Chapter Two

Facing the Facts

A consequence of studying history is that the present becomes historical. School children today usually learn the founding myths of their nation as an historical epic of freedom gradually winning a protracted struggle against tyranny. The present is thus acknowledged to be a product of the past. The brighter children cannot fail to think that if the present is a product of the past, then the present is the producer of what will be the future. They learn that they are actors in history.

Guy Debord makes a similar point as follows: "The development of the forces of production had shattered the old relations of production; every static order had crumbled to nothing. And everything that had formerly been absolute became historical. (Debord 1994, p. 148)

What lends a certain plausibility to Francis Fukuyama's argument that although there used to be history there is no history anymore is the worldwide decline of social democracy. Generically, history is not over because social reality is still an historical construction. It could not be anything else. Specifically, history seems to have stopped. That is to say, it has stopped moving in the direction of ever stronger labor unions and ever more comprehensive welfare states, which formerly -- in the middle of the twentieth century-- was taken to be the direction in which the arrow of time pointed. It was progress, as distinct from regress. But now political realities and the laws of economics appear to have locked humanity in a permanent hammerlock from which there is no escape. If the foreword movement of history is associated with social democracy, then history, if it is moving at all, is moving in reverse. Moreover, the erasure of Communism, which once pretended to be the tide of the future, did not lead -- as Mikhail Gorbachev, Jurgen Habermas, and many others, expected-- to the generalization of social democracy. It led to its decline.

An example of the end of history, in the sense of the end of movement toward social democracy, is provided by the administration of Argentina's first democratically elected president after the end of the military dictatorship of 1976-1983. Raul Alfonsin had led his Radical Party into the Socialist International (the social democratic Second International). In his campaign speeches he promised Argentine voters a latin version of North West Europe, just at the time when European social democracy in North West Europe was beginning a long and painful contraction. After his election, President Alfonsin quickly abandoned his promises. Instead, during his administration Argentina began to acquiesce to international pressure to adopt the free market fundamentalism that became the explicit program of his successor as president of Argentina, Carlos Menem. As the Argentine political scientist Maria de Los Angeles Yanuzzi observed, Alfonsin was elected on a platform designed for a different historical epoch. Times had changed. Once elected, he did what the new times required.

A reason for writing this chapter is that many people still do not understand why Raul Alfonsin had to give up, and why his model, that of post World War II European social democracy, is no longer a viable model. Many people still think of social democracy (known in the United States as "liberalism") as betrayed by its leaders more than as done in by the systemic imperatives of the logic of accumulation. There is a time warp. Thinking has not caught up with reality.

Today the failures of neoliberalism are birthing hopes that voters will turn left again. Some voters are, notably in Venezuela, Brazil, Argentina, Uruguay, Chile, and Bolivia. But what does “left” mean today? This chapter is devoted to explaining some of the reasons why one thing it cannot mean is a return to post World War II social democracy. This chapter is also a check list of problems that must be solved. Thirdly, this chapter is a case for taking a serious look at a different kind of democratic socialism, albeit socialism in one city. During the same time period --the last two decades of the twentieth century and the first few years of the twenty first-- while social democracy was taking a beating on a world scale, and starting well before the current spate of elected left-leaning presidents in Latin America, social democracy was flourishing at several sites on the planet. Rosario is one of them.

Generically, history is not over. It could not possibly be over because the institutions that govern humans are themselves produced by humans over the course of time. Specifically, history is not over either. Social democracy is down but not out. Rosario is one of the places where it has shown its capacity to adjust to changing conditions and to fight back.

Rosario is known in Argentina as an industrial city with a long tradition of labor and political activism, dating back to the nineteenth century. The working class immigrants who poured into Argentina between 1870 and 1950 brought working class ideologies with them from Europe, especially from Spain and Italy, especially to Rosario. Rosario has enjoyed a center-left city government, committed to ideals of inclusion and equity, since constitutional government was restored in 1983. At first the nominally social democratic

Radical Party held the main offices, accompanied by a strong socialist presence. Since 1989 the city's voters have elected socialist mayors. They have given the socialists either (as now) an absolute majority on the city council, or a strong enough minority to pass key measures through alliances.

During the 1990s neoliberal administrations at the national level of Carlos Menem, Rosario, embattled and politically isolated, defended itself and built its programs, swimming hard against the current. The city stubbornly refused to privatize its Municipal Bank, resisting national and international pressure. Instead the Municipal Bank intensified efforts to support small and medium sized local businesses. Rosario, alone among Argentine cities, refused to accept health sector funding from the World Bank, which would have required it either to privatize its municipal clinics or to administer them in the public sector as if they were private clinics. Instead it built an unparalleled network of public health services, which eventually earned it a prize from the World Health Organization of the United Nations.

More recently, in an Argentina that has in some respects tended to reject neoliberalism, certainly at a rhetorical level and to some extent in practice, Rosario has been ahead of the curve. During the period of Argentina's economic crash, which came to a head in December 2001, the workers stayed on at some 300 "closed" enterprises, of which 8 were in Rosario. The businesses were bankrupt or were abandoned by their owners, but the workers did not leave. They stayed and continued to operate them. At some places they had to battle severe repression. At Rosario, in contrast, the city government gave classes on how to run a business as a worker-owned cooperative. It made them loans to help them get started. Quite apart from what the city government did, the workers-turned-owners received support from university professors of engineering willing to volunteer as technicians, from volunteer accountants and lawyers, and from several other constituencies, as will be commented upon in later chapters.

Looking at Rosario from a global point of view, it is necessary to ask whether it can last. It is necessary to ask whether the same forces that have stifled social democracy on a global scale will sooner or later stifle Rosario too. The same question needs to be asked regarding the newer and larger left-leaning governments incumbent on the national level in the Latin American region. In seeking to answer this question it is necessary to specify what the global forces are that crush governments and social movements that work to satisfy the aspirations of working people and middle class people. In asking whether Rosario can be an exception it is necessary to ask whether there is something different about it that makes it immune to repression, immune to budget crises that lead to the dismantling of social safety nets, immune to the global race to the bottom that tends to lower wages everywhere to the level of the lowest paid workers anywhere willing and able to do the job. If, and only if, there are good reasons for supposing the people in Rosario to have discovered a practical way to durable transformations -- not necessarily as a conscious theory but in the solidary practices they have employed to improve life in their city—then it will be possible to ask whether principles can be extrapolated from their practices that could improve the chances of social democracy elsewhere.

I am aware that the repression of the people on a world scale can be regarded as greatly facilitated, and even perhaps primarily caused, by a spectacular increase in the power of money to market false consciousness through the mass media. I am also aware that it can be regarded as backed up by the covert and overt military power of the United States, in cooperation with national military establishments that have become, as the Argentine Nobel Peace Prize winner Adolfo Perez Esquivel said, “armies of occupation in their own countries.” However, in what follows I will discuss forces that I regard as even more fundamental than television, and even more fundamental than violence. They are, at bottom, forces derived from the logic of accumulation, which is sometimes called liberal logic. That is, to restate the same thing in other words, forces derived from the basic constitutive rules of acquisitive individualism. I hope that the reader who does not understand what I am saying about these forces either as first said or as restated will be patient and will understand me later as I develop the same point in various ways in subsequent chapters.

At bottom, the question whether Rosario can be a durable exception to the global trend, and the question whether it can contribute something to showing the world how to reverse the trend, is the question whether such forces can be resisted, countered, dissolved, and/or replaced. I will discuss three such forces.

1. The Locational Revolution

Jeffrey Winters argues that in the last decades of the twentieth century there commenced a process of global social change that in the long run will be as fateful for humanity as was the industrial revolution commencing in the last decades of the eighteenth. (Winters, 1996) Then as now the producers of goods and services, the political elites, and the owners of resources had to adjust to new technologies. There were new forms of wealth. (Compare Microsoft to the East India Company) There were new constellations of power. Winters names the revolution taking place in our days "the locational revolution." He dates the start of the locational revolution some three or four decades ago. It is still in its early stages.

Winters' point of departure is (in John Searle's terminology) the institutional fact that owners control resources on which entire populations depend. An example would be owners controlling land which must be farmed if a population is to have food, and –a point not to be missed-- if agricultural workers are to have work producing the food. Investment is key. The term "investment is here used broadly in the sense of advancing funds in the expectation of later getting in return a sum larger than the sum advanced. Without investments that set resources in motion there is no work for workers. Without investments there are no goods and services for consumers. Without investments there are no streams of income for governments to tax. The locational revolution is about the locations of investments.

The industrial revolution, unlike today's locational revolution, was primarily a northern hemisphere phenomenon.

While industrialization transformed Western Europe, North America, and later Japan, the rest of the world was excluded or was relegated to the role of supplier of raw materials. The exploitation of the colonies and of the wealth of peripheral regions whether colonized or not facilitated the accumulation of wealth in the industrial centers of the north. The geographical separation of the industrial centers from the periphery facilitated the struggles of organized labor in the north, which fought to gain for workers a share of surplus value, as well as respect for workers' rights within social systems that were usually constitutional and increasingly democratic. The workers in the north did not have to compete in the labor market with the limitless numbers of workers in the colonies, who were much poorer and who had no hope of gaining a share of political power. The colonies and the colonizers lived in the same world, but labor markets were segmented. The workers of the central powers lived with a certain degree of isolation from the workers of the periphery.

In the epoch of the labor struggles in the north, from the beginnings of the industrial revolution until the decades immediately following World War II, capital was to be sure in some ways mobile. For centuries even before the industrial revolution capital had circulated in large quantities over long distances. But the old forms of circulation did not include something that began to happen in the last decades of the twentieth century. In the old days commercial and financial capital circulated around the globe, but direct investment in manufacturing plants remained concentrated in Europe and North America (and later Japan). It was not until the last half of the twentieth century, and especially its closing decades, that the location of production came to be determined by international competition. Locations began to compete with each other to attract industrial investments.

For the workers of the first world the party is over, if the term "party" can appropriately be used to describe their long, hard, and often bitter struggle to earn higher wages and more benefits. Although it is not yet entirely clear to what extent the locational revolution will prove to be disastrous for them, it is clear that if present trends continue for several decades more, the result will be to further diminish the bargaining power of first world workers, and to bring their wages down toward third world levels.

Contrary to the views of some analysts, Winters (with whom I agree) finds that what the workers of the first world have lost, the workers of the third world have not gained. On the contrary, management has been able to take advantage of competition among diverse groups of workers at diverse locations. Investors have been able to increase their power relative to workers by taking advantage of the economic weakness of workers in some parts of the world, and also be taking advantage of the political repression of workers in some parts of the world. The locational revolution has undermined the relatively favorable position formerly enjoyed by first world workers, but no comparable favorable position has been attained by third world workers. The net result is a massive global power shift in favor of capital and against labor.

This massive shift of social power adverse to labor is likely to remain in place for the foreseeable future, even though, in India for example, there has sometimes been a modest tendency for third world wages to increase. Prior to the locational revolution the concept that wage increases should be tied to productivity gains amounted almost to a new social contract. The concept protected investors against the threat that strong unions would force raise wages in excess of productivity gains. The concept protected workers –at least those particular workers who had the good fortune to work in industries experiencing increases in productivity-- by assuring that when productivity went up part of the new surplus would be passed on to them. The locational revolution rescinds this social contract. The political elites of the authoritarian countries of the third world (such as China) and even those of democratic countries (such as those of India) have become accustomed to making the argument that comparatively low wages must be maintained in order to maintain the comparative advantage that helps them to win the global competition to attract investments, as to win the global competition to sell their products in international markets. Thus in India, for example, when first world firms outsource production and brainwork services to India it can only be a blessing to India's workers, whose wages were so low that participating in the global labor market is not likely to drive them any lower than they already were and can only drive them up. (The ILO reports manufacturing wages in India now on the order of $263 U.S. dollars per month.) But, on Winters' analysis of the massive shift of power on a world scale in favor of capital and against labor, it is a mixed blessing. It cancels the dream of Jawaharlal Nehru and others that some day India might become as the United Kingdom and Sweden were in the 1960s, a nation where the benefits of advanced technology, accumulated capital in the form of plant and equipment, and success in foreign trade were equitably shared with the working classes because of a combination of trade union power at the economic level and social democratic power at the political level.

Quite apart from the thinking of political elites who conceive permanent cheap labor to be an economic asset that must be preserved for the sake of national development, a global market inherently implies global competition for jobs. Buyers of labor power or its products normally prefer those who sell merchandise of equal quality at a lower price. What Karl Popper would call the "situational logic" manifested in Winters' locational revolution thus would override the thinking of any national political elite that decided to deviate from the global norm by attempting to pursue a high wage policy.

In the present epoch, the epoch of the locational revolution, whether it wants to or not, a government must work to position its territory favorably, in order to attract capital to invest there. Rosario is specifically laboring to become a magnet for investments designed to produce goods for the new South American Common Market, MERCOSUR, and for investments designed to take advantage of the opening of Paraguay to global maritime commerce through the improvement of navigation up and down the Parana River. All of the capacity of the government of the city as a provider of infrastructure and of efficient government services is pitted against its competitors for the favors of capital in these new arenas. Economic theory tells us that the greater volume of commerce made possible by the larger market and by the deepening of the river will provide a net gain in wealth, as more resources enter the global marketplace and as economic actors specialize more in doing what they do best. A basic question is whether any of the new wealth, or any wealth at all, will benefit the working classes.

From Winters' perspective Jeffrey Sachs must be counted as a blind optimist. Sachs confidently asserts that globalization can bring an end to poverty. (Sachs 2004) Sachs follows a line of reasoning pioneered by Adam Smith. The wider the market the greater the specialization of labor. The greater the specialization of labor the greater the efficiency. The greater the efficiency the more wealth is created from the utilization of the available resources. Sachs reasons that the gains from increased international trade create a new fund of wealth which can be transferred to the poor, thus ending poverty. One (of several) flaws in his argument is related to Winters' point that the incentive for locating production at a particular site is greater profit, compared to what can be earned at competing sites. Given a firm's revenue, a larger profit slice implies a smaller wage slice. Hence the dynamic of the locational revolution works against, not for, higher wages. Another flaw in Sachs' argument in his book on the end of poverty is that he is not talking there about raising wages at all, nor in any way about greater welfare and security for the majority of the people. He is talking about persuading the wealthy and the powerful to back programs to relieve the absolute poverty of the poorest of the poor, none of whom are found in Argentina, nor in the United States, nor in Europe, their location being, according to the United Nations' data as Sachs cites it, exclusively in Africa and Asia.

It can be argued that by entering the market as the promoter of a certain set of points in space, competing with other sets of points in space to be the places where production is sited, Rosario is entering a game that its working citizens can only lose. (Here "production" includes doing commercial activity, financial services, research, legal services, and indeed making or doing anything that people sell to other people for profit.) Somewhere somebody will produce the same thing cheaper. To compete with that somebody somewhere Rosario will be obliged to be as efficient as possible, which implies minimizing costs, which implies minimizing wages. It can also be argued that Rosario has no choice. Win, lose, or draw, it must play the game.

In the game structured by the locational revolution foreign capitalists commonly play the role of benefactors. To be sure, there are cases when so-called investment consists only of acquisitions and mergers which produce nothing but a change in the names of the persons entitled to the profits of enterprises. There are cases when a locality suffers even from productive foreign direct investment; for example when multinational corporations drive bargains that compel farmers to go into debt to farm with hybrid seeds that can be purchased only from the multinational; or, for another example, when the agents of foreign investors buy politicians and/or military officers to gain private control of petroleum reserves that ought to be exploited for the benefit of all the people. But commonly, the sites lucky enough to be chosen by international capital enjoy the benefits of employment at wage rates higher than the prevailing local wages, of a tax base stronger than it otherwise would have been, and of access to new and more efficient technologies. The investments made by mobile capital at a given site commonly are used to build equipment and physical structures which although they are legally owned by a private corporation and/or mortgaged to a private bank are physically located on local soil and thus count in some sense as local public assets. The principal victims --with important exceptions-- of the locational revolution are not the sites chosen by mobile capital, but the sites not chosen by mobile capital, the sites capital flees from, or never arrives at. The structure of the system is such that the existence of one type of site implies the existence of the other type of site. Further, even though the favored sites commonly enjoy somewhat higher wages and a somewhat better tax base than they otherwise would have, in order to be chosen to be among the favored it is important to be able to offer to global investors on the prowl for a site the required type and quality of workers. Those workers must be willing to work at wages lower than those on offer in the labor markets of competing sites. The aspiring set of points in space must offer tax and other laws that cater more than the laws of competing sites to the aim of capital, i.e. to the aim of using money to make more money.

Wages in Argentina are currently at an intermediate level. They are on the order of one third of wages in the United States, while being five to seven times the rates of pay of workers in impoverished Asian nations.

[INSERT HERE TABLE FROM INTERNATIONAL LABOR ORGANIZATION, LABOUR STATISTICS YEARBOOK]

Unless Argentine workers drastically revise their expectations, and unless the physical structure of Argentine life changes to make it possible to survive on a far lower salary, Argentina cannot compete in the global marketplace as a low wage production site. Nevertheless, wages there are low compared to North America.

Winters' theory of the locational revolution is extrapolated from his empirical study of the conflicts between mobile capital and state power in Indonesia. He supplements his Indonesian data with data from other counties. He is able to show that the more mobile capital is, the weaker is the power of government to control it. The less mobile capital is, the stronger is the power of the government to control it.

Echoing Winters, many specialists today advocate a Tobin Tax. (Michalos, 1997) It is a tax designed to impede the movement of the most mobile form of capital, the speculative financial flows that can circle the globe with electronic transactions that take less than a second. A sudden outflow can cripple an economy burdened with short term debt, as happened in Thailand in 1997. A Tobin Tax would be an international tax, imposed by the United Nations or some other global organization. It would be a tax on the flow of money or money equivalents from one country to another. It would be designed to discourage speculation in fluctuating currency values, but not to discourage capital that has the serious purpose of augmenting productive capacity.

The city of Rosario, as we will see, has been able to anchor in space, and to govern, even capital in its most mobile form, cash, through its Municipal Bank.

The balance of power between territorial government and mobile capital is intermediate with respect to productive goods that are hard to move. Switching manufacturing locations is expensive. It is not easy, for example, to close down an automobile assembly plant and then to open an equivalent facility at some distant place. Nevertheless, in the United States, for example, whole industries, such as steel, have closed and have been replaced by distant plants in places where labor and transport cost less. Today's steel mills are located not inland, like Pittsburgh, but seaside, where coke and ore can inexpensively be shipped in from anyplace in the world, and from whence steel can inexpensively be shipped out to anyplace in the world. (Maritime freight costs are generally lower than land transportation costs.) The United States government did not decide to close the steel industry; to the contrary, it threw good money after bad trying to keep it open. The locational revolution was stronger than the strongest government in the world.

In the global competition among points in space to attract the favors of capital, as of this writing Rosario is leading Detroit. Chevrolet is laying off workers in and near Detroit, while hiring more workers at a large Chevrolet assembly plant on the outskirts of Rosario. Rosario is also leading its sister Argentine city Cordoba, which formerly produced more automobiles than Rosario and now produces fewer. The plant is not within the city limits and therefore not part of the city's tax base. But its workers live mainly in the city and commute to the plant to work. The money they spend from their wages helps support the small businesses that are the backbone of the city's economy. The Province of Santa Fe and the Nation of Argentina can tax and regulate Chevrolet up to a point, but they must be careful not to go beyond that point, lest they drive Chevrolet elsewhere. Rosario itself has fairly little control over the factors that led to its good fortune. The city did and does, however, have a role to play in the global competition that led to its selection by General Motors for a Chevrolet plant from among numerous competing sites, first to build an assembly plant there, then to keep it, and currently to expand it. Among the factors favoring the site are the city's low crime rate by Argentine standards, its attractions as a cultural center and as a good place to settle and raise a family; and the stability, seriousness, and efficiency of its government. But there is little the city can do if some day in the future the numbers that determine the bottom line lead Chevrolet to shrink or close its Rosario operations.

According to World Trade Organization statutes, in force since 1995, there is nothing anybody in Argentina can do to force General Motors to keep open its plants there if it chooses not to, even if General Motors decides to locate all its former Argentine operations in lower wage places, and from there ship Chevrolets to sell in the Argentine market.

Governability is greatest, Winters shows, with respect to natural resources. If all the citizens of Kuwait, and of other petroleum-based welfare states, enjoy free and universal education, health care, housing and retirement benefits, it is because their governments have known how to charge global business for access to resources that are solidly fixed at particular points in space and are not going to move.

Rosario is the metropolitan center, although not the political capital, of the Province of Santa Fe. Argentina as a whole produces enough food to feed an estimated ten times its own population. Argentina has been since its beginnings a granary and a butcher shop for Europe. Today its leading edge is soybeans for China. The Province of Santa Fe, together with the neighboring Province of Buenos Aires constitute the lands known as the rain-fed plains, the pampa humeda. Bumper crops of grains and legumes are regularly grown there without irrigation. The pampa humeda is not going anywhere. It will last longer than Kuwait's oil.

Unlike the petroleum of the nations that have built welfare states on oil, the pampa humeda is not publicly owned. It is private property. It is, however, publicly taxed. It is especially easy to levy taxes on meat and grain exports as they leave Argentine ports. The national government regularly does so. As of this writing the soybean boom has swelled tax revenues to the point where the federal budget has a healthy surplus. In this respect too, Rosario is currently a winner in the global competition among sites in space. It happens to be at the center of an immoveable resource in high demand.

The thesis of Jeffrey Winters that we live in the epoch of a locational revolution offers explanations of a number of observed phenomena. The power of government is greatest when resources do not move, intermediate when plants are hard to move, and weakest when capital flits in and out of a territorial jurisdiction at the touch of a button. Labor unions and governments worldwide are tending to lose power, as mobile capital becomes the beneficiary of offers of numerous competing sites for its favors. . Wealth tends to accumulate among those who for one reason or another control the resources everyone else depends on, while competition in a global labor market tends to bury the working class and the excluded. There are locations in space where capital flows to, others capital flows from, and still others where capital never arrives. Although Rosario belongs in some respects in the first category, partly by good fortune and partly by intelligent city management, much of Latin America, Argentina as a whole and even to a large extent Rosario too currently belong in the second and third categories. "Latin America today has the sad honor of being the most unequal region of the world (the richest 10% of the population concentrate 84 times the income of the poorest 10%) (BID, 1998) Argentina has 57% of its people in a situation of poverty. In 1975 Argentina was a country with 22 million inhabitants and fewer than 2 million poor. Today we are 37 million of whom almost 20 million are in poverty. That is to say, while the population grew 15 million, the increase in poverty was greater than the vegetative increase of the population, being 18 million." (Basco and Laxalde, 2003, p. 121) In the world of the locational revolution, the problems of poverty and inequality, and the deeper problems of governability, which imply inability to cope with any problem whatever, remain unsolved.

Social democracy as it was before the 1970s, bid fair to being on its way to solving some of the major problems of some of the major nations. Although the preceding considerations do not provide a watertight proof that pre-1970s social democracy is no longer an option in the world of the locational revolution, they certainly weigh in favor of that conclusion. The world has changed.

2. The Fiscal Crisis of the State

At first blush it appears that there was a fiscal crisis in Argentina in 2001, but that there is none today. A closer look shows that beyond year to year variations Argentina is not exempt from deep structural problems that afflict also the other governments of the world. They can be described as a fiscal crisis, both in the sense that revenues tend to lag behind demand for government expenditure, and in the sense that the policy instruments known as "fiscal policies" no longer have the efficacy they once had.

The fiscal crisis that currently afflicts the world's nation-states is produced by the contemporary state of the evolution of the relationship between government and society. One could also say "the relationship between the government and the economy." Partly as a consequence of the global competition to attract investment described above, governments are impelled to pay a larger and larger share of the costs of production, not just as providers of infrastructure such as ports and highways, and not just as providers of police and fire protection, but also as providers or subsidizers of training for the highly skilled workers industry now requires, and in other ways. (O'Connor 1971, 2002) Social demand is also increasing, as people require and expect more housing, more pensions, more police protection, and more health care. The demands of business and social demand merge in the field of education, as employment requires ever higher skill levels. Ordinary parents seek government help in providing for their children opportunities that without government help will be reserved for the privileged few. At the same time as demands on government are increasing, society's principal sources of discretionary funds, the profit shares of business enterprises and the associated high incomes of highly paid personnel, are becoming less available to meet social needs. They are harder to tax. The same competitive forces that make jurisdictions compete to offer high quality labor at low prices, also make them compete to offer high quality governmental services at low tax rates --especially low tax rates for the fortunate few who have the power to move themselves, their assets, and their businesses into jurisdictions that favor them and out of jurisdictions that do not favor them. Commonly – Menem's Argentina was a prime example—a government will use tax exemptions as magnets to attract capital to its set of points in space.

Both the forces raising demand for public spending and the forces lowering public revenues are structural features of the global economy. They are not easily changed.

A distinguished economist from India, Manmohan Syngh, who as of the time of this writing holds the post of Prime Minister of his country, outlined the elements of the fiscal crisis of the state in the following words: "Another factor that I would like to mention is that while processes of globalization will greatly reduce the autonomy enjoyed by a country in formulating its economic policies, and often call for downsizing of government, the processes of democratization now sweeping these countries are forcing governments to assume new responsibilities to ensure that the fruits of development are equitably shared. The hitherto deprived people expect their governments to play an active role in helping them to meet their basic needs, particularly in matters relating to the provision of basic social services and social safety nets, leading to increased government expenditure. On the other hand, in a globalized world, the WTO discipline will not allow a country to make use of tariffs or quantitative controls to deal with its balance of payments. If capital markets are integrated, the ability to make use of exchange rate or even monetary policy will also be greatly reduced. We are then left only with the use of fiscal policy. But here too in a world where both capital and skilled labour are internationally mobile, the ability to adjust tax rates as part of a stabilization programme will be considerably reduced. As for the expenditure part of the government budget, frequent adjustments are difficult even under normal circumstances. In any case, successful globalization requires large-scale investment in the modernization and expansion of infrastructure of energy, transport, and communications. While in the longer run the private sector can share some of this burden, in the short to medium term there is no alternative to large-scale public investment. But if superimposed on this is the pressure for increased social spending emanating from the operation of what I have called the democratization process, the margin of manoevrability available to the government will be further restricted.” (Syngh 1997. p. 5)

The Chilean economist Ricardo Ffrench-Davis has written, “ It is undeniable that globalization –and especially the capacity to move funds instantly from one place to another—has reduced the room for discretionary policies of governments, taking these topics virtually off the policy-making agenda.” (Ffrench-Davis 2005, p.27)

The fiscal crisis of the state is manifest in the increasing indebtedness of governments.

[Insert here a graph showing the growth of the debt of the United States federal government from 1980 to 2004.]

(Statistical Abstract of the United States, 2005)

During decades identified by Winters as decades of the locational revolution, the debt of the federal government of the United States rose from less than one trillion dollars in 1980 to more than seven trillion dollars in 2004.

[Insert here a graph showing the growth of the debt of developing nations between 1970 and 2000.]

(World Bank, 2004)

Between 1970 and 2000 the debt of developing nations as a group rose from a quarter of a trillion dollars to 2.5 trillion dollars, measured in constant U.S. 2001 dollars.

It would appear that the traditional approach of post World War II social democracy, consisting of enlarging social welfare programs and raising taxes to pay for them, encounters grave difficulties under present circumstances. Nevertheless, not a few well-intentioned persons have proposed a simple way to surmount those grave difficulties. The simple solution is to reduce military expenditures and to spend the same money on social welfare instead. It is beyond the scope of this chapter to discuss the feasibility of this solution. I and others have discussed it elsewhere. (Richards 2006, Kalecki, Baran, Sweezey). It will also be discussed in other chapters of this book.

Even if it were assumed that it would be technically feasible to respond to the increased calls for government spending listed by Syngh in the quotation above by subtracting the required funds from military budgets, the challenges would remain daunting. Globalization would still undermine the autonomy governments need to implement their own fiscal, and therefore social, policies. Although demilitarization might be the key to releasing funds that would make a new social compact politically possible, it seems more likely that a new social compact would be the key that would make demilitarization politically possible. It seems even more likely that the two have to advance together. Thus the challenge of making a democratic government fulfill its purpose of being an instrument for advancing the welfare and security of its citizens would in any case remain a complex one.

3. The Rise of Neoliberalism and the End of the Age of Keynes

As Ffrench-Davis also notes in the same place, the concrete demands of economic globalization have been transformed at an academic level into the economic theories of neoliberalism, whose tendency is to make a virtue of necessity. They often go even beyond necessity to promote an anti-pragmatic free market fundamentalism whose only merit is logical consistency. A salient feature of today's neoliberal economic orthodoxy is the rejection of yesterday's Keynesian economic orthodoxy. Keynesian economics (or, more broadly, yesterday's standard macroeconomics, to which Keynes made major contributions) had formed the principal theoretical framework for the social democratic policies of governments and international agencies in the decades during and immediately after World War II.

Keynes' thinking justified the welfare state in at least four ways:

1. It justified measures to increase the purchasing power of consumers in order to increase aggregate demand, and therefore sales, and therefore the profitable operation of businesses. In Argentina this often meant stimulating the internal market, as distinct from or in addition to producing for export.

2. It justified the role of government as director responsible for channeling and stabilizing economic activity. In democracies with a socialist orientation this meant government intervention favoring the welfare and security of all the people.

3. It justified using public works projects at standard rates of pay as a means of providing employment. This policy tended to increase overall demand for labor, and therefore to raise wages or to keep them from declining.

4. It rejected cutting wages as a means to stimulate business by raising profits. Keynesians held that the same objective could be achieved more efficiently and more equitably through monetary and fiscal policy. For example, business could be encouraged by making business loans available at lower rates of interest.

What is sometimes called the age of Keynes lasted approximately from 1936 (the year of the publication of Keynes' General Theory) until 1973 (the year of a major oil price shock) or perhaps until 1980 (the year when neoliberal governments were elected in the United States, the United Kingdom, and Germany). During the age of Keynes his thinking and that of others with similar ideas generally prevailed in those parts of the world that were neither Communist nor extremely conservative. It was the age of the rise of the middle class and of the unionization of the working class.

In his General Theory Keynes deployed intellectual heavy artillery against a concept which (contrary to common sense and mountains of historical evidence) had until Keynes been dominant in economic science (and which is once again dominant now, after Keynes, even though it is still as contrary to common sense and historical experience as it ever was). The concept in question is Say's Law, named after Jean-Baptiste Say, according to which involuntary unemployment is impossible. Say argued, followed for decades by a sycophantic profession, that supply creates its own demand, so that anybody who increased the labor supply by offering himself or herself for employment would surely find employment. Observed phenomena not predicted by this supposed scientific law were explained away in various ways, of which the downward rigidity of wages when the market price of labor falls was and is among the most important.

Concerning Say's Law and its kin, Keynes wrote in his General Theory "The celebrated *optimism* of traditional economic theory, which has led to economists being looked upon as Candides, who, having left this world for the cultivation of their gardens, teach that all is for the best in the best of all possible worlds, provided we will let well alone, is also to be traced, I think, to their having neglected to take account of the drag on prosperity which can be exercised by an insufficiency of effective demand." (Keynes 1936, p 33)

According to liberal economists before Keynes and neoliberal economists after Keynes getting prices right is to be accomplished principally by leaving markets free to set prices. The normal result of free markets is supposed to be prosperity for all. Keynes, following some suggestions of his teacher Alfred Marshall, demonstrated that, on the contrary, the normal result of free markets is a low level equilibrium. A low level equilibrium is a situation in which people who want to buy labor have bought all they want to buy, but there are still some people wanting to sell labor who are offering themselves on the market but not finding any buyers. In the expressive German terminology, Keynes showed that it is not necessarily true that for every Arbeitnehmer there will be an Arbeitgeber (for every work-taker, i.e. would-be employee, there will be a work-giver, i.e. employer). More generally, a free market normally leads to a situation where there are any number of things, not just labor, remaining unsold after buyers have purchased all they wish to purchase. Normality is a low level equilibrium with unsold goods and unemployed labor.

Guided by ideas like those of Keynes, the principal governments of the industrialized world after the second world war took deliberate measures to create high level equilibrium by increasing effective demand. All of their parliaments passed legislation committing the governments to take measures to assure full employment. Article 55 of the United Nations Charter made the right of every person to employment and the duty of every government to guarantee that right into a principle of international law.

Keynes' younger friend and colleague Nicholas Kaldor has identified three factors that led to the end of the age of Keynes, which I summarize as follows:

1. In the 1970s the industrialized countries faced unemployment and inflation simultaneously. More broadly, they faced general economic stagnation and inflation simultaneously. The standard Keynesian remedy was to increase the money supply to cure unemployment, and to decrease the money supply to cure inflation. Faced with stagflation they did not know

what to do. The standard instruments of economic policy associated with Keynes appeared to be useless. (The "standard Keynesian remedy" was not the same as what sophisticated post-Keynesian economists, like Nicholas Kaldor and Joan Robinson, would have prescribed, but what counted in this case was what "Keynes" was identified with in the popular mind.)

2. The economic doctrine known as monetarism, anti-Keynesian thinking in general, and in general what has come to be known as neoliberalism, had been developing for many years in academic environments and in conservative think tanks. Their adherents were well prepared to take advantage of the opportunity provided by the situation described in (1) above. They rapidly converted the key decision makers to their ways of thinking.

3. The change in the officially accepted doctrine of economic science corresponded to a shift in social and political power. The defeat of an economic theory relatively favorable to the working class followed the political defeat of the working class.

The challenges faced by social democracy in an age when Keynes is officially discredited can also be summarized under three headings:

1. Ideological challenges. This is the problem of dealing with international agencies and decision-makers with economic power generally in a world where the duty of the government to shape the economy to make it serve the common good no longer has scientific legitimacy. Many governmental

activities are now officially irrational, when they formerly were regarded officially as rational.

2. Fundamental challenges. The postwar social democracies had real limitations. Within their Keynesian policy frameworks, they could not have generalized their achievements to a world scale, and they could not have gone on devising ever more successful strategies to make modern societies more functional, even if they had not been out-maneuvered politically by the right wing. Keynes' ideas never were, in the last analysis, capable of guiding the construction of a stable, just, and sustainable economy. (See Richards and Swanger 2006). Social democracy is challenged both to recover the ground it has lost and to gain ground it has never gained before. It must also learn to function in a world where labor itself has changed, where ordinary workers are fewer and fewer, where larger and larger portions of the population follow survival strategies that require higher education and advanced technical training.

3. Technical challenges. To the extent that national economic boundaries are dissolved by global markets, the standard policy instruments of macroeconomics become unusable. For example, it does no good to increase the money supply if the new money immediately spills across the border. It does no good to stimulate industry by increasing effective demand, if the consumers spend all their new money on imports.

It should be emphasized that the current eclipse of Keynes is only partly a matter of the political defeat of those who stood to gain from the application of his theories. It is also partly a matter of globalization making many of his recommendations unworkable. He himself made it clear that the macroeconomic management of economies would not work in a world where nations lacked autonomy. (Keynes 1933) In addition, it is also partly a matter of the inherent limitations of his proposals for curing the basic problem he diagnosed, the problem of the drag on prosperity worked by an insufficiency of effective demand. It should be emphasized too that whatever the fate of Keynes' proposed cures, his diagnosis remains confirmed. We still live, as Keynes said we lived, in a world where the normal operations of free markets lead to low level equilibrium, with goods unsold and people unemployed.

This chapter has dealt with formidable obstacles faced by those who work to transform society to make it more functional. These obstacles do not imply that history has ended. Because the human species is the species whose ecological niche is to be a creator of cultures, there will always be cultural creatives capable of inventing new institutions. Conscious evolution can still lead to better ways to mobilize resources to meet needs.

But Fukuyama's argument that history has ended is not entirely mistaken. Something really has ended. The age when labor unions can carve out a larger share of revenue for wages at the expense of profits by striking or threatening to strike has really ended. The age when electoral majorities can vote themselves benefits by electing legislators who will tax profits and tax high incomes has really ended. Although it would not be quite correct to say that capitalists have won the class struggle against the workers –because the capitalists are also helpless to change the systemic imperatives of capitalism, which are driving the destruction of the social and natural systems that even capitalists depend on for survival—it would be correct to say that capital, regarded as an abstract quantity whose goal is to expand itself, has won its struggle against labor. The abstract quantity has achieved the power to move around the world at will in quest of favorable opportunities to become a larger quantity than it already is. Labor has on the whole lost whatever capacity it may have had to live independently of selling itself to capital. Laborers at all skill levels, even the most highly educated, compete with each other to sell themselves in markets they do not control. Although history has not ended, the all-to-brief decades have ended when the advent of universal suffrage seemed to mean that political democracy would lead to economic democracy.

This chapter had to be written because many people still do not realize why post World War II European social democracy (whose doctrines are called “liberalism” in the United States, as European football is there called “soccer”), is no longer a viable model. It had to be written because today in Latin America democratic socialism has a second chance. In Venezuela, Brazil, Argentina, Uruguay, Chile, and Bolivia the voters have called for a change. They have called for a society that works for everybody’s benefit, and especially for the benefit of the electoral majorities who have elected left-leaning presidents. If what the voters have called for is going to become an enduring reality, and not just another round in the cycle of limited progress followed by savage repression, there are certain problems that must be solved. The massive shift of power in favor of capital and not just against labor but also against governability must somehow be reversed. Meeting people’s basic needs must somehow be accomplished without relying on an unstable and weak power to tax. Markets must be made accountable. Taking care of the people who are left over when markets have reached equilibrium without providing them with a dignified role in society and without meeting their basic needs must somehow be accomplished.

It may seem at first unlikely that anything could be done at a municipal level that would point the way toward changing the fundamental principles that structure the juggernaut that crushes the people on a world scale. Further study will show, however, that fundamental change at a city level is not impossible. In several cities there has been effective resistance to the forces now throwing the poor and the middle classes into the ashcan of history. Witness Porto Alegre, Curitiba, Montevideo, Milan, Barcelona, and witness the Asset Based Community Development movement born in inner city Chicago.

That the socialists of a city with slightly under a million people on the banks of the River Parana upstream from Buenos Aires might have something to teach the world should not be ruled out in advance as impossible. They are, as the reader will learn, extremely conscientious socialists. They are extremely intelligent socialists.

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