism and maintained that imposing such conditions would only impede US interests, weakening modernizing elements in the Chinese state and society and bolstering resistance to democratic and economic reforms. Although he feigned concern over human rights abuses in China, Bush's foreign policy was steeped in the Nixonian realpolitik that had shaped the US relationship with China for almost two decades. In fact, there was a strong bureaucratic momentum between the Nixon and Bush administrations. Bush himself had served in the Nixon administration, as envoy to China, and his

two main foreign policy advisors, Brent Scowcroft and Lawrence Eagleburger, were Kissinger protégées. From this realpolitik stance, continuing support for the PRC was integral to maintaining order in China as well as the region as a whole. However, this ideological position no longer garnered the kind of support that it did during the Cold War, the thawing of which found the Bush Administration increasingly isolated from Congress and the American people. At the same time, Bush was not alone in objecting to congressional demands. Among his supporters in Congress were representatives from farming states and districts that had grown dependent on the China market (mainly wheat exporters), a number of free traders, and the majority of Senate Republicans. But by far his biggest supporters were the largest US firms and business groups, who had become increasingly dependent on the China market. These firms were concerned that revoking China's MFN status or making it conditional would impede their competitiveness in China and within the global economy. Because of these concerns, a number of firms and lobbying organizations began to mobilize around the China MFN issue during this period. In 1991, some of the largest US-based transnational firms, as well as a broad array of business interests located in China and Hong Kong, the United States–China Business Council (USCBC: known earlier as the National Council on US–China Trade), the Emergency Committee for American Trade (ECAT), the Business Roundtable, and the American Chamber of Commerce, came together to form the Business Coalition for US–China Trade (Sutter 1998). According to then ECAT President Calman Cohen, this umbrella organization was meant to coordinate a unified position for the business community on the China MFN issue. Early on, the coalition's efforts focused primarily on lobbying the Senate to protect President Bush's veto on MFN conditionality (Sutter 2003).

Although initially the coalitions' membership was limited to 30 or so companies and trade associations, by 1996 it reportedly grew to include over 800 member companies and business groups. Despite the early reticence of business interests to back China's MFN renewal, within just a few years they were literally falling over themselves to get involved. This was due to several reasons. First, during the 1992 Presidential campaign, Bill Clinton ran on an anti-MFN platform, criticizing Bush for "coddling aging rulers with an undisguised contempt for democracy." This prompted greater involvement on the part of the business community because for the first time the presidential veto supporting unconditioned MFN seemed to be in jeopardy. Second, 1992 proved a record year for economic growth in China. Following Deng Xiaoping's decision to speed up the economic reform process, China's GDP grew an unprecedented 12.8 percent and a stunning 13 percent in 1993. With the memory of Tiananmen fading from the public eye, these changes provided a greater incentive for business to get involved.

In 1993, a newly elected President Clinton announced that beginning in 1994, MFN status would be linked to human rights progress in China. However, within less than a year Clinton had unilaterally reversed his position, accepting the rationale of the US business community that making China's MFN status conditional would only damage the international competitiveness of US firms and bolster the advantage of their foreign competitors (Dumbaugh 1997). Moreover, Clinton now adopted the condescending logic of Bush's constructive engagement policy, namely that the most effective way of improving human rights and deepening democracy in China was to deepen economic integration between the US and China. For an acute observer, such an about face could not have been surprising. Well before Clinton was inaugurated, the Business Coalition for US–China Trade had changed its former strategy, lobbying the new President and his staff on the China MFN issue. Soon after, a bureaucratic tug of war emerged between the newly created National Economic Council, the Departments of Commerce and Treasury as well as the USTR – that supported the position of the business community – and State Department officials who advocated taking a tougher stance with China (Dietrich 1999). Needless to say, economic interests won out. On May 26, 1994 Clinton announced that he was delinking human rights consideration from China's MFN status. At the same time, the environment in Congress had grown much less hostile to China. Members advocating a complete denial of MFN status had declined significantly, and of course those who were more pro-business and represented agricultural constituencies were greatly relieved (Dumbaugh 1997).

The Taiwan crisis in 1995 and 1996 deepened the Clinton White House's commitment to its China policy. At the same time, US business interests were more enthusiastic than ever, as the Chinese economy continued to grow at a record-breaking pace. By the late 1990s, growing weary of the annual MFN fight, the aim of the China Lobby and the White House had shifted toward acquiring permanent normal trade relations (PNTR) for China. More importantly, both were now pushing for China's entrance to the WTO, hoping that this would lock China into a path toward greater market reform. During this period, US–China Business Coalition members worked closely with the Clinton White House to coordinate their moves. Business influence was particularly effective with the NEC, which under the leadership of Laura Tyson, had already created a long-term plan for gaining permanent normal trade relations with China and helping it achieve WTO membership" (Orszag *et al.* 2002). With Tyson's departure and Gene Sperling taking over the reigns, the NEC became a virtual bawdy house for big business. The business community also gained a great amount of influence through USTR's trade advisory committees, a system that has a reputation for privileging the interests of US industry over labor, environmental, and other interests (United States General Accounting Office 2002).

In the fall of 1999, Sperling and United States Trade Representative Charlene Barchefsky negotiated a bilateral market access agreement with China. In large part, this agreement paved the way for China's entrance to the WTO. However, before this could happen, Clinton would have to get China's PNTR status approved by Congress. Although resistance to granting China MFN status had diminished in Congress, granting China permanent MFN was a whole other matter. The growing US trade deficit with China only heightened tensions around this issue. Moreover, the fallout around the Taiwan crisis, revelations of

China's dissemination of military technologies to Iran and Pakistan, as well as the ongoing spy probe of Wen Ho Li, a Taiwanese nuclear weapons scientist working at Los Alamos and accused of secreting classified information to the Chinese, led to an increasing hawkishness among congressional ranks and in the media.

In order to overcome opposition in Congress, Sperling brought together an ad hoc coalition on China policy. He even created a "China War Room" in the White House to coordinate between key congressional committees and business groups to further the PNTR agenda (Dolan 2003). The business community launched a lobbying blitzkrieg on Congress and the media, hoping to win over a US public overwhelmingly opposed to the venture. The high-tech sector was particularly active in this effort (Shoch 2000, Carter 2008). High-tech industry coalitions such as the American Electronics Association, Electronic Industries Alliance, and the Internet Coalition for China PNTR held press conferences, paid for radio and newspaper ads, and waged numerous "grass-roots" campaigns in the districts of undecided congressmen. All and all, it has been estimated that just the most prominent corporations and business trade associations alone spent at least $113.1 million on campaign contributions, paid lobbyists, advertising, and other "grassroots" efforts (Public Citizen 2000). Of course, this figure does not include the vast amounts of cash "donated" by business interests located in China, Hong Kong, and Taiwan. In the end, despite the opposition of labor and human rights groups, and the American public, the House passed the measure on May 24 with a vote of 237 to 197 and the Senate followed, September 19, with a landslide 83 to 15 vote. China's accession to the WTO followed a little more than a year later. It was a tremendous accomplishment for the interests of transnational capital, as US and EU policy-makers negotiated concessions that far exceeded those of previous less developed country (LDC) members (Breslin 2009). These concessions would allow US transnational firms to deepen their profitability by allowing them greater access to the China market and by enabling them to integrate China into their global supply chains. In short, China's accession to WTO was a watershed for transnational capital, particularly for the high-tech firms that were the most poised to incorporate China into already existing networks of transnational accumulation.

The relevance of the China market to this new structure of global accumulation is best captured by an overview of several key trends, each of which will be developed below. The first is the increasing centrality of China and East Asian production networks to US-based transnational corporations in the high-tech sectors. In these sectors, corporations at the top of the global supply chains realize profits through the branding and marketing of the finished product, such as, most prominently, computers, software, telecommunications equipment, consumer and industrial electronics. The production of these products is increasingly dispersed across a range of supply networks that are global in scale, but the particular configurations of such supply chains are politically conditioned by negotiations among the central players involved. In the case of China and East Asia, US-based transnational corporations have negotiated supply contracts

through regional financial groups and local producers that serve as intermediaries between Hong Kong, Taiwan, Singapore, South Korea, and China (Sasuga 2004). In this way, regional production networks are divided between low- and high-tech phases of production that provide a linkage between several East Asian states and the China market. In China, foreign direct investment (FDI) is often negotiated at the village or township levels between local Chinese power brokers and East Asian producers on contract with prominent US-based transnational firms (Qiu 2005). There is evidence that local Chinese officials have strengthened their bargaining power with transnational firms over the past decade:

> From the late 1970s to the mid 1990s, local officials in China were eager to attract FDI, and they competed against each other to offer privileges to transnational firms, such as tax holidays, sound infrastructure in industrial parks, as well as access to cheap land and labor. However, as the diversity of investment sources has increased after the mid 1990s, local officials in China have gained greater leverage in their bargaining with transnational firms. In many localities, Chinese officials have increasingly attached conditionality with FDI, such as provision of local jobs, transfer of technological and managerial skills. For some MNCs already in China, obsolescing bargaining placed them in a disadvantageous position when bargaining with the host state.
>
> (Zeng 2011)

FDI in China is especially extensive in the information technology sector, where foreign firms represent 80–90 percent of the investments (Hart-Landsberg and Burkett 2011: 5). Still, these numbers under-count the role of US transnational firms involved in the East Asian supply chain network. US-based firms are more deeply embedded in supply networks than their European counterparts, and are rivaled only by Japanese firms in their subcontracting relationships with Hong Kong and Taiwanese producers. In the official statistics, the production chain that extends from Hong Kong and Taiwan to China is often referenced as FDI from Hong Kong and Taiwan, which combined account for over half of all FDI in China, when in fact the supply chain extends back to dominant US brand-name firms in computers, electronics, and software that negotiate contracts with East Asian production networks (Breslin 2009: 124–125). To further complicate matters, US transnational firms often use intermediate financial brokers in Hong Kong, Taiwan, or Singapore, or from tax havens in the Cayman or Samoan Islands, to link to East Asian production networks. The financing for FDI is thus dependent on a complicated web of relationships whose official statistics do not reflect the extent of involvement of US-based transnational firms in East Asia (Scott 2011: 9).

Transnational capital and the new China market

Any attempt to understand the increasingly important role of US-based transnational capital in China and East Asia must examine the full array of

relationships that contribute to the politics of foreign direct investment. The connection between the US state and information technology firms is important in grasping the political advantages extended to US firms from the 1980s to the present. The US government has given US-based transnational firms a set of political incentives to divide production across the global economy, beginning in the 1980s with tax breaks that facilitated the relocation of production from the US to foreign locations. These policies included a deferral of taxes on earnings abroad that are not repatriated back to the US (Scott 2011: 2). US transnational firms, following the favorable legislation of the 1980s, broke their corporate divisions into subsidiaries and subcontracting networks. To finance the newly emerging global supply chains, corporations gradually turned toward global financial institutions that raised money from stock and bond market investments. In the case of Asia, these financial groups, based in Hong Kong, Taiwan, Singapore, island tax havens, and China itself, help defray the costs of financing for the US-based transnational corporations (Prasad and Wei: 2005). Thus foreign direct investment statistics that list an FDI project as originating from Hong Kong or Taiwan may in fact be only looking at the intermediate financial and producer groups that are on contract with US-based firms in establishing FDI in China. As transnational corporations rely more on subcontracting with independent Asian producer networks and their financial intermediaries, FDI statistics increasingly fail to capture the extent to which US transnational corporations have become deeply embedded in global supply chains within East Asia (Breslin 2009: 125–130).

The greater reliance on subcontracting through foreign production networks is designed to increase profit margins by lowering the costs of production and by reducing the risks associated with direct ownership of production facilities in East Asia. As numerous studies have documented, many of the risks of such investments get passed from transnational corporations to workers, consumers, and the environment (Chan 2001; Piovani and Lee 2010). To the extent that transnational firms bear risks associated with these relationships, these are inherent in the complex delivery networks necessary to deliver a product to market. The supply chain system is sometimes less predictable than production arrangements where the parent firm produces a product from start to finish, a point that articles in business management and economics journals make with some frequency in regard to the limitations and costs of these production networks to "parent" firms (Kumar *et al.* 2007). Still, transnational firms have preferred to accept these new risks in recent decades, especially in the high-tech sector, in an effort to stabilize profits in an increasingly competitive global production system.

There are two important reasons why transnational firms have shifted to these supply networks, in lieu of producing a good from start to finish, in recent decades of global capitalism. First, transnational corporations have faced intense global competition over the past three decades, and have responded by increasing the consolidation of ownership at the top of the value chain, where they focus on research and development, branding, and marketing. As part of the same strategy, firms have "hollowed out" their production divisions, replacing them with subsidiaries, subcontractors, and a greater reliance on independent production networks (Davis 2009). Second, the location of transnational firms at the top of global supply chains, with only a small number of transnational firms occupying powerful strategic positions in the developed markets, has allowed them to bargain favorable deals with foreign producers, who compete with thousands of other producers for the right to produce and to deliver the product requested by the transnational firm. The economic power embedded in such relationships is a function of the size and location advantages of the transnational, whose brand-name recognition, product design patents, marketing expertise, and connections to dominant retail corporations, also few in number and well-positioned in the developed market economies of the US and Western Europe, enable these firms to capture the vast majority of profits within a particular global supply chain (Nolan *et al.* 2007; Ali-Yrkko *et al.* 2011). As we will see in this chapter, the degree of corporate concentration at the top of global supply chains has increased in the past three decades of global capitalism, giving transnational firms an oligopolistic power to put downward pressure on prices at lower levels of the supply chain.

US-based transnational firms have relied on overseas production networks in East Asia (and elsewhere) to replace new investments in infrastructure and jobs at home with low-wage jobs abroad. In the case of China, these jobs are secured by the rules of the game governing foreign direct investment and subcontracting relationships. The terms of foreign capital flows are established by bargaining relationships that involve five key actors: transnational corporations, the Chinese state, local Chinese officials, Chinese corporations and powerful domestic Chinese companies, and foreign producer intermediaries from other East Asian countries (Yeung 2000). Local Chinese officials and the Chinese state are important actors in structuring the terms of this relationship, namely because they preside over a large market economy that is well-positioned to take advantage of surging demand for foreign direct investment and subcontracting relationships connected to global supply chains. The structural attractiveness of China for foreign investors, both in terms of market size, access to cheap labor, and location advantages within regional and global supply chains, means that transnational corporations will accept restrictions on such investment that would not be tolerated in other contexts (Yu 2007).

This gives Chinese officials, at both the local and national level, some bargaining power in establishing the terms of FDI and subcontracting. In particular, local officials exercise political power due to their ownership or control of real estate assets necessary for the establishment of FDI and their access to a deep supply of cheap labor. The Chinese national state has helped ensure the political importance of local officials by delegating a central role for privatized Township Village Enterprises, which have often been important conduits for facilitating foreign direct investment in China (Greenfield 1998). The advantages for foreign firms accrue in the Chinese labor market, where rates are dramatically lower than in countries such as South Korea or Taiwan, where production

of information technology products is increasingly divided in a supply chain where finished production often takes place in China. There has been a notable shift in East Asia, over the past 15 years, toward the production of component parts that are exported for finished assembly in the China market – creating a production network of low-cost suppliers that extend through China as an export platform to the US (Hart-Landsberg and Burkett 2006).

In this way, US-based transnational firms profit from labor repression in China, which serves to keep wages low and facilitates the use of China as an important hub within the East Asian chain of component production for the US and European markets. Transnational firms that are using China as a platform for global supply chain production provide political support for the Chinese state's repression of labor, while relying on connections with a wide range of subcontractors throughout East Asia to provide "distance" from direct identification with the US-based transnational firm and from the negative publicity that might accrue to the US transnational if its name was directly tied to the systematic repression of labor and human rights in the region. In this sense, the statistics on US foreign direct investment in China understate the importance of the supply chain network for US-based transnationals. In addition to engaging in direct foreign investment in the China market, US transnationals in the computer, electronics, and software sector work through subcontractors, independent producers, and financial networks throughout East Asia to access the market, using their brand names, their marketing and distribution power, and their location and political advantages within the US and European markets, to construct deals with Asian economic and political elites (Sasuga 2004; Borrus and Zysman 1998; Chen 2002; Shenkar 2005; Pan 2007).

The relationship between US-based transnationals and Asian financial and producer networks provides several advantages for transnational corporations. First, these networks consist of groups that have emerged in the region over the past several decades as intermediaries in the organizational and financial aspects of linking foreign direct investors with East Asian firms engaged in producing products at various phases of the global supply chain. These financial groups and producer networks have emerged to a large extent from the Chinese diaspora and are in a good position to take advantage of cultural linkages with local Chinese elites to facilitate and broker deals establishing the terms of foreign direct investment. While US-based transnational firms might not be able to navigate the terrain of local Chinese politics by themselves, East Asian financial and production groups have more experience structuring deals for FDI inside China (Qiu 2005). Second, the emphasis by US transnationals on greater use of subcontracting in Asia coincides with the global strategy of segmenting the production process to reduce costs. By focusing on branding, marketing, and distribution, including their privileged linkage with retail corporations such as Wal-Mart and The Gap, US-based transnationals can capture the most profitable aspects of the global supply chain (Pan 2007; Donaton 2005). The risks of the supply chain are pushed further down the ladder, especially within the low-cost component parts production networks that characterize much of the globalized high-tech sector (Gilboy 2004).

The information technology sectors that will be the subject of this section represent a hegemonic fraction of capital in this new age of global production, based on the ascendancy of computer, electronics, software, and telecommunications to a privileged location in modern-day strategies of capital accumulation. The restructuring of manufacturing would not have been conceivable without the integration of new information technology within production, so that even for firms that are not global, but are regional or even national in orientation, there are direct and indirect linkages with the information technology sectors. At the same time, the financialization of production is especially apparent within the high-tech sector, and is best exemplified by the restructuring of US-based transnational firms in particular. These firms took advantage of changes in US tax laws during the 1980s to begin to aggressively reconstruct corporations around the elimination of entire corporate divisions, the segmentation of regional and global production, increased reliance on financial investments for higher percentage of corporate profits, and greater reliance on subcontracting and arms-length relationships with a widely dispersed network of producers and financial intermediaries in foreign markets (Nolan *et al.* 2007).

In this sense, there is a political economy of global supply chains that involves a fusion of market and state power relationships that the disciplines of political science and economics have thus far failed to capture. Political science, especially international relations, has used models such as realism to explain US–China relationships. Realism is a state-centric approach that posits a unitary US state competing with a unitary Chinese state in a battle of military and economic competition in Asia and across the globe. But this ignores the politics of contemporary globalization, which increasingly involves transnational relationships that cut across the categories of nation-states. This is vividly illustrated by the politics of the East Asian supply chain, which can only be fully explained by the complementary interests of transnational corporations, the US state, the Chinese state, and East Asian corporate and business networks, as well as state and local officials, embedded within global production networks. These political relationships are also typically ignored by economists, who too often treat the market independently from political relationships that are crucial in structuring and enabling market processes.

The next section will focus on the political economy of the global supply chain in computers and information technology that links US transnational corporations with China and the East Asian market. However, there is recognition that the relationships outlined here are increasingly important in understanding the broader outlines of an emerging transnational capitalist class, whose membership goes well beyond the actors identified in this study. What we are exploring is nothing less than the embedded power relationships within an emerging system of global production. The political economy of the East Asian global supply chain is dependent on labor repression and the maintenance of a low-wage, limited consumption model of Chinese capitalism. For US-based transnational firms involved in this process, the Chinese monetary policy of deliberately suppressing the value of the Chinese currency through state

intervention supports and facilitates foreign direct investment, subcontracting, and the marketing and distribution of products for US-based transnational firms who are deeply embedded within these supply networks. US corporations get cheap products outsourced in China, and subsidized by the Chinese state in a variety of ways: tax breaks, labor repression, lax environmental and consumer regulation, the monetary policy implemented by the Chinese national bank to keep the renminbi artificially low through the purchase of US dollars, and the Chinese government's steady increases in purchases of US treasury bonds.

The US–China nexus then builds upon many of the characteristics of Chinese capitalism that US presidents, including Barack Obama, sometimes critique. But at the end of the day, the US state, including all Presidents from George H.W. Bush through Barack Obama, allies with transnational capitalists in supporting the key ingredients of Chinese capitalism, which is especially lucrative for those corporations that have tapped into production networks in East Asia that extend to China. Transnational firms have lately attempted to use their political leverage with US officials to try to negotiate better terms for Chinese protection of intellectual property rights, as well as better access to investment opportunities in China (Cooper and Landler 2011).

Transnational firms that are most engaged in foreign direct investment networks in East Asia do not have human rights, labor protection, or the artificially low value of the Chinese currency on their lists of grievances. Instead, the policies that US-based transnationals support toward China clash with the goals of a range of other actors in US domestic (and global) politics, and the domestic political battles as played out in the US can help give us some sense that the transnational logic of accumulation is fraught with its own political limitations, contradictions, and structural problems (Pan 2007: 28–36). The risks of this new system are passed onto workers, consumers, and the environment, which represent the contradictions of the power relationships that are being forged under the new global system of production (Piovani and Li 2010). By examining both the transnational interest bloc that supports the policies contributing to the viability of the global supply chain, as well as oppositional groups in US and global politics that have positioned themselves as critics of this relationship, we get a better sense of how globalization is contested, bargained, and re-negotiated within an increasingly transnational political space.

The political economy of the US–China supply chain

Over the past three decades, the Chinese state has implemented policies that have expanded the role of foreign invested enterprises in the export sector of the Chinese economy. In 1979, Chinese laws limited foreign investors to joint ventures, and the first foreign direct investment in China was recorded in 1982. By 1986, China allowed wholly foreign owned enterprises within special economic zones, but otherwise kept the expansion of FDI quite limited. The 1990s saw a steady expansion of FDI, with most foreign invested enterprises concentrated in the export sector of the economy. By the late 1990s, China had opened up the

entire economy to FDI, although foreign firms remain concentrated in the Southern and Central coastal provinces. From 1995 to 2004, transnational corporations accounted for 30 percent of China's growth, and in 2003 and 2004, "this figure rose to over 40 percent" (Hart-Landsberg and Burkett 2011: 4). Most significantly, by 2004, foreign invested enterprises produced 90 percent of computer exports from China, including components and peripherals, and 75 percent of the exports of telecommunications and electronics products (ibid.: 6). Today China is the third largest recipient of foreign direct investment in the world, behind only Luxembourg and the United States.

US-based transnational firms in the high-tech sector occupy an increasingly pivotal role in global capitalism and in the proliferation of global supply networks. Firms in computers, telecommunications, electronics, and software have been central players in the transition from a Fordist system of capitalist production, characterized by the production of goods and services within nation-states, toward a global system of vertical production networks that disperses production of component parts across a range of countries and locations. Indeed the information technology sector has been the primary driving force in the restructuring of global capitalism. Advances in digital processing have enabled the exponential increases in cross-border financial speculation and the growth of global supply chains. The dramatic rise of Wal-Mart as the leading US multinational corporation would not have been possible without the integration of advanced communications technology that serves to link the retail giant with a global supply network that includes China as the most important foreign supply source. At the same time, information technology firms have grown in size and profit margins relative to traditional manufacturing firms. By 1999 information technology firms in computer services and software, computers and office equipment, electronics and telecommunication eclipsed finance, transportation, insurance, and energy as the most profitable sectors within the global economy (Harris 2008: 22). From 2000 to 2009, China was the most important foreign location for the production of information technology products, indicating its centrality in the new accumulation system of global capitalism.

Among US transnational firms, the leading lobbyists for expanding trade and investment opportunities with China are firms in the information technology and retail sectors, whose position within global capitalism has been strengthened by the dramatic expansion of foreign direct investment in the China market. Corporate influence is manifest in the expansion of lobbying networks that have worked with US political elites for renewal of most-favored-nation status for China throughout the 1990s and for China's entry into the WTO in 2001. The changing political environment in China coincided with changes in the global production strategies of leading transnational corporations, reinforced by the rising political power of corporations within the US. Tax concessions offered to US-based transnational firms were married to increasing political opportunities in China and East Asia to create global supply networks, especially in the information technology sectors. Transnational firms in these sectors have steadily increased their reliance on China and the East Asian supply chain for the production of

everything from computer services and software, computer and office equipment, electronics, and telecommunications. Twenty-three of these information technology firms are based in the US, 12 in Europe, nine in Japan, with the developing world accounting for a very small percentage of firms at the top of the global value chain (Harris 2008: 20).

The US state and the Chinese state have worked together to foster the conditions necessary for the creation and expansion of global supply chains in East Asia. The politics of this process can only be grasped by examining the structural market power of transnational capital within the global supply chain, as well as the political relationships that have been central to the financing of the supply chain. To this point, the vast majority of political science literature has missed these essential elements of the US–China relationship due to a misdirected focus on the nation-state as the primary framework of analysis. As a result, geostrategic competition between the two countries, including the "threat" that China poses to US hegemony, has been greatly overstated to the exclusion of the transnational political relations that bind US corporations, the US state, and the Chinese state as negotiating partners in the creation of the East Asian supply chain, which has become increasingly important to the global production of information technology products. China is now the world's leading producer of information technology products, but that process is embedded within a global structure of accumulation that is informed by particular power relationships.

Aggregate trade statistics capture some aspects of the US–China nexus that has been emerging in stages during the past three decades. Bilateral trade in 1979 was only $1 billion, but by 2009 US–China trade totaled $366 billion, which made China the second-largest US trading partner behind only Canada (ibid.). The trade deficit with China is the highest of any US trading partner, and is just over half of the overall US trade deficit. China is the third largest US export market after Canada and Mexico and the largest source of US imports (Morrison 2010: 6). Yet in order to understand the political economy of China's export economy, we have to carefully look behind the aggregate trade statistics toward an examination of the transnational system of production that ties the two countries together. As late as 1998, foreign invested enterprises (FIEs) accounted for 73.7 percent of the value of all the information technology and computer exports from China. By 2008, that number had grown significantly, with FIEs accounting for 85.2 percent of this output (Scott 2011: 7).

The most explosive growth in the relationship between US transnational corporations and Chinese exports has occurred over the past decade in the computer equipment sector. In 2000, Japan was the largest exporter of computer equipment to the US and China was fourth. By 2009, China had eclipsed Japan by a large margin, with a 440 percent growth of Chinese computer exports from 2000 to 2009 (Morrison 2010: 10). During this decade, China went from a 12.1 percent share of US imports of computers to a 58 percent share (ibid.). The overwhelming majority of this trade came from producer networks in Taiwan, which engaged in foreign direct investment in China that accounted for about 75 percent of the computer equipment exports (Breslin 2009: 124–128). The Taiwanese producer networks were part of a global supply chain that involved US transnational firms signing original equipment manufacturing contracts with producers in Taiwan. The Taiwanese producers then engaged in foreign direct investment in the China market, which was then exported to foreign markets, helping to account for the explosive growth in computer equipment exports to the US. Figure 2.1 illustrates the emerging trend.

The political economy of US–China trade continues to divide US interest groups, with leading US-based transnational corporations in manufacturing, information technology, and the retail sector lobbying for renewal of China's most-favored-nation status, which was accomplished without interruption between 1980 and 2001. These same firms lobbied successfully for China's membership in the World Trade Organization in 2001. There is a direct overlap between US transnational firms at the top of global supply chain networks and the composition of the modern-day China lobby, whose goals have been articulated in concert with the policies of leading US state bureaucracies and Congressional lawmakers. In that sense, the pyramid of power extends from the market, increasingly characterized by the dominance of just a few firms at the top of global supply chains in manufacturing, information technology, and software, to the most powerful actors within the US state.

As we have seen, the US White House, State, Treasury, and Commerce Departments have each, at various times from the 1980s to the present, taken the political lead in pushing for Congressional renewal of China's MFN status in the two decades leading to WTO ascension. The US Senate, reflecting the heightened political leverage of dominant transnational corporations, whose lobbying

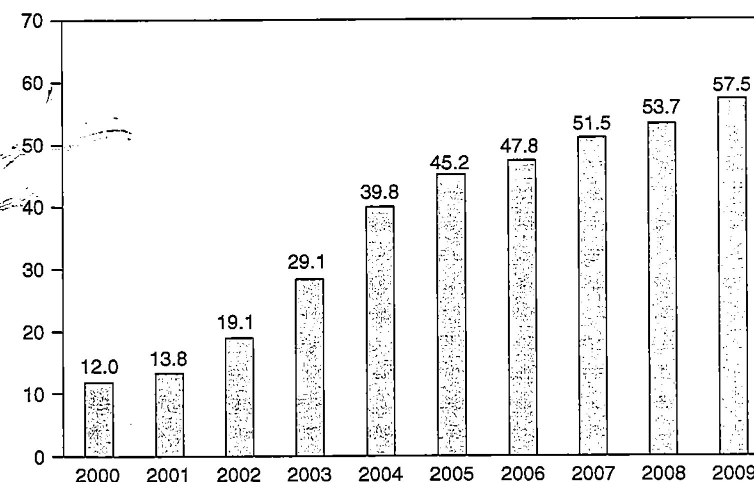

Figure 2.1 Share of US computer imports from China: 2000–2009 (% basis) (source: *Congressional Research Service*, data taken from USITC DataWeb (2010)).

networks have increased exponentially over the past three decades, have always supported the MFN renewals and the WTO membership for China. The House of Representatives has been a bit more politically divided, with Congressional lawmakers reflecting the more diverse interest group networks coalescing at the district level. Here the debates over the renewal of China's MFN status have often been the most contentious, with voices of dissent coming from smaller-scale domestic firms that feel threatened by Chinese imports, labor unions that view relocation of production facilities in China as a threat to US jobs, human rights groups objecting to systematic violation of rights in China, conservatives ideologically opposed to greater engagement with China (often bankrolled by the military–industrial complex), and minority party coalitions in Congress that have sought to hold up MFN status renewals in exchange for concessions from the majority party. In this sense, China has secured an outsized place in US political debates, where the efforts to increase engagement with China meet resistance based on a range of competing political objectives (Seo 2010).

Despite this tension, the US state has always come down on the side of greater engagement with China, an indication of the powerful political alliances that directly benefit from the policies of engagement, as well as the "ideology of interdependence" that has consistently framed the justification for greater trade and investment with China from the early 1980s to the present. This ideology, a mainstay of both Democratic and Republican Presidential administrations from the 1980s to the present, has justified greater engagement by adopting the position that greater trade and investment between the two countries will increase the long-term chances of democracy taking root in China. The equation of greater trade and investment with a process of democratization is equal parts political salesmanship and ideology, which masks the extent to which the authoritarian practices of the Chinese state facilitate the profits of US-based transnational capital. By examining the political economy of the transnational corporation–Chinese state relationship, one gets a better sense of the politics of the global supply chain that connects market privilege with political repression.

Transnational corporations wield considerable market power within global supply chains, as demonstrated by the trends of the past 30 years of globalization. During this timeframe there has been considerable market concentration at the top of global supply chain networks, dominated by transnational firms based in the US, Japan, Germany, and the United Kingdom. These "system integrator" firms have consolidated their core operations around branding, marketing, distribution, and research and development. Of the top 1400 global firms, 80 percent are transnational corporations based in the US, Japan, Germany, and the UK. The top 100 of these firms account for 60 percent of global research and development investment. Of this global investment, 26 percent is concentrated in technology hardware and equipment, software, and computer services; another 21 percent is in pharmaceuticals, healthcare equipment, and services; and another 17 percent is in automobiles (Nolan and Zhang 2010: 100). Over the past decade, China has emerged as the leading country in the exportation of computer and information technology equipment, much of it produced using

equipment that has been developed, patented, and marketed by transnational firms whose brands dominate the sales of high-tech products.

During the 1990s, transnational corporations in computers, information technology, and electronics began to establish production networks with East Asian producers in response to intensified global competition. These production networks allowed transnational firms the ability to consolidate their position at the top of global value chains through ownership and control of the most lucrative value-added segments of the chain, while shedding control over production to a disparate group of firms. For example, the transnational corporation Intel is one of just two transnational firms that control about 100 percent of the brand-name sales of microprocessors for PCs, and Microsoft is the transnational firm that owns the brand name for the Windows operating system that accounts for about 90 percent of brand-name sales of operating systems in the global market (Nolan and Zhang 2010: 99–100). Each of these US-based transnational firms established original equipment manufacturing (OEM) contracts with Taiwanese computer producers from the 1990s to the present. Shawn Breslin explains the dynamics of this relationship:

> Taiwanese computer companies have embraced this changing manufacturing structure and located themselves as key links in the production chain. At a "higher" level, they sign OEM agreements to produce computers using foreign technology and operating platforms – almost entirely with Japanese and US companies. At a "lower" level, they have outsourced the low-tech and low value added elements of production to maintain cost efficiency.
>
> (Breslin 2009: 125)

The relationship between US and Japanese transnational firms and Taiwanese computer companies extends to foreign direct investment in China. As we have noted, Taiwanese firms account for about three-quarters of all computer and computer-related investment in China. Almost all of this Taiwanese FDI is linked to OEM contracts with US or Japanese transnational corporations, yet this relationship is not captured in the FDI statistics, which treats this FDI as "Taiwanese" and omits the value- added portion of the contract that accrues to US and Japanese transnational firms. In addition, trade statistics also distort the market relationships that are embedded in the supply chain. When a computer is put together in China for export to the US, the value of the computer that is recorded as "Chinese" is in fact a product of a diverse array of firms that have produced component parts for that computer, including Taiwanese computer producers on contract with US transnational firms such as Intel or Microsoft, as well as low-tech producers in Taiwan and other East Asian countries that are enlisted as subcontractors to produce component parts necessary for final assembly in China. There is a compelling body of research that links the growth of component parts production in East Asia to a surge in computer and information technology products exported from China to the US and Europe (Pan 2007).

Within this global supply chain, considerable market power rests with transnational firms based in the US, which are able to use their market position to capture the largest portion of the value-added profits connected to the final sale of the product. A University of California study examined the production of a 2005 Apple 30-gigabyte iPod that was produced in China and exported for $144 (excluding shipping costs). Only about 2.8 percent of the value of the iPod was attributed to Chinese labor costs, with the rest of the value added spread among an array of producers throughout East Asia, including Japanese transnational corporations, which added the highest value components, including the hard drive and the display. As one account noted:

> The retail price of the iPod sold in the United States was $299, meaning that there was a mark-up of about $155 per unit, which was attributable to transportation costs, retail and distributor margins, and Apple's profits. The study estimated that Apple earned at least $80 on each unit it sold in its stores, making it the single largest beneficiary (in terms of gross profit) of the sale of the iPod.... The iPod example illustrates that the rapidly changing nature of global supply chains has made it increasingly difficult to interpret the implications of U.S. trade data. Such data may show where products are being imported from, but they often fail to reflect who benefits from that trade. Chinese trade data indicate that over 50% of its exports are generated by foreign-invested firms in China. Thus, in many instances, U.S. imports from China are really imports from many countries.
>
> (Morrison 2010: 17)

As part of their investment strategy to link with supply chains in the East Asia market, US transnational firms, especially in information technology, have relied on large-scale commodity manufacturing enterprises (CMEs), based in the US, Canada, and Europe, to facilitate linkages with East Asia financial producer networks that manufacture component parts for computers, computer-related products, and electronics that are exported to China, which then serves as an export platform to the US and European markets. These CMEs include Solectron, Flextronics, SCI, and Jabil Circuits from the US, and Celestica from Canada, which contract with major US brand-name corporations such as Microsoft, Motorola, Dell, and Palm to organize and establish original equipment manufacture contracts with East Asian financial and producer groups (Breslin 2009: 128).

The relationship between US-based brand-name transnational firms such as Intel and Microsoft and the East Asian supply network has undergone some significant shifts and transformations from the late 1980s to the present. From the late 1980s to the mid-1990s, the leading US brand-name transnational firms in computers and information technology relied on US and Canadian CMEs to organize the logistics of establishing OEM contracts with Taiwanese firms in particular. These contracts involved a shifting orientation of the Taiwanese electronics sector from manufacturing finished electronic products to assembling component parts for transnational firms. From the mid-1990s to the present, Taiwanese firms have shifted from managing supply chains to "design capacity," playing a larger role in the finished design and creative applications of the finished product. As the division of labor within the supply chain relationships has grown more sophisticated, Taiwanese firms have become involved in the production process as "brand name producers" of higher-value added component parts production for the Chinese market. But despite this, the largest value added remains with US-based transnational corporations, as the example of the iPod production process illustrates (Sturgeon and Lester 2004).

The role of US-based transnational firms in the political economy of the US–China supply chain is under-theorized in most scholarly accounts for several important reasons. First, US firms have established contracts with a range of other producers and producer networks in East Asia which are then listed as the source of FDI in China. Second, US firms have increasingly financed their FDI in China from stocks of retained earnings from abroad that do not appear in US balance of payments data. The US Bureau of Economic Analysis publishes two sets of statistics on US FDI in China, one based on quarterly balance of payments (BOP) data and the other based on surveys of transnational corporations. There is a significant discrepancy between these two statistical measurements of US FDI in China. According to the BOP data, US FDI in China was only 6.2 percent of total FDI in China in 2008. In contrast, data based on surveys of US transnational firms give US FDI a 16.6 percent share of total FDI in China (Scott 2011: 8). It is highly likely that the discrepancy is based on US transnational firms' greater reliance on retained earnings abroad to finance foreign direct investment.

Thus the numbers used to calculate US FDI in China cannot be captured by using BOP data, which measures the financing of US FDI that flows directly from the US to China. This measurement understates US FDI flows to China by a margin of 2 to 1, if we compare the BOP data to the survey data reported by US transnational firms (Scott 2011: 8). However, there are strong reasons to believe that the survey data also understates US FDI in China, namely by undercounting the use of tax havens as sites for financing US FDI. In analyzing the growth of FDI in China during the past decade, tax havens, especially those in the Caribbean which are disproportionately utilized by US transnational corporations, have constituted a growing percentage of overall FDI in China. US transnational firms have increased their reliance on such tax havens as a way to finance foreign direct investments. In addition, institutional investors that manage money for US transnational firms often do so through tax havens which makes tracking the flow of FDI funds from the original source to the final destination a very tricky proposition. Another trend, evident over the past decade is a greater use of tax havens by Taiwanese firms in order to lower the costs of access to the Chinese market (Breslin 2009: 122).

Transnational accumulation, human rights, and labor repression

The trends and events described above highlight the role of US-based transnational firms in shaping US–China trade policy and the increasing centrality of China to global supply chain networks, particularly within the high-tech sector. In the wake of Tiananmen, the US state pursued a policy of constructive engagement with China. The China policies of Bush I and Clinton, each in their own way, embodied a commitment to this same policy agenda. Despite their ideological differences, both administrations saw the improvement of China's human rights record (as well as the hope of democratic reforms) as predicated on deepening economic reforms in China. From this standpoint, linking MFN to human rights improvements in China would imperil not only US economic interests; it would set back the cause of human rights and democratic development in China. In hindsight, although the interests of US-based TNCs have certainly been served, there is no evidence that reforms have improved China's human rights record or set it on a "path to democracy."

In the case of China's political development, there is significant evidence that China's economic development and integration into the global economy have slowed down its democratic reform process. The Chinese state has adroitly utilized economic liberalization to maintain, and in some cases deepen, control over civil society. In this sense, China's strategy of reform shares significant overlap with what scholars of political development have called "authoritarian upgrading," a term used to describe how authoritarian regimes have used political and economic reforms to consolidate power within the context of contemporary globalization (Heydemann 2007; Heilmann 2010). Neoliberal reforms have led to growing competitive pressure among different regions, state-owned enterprises, and foreign invested firms, and also between workers themselves. This environment has weakened the position of Chinese civil society (particularly labor) in relation to the state. Although China's developmental strategy, like South Korea and Taiwan, is predicated on state intervention, the extent to which China has depended on foreign capital to fuel growth has created deep divisions in civil society, thus impeding its capacity to counter the power of the state (Gallagher 2005). At the same time, this dynamic has created a situation where the owners and managers of Chinese firms, as well as local political elites and a growing faction within the Chinese Communist Party (CCP), identify more with the interests of transnational capital than they do the broader interests of the Chinese people (Wang and Huters 2003; Wang 2005). While the Chinese state has promoted consumer culture as a means to boost its popular legitimacy, it has also benefited from divisions in China's civil society. Although political decentralization has created greater political freedom on a local level, in many cases this has amounted to nothing more than the freedom of local political elites to oppress Chinese workers.

There is no doubt that China has seen tremendous economic growth and as a consequence millions have been lifted out of poverty, this fact often obscures the grim reality that Chinese workers have increasingly been left in the lurch in this new era (Chan 2001; Hart-Landsberg and Burkett 2005; Lee 2007). China still has one of the worst labor and human rights records in the world and in some ways it has become even more egregious. More and more, Chinese workers find themselves without access to many of the social benefits they enjoyed under the old system, while at the same time they have yet to gain the basic rights that would allow them to better their lot under the neoliberal regime. As noted, within China's new economic landscape, provinces and townships increasingly compete to offer more attractive investment opportunities for transnational capital. One of the primary means in which this competition takes place is through the lowering of labor standards. Under these conditions, workers are increasingly being forced to work exorbitantly long hours, without many of the safety and health standards that their counterparts in developed countries take for granted.

Thus, regardless of their intent, political reforms have undermined the interests of working class Chinese people in significant ways. As noted, one of the most significant aspects of the US–Chinese Nexus is the extent to which policymaking (particularly on a local level) is increasingly structured around the interests of a coalition that includes transnational capital, the Chinese state, and local Chinese elites and business owners. In this way, policy decisions are worked out between TNCs, local political and economic elites, and Chinese state actors who provide a political framework that has served to enable the most aggressive profiteers within this system (Kennedy 2007) This was particularly evident leading up to the Olympic games in 2008, when the Chinese government proposed a new law that would grant more favorable conditions to labor. The American Chamber of Commerce, the United States–China Business Council along with European Union Chamber of Commerce in China (EUCCC) and a number of organizations from Taiwan and Hong Kong, succeeded in watering down the legislation significantly. The effort on the part of labor was hampered by the fact that the All-China Federation of Trade Unions (ACFTU), the only nationally recognized union, is a political instrument of the CCP and functions more as a tool for Chinese political and economic elites than as genuine working class organization. This places it in the awkward position of representing the interests of Chinese workers, but at the same time preventing unions from threatening the interests of enterprises operating in China (Karindi 2008). As a result, the ACFTU has taken a decisively "non-confrontational" approach in its negotiations with employers (Bai 2011). This approach has in turn been lauded by various state functionaries and apologists who have sought to justify it in terms of a "traditional Chinese ethos" that values cooperation over conflict. In reality, factions of the Chinese state affiliated with transnational capital have utilized their power in the ACFTU to delegitimize the efforts and weaken the capacity of Chinese workers to organize on a grassroots level.

Despite the fact that the ACFTU maintains a monopoly on union representation in China, the Labor Contract Law of 2008 marks significant achievement for Chinese working class. For some time now there has been political discussion

and even divisions within the Chinese state over the political and social consequences of rising inequality and the immiseration of sections of the working class, but this is the first serious effort to address some of these issues. Among other things, the law stipulates that workers must be given written contracts within one month of being hired, and places new limitations on the use of temporary contracts as well as so-called "dispatch contracting." This being said, evidence suggests that the record on local implementation of the new law varies widely. Soon after its passage, employers were already fast at work trying to find ways around it. For example, in order to circumvent minimum wage provisions, in some cases, employers raised dormitory and canteen prices or even increased employee fines for "insubordination" (Wang *et al.* 2009). The obvious point here is that what looks good on paper is one thing, whether or not it can actually be enforced on the ground is quite another.

Meanwhile, the Chinese Communist Party is attempting to shift the pattern of development away from the coastal areas and into the interior of the country. This is in large part a response to concerns about growing social and political instability, which includes significant increases in unauthorized strikes by Chinese workers that is one manifestation of the consequences of rising inequality. There is also some recognition that the Chinese export growth model will reach its limitations if more is not done to increase the spending power of the Chinese consumer. Yet the political dynamics of this recognition may not allow reformers within the Chinese state to shift toward a gentler, more inclusive capitalism. This is due to the embedded power networks that have benefitted enormously from an accumulation system that enriches those sectors allied with transnational capital and dependent on foreign markets. Militarization as a way of controlling internal unrest has intensified and seems to be just as likely to be adopted as a leading strategy to extend the current accumulation process, as opposed to more extensive efforts to reform the process through redistribution mechanisms. This means that worker's ability to improve their living conditions through ongoing political struggle, rather than through alliances with reformist elements in the Chinese state, may well be the key to progressive changes in China.

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3 The foreign policy of organized labor in the context of globalization

Ronald W. Cox and G. Nelson Bass

Introduction

As part of the corporate political mobilization of the 1970s, business organizations such as the Business Roundtable devoted considerable resources to weakening organized labor in the US. The Roundtable embarked on an anti-labor initiative as part of its campaign to reduce the costs of wages and thereby roll back the wage gains made by workers during the highly combative strike wave of 1967 and 1974. Specifically, the Roundtable was committed in its earliest years to three policy goals designed to limit, weaken, and control the power of trade unions. The first was the repeal of the Davis–Bacon Act of 1931 mandating that workers be paid a prevailing wage for work on public projects; the second was the reform of the Wagner Act of 1935 to strengthen antistrike provisions; and the third was the coordination between corporate members of the Roundtable to devise "legal contrivances" to allow for "double-breasting," a "formerly illegal arrangement in which a firm establishes a parallel nonunion operation to avoid paying workers union wages and benefits" (Horn and Schaffner 2003: 64). The latter effort involved considerable cooperation between the Roundtable and the Nixon Administration in an effort to shield corporate members of the Roundtable from antitrust law.

By the mid-1970s, the labor movement faced a crisis that threatened to derail the gains of the New Deal Era. As emphasized in this volume, the structural transformation of global capitalism played a crucial role in explaining the shifts in capital–labor relations in the US that began during the 1970s. Corporations represented by the Business Roundtable sought to lower labor costs in the US as part of a process of the transnationalization of production. This entailed greater reliance on foreign direct investment, outsourcing to non-union production networks, and linkages with foreign supply and distribution networks. As documented in previous chapters, the shifts toward transnational production strategies involved cooperation between corporate political organizations and the US state to provide greater opportunities for capital accumulation in foreign markets. These processes weakened the position of US labor unions to demand wages and benefit gains commensurate with those achieved during the 1960s and early 1970s. At the same time, the weakness of US labor was not just structurally

determined by the transformation of global capitalism, but also a legacy of its own history of privileging "business unionism" as the primary strategy for securing gains in wages and benefits during the early decades of the Cold War.

The outlines of business unionism as a political strategy involved four prominent features. First, there was broad acceptance of the existing politico-economic order as a framework for bargaining over wages and working conditions. Second, there was a willingness on the part of organized labor to give up any efforts to control management and production decisions in exchange for bargaining rights over wages and working conditions. Third, there has been a top-down structure of union organization that leaves most decision-making in the hands of a hierarchy of national and local officials, who then engage in collective bargaining and grievance handling for their members in exchange for union dues (Dreiling and Robinson 1998: 167). As Dreiling and Robinson have observed, "union leaders who practice this kind of unionism are no more concerned with internal democracy than business managers, whatever the constitutional formalities" (ibid.: 167). And, most relevant for this chapter, the fourth feature of business unionism has been collaboration between the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), US state, and transnational corporations in the area of foreign policy.

Here we will focus on the foreign policy aspects of "business unionism," which will include a historical overview of labor–state–business cooperation during the Cold War and post-Cold War periods. This will be followed by a more detailed analysis of the International Solidarity Center, a foreign policy arm of the AFL-CIO that was established in 1997 with the stated goal of promoting global solidarity among unions in response to this latest phase of transnational production. AFL-CIO leaders have argued that the policies of the Solidarity Center represent a break with Cold War policies in which labor followed the lead of the US state and corporate interests. Supporters of the Center have pointed to the replacement of Cold Warriors that had dominated previous AFL-CIO policies with a new group of labor reformers committed to organizing solidarity campaigns with unions in the developing world (Rodberg 2001). Others have pointed to the involvement of the Solidarity Center in global campaigns targeting corporations who have systematically violated worker rights with boycotts and worker solidarity campaigns. At their most sophisticated, these new campaigns involve direct cooperation between the AFL-CIO, foreign union organizations, human rights groups, and anti-sweatshop organizers to pressure corporations to implement labor agreements that recognize the rights of labor to organize for better pay and working conditions. These global organizing efforts have involved pressuring transnational corporations at various pressure points along the global supply chain, where retail corporations that purchase products produced using "sweatshop labor" are targeted with boycott efforts by a variety of pro-labor organizations in the US and abroad (Quan 2008).

With the creation of the Solidarity Center in 1997, the key questions are: have the foreign policies of the AFL-CIO shifted during the recent phase of

globalization? Or are the policies of the AFL-CIO consistent with past Cold War policies? Has the "war on terror" served to replicate the "war on communism" in the foreign policies adopted by the AFL-CIO?

The role of labor in US foreign policy post-New Deal reveals a central pattern of tight collaboration between corporations, the US state, and organized labor. As described in several works, including Beth Sims *Workers of the World Undermined: American Labor's Role in U.S. Foreign Policy*, the foreign policy arms of organized labor (specifically the AFL-CIO) worked in tandem not only with the US state but also conservative business groups to implement pro-business, pro-US, and pro-status quo oriented policies in the developing and developed world alike. This was done through a variety of labor-supported international arms and institutes such as the Free Trade Union Institute, the American Institute for Free Labor Development, and especially through the AFL-CIO's own foreign policy arm: the International Affairs Department.

Largely termed "corporatist" unionism, this sort of relationship has a nationalistic character; with the key role of labor to maintain wage gains at home while supporting a pro-business foreign policy that involved collaboration with conservative trade unions and centrist-to-conservative political parties. During the Cold War, this relationship between capital and labor pivoted around the politics of anti-communism, and was heavily dependent on the ability of organized labor to exchange wage gains at home for a willingness to join business interests in removing the left from positions of political influence both at home and abroad. In this way, organized labor's role is merely "business unionism" on a larger (international) stage. With this type of capita–labor–state relations, unions (through their executive committees and leadership) worked on maintaining standards for domestic organized labor and pushed for labor in the rest of the world to fall in line with a pro-business framework that was by default also defined by the US state and US business organizations as "pro-American." This resulted in the discouragement and downright opposition of US labor to any sort of independent left unionism which called into question the central tenets of capitalism (from the New Deal through the late 1960s) and later neoliberal capitalism (from the early 1970s to the present).

The rhetoric of the AFL-CIO leadership would suggest that the foreign policies of the organization have in fact shifted in response to the new circumstances of globalization. In 1997, after decades of internal turmoil amongst rank-and-file members about the policies of the AFL-CIO's four regional foreign policy arms, newly elected President John Sweeney consolidated all four institutes into the International Center for Labor Solidarity. Many rank-and-file union members, activists, and scholars who had been critical of the relationships between the National Endowment for Democracy (NED), the US Agency for International Development (USAID), and the AFL-CIO foreign institutes during the Cold War welcomed the consolidation as a new chapter in cross-border solidarity. The consequences of neoliberal globalization and growing corporate power (many of which have been discussed in this volume) were too daunting for the rigid, nationalistic, and business unionism oriented policies of the past

according to critics of the AFL-CIO's foreign institutes. The creation of the Solidarity Center offered hope that AFL-CIO foreign policy strategy would shift away from collaboration with the US state and corporate interests toward a new strategy of promoting union organizing abroad.

However, the Solidarity Center, like the four labor institutes that preceded it, remains tied to government funding for 90 percent of its budget (Kelber 2005). Specifically, the Center continues to get its money from the National Endowment for Democracy and the State Department, especially the Agency for International Development, which has been an important source of funding during the most recent period after 9/11 associated with the US global "war on terror." This pattern of funding has skewed the activities of the Solidarity Center toward locations where the US government is actively promoting a "democratization," development, and security agenda that privileges neoliberal reform and cooperation with conservative trade unions and civil society groups supportive of US foreign policy goals. As a result, in these contexts, the AFL-CIO continues to work with its traditional partners in US foreign policy in Latin America, Eastern Europe, Asia, and the Middle East, where the Solidarity Center often relies on political relationships established during the Cold War period to advance its current agenda.

That agenda mirrors the tenets and practices of business unionism at home in that the Solidarity Center operates within a foreign policy context that is often structured by patterns of US political and military intervention. In Haiti, where the AFL-CIO had long participated in legitimizing the Duvalier dictatorship during the Cold War by working with pro-Duvalier unions, the Solidarity Center has worked with anti-Aristide unions in helping the United States delegitimize his rule (Sprague 2007). In Venezuela, the Solidarity Center has been active in working with unions opposed to the government of Hugo Chavez, utilizing relationships established during the Cold War period, and in fact was engaged in collaboration with US government officials in the attempted coup against Chavez in 2002 (Gollinger 2006; Scipes 2006). In Egypt, the Solidarity Center has worked with conservative trade unions that have supported privatization and a neoliberal agenda, and has worked closely with US officials in trying to ensure that the new Egyptian government, post-Mubarak, follows policies that are acceptable to the US foreign policy establishment (Bolton 2011). In Sri Lanka, the Solidarity Center has piggy-backed off of the most conservative alliances in AFL-CIO history, siding with US foreign policy goals as part of the "war on terror" (Gamage 2010).

What is the extent and degree of the continuity between the policies that the AFL-CIO pursued during the Cold War and the policies pursued via the Solidarity Center from 1997 to the present? In order to address this question, we start with an overview of the Cold War history of AFL-CIO foreign policy, and then examine in more detail whether or not the funding priorities of the Solidarity Center dovetail with many of the policy goals carried out during the Cold War. A striking finding is that the overwhelming dependence of the Solidarity Center on US government funding has led the Center to follow the lead of US foreign

policymakers by going to locations and regions that have been defined as central to US geostrategic objectives, economic interests, and, increasingly, the "war on terror."

Historical background

The history of the AFL and later the AFL-CIO in the developing world has a long trajectory. In fact, many scholars have written about linkages between the AFL and the US state dating back to the turn of the twentieth century in regard to foreign policy in Mexico, Cuba, and the Philippines (Scipes 2010: 16–22; Andrews 1991: 72–73). However, due to space limitations this chapter will focus primarily on AFL-CIO foreign policy post-World War II, concluding with an overview of the activities of the International Labor Solidarity Center. Prior to the creation of the Solidarity Center in 1997, the AFL-CIO relied on four regional institutes to co-ordinate its activities overseas. The policies developed and implemented by these regional institutes dovetailed with the preferences of the most important donors, especially the National Endowment for Democracy and the US Agency for International Development, arms of the US state that directed the foreign policies of the regional institutes toward locations important for US geostrategic and economic interests.

A critical component of conceptualizing the foreign policy of the AFL-CIO, at least prior to 1997, is recognizing that although the four regional arms of the labor organization *in theory* were focused on aiding workers around the world in their efforts to organize, *in actuality* from their inception the AFL-CIO's foreign arms often acted as extensions of the US state through these funding grants. Rather than supporting their overseas operations with union funds, the AFL-CIO's foreign policy has almost entirely relied on grants and funding through a variety of state sources (Sims 1992: 22). The outcome has been policies pursued under the name of organized labor that were based on the predilections of the US state.

It is a broad generalization to say these institutes were mere appendages of US business and foreign policy interests in their entirety. More often than not, the level of symmetry between these international arms of the AFL-CIO and the US state varied according to the strategic importance of the region, the level of conflict between the US and states in a region, and the particular economic policies under discussion. More specifically, Beth Sims argues in *Workers of the World Undermined* that AFL-CIO organizations working in areas where US foreign policy has been most militaristic "...in World War II, postwar Europe, Vietnam, Central America, and the Philippines..." are locations and regions where "...organized labor has acted as a full fledged government operative" (Sims 1992: 18). Conversely, in areas that are less strategic to US interests and during periods when labor and domestic politics are more conflictual (such as the 1980s, during Reagan's anti-labor initiatives) these international institutes functioned with a good deal more independence on some issues in the realm of foreign policy. Moreover, for the purpose of this work, Sims' notes that in

regards to free-trade zones and free-trade agreements the AFL-CIO has been less likely to back US foreign policy goals and instead demand protectionist measures for US workers.

Plus, in many regions during and immediately following the Cold War these four international arms of the AFL-CIO often saw their mission through the lens of US foreign policy and focused their efforts on working with "bread and butter" business-unions in areas where a variety of labor organizations, often with radically different politico-economic agendas, were competing for the hearts and minds of the working class.

The first foreign institute of the AFL-CIO, the American Institute for Free Labor Development (AIFLD), was regionally oriented toward Latin America. Initially conceived as a bulwark against communism and a reaction to the Cuban Revolution, the AIFLD "was a labor–government–corporate operation, joining the AFL-CIO with some of the leading corporate investors in Latin America, including the Rockefeller interests and the Grace Corporation" (Scipes 2010: 32; Buhle 1999: 152). AIFLD was developed in 1962, as the AFL-CIO sought a more powerful organization to combat communism in Latin America than the Inter-American Regional Organization of Workers (ORIT), which was a geographic-specific office of the International Confederation of Free Trade Unions (ICFTU), the anti-communist grouping of union organization created in 1949 (Scipes 2010: 31; Sims 1992: 39). The AFL-CIO had always had a rocky relationship with both the ICFTU and ORIT, and even left the ICFTU in the late 1960s over disputes regarding the role of European socialist unions and these unions opposition to the Vietnam War (Sims 1992: 62).

Thus, the main premise behind the AIFLD was to nurture and develop "free" trade unions, that is, trade unions that were ideologically compatible with certain US foreign policy goals. Swathed in broad calls to assist union development and support organizing efforts in Latin America, in practice the mission of the AIFLD was to "...supplant left-led unions with better-funded pro-American and pro-business unions" (Buhle 1999: 151). The labor organizations that linked with the AIFLD were free of ideology and leadership that questioned the broad interests of American capitalism and more specifically, social and political orders in client states of the US. As Kim Scipes notes (citing Philip Agee), the AIFLD was much more than *just* the foreign arm of American business unionism and was in fact dominated by the CIA (Scipes 2010: 34; Agee 1975: 131).

Regardless of the actual level of CIA involvement, the AIFLD was involved in destabilizing or overthrowing regimes from Brazil to Chile, from British Guiana to the Dominican Republic, and El Salvador to Guatemala (Scipes 2010: 35; Sims 1992: 56). In 1963, the AIFLD engaged in the first of many campaigns in Latin America in an effort to drive President Cheddi Jagan of British Guiana, whom the US suspected of ties to the Soviet Union, from power. The AIFLD used "well over a million dollars to provide strikers better than normal daily pay and thus keep Jagan out of power" (Buhle 1999: 152–153).

AIFLD involvement in Brazil was even more disconcerting, as the AFL-CIO organization trained the successor labor leaders who stepped in to replace the

CGT, who had backed deposed President Goulart, following the CIA-funded military coup in 1964. While the CGT was ruthlessly suppressed following the coup, AIFLD-trained labor organizers set up shop supporting the coup (Buhle 1999: 153). This pattern of dividing, undermining, and pitting labor movements against each other occurred time and time again in Latin America.

In the mid-1980s AIFLD helped establish and develop the Federation of Trade Union Workers (FOS) in Haiti as a conservative pro-Duvalier union in order for Haiti to qualify for the Caribbean Basin Initiative (CBI) which stipulated that labor is allowed to organize as part of the free-trade agreement (Sims 1992: 27). The US indicated its preference for the FOS over other more militant, anti-Duvalier trade unions such as the Autonomous Central of Haitian Workers (CATH) whose allegiances in the Cold War were unclear and had a track record of militancy that the US described as comprising "radical labor unions" (Sims 1992: 26).

Similar patterns emerged in El Salvador during the 1980s, where the AIFLD attempted to bolster the Popular Democratic Unity (UPD), a coalition of both urban and rural organizations as a countervailing force to the more radically oriented National Unity of Salvadoran Workers (UNTS) (Sims 1992: 88). When the American-backed candidate, Jose Napoleon Duarte, failed to follow through with essential parts of his program the UPD began to shift its allegiance to the UNTS. Yet, the AIFLD responded by turning up the heat and engaging in brazen acts such as withholding funding for UPD leaders that refused to pull out of UNTS (Sims 1992: 89). This behavior on the part of the AFL-CIO's Latin American arm led the UNTS to include the expulsion of the AIFLD from El Salvador as one of its central demands to the Duarte government (Moody 1988: 291).

The AIFLD's support for American foreign policy was also evidenced through "social projects" which, while meant to lessen the impact of neoliberal reforms being mandated by the IMF and World Bank in the late 1980s, also undercut the formation of broad-based opposition to such policies. In places such as Niger, the Philippines, and Guinea these policies ran the gambit from cash handouts to displaced and poor working class families, to operations like the Niger farm project, which supported "...a farm for civil servants who had lost their jobs due to cutbacks" (Sims 1992: 80). Although such programs are not inherently without merit, there exists a strong case that AFL-CIO funds could have been more meaningfully aimed at organizing broad opposition to austerity measures and privatizations rather than merely attempting to lessen part of the misery.

Following on the heels of the creation of AIFLD, the African American Labor Center (AALC) was created in 1964, with an obvious specific regional focus on the African continent. However, its formation was a thinly veiled attempt to curtail more radical labor organizations, especially in South Africa, from gaining ground during the Cold War. Its first director was "labor activist and CIA operative" Irving Brown and the activities of the AALC were anti-communist specific and were aimed at "funneling U.S. aid to procapitalist, economistic African trade unions" (Sims 1992: 57). Specifically, the AALC worked diligently to shift the

anti-apartheid movement in South Africa from focusing on political activism toward a focus on bargaining and working conditions. Disturbingly,

> [i]n 1982, the AFL-CIO gave its George Meany Human Rights Award to apartheid collaborator Gatsha Buthelezi, who had created a labor center – United Workers of South Africa – specifically to undercut the Federation of South African Trade Unions and the rest of the liberation movement.
>
> (Scipes 2010: 36, Buhle 1999: 228)

Ironically, Irving Brown would also be honored with the same award posthumously (Buhle 1999: 228).

As Beth Sims notes, whereas the operations of the AIFLD were scrutinized to a certain degree, the operations of the AALC were cloaked in secrecy (Sims 1992: 57). However, several examples uncovered by Sims illustrate the degree to which the AALC was almost exclusively interested in fighting radicalization on the continent, including Brown's organization of the "National Front for the Liberation of Angola, a CIA-sponsored rebel army" as well as working to undermine Libyan influence in the region by "supporting the government-linked Workers Confederation of Chad" (ibid.: 58–59). In Kenya, the AFL-CIO worked to prop up the Kenya Federation of Labor and supported its leader, Tom Mboya for the presidency until his assassination (Buhle 1999: 227).

In short, the AALC was a striking example of the worst excesses of AFL-CIO–state collaboration during the Cold War. Though the AALC would later begin to work with the Congress of South African Trade Union in 1986, the image of the AALC was severely tarnished by its previous activities (Scipes 2010: 36). Interestingly, to a certain degree this discrepancy between US and South African labor organizations continues to persist to this day as noted In *Solidarity Divided*, where Bill Fletcher Jr., and Fernando Gapasin describe a meeting between leaders of the Service Employee International Union (SEIU) and the South African National Education, Health & Allied Workers Union (NEHAWU) in Johannesburg in 2001 as a powerful illustration of the key differences between "business" and "social justice" unionism:

> A young progressive SEIU local union leader from the West Coast, commenting on the role of the union in political action, noted what must have seemed obvious to him: that the role of a union is to represent the interests of its members. The representatives of NEHAWU offered a careful and diplomatic reply: "Comrades," they began, "the role of the union is to represent the interests of the working class. There are times when the interests of the working class conflict with the interests of the members of our respective unions." Silence descended on the room.... Time seemed to have stopped.
>
> (Fletcher Jr, and Gapasin 2008: x)

Though the AALC may have been consolidated into the Solidarity Center, it seems clear that the conflict between two ideologies of labor unionism remain in South Africa.

In 1968, the Asian American Free Labor Institute (AAFLI) was created specifically to work in Vietnam, and later the Philippines and nearly 30 countries in Asia, the Pacific, and the Middle East (Sims 1992: 59; Scipes 2010: 36). Though active in many countries, the AAFLI was infamous for its support of Ferdinand Marcos, dictator of the Philippines. As documented by Kim Scipes citing an *International Labour Reports* study, in a six-year period leading up to 1989 "...the AFL-CIO provided more money to the Marcos-created Trade Union Congress of the Philippines (TUCP) to use against the progressive *Kilusang Mayo Uno* (KMU) Labor Center than it gave to any other labor movement in the world, including Poland's *Solidarnosc*" (ibid.: 36). The TUCP was an especially conservative trade union that "...called for the deregulation of business and denounced demands for the repatriation of corporate profits to Filipinos" (Buhle 1999: 228). One of the main sites of struggle was at Atlas Mines, where the TUCP was actively trying to undermine the KMU affiliate and, disturbingly, "...with no exaggeration this included active collaboration with a death squad" (Scipes 2010: 36). The AAFLI was another institution that was clouded in accusations of being little more than a front for CIA activities (Sims 1992: 60). Further, the AAFLI was extremely active in South Korea, supporting the government-supported Federation of Korean Trade Unions (FKTU) in an attempt to undermine independent trade unions (Scipes 2010: 36; Buhle 1999: 228).

Even Europe was not free from the activities of the AFL-CIO and its collaboration with the US state. The Free Trade Union Institute (FTUI) was the last regional body to be formed in 1977, though in fairness it was merely an offshoot from the dormant Free Trade Union Committee, which had operated in Europe immediately following World War II. The FTUI was not only the base of AFL-CIO operations in Europe, it also carried the special responsibility of doling out the grant money awarded from the NED and USAID to the three other regional institutes (Sims 1992: 54). Though it supported *Solidarity* in Poland, the FTUI also was involved in a variety of lesser publicized behavior that continues to illustrate the link between AFL-CIO institutes and the US state.

Specifically, one of the most thorough examinations of the full breadth of activity undertaken by the FTUI was in Russia. Following the dissolution of the USSR in 1990, the members of the formerly state-controlled labor organization voted to create the independent General Confederation of Trade Unions (FNFR) (Buhle 1999: 242). This labor organization focused on maintaining the benefits and protection of workers as the privatization of Russia was proceeding wholesale. The FTUI worked tirelessly to divide the FNFR, creating new labor organizations and trying to poach members from the FNFR. When the FNFR took a stand against Yeltsin's dismissal of the Duma in 1993 it lost its government support, which "American guided unions rushed in to accept" (ibid.: 243). The positions taken by the FTUI-supported unions were suspiciously tied to American interests, from funneling US money into the 1996 Russian elections in support of Yeltsin, to working with the American Federation of Teachers (AFT) in a bid to replace "...old Russian curricula with a 'democracy curriculum' idealizing US global leadership and the American way of life" (ibid.: 243).

Thus, the history of the institutes that today have been consolidated into the Solidarity Center was inextricably tied into the interests of the US state. The collaborationist nature of this relationship extends beyond the brief recitation of events presented here, however our main purpose is to examine whether this relationship between US state interests and the AFL-CIO has significantly shifted in the past quarter century.

Labor, the NED, and "democracy promotion"

Garnering over 90 percent of their funding through the US state via grants from the USAID and the NED, the foreign arms of the AFL-CIO have a historical track-record of subservience to US foreign policy goals in the developing world. In the immediate post-World War II context, this generally translated into support for regimes that were supportive of US aims in the Cold War. Therefore, AFL-CIO operatives were willing to split progressive and left-led unions, support labor organizations that were appendages of repressive states, and work to undermine democratically elected officials when necessary. As detailed above, the scholarship on the role of the AFL-CIO in regards to foreign policy is rife with example after example whereby the four foreign institutes worked in active collaboration in less than subtle ways to forward US foreign policy goals. This generally involved US support, via intelligence operatives, business interests, organized labor, and a host of other institutions, for the propagation and maintenance of regimes and power structures that were amenable to US state goals. In very general terms, "the enemy of my enemy is my friend" became the watchword for the US state and the AFL-CIO during the 1960s and 1970s.

However, for purposes of this work we are interested in a different sort of foreign intervention that became US policy in the early 1980s under President Reagan with the creation of the National Endowment for Democracy (NED). This second phase of US foreign policy during the twentieth century involved much more subtle, though still disquieting, interventions through what has become known as "democracy promotion." As William Avilés argues in this volume, this shift in US policy was the byproduct of three interrelated phenomena. First, with the spread of challenges to authoritarianism it became clear that the cost of supporting unpopular regimes was growing and that the pushback by civil society was challenging desired stability. Second, the shift to "democracy promotion" was the culmination of a long running debate between political elites weighing the merits of this approach with support for authoritarian regimes. Third, changes in global capitalism had created a new "transnational" class *in* the developing world, who were amenable to US strategic goals (see Avilés, Chapter 7 and Robinson 1996: 622).

Importantly, "democracy promotion" as a conceptual tool has a very specific meaning behind its neutral or even benevolent sounding title. The type of democracy that the US would seek to promote from the early 1980s onward is premised not around popular democracy, but rather a limited form of democracy that scholars alternatively refer to as "polyarchy" or "limited democracy" (Robinson 1996). As Robinson notes:

> Polyarchy refers to a system in which a small group actually rules, and participation in decision making by the majority is confined to choosing among competing elites in tightly controlled electoral processes. This "low-intensity" democracy does not involve power (cratos) of the people (demos), much less an end to class domination or to substantive inequality, which is growing exponentially under globalization.
>
> (Robinson 2004: 81–82)

Thus, polyarchy or limited democracy seeks to promote a very specific type of democracy, which limits challenges to the economic model and confines voting to (in the words of labor scholar and activist Kim Scipes) "...do they get to vote for Pepsi or do they get to vote for Coke" (Scipes and Hirsch 2005).

Moreover, this separation of the political world from the economic world is not just an unintended consequence of the US policy of "democracy promotion" abroad. Rather, as Robinson points out, the NED itself funded a four-volume project by Seymour Martin Lipset, Larry Diamond, and Juan J. Linz where the authors laid out a vision of democracy, which separated the political sphere from the economic and social spheres (Robinson 1996: 625). This separation is the key to limited democracies as it maintains the current system of economic domination by US firms in a manner that is much less overt than military force or support for unsavory regimes.

This specific type of democracy promotion needed a vehicle in order to turn the policy of democracy promotion into practice, and the organization that took the lead has been the National Endowment for Democracy. The NED and the AFL-CIO have been linked since inception, as the NED was the brainchild of collaboration between AFL-CIO President Lane Kirkland, Democratic Congressman Dante Fascell, US Trade Representative William Brock, and Larry Agee (Carothers 1994: 125). The idea behind the NED was that an essential part of the battle against communism was the active promotion of democracy, and further, that "...given sensitivities about U.S. government intervention" the best course of action would be a "...quasi-governmental foundation to advance democracy abroad" (ibid.: 125). The "quasi-governmental" status is still a contentious point among labor activists today who see the NED's claim to be a not-for-profit organization as a thin veneer that ignores the relationship between the NED and the US state. In arguing for the creation of the NED, Lane Kirkland saw labor as a vital component of the organization as the AFL-CIO had "the longest track record on the international scene" in regard to private organizations (Sims 1992: 42). In addition to the AFL-CIO's Free Trade Union Institute, the NED is also composed of the Center for International Private Enterprise, the National Democratic Institute for International Affairs, and the International Republican Institute. In other words, the NED was created specifically as a coordinated effort between labor and business and the two dominant political parties in the United States. As Beth Sims notes, the "...key feature of the model is the participation of both government and nongovernmental representatives and – on the private side – the cooperation of both business and labor on major foreign policy issues" (ibid.: 42). This collaboration often involved some strange bedfellows, where Lane Kirkland worked in tandem with "...the rabidly anti-labor Orrin Hatch, who had led the fight against labor-law reform in 1978" (Ferguson and Rogers 1986).

In practice, the NED funds grants to each of these four organizations for work in promoting democracy abroad. This strategy is multi-faceted, however each component worked to "...strengthen pro-U.S. organizations and promote a positive view of U.S. foreign policy overseas" (Sims 1992: 43). More to the point, the NED is able to accomplish these goals by working as a "private" organization in ways that the US state could not by targeting and supporting labor organizations within states that were aligned with interests amenable to foreign policy aims. The "four core grantees" have significant ties to the NED in terms of the organizations creation as well as funding. During its first ten years of existence, the four core organizations received 70 percent of the funding of the NED. However, the Free Trade Union Institute received the lion's share of NED funding, accounting for around 45 percent of NED grants (Carothers 1994: 126).

> In recent years the AFL-CIO has attempted to play down the traditional anticommunist focus of that work and replace it with a more general pro-democratic rationale, the basic argument being that independent trade unions are an essential part of a working democracy.
>
> (Carothers 1994: 127)

NED funding, the Solidarity Center, and the post 9/11 world

The funding relationship between the Solidarity Center and its sponsors, the US Agency for International Development (USAID), the National Endowment for Democracy (NED), the US Departments of State and of Labor, as well as other junior funding partners, is difficult to untangle. As numerous scholars and activists have noted, the Solidarity Center routinely refuses to give an account of its overseas activities, even when demanded by AFL-CIO affiliate resolutions (Scipes 2004, 2010; Shorrock 2002, 2003). Furthermore, the Solidarity Center has made public "annual reports" of its activities only since 2003, making it difficult to ascertain the details of its first few years of its existence. Finally, the annual reports that have been released by the Solidarity Center are vague and non-specific: rather than a specific breakdown of funding flows, the Center publishes aggregate totals of funding sources along with non-material specific summaries of where they operate.

In order to formulate a fuller picture of the funding patterns and allocation of resources of the Solidarity Center, the most detailed data can be gleaned from its relationship with the National Endowment for Democracy, which publishes specific details of the grants it funds through its partners, including its four "core" grantees, one of which is the Solidarity Center. The relationship between the Solidarity Center and the NED is of increasing importance, as NED funding as a percentage has generally grown larger since 2001. As the figures indicates, in

2002 and 2003 NED grants accounted for approximately 17–18 percent of the Solidarity Centers budget respectively. However, from 2003–2006 NED grants as a percentage of all Solidarity Center funding increased each year from 6–10 percent. Thus, in the last fiscal year data is available (2009), NED funding accounted for around 45 percent of the total support and revenue of the Solidarity Center. This growth as a percentage is contrasted with the contributions from the AFL-CIO itself, which has maintained similar funding patterns of around $600,000 a year (less than 4 percent total) as far back as the publicly available Solidarity Center records go (2003). In other words, the NED is increasingly important as a material resource for the activities of the Solidarity Center, and by 2008 accounted for nearly half of every dollar flowing into the coffers of the ACILS (NED and Solidarity Center Annual Reports).

Beyond providing a clearer picture of aggregate funding for the Solidarity Center, the NED's Annual Reports gives a clearer picture of where these funds are being distributed regionally based on the summaries of each individual grant. While some NED grants are proposed for country-specific missions, others are either "regional" and non-country specific, or "multiregional" and involve activities in different states across regions. Thus, even though the summaries of individual grants can shed light on Solidarity Center priorities, it is often unclear exactly where grant monies are flowing. However, there are some interesting patterns that can be identified by looking at grant directions over the long term, from 2001 through 2009. Specifically, increasing importance in the Middle East, North Africa, and Asia and decreasing funding for programs in Eastern and Central Europe generally. These regions of emphasis dovetail with the geostrategic priorities of the US national security bureaucracies during the "war on terror," suggesting that, at least in aggregate terms, the Solidarity Center is "following the flag" just as it did during the Cold War period.

The Solidarity Center and Europe

One of the more interesting trends between NED funding and the Solidarity Center involves Central and Eastern European grants. In 2001, the Solidarity Center received $507,134 for four country-specific grants: Bosnia-Herzegovina, Macedonia, Kosovo (Yugoslavia), and Serbia (Yugoslavia), in addition to a regional grant for "...forums on developing policy consensus on education reform, including education on democracy and minority rights" in Albania, Bosnia, Croatia, Macedonia, Montenegro, and Serbia (NED 2001). In 2002 this was reduced to $255,033 specifically for Bosnia-Herzegovina and Serbia, with the Serbian funds being used partially to assist the UGS Nezavisnost (NED 2002). While in 2003, the Solidarity Center had country-specific grants funded by the NED for Albania and Bosnia-Herzegovina ($156,790 total) and three regional grants for Central and Eastern Europe for $294,840, with the vast majority of that funding ($171,920) being used in Serbia, Montenegro, and Macedonia to "...increase the economic literacy of their members and to build their capacity to participate effectively in the reform process" (NED 2003).

After 2003, NED funding of Solidarity Center grants for Central and Eastern Europe, the region undergoing significant turmoil following the break-up of Yugoslavia, the NATO campaign in Kosovo, and charges of genocide, began to wane. In 2004 the NED funded a single grant of $111,748 for use by the Solidarity Center in Serbia, Montenegro, and Macedonia "to strengthen the voice of Balkan trade unions in economic policy" (NED 2004). In 2005, Kosovo was the lone focus of a NED–Solidarity Center grant for $60,000, while in 2006 the NED funded the Solidarity Center to the tune of $71,098 to help develop "...the new Confederation of Free Trade Unions (KSS)" in Macedonia (NED 2005, 2006). Both of these grants were earmarked by the NED as being funded through the US Department of State beyond the annual NED appropriation. Since 2006, the NED has not funded any grants for Solidarity Center work in Central or Eastern Europe.

The NED–Solidarity Center funding in the former Yugoslavia tracks closely with the type of funding AIFLD engaged in during the Cold War period. The Solidarity Center's objectives were not to organize or unite workers in the former Yugoslavia. The funding was directed to anti-Milošević unions and was directly connected to the geostrategic goals of US policymakers. The dependence on the US government for the allocation of funds placed the Solidarity Center directly in a location where it could most serve the US State Department, and US intelligence agencies. This was the driving priority for union activities in the former Yugoslavia, not organizing independent unions (Ancel 2000).

Other European recipients have consistently received grants for Solidarity Center work via the NED throughout this period. The Ukraine has been the focus of NED–Solidarity Center funding every year from 2001–2009, with the exception of fiscal year 2007 (NED Annual reports). In Russia, the Solidarity Center received single grants of approximately $100,000 from the NED in 2006 and 2007, and much larger grants of $455,000 and $300,002 in 2008 and 2009 respectively. The "Eurasian" region has seen grants for Kazakhstan, Kyrgyzstan, and Uzbekistan in 2003, and a larger specific grant for Kyrgyzstan ($369,744) in 2004 (NED 2003, 2004). In 2005, the Eurasian region saw much more grant activity with regional grants for Kyrgyzstan and Kazakhstan for $348,194 as well as "reprogrammed 2004 funds" for $369,744, bringing the total grants for these two countries to over three-quarters of a million dollars (NED 2005). These grants continued in 2006, with Kyrgyzstan and Kazakhstan receiving regional grants for $350,000, while Georgia also became a funding priority for the NED and Solidarity Center, with a $151,000 grant "to expand the capacity of the Georgia Trade Union Confederation (GTUC)" (NED 2006). In 2007, Georgia again received Solidarity Center funds via the NED ($200,000) to "strengthen labor unions" while Kazakhstan and Kyrgyzstan again received a regional grant (NED 2007). In 2008, Tajikistan was added to the regional grant for Kyrgyzstan and Kazakhstan (NED 2008). Finally, in 2009 both Georgia and Kyrgyzstan received country-specific grants for $249,999 and $214,999 respectively (NED 2009).

Similarly to the Labor Center activities in the former Yugoslavia, the reliance on NED money for grants to Central Asia placed the Solidarity Center in the

middle of a geostrategic rivalry between the US, Russia, and China for access to the region's abundant reserves of oil and natural gas. Pipeline politics had more to do with the Solidarity Center's activities to "build union solidarity" than any independent rationale to build worker solidarity. As Doug Stokes and Sam Rafael make clear in their recent book, *Global Energy Security*, the US state stepped up its military aid and intelligence gathering activities in Central Asia during the very period that the Solidarity Center was most active there (Stokes and Rafael 2010). In fact, the US was working closely to implement neoliberal foreign policies in Kazakhstan in an effort to improve the climate for foreign corporations to gain access to oil and natural gas reserves in the country. These policies contributed to a growing gap between rich and poor, and the Solidarity Center's presence was considered part of US efforts to gain ideological legitimacy in the region. The case of Georgia is very telling of the overall approach, as NED–Solidarity Center activities were part of a US foreign policy effort to strengthen the anti-Russian regime through a network of civil society organizations receiving State Department funds.

The Solidarity Center and the MENA region

At the same time that NED-funded Solidarity Center programs are decreasing in Central and Eastern Europe (the Balkans), there is a significant increase in Solidarity Center involvement in the Middle East and North Africa (MENA). Coinciding with the invasion of Iraq in 2003 by US forces, the Solidarity Center began receiving some of the largest grants it has been awarded from the NED for work in the MENA region. In 2001, the NED via the Solidarity Center funded only one grant for $144,412 "to assist women trade union leaders in Jordan, Lebanon, and Morocco, to improve their skills and influence" (NED 2001). In its 2002 Annual Report, the NED "reprogrammed" $291,930 in funds for "men and women workers to participate in the building of democracy in Middle East Unions, workplaces, and society" (NED 2002). In 2003 funding jumped again, with the Solidarity Center being granted $300,000 to build linkages with the International Confederation of Free Trade Unions (ICFTU) office in Amman, Jordan. Moreover, another grant was funded for $560,000 "to establish a regional presence in Amman, Jordan" with the stated goal of working "bilaterally and multilaterally with labor organizations and likely allies in Jordan, Lebanon, Yemen, Bahrain, Kuwait, and potentially Iraq to address democracy building, transparent unions, and building advocacy skills among workers to represent their interests" (NED 2003).

After the US invasion of Iraq and the increased US presence in the MENA region following the "war on terror," NED-funded Solidarity Center grants expanded exponentially. In 2004, the Solidarity Center received another "reprogrammed" grant (from 2003) of $199,933 for work to "establish an Egyptian Trade Union Technical Organization (ETUTO)..." that would "work with the Egyptian Trade Union Federation in creating the ETUTO" (NED 2004). Moreover, the Solidarity Center was awarded a $1,498,014 grant for work in Iraq

which was to be used to help develop Iraqi unions, along with a $597,045 "regional" grant "to strengthen democratic trade unionism in the Middle East" with a focus on Jordan, Egypt, Yemen, the West Bank/Gaza, and Lebanon and another $364,755 grant went to develop a "corps of trained officers in Jordan, Palestine, Lebanon, and Yemen" in conjunction with the ICFTU (NED 2004). This trend continued in 2005, when the NED granted the Solidarity Center over $3,386,501 in funding specifically for the MENA region, or approximately 32 percent of all NED funding for the Solidarity Center (NED 2005). Included in this was $185,000 "to support the emergence of a sustainable labor movement," the first and only time the Solidarity Center received a grant to work in Iran (NED 2005). In 2006 the first Solidarity Center funding for Afghanistan appeared, where a grant of $164,885 was directed to training Afghan workers in "basic trade union education" (NED 2006). Iraq also received two more grants of $700,198 and $233,283 while Jordan, Libya, Tunisia, the West Bank and the Gaza Strip all saw Solidarity Center funding flow to their countries with total NED grants in 2006 amounting to $3,481,610 (NED 2006).

The year 2007 marked the high-point for Solidarity Center funding for the MENA region, as a variety of countries including Afghanistan, Bahrain, Jordan, the Gaza Strip and West Bank, and the "Maghreb Region" received $3,408,092 in various grants through the Solidarity Center. Included in this total was the single largest grant given by the NED during the period under discussion, for use in Iraq to the tune of $1,500,001 "to continue building the capacity of Iraqi unions to organize, service members, and train workers" (NED 2007).

In the Middle East, as with Eastern Europe and Central Asia, the Solidarity Center is a junior partner with the NED and the US State Department, as funding priorities track closely with US geostrategic priorities in the region. The Solidarity Center followed the US flag in taking money during the ongoing US occupations of Iraq and Afghanistan. The online resources and publications put forward by the Solidarity Center suggests that the organization was committed to using its resources to "oppose the US occupation of Iraq," yet this propaganda seems to be merely window-dressing, as the rules of US military engagement in Iraq required all US organizations to be given authorization for all political activities inside the country. As with other US organizations active in Iraq, including the media, the US Solidarity Center would be embedded with US military troops as a precondition for its activities. These ground rules, by definition, would limit the ability of a group receiving US State Department funding from taking an anti-occupation stance. In fact, the position of the Labor Solidarity Center in Iraq, faced with conditionalities that required them to be an adjunct of the US occupying authorities, clashed rather jarringly with the position of large numbers of activists and unions inside the US that formed organizations opposed to the war. The official position of the AFL-CIO was to oppose the US War in Iraq, yet the Solidarity Center took money from the US State Department during the US occupation, an action that appears on its surface to contradict the antiwar position of the Federation, and the position of many rank-and-file union members. Furthermore, the Solidarity Center has been linked to pro-occupation

unions in Iraq, such as the General Federation of Trade Unions, which enjoyed a privileged position sitting on the US-appointed Iraqi governing council within a year after the US occupation. The US-backed union was seen as a counter to the independent union organizing by leftist groups like Union of the Unemployed in Iraq.

The work of the Solidarity Center in Egypt is equally problematic. The NED funds that supported Solidarity Center union-organizing in Egypt were simultaneously being used to privatize state-owned industry, build support for neoliberal reforms, and fund the Center for International Private Enterprise, a group representing foreign transnational firms who wanted to expand their operations in the Egyptian economy. Here Solidarity Center activities, while laudably supporting the right of Egyptian workers to strike for better pay and working conditions, were closely tied to a range of political activities intended to support a corporate globalization agenda (Bolton 2011; Barker 2011).

Latin America, the Caribbean, and the Solidarity Center

As discussed previously, by far the region that has drawn the most focused attention amongst scholars and activists in regard to the foreign policy of American labor has been Latin America and the Caribbean. The AIFLD's notorious connections to the undermining and overthrow of populist regimes in the region during the Cold War was one of the catalysts many scholars identified in celebrating the change of direction the Solidarity Center was supposed to signify. However, the linkages between the Solidarity Center and the attempted 2002 coup in Venezuela indicated that perhaps not much has changed in Latin America after all.

In 2001 Latin America was the focus of two NED-funded grants, with $154,377 going to a program in Venezuela "to protect labor rights" along with a $622,800 grant for Latin America as a region, including Venezuela, Peru, Colombia, Ecuador, and Bolivia (NED 2001). Similar funding patterns were seen in 2002, as Venezuela received another $116,001 to be used in the "development of an anti-poverty program" while a Latin American regional grant of $775,001 was given as funding for general democracy promotion (NED 2002). Interestingly, both the 2001 and 2002 grants for Venezuela were marked with an asterisk, which is identified in other NED Annual Reports as indicating that the funding for these grants was allocated by the US Department of State beyond the annual NED appropriation. After the 2002 coup in Venezuela the Solidarity Center has not to date had any grants funded specifically for Venezuela by the NED, however Venezuela is included in grants for the "Andean" region regularly.

The activities of the NED–Solidarity Center in Venezuela have been well-documented. Contrary to the rhetoric of the Solidarity Center, the Center's programs in Venezuela have been closely linked to anti-Chavez activities, including political support for the attempted coup against Chavez in 2002. Through Freedom of Information Act requests, and through the work of investigative journalists, activists, and scholars, we are now able to trace the flow of NED funds to Solidarity Center activities in Venezuela that supported specific individuals and organizations involved in the coup attempt. This includes Solidarity Center funding for the Confederation of Venezuelan Workers, which became an important conduit for coup plotting with Venezuelan groups, most prominently FEDECAMARAS (the National Business Confederation of Venezuela). Solidarity Center members were directly involved in meetings with Assistant Secretary of Western Hemisphere Affairs, Otto Reich, who has been directly implicated in working with anti-Chavez groups in destabilization campaigns prior to the coup attempt (Scipes 2006; Gollinger 2006).

After the failure of the 2002 coup attempt, in 2003 the NED funded only two direct grants for Latin America, a small grant of "reprogrammed funds" to be used to support a hearing in front of the Inter-American Commission on Human Rights, and another for the "Andean' region for $774,893 to create linkages between labor and "civil society" meant to "specifically focus on the issues of the loss of social benefits, good jobs, and the right to organize and participate as workers and citizens" (NED 2003). In 2004 only a single grant of $736,800 was collected by the Solidarity Center from the NED, again for work in the "Andean" region to "promote the development and capacity of democratic unions" (NED 2004).

Beginning in 2005 there is an increase in the amount of NED-funded Solidarity Center activity in Latin America and the Caribbean. Although Latin America sees only moderate increases in NED-funded Solidarity Center programs in the aggregate (ranging from as little as 10 percent of total NED funding in 2004, to as much as 20 percent in 2009), the NED begins to fund much larger "regional grants" as well as specific grants in Haiti and Mexico. Thus, in 2005 the Solidarity Center received $1,499,967 in grants for Latin America, including $99,965 to work with Batay Ouvriye, which has been scrutinized by other scholars including Jeb Sprague (2007). In 2006, $1,759,238 was granted to the Solidarity Center for work in Latin America, in four regional grants as well as a specific project to work with independent Mexican unions in the auto-parts sector. In 2007 the total funds granted by the NED amounted to $2,069,238 and were mostly regional grants. Again, the "Andean" region was the largest recipient of grant funding, as the Solidarity Center worked to "support basic organizing, collective bargaining and public policy advocacy to cope with the changes of economic modernization and public sector reform" (NED 2007).

In 2008, NED funding for Latin America was $2,724,001 with $250,000 to Haiti "to build strong, representative trade union organizations guided by workers' interests both internally and as actors in Haitian democracy" (NED 2008). Although the grant does not make clear which Haitian unions the Solidarity Center will work with (Batay Ouvriye?), the grant mentions that the center will work with two "umbrella union organizations" (NED 2008). In 2009, the Solidarity Center received another $300,000 grant directed toward working with Haitian labor organizations to assist in documenting violations of workers' rights and to create "exchanges between Haitian workers and their counterparts in the Dominican Republic" (NED 2009).

As with the case of Venezuela, the activities of the Solidarity Center in Haiti bear little relationship to the rhetoric (quoted above) of the Solidarity Center's official publications. Instead, there is a strong continuity of Solidarity Center support for unions and organizations in Haiti that adopt positions favored by US foreign policy elites. During the Duvalier period, AIFLD support pro-Duvalier unions linked to the US strategy of anti-communism in the Caribbean Basin. After President Jean-Bertrand Aristide got elected in 1990 with two-thirds of the Haitian vote, AIFLD, using funds from the NED and AID, funneled money to anti-Aristide unions in 1992, including the Federation des Ouvriers Syndiques (FOS) and the Confédération Autonome des Travailleurs Haïtiens (CATH), for the purpose of working to undermine Aristide's presidency. Two years after Aristide's re-election in 2000, the Solidarity Center was involved in coordinating its activities with the NED and the AID to support opposition groups in Haiti, including the Convergence Démocratique, an internationally financed and trained organization of opposition parties in Haiti which had strong connections to CIA-sponsored death squads, the International Republican Institute, and pro-Duvalierist opponents of Aristide that were working to remove him from office (Sprague 2007).

As Joe Sprague notes, one of the most central relationships developed by the Solidarity Center was with a radical syndicalist union, Batay Ouvriye, which organized workers in sweatshops as a way of protesting exploitative pay and working conditions and with the goal of fostering a political culture of "direct action" and "factory takeover" as the response to political oppression in Haiti. The funding of Batay Ouvriye was a tactical decision by Solidarity Center organizers driven by the political goals of the US State Department through the National Endowment for Democracy. The Solidarity Center funded the union not because of its efforts to support Haitian struggles against sweatshop conditions, but because it was committed to an anti-Aristide agenda (Sprague 2007).

Throughout these grants directed toward Latin America and the Caribbean several patterns emerge. First, grants directed explicitly toward Venezuela stop after the attempted coup in 2002. However, "Andean' region grants become some of the largest NED–Solidarity Center projects from 2002 to 2009. Comprising Bolivia, Peru, Ecuador, Venezuela, and Colombia this region is also the site of a tremendous number of social justice movements that led to significant reforms and the elections of a host of leaders (Chavez, Correa, Morales, etc.) who have questioned large parts of the neoliberal program. This pattern of Solidarity Center funding priorities mirrors the agenda of the US State Department and US intelligence agencies in working to support political organizations opposed to governments that have taken a position critical of US policy and neoliberalism in the region.

Asia, China, and the Solidarity Center

One of the most logical regions for Solidarity Center operations would be Asia and, more specifically, China. As Ronald Cox and Sylvan Lee point out in

Chapter 2 of this volume, using high-tech industries as just one example, corporations are increasingly "relying on overseas production networks in East Asia (and elsewhere) to replace new investments in infrastructure and jobs at home with low wage jobs abroad." Therefore, if the Solidarity Center is attempting to gain leverage in confronting corporate power as it increasingly pushes to lower labor costs through the transnationalization of production, Asia would be strategically vital to this endeavor.

In regard to Asia, the Solidarity Center has been funded extensively through NED grants for the period under review here. The growth of overall NED funding for the Solidarity Center also coincides with a growing emphasis on Asia, and particularly China, Burma, and Pakistan. In 2001, overall NED funds allocated through the Solidarity Center for Asia came in at $1,908,388. China was targeted for $430,911 in NED funds, slightly less than Burma (Myanmar), at $456,699, which has been a major recipient of NED funding during the period under review along with Pakistan, which collected a grant for $207,767 (NED 2001). In 2002 the numbers were similar, with Thailand and Malaysia also receiving a funding focus to the tune of $425,033 (NED 2002). In 2003 grants for work in China came to $790,201 out of a total Asia program of $2,073,298 (NED 2003). Sri Lanka and Pakistan also received funding along with Burma, who was again a major recipient of NED funds via the Solidarity Center, amounting to $475,000 for support of "programs of the independent labor movement in exile, about labor rights and democracy; and to document violations of internationally recognized labor rights" (NED 2003).

From 2004 to 2009, Asia has remained a focal point for the NED–Solidarity Center partnership, as grants for the region increase nearly every year. The focus continues to be on China, Burma, Pakistan, Sri Lanka, and Indonesia and Malaysia. Over this five-year period China saw NED-funded grants ranging from $460,865 in 2004, to $680,080 (including Hong Kong) in 2007 (NED 2004–2009). Pakistan continues to receive significant attention from the NED and Solidarity Center, focusing on child labor and women worker rights, with a jump in funding in 2006 when the NED accepted two grants in Pakistan amounting to $487,726 (NED 2006) a trend that continues through 2009. Sri Lanka has also consistently received Solidarity Center directed funding every year from 2002 to 2009, including $234,959 in 2005 for among other things, "the development of a labor research institute," and $373,190 in 2008 to work on a variety of projects including union organizing and monitoring of Free Trade Zones (NED 2005, 2008). Finally, Thailand and Malaysia have both received NED funding through the Solidarity Center every year since 2001, usually under regional grants, with the lone exception being 2003 (NED 2001–2009).

Conclusion

This overview of Solidarity Center funding is limited by the paucity of data on the specific activities that the Center is undertaking in the countries and regions that have received the bulk of the funding flows. However, we can draw some

deductive conclusions about the politics of the Solidarity Center based on the aggregate data available, combined with the investigative work done by journalists, activists, and scholars that have traced Solidarity Center activities in locations such as Venezuela, Haiti, Egypt, Iraq, and elsewhere. Our conclusions involve four separate points about Solidarity Center funding from 2001 to the present.

First, there is a close relationship between the location of Solidarity Center funding programs and the geostrategic objectives of the US national security bureaucracy. Frequently, as documented by the previous analysis, Solidarity Center activities have been concentrated in areas deemed vital to US national security interests. A disproportionate amount of funding has taken place in areas or countries where the US has committed military troops or is engaged in military activities: Bosnia-Herzegovina, Kosovo, Iraq, Afghanistan, and Pakistan. Solidarity Center activities are also closely linked to countries that have received a disproportionately high amount of US military aid (Egypt) or where the US has maintained important military bases (Bahrain). It is hard to envision a scenario in which the Solidarity Center would prioritize these countries for labor organizing if left to the opinions of the rank-and-file membership. But of course, rank-and-file members have nothing to do with establishing Solidarity Center priorities. The orientation of the Center is entirely conditioned by the priorities of the US government, and the Center implements policies within that context.

Second, the Solidarity Center closely tracks the efforts of the NED to work with political coalitions favorable to US objectives, which has included destabilization efforts against popularly elected leaders in the developing world, including Hugo Chavez in Venezuela, Evo Morales in Bolivia, and Jean-Bertrand Aristide in Haiti. Solidarity Center activities in Haiti and the Andean region have disproportionately followed US geostrategic and economic objectives. There is very good documentation regarding the role that the Center has played in both Venezuela and Haiti, for example.

Third, the Solidarity Center's obfuscation of the specific activities that are being funded in the developing world is symptomatic of a deeper division between union leadership and rank-and-file members. When activists critical of Solidarity Center activities have asked the AFL-CIO leadership to provide more information about the specific activities engaged in by the Center, they have often been rebuffed, ignored, or subject to baiting designed to call into question their intelligence and/or their commitment to the union cause. Scholar Joe Sprague received this treatment when investigating the Solidarity Center's activities in Haiti, and it has become all too common in symbolizing a larger divide between a top-heavy union bureaucracy and a "depoliticized" mass of rank-and-file members and activists.

Fourth, it is clear from our investigation that there are instances in which the progressive members of the Solidarity Center have been able to advance a labor rights agenda that has effectively targeted corporations for their role in perpetuating and enabling sweatshop conditions. In instances in which the Solidarity Center is not tied down by their linkages to US geostrategic objectives, and in

cases where funding initiatives are being led by progressives within the Solidarity Center who want to pursue independent organizing and solidarity campaigns with foreign unions, there has been room for alternative approaches. The efforts of Solidarity Center progressives to speak out against the recent Honduran military coup stand as one example, as do the work of Solidarity Center activists in boycott campaigns that target supply chains linked to sweatshop working conditions in the developing world.

What is needed is much more labor organizing and much less dependence on the US state. Unfortunately, this will not happen as long as the Solidarity Center remains dependent on the US government for over 90 percent of its funding. Under these circumstances, the leadership of the AFL-CIO often functions as a surrogate partner in US geostrategic and economic objectives, even when, as the case of Egypt suggests, they are working side-by-side with transnational corporate organizations in supporting neoliberal policies. In order to build a truly progressive organization capable of fighting for workers' rights, activists inside the AFL-CIO will have to chart an independent course, both in foreign policy, and increasingly in domestic policy as well.

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4 The corporate centrism of the Obama administration

Daniel Skidmore-Hess

Part of the reason survival-of-the-fittest periods are so relentless, however, rests on the performance of the Democrats as history's second-most enthusiastic capitalist party. They do not interfere with capitalist momentum, but wait for excesses and the inevitable popular reaction.

Kevin Phillips, "Reagan's America: A Capital Offense"
New York Times Magazine (June 17, 1990)

The ideological distortion of Barack Obama

Barack Obama has restored socialism to its lost place in the political life and debates of American democracy. Sadly, this may be true, but not because the once proud party of Eugene Debs has rallied millions to its red banner, now unfurled by the nation's first president of color. Rather, "socialism" as buzzword and bogeyman has been interjected, or more accurately re-interjected by the political Right. How and why right-wing commentators have done so is a question beyond the scope of this paper although it could indicate a sign of ideological crisis (White 1998). After the Republican Party's losses of the US House of Representatives and then the presidency in elections of 2006 and 2008 and more significantly, in the midst of severe global recession, socialism was conjured up anew to satisfy the political and perhaps the psychic needs of capitalism's most ardent apologists. It will be interesting to see if in light of the 2010 election results, this rhetorical motif remains part of the national political discourse.

On the liberal left a sense of disappointment is apparent. Some thought a New Deal-like emphasis on jobs and public works would be central to administrative economic policy, while the results of healthcare reform stir limited enthusiasm among those who have long hoped for it. The modification of the Democratic party's platform plank on healthcare, eliminating the commitment to universal public insurance at candidate Obama's behest, went little noticed. The return of the heavily Goldman Sachs inflected Clinton economic team caught somewhat more attention. The most notably missing Clintonite on the domestic policy side was economist and public commentator Robert Reich, arguably the most progressive from the last Democratic administration. Most crucially, progressives

tended to overlook the Obama fundraising base, which it will be argued here, best indicates the administration's ideological profile.

The Obama-as-socialist tag may appear ludicrous to any serious student of history or comparative politics. Even when and where there has been popular enthusiasm, electoral socialism has never transformed a nation from capitalism to socialism nor altered the basic mode of privately controlled economic decision-making. Democratic socialists, at best, have expanded labor rights, economic protections, and have supported liberal political and social reforms that have buttressed the democratic aspects of advanced capitalist regimes (Judt 2009). In other words, socialists in elective office have been in practice an advanced type of liberal capitalism at their best (by their criteria) and catch-all electioneers and allies of imperialism at their worst. In a world where the content of electoral socialism is liberal, US conservatives have insisted upon seeing Soviet-style socialism in liberalism. As Peter Viereck once aptly commented in a critique of fellow conservative Bill Buckley, today's Red Scare "treats not only mild social democracy but even most social reform as almost crypto-communism" (Viereck 1951).

The actual content of his policies, platform, and administrative personnel all serve to illustrate the Obama administration's place well within the mainstream of American liberalism, in the sense the administration's worldview is underpinned by the notion that state action should uphold market economics and individual choice over collectivist alternatives (Hartz 1991). The point here, however, is not to engage in a polemic of the absurd with the new McCarthyism of talk radio nor Tea Partyism nor even to deconstruct the impolitic impact of Machiavellian party strategists (Wilentz 2010). Those who use the socialism trope for political gain are not themselves deceived by it (Halloran 2010). Nonetheless, its usage does serve to highlight as well as obscure important aspects of the present conjuncture in American politics.

A scholarly analysis of the ideological content of the Obama administration must necessarily start with the recognition that the politics and policies of Obama's presidency are shaped by crises. Most obviously and probably most importantly there is the economic slump, a global downturn and the most significant crisis of global capitalism in the post-Cold War era. As such, the downturn challenges at a fundamental level post-Cold War triumphalism. Now loosed upon a world in which there is no Iron Curtain or Great Wall holding back global capital, the economic system of the one superpower appears deeply unstable.

Commentators of both the left and the right, albeit for different reasons, share the assumption that the current recession is of a magnitude greater than any other since 1929. This author regards Great Depression comparisons to the recent crisis to be highly overblown. The Great Depression saw the US GDP drop by over 45 percent from 1929 to 1933, while the three quarters of recession in 2008–2009 witnessed a drop of less than 3 percent before growth returned. To date, only one month of double digit unemployment has been officially recorded. That likely understates the problem of underemployment and discouraged workers, but it is nothing like a decade-plus of double digit unemployment,

peaking at an annual rate of 23.6 percent for 1932 according to the official numbers (Bureau of Economic Analysis 2011; Bureau of Labor Statistics 2011). It is, at this writing, simply too soon to tell if this slump will be deep and long. Indeed, the recession is over, but what remains to be seen is if a further decline or perhaps an extended period of sluggish growth may lie ahead. We simply do not know. However, by contrast to the crises of the 1970s and 1980s, this crisis is one-dimensional. There is no "stagflation" to stymie policy prescriptions. To the contrary, deflation appears as a real threat, so to that extent at least the policy prescriptions are more straightforward.

As the Republican Party (GOP) returns to control of the House of Representatives in the context of continued slump or sluggish growth in 2010–2012, there will be more economic stimulus in the form of extended tax reductions, and if past behavior predicts what is ahead, further increases in military spending and public construction projects. History, politics, and mathematics belie any likelihood of the end of deficit spending before the return of economic growth. The attentive reader however will have noted already that the phrase "tax reductions ... further increases in military spending and public construction projects" empirically describes the policy of the Obama administration, as well as his predecessor for that matter. Policy continuity is relatively autonomous from party and ideology, largely a matter of the underlying balance of political power and the necessities of circumstance at the end of the day. Nonetheless, there are relative and incremental policy shifts from party to party and from administration to administration, which will be examined in the next section within the context of a longer historical arc of American politics.

The rightward shift of the Democrats

In the traditional terminology of American political science, the election of 1980 was a critical election. Realignment then took place in the midst of foreign and domestic crises, bringing a conservative president to power along with a Republican majority in the Senate and a conservative majority to the House. There were significant changes in public policy as taxes were cut, mainly on businesses and high incomes (they were actually raised on many wage earners due to increases in payroll taxes). The military budget was sharply increased and a more aggressive tone became apparent in foreign policy. Deregulation became the byword of the day. Yet when we look back in retrospect, we can see continuity as well as change in the Reagan years. Reagan was a military interventionist (Grenada) but so too were his more liberal predecessors (Vietnam). His posture toward the Soviet Union was militant at first but increasingly conciliatory after Gorbachev came to power. On the domestic front, Reagan himself began his public life as a New Deal Democrat and yet throughout his later career as the very epitome of conservative renascence, he frequently reiterated his adherence to the idea of a "social safety net" and indeed there was substance to this phrase. To be sure, there were conservative shifts; legal aid was cut, public housing was devolved and thereby diminished in at least some states and locales, and federal

support for college students was significantly shifted from grants to loans. Nonetheless, despite the conservative president's frequent recourse to populist antiwelfare rhetoric as a candidate, the Aid to Families with Dependent Children (AFDC) and food stamp entitlements remained intact. Reagan did in fact leave the New Deal era welfare state edifice entirely intact as well as nearly all of its LBJ-era additions. The work of actually repealing a New Deal entitlement (AFDC; an income maintenance program initiated by the Social Security Act of 1935) was left to a more "liberal" successor, Bill Clinton, who would also make notable neoliberal advances in the areas of free trade and the deregulation of finance and telecommunications. Crucial policy initiatives of Reagan that had been stymied to an extent by Democratic congressional majorities were furthered under Clinton, such as NAFTA and the rollback of income maintenance programs through the repeal of the AFDC entitlement.

Most remarkably and relevant to this analysis, by the end of his two terms, Reagan signed a tax reform (1986) that closed a number of the loopholes that had been created by his earlier tax breaks, especially in the areas of depreciation write offs and removed the tax advantage for capital gains income, thus eliminating the single biggest method of tax avoidance for the wealthy. His support for reform should be understood against the backdrop of a rejuvenated economy and the desire to bring the then-sizable deficit to heel. Perhaps even more remarkably, Reagan in 1987 proposed the addition of a catastrophic insurance component to Medicare and most notably of all the gradual extension of a Medicare option to the rest of the public (Reagan 1987). Reagan, in effect, came to the verge of universal health coverage as a policy accomplishment, a moment that few liberals or conservatives now care to remember. But as the president noted at the time the long-term health of the nation's finances requires, and continues to require, generalized coverage.

History it turns out does repeat itself, sometimes as farce on both occasions. Reagan's regressive method of financing healthcare reform proved highly unpopular. The powerful Democratic chair of the House Ways and Means Committee, Dan Rostenkowski was literally run out of a town hall meeting on healthcare reform, although it would take a corruption conviction to ultimately run him from office (Stone 2010). Flash forward 22 years and a wave of "town hellers" turned out to resist Obama's efforts at healthcare reform. Then, as now, the president was responsible and oft-criticized for massive (and stimulating) deficits, corporate bailouts, increasing taxes (Reagan signed "revenue enhancements" into law 6/8 years in office; at this writing Obama has not yet done so), and "negotiating with terrorists" (i.e., Iran-contra). The rhetorical character of each president's critics notwithstanding, there are fundamental consistencies in policy that we must note and seek to better understand.

To the extent that the election of 1980 did inaugurate a more conservative era in American politics, the entire spectrum shifted, not only one party. Beginning with the campaign of 1984, the Democrats aligned themselves more closely with financial interests that were alarmed by the Reagan era deficits and positioned themselves as fiscally restrained centrists, and as both fundraising and voting

patterns (post-Reagan) showed, the Democrats were becoming increasingly acceptable to "socially liberal, fiscally conservative" affluent voters, especially in the Northeast and on the West coast (Rogers and Ferguson 1987). With organized labor in decline both as a result of the economic crises of the 1970s and 1980s as well as the anti-union policies of the Reagan administration, the Democratic Party turned increasingly to corporate investors for support. In actuality, organized labor had never been the kingpin of the Democrats outside of the core industrial states and indeed in the region of its strength it had played a relatively conservative game, assiduously cultivating friendly relations with the moderate to liberal Rockefeller wing of the GOP, an ever shrinking faction in the post-1980 period, increasingly supplanted by Democrats who owed even less to labor as a base.

The next Democratic president after Reagan would then necessarily be a "New Democrat" in the person of Bill Clinton, who notably claimed "the era of big government is over." Of course, it is not so, indeed there is no working model of contemporary capitalism that does not require a symbiotic relationship between the welfare state and the economy. As we have seen, Reagan never pursued any such goal, nor would any Republican administration in this decade. Yet even while the state remains a Gargantua in budgetary terms, it increasingly functions as the means by which global as well as domestic markets are unevenly deregulated. The point here being that deregulation is not a rollback of the state or an evenly applied principle, rather it reflects a shift in the state's role, away from limited protections of workers, consumers, and smaller business firms and toward the greater service of those financial mastodons that are said to be "too big to fail." The finance industry has enjoyed both the competitive advantages of deregulation and the pleasures of supportive state interventionism at the same time.

The Glass–Steagall Act that had established a wall between commercial and investment banking was breached during the Reagan years and utterly demolished by the Clinton administration. The stage was set for a classic cycle of boom-and-bust, as unfettered capital did again what it does best: overproduce. Involving in this case, mortgage loans and credit cards and increasingly exotic species of financial assets derived from those debt/revenue streams. The finance sector grew, but far out of proportion to the rest of the economy. Worker productivity also shot forward, aided by technological innovation, but median real wages and salaries lagged well behind the rise of both productivity as well as housing prices, not to mention healthcare, insurance, and the price of household credit, as limits on interest rates also disappeared in the brave new neoliberal era (Harvey 2005).

Crisis was inevitable under the circumstances described here. Crisis creates opportunity, as has often been noted by historians and political theorists as well as by a former White House Chief of Staff. To date, however, one must note that crisis seems to give rise to more of the same rather than change. In the midst of the meltdown of financial markets in 1980, the administration of George W. Bush and the Federal Reserve intervened massively to prop up banks and other

financial concerns. These policies continued under the Obama administration along with a bailout of the auto industry (again a replay of the earlier bailout of Chrysler). These initiatives were major interventions in the market, very costly, perhaps necessary, and yet remarkably conservative, in the sense that none of the policymakers involved gives more than lip service to the systemic need to reform the underlying causes of the crisis. In this context, if at any time in recent history, a move toward a much more deeply interventionist regime of industrial policy and indicative planning might have been made. De facto public ownership of industry and finance was initiated in a context where the only alternative appears to have been collapse, fueling the hysteria noted above, but again there were precedents (e.g., Amtrak) and subsequent events indicate clearly that these assets are to be re-privatized and indeed are already in the process.

Conservatives blame the financial bubble and its collapse on liberal federal policies designed to promote home ownership, which they claim led to too many mortgages issued to too many low-to-moderate income mortgagees. It takes some extremely creative math to pin the global recession and financial meltdown on the more modestly priced fraction of the US housing market to be sure, but be that as it may, the conservative critique only points out the symbiotic relationship between the state and finance capital and the role business-friendly public policy played in the unbalanced growth of the US economy in the Reagan era. For their part, liberal Democrats inaccurately blame Republicans for deregulating the financial sector, while overlooking the role the Democrats themselves played in financial deregulation and fail to address the deeper disequilibrium between family and worker incomes, productivity, and the housing markets.

At the end of the day, while marginal reform of the financial regulatory system is on the agenda, anything of the kind pursued by FDR in 1933 is barely even contemplated, much less likely to be legislated. The public is rightly angered by bailouts that ever intensify the corporate–state symbiosis with ever less public accountability. Or put more simply, the people who most directly brought on the crisis were well compensated for it. They were also the investors who financed the Obama campaign for the presidency as is described below.

Counter-currents

The shift of the two major parties to the Right has evoked counter-currents. In electoral politics, the most notable was perhaps Ralph Nader's 2000 presidential campaign, which received more popular support than any left of center, third party campaign since Robert M. LaFollette's 1924 Progressive party effort. Nader's 2.7 percent of the popular vote in the 2000 presidential election surpassed 2.4 percent for former Vice President Henry Wallace's 1948 Progressive effort and the 2.2 percent best effort of Socialist Norman Thomas in 1932 (uselectionatlas.org 2011).

The low single-digit levels of support for progressive presidential candidates well exemplify the dilemma facing would-be third party efforts. Indeed, it has become common coin of American political discourse to perceive the Nader

campaign as a debacle for progressive politics as it is nearly impossible to deny that Nader's vote tipped the scales of the official outcome in Florida, as well as New Hampshire where the state's four electoral votes alone would have provided Vice President Gore with sufficient electoral votes. Even so, liberal condemnation of the 2000 Nader campaign begs a number of questions.

The deregulatory policies of the Clinton administration were a major factor in propelling the well-known consumer advocate to make a stronger effort in 2000 than he had in 1996. The level of popular support he did attain indicates progressive disaffection with the Democratic administration's shift to the right. Yet most critically, the "spin" and response to the third party vote cannot be known in advance, but is what determines its historical significance.

Within the last half century, only two third-party candidates for president have received a double-digit share of the popular vote. These were George Wallace in 1968 (13.5 percent) and Ross Perot in 1992 (18.9 percent). Of the two, the Wallace American Independent campaign has had the more notable influence on American political history as Republican social conservatism on issues such as race and crime were acknowledged as part of a "Southern strategy" (although the Wallace constituency was hardly limited to the South) for building a Republican majority. The potential for Southern realignment to the GOP had been indicated in the 1964 results, when Senator Barry Goldwater won five Southern states, gains attributed to his opposition to federal civil rights legislation. Winning over those voters, without embracing a segregationist politics that would be nationally untenable, became a party-defining strategy for the GOP (Carter 2000).

In contrast, the Perot Reform Party campaigns have not shaped either party's subsequent strategies or ideological profiles. Perot's emphasis on the federal deficit and national debt arguably enhanced the Clinton administration's willingness to emphasize its pursuit of balanced budgets as the administration's overall fiscal policy could be seen to have some popular appeal as well as support from business donors. Yet there was certainly no effort, by either major party at the national level, to redefine itself to appeal to the anti-NAFTA sentiments vigorously expressed by the Texas billionaire. His sizable vote gave Perot status as a spokesman for anti-NAFTA opinion as Vice President Gore debated the issue with him on national television. Nonetheless, NAFTA passed Congress with bipartisan support. It is difficult to imagine a protectionist candidate, who is not self-financed, raising the funds necessary for mounting a serious national campaign. As it was, Perot saw his popular vote fall to 8.4 percent in 1996. In 2000, an underfunded and outspokenly protectionist Reform Party candidate Pat Buchanan received a mere 0.43 percent of the popular vote.

More promising prospects for progressive politics at the national level appear to exist in Congress. At this writing, better than one out of three House Democrats are affiliated with the Progressive caucus, which was originally convened in 1991 by independent socialist Bernie Sanders, then in the House, now representing Vermont in the Senate. The Progressive Caucus in the House surpasses the centrist New Democrat Coalition associated with the Democratic Leadership

Council, itself an outgrowth of earlier efforts to shift the party rightward to the perceived new center of political gravity after the election of Ronald Reagan (Baer 2000). Further to the right is the Blue Dog coalition, whose membership dropped by more than half due to losses and retirements in the 2010 congressional election cycle.

Other than Sanders, all members of the Progressive caucus are Democrats and other than Sanders, all are House members as well (Congressional Progressive Caucus 2011). The only Senate Democrat to have affiliated with the Progressive Caucus was the late Paul Wellstone. Ohio's Sherrod Brown was a member when he was in the House, but no longer as a Senator. California's Nancy Pelosi quit the Progressive Caucus when she became the party's minority leader. By contrast, 12 Senate Democrats affiliate with the centrist New Democrat coalition, including the party's 2004 presidential standard bearer John Kerry, a member since 2000 and interestingly representing the largest state where the majority of the House delegation is in the Progressive Caucus.

Barack Obama has never affiliated with the Progressive Caucus but also eschewed membership in the New Democrats citing his positions on the Iraq war, healthcare, and trade. Any perception that Obama has represented a cross-current to the rightward stream of contemporary politics is belied by tracing these three issues. On trade, unsurprising for a Senator from rustbelt Illinois, Obama took an anti-NAFTA position and during the 2008 presidential primaries criticized the strongly free trade positioned Senator Clinton. Yet as president, his administration has initiated new efforts to expand NAFTA-type agreements with US trading partners in the Americas and East Asia, building on groundwork laid by his Republican predecessor (Skidmore-Hess 2011).

On the Iraq war, candidate Obama again positioned himself to the left of New Democrat Clinton as opponent of the war and advocate of US withdrawal, as well as the closing of the controversial Guantanamo Bay detention center. Yet again, continuity with his predecessor's policy is notable, beginning with president-elect Obama's decision to retain Defense Secretary Robert Gates and continuing the slow motion military disengagement from Iraq. In Afghanistan, a military engagement favored by Senator Obama, the US intervention has continued despite increased public opposition, indicating the lack of influence that progressive currents in public opinion have on the Obama administration. Finally, an intervention in Libya to oust Gaddafi was pursued, again without popular support and in the face of progressive opposition. The peace candidate has become a three-war time president.

On healthcare, the flow to the right was visible during the campaign and was registered in the 2008 Democratic platform. During the primaries, Senator Clinton criticized Obama's healthcare proposals for falling short of the long-standing Democratic goal of universal coverage. In the party platform, the Obama campaign succeeded in inserting a change in language to the effect that health insurance coverage is a "shared responsibility between employers, workers, insurers, providers, and government" (Sheeran 2008). In office, the Obama administration did support a "public option" as a means of assuring universal coverage, but ultimately agreed to an individual mandate that was developed as a policy proposal by the conservative Heritage Foundation and previously presented as a Republican alternative to an employer mandate (Klein 2011).

Ezra Klein also points out that the Obama administration supported proposals for a "cap and trade" approach to environmental regulation originated in the first Bush administration as a market-oriented approach which had also been endorsed by 2008 nominee John McCain. While the Republican Party has moved rightward, away from their previous positions on these issues, President Obama has adopted the formerly moderate Republican positions, congressional cross currents notwithstanding.

A full discussion of the structural and historical sources of the rightward trend of American politics are beyond the scope of this chapter. However, one source that is especially pertinent to the discussion can be identified here. As of 2010, the rate of trade union density in the US had fallen to 11.9 percent of the workforce, one of the lowest rates in the OECD countries and the lowest level in US history since the Great Depression. Faced with the long-term decline of organized labor in the US, the balance of influence on policy increasingly shifts from labor to business, a pattern that is also apparent in campaign finance.

Investors in Obama

The President's fundraising success in the 2008 election cycle is well known, as then Senator Obama became the first major party nominee to reject federal matching funds since the practice was initiated prior to the 1976 elections. As such, candidate Obama was not restrained by contribution caps required by matching fund recipients. Overall, he outraised his Republican rival Senator John McCain by a margin of $748.2 million to $353.5 million according to the Federal Election Commission (Federal Election Commission 2009).

Following the analysis suggested by "the investment theory of party competition," I suggest here that fundraising be treated as a kind of pre-electoral financial "vote" by those who have the resources to participate (Ferguson 1995). If we may assume that campaign contributions are a form of political action, they should be subject to the assumption that they are a kind of rational choice or that they may be understood by analytical means similar to voting behavior. To be sure, a contribution is not a ballot and the phenomena of interest groups contributing to both parties or even to both candidates in the same contest is well known. While a survey of the literature on campaign finance is beyond the present scope of this chapter, it would seem odd to assume no affinity of interest or ideology between contributor and candidate. As such, the suggestion made here is that a given pattern of contributions will parallel the likely or perceived policy preferences of the candidate (e.g., we would assume the NRA would not contribute to a gun control advocate and similarly that health insurers would not contribute to a candidate who would socialize their industry via a Single Payer system).

What follows is a look at the campaign contribution "election returns" by economic sector for the 2008 presidential campaign (rounded to nearest million), with the "winning" candidate indicated for each sector (Open Secrets 2009). This list focuses solely on business donations. As expected the Democratic candidate dominated in fundraising from lawyers and labor and unlike previous campaigns, the Republican failed to hold his ground in funds raised from small private donors and ideological groups. When we turn to business sectors, however, we find a pattern that is consistent with previous findings and might surprise some who assume that the Republicans are the party of all business sectors (Cox and Skidmore-Hess 1999):

Agribusiness	McCain 3m–2m
Communications	Obama 25m–5m
Construction	Tie 5m–5m
Energy	McCain 4m–3m
Finance	Obama 40m–29m
Health	Obama 20m–7m
Transportation	McCain 3m–2m
Other Business	Obama 37m–16m

As stated, the pattern is consistent with previous elections. That Democrats enjoy support from the finance and communications sectors is not new, nor for that matter is the financial support of the health sector. What is distinctive about 2008 is not which sectors favor the Democratic or Republican candidates, but the margins by which Obama's campaign was able to dominate fundraising in the Democratic-leaning economic sectors and the anemic fundraising by McCain's campaign in the traditionally "red" industries of energy, agribusiness, and transportation.

By contrast, the right leaning American Institute for Economic Research reports that organized labor made total campaign contributions of $74.5 million during the 2008 campaign of which $68.3 million went to support Democratic candidates including the lion's share going to then Senator Obama (Ebeling 2009). Another source places total union support for the Obama campaign at $60.7 million, a number that would include independent expenditures as well as contributions (Malkin 2009). In other words, labor's support for the Democratic campaign constitutes a single digit percentage of the total funds available and a negligible contribution to the Republicans. Yet one easily finds apparently serious analysts continuing to claim that the Democrats rely upon "big labor" when the truth is that the Democratic party at the national level would be perfectly well financed without any labor dollars at all. At the state and congressional level, certainly it may be otherwise as an analysis of contributions to members of the Progressive Caucus, discussed in the previous section, might well show. The bottom line for presidential politics, on the other hand, reveals that the Obama administration had no great debt to labor at least in relative terms and that a campaign budget for re-election relies heavily on corporate sources of funds, mainly in the sectors listed above.

The pattern of corporate and business sector support for the parties is also well illustrated if we look at the "big states," that is to say the largest corporate firms' donations to candidates in the 2008 election campaign. As it turns out, among the ten biggest firms, the Democrats received the lion's share with the GOP doing somewhat better in the second tier of corporate behemoths and trade groups (Open Secrets 2009):

Largest donor firms

1	Goldman Sachs	$7.1M 75 percent to Democrats
2	AT&T	$5.9M 54 percent to Republicans
3	JP Morgan/Chase	$5.8M 59 percent to Democrats
4	Citigroup	$5.8M 64 percent to Democrats
5	General Electric	$4.4M 67 percent to Democrats
6	Morgan Stanley	$4.3M 55 percent to Democrats
7	Microsoft	$4.0M 71 percent to Democrats
8	Comcast	$3.9M 64 percent to Democrats
9	Bank of America	$3.9M 53 percent to Democrats
10	Blue Cross/Blue Shield	$3.8M 51 percent to Republicans
11	UBS AG	$3.7M 52 percent to Democrats
12	Time Warner	$3.6M 82 percent to Democrats
13	Merrill Lynch	$3.4M 55 percent to Republicans
14	Honeywell	$3.4M 50–50 split
15	Pricewaterhouse Coopers	$3.3M 54 percent to Republicans
16	Deloitte Touche Tohmatsu	$3.3M 51 percent to Republicans
17	UPS	$3.3M 60 percent to Republicans
18	Lockheed Martin	$3.3M 51 percent to Republicans
19	Verizon	$3.2M 52 percent to Republicans
20	Credit Suisse	$3.1M 54 percent to Democrats

Largest trade association donors

1.	National Association of Realtors	$4.9M 58 percent to Democrats
2	American Bankers Association	$4.5M 58 percent to Republicans
3	Credit Union National Association	$3.4M 52 percent to Democrats
4	National Assoc. of Auto Dealers	$3.3M 66 percent to Republicans
5	National Beer Wholesalers Association	$3.2M 53 percent to Democrats

What we discover in these numbers underlines note only the magnitude of Democratic dependence on the financial sector for campaign finance, but also three other telltale patterns of the United State political economy. First, note the sizable presence of finance capital, as opposed to industrial capital. Second, note also the degree to which the Democrats dominate the Republicans among the biggest donors. The first pattern is long term and arguably represents one of the most favorable and least understood structural factors in the political economic system. It also illustrates the declining significance of industrial corporations and industrial unions. The second pattern, Democratic dominance, is a short-term

factor, enhanced by the conditions of economic crisis on 2008. Third, it should be noted that the upper end of corporate donations surpass the total of all spending by organized labor, undermining any pluralist notion of "countervailing power" (Galbraith 2007). Unlike labor, the corporate donors have much more proclivity to engage in financial bi-partisanship and arguably have more leverage, both when it comes to choosing who to support and seeking influence on policy decisions.

The reader might also note a general relationship between the economies of states and regions and their electoral predilections. Where energy and agriculture are mainstays (Texas, Alaska, and rural farm belt states) the political map reddens and in the centers of finance and the communications industries (New York, California) and where organized labor has more of a presence (Michigan, Pennsylvania), the pattern tends to blue. It is reasonable to posit that the economic interests of an area suffuse its politics. Still voting behavior research has yet to establish a strong correlation between the geography of campaign finance and mass voting behavior. Such demographic factors as race, gender, religion, and levels of income and educational attainment remain the best predictors of who will vote and how they will vote. Nonetheless, the assertion here is that successful candidates must succeed in the campaign finance arena as a prerequisite to having sufficient access to the means of communication and ability to be seen in the media as "viable candidates." Conflicting business interests are illustrated by the campaign finance pattern noted here, a pattern that continued in the 2010 congressional elections and can be foreseen in the 2012 presidential election cycle. Estimates place President Obama's 2012 re-election budget at a record-shattering $1 billion (Kavanagh 2010). One might expect that the president's fundraisers will find that sum within the same sectors and representing the same interests as in the past.

The Obama party coalition: a revisionist view

As noted above, there is a rough correlation between "blue" and "red" sectors and the electoral map. To the extent that Energy and Agribusiness are concentrated in Texas and the farm belt states, while Finance and Communications are found on the coasts, there is a broad match between regional economic interests and voting behavior that bears further scrutiny. Such research, I would suggest, could deepen the political science discipline's understanding of electoral coalitions, providing a "revision" of what a party coalition entails. Electoral campaigns in the United State are neither free nor publicly financed in the main nor likely to become so, reform proposals and the practices of other democracies notwithstanding. As such, every candidate for public office must effectively identify financial resources, that is to say build a donor coalition, as a prerequisite to building an electoral coalition. Fundraising success might not cause electoral success, but it is a necessary condition thereof in most cases.

Mainstream concepts of electoral politics typically view coalitions as combinations of like-minded voters and interests, rarely giving sufficient emphasis to

the essential importance of the fundraising aspect of coalition-building. This, despite the fact that candidates and elected officials themselves report, and frequently complain about, the need to dedicate increasing amounts of their time to policy issues and speaking to voters and constituents. The view taken here is "revisionist" in the sense that electoral coalitions are not construed to be alliances between equals, each of whom as an individual has of course only one vote on Election Day. The point, of course, is that prior to the appearance of a coalition at the ballot box, the outcome has been fundamentally conditioned by the financial politics of the possible. The view taken here is that an electoral alignment expressed an actual or potential hegemonic bloc in which investors in the candidate are in the last analysis the dominant elements of the coalition, while the interests of the voting "base" are represented albeit in a subordinate way (Cox and Skidmore-Hess 1999).

The term "hegemonic bloc" is a theoretical legacy concept that designates a historical and empirical pattern of political relationships of political dominance and subordination that is observable even within liberal democratic political systems (Gramsci 1971). The concept of hegemonic bloc negates established pluralist preconceptions about US politics and calls into question the democratic character of the political process. Nonetheless, it is not difficult to identify such blocs in US electoral and political history. The conservative bloc that provided the basis for Ronald Reagan's electoral coalition included a popular base of social conservatives, many drawn from the evangelical churches, and business interests. The Reagan administration delivered favorable policy to the latter in the form of lower tax rates and liberal allowances for depreciation write-offs and other policies, including major increases in military–industrial spending that enhanced profitability, at least in the short run. On the other hand, as has often been noted, little was achieved and much less emphasis was placed on the domestic agenda of the social conservatives. Or we might reconsider the New Deal coalition, so often seen in liberal and even some left analyses as the foundation of any progressive politics based on the alliance of labor and liberal advocates of social reform. Yet FDR's most left-sounding rhetoric, against "economic royalists" was hardly radical but rather harkened back to populist and even Jeffersonian traditions in terminology and was mainly confined to the 1935–1936 period, when the most progressive elements of the New Deal were enacted and FDR achieved his most overwhelming electoral success. Throughout the New Deal era the Roosevelt administration had support and even received crucial campaign finance support from those within the corporate world who perceived a need in the midst of the Depression for heightened state intervention in the economy, including planning along the lines anticipated by the National Recovery Act (1933), enhanced welfare supports for the long-term unemployed, and even a limited role for organized labor (Ferguson 1995; Bernstein 1969). As has often been said, FDR's purpose was to save capitalism not transform it into socialism and his bloc of support did in fact reflect the character of his administration as an effective and liberal response to capitalism's deepest crisis to date.

Looking back now at the policy initiatives of the first two years of the Obama administration with the theoretical and historical perspective that the concept of a "hegemonic bloc" provides, we need to consider how his coalition shaped his policy options. As we can see, the Democratic "financial base" includes powerful interests in finance, communications, and health. There are interests that may well be amenable to some types of reform or regulation of their industries, not to mention publicly-funded support for education, research, and infrastructure. Yet, we can also see how and why "socialist" options such as Single Payer or nationalization of banks are no more than theoretical policy options in American politics. Any reform in these areas that could be produced by the Obama administration would necessarily stay within the limits of what facilitates profitability in the finance and healthcare industries. Otherwise, the Obama administration would be faced by a crisis far more severe than the loss of one chamber of Congress and presidential approval ratings in the low 40s (Real Clear Politics 2009–2011). Unlike actual blocs such as those represented by Reagan and FDR, it is difficult to find examples of presidents who have abandoned major components of their financial support. Some presidents have lost parts of their popular electoral base due to unpopular policies (LBJ), ineffectiveness, whether real or perceived (Carter), or abuse of power (Nixon), but none seems to have risked such overt alienation of the dominant elements of their coalitions. To do so would require a reworking of the coalition while trying to govern, in all likelihood that would involve a crushing overload of an administration's political capabilities that would likely be registered by the media as a severe crisis of confidence with devastating political consequences.

Conclusion

Senator Barack Obama was elected with 52.9 percent of the popular vote, the highest proportion achieved by any Democratic candidate since 1964. For that matter it was the highest percentage received by any presidential candidate in 20 years. His election was facilitated by an economic crisis that created highly favorable conditions for the non-incumbent party's candidate. His party entered the election cycle buoyed by their recapture of Congress in the 2006 mid-term elections. The prospect of the nation's first African-American president fueled heightened turnout among African-Americans, helping to move formerly strong red states, such as North Carolina, into the Obama column. High levels of support among Latino voters, perhaps encouraged by Republican emphasis on immigration issues, helped swing parts of the Southwest to blue. All in all, Obama's voting base looks much like a traditional Democratic base.

In 2010, the President's party experienced a sharp reversal, losing seats in the Senate and control of the House to the resurgent Republicans. Opposition to deficit spending, healthcare reform, and the continued high rate of unemployment all contributed, but perhaps the most significant factor was morale. The Obama administration has produced little by which to rally the troops. The wars go on and on, there is no new federal jobs program, the compromises made on

healthcare leave supporters' enthusiasm tepid at best while conservative resistance has intensified. At this writing President Obama's approval ratings have plummeted to 40 percent. Perhaps even more notably, even during the most stressed periods of his first term, they have never dropped below 40 percent (Real Clear Politics 2009–2011). The floor of his support may well be stronger than his three immediate predecessors. His re-electoral fate probably lies in factors beyond his immediate control: the sluggishness of the economic recovery, world events, and the strength or lack thereof of his opponent. The return of the Republicans to a majority in the House arguably even improves his chances as the GOP now provides a ready foil against which the President may position himself as the champion of moderation in budget-cutting and popular policies such as Medicare. For a certainty, however, we can predict that his re-election effort will be well-financed and the policy trajectory of his second administration is extremely unlikely to break out of the corporate centrist pattern described here.

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5 The military–industrial complex in a globalized context

David N. Gibbs

> Back when Eisenhower was the President,
> golf courses was where most of his time was spent.
> So I never really listened to what the President said,
> because in general I believed that the General was politically dead.
> But he always seemed to know when the muscles were about to be flexed,
> because I remember him saying something, mumbling something, about a Military–Industrial Complex.
>
> Gil Scott-Heron

The post-Cold War period era has truly constituted the triumphant historical phase of capitalism. Since the collapse of the Soviet Union in 1991, capitalism has become a worldwide system, with few serious ideological challengers. Within the former Soviet Union, the former Eastern bloc, and China, varieties of capitalism have replaced communism, apparently as a permanent shift. Outside the former communist bloc, major ideological challengers to capitalism also have retreated. At the same time, the world has become interlinked to an unprecedented degree, through a globalized network of trade, investment, and corporate ownership (Robinson 2004). Whether these trends can be maintained into the future is open to question. For the moment however, capitalist globalization appears as a hegemonic system.

A related and widely held view is that globalized capitalism is not militaristic. On the contrary, investors are viewed as peaceful or even gentle (associated with the idea of "*le doux commerce*," as described by Hirschman 1997: 56–62). Businesspeople are interested in maximizing profit, according to standards of market rationality, and minimizing risks. The risk of war evokes feelings of dread among rational investors and traders; hence their aversion to warmongering, and to militarism more generally. Imperialism and overseas aggression are viewed as "atavistic" activities (so the argument goes), a throwback to an earlier, precapitalist era (Schumpeter 1955: 65). Furthermore, international trade and investment increases the tendency for peaceful interaction, at least among the core capitalist states, and this point is conceded even in certain Marxist circles (for an early statement of this view, see Kautsky 1970).

The idea of a "peaceful" capitalism would seem especially relevant for the current era, when capitalism has become globalized, and free international trade is widely accepted. Since virtually all countries now are part of the world capitalist order, they should all be subject to the dictates of market rationality, along with its supposedly anti-militarist features. Given these conditions, one might expect that contemporary international relations should entail declining military expenditures, combined with reduced interest in military interventions, overseas bases, global power projection, and the like. Such decreased militarization would seem especially likely in the United States, the leading promoter of globalization. Needless to say, the opposite has occurred. The United States has maintained its overwhelming military capability, even after the end of the Cold War. And during the past decade, the United States has greatly increased its military expenditures, and has shown increased willingness to use its military in interventionist activity. And these trends are not confined to the United States. According to the Stockholm International Peace Research Institute (2011: 3), global military expenditures have increased dramatically since 2001, in spite of globalization.

Many analysts have been confused by the persistence of militarism, which they have difficulty explaining. Thus Eric Hobsbawm recently wrote: "Frankly, I can't make sense of what has happened in the United States since 9/11 that enabled a group of political crazies," who have militarized US foreign policy. Hobsbawm also laments the "apparently irrational government in Washington" (quoted in Foster *et al.* 2008: 2). Even before the 2001 terrorist attacks, writers had been at a loss to explain US militarism. Mohammed Bamyeh referred to the "directionlessness" nature of US interventionism, characterized by "illogical and nonsystematic invasions and wars, where it is difficult to discover a common trend or thread other than sheer and unanchored political opportunism" (Bamyeh 2000: 12; see also Hardt and Negri 2000). It is thus widely believed that militarism has ceased to have any economic logic or motive, or any rational motive at all.

It is the contention of this chapter that such analyses ignore economic interests associated with the military–industrial complex. In this article I will present a military–industrial complex explanation for post-Cold War militarism, and will show that this explanation is perfectly compatible with the logic of economic globalization. Indeed, we will see that militarism helps to advance globalization.

Toward a military–industrial complex model

The military–industrial complex model (MIC) begins with the idea that the military establishment constitutes an interest group or, more precisely, a cluster of intertwined interest groups; and that these interest groups will generate political pressures in favor of military interventions and wars. These pressures will exist quite independently of globalization and will not be constrained by its existence.

Students of bureaucracy have long understood that governmental organizations seek to increase their budgets and their influence over the policymaking process (Downs 1967). This generalization is clearly true of the military, which

invariably seeks to augment its budget as much as possible, just like any other governmental agency. However, the military services possess a basic advantage enjoyed by no other agency, which is their huge size, a factor that increases their clout. The military services (and associated civilian agencies such as the CIA) thus constitute an important bureaucratic lobby in favor of militarism. And there is also the "industrial" aspect of the MIC, which includes such military contractors as Lockheed-Martin, Northrup-Grumann, Boeing, Raytheon, and General Dynamics. Much of the "unwarranted influence" that President Eisenhower (1961) warned about in his Farewell Address results from the interaction between these two elements of the military–industrial complex, the military bureaucracy itself and the private sector industries, which both share an interest in maintaining and increasing expenditures.

The influence of these two groups is surely enhanced by the career patterns of military officers, especially those of high rank, who often gain lucrative employment within the military procurement companies after retiring from active service. The military "revolving door" is of course an issue of long standing, widely recognized as a source of political power, as well as a conflict of interest. This practice has grown significantly in recent years. An analysis by the *Boston Globe* (Bender 2010) found that during the period 2004–2008,

> 80 percent of retiring three- and four-star officers went to work as consultants or defense executives.... In some years, the move from general staff to industry is a virtual clean sweep. Thirty four out of thirty nine three- and four-star generals and admirals who retired in 2007 are now working in defense roles – nearly 90 percent.

The advent of globalization has not attenuated the influence of these bureaucratic and private sector entities. Indeed, the recent trend toward privatization, which has emerged in tandem with globalization, has actually expanded the scope of the MIC, particularly its private sector element, into such areas as military logistics and provisioning or mercenary work, which have enriched companies such as KBR and Blackwater.

Consistent with its interests, the MIC will relentlessly seek to find "threats," which in many cases are overstated or invented altogether, but which justify military expenditures. During the Cold War, George F. Kennan stated: "Were the Soviet Union to sink tomorrow under the waters of the ocean, the American military–industrial complex would have to remain, substantially unchanged, until some other adversary could be invented" (Kennan quoted in Jenkins 2011). And more recently, Defense Secretary Robert Gates (2010) made the following statement:

> Does the number of warships we have and are building really put America at risk when the US battle fleet is larger than the next thirteen navies combined, eleven of which belong to allies and partners? Is it a dire threat that by 2020, the United States will have only twenty times more advanced stealth fighters than China?

It cannot be denied that the influence of the MIC also entails an important social and cultural dimension, as well as an economic one: The US public for the most part strongly supports the military, which is identified with nationalism, and for many is an embodiment of the American national identity. Because of the patriotic fervor that results, presidents and other policymakers can increase their public opinion ratings through periodic military actions (the familiar "rally around the flag" effect). This public popularity of the MIC is partly the result of extensive lobbying and public relations, aimed at improving the military's image. Especially useful in this regard has been the military's connections to the movie industry, whose films often glorify the uniformed services, especially among young males (for details, see Johnson 2004: 112). The military and the CIA also maintain close ties with universities, whose faculties have long received grants and financial support (see Simpson 1996). It should not be forgotten that one of Eisenhower's greatest concerns was the MIC's ability to corrupt university faculty, by undermining their capacity for independence: "The prospect of domination of the nation's scholars by Federal employment, project allocations, and the power of money is ever present – and is gravely to be regarded" (Eisenhower 1961).

Following from these military ties, academic researchers in international relations have shown little interest in the military–industrial complex. Instead, academics have emphasized the realist tradition, which views the military as an instrument of the larger "national interest," rather than being an influential interest group in its own right (see for example Krasner 1978). Despite lack of attention by the academic mainstream, the idea of a military–industrial complex – as an interest group – is well recognized among retired officers, beginning of course with former General Eisenhower, as well as such figures as Major General Smedley Butler (2003), General David Shoup (1969), and Colonel Andrew Bacevich (2006).

Another source of the MIC's political influence is its role in the overall macroeconomy, through the process of "military Keynesianism" (Borch and Wallace 2010; Custers 2010). In America, there is little tradition of government planning of the economy through investment in civilian infrastructure, which is distrusted by business elites, who view the process as a form of socialism (Vogel 1978). However, government planning through *military* expenditure has no such stigma and is thus perfectly acceptable. It has long been known that military spending serves as an economic stimulus, one that is highly prized by political leaders of all political orientations. Indeed, the basic idea of military Keynesianism preceded the Cold War and the writings of John Maynard Keynes himself. During and after the extended depression that affected much of the world after 1873, governments in several countries used naval appropriations as a means to alleviate economic stress (see Kurth 1979: 15–21).

But it was in the United States during and after World War II that military Keynesianism was most influential. During the military buildup after 1941, American officials were impressed with the efficacy of military expenditures in reducing unemployment, thus rectifying the Great Depression. There can be little

doubt that American policymakers who directed the early Cold War military buildup were influenced at least in part by economic considerations, notably the fear that demobilization associated with the end of World War II could have led to a return of depression conditions. In this context, it was widely believed that increased military spending was a solution.

The economic rationale for the Cold War was succinctly stated in the famous National Security Council document NSC-68:

> the economic effects of the [proposed military spending] program might be to increase the gross national product.... One of the most significant lessons of our World War II experience was that the American economy, when it operates at a level approaching full efficiency can provide enormous resources for purposes other than civilian consumption while simultaneously providing a high standard of living.
>
> (US National Security Council 1950)

Since NSC-68, it has become a basic feature of the US electoral process that presidents must manipulate economic growth rates and raise employment levels through military spending, especially in the period just prior to election cycles. Presidents from Harry S. Truman to George W. Bush have repeatedly used military buildups as a means to alleviate the effects of economic slowdowns. In addition, military spending has been a useful method of furthering research and development in the United States, with a major long-term impact on the civilian economy (Hossein-Zadeh 2006: 210–211).

To be sure, high levels of military spending are hugely wasteful (Johnson 2008) and can in the long term prove a drain on US finances (a factor that is especially salient at the present time, given the widespread concern about the budget deficit and public debt). And military spending is a relatively inefficient method of creating jobs, given the capital intensive nature of this sector. Spending on civilian infrastructure projects would be far more effective from a policy standpoint. As previously noted, however, large-scale spending in the civilian sector is politically unacceptable in conservative America; hence the continued reliance on military spending.

Thus, military spending remains a useful tool for presidents, and this fact is an additional source of political influence for the military–industrial complex. The continuing popularity of military Keynesianism was recently demonstrated in an article by *Washington Post* columnist David Broder (2010), who advocated that President Obama should consider a military confrontation with Iran, partly to boost the economy out of recession and ensure the president's reelection. Broder noted piquantly that "as tensions rise and we accelerate preparations for war [with Iran] the economy will improve."

A third source of influence for the MIC is its capacity to seek alliances with influential sectors of the broader business community. The US military's ability to project power through its massive array of oversees bases, aircraft carriers, and amphibious infantry serves to protect and promote investments in unstable

areas of the world. This function of the MIC is not new. Research by Layne (2006) and Williams (2009) shows that US foreign policy has long sought an international "open door" for trade and investments, and has often used military force to achieve this goal. The open door objective has been supported by US manufacturers (Baack and Ray 1985), especially the more technologically advanced sectors. In addition, certain natural resource extraction sectors, notably in oil and natural gas, strongly support military strength as a means of protecting expensive exploration and extraction facilities. And the more cosmopolitan elements of US finance also have been supportive of overseas military action (Frieden 1987).

Evidently, corporate support for the MIC extends well beyond the armaments industry, and such broad business support enhances the MIC's overall influence. This point can be illustrated by recent military policy: There can be no doubt that political pressures emanating from oil companies influenced both US and British interventions in the Persian Gulf (a point underscored by the release of UK government documents on this topic, see Bignell 2011). Investors also may benefit from paramilitary covert operations conducted by the Central Intelligence Agency. It is clear that certain covert operations have been undertaken with strong support from affected investment interests, including such cases as the Standard group of oil companies with regard to the 1953 covert operation in Iran (Kwitny 1984); the United Fruit Company with regard to the 1954 operation in Guatemala (Schlesinger and Kinzer 2005); and a range of mining interests with regard to 1960–1963 operations in the Congo (Gibbs 1991).

Thus, we have seen that the influence of the military–industrial complex on national policy rests on three main pillars: the direct lobbying of the private sector arms manufacturers, the armed services, and other government agencies that are closely tied to the services; the general enthusiasm among presidents and executive-level officials for military spending, as a device for economic planning; and the support for military strength found in nonmilitary sectors of the business elite, notably among those sectors that seek to use the US military for the protection or expansion of overseas investments. Although the focus of this chapter has been on the United States, there is no reason to confine this analysis to any one country. The MIC approach would be applicable to any country with a large military force combined with a military manufacturing capability, such as Russia, China, India, France, Great Britain, or Israel.

Let us now consider how globalization affects the military–industrial complex. Traditionally one thinks of military industries as among the most nationalistic of economic sectors, as most countries will be unwilling to trust "outsiders," even among military allies, with such sensitive matters as the production of weaponry. In spite of this tendency, arms manufacturing has been globalized to some degree, as countries collaborate in weapons production, to achieve economies of scale and reduce research and development costs. This has been especially true in Europe, notably in aerospace and related sectors. Since the late 1960s, many of the leading fighter planes produced by European states have been multinational ventures, including the Sepecat Jaguar, the Panavia

Tornado, and the Eurofighter Typhoon. The 1999 advent of the European Aeronautics, Defence, and Space company (EADS) was a major advance in the globalization of the military–industrial complex. Now based in the Netherlands, EADS was created as a merger of Spanish, French, and German aerospace companies. It is also integrated with American capital through Daimler-Chrysler, which owns stock in EADS (for a survey see *The Economist* 2002). The past decade has seen further globalization of military production, with significant and increasing integration between the European and US military sectors (see Anderson 2010; and Anderson and Wagstaff-Smith 2010); as well as efforts by both the Europeans and Americans to integrate with the Indian MIC (see Harrington 2007). In the words *Aviation Week* (Anselmo 2010), military firms are eager to "jump on [the] globalization bandwagon."

At the same time, it is important not to overstate the significance of globalization, either for the military sector or for the world economy more generally. Military procurements in such key countries as the United States, Russia, China, and India remain overwhelmingly under national control. In these countries, the process of globalization has only just begun. True, the military sector is highly integrated in Western Europe, mostly through the mechanisms of the European Union, but that is the only area of the world where control of the military sector has become transnationalized to any great extent. Outside of Europe, weapons production is largely conducted within specific countries. And more importantly, there is no reason to think that globalization is in any way incompatible with the influence of the military–industrial complex. Indeed, as Western capital expands globally into unstable regions of the world – such as the Persian Gulf or sub-Saharan Africa – it becomes even more dependent on military protection of its investments, a process that enhances the influence of the military sector within the policymaking process. Thomas Friedman (1999: 65) stated the matter quite well:

> The hidden hand of the market will never work without a hidden fist – McDonald's cannot flourish without McDonnell-Douglas, the designer of the F-15. And the hidden fist that keeps the world safe for Silicon Valley's technologies is called the United States Army, Air Force, Navy, and Marine Corps.

Let us now turn to case studies of how the military–industrial complex has influenced US and European interventions, in Kosovo in 1999; and in Libya in 2011. These cases offer excellent illustrations of how the MIC continues to influence military conflict in the world, well after the end of the Cold War.

The military–industrial complex and intervention in Kosovo

The 1999 NATO intervention in Kosovo would appear on the surface to be a perfect example of a military action that had no significant economic component. It occurred in one of the poorest and remotest parts of Europe, in a region with no major natural resources; and had long been ignored by US and Western European policy. The intervention itself was conducted under a joint NATO

command, with a professed moral purpose. The official rationale for the intervention was to protect the ethnic Albanian population of Kosovo from attacks and ethnic cleansing directed by the Republic of Serbia; all this was done in the name of humanitarian intervention and (what later was termed "the responsibility to protect"), directed by the Western international community. Overall, the intervention seemed the perfect embodiment of a post-national, globalized world, in that it served truly cosmopolitan purposes rather than any economic, strategic, or national interest, and it was conducted by a broad coalition encompassing many of the world's most democratic states. Within the US establishment, the intervention was pushed by the civilian elements of the Clinton administration, while the majority of the military opposed it, which would appear altogether inconsistent with the idea of the MIC as an influential element in the bureaucracy. We will see that the above view is an oversimplification, and that military interests associated with the MIC significantly influenced the course of the intervention.

The origin of the Kosovo intervention was a complex ethnic conflict, which extended over a period of decades. Kosovo was divided between the ethnic Albanians, who constituted approximately 85–90 percent of the population, and the ethnic Serbs, who constituted most of the remainder. At the time of the intervention, Kosovo was an autonomous province of the Republic of Serbia, governed by Slobodan Milošević; which was in turn part of the larger Federal Republic of Yugoslavia, a rump federation that contained what remained of the old socialist Yugoslavia from the days of Tito. There is no doubt that Milošević's security forces oppressed the Albanians, who had long-standing grievances. The Albanians responded with an armed insurgency, directed by the Kosovo Liberation Army (KLA), beginning in 1997, which elicited a Serb counter-insurgency. The NATO bombing campaign, which took place during March–June 1999 defeated the Serbs and allowed the KLA to rule most of Kosovo (albeit under the supervision of a Western peacekeeping force). Kosovo officially declared independence from Serbia in 2008 and became an independent country, with international recognition.

Among Western audiences, the ethnic war in Kosovo is widely remembered as a morality tale, involving villainous Serbs and Albanian victims, but the reality was not so simple. In fact, both sides committed systematic atrocities against civilians. Those committed by the Serbs are of course very well known, but the KLA engaged in systematic atrocities as well. In private, British officials were quite open about the uglier features of the KLA. Tony Blair himself believed that "the KLA ... were not much better than the Serbs," according to the memoirs of Blair's press aide Alastair Campbell (2007: 362). And according to UK Defence Secretary George Robertson (1999: section 391), more of the killing in Kosovo was caused by the KLA than by the Serb security forces, up until shortly before the NATO bombing commenced.

Turning to the issue of Western intervention: The record of events in Kosovo provides little evidence in support of a "humanitarian" motive for this intervention. In fact the United States and NATO supported the KLA, which as we have just seen had a record of atrocious behavior that was no better than the Serbs they opposed. And the bombing itself led to a huge increase in Serb-perpetrated atrocities and violence; from a humanitarian standpoint, the bombing campaign produced disastrous results. It should also be noted that US officials had foreseen in advance that bombing might aggravate the situation and worsen the atrocities (see account in the *Sunday Times* 1999) – a prediction that has proven all too accurate. In order to explain the motives for Western intervention in this case, we must turn to other, nonhumanitarian variables.

One of the noteworthy features of this intervention was the enthusiasm of the US business community, which clearly supported the use of force. As soon as NATO bombing commenced in March 1999, a sizable rally occurred on the New York stock exchange, as described in *Barron's* investment weekly:

> Wall Street is nothing if not patriotic. Hardly had the rain of missiles and bombs begun to fall on Kosovo than the stock market struck the colors with a blazing rally. The spirited response was all the more stirring because the market had been sagging like a weary old nag under the weight of a myriad of real and imagined aches. But once it heard the music and saw the flag, it tossed aside those petty cares with alacrity and sent up its own inspiring barrage of flares and rockets.... Street people rushed to participate in the rally even though like most of us ordinary civilians, they were far from sure where Serbia is or why NATO is so mad at it. We must confess that we're still a tad hazy on the location part, even after following the president's urging and getting down our atlas.
>
> (Abelson 1999)

The *Barron's* article added that wars usually produce stock market rallies, and added that "war is undeniably hell, but it can provide a shot in the arm for share prices." Business support for war in this case was not diminished by the fact that investors were unable to locate Kosovo on a map, and they had at best a vague idea of what the war was supposed to achieve.

While the *Barron's* article does not specify which specific business interests supported the intervention, it seems likely that the weapons manufacturing sector was a strong supporter. Clearly, the weapons industry benefitted from the intervention, and their representatives were quite open about these benefits. In May 1999, while the bombing was still in progress, the *New York Times* described how "America's weapons makers are already anticipating that Kosovo may help secure a strategic victory for them – not on the battlefield, but in Congress" (Wayne 1999). In other words, the successful Kosovo intervention created a favorable climate for new weapons procurements, a state of affairs that benefited the weapons manufacturers. The *New York Times* added that intervention was probably decisive in creating this climate and enabling the weapons purchases:

> Washington now seems inclined to increase outlays for weapons ... "Kosovo has definitely changed things here on defense spending issues,"

> said Representative Duncan Hunter ... "Kosovo underscores what the [military procurement] industry has been saying – that we need to get a sustainable rate of spending," said Daniel T. Burnham, chief executive of the Raytheon Company.

When the war ended, *Business Week* (Garten 1999) noted that the weapons budget was scheduled to increase "thanks partly to Kosovo." It would seem reasonable to assume that many nonmilitary companies also favored the war, as a successful display of US military power, since this serves to protect investments worldwide and to intimidate regimes that might threaten investments.

All of these facts fit in well with the MIC model of policymaking, outlined previously, whereby important segments of the private sector – including weapons procurement companies and other, nonmilitary companies as well – favor military action. The Kosovo case demonstrates a more general point about military interventions: such interventions may occur even in target areas, such as Kosovo, that contain no significant economic or strategic value. Such interventions function instead to create a political environment that is conducive to augmented weapons procurement; and also as a display of force, designed to protect investments on a worldwide basis. There is nothing in the logic of globalization that overrides these motives.

NATO and the Kosovo intervention

An additional motive for US intervention in the Kosovo case concerned the preservation of the North Atlantic Treaty Organization, which officially directed the bombing campaign. In official memoirs and speeches, the importance of this motive is referenced repeatedly throughout the Balkan conflict (see Gibbs 2009a: Chapters 5, 6, 7). There is no doubt that American officials sought to use the Balkan conflict, including the Kosovo aspect of the Balkan conflict, as an arena in which NATO could be given a new rationale for the post-Cold War era, and could thus avoid the looming danger that it would become irrelevant.

First some background: There was a widespread fear among US officials that NATO would indeed lose relevance with the dissolution of the Soviet Union in 1991, since NATO had after all been created and maintained over the decades with the explicit purpose of deterring an invasion from the USSR. Now, with the complete removal of that possibility, NATO lacked purpose. Yet American officials showed a strong interest in retaining the alliance, despite its lack of function. One of the reasons was to appease military personnel, whose views of NATO were described by retired Admiral Eugene Carroll in 1993:

> Let me tell you one of the reasons you hear so many contrived arguments for continuing the NATO alliance. It has been very, very good for the militaries of the countries involved ... [In] the United States alone, for example, almost 25 percent of all of the admirals and generals on duty today owe their stars to their NATO assignment. If NATO goes away, all those jobs go

> away, all those lovely chateaus, and chauffeurs, and railroad cars go away. It's something that has been very enjoyable for a good many years and the fact that there's no longer any requirement for it doesn't mean they don't want to keep a good thing going.
>
> (Center for Defense Information 1993)

Apparently, one motive in maintaining NATO was the familiar (if unglamorous) need for institutional self-preservation, common among public agencies. No bureaucracy wishes to cease its existence, even after its task is completed. But there is always a need to provide a justification – or a pretext – to preserve the institution. With regard to NATO: The 1999 NATO-directed intervention in Kosovo would provide the alliance with a justification for its continued existence.

Another motive for maintaining NATO was to use the alliance as a means of preserving US power in Europe, which was believed to be under threat at the time. In the early 1990s, several European countries, led by France and Germany, were actively seeking to use the European Community/Union to challenge US hegemony. European leaders were aware that with the demise of the USSR, there was a danger that the United States would emerge as a global hegemon with no check on its power. In Europe it was widely believed that such disproportionate power was dangerous; a unified Europe led by France and Germany seemed a potential counterweight to US power (see extended discussion in Gibbs 2001).

The need to contain the European quest for foreign policy independence also entailed an economic dimension. Among internationalist elites in both the US government and private sector, there existed considerable fear that the free trade regime established over many decades was under threat, and that it might be replaced by a system of semi-closed trading blocs, based on common currencies: the Western hemisphere, based on the US dollar; East Asia, based on the Japanese yen; and the European Union, with France and Germany at its core, and based on the euro. The European Union was viewed as a special concern, and Michael Aho (1994) of the Council on Foreign Relations noted the "growing danger that the [EU] could turn inward and isolate itself." These fears were also noted in *The Economist* (1991): "American businesses ... fear [that a] fortress Europe remains very much alive ... This American disquiet about European union will be the thing to watch."

In seeking to avoid the trading bloc scenario, American officials sought to use NATO as a means of binding Europe to the United States, and maintaining US access to European markets. True, NATO was officially a military, not an economic organization. But the alliance also had a vital economic function, one that was well understood by military officers. The NATO commander General Wesley Clark (1999/2000) strongly emphasized the economic significance of the Atlantic Alliance:

> The figures speak volumes. US trade with Europe, amounting to over $250 billion annually, produces over three million domestic jobs. US companies

> employ three million people in Europe. One in 12 factory workers in the United States is employed by a European Union (EU) firm operating in this country, of which there are some 4,000. Half of the world's goods are produced by the United States and the EU ... Companies from the EU form the largest investment block in 41 US states. Fifty-six percent of US foreign investment occurs in Europe. Europe buys 30 percent of US exports.

After discussing these economic interests, Clark concluded: "*As a result of those [economic] interests*, we have continued to maintain a strong military presence in Europe." In addition, US investors, both in the military and nonmilitary sectors, expressed strong support for maintaining the military alliance with Europe. During the lead-up to NATO's fiftieth anniversary celebrations in 1999, support for continuing NATO was expressed by both military-oriented corporations including Boeing, Motorola, TRW, and United Technologies; as well as nonmilitary ones such as Eastman-Kodak, Ford, and General Motors (Smart 1999). Once again, we see that military action and globalization are not at all incompatible, and indeed militarism in this case went hand in hand with globalization.

Kosovo was to play a key role in justifying NATO's continued existence, and this role was frankly acknowledged in elite circles. In the lead up to the 1999 bombing campaign, National Security Advisor Samuel Berger stated that one of the main objectives was "to demonstrate that NATO is serious" (quoted in Gellman 1999). During the intervention, the *Financial Times* (Buchan and Fidler 1999) summed up the matter this way:

> The Kosovo crisis has confirmed the relevance of NATO – just as criminals confirm the relevance of policemen. Ten years ago, when the Berlin wall came down, it [NATO] seemed destined to join its Warsaw Pact adversary in the dustbin of history. But the [Kosovo] crisis and Mr. Milošević's brutal ethnic cleansing of Albanians, have helped to confirm the continuing relevance of an international military force.

Let us now pause to consider the larger economic context of the 1999 decision to intervene in the Balkans: This was a period of great anxiety, regarding the stability of the world economy. Policymakers were preoccupied with international economic turmoil, in the aftermath of the 1997–1998 international economic crisis. A major US hedge fund collapsed in 1998, and there was a brief though widespread fear that this was a harbinger of even greater instability (a danger that was surely increased by the misguided policies of the Clinton administration itself, which supported austerity measures in the most economically unstable countries). In the *Financial Times*, a banking executive urged international elites to resolve the crisis quickly, or else "their children may read in their history books that the triumph of capitalism over communism lasted only for a brief period in the last decade of the 20th century" (Anantha-Nageswaren 1998).

The intervention in Kosovo was widely viewed as a stabilizing element, which would trigger an increase in weapons spending, and would maintain US access to European markets; all of these factors were likely to stabilize the world economy and would help to overcome the effects of the recent crisis. And macroeconomic stability was very much on the mind of US officials who were directing the intervention in Kosovo – including President Clinton himself. In a March 1999 speech, Clinton stated:

> we need a Europe that is safe, secure, free, united, a good partner with us for trading ... if we're going to have a strong economic relationship that includes our ability to sell around the world, Europe has got to be a key ... *Now that's what this Kosovo thing is all about.*
>
> (Clinton 1999, emphasis added)

In short, the military–industrial complex model outlined above fits the facts of the Kosovo case in several important respects: As we have seen, the military procurement companies appear to have supported the war and they clearly benefited from its effects, both in terms of the increase in military spending that resulted from the intervention, as well as the way that the intervention helped to preserve the NATO military alliance. Many nonmilitary investors also supported the intervention, in order to showcase US power and thus intimidate radical governments or insurgent groups who might threaten valuable capital assets. And intervention was viewed as a means to ensure macroeconomic stability after the 1997–1998 economic crisis.

Finally, we must also acknowledge the limitations of the MIC model for explaining the Kosovo intervention. The uniformed military itself was divided about the merits of intervention. Of the four services, only the US Air Force strongly supported the air strikes, since these were likely to bolster the merits of air power, which would advantage the Air Force in future policy debates. On the other hand, the Army opposed the Kosovo intervention, since its officers feared that intervention could lead to an extended land war, with a high risk of US combat casualties and a danger of mass political opposition. The lingering effects of the "Vietnam Syndrome" surely affected the Army's reluctance in this case. The other military services supported the Army in policy debates and, as a result the Joint Chiefs of Staff opposed the bombing campaign (see discussion in Halberstam 2002: 376, 377, 388, 389, 422). Despite this opposition, the uniformed military nevertheless played an important role in making the campaign possible. The JCS had after all long argued for maintaining high military budgets, even after the Cold War, and also for the preservation of NATO. The very existence of large military forces creates pressures to actually use these forces.

In essence, the Joint Chiefs sought conflicting objectives: They wanted a military of vast size, but they also sought to avoid deploying their forces in combat. This stance could not be sustained. Madeleine Albright's famous complaint – "What are you saving this superb military for ... if we can't use it?" (Albright

2003: 182) – presented a serious challenge. And the generals had no effective response. At some point, their expensive weapons had to be used in combat, and this was a key factor in the US decision to use force in Kosovo.

Intervention in Libya

The March 2011 military intervention against the regime of Muammar Gaddafi in Libya seems to have many features in common with the earlier intervention in Kosovo. Once again, we have an intervention that is being conducted by a broad coalition of democratic countries, which is purportedly based not on any national interest, but on the universal interest of humanitarianism and the responsibility to protect.

Indeed, the Libya intervention seems to embody "globalized" characteristics to an even greater extent than the one in Kosovo: In Kosovo, the intervention was clearly led by a hegemonic United States, which used a measure of bullying to procure European cooperation (see discussion in Gibbs 2009b: 188, 195–196). In Libya, however, the intervention is being led by France and Britain, with the US playing only a secondary role. In Libya, the coalition of participating states is even broader than before, and includes nominally neutral Sweden, which had not participated in the Kosovo campaign. And the legal basis for intervention in Libya seems stronger than was previously the case in Kosovo: Unlike in Kosovo, the Libya intervention gained at least initial authorization from the UN Security Council (as well as the Arab League). It would appear that the Libya case is an archetypal "post-national" intervention, for a truly globalized world, one that is based on humanitarian motives, instead of national or material interests.

Under scrutiny, however, the humanitarian explanation for this intervention appears quite weak, since the same Western states that bombed Gaddafi had excellent relations with him only a few months before the bombing started. Since 2003, the United States and the major countries of Europe all sought a rapprochement with Gaddafi, who largely abandoned his radical policies and support for international terrorism. After the rapprochement, there was little concern with Gaddafi's repression and his appalling human rights record (the same was true with regard to such other outgoing regimes as Zine Ben Ali of Tunisia or Hosni Mubarak of Egypt, which also received strong Western support). Indeed, it is ironic that prior to the bombing campaign, the French government was seeking to sell Gaddafi the Rafale fighter plane (Keating 2011) – which later became the main instrument of war used to attack the regime. The Western states only broke with Gaddafi in early 2011, in response to mass uprisings. The suddenness of the Western break with Gaddafi makes this break appear opportunistic and hypocritical, rather than idealistic. If we want a credible explanation for Western conduct in this case, we must look to other, nonidealistic factors.

At the outset, it must be said that the Libya intervention, which is ongoing at the time that this paper is being completed, is simply too recent to undertake a full analysis. The range of information available in the public record is still

relatively thin. However, there is enough evidence to show that the military–industrial complexes of the participating states – notably those of Britain and France – had an interest in this intervention. The first interest was to use the Libya intervention as a means to showcase European weaponry, and thus to increase overseas arms sales. Manufacturers of the French Rafale fighter, the Swedish Gripen, and the multinational Typhoon all sought to use the war as a means to impress international arms purchasers with the quality of these planes (see United Press International 2011; Keaton and Lekic 2011; Keating 2011). The Libya intervention was, in the words of a Reuters headline "a showcase in the new arms race" (Hepher 2011). No doubt the European governments were especially eager for such sales to offset rising unemployment, associated with the lingering effects of the 2007–2009 recession. Apparently, the old-fashioned idea of military Keynesianism remains relevant, in light of the weakness of the economic recovery.

Another factor in the Libyan intervention was the budgetary dilemmas associated with the European militaries. Due to reduced revenues resulting from the recession, several European states have experienced revenue shortfalls, and their governments have responded with massive budget cutting, most notably in Britain. These budget cuts have had an especially severe impact on the UK's Royal Navy. With the decommissioning of the aircraft carrier *Ark Royal* and all remaining carrier-based aircraft by late 2010, the Navy ceased to have any operational combat aircraft for the first time in decades, and could play no direct role in the aerial bombardment of Gaddafi's Libya. The Royal Navy no doubt felt the state of affairs to be a humiliation; and they sought to use the Libya intervention as an opportunity to protest the cuts – apparently with some success. Shortly after the Libya bombing campaign commenced, there was open discussion in the British press that the naval cuts had been a mistake and needed to be reconsidered (Kirkup 2011). In addition, the Royal Air Force gained political benefits from the intervention as well. According to the British Broadcasting Corporation,

> The crisis in Libya and recent events across the Middle East may well help the RAF.... The RAF had feared losing more of its Tornado GR4 fleet in order to save up to £300m a year and may now be able to argue a stronger case for keeping them on.
>
> (Wyatt 2011)

As in Kosovo, the Libya intervention helped to create a political environment that was more conducive to military spending.

And finally, there is the question of oil. It should not be forgotten that the military–industrial complex has often aligned itself with overseas investors, who seek military protection for their investments – and the oil industry has clearly been one such ally. It should be noted that Libya is a sizable oil producer, with the world's ninth largest petroleum reserves (for background, see US Central Intelligence Agency, 2009). Several of the world's major oil companies have

invested in Libya, including ENI of Italy, Total of France, Conoco-Phillips of the US, and BP of Britain, among many others. At the time of the popular uprising against Gaddafi, there was considerable anxiety in oil circles about the possibility of generalized political breakdown and chaos, with attendant threats to oil supplies and investments. In February 2011, the *International Oil Daily* (2011) reported:

> The shockwaves from the violence engulfing Libya have hit the oil industry hard. Not only have they sent oil prices soaring to near two-and-a-half-year highs, but there are also reports that all ports and refineries are no longer operating – and signs that the expected spiral of production shut-ins has begun as oil industry staff continue to leave the country as and when they can.

And more generally, there was anxiety about the political unrest sweeping across the Arab world, including the very valuable Persian Gulf, and the dangers that these events posed for Western oil supplies. It seems likely that the oil companies welcomed the Western military intervention as a stabilizing factor for Libyan oil; and also as a show of force for the whole Arab world, to demonstrate that Western powers could still exert control.

And oil may have had additional influences on the Libyan intervention. It appears that the Total company of France was seeking to take advantage of France's leading role in the intervention, in order to augment its participation in Libyan oil, once the conflict was ended; and to do so at the expense of oil companies from other countries (notably Italy) that played less of a role in the intervention. According to *Oil and Gas News* (2011): "ENI's dominant position in Libya's oil sector could be undermined by Italy's hesitant backing for pro-rebel foreign military intervention, paving the way for a greater say for France's Total and possibly UK [oil] groups." Once again, a full analysis of oil interests in this intervention must await further release of information, but the information that is already available suggests that oil probably was a factor in the decision-making process that led to intervention in this case.

Conclusion

We have seen that the phenomenon of globalization has had a significant effect on military interventions, and military affairs more generally. The production of military equipment has become internationalized to some extent, especially in Western Europe. And recent interventions increasingly have been undertaken by international coalitions, rather than being done on a unilateral basis. Indeed the most recent 2011 intervention in Libya suggests that US hegemony may be losing its central importance. Now wearied by multiple wars associated with the larger War on Terror and facing a large external debt, the United States declined to play its traditional leadership role in the Libya case. Perhaps in the future, we will see more multilateral interventions on the model of Libya, without a clear

hegemonic state acting as overall director. On the other hand, it must also be remembered that multilateral interventions are nothing new in international relations, and they are not uniquely associated with the age of globalization.

Overall, we have found that globalization has done little to restrain the powers of the military–industrial complex, which remains an actor of importance in world affairs; and it played a key roles in the two interventions examined here, those in Kosovo and Libya. The image of a benign and peacefully integrated world is not confirmed by this study. Globalization may indeed have transformed the world political economy, and it has had a significant impact on the conduct of military action; but it has not ended such actions, nor has it reduced them to any great extent.

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6 Financialization, corporate power, and South African subimperialism

Patrick Bond

Introduction

Has South Africa adopted a mini-me political economy with all the worst characteristics of United States financialized capitalism, but within an intermediate global power relation that generates only geopolitical frustrations internationally, and amplified domestic crisis? Cox (Chapter 1, this volume) locates "financialization within the long-term structural shifts in US and global capitalism that have taken place from the 1970s to the present" so as to explain "specific transition points in US foreign policy" that facilitated financialization. From the 1980s, "the US state, backed by the most mobile sectors of US capital, promoted policies that extended the financialization of production from the US domestic market to the global market," in part because "structural economic crises facing the top 500 industrial corporations intensified during the 1970s and early 1980s." This contrasted with "previous strategies of US-based firms during the 1960s to solve the long-term accumulation crises by acquiring unrelated businesses in an attempt to counter the beginning stages of declining rates of profit." As a result, Cox posits, "corporations increased their levels of political mobilization in an effort to shift US state policy in a more conservative direction." The results included "liberalization of capital investment opportunities for US financial and non-financial firms in the developing world" and the rise of "transnational corporate political networks as vehicles for the restructuring of capital markets in developing countries," which in turn "received additional political and economic support from an emerging transnational class within the developing world that was increasingly linked to global finance."

South Africa illustrates this same process very explicitly, especially if we take as US corporate political philosophy "neoliberalism" and consider the internal contradictions within the logic of that system. The logic is reflected not only in the upheavals in 2008–2009 and their aftershocks in 2011 with no end in sight, but also in the tensions that began rising 40 years earlier. The South African state and large corporate blocs are both victims and perpetrators of the process, because although profit rates recovered after the DeKlerk and Mandela governments' turn to neoliberal macroeconomic policy, the unsustainability of this kind of accumulation was obvious in two processes. First, extraordinarily high levels

of social protest followed *rising* post-apartheid inequality and neoliberal public policy. Second, the structural economic contradictions perpetually worsened, with symptoms including a high current account deficit, rapidly-rising foreign debt, and domestic household debt repayment problems during deflation of the world's highest speculative property bubble.

As for the accompanying political process, US foreign policy had supported corporate profit seeking during apartheid but by the end of the first Bush government, in 1991–1992, the State Department and its allies in the Bretton Woods Institutions and international finance more generally had begun to shift discernably toward endorsement of a low-intensity democracy strategy for South Africa. By 1993, the Clinton Administration's neoliberal agenda included a more aggressive ideological role for USAID in South Africa, pressure by Commerce Secretary Ron Brown on South African negotiators to conclude the pre-democracy ascension to the General Agreement on Tariffs and Trade on disadvantageous terms in 1993, promotion of a 1993 International Monetary Fund loan which locked in the Mandela government, and support for a variety of World Bank policy advisory missions.

These were early indications of pressure on Nelson Mandela's presidency (1994–1999) to adopt a much broader, deeper set of neoliberal policies, many of which did not immediately serve US state or corporate interests – but which are better understood as reflections of ideological commitment. That commitment, in turn, followed the demise of Social Democratic, Labour, and Keynesian state policies that especially in Europe were won by working-class movements over the course of a half-century and that also responded to the perceived threat of socialist influences prior to the 1980s. Even newly-liberated African states were given some latitude in post-independence social and economic policy formulation. But this changed during the 1980s in Africa as the Cold War wound down and Bretton Woods' neoliberalism was imposed. Because of the isolationist approach of P.W. Botha's South African government, Pretoria's conversion to neoliberalism lagged a few years. On the one hand, Washington's security and minerals establishment was partially linked to Pretoria during the Reagan Administration's "constructive engagement" era, but on the other, US activists put sharp pressure on white South African business through sanctions campaigning, the underlying factors that had begun in the 1970s world economic restructuring did not escape South Africa.

It is useful to first revisit the main trends so as to locate the context into which Pretoria politicians from both white nationalism and black nationalism inserted the South African economy and society in the 1980s–1990s. The organic process of financialization can then be traced and extreme features in South Africa highlighted, such as real estate bubbling and household debt, the current account deficit and foreign debt, and financialization's reach into the regional hinterland. These closely track trends in the US economy. But structure must be accompanied by agency, hence a brief profile of the leading official responsible for growing financialization and corporate power over the post-apartheid period, Trevor Manuel. His recent role in climate finance politics has been decisive,

although in mid-2011 he was better known as the second-leading Third World candidate to replace Dominique Strauss-Kahn at the International Monetary Fund (IMF). To conclude we will consider the relatively futile resistance to date, but the potential for linking anti-neoliberal movements to challenge the core dynamics.

Structural forces behind the international rise and retention of neoliberalism

Several key moments marked the rise of neoliberal policy influences across the world, many traceable to the crisis and financialization processes described by Cox (Chapter 1, this volume). In 1973 the Bretton Woods agreement disintegrated when the US unilaterally ended its payment obligations, representing a default of approximately $80 billion. The agreement on Western countries' fixed exchange rates – by which one ounce of gold was valued at US$35 between 1944 and 1971 – had served to anchor other major currencies. As a result of the US move the price of gold rose to $850 per ounce within a decade.

Also in 1973, several Arab countries led the formation of the Oil Producing Exporting Countries cartel, which raised the price of petroleum dramatically and in the process transferred and centralized inflows from world oil consumers to their New York bank accounts. From 1973, *los Chicago Boys* of Milton Friedman, who became leading Chilean bureaucrats, began to reshape Chile in the wake of Augusto Pinochet's coup against the democratically elected Salvador Allende, representing the birth pangs of neoliberalism.

In 1976 the International Monetary Fund (IMF) signaled its growing power by forcing austerity on Britain at a point where the ruling Labour Party was desperate for a loan, even prior to Margaret Thatcher's ascent to power in 1979. Later that year, the US Federal Reserve addressed the dollar's decline and US inflation by dramatically raising interest rates. In turn this catalyzed a severe recession and the Third World debt crisis, especially in Mexico and Poland in 1982, Argentina in 1984, South Africa in 1985, and Brazil in 1987 (in the latter case leading to a default that lasted only six months due to intense pressure on the Sarnoy government to repay). At the same time, the World Bank shifted from project funding to the imposition of structural adjustment and sectoral adjustment (supported by the IMF and the Paris Club cartel of donors), in order to assure surpluses would be drawn for the purpose of debt repayment, and in the name of making countries more competitive and efficient.

The overvaluation of the US dollar associated with the US Federal Reserve's high real interest rates was addressed by formal agreements between five leading governments that devalued the dollar in 1985 (the Louvre Accord). However, with a 51 percent fall against the yen, this required a revaluation in 1987 (the Plaza Accord). Once the Japanese economy overheated during the late 1980s, a stock market crash of 40 percent and a serious real estate downturn followed from 1990. Indeed not even negative real interest rates could shake Japan from a long-term series of recessions.

During the late 1980s and early 1990s Washington adopted a series of financial crisis-management techniques – such as the US Treasury's Baker and Brady Plans – so as to write off (with tax breaks) part of the $1.3 trillion in potentially dangerous Third World debt due to New York, London, Frankfurt, Zurich, and Tokyo banks which were exposed in Latin America, Asia, Africa and Eastern Europe. Notwithstanding the socialization of the banks' losses, debt relief was denied the borrowers.

In late 1987 crashes on the New York and Chicago financial markets (unprecedented since 1929) were immediately averted with a promise of unlimited liquidity by Federal Reserve Chairman Alan Greenspan. The promise was based on a philosophy which in turn allowed the bailout of the savings and loan industry and various large commercial banks (including Citibank) in the late 1980s notwithstanding a recession and serious real estate crash during the early 1990s. Likewise in 1998, when a New York hedge fund, Long Term Capital Management (founded by Nobel Prize-winning financial economists), was losing billions in bad investments in Russia, the New York Federal Reserve Bank arranged a bailout, on grounds that the world's financial system was potentially at high risk.

Starting with Mexico in late 1994, the US Treasury's management of the "emerging markets" crises of the mid- and late 1990s again imposed austerity on the Third World. It also offered further bailouts for investment bankers exposed in various regions and countries – Eastern Europe (1996), Thailand (1997), Indonesia (1997), Malaysia (1997), Korea (1998), Russia (1998), South Africa (1998, 2001), Brazil (1999), Turkey (2001), and Argentina (2001) – whose hard currency reserves were suddenly emptied by runs.

In addition to a vastly over-inflated US economy whose various excesses have occasionally unravelled – as with the bursting of dot.com stock market (2000–2001) and real estate (2007–2010) bubbles, which even unprecedented US government bailouts could not cure – China and India picked up the slack in global materials and consumer demand during the 2000s. However, this is not without extreme stresses and contradictions that in coming years will threaten world finances, geopolitical arrangements, and environmental sustainability.

For example, at the time of the April 2009 G20 meeting called to generate a systematic elite response to the crisis, rhetorical gestures aimed at fusing markets and regulation were far less important than the economic *realpolitik* of unending Wall Street bailouts. The official communique issued at the close of the G20 (2009) London Summit, the "Global plan for recovery and reform," maintained the fiction that elites can simultaneously construct "strong global institutions" within "an open world economy":

> We face the greatest challenge to the world economy in modern times; a crisis which has deepened since we last met, which affects the lives of women, men, and children in every country, and which all countries must join together to resolve. A global crisis requires a global solution.... We believe that the only sure foundation for sustainable globalization and rising prosperity for all is an open world economy based on market principles, effective regulation, and strong global institutions.

The contradictions between expansive rhetoric and harsh neoliberal reality could be found in the North–South divide, as well. At the November 2008 G20 press conference, IMF managing director Strauss-Kahn

> called for nations to approve a fiscal stimulus equal to 2 per cent of gross domestic product. Such a move, he said, would result in a 2 per cent increase in growth. When asked where fiscal stimulus was needed, he said, "everywhere, everywhere where it is possible".
>
> (Grice and Foley 2008)

But for Strauss-Kahn, such Keynesian noises were easily uttered at times when the Bretton Woods institutions had to be seen to be acting. In reality, according to Robert Weissman (2009), Strauss-Kahn's

> IMF is forcing countries in financial distress to pursue contractionary policies – exactly the opposite of the stimulative policies carried out by the rich countries (and supported by the IMF, for the rich countries).... The Fund's loans since September 2008 to countries rocked by the financial crisis almost uniformly require budget cuts, wage freezes, and interest rates hikes. These are exactly the opposite of the policies that make sense in recessionary conditions. They are exactly the opposite of the huge stimulus measures taken in the United States and other rich countries. They are the opposite of the interest rate reductions in the United States (now effectively at zero) and other rich countries. In Ukraine, Georgia, Hungary, Iceland, Latvia, Pakistan, Serbia, Belarus and El Salvador, the IMF has told countries to cut government spending, an analysis by the Third World Network shows. This means less money for health, education and other vital priorities.

Hence the $500 billion in new capital for the IMF would not necessarily change matters, since the Fund was not short of resources; by the 2008 IMF/Bank meetings there was only one major borrower, Turkey. The G20's failure to specify the need for the IMF to move into post-neoliberal ideological territory was another indication of the durability of the global elite's perspective. Many intellectual critics of neoliberalism concluded that the G20 represented nothing new. Remarked Walden Bello (2009), "It's all show. What the show masks is a very deep worry and fear among the global elite that it really doesn't know the direction in which the world economy is heading and the measures needed to stabilize it." According to David Harvey (2009), the G20 asked, simply,

> how can we actually reconstitute the same sort of capitalism we had and have had over the last thirty years in a slightly more regulated, benevolent form, but don't challenge the fundamentals?... The fundamentals have to do with the incredible increase in consolidation, if you like, of class power. I mean, since the 1970s, we've seen a tremendous increase in inequality, not just simply in this country, but worldwide. And in effect, the assets of the world have been accumulated more and more and more in few hands. And I think when you look at the nature of the bailout programs, the stimulus programs and all the rest of it, what it really does is to, in effect, try to keep those assets intact while making the rest of us pay.... If you look backwards, you will see that this is not the first financial crisis we've had. We've had many of them over the last thirty years, and they all have the same character. We had our own savings and loan crisis back in the 1980s. There was a Mexican debt crisis back in 1982, when, in effect, Mexico was going to go bankrupt. And if they had gone bankrupt, then the New York investment banks would have gone under. So what did they do? They bailed out Mexico, therefore bailing out the New York investment bankers, and then they made the Mexican people pay.

We can summarize, then, from this list of major events and processes reflecting tensions and occasional eruptions: there is displacement but never *genuine resolution* to the growing overall problems of volatility that have wracked world politics and economics. A more decisive *resolution* to a previous round of crises, in contrast, was the 1929–1945 devalorization of overaccumulated capital first in an enormous crash of fictitious capital from 1929–1932 and then in the degeneration of underlying productive capitals during the Great Depression and World War II. Since then, we have seen a pattern emerge: the more stable, predictable, prosperous, and evenly distributed set of politico-economic relations during the immediate post-War quarter-century (1945–1970) was followed by a sense of chaos in global political economy and geopolitics. It is this global structural context that is terribly important to understanding why South Africa shifted from racial to class apartheid after 1994.

South Africa's reinsertion into global circuits of capital

Nelson Mandela's experience with neoliberalism during the late 1990s was similar to many other middle-income countries, entailing standard "Washington Consensus" or "structural adjustment" policies:

- government budget cuts, increases in users fees for public services, and privatization of state enterprises;
- the lifting of price controls, subsidies, and any other distortions of market forces;
- liberalization of currency controls along with regular currency devaluation;
- higher interest rates and deregulation of local finance;
- removal of import barriers (trade tariffs and quotas); and
- an emphasis on promotion of exports, above all other economic priorities.

In South Africa as elsewhere, the effects of these policies have been quite consistent. Budget cuts depressed most economies' effective demand, leading to declining growth rates compared with the prior Keynesian or statist era. Often

the alleged "crowding out" of productive investment by government spending that justified the Washington Consensus was not, in fact, the reason for low investment levels; hence the budget cuts were not compensated for by private sector growth. Privatization processes typically did not distinguish which state enterprises may have been strategic in nature; were too often accompanied by corruption; and often suffered from foreign takeover of domestic industry with scant regard for maintaining local employment or production levels (the buyers' incentive was sometimes simply gaining access to markets). Moreover, the World Bank and IMF economists who most forcefully promoted privatization never bothered to determine how state agencies could supply services that enhanced "public goods" (and merit goods). For example, the positive effects of water supply on public health, environmental protection, local economic activity, and gender equality were never calculated. Thus all state services were reduced to mere commodities, requiring of their recipients full cost recovery through elimination of subsidies.

This in turn led South Africa's poor and working-class people to begin protesting at amongst the highest rates per person in the world. The police conservatively measure an average of more than 8,000 "Gatherings Act" incidents per year since 2005 (Freedom of Expression Institute and Centre for Sociological Research 2009). In part this reflects the distorted character of "growth" that South Africa witnessed after adopting neoliberal macroeconomic and microdevelopment policies, and the logical "double-movement" (Polanyi 1957) for and against commodification of life playing out in the country's slums. As just one reflection of extreme uneven development during the era of financialization, South Africa's cities hosted the world's most speculative residential real estate bubble, with an inflation-adjusted price rise of 389 percent from 1997 to 2008, more than double the second biggest bubble, Ireland's at 193 percent, according to *The Economist* (March 20, 2009), with Spain, France, and Britain also above 150 percent. (The US Case-Shiller national index was only 66 percent over the same period.) Although there were many more houses built annually with state subsidies in the post-apartheid period for lower-income people, compared with the last decade of apartheid, World Bank advice in 1994 meant that these were typically half as large, and constructed with flimsier materials than during apartheid; located even further from jobs and community amenities; characterized by disconnections of water and electricity; with lower-grade state services including rare rubbish collection, inhumane sanitation, dirt roads, and inadequate stormwater drainage (Bond 2005).

In most provinces, the majority of the Gatherings Act incidents were "service delivery protests" over low-quality provision and the rising cost of water, sanitation, and electricity (Freedom of Expression Institute 2009). Even after "Free Basic Services" – 6000 liters per household per month of water and 50 kWh of electricity (with small increases anticipated in 2010) – were provided, the convex nature of water/electricity tariffs meant the rise in the second block of consumption had the impact of raising the entire amount, resulting in higher non-payment rates, higher disconnection levels (1.5 million/year for water, according to the state), and lower consumption levels by poor people (Bond and Dugard 2008).

How did this happen, in a society that boasted one of the world's greatest urban social movements during the 1980s (Mayekiso 1996), which in turn generated a powerful urban reform project in the early 1990s, culminating in an African National Congress (ANC) 1994 campaign platform – the "Reconstruction and Development Programme" – which had insisted upon various forms of decommodified real estate, especially housing finance? These promises were another case of "talk left, walk right," as goes the local slogan, because notwithstanding a housing minister – Joe Slovo – who was also chair of the SA Communist Party at the time (just prior to his death due to cancer in early 1995), the December 1994 *Housing White Paper* set as a main task restoring "the fundamental pre-condition for attracting [private] investment, which is that housing must be provided within a normalized market." In practice this entailed huge concessions to banks, alongside a drive to commercialize municipal utilities (Bond 2000). This was not merely the fault of a dying Slovo and his director-general, Billy Cobbett (subsequently director of the World Bank's Cities Alliance), for the die was cast when neoliberalism was adopted in the early 1990s by the late apartheid regime. The period was marked by several policy shifts away from 1980s-era sanctions-induced dirigisme carried out by "verligte" (enlightened) Afrikaner "econocrats" in Pretoria, once the influence of "securocrats" faded and the power of white English-speaking business rose during the 1990–1994 negotiations. That period included South Africa's longest depression (1989–1993) and required Mandela's ANC to periodically demobilize protest, until in late 1993 the final touches were put on the "elite transition" to democracy (Bond 2005).

In the meantime, long-standing ANC promises to nationalize the banks, mines, and monopoly capital were dropped. Mandela agreed to repay $25 billion of inherited apartheid-era foreign debt; the central bank was granted formal independence in an interim constitution. South Africa joined the General Agreement on Tariffs and Trade on disadvantageous terms. And the International Monetary Fund provided a $850 million loan with standard Washington Consensus conditionality. Soon after the first free and fair democratic elections, won overwhelmingly by the ANC, privatization began in earnest. Financial liberalization took the form of relaxed exchange controls; and interest rates were raised to a record high (often double-digit after inflation is discounted). By 1996 a neoliberal macroeconomic policy was formally adopted and from 1998 to 2001, the ANC government granted permission to South Africa's biggest companies to move their financial headquarters and primary stock market listings to London (Bond 2005).

The basis for sustaining the subsequent property and financial bubble came from two sources: residual exchange controls which limit institutional investors to 15 percent offshore investments and which still restrict offshore wealth transfers by local elites; and a false sense of confidence in macroeconomic management. The oft-repeated notion is that under Finance Minister Trevor Manuel, "macroeconomic stability" was achieved since apartheid ended in 1994. Yet no

emerging market had as many currency crashes (15 percent in nominal terms) over that period: SA's were in early 1996, mid-1998, late 2001, late 2006, and late 2008. By early 2009, *The Economist* (February 25, 2009) ranked South Africa as the most "risky" of 17 emerging markets, in large part because corporate/white power had generated an enormous balance of payments deficit thanks to outflows of profits/dividends to London/Melbourne financial headquarters.

To cover the current account deficit, a vast new borrowing spree began, with foreign debt rising from $25 billion in 1994 to $80 billion by late 2010 and more than $100 billion by mid-2011. Moreover, consumer credit had drawn in East Asian imports at a rate greater than SA exports even during the 2002–2008 commodity price bubble. If there was a factor most responsible for the 5 percent GDP growth recorded during most of the 2000s, by all accounts it was consumer credit expansion, with household debt to disposable income ratios soaring from 50 percent to 80 percent from 2005 to 2008, while at the same time overall bank lending rose from 100 percent to 135 percent of GDP. But this overexposure began to become an albatross, with non-performing loans rising from 2007 by 80 percent on credit cards and 100 percent on mortgages compared with the year before, and full credit defaults as a percentage of bank net interest income rising from 30 percent at the outset of 2008 to 55 percent by year's end (SARB 2009).

Although the decline in corporate tax revenue drove the budget deficit to a near-record 7.6 percent of GDP estimated for 2009, South Africa was not pursuing a classical Keynesian strategy, the state was simply carrying through massive construction projects contracted earlier. Anticipated increases in state spending based upon ruling party promises – especially for job creation – were deferred by the new finance minister, Pravin Gordhan (2009), in his maiden budget speech in October 2009. The post-apartheid share of social spending in the total budget only rose from around 50 percent during the mid-1990s to 57 percent at the peak of crisis in any case, boosted only by social grant transfer payments.

High corporate profits were not a harbinger of sustainable economic development in South Africa, as a result of persistent deep-rooted contradictions (Republic of South Africa Department of Trade and Industry 2009; Legassick 2009; Loewald 2009):

- with respect to stability, the value of the rand in fact crashed (against a basket of trading currencies) five times, the worst record of any major economy, which in turn reflects how vulnerable SA became to international financial markets thanks to steady exchange control liberalization (26 separate loosenings of currency controls) starting in 1995;
- SA witnessed GDP growth during the 2000s, but this does not take into account the depletion of non-renewable resources – if this factor plus pollution were considered, SA would have a net negative per person rate of national wealth accumulation (of at least US$2 per year).
- SA's economy became much more oriented to profit-taking from financial markets than production of real products, in part because of extremely high real interest rates;

- the two most successful major sectors from 1994–2004 were communications (12.2 percent growth per year) and finance (7.6 percent) while labor-intensive sectors such as textiles, footwear, and gold mining shrunk by 1–5 percent per year, and overall, manufacturing as a percentage of GDP also declined;
- the Gini coefficient measuring inequality rose during the post-apartheid period, with Bhorat *et al.* (2009: 80) calculating a rise from 0.64 to 0.69;
- black households lost 1.8 percent of their income from 1995 to 2005, while white households gained 40.5 percent (Bhorat *et al.* 2009: 8);
- unemployment doubled to a rate of around 40 percent at peak (if those who have given up looking for work are counted, around 25 percent otherwise) – but state figures underestimate the problem, given that the official definition of employment includes such work as "begging" and "hunting wild animals for food" and "growing own food";
- overall, the problem of "capital strike" – large-scale firms' failure to invest – continues, as gross fixed capital formation hovered around 15–17 percent from 1994 to 2004, hardly enough to cover wear-and-tear on equipment;
- businesses did invest their SA profits, but not mainly in SA: dating from the time of political and economic liberalization, most of the largest Johannesburg Stock Exchange firms – Anglo American, DeBeers, Old Mutual, Investec, SA Breweries, Liberty Life, Gencor (now the core of BHP Billiton), Didata, Mondi, and others – shifted their funding flows and even their primary share listings to overseas stock markets mainly in 2000–2001;
- the outflow of profits and dividends due these firms is one of two crucial reasons SA's current account deficit has soared to amongst the highest in the world (in mid-2008 exceeded only by New Zealand) and is hence a major danger in the event of currency instability, as was Thailand's (around 5 percent) in mid-1997;
- the other cause of the current account deficit is the negative trade balance during most of the recent period, which can be blamed upon a vast inflow of imports after trade liberalization that export growth could not keep up with;
- another reason for capital strike is SA's sustained overproduction problem in existing (highly-monopolized) industry, as manufacturing capacity utilization fell substantially from the 1970s to the early 2000s; and
- fast-rising corporate profits avoided reinvestment in plant, equipment, and factories, and instead sought returns from speculative real estate and the Johannesburg Stock Exchange. There was a 50 percent increase in share prices during the first half of the 2000s, and the property boom was unprecedented (Bond 2005, 2010).

As for the South African financial role in Africa, mid-2002 witnessed Finance Minister Manuel promising the Commonwealth Business Council he would "fast-track financial market integration through the establishment of an internationally competitive legislative and regulatory framework" for the continent. But, without any Africa-wide progress to report two years later, Manuel's

director-general Lesetja Kganyago (2004) announced a new "Financial Centre for Africa" project to amplify the financialization tendencies already evident in Johannesburg's exclusive new Sandton central business district: "Over the five years to 2002, the financial sector grew at a real rate of 7.7% per year, more than twice as fast as the economy as a whole." Responsible for a full quarter of post-apartheid South African GDP growth, the sector required further room to expand. According to Kganyago (2004):

> What is needed is a financial hub especially focused on the needs and circumstances of the region, much in the same way that Singapore and Hong Kong cater for the capital needs of the Asian continent.... International financial centres tend to have a foundation in common. Elements include political stability, free markets, and what is best described as the rule of commercial law.

Pretoria's specific aims included "opening South Africa's markets to African and global issuers; global lowest trading costs and trading risk; global leadership in investor protection; and a global hub for financial business process outsourcing." Concluded Kganyago, "Africa's economies cannot wait the slow maturing of national financial markets to provide the necessary channel for large-scale foreign capital flows for development. Only a regional financial centre will be in a position to provide these services in the foreseeable future."

A telling incident in mid-2002 illustrated the responsibility that the South African government has taken on, via the New Partnership for Africa's Development, to police the financial mechanisms of imperialism. A Cabinet meeting in Pretoria concluded with this statement:

> The meeting noted the provision by South Africa of a bridge loan to the Democratic Republic of the Congo of Special Drawing Rights (SDR) 75 million. This will help clear the DRC's overdue obligations with the IMF and allow that country to draw resources under the IMF Poverty Reduction and Growth Facility.
>
> (Republic of South Africa Government Communications and Information Service 2002)

Consistent with imperialism's need to renew accumulation by dispossession, Pretoria thus codified the earlier generation of IMF loans made to Mobuto Sese Seko, riven with corruption and capital flight, to European banks. Continuities with an earlier sub-imperial project were obvious, for the people of the DRC were previously victims of South Africa's apartheid-era allegiance with Mobuto, an arrangement that especially suited the ecology-destroying mineral extraction corporations headquartered in Johannesburg. The people's struggle against oppression had initially spawned another ruler in 1996, Laurent Kabila, who unfortunately refused democracy and later fell to an assassin's bullet. Thanks to his unelected son Joseph's connections in Pretoria's Union Buildings and finance ministry, the old

"odious" Mobuto loans would not be repudiated but instead be honored, and serviced with the new credits. In addition, IMF staff would be allowed back into Kinshasa with their own new loans, and with neoliberal conditionalities again applied to the old victims of Mobuto's fierce rule. These elite linkages, the protective Washington gear, and Mbeki's capacity for reproducing neoliberalism in such hostile conditions were, together, at least temporarily effective.

To accomplish the diverse agenda laid out above required exceptionally powerful political cover for corporate and especially financial interests, and by the mid-1990s such a force appeared in Pretoria. Whereas Nelson Mandela was an extremely useful moderate figure in demobilizing right-wing Afrikaner reactionaries as well as left-wing revolutionaries, an operational figure to promote neoliberalism was also terribly important.

The case of Trevor Manuel

Individuals are sometimes important to examine as vectors of change in their own right, but mostly as personifications of broader class interests. The transition from militant anti-apartheid (and often anti-business) politics of the 1970s–1980s to the compromises of the 1990s was best reflected in the trajectory of South Africa's most vocal neoliberal politician, Manuel, who served as Finance Minister from 1996–2009 and subsequently as Planning Minister. Manuel chaired the World Bank/IMF Board of Governors in 2000, as well as the Bank's Development Committee from 2001–2005. He was one of two United Nations Special Envoys to the 2002 Monterrey Financing for Development summit, a member of Tony Blair's 2004–2005 Commission for Africa, and chair of the 2007 G-20 summit. Manuel was appointed UN Special Envoy for Development Finance in 2008, headed a 2009 IMF committee that successfully advocated a $750 billion capital increase, served on the UN's High Level Advisory Group on Climate Change Finance in 2010, and in March 2011 was elected co-chair of the design committee for the Green Climate Fund. Within the latter process, he suggested that up to half the anticipated $100 billion/year fund be sourced from controversial private-sector emissions trading, not aid budgets. Manuel's name was often mentioned as a logical successor to Dominique Strauss-Kahn as IMF Managing Director in May–June 2011.

No one from the Third World has such experience, nor has anyone in these circuits had such a formidable anti-colonial political pedigree, including several 1980s police detentions as one of Cape Town's most important anti-apartheid activists. Yet despite occasional rhetorical attacks on "Washington Consensus" economic policies (part of SA's "talk left, walk right" tradition), since the mid-1990s Manuel has been loyal to the pro-corporate cause. Even before taking power in 1994, he was considered a World Economic Forum "Global Leader for Tomorrow," and in 1997 and 2007 *Euromoney* magazine named him African Finance Minister of the Year. No wonder, as in late 1993 he had agreed to repay apartheid-era commercial bank debt against all logic, and negotiated an $850 million IMF loan that straightjacketed Nelson Mandela (Bond 2003, 2005).

With Manuel as trade minister from 1994 to 1996, liberalization demolished the clothing, textile, footwear, appliance, electronics, and other vulnerable manufacturing sectors, as he drove tariffs below what even the World Trade Organization demanded. After moving to the finance ministry in 1996, Manuel imposed the "non-negotiable" *Growth, Employment and Redistribution* policy (co-authored by World Bank staff), which by the time of its 2001 demise had not achieved a single target aside from inflation. Manuel also cut the primary corporate tax rate from 48 percent in 1994 to 30 percent five years later, and then allowed the country's biggest corporations to move their financial headquarters to London, which ballooned the current account deficit. That in turn required Manuel to arrange such vast financing inflows that the foreign debt soared from the $25 billion inherited at apartheid's close to $80 billion by 2009, when he became planning minister (SA Reserve Bank 2009).

At that stage, with the world economy teetering, *The Economist* magazine (February 25, 2009) named South Africa the most risky of the 17 main emerging markets, and the SA government released data conceding that the country was much more economically divided than in 1994, overtaking Brazil as the world's most unequal major country. "We are not in recession," Manuel quickly declared in February 2009. "Although it sometimes feels in people's minds that the economy is in recession, as of now we are looking at positive growth" (Moneyweb 2009). At that very moment, in fact, the SA economy was shrinking by 6.4 percent (annualized), and had actually been in recession for several months prior. More than 1.2 million jobs were lost in the subsequent year, as unemployment soared to around 40 percent (including those who gave up looking). But in October 2008, just as Strauss-Kahn told the rest of the world to try quick-fix state deficit spending, Manuel sent the opposite message to his impoverished constituents: "We need to disabuse people of the notion that we will have a mighty powerful developmental state capable of planning and creating all manner of employment" (Lapper and Burgis 2008). This echoed his 2001 statement to a local Sunday newspaper: "I want someone to tell me how the government is going to create jobs. It's a terrible admission, but governments around the world are impotent when it comes to creating jobs" (cited in Marais 2001: 208).

Governments under the neoliberal thumb are also impotent when it comes to service delivery, and thanks partly to his fiscal conservatism, municipal state failure characterizes all of South Africa, resulting in more protests per capita against local government in Manuel's latter years as finance minister than nearly anywhere in the world (the police count at peak was more than 10,000/year). Ironically, said Manuel in his miserly 2004 budget speech, "The privilege we have in a democratic South Africa is that the poor are unbelievably tolerant" (*Mail&Guardian* 2004). In 2008, when an opposition politician begged that food vouchers be made available, Manuel replied that there was no way to ensure "vouchers will be distributed and used for food only, and not to buy alcohol or other things" (cited in de Lange 2008). The attitude extended to AIDS medicines, which in December 2001 aligned Manuel with his AIDS-denialist president Thabo Mbeki in refusing access:

> The little I know about anti-retrovirals is that unless you maintain a very strict regime ... they can pump you full of anti-retrovirals, sadly, all that you're going to do, because you are erratic, is to develop a series of drug-resistant diseases inside your body.
>
> (South African Broadcasting Corporation 2001)

Instead of delivering sufficient medicines, money, and post-neoliberal policy to the health system, schools, and municipalities, Manuel (2002) promoted privatization, even at the Monterrey global finance summit: "Public–private partnerships are important win–win tools for governments and the private sector, as they provide an innovative way of delivering public services in a cost-effective manner." He not only supported privatization in principle, as finance minister Manuel put enormous pressure (equivalent to IMF conditionality) on municipalities – especially Johannesburg in 1999 – to impose commodification on the citizenry. In one of the world's most important early twenty-first-century water wars, residents of Soweto rebelled and the French firm Suez was eventually evicted from managing Johannesburg's water in 2006 (Bond 2006). Water privatization was Washington Consensus advice, and as Manuel once put it, "Our relationship with the World Bank is generally structured around the reservoir of knowledge in the Bank" – with South Africa a guinea pig for the late-1990s "Knowledge Bank" strategy (Bond 2003: 142). Virtually without exception, Bank missions and neoliberal policy support in fields such as water, land reform, housing, public works, healthcare, and macroeconomics failed to deliver (Bond 2005).

In spite of neoliberal ideology's disgrace, president Jacob Zuma retained Manuel and his policies in 2009. In September that year, Congress of SA Trade Unions president Sdumo Dlamini called Manuel the "shop steward of business" because of his "outrageous" plea to the World Economic Forum's Cape Town summit that business fight harder against workers (K. Brown 2009). The mineworkers union termed Manuel's challenge "bile, totally irresponsible ... To say that business crumbles too easily is to reinforce business arrogance." Manuel also disappointed feminists for his persistent failure to keep budgeting promises, even transparency. "How do you measure government's commitment to gender equality if you don't know where the money's going?," asked the Institute for Democracy in South Africa's Penny Parenzee (Scott 2005). Former ruling-party politician Pregs Govender helped develop gender-budgeting in 1994, but within a decade complained that Manuel reduced it to a "public relations exercise" (Govender 2002). As for a commitment to internationalism, in early 2009 when Pretoria revoked a visitor's visa for the Dalai Lama on Beijing's orders, Manuel defended the ban on the exiled Tibetan leader: "To say anything against the Dalai Lama is, in some quarters, equivalent to trying to shoot Bambi" (South African Press Association 2009).

At the same moment Manuel was sabotaging Zimbabwe's recovery strategy, chosen by the new government of national unity, by insisting that Harare first repay $1 billion in arrears to the World Bank and IMF, otherwise "there was

no way the plan could work." Zimbabwean economist Eddie Cross (2009) complained,

> In fact the IMF specifically told us to put the issue of debt management on the back burner.... The South Africans on the other hand have reversed that proposal – I do not know on whose authority, but they are not being helpful at all.

Often suggested as a candidate for the top job at the Bank or IMF (only pulling out of the June 2011 race for IMF managing director on the last day of eligibility), Manuel has expressed anger at the way local South African politics evolved after Zuma evicted Thabo Mbeki from the SA presidency in September 2008. Manuel (2011) told the Zuma government's main spokesperson, "your behaviour is of the worst-order racist" after a (year-old) incident in which Manyi, then lead labour department official, claimed there were too many colored workers in the Western Cape in relation to other parts of SA. Manyi had earlier offered an apology, but suffered no punishment. Manuel's disillusionment apparently began in December 2007, just prior to Mbeki's defeat in the African National Congress (ANC) leadership election.

It is easy to sympathize with Manuel's frustrating struggle against ethnicism and cronyism, especially after his opponents' apparent victories. However, former ANC member of parliament Andrew Feinstein records that the finance minister knew of arms-deal bribes solicited by the late defense minister Joe Modise. In court, Feinstein testified (without challenge) that in late 2000, Manuel surreptitiously advised him over lunch, "It's possible there was some shit in the deal. But if there was, no one will ever uncover it. They're not that stupid. Just let it lie" (Pressly 2009).

Nevertheless, the myth of Manuel's financial wizardry and integrity continues, in part thanks to a 600-page biography, *Choice not Fate* (2008) by his former spokesperson Pippa Green (subsidized by BHP Billiton, Anglo American, Total oil, and Rand Merchant Bank). And after all, recent politico-moral and economic scandals by World Bank presidents Robert Zoellick and Paul Wolfowitz (whom in 2005 Manuel welcomed to the job as "a wonderful individual ... perfectly capable") (Bretton Woods Project 2005) confirm that global elites are already scraping the bottom of the financial leadership barrel. Yet it is still tragic that as host to 2011's world climate summit, South Africa leads (non-petroleum countries) in carbon emissions/GDP/capita, 20 times higher than even the US. Manuel's final budget countenanced more than $100 billion for additional coal-fired and nuclear power plants in coming years.

Given this background, Manuel's leadership of Green Climate Fund design in 2011 added a new quantum of global-scale risk. His long history of collaboration with Washington–London raised prospects for "default" by the industrialized North on payment of climate debt to the impoverished South. Indeed, as Pretoria's main man link to the Bretton Woods Institutions, Manuel's role as co-chair of the Fund gave the Bank much more influence, and at a Tokyo planning committee meeting in July 2011, he prevented a conflict-of-interest charge made by the Nicaraguan negotiator from being tabled.

The most important African negotiator – and largest CO_2 emitter (responsible for more than 40 percent of the continent's CO_2) – is South Africa. Aside from ostensibly preventing climate change that could have an especially devastating impact in South Africa, Pretoria's climate negotiators have two conflicting agendas: increasing Northern payments to Africa (a long-standing objective of the New Partnership for Africa's Development, which unsuccessfully requested $64 billion per annum in aid and investment concessions during the early 2000s); and increasing South Africa's own rates of CO_2 outputs through around 2030–2035, when the Long-Term Mitigation Scenario – South Africa's official (albeit non-binding) climate strategy – would come into effect. Only then are absolute emissions declines offered as a scenario. In the meantime, Pretoria has earmarked more than $100 billion for emissions-intensive coal and nuclear-fired electricity generation plants due to be constructed during 2010–2015, which would amplify Africa's climate crisis, requiring more resources from the North for adaptation. Thus far, South Africa does not, officially, see itself as a climate creditor, in spite of strong climate debt advocacy by the new Climate Justice Now! South Africa movement, especially in February–April 2010 when the World Bank considered and then granted a $3.75 billion loan to Eskom primarily for the construction of the world's fourth-largest coal-fired power plant (Bond 2011).

Conclusion: against financialization

The trajectory outlined above merely reiterates some core processes of political economy and political ecology associated with South African financialization, crisis, and uneven development. A deeper statement of geopolitical positioning (Bond 2006) and of domestic politics (Bond 2005) would confirm that territorial and social-control agendas were consistent with the accumulation processes observed above, especially as South Africa lined up as a sub-imperialist power, a deputy sheriff to global neoliberal institutions responsible for Africa (Bond 2005). Moreover, South Africa was also crucial for advancing the financialization and commodification agenda in outlets including the World Trade Organization's General Agreement on Trade in Services, the World Bank, and the IMF.

Given that this trajectory left a vast number of South Africans with widening income inequality and rising unemployment, with roughly half the country under what trade unions consider to be the poverty line, it was not surprising that very serious protests have regularly broken out against the concrete forms of neoliberalism in impoverished townships, sometimes numbering over 10,000 annually, according to police records (Bond 2010). The protests were serious, yet they had a so-called "popcorn" character insofar as they popped up and then died back down quickly. While up, depending upon which way the wind was blowing, they could push or be pulled to the left or right (for example, often becoming

xenophobic). But although cadreship from the most advanced community struggles began to join a Democratic Left Front (DLF) in 2011 and exhibited a desire for ideological coherence and a national linkage with like-minded activists, a big barrier was the inability of trade unions to devote their resources to developing the linkages. This was not only because the DLF was viewed as a potential competitor to the SA Communist Party, but because the sectional structural interests of union members often conflicted with the precariat's even though they were all bound up in a broad working-class. The labour market was sufficiently flexible that in 2008 to 2011, more than 1.3 million jobs were lost with no apparent recovery from the recession in terms of employment. Yet ironically, the best-organized sections of the labor movement regularly won wage concessions consistently above the inflation rate. These never transcended the particular firm-level agreement, however, except for the sole labor policy victory of winning a state commitment to National Health Insurance in 2009, which was gradually elaborated into a Green Paper in 2011.

To what extent can the militancy at the base be turned into more generalized critique of the power of financial capital? Three examples are illustrative: township housing in the early 1990s, the Jubilee movement against international financial relations in the 2000s, and labour against high interest rates after 2008. In the first, the community activists in the SA National Civic Organisation (Sanco) turned their activism to bank "bond boycotts" in the early 1990s, as the real interest rate increase from –6 to +7 over 18 months meant that out of 200,000 borrowers, 40,000 fell into arrears. Bond (home mortgage) boycotts occurred in dozens of townships when communities collectively refused to repay banks. The Sanco activists won minor concessions, but it was with a dramatic decline in housing prices in the prior Kuznets Cycle downturn and the economic upturn from 1993 that the financial pressure gradually eased and Sanco turned its attention to corporatist deals (Bond 2000).

The Jubilee South Africa campaigns against the residual apartheid debt, against foreign companies that profited from apartheid, as well as against further relations with the World Bank and IMF were generally unsuccessful, though in 2001 the World Conference Against Racism allowed a widespread reparations mobilization that had to be put down within the conference by Mbeki and UN Human Rights Commissioner Mary Robinson. In the mid- and late 2000s, Jubilee South Africa won some ground in US courts to pursue banks that had made apartheid loans, using the Alien Tort Claims Act. By 2011, however, the momentum for a major case was lost (Bond and Sharife 2010), and by then there were internal divisions that left the organization in a dysfunctional state.

Finally the most hopeful sign of counterpower was the National Union of Metalworkers of South Africa campaign against extremely high real interest rates starting in 2008. By mid-2009, they were instrumental in the eviction of the Reserve Bank Governor, who in any case was too closely identified with Mbeki to be a comfortable ally of the new president, Zuma. The replacement was no better from labor's point of view, nor was Manuel's replacement at finance. The union continued to complain about high interest rates and capital flight, and were

borne out by international events, but a more sustained shift in power to the left would be required before the parameters of neoliberal macroeconomic policy could be affected.

These examples suggest a need for a different and more integrated approach to fighting such extreme uneven and combined development. It is too early to say what kind of alliances might develop in future, assuming Zuma continues to alienate his labor constituents and communities continue rebelling. Their fusion in some form of workers' party would be an important step, but even before that inevitable development, the main work being done by critics of financialization and sub-imperialism is to prepare the ground with sound analysis that stretches as far as does the problem – i.e., far beyond Johannesburg bank headquarters, to the core dynamic of world capitalism.

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7 The political economy of low-intensity democracy

Colombia, Honduras, and Venezuela

William Avilés

Introduction

It has been over three decades since the "third wave" of democracy began its spread throughout much of the developing world and the former Communist bloc. This wave of electoral competition, civil liberties, and representative frameworks has coincided with the progressive liberalization of economies and expanding global trade. These processes of economic and political change have not, and do not, represent disconnected processes. They in fact represent a symbiotic relationship in which the spread of capitalist globalization has been facilitated by transnational elites governing low-intensity democracies committed to the global integration of their economies and the consolidation of market relations.

Antonio Gramsci argued that "hegemony" is a relation between social classes, in which one class fraction or class sector takes a leading role through gaining the willing consent of other classes and groups. This social order is internalized by subordinate actors who accept the prevailing economic and political institutions as the norm, as "common-sense." This hegemony is obtained and maintained through both coercive and consensual mechanisms, though coercive power is not regularly required given that subordinate groups have come to accept the nature of things. Within this struggle to establish hegemony in Latin America, William Robinson argues that a "transnational fraction" has become increasingly dominant, a fraction whose "...material interests and identity lie with integration into the emergent structures of global capitalism and with the rationalization and modernization of both accumulation and domination" (2003: 117). National states are being, or have been, captured by this transnational "fraction" or "elite" that operate with a great deal of ideological and material legitimacy, with international actors (the United States, international financial institutions, and transnational corporations) actively supporting their policy agenda. These are norm or policy entrepreneurs promoting a set of globalizing ideas in line with this agenda, one that has included democratizing the national state along lines consistent with a low-intensity democracy, a formal democratic model of domination.

In this chapter I argue that the United States, international financial institutions, and transnational elites have played a central role in consolidating this

politico-economic project in Latin America, with the aim of creating a business environment conducive to the investment needs of transnational corporations. Through a detailed examination of Colombia, Honduras, and Venezuela I illustrate the contradictions that this process generates and the sometimes fragile nature of these elite democracies in the face of genuine challenges to capitalist globalization and the institutional limits of formal democracy. Section one introduces the idea "low-intensity democracy" and its relationship to corporate power and US policy interests in Latin America. Sections two and three discuss the cases of Colombia and Honduras respectively, two representative examples of low-intensity democracies. The fourth section explores the case of Venezuela, which represents the failure of a transnational elite and the United States to establish a low-intensity democracy and the possibility for alternative models of economic and political development. I conclude by examining the relevance of my argument for future research.

Low-intensity democracy, globalization, and US foreign policy

Low-intensity democracies are largely procedural democracies that allow political opposition, greater individual freedoms, a reduced institutional role for the armed forces, and a more permeable environment for the investments of transnational capital. This type of "democracy" is viewed favorably by transnational corporations, the US government, and international financial institutions for its ability to co-opt radical movements that challenge the dominant political and/or socioeconomic order, effectively obtaining the public's consent for capitalist globalization. In these regimes civilian control of the military and regular electoral competition are prioritized over direct military rule. After successful challenges to military rule in the 1970 and 1980s, US policymakers and elites within Latin America increasingly viewed greater military power or military regimes as potentially engendering revolutionary or radical movements seeking more fundamental change to the prevailing market-based system (Robinson 1996). Furthermore, military–industrial complexes and military establishments are frequently at odds with efforts to streamline budgets with greater transparency or to give up national sovereignty in the face of greater economic integration (Solingen 1998: 57). However, the military, other state security forces, and paramilitary organizations remain politically important in the maintenance of domestic order and the prevention of radical efforts to extend democracy beyond the formal political process and/or replace capitalist globalization with other models of economic development.

Over the last three decades the United States has regularly linked various foreign policies with the establishment of low-intensity or market democracies. The perceived failures of military regimes to maintain political domination as well as political pressures (within the US and internationally) for human rights protections contributed to the US promoting "consensus-seeking forms of domination" (Robinson 1996: 32–33). The process began haltingly within the Carter

and Reagan administrations and was a key plank of the Clinton administration's foreign policy strategies. According to his National Security Adviser, Clinton's foreign policy was to "foster and consolidate new democracies and market economies where possible," with Clinton arguing in 1996 that "... democratic states are less likely to threaten our interests and more likely to cooperate with the United States to meet security threats and promote free trade and sustainable development" (Brinkley 1997). The Bush (2001–2009) and the Obama administration (2009–2013) continued to maintain the contention that political democracy requires free markets. US foreign policy tools from military intervention to the aid programs of the United States Agency for International Development or the National Endowment of Democracy (a quasi-governmental institution dedicated to promoting formal democracy and market reform internationally) have regularly been justified by the protection of "democracy" and/or "human rights" in a specific nation.

The promotion of low-intensity democracy by the United States takes place within a supportive political and economic context for reducing the likelihood of overt authoritarian regimes. The internationalization of capital markets and the monitoring of economic behavior by the International Monetary Fund, the World Bank (two institutions dominated by the United States and its European allies), and/or the US Treasury have reduced the necessity of dictatorial rule to ensure economic strategies amenable to the interests of international economic elites. In addition, the end of the Cold War has weakened the threat of Communist revolution in the region, reducing the incentives for *direct* military rule, though the need for the military to focus its attention upon armed and unarmed "internal enemies" has not ended.

The continuing need for internal repression in these countries indicates that the adoption of low-intensity democracy and the integration into capitalist globalization has not represented a smooth process, but has been associated with conflict. In fact, the deleterious economic and social consequence associated with neoliberal economic policies (such as privatizations or steep reductions in public welfare programs) creates the conditions for continuing attempts by sectors in civil society to challenge the established order. The next two sections explore the establishment and maintenance of low-intensity democracies in Colombia and Honduras, followed by attention to the Venezuelan case and the failure of low-intensity democracy to consolidate itself within that country.

Colombia: militarized civilian rule to a para-democracy

Colombian politics throughout the twentieth century has been synonymous with the electoral, and sometimes violent, conflict between different factions of its dominant class through either the Liberal or Conservative political parties, or more recently through the vehicles of competing personalist movements. Formal electoral competition has been a constant for decades, as clientelism and historical loyalties to one of the competing political groupings have been effectively used by elites to maintain themselves in power. Elites have also resorted to the

use of state and para-state violence to maintain control as formal instruments of control have not always been sufficient. *La Violencia* represented one period (1948–1958) in which supporters of the Liberal and Conservative parties engaged in a vicious conflict over political power in regions throughout the country while small landholders struggled to expand their meager properties at the expense of wealthier rural elites (Murillo 2004: 45). While Liberal guerrillas and militia would accept various amnesties and participate in the bi-partisan arrangement of the National Front, many of the Communist guerrillas refused to give up their arms, rejecting an arrangement that excluded leftists from the process and left intact highly concentrated land ownership in the countryside. Some of these guerrillas would go on to establish the Revolutionary Armed Forces of Colombia (FARC) in 1964, a guerrilla movement that continued to wage an armed struggle in 2011. In the 1960s and 1970s the Colombian establishment and its armed forces responded to their continued struggle not with reform, but with the counterinsurgency strategies associated with the National Security Doctrine.

The National Security Doctrine promoted in Colombia (and in the rest of Latin America) by the United States during the Cold War promoted a strategy that would orient Latin American militaries to focus on internal threats and suppress the possibility of "revolutionary" change. Colombia's armed forces largely embraced this mission given the existence of an armed internal threat and the benefits it received in training and military assistance from the United States. By the end of the 1970s serious ideological divisions within the armed forces were few as the military enjoyed its autonomy to pursue a militarized approach against the insurgency with the support of the civilian political and economic establishment. For example, the Colombian administration of Julio Turbay Ayala (1978–1982) granted the military greater powers to detain and arrest civilians while the military was granted jurisdiction to try suspects of subversive activities. These increased prerogatives complemented the military's continued control over the defense ministry, its supervision over its budgetary expenses, and general impunity over human rights violations (Premo 1989: 108). In 1980, over 8,000 Colombians were detained for "political reasons," with the vast majority tried in military courts. During this same period a noticeable increase of forced disappearances and allegations of torture at the hands of military officials were documented by human rights organizations, as the state continued to meet its political and social challenges with repression (Gallón Giraldo 1991: 13–15). The result was the "limited militarization" of a civilian regime (Rouquié 1987: 216).

Public and international condemnation of human rights violations in the Turbay-Ayala administration led to the curtailing of some of these military prerogatives in the Belisario Betancur administration (1982–1986). Almost from the beginning of his administration, Betancur's new strategies of dialogue with the guerrillas and increased social welfare spending faced opposition from the armed forces and business associations. Business opposition was centered in the agrarian elite (large landowners and cattle ranchers), represented by the business associations, the SAC and FEDEGAN Sociedad Agricultores de Colombia (SAC, Society of Colombian Farmers), and the Federación de Ganaderos (FEDEGAN, National Federation of Cattle Ranchers). They publicly ridiculed the peace process and demanded greater military pressure against internal enemies (Americas Watch 1986: 42–45). Cattle ranchers, large landowners, drug traffickers, and brigade commanders in the army, fearful of government concessions to the insurgency, began to directly organize paramilitary units that would attack the perceived social support of the guerrillas. Betancur's social reform program was also undermined by international pressures for economic reform and reduction of fiscal deficits.

The 1980s debt crisis had made international bankers wary of loaning to any Latin American government and after pressures from the IMF Betancur agreed to an IMF "voluntary adjustment" which led to cutting back public job programs, cuts in public spending on the poor, and a freeze in government wages (Ahumada 1996: 101; Safford and Palacios 2002: 334). The same year the World Bank initiated discussions with the administration in an effort to accelerate economic liberalization.

At the end of the Betancur administration and early in the Barco government (1986–1990), both the International Monetary Fund and the World Bank made it clear to the Colombian government that any future loans to the country would be dependent upon the country's progress in trade liberalization (Urrutia 1994: 291–292). The Barco administration's development plan of February 1990 was dedicated to reducing the role of the state in the economy and giving priority to increasing private sector investment (domestic and foreign) (Ahumada 1996: 102). The elimination of import restrictions and the reduction of tariffs were central to the plan, as well as removing protections from labor, and treating foreign investors the same as Colombian investors (ibid: 71). Lobbying by the US government for neoliberal reform reinforced the pressure of the World Bank. The Office of the US Trade Representative held a series of meetings with officials of the Barco administration in 1987 and 1988 with the objective of liberalizing Colombia's economy (Urrutia 1994: 303). By the end of the 1980s the George H.W. Bush Administration had agreed to an Andean Trade Initiative (eliminating US tariffs upon Andean-based exports) and proposed an "Enterprise for the Americas" initiative to reduce regional barriers to trade throughout the Western Hemisphere. These international pressures complemented the demands of Colombian exporters, such as representatives from the banana industry, cut flowers, or fruits as well as some industrialists (textiles, cement, and leather products) that were important constituents for economic reform (Urrutia 1994: 292).

The demands of the US, international financial institutions, and economic elites were joined by sectors of the political establishment committed to the idea of integrating into the global economy. Within the Barco government there existed a number of economic advisors and technocrats with experience working for international financial institutions and/or the banking industry that shared the philosophy that free markets and international competition are the key to development (Cepeda 1994: 151, 159–163).[1] These modernizing technocrats

(in the Barco government and in the Gaviria administration, 1990–1994), Colombia's transnational elite, were also central to the development of political plans to reform the country's politics in the face of the continuing challenges of social protest, guerrilla violence, and narcoterrorism (Ahumada 1996: 175–218). The weekly *Semana* described Gaviria's cabinet (the government that followed Barco's) in the following way: "they are the defenders of democracy first and foremost, with a civilian conception of society and a rejection of the use of violence to solve social problems ... [they are] ... anti-communist, anti-populist, anti-third worldism and anti-statist" (*Semana* August 7, 1990: 28). Gaviria's economic policies included sharp reductions in tariffs (from an average rate of 44 percent in 1989 to 12 percent in 1993), privatizations, and reducing restrictions upon FDI. By the end of Gaviria's term in 1994 approximately 113,000 public sector jobs had been cut, part of the administration's "modernizing" strategy that would continue in the governments that followed in the 1990s and 2000s (Murillo 2004: 132).

These modernizing technocrats were also central to the development of political plans to reform the country's politics (Ahumada 1996; Pearce 1990: 154–163). Politically, the Gaviria administration's democratic vision was, according to Gaviria's defense minister Rafael Pardo "...derived from the hemispheric priority in the promotion of democracy and in the disqualification of military coups initiated by the United States, which had validated this conduct during the Cold War" (Email communication, October 27, 2008). The new constitution of 1991 was one response to these social challenges. The constitution reduced some of the advantages enjoyed by the two major political parties, allowed for greater judicial protections for human rights, and increased the number of political offices subject to direct elections. Different attempts at peace negotiations with the armed insurgency represented another tactic at co-opting this opposition, however the failure to seriously address the economic, social, and security concerns of the insurgency, as well as the strength of militarist wings within the guerrilla movement that believed armed struggle could be successful, undermined these processes. Gaviria's government also worked to reduce the political role of the military. He selected a civilian to head the defense ministry in 1991, the first civilian defense minister in 40 years. In September of 1991 a civilian replaced the military head of the country's domestic intelligence agency, the Department of Administrative Security (DAS) (*El Tiempo*, September 6, 1991: 11A). Also, a special unit was established within the civilian-led National Department of Planning with the sole responsibility of overseeing military spending during his government (Avilés 2006: 64; Pizarro 1995). Neoliberal governments that followed Gaviria in the 1990s and 2000s maintained a civilian official in the defense ministry and at the head of domestic intelligence as well as continued the government's expanded oversight of military budgets. Colombia's armed forces conceded to these concessions as intra-military solidarity increased throughout the 1990s with the military viewing itself as defending "*la patria*" against communist subversion, a struggle that it has continued into 2011 (Pizarro 1996: 213). As former defense minister Rafael Pardo argued "...the counter-insurgency has been a factor of cohesion and generator of a sense of mission in the Colombian Armed Forces" (Email communication, October 27, 2008).

While Colombia's transnational elite promoted reforms to strengthen its formal democracy, these changes were insufficient to address the demands of unarmed and armed anti-capitalist globalization forces. Political violence by the state and paramilitary forces has represented one of many responses to this resistance, as a "dirty war" was, and continues to be, launched against the perceived supporters and sympathizers of the guerrilla insurgency, as well as representatives of organized popular movements. For example, Colombian trade unionists have been at the forefront of resisting privatizations of specific state enterprises, or the further removal of protections and benefits for organized labor, and have suffered greatly for this opposition (International Confederation of Free Trade Unions [ICFTU] 2004). Colombia is the most dangerous place in the world to be a trade unionist, as almost 4,000 were assassinated between 1986 and 2003 (Livingstone 2004: 12–13). In 2010 more trade unionists were killed in Colombia than in the world combined, with 265 killed between 2006 and 2010 (U.S. Labor Education in the Americas Project 2011).

The leftist political party, the Union Patriotica (UP) was simply decimated in Colombia's "dirty war". Over 3,000 of its members were killed by sectors of the Colombian security forces, right-wing death squads and paramilitary armies leading to its virtual political extermination as a political party (Dudley 2004: 11; Ortiz Palacio 1999: 13, 70–71). The assault upon the legal left was also reflected in the massive population of internally displaced during this period (over two million by 2005), with forced migrations often taking place in regions of socially active citizens, especially in areas of farmworker, peasant, and indigenous rights organizing (González Bustelo 2005). This displacement is also associated with the needs of transnational capital. According to Amnesty International "...over 60 percent of the more than 3 million internally displaced people in Colombia have been forced from their homes and lands in areas of mineral, agricultural or other economic importance" (2007: 1).

FDI increased at an annual average of 55 percent during the 1990s and by 2005, 400 transnational corporations produced an annual income of approximately $15 billion representing 15 percent of the country's GDP (Richani 2005: 115). Companies involved in this investment included BP, Texaco, Occidental Oil, Drummond, Colgate Palmolive, and General Motors (Richani 2005). These investments have often been directly aided by political violence. Paramilitary repression has aided in establishing security and labor peace for at least six transnational corporations through their selective assassinations of union leaders, or reinforcing security for specific oil pipelines from guerrilla attacks (Richani 2003). As Colombian Army Lt. Colonel Francisco Javier Cruz argued "...security is the most important thing to me. Oil companies need to work without worrying and international investors need to feel calm" (Gibbs and Leech 2009).

Paramilitary repression would continue into the 1990s and 2000s. The continued challenge posed by the armed insurgencies to Colombia's social order as

well as the unarmed resistance to capitalist globalization in civil society facilitated a political compromise in which democratic reformers tolerated paramilitary violence as a central component of the state's counterinsurgency strategy. On a regional level agrarian elites worked to achieve their goals via paramilitarism, while on a national level Colombia's transnational elite rhetorically condemned, but tolerated and sometimes assisted these counterinsurgency actors, actors who were often essential to creating the necessary business environment for the investments of transnational corporations.

The economic consequences of the neoliberal economic strategy have fallen negatively upon Colombia's rural and urban poor. The concentration of land ownership by the end of the 1990s was extreme, with 56.9 percent of the holdings covering only 2.8 percent of productive land, while 0.3 percent of the holdings covered 60 percent of the productive land (Soler 1997). Between 1997 and 2000 the country's GINI incomes index increased from 0.54 to 0.59, as the income of the richest 10 percent of the population increased by over 20 percent to 58 percent of total national income from 1992 to 1997. Paramilitarism exacerbated this inequality. The Colombian sociologist Alejandro Reyes concluded that

> one-third of the 800,000 refugees [by 2004 there were almost 2 million] lost their lands at the hands of paramilitary groups, who appropriated [them] as booty in the war in order to reconstruct a social base submissive to great haciendas. Buying cheaply where there were guerrillas, bringing in private security, and appraising the property became an enormous business...
>
> (as quoted in Cubides 2001: 133)

The years between 1990 and 2002 represented a period of escalating political violence and para-repression coinciding and following a period of economic and political reform. Colombia's democratization through the reform of civil–military relations, a new constitution in 1991, and the expansion of electoral competition were insufficient to co-opt major sources of political opposition. The response of civilian reformers was not to deepen democracy through the reduction of socioeconomic inequalities, or to jettison the neoliberal economic policies that exacerbated conditions conducive to the continuation of the insurgency, but to tolerate/facilitate the activities of para-repression in lieu of a return to an authoritarian order. A central consequence of this para-repression was to reduce the space for the political activities of trade unionists, Communists, peasant leaders of popular organizations, and human rights activists who were all (and continue to be) disproportionately targeted by paramilitary organizations.

This regime has largely continued in the 2000s with paramilitary groups and formal security services sometimes working together or alone in repressing armed and unarmed representatives of anti-capitalist globalization movements. This regime has been strengthened by the escalation of US military assistance since 2000 in the face of the increasing military strength of Colombia's armed insurgency. The Clinton administration committed to a two-year $1.6 billion aid

package in July of 2000, known as *Plan Colombia*. Hundreds of millions of dollars would be approved annually for Colombia after this first aid package was completed. In August of 2000 Clinton traveled to Colombia to symbolically deliver the assistance to President Pastrana, while on the same day of his visit 20 executives from US-based transnational corporations met with Colombian and US governmental officials to discuss future investment plans (Leech 2002: 63–64). The US government demanded that the Colombian government commit more resources to the military, making counter-narcotics aid contingent upon a greater budgetary commitment from the Colombian government to its military and the continuation of the economic opening (Ahumada 2002: 296–297; Tickner 2003: 85). Former Secretary of Energy (Bill Richardson) argued in 1999 during a trip to Cartagena that "the United States and its allies will invest millions of dollars in two areas of the Colombian economy, in the areas of mining and energy, and to secure these investments we are tripling military aid to Colombia" (Ramirez Cuellar 2005: 32). By 2004 only 20 percent of Colombia's potential oil regions had been explored, while Colombia's oil exports had increased "...from 100,000 barrels per day in the late 1980s to almost 850,000 barrels by the end of the 1990s" (Murillo 2004: 138).

Alvaro Uribe, elected in 2002, would expand Colombia's militarized model of neoliberal reform (Hagen 2002: 24–29). IMF agreements during his administration have committed the government to reducing its fiscal deficits and have facilitated continuing privatizations as well as the completion of a free trade agreement with the United States (though the US government has not ratified this agreement as of January 2011) (Rochlin 2007: 73; Murillo 2008). Uribe's defense ministers have also represented this ideological perspective as they uniformly have been neoliberal technocrats and/or economic elites tied to finance, insurance, or export capital, such as the first female defense minister Marta Lucia Ramirez de Rincon (2002–2003) who was the former president of the National Association of Financial Institutions, or Juan Manuel Santos (2006–present) former minister of foreign trade and the chief executive of Colombia's delegation to the International Coffee Organization. The state expanded its military power allowing it the capability to more directly challenge the armed insurgency, while the members and leaders of different paramilitary groups consolidated their gains and expanded their influence into the formal political process.

The government's military escalation has led to increasing violations of human rights by formal members of the armed forces. Since 2002 there has been an increase in the extrajudicial executions of civilians by Colombia's armed forces, who dress these civilians up to look as if they are guerrilla combatants. These murders, or "false positives," were often used by military personnel as a way to improve their combat statistics, which could lead to salary bonuses or vacation time. In June of 2009 the United Nations Rapporteur on extrajudicial executions, Philip Alston found that the "false positives" scandal implicated approximately 1,000 members of the armed forces in the killing of approximately 1,700 civilians since 1998. According to Alston's press statement on the

issue "The sheer number of cases, their geographic spread, and the diversity of military units implicated, indicate that these killings were carried out in a more or less systematic fashion by significant elements within the military" (Human Rights Watch 2010a).

In February 2010 Human Rights Watch concluded that paramilitary groups "...are frequently targeting civilians, committing horrific crimes including massacres, killings, rapes, and forced displacement" while the Colombian government has "...done far too little to investigate regular reports of toleration of the successor groups [paramilitary groups] by state agents or public security forces." Finally, between 2008 and 2010 it was discovered that more than 80 members of Congress, including 35 percent of the Senate (mostly supporters of the past president Álvaro Uribe as well as the current President Santos) and members of Uribe's cabinet, are under investigation or have been convicted for maintaining close ties with paramilitary groups. These ties have included receiving funds from these organizations, obtaining their assistance in mobilizing votes, and even providing paramilitary groups information on potential victims for assassinations.

These clear violations of human rights have not led to a reduction of US economic or military assistance, suggesting the extent that "democracy promotion" is framed narrowly in relation to neoliberal states in Latin America. In fact, during the Obama administration (2008–2012) the United States signed a Defense Cooperation Agreement in 2009 allowing US military personnel long-term access to seven Colombian military bases located throughout the country. A US Air Force document revealed that the US viewed access to Colombian bases as a "a unique opportunity for full spectrum operations in a critical sub region of our hemisphere where security and stability is under constant threat from narcotics funded terrorist insurgencies, anti-US governments, endemic poverty and recurring natural disasters" (Department of the Air Force 2009).

Despite the government's continuing repression, Colombia's popular sector continues to struggle within the political space that it is allowed. In October of 2008 over 12,000 indigenous activists marched and blocked highways to protest against a US–Colombia Free Trade Agreement (Murillo 2008). Government security forces responded violently to the protesters, wounding over 120 protesters and killing one. In November of 2008, a leading indigenous rights organization, the Association of Indigenous Councils of Northern Cauca (ACIN), sent a letter to President-elect Obama arguing that "large transnational corporations have profited from oil and gas contracts, mining concessions, privatizations, and low wages, and are now after the biodiversity of our territories" (Zibechi 2008). In addition to these new social movement pressures, a new left political opposition has emerged, the Polo Democrático. The Polo Democrático emerged during the 2000s to, according to the party website, "support the resistance to the neoliberal model and to secure effective vigilance of social rights of the population" (Sandoval 2009). However, according to former Colombian senator and former Polo Democrático leader, Gustavo Petro, neoliberalism will not be substantially challenged anytime soon in Colombia "...because here in Colombia the popular movement that represents the root of those peaceful proposals on the left is itself being destroyed through assassinations" (Leech 2007).

By 2010 the armed forces continue to retain a level of autonomy over internal security and the FARC has been militarily weakened into a "strategic retreat." However, previously held military prerogatives over counter-insurgency strategies, military budgets, and control over the defense ministry were eroded by Colombia's transnational elite. Publicly, and often symbolically, the Colombian state was making the various institutional reforms indicating progress toward democratization, but the state and para-state retained the operating space to silence, displace, and intimidate members of the popular sector seeking alternatives to capitalist globalization and low-intensity democracies. Honduras represents a similar case in which a transnational elite has promoted political reforms, but within the limits established by capitalist globalization and the US state.

Honduras: from military rule to rule by transnational elites

Honduras has been constructing and seeking to maintain a low-intensity democracy since its democratic transition in 1982. With the coming to power of its transnational elite in the 1990s this regime modified the distribution of political power within the state, as the military declined in its direct influence over key appointments and policy. However, like in Colombia, it retains a central role in safeguarding this low-intensity democracy from challenges from competing political elites and anti-capitalist globalization sectors in civil society.

Like most other Central American nations Honduras experienced long periods of authoritarian rule during the twentieth century, in the hands of civilian leaders or through direct military rule. The first half of the twentieth century was one in which foreign banana corporations dominated state policymaking, specifically the United Fruit company, however the lack of a dominant Honduran-based oligarchy allowed greater space for peasant and labor organizing (Posas and Fontaine 1980: 47; Robinson 2003: 119). Between 1972 and 1975 the regime led by General Oswaldo López Arellano "...redistributed land to peasants, established a minimum wage, and progressive labor laws, and promoted industrialization" (ibid: 120). The military was often led by reformist factions during this period, but they were ultimately challenged by more conservative sectors within the military that ultimately managed Honduras' democratic transition in the late 1970s. In fact, this conservative faction would lead the military into a prominent role in governing with civilian elites after the first civilian president took office in January of 1982.

Like other low-intensity democracies, Honduras in the 1980s was a country in which regular competitive elections were held while the military retained its domestic role of internal security. The military also enjoyed the power to veto cabinet appointments, exclusive control over security policy, and impunity for past human rights violations or military corruption during their time in power (Ruhl 1996: 38). The 1982 constitution not only created a National Defense and Security Council (CSN) made up of six military officers and four civilians to

oversee domestic security and foreign policy, but gave the head of the armed forces the title of "commander-in-chief" (Robinson 2003: 123). Military repression included, like in Colombia, the use of paramilitary forces and death squads to target a relatively small but growing radical left sector among trade unionists and students as well as perceived supporters of small, fledgling guerrilla groups that emerged in the late 1970s and early 1980s (Booth *et al.* 2006: 140).

The military's autonomy and importance to social control was enhanced by the substantial escalation of US military assistance and involvement in Honduran politics, as the US used Honduras as a base of operations in its war against guerrilla insurgents in El Salvador and the Sandinista government in Nicaragua. This aid increased from $3.9 million in 1980 to $77.5 million in 1984, making Honduras second only to El Salvador in the amount of aid given to Latin American nations during the 1980s (Booth *et al.* 2006: 34).

The Reagan administration viewed Honduras, and specifically its security forces, as the linchpin of a strategy to allow US military trainers to train Salvadoran soldiers in Honduras (to avoid potential Congressional opposition to US trainers entering a war zone) while relying upon the Honduran military to funnel military assistance to the Contras that regularly launched military operations from Honduras against the Sandinista government and its civilian supporters in Nicaragua. US military training during this period involved the use of torture manuals that advocated the use of illegal detention, torture, and murder against perceived leftist internal enemies (Booth *et al.* 2006: 34). The United States Agency for International Development (USAID) also worked diligently to influence and shape Honduran civil society and civilian political institutions in the hopes of co-opting them to Honduras' low-intensity democracy by funding political parties, military/civic unions, churches, and government ministries (Robinson 2003: 122). This period also witnessed the slow, but steady rise of Honduran economic sectors oriented to foreign investments and trade.

Honduras steady shift away from the semi-state protected economy of the 1960s and 1970s toward the neoliberal economy that it largely is today was facilitated by a series of IMF agreements that Honduras' political establishment signed in the face of the region's debt crisis. This pressure for reform weakened nationalist/statist fractions of its economic elite while strengthening those sectors within the banking/finance industries as well as those elites associated with a fledgling maquiladora industry. As the political scientists John Booth, Christine Wade, and Thomas Walker conclude "...external pressure converted the nation's economic policies to harmonize with the neoliberal rules of the international economic game and groups sympathetic to these pressures rose to prominence in the political system" (2006: 133).

Such external pressures included USAID. USAID helped to establish a large number of policymaking groups and lobbying organizations promoting a transnational agenda such as the Foundation for Investment and Export Development (FIDE) and the Federation of Agro-Export Producers (Robinson 2003: 125). The activities of these groups, the pressures of the IMF, as well as internal changes within the parties led to the steady implementation of neoliberal reforms. As the wars in Nicaragua and El Salvador began to wind down and eventually end (1990 and 1992 respectively) the need for a central role for the military within the national state became less of a necessity. In addition, the election of the neoliberal Rafael Callejas Romero to the presidency in 1989 would consolidate the control of the national state by Honduras' transnational elite, giving further impetus to the reduction of military power within state policymaking.

The election of the National Party candidate Callejas was aided by funds from the National Endowment for Democracy (NED) which funded the Center for Economic, Political, and Social Studies in Honduras that drafted the National Party platform (Robinson 2003: 128). Callejas led a transnational faction of the National Party that was committed to the National Party embracing capitalist globalization and neoliberalism (Centro de Estudios y Documentación Internacionales de Barcelona 2010a). This same process was taking place within the Liberal party, especially with the work of a transnational faction led by Carlos Roberto Flores Facussé. While in office Callejas implemented various austerity measures recommended by the IMF including the devaluation of the Lempira and reductions in public spending. In addition, Callejas reduced restrictions upon foreign investment creating the conditions for the expansion of maquiladora investments that would grow in Honduras throughout the 1990s (Robinson 2003: 129).

The new FDI and maquiladora assembly plants were sometimes met with labor strikes and popular protests which were typically repressed by the military (Booth *et al.* 2006: 144). Though the military maintained a domestic order role, its influence politically would increasingly be restrained in the 1990s. As Ruhl argues

> ...no longer threatened by the prospect of revolution, most of Honduras' private sector was ready to end its alliance with the armed forces ... tired of the expense of financing the military ... major groups from the private sector, like the *Consejo Hondureño de la Empresa Privada* (COHEP), began to demand that the armed forces cut back in size and become fully subordinated to civilian authority.
>
> (1996: 43)

Partly in response to these pressures in civil society, Callejas proceeded to reduce military power, appointing a human rights commissioner to investigate human rights abuses in 1992 as well as creating a Public Ministry and a new civilian-led *Dirección de Investigación Criminal* to more effectively investigate corruption and human rights abuses (Ruhl 1996: 45–46). This progress would be continued in the administration of Carlos Roberto Reina of the Liberal Party. Between 1993 and 1997 he was instrumental in promoting various judicial and military reforms that furthered civilian control over the armed forces. Most importantly, Reina working with the Liberal party leader Carlos Roberto Flores Facussé in the Congress shepherded through the Congress voluntary service for the military, ending the forced recruitment of Hondurans into the armed forces

(Centro de Estudios y Documentación Internacionales de Barcelona 2010b; War Resisters' International 1998). Reina also excluded the armed forces from any role in economic policy or non-security-related policies while substantially reducing military budgets (a 10 percent cut in 1994). Finally, Reina removed the military's direct control over a number of state-owned enterprises (Ruhl 1996: 48–50).

The leader of the transnational faction in the Liberal party, Flores Facussé, would come to power in the 1997 presidential elections and continued the neoliberal program. Flores enjoyed membership in business interest groups that had committed to a neoliberal agenda, including the National Association of Industrialists (ANDI) and the Honduran Council of Private Businesses (COHEP) (Centro de Estudios y Documentación Internacionales de Barcelona 2010b). Prior to his election to the presidency Flores was elected to the presidency of the National Congress of Honduras in 1994. Flores's faction designed the economic program of the Liberal president Carlos Roberto Reina (1994–1998) which called for the promotion of non-traditional exports, tourism, and the establishment of a "Super Free Trade Zone" (Robinson 2003: 129). As one of Reina's economic advisors argued "the new strategic focus of the country's development is to satisfy the needs of the international community" (as quoted in Robinson 2003: 130).

Flores also oversaw the furtherance of demilitarization while he was president. This included the constitutional change that gave the title of "commander-in-chief" of the armed forces to the president and the appointment of Honduras' first civilian defense minister Edgardo Dumas Rodríguez. Dumas Rodríguez would also serve as a governor at the World Bank and International Monetary Fund (Honduras.com 1999). While progress was being achieved on the institutional front of formal democracy, security forces such as the National Police, private security guards, and "committees of civil defense" were actively engaged in the internal repression of gangs through various "social cleansing" campaigns against young boys and teenagers in marginalized communities while a military officer was appointed as head of domestic security in 2001 in the face of an increasing crime wave (Centro de Estudios y Documentación Internacionales de Barcelona 2010b; Booth *et al.* 2006: 146–147).

This militaristic response was coupled with further economic reforms as a result of pressures from the international financial community, reforms that simply exacerbated the poverty and inequality underlying the growth of gangs in the country (Booth *et al.* 2006: 147).

The economic reforms of the 1990s had reduced various state supports for small peasants and created incentives for more and more land to be concentrated in the hands of export interests. By 2009 the country was one of the poorest and least developed countries in Latin America (approximately 60 percent in poverty), with one-third of its labor still tied to agriculture (Martinéz *et al.* 2009; Gall and Hobby 2007: 325). Labor union, peasant organizations, and democratic reform groups increased their activities throughout the 2000s demanding greater labor protections, land, and the democratization of elite democracy. Despite the fact that on an institutional level the Honduran state was formally more democratic in terms of the principle of civilian control, political repression and violations of civil liberties remained high. Mark Gibney's Political Terror Scale which measures "... state sanctioned killings, torture, disappearances and political imprisonment" concludes that "political terror" was higher between 2001 and 2003 under a regime of greater civilian control, than it was between 1981 and 1983 in the last years of military rule (Booth *et al.* 2006: 39; Gibney *et al.* 2009).

The military's continued domestic role allowed for the continued protection of the Honduran elite which consisted of approximately ten families that effectively controlled the economy by 2010 (Joyce 2010). With interests in the media, construction, fast food, maquiladoras, and other industries this elite was very much tied to the global economy, benefiting from the low wages of Honduran labor and the high prices of Honduran exports on international markets (Joyce 2010). The congressional approval of the Central American Free Trade Agreement with the United States in March of 2005 was not particularly surprising given the orientation of this elite and the influence of transnational factions within its dominant parties with 124 of the 128 congressional members supporting the agreement (*Mesoamerica* 2005). The election of Manuel Zelaya in November of 2005 of the Liberal Party was expected to continue this trend. Zelaya was not viewed by the Honduran elite or the United States as a member of the populist left when his administration began in 2006, but this was to change by 2009 ultimately leading to his removal from power.

Faced with the challenges of governing a country dependent upon international markets for economic growth with a population in which more than 60 percent lived in poverty Zelaya increasingly pursued alternative strategies to capitalist globalization and neoliberalism. In December of 2007 Zelaya joined Petrocaribe, a Venezuelan initiative in which Venezuela sold oil to members on favorable terms, decreed an almost 100 percent increase in the country's minimum wage in January 2009, and expressed support for the decriminalization of illegal drugs as a strategy to combat Honduras' drug gang problem (Joyce 2010). The increase in the minimum wage led to sharp reactions from Honduras' economic elite, including the biggest media owners, which enjoyed important linkages to the maquiladora industry, waging a smear campaign against Zelaya (Pine 2010a).

While these measures worked to antagonize the elite, Zelaya's 2009 proposal to survey the public about whether they would support the option of voting for a constitutional convention created the ultimate pretext for his removal from power (ibid.). In the months prior to June 28, Zelaya actively campaigned for the democratization of Honduran society, focusing on the need to convene a constituent assembly. The demand for major political reform was the breaking point for Honduras' political and economic establishment. On June 28, 2009 Zelaya was forcibly taken from his home by army units and flown to Costa Rica to be exiled on the day that the non-binding poll was to be held. The military and the Honduran political elite claimed that Zelaya was violating the constitution in attempting to survey the public and that his removal from power was necessary.

According to the Honduran Sociologist Leticia Salomón, Zelaya sought to establish a form of participatory democracy that would extend the country's representative democracy which has been dominated by the leaders of the two major parties who controlled the nominations of candidates for local, regional, and national elections (Salomón 2009).

The coup was supported and financed by a business group led by the neoliberal Carlos Roberto Facussé (ex-president and owner of the newspaper *La Tribuna*) and joined by the other prominent wealthy families (*El Libertador* August 6, 2009). These families obtained their wealth through various business groups or conglomerates that included agro-food companies, large export and import businesses, banks, oil importers and refiners, fast-food chains, as well as energy and telephone companies, sectors with extensive ties to transnational corporations and foreign direct investments (ibid; Cáceres 2009).

The de facto regime that replaced Zelaya intensified political repression and control against supporters of the ousted president. Strikes, road blockages, and street protests were launched during this period as a mobilized opposition not only sought Zelaya's re-instatement, but the establishment of a constituent assembly to reform the country's constitution. By September 21, 2009 radio stations and newspapers perceived as supporters of Zelaya were periodically closed, 11 anti-coup activists had been killed, 1,500 had been jailed for political reasons, and the offices of oppositional organizations had been ransacked (Dangl 2009a). Honduran human rights activist, Berta Oliva, concluded that "[W]e face a militarized state with a defined and systematic practice against those who oppose the coup ... "[The coup leaders] have a clear objective, which is to silence and intimidate" (as quoted in Dangl 2009b).

In the United States the coup government was aided by the public relations firm led by Lanny Davis (a lawyer to Bill Clinton and campaign advisor to Hillary Clinton) to lobby the US Congress on behalf of the coup coalition. The corporations that made up his client list with investments in Honduras included Fruit of the Loom, Hanes, and Russell that had long benefitted from the low wages and neoliberal policies implemented in the country (ibid.). In 2006 US investments in Honduras totaled $568 million, two-thirds of all FDI, while 52 percent of Honduran imports and 70 percent of its exports were with the United States (Dangl 2009a).

While the Obama administration criticized the coup, it failed to implement effective sanctions against the coup government. The administration endorsed negotiations between the de facto government and Zelaya. These negotiations ended in failure with the Obama administration ultimately supporting Honduras' national elections in November of 2009, despite the illegitimate removal of Zelaya, and widespread violations of human and political rights. And while the administration did cancel the visas of supporters of the coup and suspended non-military aid, military assistance and other forms of aid were continued (Joyce 2010). Military training of Honduran soldiers in the US was maintained and $70 million of other forms of assistance (twice the amount that was suspended) continued toward the coup government (Dangl 2009). International financial

institutions such as the IMF and the Inter-American Development Bank cut off assistance, but implicit US support for the November 2009 elections and the maintenance of some US assistance was fundamental to the coup regime given the centrality of the US to the Honduran economy. The National Democratic Institute (one of the branches of the National Endowment for Democracy) even helped to fund the November elections which led to the election of Porfirio Lobo (Pine 2010a). By July of 2010 the US would completely re-instate aid.

The Lobo administration has shifted away from Zelaya's populist policies, pursuing strategies to deepen Honduras' integration into the global economy. This has included substantial progress in establishing a free trade agreement with Canada to the benefit of Canadian mining interests as well as promoting the "Honduras is Open for Business" project that proposes to eliminate capital controls, ban land expropriation, and create long-term tax holidays for transnational and national capital (Gordon 2011; Alvarenga 2011). The coup has also resulted in the intensification of a Honduran resistance movement within civil society, such as the National Popular Resistance Front (FNRP), which has not only demanded the punishment of coup supporters, a new constitution, and the return of Zelaya, but economic policies with social justice. In response, the Lobo administration's security forces have been involved in excessive force against demonstrators, arbitrary detentions, and restrictions on freedom of expression.

According to Human Rights Watch there have been "...47 cases of threats or attacks – including 18 killings – against journalists, human rights defenders, and political activists since Lobo's inauguration" (Human Rights Watch 2010b). While the Center for the Prevention and Treatment of Torture has documented over 600 cases of cruel and unusual punishment against opponents of the Lobo government (Pine 2010b). Finally, the Lobo administration has sought to co-opt/de-radicalize this opposition by accepting an agreement to drop all charges against Zelaya and allowing him to freely return to Honduras on May 28, 2011. The aim is to clearly re-integrate the anti-coup forces into the narrow channels of elections and low-intensity democracy. However, Tomás Andino, a leader in the national resistance movement stated quite clearly after the return of Zelaya that these institutions were illegitimate, stating

> the coupists have institutionalized their power. In the Supreme Electoral Tribunal, in the Supreme Court, the same figures that legitimized the coup remain in place, as do the forces in the executive and the Armed Forces. So are we to expect that these forces that came to power through force are going to give up that power through voting? No! All of these conditions suggest that the only strategy available to the people is to rise up, if they are to really express their will. If we simply move toward participation in elections we are going to be lost.
>
> (as quoted in Gordon and Webber 2011)

In both the cases of Colombia and Honduras transnational elites came to positions of prominence within their respective political systems in a context in

which international financial institutions and the United States were actively promoting the agenda of low-intensity democracies. Anti-capitalist globalization coalitions and leaders have been targets of continued repression by their respective militaries and paramilitary groups, through selective assassinations and massacres in Colombia or a successfully executed coup in Honduras. However, the struggle over the political and economic direction in these two countries continues. The case of Venezuela illustrates one struggle in which anti-capitalist globalization sectors within civil society and the state have successfully resisted the establishment of low-intensity democracy while making progress in building alternative models of economic development and democratic rule.

Venezuela: the failure of low-intensity democracy

Consistent with Colombia's modern history, Venezuela has elected civilian authorities to the national state since 1958. This period of civilian rule followed well over a century of rule by various military rulers or personal dictatorships. Its first hundred years of independence was engulfed with political instability and civil wars that prevented the emergence of an oligarchy based upon large landholdings, as the state represented important political and economic power. Coffee and cocoa were the country's major exports during this period, though by the end of the 1920s oil would supplant these exports. Oil revenue was often invested in urban developments leading to a rise of middle and working classes, the basis for future liberalizing pressures (Ellner 2008: 34).

Openings for democratic change were allowed after the death of the dictator Juan Vicente Gómez in 1935. Factions in the military becoming increasingly tolerant of greater political liberalization and increasing pressures from organized labor as well as leftist parties demanding greater political change contributed to this shift. This progress would be disrupted by another military coup in 1948 whose government would ultimately be led by Colonel Marcos Pérez Jiménez and was strongly backed by international oil companies, the United States, and conservative economic interests fearful of the populist and leftist shift underlying Venezuela's democratic progress. Pérez Jiménez's regime would end in 1958 in the face of national protests demanding greater democratic openness and an end to the corruption associated with his government. After a year of transition overseen by a civilian–military junta, Venezuela would experience uninterrupted civilian rule, which for four decades would be administered by the pact of *Punto Fijo*.

The *Punto Fijo* pact divided power between the major political parties, Democratic Action party (AD), the Christian Democratic Party (COPEI), and the Republican Democratic Union (URD). The pact was supported by military and business elites. The military was relatively unified behind leaving office after a decade in which the corruption scandals and brutality of the Pérez Jiménez regime had weakened the legitimacy and image of its institution. The three major parties agreed to coalition governments and a minimum program of economic policies which included support for import-substitution-industrialization and a large role for the state in the economy. The centrality of oil production to development accelerated urbanization and undermined the strength of a rural oligarchy that found its economic influence usurped by the state (Karl 1987). This agreement between elites, comparable with the National Front in Colombia, also excluded the Communist party, contributing to the emergence of guerrilla armies in the 1960s.

During the *Punto Fijo* period the United States and Venezuela enjoyed close political and trade relations for decades, with Venezuela long representing a major source of oil for the US. Military to military connections were close with a US Military Assistance Group in Venezuela advising on strategy and tactics and Venezuelan officers regularly training at US-run institutions (Myers 1996). Anti-Communism, especially given Venezuela's internal war against Communist guerrillas in the 1960s, and a defense of democracy were objectives generally shared by both countries. In addition, Venezuelan governments throughout the 1960s and 1970s ensured that the budgetary needs of the military were taken care of and supplied with the latest technology. Ultimately, the last of Venezuela's guerrilla insurgents would end their struggle in the 1970s in the context of a major oil boom and the administration of the AD candidate Carlos Andrés Pérez who expanded social welfare policies. With the end of the insurgent wars the military's role incorporated greater attention to developmentalism and a domestic role in repressing anti-governmental disturbances. This repressive role as well as the politicization of promotions would lead to the emergence of oppositional factions within the military dissatisified with the direction of the country and its armed forces.

Since the early 1980s one military faction, the Bolivarian Revolutionary Movement (MBR-200), led by Hugo Chávez and Francisco Arias, had been planning, with members of the military as well as with nationalist and radical civilians, a rebellion against what they viewed as a corrupt political system that did little to reduce social and economic inequality. The 1980s in particular was a period in which different governments came to power unable to address a serious deterioration in Venezuela's economic position due to substantial declines in the price of oil coupled with major debt accrued by previous governments that pursued massive developmental projects to promote Venezuelan industrialization (Ellner 2008: 77). In fact, throughout the 1980s and 1990s Venezuela would be burdened by this foreign debt, with one-fifth to one-third of its annual foreign exchange reserves dedicated to this debt (ibid: 79).

The collapse in oil prices in the 1980s, rising interest rates, and a ballooning foreign debt plunged the country into an economic crisis in the 1980s and 1990s. In response, attempts were made to re-orient Venezuela away from a decades-long strategy of import-substitution industrialization to the market-oriented, free trade strategies of neoliberalism. The most serious effort to promote this economic change was undertaken by the government of Carlos Andrés Pérez (1989–1993).

Carlos Andrés Pérez implemented a series of neoliberal measures in response to IMF pressures and his government's ideological commitment to this agenda. The administration of Andrés Pérez and Rafael Caldera (1994–1998) promoted

various neoliberal economic policies, including the privatization of the telephone company, steel company, key operations of central ports, and the social security system as well as the deregulation of labor markets to create greater "labor flexibility" in exchange for IMF credit (Ellner 2008: 90). Restrictions were also lifted on foreign investments and tariffs were dramatically lowered. The Caldera administration advanced the steady involvement of the private sector in exploring unexploited oil fields, limiting the state's involvement in these investments from 1 to 35 percent (ibid.: 102). Ellner argues that these policies were "... designed to facilitate Venezuela's economic insertion at the international level and encourage the thorough penetration of the national economy by multinational capital" (2008: 90).

The austerity measures of Andrés Pérez led to a massive backlash, the 1989 *Caracazo*. The *Caracazo* consisted of mass rioting and protest against the end of governmental subsidies for gasoline and the elimination of other price controls. The riots and governmental repression of this social explosion led to the deaths of hundreds. The successful repression of the 1989 rebellion strengthened the resolve and belief of the MBR-200 that the political regime had to change and that neoliberal economic policies had to be rejected. The military movement attempted to overthrow the Andrés Pérez government in February of 1992, while sympathizers of their cause attempted again to remove the government in November of 1992. Both coups failed as neither was able to obtain support across the armed forces in a substantial and effective manner.

The United States condemned the 1992 coup attempts against the neoliberal regime, issuing a declaration that "the basis of US policy in the region is the support of democracy, and even if we understand that Venezuela, among other nations, is going through a difficult period, authoritarianism is not the solution" (as quoted in Teresa Romero 2002). The US ambassador and others in the US State Department threatened economic sanctions if a military regime were to come to power while the US armed forces increased its number of training missions in Venezuela, though this assistance would not match the support that Colombia received from the US during the 1990s (Trinkunas 2005: 188; USAID 2008). The coup attempts mobilized the opposition to neoliberalism in a way that previous opponents of neoliberal policies had been unable to do in Venezuela. The coup was fundamental to the convergence of the various groups in civil society (such as labor unions, farmers, students), political parties, and sectors of the armed forces in focusing opposition against the government. Ultimately, this resistance to the neoliberal government prevented the Andrés Pérez administration from developing a "... stable coalition that could act as an effective anchor for the country's political system and allow the government to continue its program" (Naim 1993: 163).

The Chávez Administration, 1998–2011

Following their release from prison in 1994 the 1992 coup plotters began to establish the organizational structure of a political movement consisting of

members from civil society and the armed forces. The effectiveness of this movement, the declining legitimacy of the dominant political parties, and the anti-establishment rhetoric and charisma of Chávez brought him to victory in the 1998 presidential election. Since Chávez has been in office his administration has sought the establishment of a counter-neoliberal/globalist model of development and democracy. In the first years of his administration the government increased its control and direction of the state oil company, provided easy credit for domestic enterprises, promoted a major land reform program, and integrated the military directly into his political project.

Military officers were placed in key positions throughout the governmental bureaucracy, three officers in the cabinet, 13 retired officers were elected as governors, and 50 percent of state companies and institutes were led by military officials (Manrique 2001). Chávez sought to utilize the resources, training, and professionalism of the military to attack social problems given the extent of the country's economic problems and Chávez distrust of the governmental bureaucracy (Jones 2007: 232–233). The military would become involved in supporting the work of communal councils, small neighborhood councils that have been provided billions in government funds to directly address social and infrastructural projects in their communities outside of formal political institutions (Bradley 2007). Harnecker finds that the military's experiences of working with the poor made them "more socially aware and engaged" arguing that "junior officers now belong to the more radical sectors of the process" (Harnecker 2003).

Viewing neoliberalism as the source of many of Venezuela's economic and social problems, Chávez called for the implementation of a "third way" of economic development. The new constitution created largely by supporters of the Chávez government in 1999 called for the expansion of public welfare and labor protections and rejection of the privatization of PDVSA (the state oil company) (Gott 2000: 153–159). The prohibition of privatization of the state industry ran counter to US advocacy of the privatization of oil industries throughout the world (Mömmer 2003: 139; Isacson 2000: 8). Other initiatives unfriendly to foreign investment included the doubling of the royalties paid by ExxonMobil and other oil operators from about 16 percent to roughly 30 percent on new finds (Palast 2003). Finally, landowners who failed to utilize more than 80 percent of their land became subject to an "inactivity tax" and possible expropriation (ibid.: 129).

These policies were clearly inconsistent with the prescriptions of the IMF and the US government. In fact, in the second half of the 1990s the NED steadily increased funding to various groups in Venezuela advocating neoliberal reform (Teresa Romero 2002: 114). The largest expression of societal opposition to Chávez occurred in 2002, specifically in a coalition of parties, business groups, and labour unions, including the Federación de Cámaras y Asociaciones de Comercio y Producción de Venezuela (FEDECAMARAS) and the Confederación de Trabajadores de Venezuela (CTV). This alliance of groups were instrumental in organizing mass protests and marches that ended violently in April of

2002 allowing sectors of the military high command to publicly justify a momentarily successful coup against Chávez. After Chávez's removal the president of FEDECAMARAS, Pedro Carmona Estanga declared that Chávez had resigned and that he himself would lead a transition government until new elections were held within a year (Tamayo 2002).

Other members of Venezuela's economic establishment joined Carmona's transition government, including the president of Venezuela's bankers' association, Ignazio Salvatierra, and the head of Venezuela's largest media conglomerate, Gustavo Cisneros (Palast 2003: 2; Klein 2003). Cisneros led the Cisneros Group, a transnational conglomerate that had engaged in numerous joint ventures with transnational corporations based in the United States (Klein 2003) and enjoyed a close friendship with George H.W. Bush and other ties with the US political and economic establishment (Contreras and Isikoff 2002: 36). His television station and other media outlets contributed to undermining the Chávez government through ceaseless attacks (Adams and Gunson 2002; Lemoine 2003; Klein 2003).

Carmona's first decision as president was to close down public broadcasting stations sympathetic to Chávez. In addition, he dissolved the legislature (which contained a majority of elected Chávez's supporters) and rescinded many of the Chávez government's land reform and oil reform policies (*New York Times*, April 13, 2002). He directed the security forces to raid the offices of pro-Chávez supporters, arrest mayors and governors linked to his movement, and detain several members of the recently dissolved National Assembly (Lopez Maya *et al.* 2002). In response to these policies and the refusal to accept the claim that Chávez had resigned, there were massive protests throughout the country in opposition to the coup. Thousands were involved in this protest, and it had significant sympathizers within the armed forces. In response to the popular expression of opposition, military factions supportive of Chávez returned him to power on the morning of April 14 (Gunson and Adams 2003).

In the year preceding the April 2002 military coup various agencies and actors within the US government were supporting anti-Chávez groups seeking his removal from power. An investigation by the US State Department's inspector general concluded that the NED, the Pentagon, and other assistance programs had "provided assistance to organizations and individuals involved in the coup." The head of the International Republican Institute (a core group of the NED) argued that they had served as a "bridge" to the various groups that opposed Chávez. In fact, rear Admiral Carlos Molina, a central leader of the coup, argued that "We felt we were acting with U.S. support ... we agree that we can't permit a communist government here. The U.S. has not let us down yet" (Jones 2007: 349; Wilson 2002).

In response to the coup of April 2002, the United States recognized the new government of Pedro Carmona, central leader of the coup coalition, with the US ambassador being his first visitor on the morning of April 13. US support for this government was consistent with the general orientation of the US state and the specific interests of the Bush administration. The Center for Public Integrity

reported that Bush was the leading recipient of campaign contributions from the oil and gas industry between 1997 and 2003, with the Republican politicians receiving US$13.9 million in 1998 compared with US$3.2 million for the Democratic party (Williams and Bogardus 2003). In addition, the oil industry contributed substantially to the political campaigns of the Republican party, with ExxonMobil and its employees contributing over US$1 million in the 2000 election cycle (Pacific Environment, 2005).

The failure of the 2002 coup did not prevent the US from seeking other strategies to either remove or weaken his influence in the region. In the two years following the April 2002 coup the NED distributed more than US$800,000 to various anti-Chávez organizations involved not only in the recall drive but also in destabilizing strikes at the end of 2002 and early 2003 (Golinger 2004). In 2006 the US Director of National Intelligence appointed a new mission manager for Cuba and Venezuela to collect intelligence on the two nations given the challenges, according to the Director, the two nations allegedly posed to US foreign policy. Venezuela and Cuba joined Iran and North Korea as countries "requiring" such attention (Green 2006). A US diplomatic cable sent in June 2007 from the US embassy in Santiago by Craig Kelly (who worked as the Deputy Assistant Secretary of State for Western Hemisphere Affairs in the Obama administration) to the Secretary of State, CIA, and Southern Command called for new strategies to limit Chávez's influence, including strengthening "...ties to those military leaders in the region who share our concern over Chávez" (Golinger 2010). Kelly also called for the US to punish the South American regional economic group MERCOSUR if it were to formally admit Venezuela as a permanent member (ibid.).

In response to US pressures the Chávez administration has actively sought to build economic and military alliances outside of the US in an effort to construct a "multi-polar" world system. Military assistance agreements with countries such as Russia and China, as well as promoting intergovernmental organizations such as the South American Defense Council (which excludes the U.S) or trade agreements such as the Bolivarian Alternative for the Americas (ALBA), are illustrative of this mission (Suggett 2008; Nunez 2006). ALBA aims to promote trade and development on an equitable footing and the South American Defense Council seeks to reduce regional conflicts and facilitate military cooperation to address regional security issues (Suggett 2008). The defense council also seeks a type of academic integration, proposing a South American Center of Strategic Studies, a center for military studies outside of the US orbit (ibid.). At the same time the Venezuelan government ended its participation in the US military training program at the Western Hemisphere Institute for Security Cooperation. Chávez argued that "this school deformed the minds of many Latin American soldiers, who from there went on to become dictators" (School of the Americas Watch 2004).

Unlike Honduras and Colombia, Venezuela's transnational elite failed to consolidate their control over the state due to several factors. The history of state-led development and the centrality of oil to Venezuela's economic growth

contributed to massive resistance amongst the general population to a market-based direction. However, in contrast to other states facing this resistance where the security forces were unified behind establishing order, Venezuela's military was divided, with specific factions viewing the political establishment and the ideology of neoliberalism as a threat. This created the opportunity for a movement such as *chavisimo* to come to power and progressively build an alternative political and economic model of development, one that fully rejects the central elements of low-intensity democracies.

The three cases illustrate the various contradictions embedded within low-intensity democracies and the challenges facing the United States and transnational elite in maintaining consensual control with economic policies that work to undermine the legitimacy of such controls. Military and para-military repression has been instrumental in compensating for the weakness of this political system in Colombia and Honduras, while in Venezuela its fragmented state in the context of a country in which state-led development has been essential has prevented it from reliably playing this role. Finally, the Venezuelan case illustrates the limits to US state power and transnational capital as well as the possibilities of alternatives to their political and economic project.

Note

1 Former World Bank employees included Barco himself who formerly worked for the World Bank, Oscar Marulanda Gómez economic advisor in the Ministry of Finance, and Miguel Urrutia, the director of the Monetary Board. Barco's Minister of Finance, Luis Fernando Alarcón formerly worked for the Interamerican Development Bank (Cepeda 1994: 151, 159–163).

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8 Class power, neoliberalism, and the G20 Summits

Susanne Soederberg

Introduction

A product of the West, the 2008 credit crisis eroded an unprecedented amount of wealth, albeit unevenly, across the globe, driving more than 50 million people – particularly women and children – into extreme poverty in the developing world (IMF 2009a). Almost one year after the crisis, however, the communiqué of the Pittsburgh Summit of the Group of Twenty (G20)[1] announced, in a smug and self-congratulatory tone, that the world was "in the midst of a critical transition from crisis to recovery" largely because of the Herculean efforts of the G20 in ensuring the re-creation of the same conditions that brought about the crisis in the first place, for instance, free mobility for financial capital and the dominance of market rule (Harvey 2007). In the words of the G20, successful recovery demanded that the world work "to repair *our* financial systems and to maintain the global flow of capital" (G20 Pittsburgh Summit 2009, my emphasis). What "recovery" has banked on, however, are debt socialization schemes such as the $850 billion Troubled Asset Relief Program (TARP) in the United States, coupled with the neoliberal commitment of states "to stay out of the markets" in order to facilitate the natural healing process that ostensibly ensues from the self-equilibration of the forces of supply and demand. Until now, there has been very little critical examination of the content and form of the G20 Summits of 2009, especially with regard to questions of neoliberalism and the uneven nature of capitalist development, including the paradoxes and class power therein (Cammack 2009; cf. Beeson and Bell 2009).

The aim of this chapter is to address this void in the scholarship by examining and arguing, at the general level, that the G20 Summits represent an articulation of class, and, its close relation, geopolitical power (Harvey 1999, 2007). More specifically, this argument has two overlapping sides. On the one hand, I posit that the main policy content formulated at the G20 Summits immediately following the crisis reflects the class interests of those individuals who have benefitted the most from neoliberalism: financial and non-financial corporations and the United States. On the other hand, I suggest that a necessary condition for the social reproduction of this power is based not only on the ability to re-legitimate the importance of neoliberalism for all (e.g., market and individual freedoms),

but also, and relatedly, to depoliticize its class nature by resorting to what I refer to as financial fetishism. I discuss this term more fully below (Section three). Suffice it to say here that financial fetishism refers to a two-step process whereby dominant class interests as well as political elite, first, abstract and relegate finance to the economic sphere, and, second, ensure that the economic sphere remains emptied of political, historical, and cultural relations of class power (Rankin 2002). Through an analysis of the official discourse of the G20 Summits, I seek to reveal how and why these class-based processes of financial fetishism were involved in depoliticizing and neutralizing the causes and effects of the crisis and thereby legitimating a narrow and very particular policy response, namely the reproduction of free (unregulated) financial flows of capital.

I develop this chapter by moving from a concrete historical analysis to the abstract level. Section one explores the continuities between the G20 and its predecessor, the New International Financial Architecture (NIFA). Section two examines the state of global capitalism over the past decade in order to reveal paradoxes, inequalities, and struggles underpinning the two global initiatives. Section three moves to a more abstract and theoretical consideration of the representation of the G20 Summits through the lens of my concept "financial fetishism" in order to understand more deeply the class nature of this initiative. Section four concludes by discussing some implications of my argument for future research.

The politics of crisis management

Strategic silences and intentional ambiguities

In this section, I consider among other things, what the recovery strategies of the G20 Summits entailed and why they were selected. Suffice it to say here that despite the threats of imposing stronger forms of financial regulation by government officials at the outset of the crisis, global solutions to the crisis have not been commensurate with its devastating effects on humanity (Rachman 2008). Rhetoric aside, the proposals tabled at the London and Pittsburgh Summits in 2009 neither introduced rigorous, state-led regulation of global finance nor represented a departure from previous international efforts to steady the world economy, most notably the NIFA of 1999 (Soederberg 2004). The NIFA, it will be recalled, was a global initiative aimed at repairing, strengthening, and restoring growth and stability in the international financial system in the aftermath of the spate of financial crises that swept across emerging market economies during the 1990s (ibid. 2004). Like its successor at the London Summit, the NIFA was essentially comprised of market-based forms of regulation.

The continuity between the NIFA and the G20 Summits of 2009 raises critical questions about crisis management: What exactly is being repaired and strengthened within the international financial system, and who benefits from these efforts? Why restore a system that has not only wreaked high levels of

social and economic havoc, but has also largely failed to benefit the majority of the world's population since the early 1980s? And, why have the general and striking similarities between the 2009 Summits and the NIFA been downplayed by policymakers? Similar to the sleight of hand of a talented illusionist, who makes objects appear and disappear by manipulating mirrors amid a confusing burst of smoke, I suggest that the so-called broad, sweeping reforms tabled at the G20 Summits were chiefly designed to obscure the class-based interests and paradoxes of capitalism and, therein, to magically restore neoliberal rule, primarily by infusing massive amounts of capital into the financial system at the expense of greater human suffering, environmental degradation, and economic instability. Moreover, the disappearance of the NIFA from official discourse was a political decision aimed not only at creating the illusion of innovation at the 2009 Summits, but also, and more importantly, to draw attention away from the latter's continuity with its predecessor, which wholly failed to meet its objectives of curtailing crises and achieving widespread, strong, sustainable, and balanced growth – the mantra of all global responses to major financial crises over the past several decades, including the G20 Summits of 2009.

Before discussing the main features of the NIFA, I will identify some of its premises, so as to help explain its connection to the politics of representation informing the G20 Summits.

Reducing financial crises to market failures

According to official accounts, the main cause of the financial crises of the 1990s (e.g., Mexico's Peso Debacle in 1994–1995 and the East Asian Crisis in 1997, followed by crises in Brazil and Russia in 1998) was not the speculative nature of largely deregulated financial flows, but instead the imprudent policy choices made by governments of middle-income countries as well as the lack of transparency and accountability of market actors in the developing world. The NIFA sought to strengthen, as opposed to question, the standard economic assumption that free capital mobility leads to economic growth. It suggested that while the state should refrain from playing a major role in the market, governments should complement and protect the infrastructure in which markets operate by implementing good governance policies. Specifically, such policies should primarily be aimed at encouraging perfect information between contracting parties in the marketplace (Soederberg 2004). Reflecting the underlying tenets of the post-Washington Consensus, the architects of the NIFA sought to facilitate market transparency without imposing state-led regulations. The creators of the NIFA opted for voluntary principles and market-based rules as opposed to legal reforms restricting capital flows (ibid. 2004).

The standard (neoclassical) economic theory underpinning the above policy is that when left to their own devices (read: free capital mobility and low levels of regulation), private capital flows move from capital-abundant developed countries to capital-scarce developing countries, therein promoting investment and development (Ocampo *et al.* 2007). The basic assumption is that capital flows

will bring about efficiency gains and lead to growth, which in turn will, through rational, market mechanisms, trickle down to the rest of the population. To attract and retain foreign capital flows, the onus is on governments and firms in developing countries to ensure that they adhere to the "correct" (market-led) policy and institutional frameworks. Correct policies reflect, among other things, minimal state intervention in the market. The reason for this position is that the state is seen not only as representing a direct source of inefficiency (i.e., rent-seeking behavior), but also as encouraging "wasteful use of resources to gain essentially corrupt advantage" (Fine 2006: 5).

Social reality appears, once again, to have contradicted the assumptions of neoclassical economic theory. As detailed by José Ocampo, "Since 1997 developing countries have made increasingly large transfers to developed countries. In addition, private capital flows to developing countries have been concentrated in a small group of large middle-income countries," otherwise known as "systematically important" emerging markets, as opposed to those countries in most need of financing (Ocampo *et al.* 2007: 17). Indeed, financial liberalization has led to the "privatization" of global development finance. Over the past ten years, private capital flows such as foreign direct investments (FDI) and foreign portfolio investments (FPI), e.g., stocks and bonds, have overshadowed official financial flows in the form of bilateral and multilateral loans and aid (World Bank 2007). Capital flows, especially FPI, have done little to smooth domestic expenditure, however. Instead, "private capital flows appear to have contributed to making it more precarious. In many cases they have produced costly currency and financial crises that have reversed development gains" (ibid. 2007).

Seen from the above perspective, it is not surprising that key global players such as the IMF and countries that benefitted greatly from financial liberalization, most notably the United States, did not call into question either the short-term and highly speculative nature of financial markets or the absence of regulatory mechanisms at the global level as potential sources of the crises in emerging markets during the 1990s (Soederberg 2004). Instead, international policymakers, led by the general directive of the United States, created the G20 in 1999 to help repair, restore, and strengthen, as opposed to alter radically (e.g., through the introduction of capital controls and other forms of state-led regulation) the existing financial system. The G20 was widely celebrated as an inclusive and thus "democratic" project that comprised the powerful Group of Seven (G7) industrialized countries, the IMF, and World Bank, as well as, for the first time, several "systematically important" (read: for the continued expansion of capitalism in core countries) emerging market economies. I have provided a critical discussion of the political motivations for the creation of the G20 elsewhere (ibid. 2004). Suffice it to say here that whilst national interests have sparked disagreements among members, the official G20 communiqués – all of which uphold the principles of neoliberalism, including free financial flows – are presented as the legitimate outcome of consensus among the most powerful economies in the global South and global North, as well as international financial lenders.

A major component of the NIFA was the Financial Stability Forum (FSF). The FSF was seen as an important venue through which the central banks and finance ministries of certain G20 countries could exchange information and work toward financial supervision and surveillance in the interest of financial stability. To this end, the FSF created 12 voluntary international codes and standards, which are monitored by several key international organizations such as the IMF and World Bank. These standards and codes, which are known as the Reports on the Observance of Standards and Codes, or ROSCs, are based on good governance practices ranging from accounting to corporate governance.[2] It should be underlined that, although these standards and codes are said to reflect international norms, they tend to replicate the Anglo-American version of neoliberalism, which accords a high value to minimal state intervention and high exposure to market forces (Soederberg 2004).

For example, as I have discussed elsewhere, the corporate governance ROSC is a voluntary surveillance mechanism based on guidelines for corporate governance established by the Organization for Economic Co-operation and Development (OECD). Developing countries report to the World Bank how and to what extent their firms are adhering to good corporate governance practices. The World Bank then publishes these findings on its website where they are scrutinized by institutional investors (Soederberg 2004). I have argued that these standards are far from neutral and innocuous, but instead are infused with social power tightly linked to the disciplinary features of American hegemony (ibid. 2004, 2006). Following Antonio Gramsci, the latter term refers to a complex and historically specific configuration of class forces that wield leadership over others by way of both coercion and consent (Gramsci 1992; Soederberg 2004, 2006). Taken together, the institutional and governance innovations that comprised the NIFA were lauded by its supporters as an important policy corrective to the economistic focus of development finance, or, from the perspective of the above analysis, the financing of the global development of capitalism (Eichengreen 1999).

Almost a decade after the construction of the NIFA, the managing director of the IMF, Dominique Strauss-Kahn, stated that the global financial architecture has failed to adapt to the needs of twenty-first- century globalized markets (*IMF Survey* 2008). Without engaging specifically or directly with the NIFA or its underlying premises, the reforms put forward by the G20 at the 2009 London Summit revolved around three similar themes: reforming growth and jobs, strengthening financial supervision and regulation, and strengthening global financial institutions. The IMF was, once again, granted a central role in crisis management and mitigation largely by tripling resources available to the lending agency to $750 billion (IMF 2009b). Given the neoclassical orthodoxy within which the IMF operates, it is not surprising that the basic aim of this new infusion of money is to support neoliberal restructuring in the global South.

The creation of the IMF's new Flexible Credit Line (FCL) is a case in point. According to the London Summit communiqué, the FCL and the IMF's "reformed lending and conditionality framework ... will enable the IMF to

ensure that its facilities address effectively the underlying causes of countries' balance of payments financing needs, particularly the withdrawal of external capital flows to the banking and corporate sectors" (G20 London Summit 2009). This facility will be available only to what the IMF calls "high performers," that is middle-income and high-income countries with policies judged adequate by the Fund (Mollina-Gallart 2009).

Another major Summit initiative aimed at strengthening the financial system was the creation of the Financial Stability Board (FSB), the successor to the FSF. Given the fact that the IMF was a major backer of the FSB, it is useful to discuss the Fund's interpretation of the global credit crisis in order to grasp the reasoning for yet another oversight body. According to the IMF, the current crisis was caused by market imperfections (lack of sufficient information). A few bad apples, following the scriptures of market fundamentalism, exploited their knowledge of information to engage too heavily in high-risk ventures in the global financial system. Put another way, the crisis was brought about by the failure of existing governance structures to ensure that markets function in a highly transparent manner – that is, in a fashion in which all actors have sufficient information on which to base their decisions to buy or sell, say, shares in publicly listed companies, government (debt) bonds, and so forth. To correct this problem and thereby reduce uncertainty for market actors, the IMF pressed for new disclosure guidelines and frequent asset valuations, which in turn resulted in the creation of the FSB (IMF 2008). According to a G20 communiqué, the FSB is to have a strengthened mandate that will transcend that of the FSF, although the details of this stronger mandate remain unclear. The FSB will be somewhat more inclusive than the FSF, as it will comprise all G20 countries, FSF members, Spain, and the European Commission. Nonetheless, the FSB, like the FSF, will remain a venue largely populated by technical "experts" who speak the same disciplinary and inaccessible language and share similar world-views regarding the role and nature of the market, especially financial markets. The FSB is mandated to reshape the regulatory system by extending oversight to all "systemically important financial institutions, instruments and markets," which will include, for the first time, "systemically important hedge funds" (ibid: 28). Finally, the IMF and FSB are to work closely together to create and execute an Early Warning Exercise to help mitigate the economic damage caused by a potential crisis. Yet, aside from superficial differences, without any meaningful, state-led forms of regulation over financial flows, the FSB remains as ornamental as the FSF.

Key illusions, resolutions, and enclosures

Cutting through the smoke and mirrors of the G20 reforms involves identifying three seemingly conventional assumptions underpinning the official debates. The political nature of these core assumptions, or illusions, as I refer to them below, and their underlying connection to uneven development has been distorted by the acts of representation inherent in financial fetishism. For instance, financial

fetishism acts to subordinate and reduce market-constructed rationality to all forms of life, which in turn allows for the reinterpretation of the crisis in one-dimensional terms of market failures such as asymmetrical information, externalities, and so forth. This results in the displacement of contradictions into the depoliticized realm of the market by representing paradoxes as technical problems. The latter, of course, can be remedied only by sound policy, i.e., forms of government intervention guided by the wisdom of neoclassical economics, with its veil of objectivity and shroud of scientific "truth" deduced from mathematical formulizations (Bourdieu 2005). We pick up on this idea in more detail in Section three, where I expand on the significance of financial fetishism.

The first illusion of the G20 Summits has been the frequent use of the word regulation without actually committing to a clear definition. The deception is intentional, as the term conjures up ideas of some sort of rule-based system involving legal structures and, by extension, states that are committed to help enforce these rules. Yet, it is clear from the above discussion that, like the NIFA, the G20 reforms involve updating, especially with regard to greater oversight, existing voluntary and market-led regulatory schemes, as opposed to creating mandatory, rule-based regimes. It is important to note that recent experiences have revealed that regulation, even rule-based, state-backed regulation, can often be deceiving. As I have argued in detail elsewhere, the potential deception of state-backed regulation aside, the meaning of "more regulation," as used by international policymakers at the London Summit, refers largely to a voluntary, market-led regime (Soederberg 2010). An open letter by a key lobby group for the world's most powerful financial interests, the Institute of International Finance (IIF), also supports this view. According to the IIF, and in keeping with the above assumption of market imperfections and inadequate information as causal factors in market crises, regulation is understood as involving closer and more frequent consultation between private and public sector actors to help facilitate new initiatives such as the FSB–IMF Early Warning Exercise (IIF 2009). The preference for market-led forms of regulation is further reflected in the neoliberal ethos of the London Summit: "We believe that the only sure foundation for sustainable globalization and rising prosperity for all is an open world economy based on market principles, effective regulation, and strong global institutions" (G20 London Summit 2009).

The G20 Summit in Toronto in June 2010 seemed to reinforce the above position, whilst remaining intentionally ambiguous regarding the meaning of "regulation," especially in connection to the worst offenders – hedge funds, over-the-counter (OTC) derivatives, and credit agencies, which failed to signal the crisis. For example, the G20 Toronto Declaration stresses "a *strong* regulatory framework, including improved transparency and regulatory oversight of hedge funds, credit rating agencies and OTC derivatives" (G20 Toronto Summit 2010, my emphasis). Insight into how ineffective this supposedly strong, market-based (read: self-policing) regulatory framework will be can be found by glancing at President Obama's financial reform bill. Following the same "regulatory" hyping pattern as the G20 Summits, the apparently "historic nature" of the

Obama Administration's financial reform bill to regulate Wall Street was framed as "The most profound remaking of financial regulations since the Great Depression" (Green 2010). Yet, as even conservative commentators, such as the Brookings Institution, have noted, Obama's reform package was geared toward repairing and preserving the current system rather than reforming it root and branch (Elliot 2009).

A second illusion of the 2009 G20 Summits has been the disappearance of history and politics from policy discourse. The convenient disappearance of the NIFA by the summiteers is a case in point. No attempt was made to draw links between the London Summit's 2009 proposals and the NIFA, especially with regard to the latter's limits in monitoring and preventing the 2008 crisis, not to mention the 2001 Enron-style debacles and the Argentine Sovereign Default, also in 2001, which remains the largest in history. This strategic silence reflected, among other things, the ahistorical understanding of markets and development in neoclassical economics, as well as the dominant belief among mainstream economists and policy pundits that the 2008 crisis was exceptional, that is, it erupted due to externalities and not due to the internal (rational) nature of the economic system (Fine 2006). This view is based on a superficial and one-dimensional understanding of the crisis. It fails to grasp the underlying causes and to link the 2008 credit crisis to the wave of debacles in the emerging markets during the 1980s and 1990s. The representation of the crisis by the G20 as "exceptional" and, therefore, unrelated to previous market "failures" assists in the construction of crises as temporary hiccups in the overall rational, efficient and self-equilibrating economy. This perspective, which constitutes the third illusion of the G20 Summits, delinks finance from class relations, most notably the paradoxes of capitalist society and its form of accumulation based on the appropriation (exploitation) of labor power and nature.

On the one hand, the ahistorical nature of the discourses of the G20 Summits served the purposes of enhancing the novelty of the reforms tabled at the London Summit, such as the freshly minted FSB, as well as detracting from the ineffectiveness of the NIFA. The latter, like the G20 reforms, had been carefully designed to restore and thus reproduce the status quo regarding the existing relations of power and free movement of private capital flows, and, more fundamentally, the naturalization of the uneven and exploitative nature of global capital accumulation. On the other hand, by erasing the NIFA from the discourse around the G20 reforms, global policymakers have also been able to downplay the inability of market-led reform, including the central tenet of free capital mobility, to deliver on its promises of stable forms of economic growth and general prosperity across the globe, particularly for the developing world. It has also deflected attention away from the fact that the NIFA has benefitted primarily wealthy nations and capitalist interests, from both the global North and global South, at the expense of the majority of the world's population and the environment. Herein lies the class-based motivation driving and shaping financial fetishism, which I explore in more detail in the next section.

Politicizing the mainstream representation of the market

Since the G20 reforms are an extension, both in terms of policy and ideology, of the financial fetishism present in the NIFA, it is useful to explore what the latter has accomplished in terms of its promises of growth and stability via market freedom, especially with regard to the global South. In doing so, we can also begin to identify who benefits from the restoration of neoliberal-led capitalism based on the dominant role of fictitious capital and market-based forms of financial deregulation. At a more fundamental level, however, we can begin to see how the contradictions of capitalism are, as David Harvey notes, contained within the global structures of uneven geographical development (Harvey 1999: 429). I approach this brief historical overview by drawing on two interrelated components that characterize the paradoxes and social power undergirding the NIFA and, by extension, the reforms tabled at the 2009 G20 Summits, i.e., "NIFA-lite" (Soederberg 2004).

The crisis of overaccumulation and the credit system

In official discourses of the NIFA, the credit system is represented as a technical, neutral, and apolitical field existing outside structures of power. The concept of financial fetishism, by contrast, allows us to see the credit system as an integral feature of the uneven and exploitative nature of global capitalism. Moreover, as Marx suggests, the credit system, which serves to break down barriers between production and exchange, also internalizes these contradictions and often acts to heighten rather than diminish the paradoxes of capitalism (Harvey 1999). Against the backdrop of the precarious, debt-led accumulation articulated in the neoliberal growth paradigm based on financialization (i.e, predation and speculation in the global credit system), economic insecurity across the global North and global South has widened and deepened over the past decade.

Two features are worth noting here. First, pension and mutual funds have played a central role in driving and expanding financialization. These funds are valued at some $24.6 trillion, with a ratio of OECD pension fund assets to OECD gross domestic product of nearly 73 percent in 2006 and above 100 percent in a few countries (OECD 2008). Due to ongoing privatization strategies, we have seen a shift from more secure, defined-benefit pension plans to market-based, defined-contribution pension schemes, which has meant that an increasing number of people, in both rich and poor countries, have become dependent on the economic performance of financial markets for their old age security. This phenomenon reflects what Richard Minns refers to as "social security capital," which encompasses all deferred wages or salaries that enter the credit system in the form of company stocks and bonds (Minns 2001).

There exists a growing interdependency between social security capital and the global financial system, including publicly traded corporations. This dependency is both asymmetrical and disciplinary in nature. On the one hand, international financial markets and actors wield far more *decision-making* power, and gain more from deregulated markets, than the middle and working classes. On the other hand, as I argue in *Corporate Power and Ownership in Contemporary Capitalism* (Soederberg 2010), international financial markets and actors also wield enormous *disciplinary* power over societies, as workers (skilled and unskilled) are forced and socialized, through the neoliberal policy framework, into relying on the (reified) market to deliver economic security in their old age (OECD 2008). With each crisis and subsequent downturn, however, social security capital across the globe has taken a considerable hit, leading to widespread insecurity. In the words of the United Nations (UN), this uncertainty and vulnerability is said to occur when individuals and communities are exposed to downside losses from adverse events, such as the 2008 global credit meltdown, with which they are unable to cope and from which they are unable to recover (United Nations 2008).

According to the UN, "Eighty per cent of the world's population does not have sufficient protection in old age to enable them to face health, disability and income risks [...]. In developing countries alone, about 342 million older persons currently lack adequate income security" (quoted in Blackburn 2007: 71). The asymmetrical dependency between Wall Street and social security capital expresses itself in many ways: from the high fees charged by money managers to the socialization of debt via the $700 billion-plus bailout of the investment banks and insurance companies that engaged in predatory and speculative activities with pension savings. At a more fundamental level, asymmetries manifest in the ability of the powerful to define and select risk, whilst others do the risking (Žižek 2008).

Since "development" is not something that is confined to the global South, it is useful to highlight the ongoing dispossession of workers in the advanced industrialized countries, as well. Those workers fortunate enough to have a pension plan (usually, although not exclusively in the advanced industrial countries), have seen their savings decline over the past decade, largely due to the highly speculative nature of global financial corporations. In the wake of the 2008 crash, countries in the OECD area, especially those with the largest equity holdings (e.g., Ireland, Australia, and the United States), lost $5.4 trillion of their total asset value of $27.8 trillion. Yet, instead of abating, secondary securitization has, in some cases, intensified. According to key observers, "alternative investments" such as hedge funds have remained the investment vehicles of choice for pension funds, particularly public pension funds, as money managers desperately attempt to recoup their losses – of which only $1.5 trillion was regained as of 2009. Analysts, such as PricewaterhouseCoopers, report that within 15 years, public pension systems, on average, will not have the funds required to pay pension benefits, while other analysts are predicting a nadir in funding levels within the next ten years. Public pension funds, including many corporate pension plans, have lost so much money that pursuing riskier investments provides the only hope of bridging their funding gap (Karmin 2010).

The uneven dependence between social security capital and financial markets is aggravated by a second characteristic of the dominance of finance (and

fictitious capital), namely the increasing leveraging and speculation that has emerged over the past decade – not from the natural evolution of the market, but instead largely through state design, i.e., the decision to adhere to the principle of minimal state intervention in capital markets. The credit system normally operates with a certain level of fictitious capital – that is, a flow of money capital not backed by any commodity transaction, such as highly leveraged credit derivatives and strategies such as short-selling, which have little to do with the realities of the market (productive economy) and have played an increasingly large role in both the Enron-style debacles at the beginning of the new millennium and the sub-prime mortgage scandal of 2007. However, reliance on this form of capital has risen to alarming levels (Harvey 2003: 265ff.). The market for credit-default swaps, described as insurance contracts on bonds and other assets that are intended to pay off if and when those assets default, are one example. Having mushroomed over the past several years, these swaps lie at the center of the 2008 credit crisis. The swaps do not require public disclosure and do not carry any legal requirement to report to the Securities and Exchange Commission (SEC). According to the Chair of the SEC, there was about $55 trillion in credit-default swaps outstanding as of 2008, which amounts to more than the gross domestic product of all countries combined and is more than 12 times the total amount of official reserves in the developing world (United Nations 2008). The tripling of $750 billion of funding for the IMF tabled at the G20 Summits pales in comparison to the amount of fictitious capital involved in credit-default swaps. Interestingly, the SEC has not suggested doing away with these swaps or subjecting them to state-led regulation; but instead, and mirroring the above neoliberal premises of the NIFA, it has opted for measures that promote greater transparency, ostensibly to mitigate information asymmetries.

Growing political instability and social insecurity

The second component characterizing the paradoxes and social power undergirding the NIFA (and global capitalism more broadly) is the growing political and social insecurity caused by capital account liberalization (mainly foreign direct and foreign portfolio investment) in the global South, which is usually accompanied by a flexible exchange rate regime. While the effects of allowing financial flows to move freely in and out of countries has been highly uneven across the developing world, there are two general tendencies – neither of which has brought about the efficiency gains and faster growth promised by financial liberalization. First, as governments of emerging markets embrace foreign portfolio investment as an important source of financing, their exposure to risk increases. As the 2008 global crisis has made abundantly clear, the global South continues to pay a higher price for risks associated with US-led strategies of expanded capital reproduction, which primarily involve the credit system. Second, to attract international creditors, which include institutional investors, governments of emerging markets must continually signal creditworthiness in the form of low labor standards, balanced budgets, low taxation, environmental and financial

regulation, and trade deregulation – all of which have had harmful effects on the social fabric and environmental sustainability in the developing world. In their 2010 report, the UN *World Economy Social Survey* (WESS), reveals the growing unevenness of market-led globalization:

> While several developing countries (mostly in Asia) have experienced a significant "convergence" towards the living standards of the now advanced countries, others, especially in Africa, have fallen farther behind.... The numbers of the world's poor living on less that $1.25 per day decreased from 1.8 billion in 1990 to 1.4 billion in 2005, but nearly all of this reduction was concentrated in China. In sub-Saharan Africa and South Asia, the absolute number of the poor increased. At the same time, with few exceptions, income inequalities within countries have increased since the early 1980s...
>
> (WESS 2010: 3–4)

At a more fundamental level, this practice locks many countries into adherence to market discipline instead of forging policies that would benefit their productive and social structures. In what follows, I look more closely at these two points.

Some emerging markets have used windfalls from high commodity, oil, and gas prices to build up currency reserves in order to help buffer their economies from the devastating effects of capital flight. However, this strategy has relatively high opportunity costs (United Nations 2008: 76ff.). Reserve accumulation is associated with a high carry cost of reserves, which, according to the UN, amounts to about $100 billion. This represents a net transfer to reserve-currency countries well above what they provide in terms of Official Development Assistance (ODA). Reserve accumulation also results in foregone domestic consumption, social services, and investment in the productive sector (ibid.: 12). In the era of free capital mobility, many countries with weak growth and balance of payments, for example in Latin America and Sub-Saharan Africa, are compelled to absorb net capital inflows into low-yielding reserve assets instead of using them for investment (ibid.: 28). In addition, some developing countries still lack self-insurance and are exposed to sudden stops because large amounts of incoming capital have been absorbed by the current-account deficits that these inflows helped to generate through currency appreciation. Even without taking into account the effects of the 2008 credit crisis, the fact that middle-income countries are seeking to amass huge foreign currency reserves – as opposed to strong current accounts, healthy and productive workers, and a sustainable environment – to shield them from global instability, should in itself give us pause to question the benefits derived from the unshackling of finance and its promises for a safer and more stable world economy.

The reality of the 2008 credit crisis paints an even darker picture regarding the role of reserves. Despite the existence of $4.5 trillion in official reserves in the developing world, financial capital flows have remained highly volatile and reversible in recent decades, generating high costs for individuals and groups in

developing, as well as developed, countries, especially pension savers (Ocampo *et al.* 2007). The precariousness of the global financial system was made abundantly clear with the 2008 crisis, which forced several countries – most of which were believed to be "strong performers," such as Brazil, Turkey, and South Africa – to go cap-in-hand to the IMF (*Guardian*, October 25, 2008). According to some observers, reserve accumulation in several countries in Asia now appears to exceed the requirement for self-insurance, raising questions about the balance of costs and benefits of additional accumulation, especially if such reserves are invested in low-yielding assets and in the US dollar, which has been, and is expected to continue, depreciating (United Nations 2008: 25). Mexico and Brazil, Latin America's biggest economies, have sought to stop the depreciation of their currencies by selling reserves, most of which were denominated in US dollars. The Mexican central bank, for instance, moved to auction off its reserves of $2.5 billion after the peso fell to a record low of 14 against the US dollar in October 2008 (*BBC*, October 9, 2008).

Another development closely related to the foreign reserve build-up has been the explosion of internal public debt levels, mainly in middle-income countries. Mexico's internal public debt levels, for instance, have been hovering around 50 percent of its gross domestic product, which has been further frustrated by persistent trade deficits (Jonakin 2006).

It is instructive to pause here to consider briefly some of the social features of Mexico's insertion into the world market under the conditions prescribed by the IMF, as well as the neoliberal reforms imposed by the Mexican ruling classes and foreign capital interests. To begin with, neoliberal restructuring has been accompanied by one of the highest rates of unemployment in recent times, which is more than likely *higher* than official unemployment statistics reveal given that unemployment statistics have been minimized by the government at least since the early-2000s. The Mexican state considers anyone who works for one hour of one day per week to be employed (Álvarez 2006). The market-led policy measures aimed at achieving "growth" must be viewed in light of the deteriorating standard of living of the lower echelons of Mexican society, which has taken place alongside the spectacular growth of super-rich Mexicans, who benefitted greatly from privatization schemes. As David Harvey notes,

> In 1994, *Forbes* magazine's list of the richest people in the world revealed that Mexico's economic restructuring had produced twenty-four billionaires. Of these, at least seventeen participated in the privatization programme.... By 2005, Mexico ranked ninth in the world (ahead of Saudi Arabia) for its number of billionaires.
>
> (Harvey 2007: 103)

It is thus little wonder that Mexico was first in the queue to request a $47 billion loan from the IMF's newly minted Flexible Credit Line to help deal with the aftershocks of the crisis (*IMF Survey*, April 17, 2009). According to one observer,

> servicing of the internal public debt [in the developing world] in 2007 amounted to $600 billion – in other words, triple the cost of servicing the external debt. Total servicing of external and internal public debt exceeds the astronomical sum of $800 billion – the amount repaid each year by public authorities in developing countries.
>
> (Toussaint 2008, npn)

To put this figure into perspective, it would cost "only $80 billion a year over a period of 10 years – a total of $800 billion – for the entire population of these countries to have access to essential services, such as basic health care, drinking water and primary school education" (ibid., npn). To get a further sense of the uneven nature of government spending on poverty alleviation, total spending by the World Bank from 2000 to 2008 on "Social Protection and Labour Lending" amounted to less than $10 billion (Fine 2009).

In contrast to neoliberal orthodoxy inherent in both the G20 Summits and the NIFA, global capital flows have not led to growth in the productive sectors and thus the generation of secure jobs with living wages, but rather to increased forms of economic insecurity, increased levels of socio-economic inequality, especially in terms of income levels, and growing (asymmetrical) dependency on unregulated financial flows. Asymmetrical dependence is also contingent on factors beyond the control of recipient countries, including shifts in monetary and fiscal policies in the core countries, e.g., high interest rate policies pursued by the US, which is viewed as the international benchmark. Three major waves of international financial flows to (some) developing countries – i.e., the petro-dollar driven debts of the 1970s; the portfolio and direct investment of the 1990s up to the Asian Crisis; and the subsequent portfolio and direct investment rush from 2003 to 2005 – reveal that private capital inflows were dependent on "favourable investment conditions," including the ability of foreign investors to engage in arbitrage, or taking advantage of a price differential in two different markets (Ocampo *et al.* 2007: 2).

In sum, over the past decade the steady expansion of capital flows linked to the predatory and speculative global credit system has not delivered on the promises made by the architects of the NIFA. Financial globalization has led not only to growing volatility and reversibility of capital flows to emerging market economies, but also to the continual marginalization of many of the poorer and smaller developing economies. The latter have been particularly affected by the growing role of private capital flows to the developing world, a situation compounded by the continual drop in ODA by wealthy countries over the past decades. Aside from several Scandinavian countries, wealthy countries have refused to provide 0.7 percent of their gross national income in the form of aid flows to the poorest countries (World Bank 2007). Within the parameters of the G20 London Summit, assistance for these countries will more than likely come primarily from funds allocated to the IMF through its Poverty Reduction and Growth Facility (PRGF) and Exogenous Shocks Facility (ESF), both of which are predicated upon austerity and structural adjustment policies (IMF 2009c).

It should be noted that the World Bank, independent from the G20 reforms, has established a Vulnerability Financial Facility, including the Global Food Crisis Response Program and the new Rapid Social Response Program. However, critics argue that while these programs are welcome, the funding levels are too low to adequately protect the most vulnerable in the wake of the crisis (Put People First Alliance 2009). Indeed, the monies allocated to the Vulnerability Fund are far less than the financing reserved for ensuring that the wheels of global trade remain well greased through, for example, the Global Trade Finance Program and the Global Trade Liquidity Program, both of which fall under the ambit of the World Bank's International Finance Corporation (IMF 2009d).

Financial fetishism and the reproduction of neoliberal rule: a stylized view

I have argued that the G20 Summits served to naturalize and depoliticize the crisis, thereby legitimating a narrow and very particular policy response, namely the reproduction of free (unregulated) financial flows of capital. The key, albeit not exclusive, interests this response has served has been the United States government and dominant class interests therein as well as globally oriented, albeit not necessarily "American," financial and non-financial corporations. Part of the class-based politics of representation is bound up in what I term "financial fetishism." By interrogating financial fetishism, I seek to expose the processes involved in depoliticizing and neutralizing the causes and effects of the crisis. Such processes reduce questions of social power to technical and scientific economic paradigms prior to displacing them (again) into the impersonal marketplace, where they are subject to the internal logics of rationality, private property, individualization, and appropriation (subordination and exploitation) of labor power and nature.

It must be kept in mind that whatever label is accorded to the 2008 crisis (e.g., global credit crisis, first world debt crisis, and so forth), it is, at base, a crisis of capitalism. Seen through this lens, financial fetishism helps to conceal what is most at stake in the sanitized representation of the crisis: the subordination of human and ecological needs to the profit motive (Soederberg 2010). From a Marxian perspective, this defining characteristic of capitalism is not a natural, self-evident feature of the market but instead is an historically distinct mode of production that needs to be socially reproduced on a constant basis (in "everyday life") through ideological and coercive means. In this section, I seek to develop these Marxian insights through my concept of financial fetishism to help complement and deepen the above concrete analysis.

Drawing on Marx's labor theory of value and his key concept of commodity fetishism, the notion of financial fetishism, as it is used here, attempts to capture the way the economy and "actors" therein are represented. For Marx, commodity fetishism described a phenomenon in capitalist societies in which production is no longer an explicitly social process. Instead, "participants in commodity production and exchange experience and come to understand their social relations as relations between the products of their labour – relations between things, rather than relations between people" (Hudson and Hudson 2003: 413). Financial fetishism describes the reification of social relations that comprise the financial system (including the credit and monetary systems). The financial system thereby involves the production of space, wherein people relate to each other through commodities, treated as neutral objects devoid of social power. These objects, which are believed to mediate human interaction, are widely understood as existing in a naturalized and privatized economy that is located in a sphere separate from the political realm (state) (Rupert 2005).

To understand more fully the meaning and significance of financial fetishism, we need to demystify the market as a sphere of human activity in which social relationships appear as (equal and free) relations between things. In mainstream narratives, the genesis and nature of capitalist societies

> originated in the fruitful exercise of the producer's own capacity to labor, while labor power as a commodity arose through a social contract, freely entered into, between those who produced surplus capital (profit) through frugality and diligence, and those who chose not to do so.
>
> (Harvey 2000: 28)

As noted earlier, capitalist society distinguishes itself from other historical modes of production and exchange by the fact that it subordinates human needs to the profit motive. This fundamental characteristic is intertwined with the social power that emerges from material inequalities, resulting in a "difference between those who, in addition to the capital of their physical person, have means of production or credit facilities at their disposal, and those to whom such opportunities are not forthcoming" (Altvater 1993: 66). Seen from the Marxian perspective, the market is not a self-evident, natural, and (class-) neutral terrain. Instead, the market, within the context of capitalist social relations of production and exchange, represents a highly exploitative, uneven, and contested field of social power that must, due to, and in spite of, struggles, *appear* neutral, self-evident and apolitical, if it is to be socially produced and reproduced (Harvey 1999). As numerous commentators have suggested by way of terms such as "ideology and hegemony," "disciplinary neoliberalism," and "market episteme," attempts to socially reproduce the market as a natural feature of capitalism comprise complex and conflict-led strategies involving diverse forms of ideology, cultural practices, and coercion emanating from both capitalist states and societies at various geo-social scales (e.g., local, national, and international).[3] Whilst the social reproduction of capitalist societies occurs on a daily basis, it becomes accentuated in times of crisis, as its socio-economic inequalities are ever more starkly exposed.

The particular nature of global capital accumulation under neoliberal rule has been shaped by the crisis of overaccumulation. Emerging in the early 1970s, albeit unevenly across and within national spaces, the crisis of overaccumulation refers to "a condition where surpluses of capital (perhaps accompanied by

surpluses of labour) lie idle with no profitable outlets in sight" (Harvey 2003: 149). Examples of overaccumulation are numerous: the oversupply of cars (and the efforts to deal with this through the largely ineffective "cash-for-clunkers" program in the US), credit cards, and houses (and the attempts to off-load the latter through the creation of sub-prime mortgages for those with inadequate income levels). Attempts at overcoming the manifestations of crisis, historically and in its present form, also include spatial expansion into new regions, increasing foreign trade, exporting capital (for production and investment), and a general shift toward the creation of what Marx called "the world market," a market that is dependent on a particular set of social relations. Seen from this angle, "development," a term used but rarely defined by the G20, refers to more than just economic growth through market liberalization. Instead, development captures "a set of practices, sometimes appearing to conflict with one another, which require – for the reproduction of [capitalist] society – the general transformation and destruction of the natural environment and of [traditional, non-capitalist] social relations." Thus the intended aim of "development" is to increase the production of commodities geared, by way of exchange, to effective demand (Rist 2004: 13).

While it can only be flagged here, it should be noted, that many authors, including Rist, have argued that trade between many developing and developed countries has been not only economically disadvantageous for the former, as witnessed by large trade deficits and persistent poverty rates evident in the Mexican example below (Kozul-Wright and Rayment 2007). There have also been devastating environmental effects, or what Joan Martinez-Alier refers to as the "ecological debt" (2002). Unable to ignore effects of climate change for vast regions of the global South, the issue topped the agenda of the G20 Summits of 2009, at least in rhetoric. During the Toronto Summit of 2010, however, the G20 reneged on its international commitment to invest in the fight against global warming ("G20 summit drops clean-energy pledge," *Earth Times*, June 27, 2010).

For Marx, one of the key features of the resiliency of the uneven development of capitalism, most notably its ability to continue to expand, even in times of crisis, is the credit system. The credit system has played a central role in facilitating the expanded reproduction of capitalism not only in everyday life, but also, and especially, in times of crises, when it has historically been marked by strategies of speculation, fraud, and predation (Luxemburg 2003). As David Harvey notes, "The credit system allows a geographical extension of the market by establishing continuity where there was none before. The necessity to annihilate space through time can in part be compensated for by an emerging system of credit" (Harvey 2001: 245). Credit is based on what Marx called "fictitious value," that is the price for which credit is sold and incorporates "as-yet-unproduced" surplus value. If credit in this form itself circulates as a medium of exchange, it becomes "fictitious capital" (Henderson 1998: 90). Others have described this as financialization, which is marked by "a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production" (Krippner 205: 174).

Understood as capital that is not backed by any commodity transactions or that is produced whenever credit is extended in advance in the anticipation of future labor as a counter-value, fictitious capital has played a dominant role in the crisis of overaccumulation and in the economic paradigm based on debt-led consumption and asset price inflation in the United States as elsewhere (Harvey 1999: 266; Palley 2009). The sheer volume of fictitious capital that is not only present in but also *driving* global capitalism (i.e., "growth") over the past 30 years is confounding, especially in light of the fact that much of this fictitious capital takes the form of "securitized" investments involving, among other things, a wide array of "debt" (e.g., personal, corporate, and mortgage debt).

For Marx, government debt is the ultimate form of fictitious capital. In the form of credit, fictitious capital increases its value not through production but through the "accumulation of debts" and the subjective imposition by central banks and lenders of interest. The prices of these debt titles may then oscillate according to their own laws, that is "quite independently of the movement of the value of the real capital, e.g., profits derived through the production processes" (Harvey 1999: 268). Marx alerts us to the "insanity of a society in which investment in appropriation (rents, government debts, etc.) appears just as important as investment in production" (ibid.: 269).

It is important to stress, however, that whilst financialization remains dominant in neoliberal-led forms of capital accumulation, it is not a separate entity from the real economy (i.e., production, which includes labor and nature). Rather, financialization emerges from the weakness of the real economy to sustain profitable outlets and, in turn, adversely affects the former, temporally and spatially, through its inherently speculative nature, i.e., "beating the market" tactics (Altvater 2006: 37). Basic requirements for the social reproduction of capital accumulation based primarily on financialization include: a legal system aimed at protecting private property; disciplinary treatment of debtors, or at least non-capitalist debtors who do not play by the creditors' rules; the norm that free capital mobility will bring about economic growth and prosperity for all who adhere to the free market principles laid out by neoliberal ideologues currently in power in all G20 countries, as well as the International Monetary Fund (IMF) and World Bank; and, of central importance here, the ability of states and international organizations to "instil confidence" in the market by reconstructing and re-presenting spheres of exchange as neutral, apolitical spaces based on rational forms of buying and selling.

Conclusion

This chapter has asked three key questions about the G20 Summits in the post-2008 crisis period: "whose project," "to what ends," and "how has it become reproduced?" In response, I have argued that the G20 reforms introduced at the London Summit in April 2009, and in the subsequent Toronto Summit in June 2010, were a class-based attempt to recreate the conditions of neoliberalism at

the global level. The major beneficiaries of which have been the United States and globally oriented financial and non-financial corporations. Underpinning the reproduction of these global regulatory initiatives aimed at repairing, restoring, and strengthening the global financial system is the neoliberal ethos of market-rule, especially in terms of free capital mobility and voluntary forms of regulation. By exploring two implicit and basic questions regarding what is being restored and why, as well as the motives in obscuring the continuity between the NIFA and the G20 reforms in the official discourse, we are able to understand more fully the capitalist nature of the reforms. At a more fundamental level, we are also able to explore the transformative and adaptive processes of neoliberalization as those in power attempt to relegitimize the dominant ideology and policy of market-rule vis-à-vis global finance and development (Peck and Tickell 2002).

The 2008 global credit crisis initially invoked responses that might be considered relatively radical in neoliberal times. French President, Nicolas Sarkozy, for instance, insisted on nothing less than "re-founding the capitalist system" (Rachman 2008). But as the above discussion makes clear, the "re-founding of the capitalist system" had less to do with change and more to do with reproducing the dominant neoliberal order, including using the implicit promise of state-led regulation of financial markets as political lubrication for the largest stimulus strategy in recent history (IIF 2009). The stimulus involved, among other things, reducing interest rates to near zero to encourage more debt-led consumption, bolstering big banks with taxpayer money, and guaranteeing billions of dollars of financial institutions' debts (*New York Times*, October 17, 2009, A1). All of this helped set the stage for a higher level of wealth creation for Wall Street, as JP Morgan and Goldman Sachs hit record profits in the autumn of 2009. Indeed, for *these* institutions at least, the cautiously upbeat claim by the US Federal Reserve that the recession is "very likely over" makes sense (*Wall Street Journal*, September 16, 2009, A2). Such language brings discursive closure to the crisis through a politics of representation that wholly fails to address both the ongoing material-based paradoxes and relations of exploitation inherent to global capitalism and, by extension, the powerful roles of the US government, the political elite in the developing world, and transnational capitalist interests linked to corporations (financial and non-financial) therein.

As the "successes" of JP Morgan and Goldman Sachs demonstrate, the bailout and market-led regulation, legitimated and reproduced through financial fetishism, have provided, once again, fertile ground for a new round of "growth" based on financialization (debt socialization). It therefore appears that the G20 Summits have exploited the moment of "recovery" and the currency of "exceptionalism" to construct an ideological and disciplinary buttress to the NIFA. The causes and effects of the crisis remain (officially) hidden behind technical and scientific discourse that depoliticizes and neutralizes questions of social power. Given the enormous productive, environmental, and social burden of successive financial crises on the global South and global North, it remains to be seen how, to what extent, and at what cost the myth of free-market ideology, embedded in

the G20 Summits and NIFA, will be reproduced. One thing seems certain: its social reproduction will rely on the politics of representation.

More critical work needs to be done on the politics of the social reproduction of neoliberalization as it relates to the discourse and materiality of global development, which, as I have stressed above, must be understood to involve the global North, the global South, and the centrality of corporations. More work also needs to be done to understand the role, emergence, and dynamics of transnational social movements (e.g., profit and non-profit) in contesting and/or promoting the status quo. Finally, environmental concerns must be made central to any analysis of the role of corporations in development, and the deep-seated connection between food, fuel, and financial crises must be exposed and constantly questioned by those committed to challenging the hegemonic status of neoliberal-led globalization. We cannot allow these issues to be erased from the discourse by financial fetishism and the brute economism of everyday life (Bourdieu 2005).

Notes

1 The Group of Twenty (G20) was formally minted in 1999. It is considered a novel forum that aims to bring together major industrialized (G7) and developing countries to discuss key issues in the global economy. Its members are the finance ministers and central bank governors of 19 countries. For more information, see www.g20.org/.
2 For more information, see www.worldbank.org/ifa/rosc.html.
3 See, for example, S. Gill, "Globalization, Market Civilisation and Disciplinary Neoliberalism," *Millennium – Journal of International Studies*, 1995, Vol. 24 (3), 399–423, and D. Da Costa and P. McMichael, "The Poverty of the Global Order," *Globalizations*, 2007, Vol. 4 (4), 588–602.

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Conclusion

What now? Implications of the long turn to the right

Ronald W. Cox, Daniel Skidmore-Hess, and Cathy Skidmore-Hess

The political economy of corporate power

The authors of this volume contend that the intersection of corporate and state power has been a central mechanism for the promotion of neoliberal policies associated with the current phase of globalization. The US state has been identified as a central actor in establishing policies conducive to corporate reorganization of production on a global scale. The relationship between the most globally competitive sectors of capital and the US state has helped shape the direction of the global economy, both through legislation passed in the US and through global institutions (the IMF, World Bank, WTO) that have worked to promote liberalization of capital markets. This final chapter locates the relationship between transnational corporations and the US state within a larger scholarly discussion of a transnational capitalist class (TCC) (van der Pijl 2004; Sklair 2001; Robinson 2004; Harris 2008; Tabb 2009; Carroll 2010). The key questions for us are the following: Is the TCC a useful concept in understanding the structures of power in the contemporary global economy? How might the concept be modified and improved for future researchers in ways that make the intersection of corporate and state power more precise? In addressing these questions, we will focus most of our attention on the corporate–state power nexus in US foreign policy, the primary subject of this volume.

Most discussions of the concept of the TCC locate its emergence with the crisis of the Bretton Woods system from 1971–1973 (Gill 1992). The Nixon Administration took the step of eliminating the key pillars of the old system: the fixed relationship of the dollar to gold and the commitment of the US government to convert dollars to gold at a fixed price. The intent of this system was to stabilize exchange rates among member states of the IMF and World Bank by implementing capital controls that would enable countries to peg their currencies, within a fluctuating and narrow range, to the dollar. Central banks of member states played a crucial role in this system by purchasing and selling foreign currency (mainly the dollar, functioning as the main reserve currency) in an effort to maintain stable exchange rates. The structures of this system facilitated and complemented a system of capitalist production that was geared around national markets (Peet 2009).

Multinational corporations generally favored the pegged exchange rate system established under Bretton Woods because it provided some amount of cost certainty in planning long-term foreign direct investment. In a seminal history of the Bretton Woods system, Eric Helleiner notes that most of the major corporate interest groups in the US favored the pegged exchange rate system established after World War II, due to the stability associated with predictable exchange rates in both foreign investment and trade (Helleiner 1996). Under the pegged exchange rate system, corporations investing in foreign markets could be assured that the costs of their foreign direct investments would not fluctuate wildly due to extreme volatility of foreign currency markets. At the same time, states could regulate capital inflows and outflows in an effort to stabilize currencies. This system had the effect of limiting and regulating the terms of foreign direct investment within national markets while privileging the stability of exchange rates over time.

During the Bretton Woods period, foreign direct investment tended to be geared toward production for national markets, where multinational corporations chose to invest as a way to circumvent trade barriers and better compete with rival firms for access to local consumers.

The largest US-based multinational corporations joined the US government in supporting import-substitution industrialization (ISI) in the developing world during this period. They did so because ISI strategies proved to be compatible with investments by MNCs in "protected" third world markets, meanwhile protectionist trade barriers often served to reinforce privileged relationships between elites within third world countries and firms able to "jump over" these trade barriers and invest directly in national markets. These investments were geared toward producing goods for local consumption, and/or exportation to foreign markets (Nolt and Maxfield 1988).

The post-Bretton Woods system has seen a quantitative and qualitative shift in the production profile of the multinational corporation, which has been slowly restructured over the past 30 years. This restructuring was never entirely planned and directed from the top. It has been the product of numerous complex reconfigurations in which multinational firms have responded to economic and political challenges within a more competitive global system. What is termed the TCC is really the efforts of multinational corporations to establish global political organizations at the time that the Bretton Woods phase of capitalist production was coming to an end. As the era of pegged exchange rates faded from view, and as the US moved to eliminate all remaining capital controls in the US market, allowing the value of the dollar to be determined by international market exchanges, multinational corporations in the US formed the Business Roundtable in 1972. The Business Roundtable is arguably the most important conduit for corporate influence in US foreign policy (Dreiling 2000). By 1973, multinational corporate elites formed the Trilateral Commission, which served as a mechanism to work with government leaders in the US and Western Europe to foster international cooperation to promote more trade and investment opportunities as a way to solve the economic and political crises faced by multinational firms (Gill 1992).

As Chapter 1 in this volume makes clear, corporate organizations in the US were concerned about finding ways to reverse a steady declining profit rate that had not been overcome by a spate of mergers that took place during the 1960s. Corporate leaders blamed the profit squeeze on rising labor costs, excessive governmental regulation, and an inability to tap foreign markets due to restrictions on corporate investment. Established corporate organizations such as the Committee on Economic Development (CED) began to favor removal of capital controls as early as 1968, whereas the CED had previously favored capital controls as a useful mechanism to stabilize the conditions for foreign direct investment. By the late 1960s and early 1970s, corporate interest groups started a campaign of mobilization that would have the long-term effect of promoting the deregulation of capital markets – with the US taking the lead in eliminating its own capital controls that had lingered from the Johnson Administration's efforts to protect the value of the dollar during the 1960s (Cox and Skidmore-Hess 1999; Helleiner 1996).

However, it is crucial to emphasize that corporations were not always in control of this political process. They were often responding to crisis moments in a defensive and haphazard manner, and many of the corporate organizations in the US were divided over the proper response to the crises of profitability during the 1970s and early 1980s, as the first chapter makes clear. Still, the Business Roundtable supported and facilitated some of the most important changes in US tax laws during the 1980s that would lower the costs of corporate restructuring. It is here that we use the term "transnational" firm, instead of "multinational," to illustrate the changes in the structure of global production that were facilitated by changes in US tax and regulatory legislation. By shifting from a multidivisional structure to a multilayered subsidiary structure, US-based transnational firms have been able to disaggregate production across a wider range of locations than was the case during the Bretton Woods system. Instead of engaging in foreign direct investment primarily to tap into foreign markets and to get access to foreign consumers, such as the multinational corporations of the past, today's transnational firms are structured in a more nimble fashion, embedded within global supply networks that are dispersed across a wide range of markets and regions. The multinational corporations of the Bretton Woods period tended to make a product from start to finish, but today's transnational firms have disaggregated production in a manner that ties them to subsidiaries and independent producer chains in foreign markets. The globalization of production, through supply chains, has been a fundamental feature in the consolidation of power of the modern transnational firm (Nolan *et al.* 2007).

In our view, that's where an analysis of the modern power of the TCC has to start. The first aspect of the TCC lies in an understanding of the market power of corporations at the top of global supply chains, and their close relationship to corporate political organizations such as the Business Roundtable, the International Chambers of Commerce, the Trilateral Commission, and the World Economic Forum. The modern global economy is really equivalent to a pyramid, with the dominant corporations at the top of the pyramid capturing the highest

value-added activities: research and development, patent rights, marketing and distribution (Gill 2008: 195) These transnational firms are overwhelmingly concentrated in the markets of the US and Western Europe and Japan, with China having emerged as an important new location. The next layer of the pyramid includes middle-tier firms that contract with the biggest transnationals by helping to structure high-end production activities within the global supply chain (see the example in Chapter 2 of firms that have emerged in Taiwan as powerful players in the global economy after having secured original equipment manufacturing contracts with transnational corporations based in the US and Japan). The vast majority of global producers are at the lower-half of the pyramid, locked in a hyper-competitive global environment in which the terms of production are dictated by the concentration of the supply networks at the top of the system (Nolan *et al.* 2007).

The second aspect of the market power of the transnational firms lies in the changing relationship with institutional financial investors, which, at least in the case of US-based transnationals, has grown steadily since the 1980s, due to the shareholder value model of the corporation that is supported by US tax and regulatory law (Gourevitch and Shinn 2005). Here, as numerous scholars have documented, the profit-making structure of the modern transnational firm does not exist in a vacuum, but is heavily conditioned by the particular regulatory and institutional environment in which the corporation is based. So not all transnational corporations are created equal, but are subject to different investment and regulatory rules depending on their physical location. In that sense, the emergence of transnational capitalist class organizations does not equal the emergence of a transnational capitalist state, because there are still differences within the corporate form that are the product of the diverse institutional cultures, histories, and patterns of class struggle within particular nation-states. The US regulatory environment has been conducive to the growing influence of institutional investors within the corporate boardroom, due to the priority accorded in US law to shareholder "rights" and privileges. As documented in Chapter 1, this has translated into a greater reliance by US-based transnational corporations on financial assets for profitability, as opposed to investments in long-term productive assets capable of creating jobs (Krippner 2011; Levy and Duménil and Lévy 2011; Epstein 2005).

The financialization of production is the term coined to capture this process of corporate profits being much more firmly tied to the financial sector – a process that started aggressively in the US but has been adopted and expanded as a model for corporate behavior elsewhere. The US was the first country to fully eliminate capital controls, and countries in Western Europe followed from the late 1970s through the 1980s. Over the past decade, there has been a greater integration of global capital markets. Fueled by one of the greatest cross-border merger and acquisition waves in global history (from 1999 though 2006), which created a greater interdependence between US and European corporations in particular, the TCC has a more robust basis as a "class-in-itself" than was true at any time in previous decades (Kentor and Jang 2004). Whether or not this has

translated into a "class-for-itself," capable of unified political actions across the borders of states, is a more problematic question.

Scholars have tried to measure the plausibility of the existence of a TCC by looking at several different variables. The first is the extent to which there are interlocking boards of directors within transnational corporations that reflect a membership base that cuts across national boundary lines. If corporate boards of directors are still tied to national locations, then the TCC concept would presumably be less useful in describing the ability of a corporate class to think beyond its own borders. Studies of corporate interlocks have come to different conclusions about the degree to which corporate boards of directors have become more "transnationalized" and interconnected over time. Most studies, however, agree that the composition of the boardrooms of the largest and most profitable TCCs tends to disproportionately comprise executives from the US and Western Europe, and that the rest of the world is disproportionately excluded from these membership ranks (Carroll 2010). This would be consistent with scholarly findings that the transnational firms at the top of the corporate pyramid, those firms focused on the most value-added aspects of corporate production, are disproportionately located in the US and Western Europe.

However, there are serious limitations with this attempt to empirically quantify the TCC concept. The most important limitation is omission of the growing importance of supply chains as a conduit for spreading the political and economic influence of the TCC across the borders of diverse nation-states. Firms in developing countries may not be formally linked to the most powerful US and Western European transnationals, but they may be informally linked through a wide range of relationships of mutual profitability and interests. For example, as we have explored in this volume, transnational corporations based in the US, especially in the high-tech electronic and computer sectors, but also in a range of manufacturing and agricultural industries, rely on a mix of producers in the developing world in global supply chains that link the profits of the "parent" firm with those of the suppliers. This creates not only an economic relationship, but a political relationship as well. The liberalization of third world capital markets was not simply imposed on third world producers by US transnationals working with the US state. It was also supported by third world elites with growing ties to production networks that are transnational in character, as Patrick Bond's chapter in this volume makes clear. These ties cannot be captured by an examination of interlocking directorates, but instead have to be examined in the context of shifting economic and political trends within countries themselves. The ability of the TCC to consolidate its position as a class formation is therefore contingent on the set of relationships that TCC actors develop, both economically and politically, with its counterparts in the developing world. And this is determined by a constellation of factors, including the socioeconomic and political histories of the nation-state in question (Cox 2008).

So in this sense, the TCC formulation may well have to be modified to take into account the political limitations of its ability to form a class-for-itself. I propose the use of the term "transnational interest bloc (TIB)" as a friendly

substitute for the TCC appellation due to its more contingent qualities. Unlike the term TCC, which implies a more complete consolidation of corporate power and influence throughout the global system, the TIB is premised on the notion that transnational corporate power is articulated in different institutional and political settings, conditioned by the particular histories of nation-states, including institutional arrangements, history of class struggle, socioeconomic structures, and cultural patterns.

This is not to underestimate the growing power of transnational political actors, but only to recognize that patterns of influence and power between corporations and the state are mediated and affected by a larger political and economic context. This volume argues quite strongly that transnational corporations have used their influence within the US state as a conduit to promoting important changes in corporate globalization that has had a strong impact on other states in the global economy. At the same time, as Peter Dicken argues in his latest edition of *Global Shift*, there has been a well-documented move toward privatization and de-regulation that is global in scale, but that has been implemented unevenly depending on the particular histories of nation-states, and the institutional mechanisms that have either facilitated or hindered the project of transnational capitalist organizations. The fact that members of leading transnational capitalist organizations and leading capitalist states represented by the Group of 20 can still promote neoliberalism as a "solution" to the very crises that neoliberalism has helped to create, as Susanne Soederbergh documents in Chapter 8 of this volume, indicates the tremendous institutional authority attained by corporate power blocs even in a period of systemic crises. And the relationship between transnational corporations and the US state has shifted the US political agenda further to the right of the political spectrum, as Dan Skidmore-Hess documents in Chapter 4 of this volume.

The long right turn of US politics antedates the crisis of global capitalism. Its roots are found within the history of the US political system, yet the conditions of the right turn have always been conditioned by and contribute to the global political and economic environment. The successes as well as the setbacks of the US right are modulated by economic conditions, as the elections of 2008 and 1980 both illustrate for example. In both instances the sour economic conditions were, of course, created by global dynamics, despite efforts to depict national government policies, liberal reforms, or unions as the culprits. In this next section of the conclusion we trace some of the institutional, historical, and ideological factors that have facilitated the rightward shift in the US.

Corporate power and the right turn in US politics

Commentary on US politics sometimes dwells on the restrictive quality of the two party system as an institutionalized conservative force, pre-empting progressive alternatives. Within this framework, it can be argued, the two parties act as catch-all entities that fail to provide clear policy alternatives and responsible party government. While it is the case that a multiparty parliamentary system

might allow for a greater range of voter choice, including parties that specifically represent labor, environmental, and women's interests (the latter being the case in Sweden for example), such systems can also facilitate disproportionate influence to revanchist, xenophobic groupings as well, as is the case in parts of present-day Europe. None of the European multiparty systems have produced "classical liberal" type parties, although we may speculate that a hypothetical US multiparty system would include increased Libertarian representation. Yet even so, the European parliamentary systems nonetheless facilitate the formation and implementation of neoliberal policy, carried out by parties bearing names such as Social Democrat, Christian Democrat, and so forth. The point here is that multiparty representation does not in any way preclude the exercise of TIB hegemony through mainstream party consensus on national economic policy. At best, we might say, multiparty systems provide more visible vehicles by which voters can express anti-consensus and even anti-system opinions and interests. Our analysis of the long right turn in US politics focuses on a deeper structural and historical analysis of how governing blocs are formed through the Republican and Democratic parties, each of which has provided a congenial context for the expression of politics favorable to different aspects of global capitalism.

Chapter 4 in this volume presented information on the political economy of the US political parties, illustrating the dependence of each upon a much overlapping set of corporate interests. This is the most direct, but by no means only, way in which TIB formation is articulated through the US political parties. In the absence of public campaign finance and/or countervailing financing power drawn from organized labor or other non-corporate interest groups, both parties are demonstrably dependent on the most powerful transnational firms, industries, and individuals whose wealth has been created in sectors closely linked to global finance. This is not to say that the Democrats and Republicans present the same policies. To the contrary, each must also appeal to broader groups of voters, their "popular bases" as well as independents who may determine the outcome of presidential elections, for example. The multi-million (soon to be billion) dollar communications campaigns make the parties cash hungry and dependent on corporate largesse.

However, we should also note that the current crisis of global capitalism has revealed significant ideological tensions concerning how best to address the crisis. On the one hand, traditional Keynesians have focused on the need to maintain aggregate demand while neoliberals are concerned with the rising levels of public debt. Here we see classic conditions for business conflict, on the one hand global capitalism needs to find confident consumers in some part of the globe to realize profits and the US has long played this role, indeed its sudden inability to sustain this role is the precipitate of the crisis. Yet on the other hand, there is the interest of finance capital in the US debt as safe haven for investment and the real (or perhaps imaginary in the face of the deflation pressures associated with globalization) threats posed by US dollar inflation (Fulcher 2004: 122). Such conflicts of interest and perspective raise important theoretical questions about the concept of the TCC.

In our view a TCC has emerged, or is at the very least in an advanced phase of formation. As described earlier in this chapter, the TCC is formed by the globalization of finance in the post-Bretton Woods era as well as, and most crucially, by global supply chains (Smith 2006: 289). This process of class formation is notably facilitated by technological advances in communications and transportation. Significant advances in the methods of production have made it possible for the production of commodities, including financial services, to be dispersed to the most cost-effective locales or virtual realities rather than centralized in core industrial regions. In classic Marxist terms, we have witnessed a transformation of forces of production (technology and production methods) that in turn transforms relations of productions (classes), although the reader may note that, contra Marx, the global supply chain does not concentrate the working class but rather diffuses its formation as its political strategies are often defensive and confined to national political contexts (Cox 1987: 372; Ross and Trachte 1990: 215). It is of note that while the TCC is much discussed in the globalization literature, there is no sizable body of work about a new TWC (transnational working class). A related question is whether or not the TCC constitutes a ruling class, as opposed to a dominant class. This distinction is elided in some of the research on the TCC, but what it refers to is formation of institutionalized means by and through which a global capitalist elite consensus may be formed and implemented assuming, in Greta Krippner's apt phrase "a seamless alliance between government officials and business elites" (Krippner 2011: 13). In other words, the TCC would be a ruling class if we could describe its agency and methods of rule. Here again, the evidence seems to suggest that the class is in formation, for example through such venues as the Davos World Economic Forum and structures of global economic governance may be identified in the World Bank/IMF and the WTO (Robinson 2004). The politics surrounding the scandalous fall in the summer of 2011 of IMF Managing Director Dominque Strauss-Kahn and his replacement by a more conservative successor, who publicly critiqued Strauss-Kahn's efforts toward a global Keynesian approach are especially interesting in this regard in that the succession crisis revealed that national or at least regional politics still mattered. This is to say that the international economic regime remains subject to national-state level decision-makers, most especially the US. The TCC, or more exactly its interests, inform and influence the choice of international institutional leadership, but those institutions do not as yet appear to have gained ascendancy over the US national state, although perhaps crisis in the US political economy might alter these relationships at some point. To understand the political economy of the TIB then we argue that it is still essential to focus on the US political scene and return to the question of the relationship between global capitalism and the long right turn in the US.

In mass media and US political shorthand, the "Tea Party" has become synonymous with the most recent rightward surge of US politics. The Tea Party may increasingly amount to little more than a front group of the Republican Party's right wing, and perhaps even one of decreasing tactical value given the notoriety surrounding it. Yet it also has, or at any rate had, a populist face and

capacity to mobilize at the base. We suggest here that the Tea Party phenomenon, at least for many who turned out for its events in 2009, was also an expression of resistance to global capitalism. Contradictory as it might appear given its sponsorship, the Tea Party appeared to appeal to a segment of the public angered by bailout of banks and other concerns deemed "too big to fail." In the acute stage of crisis the US national state, first under a Republican and then a Democratic administration, pursued policies that amounted to direct redistribution of resources from the US public (in the form of national debt) to the disabled behemoths of global finance capitalism (Duménil and Lévy 2011: 228–243). Polls suggested that the US public as a whole was predictably dismayed, but a conservative segment of the public most visibly and militantly. The Tea Party protests inevitably touched upon the role of race in US politics, as will be discussed further below, and gave expression to the enduring antipathy against "big government" (i.e., the socioeconomic role of the national state) in US political history, which has been a recurrent theme throughout the long right turn.

In protest against the US national state's bailouts of transnational finance capitalism, the ancient rallying cry of "states' rights" resurfaced as Tea Party-oriented activists and politicians challenged the post-New Deal role of the national state. Not only were the bailouts attacked, but the established practices of fiscal policy were depicted in the most alarmist terms as "socialist" and threats to the very existence of liberty and predictions were made that fiscal stimulus would bring hyperinflation and ruin. The purported unconstitutionality of the central bank recalled debates hearkening back to the Hamilton–Jefferson divide of the early republic but more directly reflected antipathy toward the Federal Reserve for its counter-cyclical monetary policies.

The theme of rejuvenated states' rights, of a "new federalism," has been part of the Republican platform since ascendancy of the conservative wing of the party in the Goldwater campaign of 1964. As policy it was given play during the Nixon administration and even more emphasis in the Reagan administration. Yet by 2010, the Republican Party sounded like it wishes to go further, perhaps much further in disassembling functions of the national state. One need not be a cynic to doubt that rhetoric and the political strategies of opposition will become policy in a future Republican presidential administration. As Thomas Frank comments, the Republican Party's attacks on "big government" constitute "rebellion against a government for which it is itself responsible" in large portion (Frank 2008: 32). After all, the bailouts were initiated by a conservative Republican administration which also practiced expansionary fiscal policy and notably favored an expanded federal role in education and prescription drug coverage for Medicare recipients, in a format notably favorable to the pharmaceutical industry. Nor is the support for agricultural and ethanol subsidies diminished among farm belt congressional Republicans. Still, the days when Republican president Nixon could publicly acknowledge that "we are all Keynesians now" seem ever more remote, even if such policies were practiced quite recently. Ideological tension within the Republican party expresses the gap between rhetoric and reality as politicians once considered pillars of the conservatism such as Senators

Orrin Hatch and Richard Lugar face Tea Party-supported candidates in primary challenges. Perhaps most notably the emergence of Ron Paul as a recurrent presidential candidate speaks to the antipathy felt toward the globalist orientation of the Republican Party establishment.

As noted, the theme of states' rights entered the mainstream of conservative Republican politics in 1964 with the presidential campaign of Arizona Senator Barry Goldwater. Goldwater's advocacy of anti-federalist ideas provided his rationale for opposing civil rights legislation with their expanded role for the national state as protector of civil rights. Goldwater's position had little resonance among other pro-business conservatives, indeed despite their antipathy to organized labor and certain aspects of the New Deal, Republicans had historically favored an expansive positive role for the national state in promoting economic development, a general orientation still very much in evidence in the Eisenhower administration's domestic approach. By contrast, Goldwater gave voice not only to the most strongly felt anti-New Deal currents within the party, he also formed a bridge to the Southern right wing of the Democratic party, indeed he was a rare case of a non-Southern congressional opponent of civil rights legislation. Heretofore the most notable advocates of "states' rights" were the "Dixiecrats" for whom it meant opposition to any national legislative effort to enforce the 14th and 15th amendments to the US constitution and thereby undermine the *de jure* system of racial supremacy and oppression commonly referred to as "Jim Crow."

Candidate Goldwater was defeated in a landslide on November 3, 1964 but in the process he carried five Deep South states that had previously been almost complete "no go" areas for the GOP. Picking up the pieces after the electoral debacle, Republican leaders, most notably the then former Vice President Richard Nixon, devised a Southern strategy that would accommodate white Southern resentments toward "federal intrusion" in such areas as school desegregation, a policy that had some appeal among white Northerners as well, particularly in locales where the courts and federal agencies were scrutinizing and even endeavoring to rectify long-standing practices of de facto racial exclusion. Yet on questions of economic policy and the role of the national state, Nixon remained within the mainstream of conservative, pro-business support for a positive federal role, with the innovative addition of an incremental shift towards state and local control of national government funds through revenue sharing. With the success of the Southern strategy in Nixon's narrow minority electoral victory in 1968, the first step or at least the prelude to the long right turn began.

Throughout the long right turn, race has played a central role in electoral politics. Since Lyndon Johnson, no Democratic presidential candidate has won a majority or even plurality of white voters. Forty-three years after the Voting Rights Act, the nation's first African-American president was elected with 53 percent of the overall popular vote but only 43 percent of the white vote (CNN 2008). As described in Chapter 4 of this volume, President Obama's campaign finance base and policy agenda may be best described as "corporate centrist," indeed increasingly so. Obama's adoption or accommodation to current or

previous Republican positions on taxes, healthcare, education, environmental policy and regulation, and perhaps most notably national security policy gains him no credit on the right and serves to demoralize his voting base. The inability to perceive a moderate African-American president as anything other than a radical with a "Kenyan, anti-colonial word view" not only begs the questions of what is wrong with being anti-colonial or the son of a Kenyan immigrant, but actually represents some of the less lurid vitriol that has been introduced into the body politic, much of it no doubt opportunistically by the president's political rivals. That his partisan opponents find political advantages in using such phrases and symbolic reference is perhaps what is more notable. It speaks to the realization that the politics of racial appeal remain viable and even effective.

The connections between the domestic sources of the long right turn and the politics of global capitalism become apparent when the role of regionalism in the US political economy is explored. The federal structure of the US political system allows for significant variations in state-level policy. By the end of the last century the national electoral map had evolved into a division of "blue" (Democratic) and "red" (Republican) regions. In the red regions, namely the South and interior West, the economy was historically slower to develop, remaining primarily dependent upon agriculture and mineral extraction long after the Northeast, Great Lakes region, and Pacific Coast had developed an advanced industrial profile, accompanied by political patterns that somewhat resemble the social democratic–Keynesian compromise politics of Western Europe and Canada. By contrast, industrial development of the South and West has been ironically more dependent on federal support as well as anti-union low wage industrial and economic development. In an earlier phase, industrial development in the South in particular was typified by the textile industry, although the recession of 2008–2009 witnessed the evisceration of much of what remained of this sector of manufacturing. In more recent years, the industrial base in the South has shifted to playing a key role in the global production and distribution chains of such industries as petrochemicals and automobiles. The attraction of foreign direct investment from Europe and East Asia, not to mention US-based industrial and financial firms shifting facilities to more lightly regulated and lower wage states within the US, dovetails to a significant extent with antipathy to the interventions of the national state. In the red states, states' rights and neoliberalism merge into hegemonic ideology, whereas in the blue states free market libertarianism may appeal to some but it notably is less tinted by anti-federal rhetoric. Here then we find the enduring regional roots of conflict correlate with alternative orientations to party and policy response to the crisis of global capitalism (Trubowitz 1998).

The current economic crisis of global capitalism produces not only regional but global political turmoil. Transnational firms and supply chains shift production to low-wage markets and ever leaner, yet more productive, work forces become the order of the day. This process intensifies downward pressure on the working class and middle income strata of the US and other advanced capitalist societies (Frieden 2007: 464–465). In the US, a neoliberal approach is

wholeheartedly embraced by the Republicans and increasingly favored by Democrats as well. A central aspect of this approach, one which dominated much of US domestic political discourse in the summer of 2011, is the politics of budgetary retrenchment. While efforts to reduce the US federal deficit were taking center stage in the wake of the 2010 mid-term elections and the debt ceiling controversies, state and local government had already been slashing budgets throughout the recession, leading to seemingly unending rounds of layoffs and public sector jobs losses.

The politics of fiscal austerity serves to reinforce the remorseless pressures of global capitalism on labor markets, creating rapid decline in the circumstances of what is described in US politics as the "middle class" (mainly, better waged skilled and semi-skilled workers as well as the lower and middle ranks of the salaried workers plus the smaller business proprietors). The resultant crisis of confidence in the US electorate is manifested in rapid turnover (2006–2008) and turnover redux (2010) of partisan control of the US government and falling approval ratings for the President, plummeting to all-time lows for the Congress. Such lost confidence in our contention is reasonable and well-founded in the empirical realities of the US political economy.

While the fiscal austerity favored by the right wing in the US promises to accelerate the process of middle class collapse, the policies of the "corporate center" of the Democrats and the Obama administration were at best inadequate efforts at fiscal stimulus. At worst they become little more than moderated variants of fiscal austerity. The advocates of "old school" policy medicine bleed the patient, while the modern Keynesian doctors appear out of date in the face of the crisis of global capitalism and indeed to the extent that their prescriptions fail to address the global dimension, their traditional distaste for deeper intrusion in the marketplace becomes a fetter on their effectiveness.

Similarly, European social democracy appears recurrently incapacitated in the face of global capitalist crises (Teeple 2000). Circumstances manifest today in southern Europe as a sovereign debt crisis. In Greece, Portugal, and Spain the "democratic left" parties play their part as agents of austerity rather than defenders of the social wage or reformers of capitalism. The US liberal Democrats seem poised to follow suit and one is hard pressed to understand how or why their electoral constituents, as opposed to their financial supporters, would remain loyal. In the void of alternatives, little choice is left to the US voters but to take a gamble on global capitalism. Magical thinking surely to expect the force of global competition to reproduce a "middle class" that had been made historically under the uniquely favorable conditions of the US economy or to expect that it can be sustained without public sector unions (in the wake of the near demise of industrial unionism) and a robust social safety net.

New departures are clearly needed but they must be based on theoretically and historically informed understanding. In the face of a deepening crisis of an underregulated global capitalism, the seeming paradox of a more not less interventionist national-state is called for, one which plans strategically on behalf of the interests of the working population (Rodrik 2011). But such approaches will

not be forthcoming from states and political parties that remain dominated by the interests of the TIB. Our hope is that the essays contained in this volume contribute to a much needed critical understanding of the political dynamics of global capitalism and provide analysis that enhances intellectual opposition to the strange hegemony of neoliberalism.

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Corporate Power and Globalization in US Foreign Policy

More than a decade into the new millennium, the fusion of corporate and state power is the essential defining feature of US foreign policy. This edited volume critically examines the relationship between corporations and the US state in the development of foreign policies related to globalization.

Drawing together a wide range of contributors, this work explores the role of corporations in using US foreign policies to advance the interests of transnational capital in a wide range of contexts, including:

- How US government policies have contributed to the globalization of production and finance.
- The ways in which transnational corporations have influenced the US relationship with China, a crucial linkage in the new era of transnational accumulation.
- How transnational corporate power has shaped capital–labor relations, humanitarian intervention, structural adjustment policies, low-intensity democracy and the G20 summits.
- The "corporate centrism" of the Obama Administration, whose policies have been consistent with the growing power of transnational capital in US foreign policymaking.
- The politics and consequences of the embedded relationship between various sectors of the transnational capitalist class, global institutions, and the US state, including the limits and contradictions of this relationship during the ongoing capitalist crisis.

This work will be of great interest to students and scholars of both US foreign policy and international political economy.

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