for both labour in the developed world, and development in the Third World. While the former benefited from full employment and important welfare measures, the latter promoted industrial growth as the main way in which to achieve convergence, and 'catch up' with the already developed countries. The international economic order gave sufficient space for such policies through a complex system of preferences and exceptions for developing countries. This allowed for some (limited) guarantees on market access to the developed world in traditional commodities, but more important, it also ensured that protectionist, pro-industrialization policies could be adopted. In this era, most of the developing world experienced high rates of economic growth, and indeed important advances were made in terms of health, education and other social indicators. If this was an era of relatively high rates of growth and capital accumulation, it was also one where states directed economic activity in consciously 'developmental' ways. In other words, it was an era where intentional and immanent development were combined.

On the other hand, the social, economic and political advances made from the 1940s to the early 1980s were far from unproblematic. Poverty and global inequality remained very high, and the benefits of development were both uneven and unequal. In practice, much of Truman's statement was either rhetoric or a concrete attempt to de-politicize the issue of what later came to be known as the North–South divide. There was no Marshall Plan for the developing world; aid was often tied to strategic and commercial interests; and development was to be carried out through attracting capital investment, albeit with some state protection. In the context of underdeveloped infrastructures, skills and technology, this effectively meant that cheap and controlled labour was a major attraction for investment, alongside market access to heavily protected economies. It is certainly true that some economic and social advances were made in this period in the developing world, but these were uneven and unequal and, with very few exceptions, did not amount to anything like a 'catch-up' to developed-country status. For many, development remained a largely unfulfilled promise. Nevertheless, both the promise of development and the limited social advances that were made were real. However, by the late 1960s and early 1970s, the post-war order was in crisis, and this had profound implications, both for US hegemony and for development. This is the subject of the next chapter.

Chapter 4

The End of the Post-war Boom and Capitalist Restructuring

This chapter examines the breakdown of the post-1945 international order, the beginnings of what came to be known as globalization, and how this affected development. The chapter starts by outlining the reasons for the end of the post-war boom. This includes consideration of a number of closely related issues: the decline of US hegemony, the end of fixed exchange rates and the devaluation of the dollar, the rise of competitive rivalries, the slowdown in accumulation, the resurgence of resistance and the spread of the communist alternative. It then goes on to examine the crucial role of the United States in restructuring, paying particular attention to the Reagan years and the increase in interest rates, unemployment and debt burdens, as well as the uneven shift to new modes of accumulation, based on (limited) relocation, flexibility and the defeat of organized labour. Above all, the chapter focuses on the reconfiguration of development in the South after 1982, through the origins and development of the debt crisis, and the central role of the IMF in policing that crisis. In doing so, it looks at the broad policies implemented by indebted developing countries, and how these meant the effective erosion of the 'developmentalism' of the ISI period, as well as how adjustment policies in the 1980s laid the grounds for the movement towards policies designed to promote global competitiveness.

The End of the Post-war Boom

(i) The decline of the dollar

As we saw in the last chapter, the dollar played a crucial role in the post-war international order. It was not only the US's national currency, but it acted as an international currency too. This meant that its value relative to other currencies ultimately depended on the competitiveness of the United States economy. If the US economy became less competitive, US gold reserves would erode, and it would therefore have to devalue.

The dollar would no longer be as 'good as gold'. At the same time, in the immediate post-war period, the supply of international currency to the rest of the world depended on the US transferring dollars abroad, and thus the US running a balance of payments deficit was crucial to post-war recovery. But the US's decision to run ongoing balance of payments deficits had the effect of undermining the currency's value, and the dollar shortage of the 1940s had become a problem of too many dollars by the late 1960s. The US resolved the problem of dollar shortage by providing international credit from the 1940s, which facilitated the restoration of international trade through payments in dollars. But this policy was at the long-term cost of undermining US productive capacity and competitiveness. By the mid-1960s, the US had a constant trade deficit with its two main competitors, Japan and Germany. As a result, these countries no longer needed as many dollars to buy US goods, so dollars stockpiled in European banks. These dollars thus formed a new Eurocurrency market from the 1950s. These deposits fell outside the control of normal domestic banking regulations, and so banks that used Eurodollars could lend more cheaply, pay higher interest rates and still make more profits. In the early 1960s, some attempts were made to impose controls on the export of capital from the United States, but these were far from comprehensive, and the US government recognized that the Eurodollar market was in many respects a welcome development, as these markets facilitated the overseas expansion of US capital. This included the expansion of US banks that took advantage of the lack of controls over these dollars, a policy that was tolerated or even encouraged by the US state. It also included the expansion of US transnational companies (TNCs), which set up production sites in Europe in order to take advantage of market access and higher productivity, and which found the Eurodollar markets a cheap source of finance. This investment further encouraged the development of Fordism in Europe, and led to an intensification of the internationalization of capital flows, which increased further with the rise of European and Japanese foreign investment. From the 1950s onwards, an increasing proportion of TNC investment was in manufacturing, and it tended to be from advanced capitalist countries to other advanced capitalist countries, although a few richer Third World countries received substantial direct foreigh investment (FDI), and used this investment to promote the ISI strategies discussed in the previous chapter. This internationalization of capital (in both production and finance) was cautiously welcomed by the US state. In terms of finance, the Eurocurrency market reinforced the role of the dollar as the main international currency, even if at the same time this reflected the undermining of the competitiveness of the US economy (Helleiner 1994: ch. 4).

The problem of the value of the dollar was intensified by the US's military commitments overseas, especially in Vietnam. The US's trade balance of $10 billion in 1947 had declined to $0.6 billion by 1968. The balance of payments was in constant deficit from 1950, and this increased to $19.8 billion in 1971, when the US ran a trade as well as payments deficit for the first time (Brett 1983: 173). Europe therefore held growing amounts of dollars, the value of which was being increasingly undermined, in exchange for their own output, while the US sustained consumption levels by printing more dollars, but at the cost of further undermining the US's competitive position. In the long run, the US economy might become so uncompetitive, its foreign exchange reserves would disappear and it would have to devalue. The basic problem then was that the supply of US dollars to the rest of the world depended on the US deficit, but the stability of the dollar depended on the US economy returning to surplus.

These problems cut across a number of competing, and largely incompatible interests. From the viewpoint of the US, the deficit guaranteed military supremacy, but also reflected a decline in US productive power located in the 'home economy', while at the same time guaranteeing expanded consumption without normal balance of payments constraints (because of the role of the dollar). From the viewpoint of the European powers, their surpluses meant that their foreign exchange reserves were constantly expanding, but these of course were mostly held in dollars. Devaluation would wipe out the value of some of these savings, but if the US deficit continued, there was the problem of growing inflation – existing side by side with slower rates of economic growth due to falling profit and declining productivity increases (see below). In either case, the problem manifested itself as a dollar glut in which excess dollars in the international economy were increasingly worthless.

The struggle between these competing interests culminated in the breakdown of key parts of the Bretton Woods agreement in the period 1971–3. The Nixon administration abandoned gold convertibility and allowed the dollar to float downwards in 1971. The United States could now continue to sustain a deficit and devalue while still sustaining high levels of imports and consumption. In effect, the size of the transfer of real resources from the surplus countries to the US increased. The US's competitors benefited from the continued expansion of the US market, but at the cost of an increasingly devalued dollar. This ending of dollar–gold convertibility was followed by devaluation of the dollar, and therefore the abandonment of the system of fixed exchange rates and its replacement by a 'managed floating' system from 1973.

The effect of these developments was to dis-embed financial capitalism from the embedded liberalism (Ruggie 1982) of the post-war agreement.

The Bretton Woods era was one characterized by fixed exchange rates and restrictions on the movement of (financial) capital, which allowed for expansionary monetary policy. In the immediate aftermath of the collapse of fixed exchange rates and dollar devaluation, it was hoped that these adjustments would restore a balanced equilibrium to the international economy, and that an automatic fall in the dollar would lead to an automatic increase in the competitiveness of US exports, thus restoring the US trade balance. However, the actual effect was to free financial capital from state regulation, which undermined any hope of restoring trade balance. The development of the Eurodollar market, and the end of fixed exchange rates, radically altered the context in which state monetary policy operated. Expansionist policies designed to maintain growth and employment could now put pressure on the exchange rate and foreign exchange reserves, as financial speculators would sell local currency in favour of safer foreign currencies. Any fall in reserves would have a deflationary effect on the economy, as France found to its cost after its short-lived attempt to revise neo-Keynesian policies in the early 1980s. The hope that currency falls would restore trade balance through an increase in export competitiveness was undermined by the fact that there now developed a serious discrepancy between trade and payments. High interest rates could encourage the movement of (financial) capital back into a country and therefore lead to an *increase* in the value of a currency, which would undermine export competitiveness and encourage cheap imports. We return to this problem below.

(ii) The slowdown in economic growth

The problem of US decline and the end of fixed exchange rates was exacerbated by the end of the boom and the movement towards recession in the mid-1970s. As the previous chapter showed, high growth rates in the 1950s and 1960s were the result of a virtuous circle of high profits, investment rates, productivity, state spending and demand, ultimately facilitated by the international role of the dollar. However, by the 1970s lower profits, investment rates, and productivity, combined with slower demand and pressures on state spending, to produce a crisis of high inflation and high unemployment. This coincided with the problem of the dollar glut and intensified competition between the core capitalist states.

This move to recession can be linked to the exhaustion of Fordist systems of production. Once the mechanized systems of production had been introduced to those sectors that could be reorganized on Fordist lines, productivity rates were bound to slow down. Increased productivity could then only occur through the reorganization of mechanized assembly lines and the intensification of management pressure on labour. Confident in the face of full employment, workers in the core countries resisted these pressures. The result was a gap between wage and productivity growth, which further fuelled inflation. In the context of economic slowdown, governments' attempts to spend their way out of recession simply served to intensify inflationary pressures. Major oil price increases in 1973–4 finally tipped the advanced capitalist countries into a major recession in 1974–5. There was a substantial slowdown in growth, and both inflation and unemployment increased. Unemployment rates increased from annual averages (1968–73) of 4.6 per cent (US), 1.2 per cent (Japan), 0.8 per cent (West Germany) and 2.4 per cent (UK), to (1974–9) 6.7 per cent (US), 1.9 per cent (Japan), 3.5 per cent (West Germany) and 4.2 per cent (UK) (Green and Sutcliffe 1987: 307–15). Average inflation rates increased from 1 per cent in Europe and nearly 4 per cent in the United States in 1961, to over 12 per cent in Europe and almost 10 per cent in the United States in 1975, and around 8 per cent in Europe and 11 per cent in the United States in 1980 (Harvey 1989: 148). It was clear then that the neo-Keynesian policies that had promoted the post-war boom had become part of the problem. These policies now exacerbated the problem of inflation in a context of slower productivity growth, falling profits, floating exchange rates and high levels of state spending.

The US State and Capitalist Restructuring

(i) US hegemony and economic policy

The US attempted to overcome recession through expansionary policies in the 1970s. But by the late 1970s it was clear that these policies were no longer effective. From the mid- to late 1970s, the US ran record trade and current account deficits, and there was a run on the dollar led by Saudi Arabia. This reflected a crisis of confidence in the dollar, and therefore the international system that relied largely on this currency as a means of payment was under threat.

From 1979 onwards, and particularly from 1981 under President Reagan, there was a shift in policy in the United States, and control of inflation became the priority. This was to be achieved through increases in interest rates, which had enormous implications, both within the US and beyond. At the same time, this tight monetary policy of controlling inflation and sustaining the dollar through high interest rates was accompanied by a growing 'military Keynesianism' (Davis 1985), in which the US ran massive budget deficits to finance military spending in

the renewed Cold War (Halliday 1983), and cut taxes for the rich at the same time. The US financed its trade and budget deficits by actively competing for capital investment from overseas, and this was attracted by high rates of interest. Capital was also attracted by high rates of return, not only because of high interest rates but because of the defeat inflicted on organized labour by these policies. Many employers drew up new contracts for workers in the early 1980s, and in 1982, 44 per cent of unionized workers took wage cuts or freezes. Cost of Living allowances were gradually eroded, and social welfare spending was cut in terms of both quantity and eligibility (Campbell 2005).

Thus, US restructuring in the early 1980s had the effect of simultaneously dealing with the three key problems identified in the 1970s, namely a crisis of profitability, of inflation and of a weakening dollar caused by ongoing deficits (Dumenil and Levy 2004). The US went from being the largest creditor nation in the 1950s to the largest debtor and foreign capital recipient by the 1980s. However, rather than undermining US hegemony, the deficits in some respects reflected a renewed hegemony. Certainly this was one that relied on cooperation from other states, particularly in the advanced capitalist world, but this was forthcoming. As we will see in later chapters, the US effectively used its financial role to reinforce its hegemony, successfully competing for capital flows and using the dollar as an effective tool against other advanced capitalist states, and indeed successfully restructured its domestic economy so that its competitive position was restored. Moreover, US capital had successfully penetrated other capitalist states and the increasing dominance of shareholder value (see below) led to the gradual dissemination of US corporate standards beyond its borders. US hegemony was thus restored, but in the context of a changed international economic order. The world had moved from one based on state-directed capitalist expansion, to one in which the neo-liberal idea of the domination of markets held sway (Arrighi 2003). These developments are crucial to understanding the era of globalization, as we will see.

(ii) Capitalist restructuring

This shift in state policy was increasingly accompanied by new ways of increasing profitability in the core countries. This entailed a movement away from the rigidities of Fordism towards more flexible accumulation strategies (Harvey 1989: ch. 9). 'Flexibility' is a controversial term and has been used to refer to a number of different experiments in work organization that were increasingly carried out in the 1980s and 1990s. These were variously referred to as post-Fordism (Murray 1989), flexible specialization (Piore and Sabel 1984), neo-Fordism (Tomaney 1994) and Japanization (Womack et al. 1990). Some upbeat assessments saw flexibility as part and parcel of a process of re-skilling of workers and/or a new way forward for competitive, small firms, which had the effect of lowering entry barriers for late developers. These optimistic scenarios tended to over-generalize from the limited experiences of a minority of skilled workers in Japan (Womack et al. 1990), under-estimated the continued importance of economies of scale in new, successful industrial districts such as the Third Italy, or ignored the ways in which small firms remained in subordinate positions in relation to larger firms who subcontracted out low-value labour-intensive work to the former (Piore and Sabel 1984). The reality was that for most workers, flexibility effectively meant the increased intensification of work routines in an effort to increase productivity and restore profitability, and this had negative implications for progressive alternatives to neo-liberalism, as we will see in Chapter 8. Flexible labour was effectively disciplined by the effects of unemployment and so in many countries wage increases and welfare benefits grew less quickly than during the boom years, or in real terms were actually eroded. Capital increasingly used flexible, part-time work, which limited workers' rights and undermined their bargaining power. The use of subcontracting increased, including some limited relocation of capital to parts of the periphery. Service work also increased, but contrary to some optimistic visions that pervade the mainstream globalization literature, most of this work was for low wages, unskilled and insecure (Henwood 2003).

Central to the restructuring process was the movement towards financialization, which can be defined as the gradual elimination of controls on financial capital. This process was particularly significant in two areas. First, as finance was liberalized, there was a shift towards shareholder value as a strong influence on corporate behaviour (Grahl 2001). The growth of equity markets meant that companies could now raise capital in those markets. In practice however, equity is not a major financier for companies, and most finance is obtained from borrowing and retained earnings (Henwood 2003). However, in this new context share prices become major determinants of the credit ratings of these same companies, which are strongly influenced by share prices. Corporate behaviour thus became increasingly focused on improving share prices, a process reinforced by the growing practice in the 1980s and 1990s of payments to senior managers in the form of equity/stock options, which increased from 22 per cent of US chief executive officer salaries in 1979 to 63 per cent at the height of the stock market boom of 1995–9 (Crotty 2003: 274). Shareholder value thus comes to increasingly influence corporate behaviour, and this leads to an agenda which promotes reorganization and downsizing, and disposal of under-performing divisions.

Crucially, this development has wider implications, not least for those national capitalisms committed to different models from that of neo-liberalism. As Grahl (2001: 40–1) argues, financial globalization

> represents a new balance of forces between proprietors and managers, very much in favour of the former. And it is driven not only by the as yet very limited cross-border market in equities, but also by the global transformation of currency and debt markets in ways which universalize these pressures, even in economies where equity itself is traded predominantly among domestic agents. The visible effect is to reinforce, in the most powerful way, the familiar drive towards more complete and immediate market disciplines in other areas, in labour and output markets. Trade liberalization or labour market flexibilization alone would only sharpen pressures on some product markets, some categories of labour and so on. The shareholder value drive, in contrast, tends to eliminate the notion of a sheltered sector by imposing the same norms of cost, price and profit as prevail elsewhere.

These developments are crucial to understanding wider notions of state restructuring, particularly in the developed capitalist countries, as well as the relationship between developed states. In effect, and this became clear only from the 1990s onwards, Anglo-American systems of neo-liberalism became more competitive 'not because they arrive at better or more effective financial decisions in particular cases (there are good reasons to believe that they are often inferior to the traditional European systems in this respect) but because they can mobilise staggering amounts of monetary resources and deploy these resources on an immense scale' (Grahl 2005: 122; see also Lysandrou 2005: 781–3). In other words, one need not accept neo-liberal arguments for the efficiency of capital markets – indeed in many respects they are socially inefficient and also tend towards concentration as well as speculation, as we will see in later chapters – but clearly the scale and dynamism of such markets had implications, not only for the US, but for global capitalism and particular national capitalisms. For instance, in terms of international finance, the IMF classified only five out of nineteen advanced capitalist countries as having open capital markets in 1976, but by 1995, with Scandinavian countries the last to succumb, this classification applied to all advanced capitalist countries (Glyn 2006: 65). This internationalization in part reflects greater levels of domestic liberalization, which eventually reached levels which made restraints on overseas funds increasingly unviable. Moreover, even if there remain significant national variations in the sources of finance (see Chapter 8), the dominance of Anglo-American systems of finance serve to strongly influence corporate behaviour throughout the world (Harvey 2005: 32–4). It is perhaps

above all in this respect that we can talk of a new era of global capitalism, even if this continues to take specifically national forms. As Williams (2000: 6) suggests, 'The result is a new form of financial competition of all against all whereby every quoted firm must compete as an investment to meet the same standard of financial performance.' These issues are discussed further in Chapters 8 and 9.

The second crucial development in financialization has implications for the developing world too, and is perhaps best understood by relating it to wider processes of adjustment there. This is undertaken in the next section.

Neo-liberalism and the Developing World

(i) The 1982 debt crisis: causes and consequences

Although their significance is sometimes exaggerated, combined with the wider long-term trajectory outlined above, the oil price rises of 1973–4 were very important. The immediate result of these price rises was that oil exporters needed to find an outlet for their windfall profits, and oil importers now faced potentially devastating import bills. The oil exporting countries deposited their windfalls in European banks (or European affiliates of US banks) and these petrodollars added to the already expanding Eurodollar market. Banks then loaned these dollars to a small number of countries, mainly located in Eastern Europe and Latin America. In the 1970s private bank lending became the major means by which some 'developing countries' gained access to capital, as opposed to official channels such as the IMF and World Bank, as was the case in the 1950s and 1960s.

Banks loaned money at low rates of interest and, in a competitive and unregulated climate, often committed enormous sums to particular Latin America states – by 1982, the nine largest US banks had committed over twice their combined capital basis to a handful of developing countries. Government debtors happily borrowed as interest rates were low, repayment periods were generally long term, and there were not the conditions that were usually attached to aid. However, with the change in US economic policy from the late 1970s (see above), interest rates increased rapidly and repayment periods generally became shorter. The London Interbank Offered Rate (LIBOR), which was usually used to set the basic rate of interest for loans to developing countries, increased from 9.2 per cent in 1978 to 16.63 per cent in 1981 (Corbridge 1993: 138). The effect of this increase on developing-country debtors was devastating. First, it added perhaps as much as $41 billion to their debt, based on average

interest rates from 1961 to 1980. Secondly, high interest rates in the US attracted capital from all over the world, including from those countries that now faced an increase in their interest payment obligations. This combination of high interest rates and capital exports from the indebted countries completely changed the international context in which development operated. As Arrighi (1994: 323) states:

> From then on, it would no longer be First World bankers begging Third World states to borrow their overabundant capital; it would be Third world states begging First World bankers to grant them the credit needed to stay afloat in an increasingly integrated, competitive, and shrinking world market.

In 1982, Mexico defaulted on its foreign debt, and there was the threat of generalized non-payment spreading to other countries. There was thus a real danger that banks that had committed capital to Latin America could fail. This was the start of the debt crisis and with it, the shift to neo-liberal policies in the developing world. Banks faced the prospect of large-scale default, and so from their point of view what was needed was more money to be loaned to the high-debt countries, but now with some guarantee that these countries could meet their debt obligations. However, no single bank was prepared to take this responsibility, as there were no guarantees that all the other banks would follow.

One possible solution was for surplus countries to transfer money to the indebted countries at low or zero rates of interest, a position not unlike that advocated by Keynes at Bretton Woods (see previous chapter), and also supported by the Brandt reports of the early 1980s (Brandt 1980; 1983). This was also close to the position advocated by many developing countries in the mid-1970s, when they voted at the UN General Assembly for a New International Economic Order (NIEO). It was envisaged that this would be based on increased aid flows to the developing world, and an improvement in the quality of this assistance so that it would become increasingly detached from the strategic and commercial concerns of the developed countries. Similarly, developing countries called for private companies to increase investment in the developing world, but equally argued that multinational investors should be tied to codes of conduct. The rationale for this policy was that it would force multinational or transnational companies (TNCs) to draw on local suppliers, develop a local skills base, and limit the repatriation of profits or tax evasion. Finally, the NIEO envisaged compensation schemes for developing-country producers if commodity prices fell below a certain level, and/or guaranteed (and non-reciprocal) market access and prices to developed world markets (Hoogvelt 1982). In practice, these demands were largely ignored by the developed world, although there were some limited schemes such as Lomé, discussed in more detail in Chapter 9.

The problem with these proposals is that they rested on quite untenable assumptions about the likely behaviour of capital, both generally and in the specific conditions of the 1970s and early 1980s. Holders of capital had little interest in investing on such a sustained level in the developing world, and were even less interested in agreeing to restrictive codes of conduct. Moreover, these points were all the more central in the context of the crisis of the 1970s and the attempts by capital (and states) to boost accumulation, not through the neo-Keynesian demand stimulants proposed by the NIEO and Brandt, but by restoring profitability through supply-side measures. These included the strategies discussed above, such as the growing financialization of corporate strategy, and attempts to roll back wages (including the social wage). And in the developing world, restructuring involved ensuring that the obligations of debtors – and loans by creditors – were met. Thus, a policy of policing the debt crisis through the granting of limited access to new loans with conditions emerged. The key institution that carried out this task was the IMF, which effectively policed many indebted economies in the 1980s. Thus, despite its limited resources, the IMF became a highly visible institution throughout the developing world.

(ii) Policing the debt crisis and the rise of neo-liberalism in the developing world

To understand the role played by the IMF in the 1980s debt crisis, and indeed that of the World Bank, it is crucial to understand how the debt crisis was viewed by the core states, and the United States in particular. Countries that faced severe balance of payments deficits, and therefore faced difficulties in meeting their interest-payment obligations, were said to have adopted incorrect policies. Countries were therefore in debt, not because of the international economy, but because of the bad policies that they themselves had adopted. The neo-liberal assumption was that the bad policies were rooted in too much government intervention in these economies. For neo-liberals, just as inflation and the 1970s recession was caused by 'too much government', so too was the debt crisis of the 1980s. What was therefore needed was a set of policies that would encourage countries to readjust their economies, enabling them to earn foreign exchange to meet their debt obligations. Ironically, these policies were to be formulated by a public institution – the IMF – whose conditions served to ensure that lenders continued to receive debt payments from their borrowers. This was inconsistent as individuals and institutions – and both creditors and debtors – are said to be responsible for

bad investment decisions, and so must pay the price in the marketplace. But this principle was only applied to the debtors and not the creditors, the latter of whom drew on (international) state intervention in order to secure their loans. As had been agreed at Bretton Woods, the burden of adjustment was placed solely in the hands of the debtor countries, rather than countries wikth a surplus, and therefore they had to make enormous policy changes, and move away from strategies of import-substitution industrialization, while the IMF protected powerful creditors.

In the short term, countries had to restore balance of payments equilibrium, and thus earn sufficient foreign exchange to meet interest-payment obligations. The IMF promoted policies such as currency devaluation (to make exports cheaper), reductions in state spending (to combat inflation), and wage cuts (to restore 'private sector incentives' and thus profitability). In terms of restoring trade balances, the strategy was a resounding success, and large debtors like Brazil and Mexico quickly moved from current account deficits to small surpluses in just two years (1982–4). But these results were achieved simply by a massive cut in imports. The debtors faced the problems of falling commodity prices and protectionist measures against some of their goods in the developed countries. Moreover, the debt itself adversely affected the potential for future investment because of the need to service the debt, lack of new loans from far more cautious banks, and the cutting of imported inputs that were used by the export sector. Cuts in state spending and wages generally had undesirable social consequences, such as falling demand and declines in living standards. This led to both negative growth and increased external debt in sub-Saharan Africa, the latter of which rose from US$6 billion in 1970 to US$134 billion by 1988, an amount equal to its total GNP, and three and a half times its total export earnings. At the same time, while many of the poorest countries relied on the export of one agricultural commodity for more than 40 per cent of their export earnings, the price of these commodities dropped by more than 40 per cent in the 1980s (Hewitt 2000: 303). In Latin America, debt servicing increased from an average of 1 per cent of GDP in 1972 to 5.4 per cent in 1983. At the same time, trade liberalization meant that imports increased for the wealthier classes as real wages and employment fell, not only for public sector workers, but increasingly for workers in manufacturing as the region de-industrialized in the face of overseas imports (Saad-Filho 2005). From 1980 to 1986, urban poverty in Latin America rose by an estimated 50 per cent, as average incomes fell, informal employment increased and social expenditure fell. In Mexico, for example, informal employment almost doubled between 1980 and 1987, while social spending fell to half its 1980 level over the same period (Davis 2006: 156–7). These outcomes were rationalized as

necessary readjustments to the distortions of the ISI period, so that the medicine was not the problem, and short-term harm would lead to long-term benefit. The benefits were said to be realized by the 1990s, as we will see, leading to the upbeat assessments of globalization of the 1990s discussed in depth in Chapter 7. For the moment, a little more needs to be said about the 1980s.

IMF policies were principally concerned with short-term stabilization measures. Although the distinction is in practice largely meaningless, the World Bank was concerned with longer-term issues of development. The Bank also promoted neo-liberal policies which envisaged rolling back the state and promoting the free market. World Bank structural adjustment loans from the early 1980s were also associated with 'market friendly' conditions. The basic assumption of both the IMF and World Bank was that indebted countries had focused too much on states protecting domestic economies from the opportunities that global market forces could offer (World Bank 1981). Instead, they should exercise their comparative advantage, and produce the goods that they could produce most cheaply and efficiently. In practice this could only be discovered through principles of open competition and therefore trade policies should be liberalized. In addition, competition should be encouraged through privatization and deregulation of the state sector. In terms of the world economy, developing countries were therefore said to be (to use an argument commonly made in the 1990s) 'insufficiently globalized', and could best develop through embracing globalization through open, market-friendly, neo-liberal policies. The record of development was so poor in the 1980s that it came to be considered the lost decade. For the critics, neo-liberal policies exacerbated the problem (Simon 1995; Elson 1995). For its advocates, neo-liberal policies were not the problem but the solution, and they needed to be properly implemented, albeit in a more favourable institutional context, which included paying greater attention to the role of the state in development (World Bank 1992). However, in the era of modified neo-liberalism in the 1990s, the assumption was retained that once the right conditions were in place, growth and development would occur, as developing countries could embrace the opportunities presented by what came to be known in the 1990s as 'globalization' (World Bank 1994).

Indeed, in many respects this was a decade of great optimism regarding the prospects for development, as we will see. In part this optimism was linked to the second key area of financialization, the liberalization of capital accounts. This policy was increasingly implemented in the 1980s and 1990s, and was justified on the grounds that it would free up financial resources to enable the potential benefits of privatization to be delivered (McKinnon 1973; Shaw 1973). In particular, finan-

cial liberalization was seen as a way of drawing on both domestic and foreign savings for private investment. It was argued that stock markets in the developing world could raise money for investment, and once these markets rose, this would encourage foreign portfolio investment, thus further increasing savings and investments. This would include foreign finance converting to local currencies, thus stimulating investment and preserving exchange rate stability. As we will see, such funds did arrive, at least to some of the richer developing countries in Latin America (Chapter 7) and East Asia (Chapter 9), but did not have the effects envisaged by their advocates. Nevertheless, in the early 1990s there was a substantial increase in foreign capital flows to parts of the developing world, and this fuelled much of the optimism concerning both (neo-liberal) globalization and development.

For the moment, the detailed claims made for and against the effectiveness of neo-liberalism need not concern us. Later chapters – and particularly Chapters 7, 8 and 9 – will assess the relationship between neo-liberalism and development. However, given the arguments made in earlier chapters, it will come as no surprise that this assessment will be overwhelmingly negative, while at the same time it will also be suggested that there are good reasons why states adopt neo-liberal policies. In making these arguments, one negative assessment of neo-liberalism can usefully be made at this point. In the 1980s, the dominance of neo-liberalism meant that an increasing number of countries were adopting policies to ensure competitiveness in the world economy. This meant adopting policies that reduced domestic demand at home (through lower real wages, public sector cuts), and simultaneously exporting to other countries. The problem was that these other countries were themselves carrying out similar policies, and so this limited the market for the first country's exports. Thus, in the 1980s, 'the spread across the capitalist bloc of neo-liberal policies of keeping down wage increases below productivity growth and pushing down domestic costs has led to an unstable vicious circle of "*competitive austerity*": each country reduces domestic demand and adopts an export-oriented strategy of dumping its surplus production, for which there are fewer consumers in its national economy given the decrease in workers' living standards and productivity gains all going to the capitalists, and the world market' (Albo 1994: 147).

For those developing countries dependent on the export of a small number of primary goods, this was even more problematic, as an increase in export volumes in the context of declining demand, while other developing countries were simultaneously dumping the same good onto the world market, meant that increasing export volumes was not necessarily accompanied by increased export values. Competitive austerity was thus in some respects self-defeating, for what made sense for one individual country was not necessarily good for the system as a whole. However, in practice this potential stagnation was averted by two related factors: first, in living beyond its means and massively increasing its trade deficit, the United States acted as a market of last resort; and secondly, in the context of financial liberalization, all kinds of financial instruments were employed to sustain demand in the context of lower world growth. These are issues which are central to understanding both the geopolitics and the economics of globalization, and they form a central part of the story in the chapters that follow.

Conclusion

This chapter has considered the breakdown of the post-war international order, and the emergence of neo-liberalism in the 1980s. This had its origins in the world recession of the 1970s, and capitalist restructuring, which attempted to restore profitability and sustained accumulation. The US state played a leading role in this restructuring, although other states (such as Chile after 1973 and Britain from 1976) also initiated adjustment programmes. In response to decline in the face of competition from other developed countries, US hegemony effectively changed its form, particularly with the Volcker shock of the early 1980s. For much of this period, there was talk of the decline of US hegemony (Kennedy 1988; Arrighi 1994), as well as of the nation-state (Ohmae 1995; Harris 2003), in the context of globalization. What has been implicit in this and the previous chapter is that this is not a convincing argument. Instead, as the next chapter will argue in detail, globalization has been associated with a change in the nature, but not with the erosion, of US hegemony. Certainly there are questions around the US's military role after the Cold War, and equally it is clear that the US state must rely on considerable cooperation from other states (even if many US [neo-]conservatives reject this belief). But this in part reflects the success of US hegemony after 1945, particularly in reconstructing global capitalism – and in some respects, reconstructing it in the US's own image. From now on, the US used its predominance in finance to compete aggressively for global capital, in a context where shareholder value would increasingly challenge and eventually dominate. This restructuring led to the erosion of the post-war 'social consensus' in the developed capitalist countries, and the movement away from full employment and the partial erosion of the welfare state. The shift was uneven, and varied from country to country, but as we will see it affected all countries in the developed world.

Although also varying across countries, in the developing world, the slowdown in economic growth and increase in interest rates led to the debt crisis of 1982, and the undermining of the post-war 'development consensus'. In its place, neo-liberal policies were implemented by many Third World states, after negotiations with the IMF and World Bank that granted access to, or the seal of approval for, new loans. Neo-liberals argued that adjustment policies were necessary in order to sustain development. Indeed, for them, the 'developmentalist' policies of the 1950s to the 1970s were the root cause of the problems faced by the Third World, and the solutions were to open economies up to competition and investment. This was the beginning of the end of the era of state-directed policies designed to promote convergence with the developed world. In its place, development was either coming to an end, or at least being redefined as the ability to compete effectively in the global economy. Protectionist, pro-industrial policies were increasingly marginalized, and replaced by liberalization policies designed to promote competitiveness. Its advocates argued that this was the best way to promote convergence with the developed world, as it would lead to specialization in those sectors where developing countries were most efficient, and an end to counter-productive, costly and inefficient protectionism.

We have seen that the actual record of these policies in the 1980s was far from impressive. However, their advocates argued that it was not the policies that were at fault, but the way in which they were implemented. This led to renewed debates around the role of the state in the late 1980s and 1990s, and a growing recognition of the need for institutional reform to accompany the new economic policies. Indeed by the 1990s, there was an increasingly optimistic agenda concerning not only the prospects for global capitalism, but how this would lead to development in the poorer countries. More critical accounts – including the position taken in this book – were sceptical concerning this new optimistic account of the relationship between globalization and development. In particular the argument was made that competitiveness did not lead to an unambiguous process of levelling up, but instead intensified uneven development, and with it situations where some nations, regions or localities won at the expense of others. In this context global inequality was bound to increase. This debate is examined in considerable depth in Chapter 7.

Nevertheless, the notion that there was no alternative to neo-liberalism, and, by the 1990s, globalization, was further reinforced by the collapse of Communism, which served to reinforce both neo-liberal ideology and neo-liberalism as a form of social rule, increasingly dominating the system of regulation of global capitalism in the late twentieth century. In terms of ideology, central to early 1990s optimism was the supposedly supportive framework of globalization, and so we first need to examine this concept in depth, and this is the subject of the next two chapters.